

Congresswoman Eddie Bernice Johnson
Financial Services Committee
Community Reinvestment Act Testimony
September 16, 2009

Good Morning, Chairman Frank, Ranking Member Bachus, and members of the Committee, I am honored to testify on behalf of enhancing and modernizing the Community Reinvestment Act (CRA). I represent an extremely diverse congressional district that includes low- and moderate-income areas as well as the very wealthiest neighborhoods in Dallas County, Texas. Neighborhoods in my District have historically been subject to redlining by banks—the practice of denying loans and services to people, based on where they happen to live. Congress has passed a number of laws designed to combat redlining and eliminate housing discrimination, and the CRA is one such law that helps to ensure equal service to all people. Unfortunately, we all know that redlining still occurs, and I am here to discuss some of my concerns with the current law, and the need for modernization.

The CRA encourages banks to invest in the communities in which they operate. It established a system to monitor and rate the way in which banks lend to all of their customers—for home mortgages, small business creation, and economic development. The CRA uses the mechanism of public accountability to achieve its goals—rather than impose quotas or set specific credit targets, it rates banks on their practices, making them more transparent. The CRA also enables the federal institutions that examine banks to delay or deny a bank's request to merge with another lender, open a branch, or expand any of its services, depending on its CRA rating.

The CRA currently applies only to banks and thrifts. It does not apply to other financial institutions that lend money, like bank affiliates and independent mortgage companies. During the financial downturn, people have blamed the CRA—and its low- and moderate-income recipients of loans—for the meltdown in the housing market, and thus, the financial crisis. However, the facts tell a different story. The vast majority of subprime loans originated at independent mortgage companies and bank affiliates—75% or more, by most accounts. Most subprime lending occurred between 2003 and 2007, decades after the CRA became law in 1977.

All stakeholders agree that the CRA has worked. Since 1996, banks under CRA have made community development loans totaling more than \$407 billion. They have also made \$581 billion in small business loans in low- and moderate-income neighborhoods from 1996 through 2007.

In 2007, in my district alone, nearly 200,000 CRA-covered small business loans were made – valued at over 4.4 billion dollars. Over 73,000 CRA-covered small business loans were given to small business with revenues less than 1 billion dollars. Over 12,000 CRA-covered prime home loans were originated equaling over 1.1 billion dollars. One important outcome of enacting CRA is that responsible lending in these communities is profitable for the banks and thrifts.

The truth about CRA is that it encourages prime lending. It offers incentives for safe and sound loans and foreclosure prevention efforts, including counseling for loan recipients, modifying loans, and investing in funds that finance loan modification. CRA also penalizes banks and thrifts through reduced CRA ratings if they engage in predatory or discriminatory lending, or lending or services that have a negative impact on the community.

CRA has thus been an extremely successful law; however, CRA needs to be updated. Representative Luis Gutierrez and I have introduced H.R. 1479, the Community Reinvestment Modernization Act. The CRA Modernization Act increases the responsiveness and accountability of banks to all communities, rural as well as urban. It would require CRA exams in the great majority of geographical areas that banks serve. Currently CRA examines banks in areas where they have branches but not in other areas where they lend through brokers. This bill would address racial disparities in lending by requiring CRA exams to explicitly consider lending and services to minorities in addition to low- and moderate-income communities. The bill would also require the reporting of race and gender of borrowers of small business loans and would require data collection of deposit and savings accounts. It would require the Federal Reserve Board to create a database on foreclosures and loan modifications, which would be linked to Home Mortgage Disclosure Act (HMDA) data.

The rating system of CRA exams would be enhanced and banks would be required to submit public improvement plans that are subject to public comment when they earn low ratings in any of their service areas. The federal regulatory agencies would be required to hold more meetings and public hearings when banks merge and when banks seek to close branches. The CRA Modernization Act would establish CRA requirements for all affiliates and subsidiaries of banks, independent mortgage companies, mainstream credit unions, insurance companies, and securities firms.

In 2006, in my district in Dallas County, 72 percent of all Black and 56 percent of all Hispanic borrowers were issued subprime loans, whereas, 28 percent of all loans to white borrowers were subprime. Even middle- and upper-income minorities experienced significant lending disparities. During 2007 in my district, 32 percent and 28 percent of the loans to middle- and upper-income African-American and Hispanic women borrowers were high-cost, whereas, 17 percent of the loans were high-cost to white middle- and upper-income women. The high Black and Hispanic lending disparities are driven by non-CRA-covered institutions.

These disparities are not only occurring in my district, they are occurring in communities across the United States. This is happening to my constituents, and most likely it is happening to yours.

This year, Rep. Gutierrez and I introduced the CRA Modernization Act, which updates the 32-year old law to reflect the modern financial landscape. I hope this hearing will bring much needed awareness and attention to long overdue CRA reform. I believe that by modernizing the CRA, we will see fewer home foreclosures and see smart and safe investments in our communities—exactly what our struggling economy needs right now.

Again, I would like to thank Chairman Frank, Ranking Member Bachus, and members of the Committee, for allowing me to testify on behalf of enhancing and modernizing the Community Reinvestment Act (CRA).