Community Reinvestment Act Joint Public Hearings, August 12, 2010
Panel Two: Eugene Barnes

Eugene Barnes:
Thank you. I'm grateful to have been invited here this morning to share with you a few observations. I'm Reverend Doctor Eugene Barnes and I'm appearing today as Board Chair of National People's Action of Chicago.

CRA was pioneered by NPA. NPA helped pass the Home Mortgage Disclosure Act of 1975, the Community Reinvestment Act of 1977 and the National Affordable Housing Act of 1990. Community leaders including the late Gail Cincotta, NPA's founder and long time executive director, was witness to the social pathology of redlining in their communities and said enough is enough. On the floor a church based here in the City of Chicago, the law was written down, taken to Washington and the law was passed. The CRA was passed in 1977 with the simple goal of indiscriminatory lending based on race or location and to insure that banks met the credit needs of all the neighborhoods and populations they serve.

The world has changed but the CRA laws have not. Philosopher Nathaniel Brandon pined, "Continue to do what doesn't work, doesn't work," and we find ourselves as Don Quixote did, fighting a modern day war with antiquated weaponry. On fairness and accountability in grading, the grading system must be completely overhauled to a more transparent point system that scores for lending, investment, community development and service tasks. The entirety of banks and investor must be taken into account. Points must be taken away for predatory investments such as Bank of America's investments in Advance America that tears down communities and strips wealth. Whenever evidence tends to support lending and service outcomes that show racial discrimination, the action must lead to an automatic failing grade. All accounts and account practices including loan quality must be taken into account. In-house payday lending programs like Wells Fargo's Direct Deposit advance must be penalized for harming families instead offering affordable small-dollar loan programs that would truly meet the credit needs of the community. Three out of every four customers of big bank affiliate home lenders receive the high cost loans which average 10.2% APR on first lien mortgages in 2006. Yet note some of the subsequent ratings--Bank of America, most recent exam 2006: outstanding; Wells Fargo most recent exam, 2009: outstanding; Citibank, most recent exam 2009: outstanding; Chase, most recent exam 2008: outstanding.

Observation on affiliate lending--As stated above the mortgage lending market that exists today does not resemble the one that Gail and colleagues wrote the law to address. In addition, the Community Reinvestment Law does not cover a large amount of the actual lending that goes on in this country; and it's clear that while banks were involved in questionable lending behavior and still getting good grades, it has been discovered that they're doing even worse lending in the subsidiaries and affiliates. Big banks have used their affiliate lenders to issue a disproportionate amount of high cost lending especially to minority and low income borrowers. NPA will be releasing tomorrow a report called, “Gaming the System: how large banks have subverted community reinvestment.” Just one quip: Big banks affiliates issued only 17% of the loan volume but were responsible for 40% of all the reported high cost loans of the major banks. All affiliate and subsidiary lenders must be included in the community reinvestment exams and be subjected to the same quality standard outlined above.

On assessment areas--banks have avoided scrutiny under the law by suddenly lending to their largely unregulated subsidiaries and affiliates; and have been doing a great deal of their business away from the law by restricting where they are graded to their assessment areas. Assessment areas as drawn today do not reflect where all bank lending is happening, just where the lending is being graded. Every bank CRA performance is measured against its lending to low and moderate income areas and individuals within their assessment area. Because lending outside of the assessment area is ignored, it is important to capture as much of the bank's lending area as possible within the scope of this ability to be able to serve a geographical area. Analysis of assessment areas of recent home lending data of the four largest banks shows that approximately 40 percent of the total loan volume issued in 2006 and 35 percent of all loans made in 2008 occurred outside the lender's CRA assessment areas.

In conclusion, smart regulatory reforms are necessary to ensure transparency, accountability and equality in the financial industry, lending and investment practices. Billions of dollars have been reinvested in inner city communities and small cities and towns to revive abandoned streets and neighborhoods. I see my time is up.