



National
Urban League

***Empowering Communities.
Changing Lives.***

TESTIMONY OF
MARC H. MORIAL
PRESIDENT AND CEO
NATIONAL URBAN LEAGUE
BEFORE FOR THE
HOUSE COMMITTEE ON FINANCIAL SERVICES
WEDNESDAY, SEPTEMBER 16, 2009
"PROPOSALS TO ENHANCE THE COMMUNITY REINVESTMENT ACT"

Mr. Chairman, Ranking Member Bachus, thank you for the opportunity to testify today on the Community Reinvestment Act (CRA). I am Marc Morial, President and CEO of the National Urban League. Established in 1910, the National Urban League is heading next year into its centennial celebration as the nation's oldest and largest civil rights and direct services organization serving 2 million people each year in over 100 urban communities.

Economic Empowerment – assisting our constituents in attaining economic self-sufficiency through job training, good jobs, homeownership, entrepreneurship and wealth accumulation – leads the National Urban League's five-pronged strategy to advance the mission of the Urban League Movement and is imperative to closing the "wealth chasm" between African Americans and white Americans. According to our 2009 *State of Black America Report*: nationally, the typical African-American family today possesses less than 10 percent of the net worth of the average white family; almost 30 percent of black families have zero or negative net worth; and far fewer blacks than whites benefit from inherited wealth or assets.¹

Today's hearing on enhancing, and in our minds, expanding the Community Reinvestment Act, falls within our economic empowerment discussion both nationally and in our local communities. Our views and recommendations are based on decades of direct program experience in urban communities across the country.

¹ "Wealth for Life," by Early G. Graves, Jr., *Black Enterprise Magazine*, in *The State of Black American 2009*, National Urban League, pp. 165-170, 2009.

Mr. Chairman, last Saturday's (9/12/09) article in the *New York Times* titled "A Year After a Cataclysm, Little Change on Wall St." should give everyone grave concern that if we do not pursue key reforms in our financial services system we are doomed to repeat and perhaps this time fail to recover from the financial abyss that we came so close to falling into. As you know, we are not out of the woods yet as we continue to grapple with the home foreclosure crisis and its related economic impact, as well as high unemployment rates:

- According to Realty Trac, foreclosure activity remained near record level in August (2009). They reported that foreclosure filings — default notices, scheduled auctions and bank repossessions — were reported on 358,471 U.S. properties during the month, a decrease of less than 1 percent from the previous month but still an increase of nearly 18 percent from August 2008. The report also shows one in every 357 U.S. housing units received a foreclosure filing in August.²
- In August (2009) the unemployment rate rose to 9.7%, with the black unemployment rate at a whopping 15.1%; adult black men saw their unemployment rate increase significantly from 15.8% to 17%, and adult black women saw an increase from 11.7% to 11.9%.³

The Administration and the 111th Congress took vital and necessary steps to stop the economic hemorrhage earlier this year when it justly enacted the nearly \$800 billion economic stimulus package. The National Urban League strongly supported these efforts and provided its recommendations for such a package. We must now simultaneously adopt those strategies and reforms that will restore the American dream of homeownership as the strategy by which most Americans are able to build wealth.

We must also adopt strategies that will bolster small and minority owned businesses as key engines of job creation. We know from research that black-owned businesses generate on average one job for every \$87,000 in revenue (the average black-owned firm employed eight

² "Foreclosure Activity Remains Near Record Level in August," by RealtyTrac Staff, September 10, 2009.

³ "August 2009 Monthly Employment Report," National Urban League Policy Institute, September 4, 2009.

people with average revenue of \$696,158).⁴ We also know that minorities disproportionately enter the workforce through self-employment or employment by minority-owned businesses.⁵ Therefore access to bank lending is key to minority business development and minority employment. Yet, according to the National Urban League's *Opportunity Compact*, although banks are the most often used credit source for small firms in general, minority firm owners are less likely to have bank loans of any kind.⁶ Research has also found that African American and Latino firm owners face significantly greater loan denial probabilities than white male firm owners and are often charged higher interest rates.⁷

The National Urban League strongly believes that enhancing, expanding, and fully enforcing the Community Reinvestment Act is just such a strategy that is long overdue. We have joined the National Community Reinvestment Coalition (NCRC) and other advocacy groups who have closely followed this issue in support of modernizing the CRA and jointly agree that the "CRA is one of the most important laws for building wealth and revitalizing neighborhoods."⁸

The National Urban League is a longstanding supporter and defender of the CRA given its special importance to low -and moderate-income (LMI) communities and communities of color.

The federal Community Reinvestment Act, passed in 1977 and strengthened in 1995, affirmatively obligates banks to serve the communities from which they take deposits, including low and moderate income communities, consistent with safe and sound lending practices. Whether or not banks are meeting their CRA obligations is determined by federal and state regulators during periodic CRA exams and during a merger or acquisition. Communities have the opportunity to comment on how well banks have met the needs of the community during these exams or the merger process. A number of our Urban League affiliates participate in annual CRA reviews where they are typically interviewed by

⁴ "Make Room for the New 'She' Eos: An Analysis of Businesses Owned By Black Females," by Lucy J. Reuben, Ph.D., in *The State of Black America 2008*, National Urban League, pp. 115-124.

⁵ *The State of Minority Business Enterprises: An Overview of the 2002 Survey of Business Owners*, Minority Business Development Agency, U.S. Department of Commerce.

⁶ *The Opportunity Compact, Blueprint for Economic Equality*, National Urban League Policy Institute, pp. 24-25, updated July 2009.

⁷ Ibid.

⁸ "The Community Reinvestment Act (CRA) Sign-On Statement in Support of CRA Modernization," National Community Reinvestment Coalition (NCRC), Washington, DC, www.ncrc.org

their State Banking Departments and other local regulators. They submit written remarks on the efficacy of local bank lending and provide insights into ways to engage banks more deeply in the community re(investment) dialogue.

CRA and the Subprime Crisis: Disarming the Weapons of Mass Deception

In the wake of the subprime meltdown, some politicians and commentators were perpetuating a dangerous myth: that minority and low-income borrowers and measures to expand their opportunities for homeownership, such as the CRA, were responsible for the subprime crisis.⁹ However, a number of recent reports and studies have debunked these attacks on the CRA.¹⁰

Intuitively, the National Urban League and other advocates from across the country knew that CRA's affirmative obligation to serve low and moderate income communities was not the cause of the foreclosure crisis. Still, pundits and politicians were looking for scapegoats on which to blame the crisis, and CRA was one.

Through our analysis and long-standing advocacy for clients at risk of foreclosure, the NUL has seen the rise of abusive subprime loans and exotic mortgages that have fueled the predatory lending and foreclosure crises that legal services advocates have been trying to address these past several years.

Our analysis indicates that the Community Reinvestment Act has been effective in ensuring access to fairly priced credit for low- and moderate-income borrowers and communities as lenders covered by the CRA are far less likely to make higher-cost loans than lenders not covered by the CRA.

Strengthening the Community Reinvestment Act

Our findings also shed some light on certain weaknesses in the CRA. **One key weakness is that the CRA does not currently examine an institution's lending based on race or ethnicity of borrowers or**

⁹ "The Subprime Meltdown: Disarming the 'Weapons of Mass Deception,'" by Stephanie J. Jones, J.D., in *The State of Black America 2009*, National Urban League, p. 157, see Note 1, 2009.

¹⁰ See extensive research reports cited in "Resource Toolbox," by the National Community Reinvestment Coalition (NCRC), http://www.ncrc.org/index.php?option=com_content&task=view&id=439&Itemid=194

communities, even though a substantial proportion of the lending in communities of color is higher-cost. Another key weakness is that CRA is too limited in the institutions it covers. First, banks generally only have CRA obligations in areas where they have “brick and mortar” deposit-taking branches. Second, banks often have the option when to include affiliates in their CRA evaluations. Third, independent mortgage companies, credit unions and other financial services companies never fall under the purview of CRA. Fourth, while financial institutions have become visible partners in community development, insurance companies have not and remain an obstacle to housing development in low-income, minority communities. We therefore encourage lawmakers to see the issue of CRA modernization in its full light.

The National Urban League has worked with the NCRC and other leading organizations in support of, and in seeking improvements to, the CRA. The following are key recommendations for bringing the CRA into the modern era and strengthening its effectiveness:

- Making mandatory the inclusion of a bank’s non-depository lending affiliates and subsidiaries in CRA exams.
- Reforming bank examination assessment area procedures so that the majority of a bank’s loans are included in its CRA exams. Modifying how CRA assessment areas are defined to reflect the true areas where banks conduct business, since many banks now lend nationwide, not just from their brick-and-mortar branches.
- Requiring regulatory agencies to provide detailed descriptions of fair lending and safety and soundness reviews conducted as part of CRA exams.
- Requiring that regulators give banks failing CRA performance reviews when fair lending reviews uncover widespread discrimination at those institutions.
- Requiring CRA exams to examine lending and services to minority borrowers and communities. Black and Latino borrowers and communities have long seen disproportionately high shares of subprime lending when compared to white borrowers and communities. Extending CRA coverage to consider borrower and community race and ethnicity will be a significant step in reducing these disparities.

- Requiring that regulatory agencies hold hearings upon request by community representatives to address major bank business decisions or changes such as mergers and acquisitions.
- Requiring all banks and thrifts to submit CRA small business loan data indicating race, gender, and location of the borrower.
- Extending CRA coverage to credit unions.
- Expanding CRA to cover all institutions making mortgages, including all bank affiliates and independent mortgage companies. Substantial shares of higher-cost loans have been originated by the largely unregulated independent mortgage companies and bank affiliates. This higher-cost lending not covered by CRA has harmed borrowers, and destabilized low- and moderate-income communities and communities of color.
- Including provisions similar to the Community Reinvestment Act and HMDA so that insurance redlining does not hinder the upgrading and production of affordable housing for all Americans.

In summary, the National Urban League believes that congressional enactment of the "Community Reinvestment Modernization Act of 2009" (H.R.1479), combined with financial regulatory reform that would establish a Consumer Financial Protection Agency that would bring CRA enforcement under its purview for strong enforcement, would address our recommendations for enhancing and expanding the CRA – and in the end strengthen our economy and local urban communities.

Thank you for the opportunity to testify and I will be pleased to answer any questions.