Testimony for Rev. Dr. Eugene Barnes – Community Reinvestment Modernization – Affiliate Lenders/Grades

I am Rev. Dr. Eugene Barnes, of Champaign, Illinois and co-founder and executive director of Metanoia Centers. I am appearing today as Board Chair of National People's Action of Chicago, Illinois of which I have been affiliated with for 10 years. I also serve as an associate pastor at New Life Church of Faith in Champaign-Urbana.

I have participated with National People's Action in negotiating CRA agreements with CitiFinancial, Bank One, National City, Union Planters Bank, Ocwen Financial, Select Portfolio Services and Fannie Mae. With these CRA agreements we have enjoyed great success in negotiating loan workouts for homeowners within our communities.

I. 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 Gale Cincotta, NPA's founder and long time Executive Director, was witness to the social pathology of redlining taking place in their communities and said enough is enough. On the floor of a church basement, here in the City of Chicago, the law was written down. Then they took it to Washington and got the law passed.

II. The law was written to cover the entire loan industry – which at the time meant banks: neighborhood or maybe citywide depository banks with a network of branches. CRA was to encourage financial institutions not only to extend mortgage, invest in small businesses, and other types of credit to lower-income neighborhoods and households, but also to provide investments and services to lower-income areas and people as part of an overall effort to build the capacity necessary for these our communities to thrive. CRA worked its magic for many years, spurred lending and revitalized countless neighborhoods.

   a. But the world has changed and the Community Reinvestment laws have not. The philosopher Nathaniel Branden said, "Continuing 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.

<u>Fairness and Accountability</u>
Grading

The grading system must be completely overhauled to more transparent points system that scores for lending, investment, community development and service tests.

The entirety of a bank's investments must be taken into account – investments in payday, check cashing and car title lending cannot be given points. Points must be taken away for predatory investments, like Bank of America's investments in Advance America that tear down communities and strip wealth.

Any evidence of or lending and service outcomes that show racial discrimination must lead to an automatic failing grade.

All accounts and account practices must be taken into account – in-house payday lending programs like Wells Fargo's "Direct Deposit Advance" must be penalized for harming families instead of offering affordable small dollar loan programs that would truly meet the credit needs of the community.

Loan quality MUST be taken into account – points cannot be given for high-cost, destructive loans. Points must be taken away.

Big bank record of high cost lending. (x% of their lending to AA that was high cost, x% of lending to low income census tracts was high cost)

- Bank of American NA - Most recent exam, 2006 – Outstanding
- Wells Fargo Northwest NA – Most recent exam, 2009 – Outstanding
- Citibank (South Dakota) NA – Most recent exam, 2009 - Outstanding
- Chase NA – Most recent exam, 2008 - Outstanding.

Affiliate Lending

As stated above, the mortgage lending market that exists today does not resemble the one Gale and her compatriots wrote this law to address. In addition, the community reinvestment law does not cover a large amount of the actual lending that's going on in this country, and it's clear that while banks were involved in questionable lending behavior and still getting good grades – it was discovered that they were doing even worse lending in their subsidiaries and affiliates and not exposing them to the light of day at all.

Banks are using their affiliate network to funnel a much greater percentage of their high-cost and predatory lending to low income, African-American and Latino borrowers and neighborhoods. (#'s from report…)

All affiliate and subsidiary lenders must be included in the Community reinvestment exams and be subject to the same quality standards outlined above.

<u>Assessment Areas</u>

Banks have avoided scrutiny under the law by shuttling 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 their lending is being graded.

Every bank's CRA performance is measured against its lending to low- and moderate-income areas and individuals within their assessment area. Because lending outside the assessment area is ignored, it is important to capture as much of the bank's lending area as possible within the scope of its ability to be able serve a geographical area.

Banks should look at the big picture, including the shape of their assessment area and what lies beyond its borders. And if it appears to avoid low- and moderate-income areas then these would represent opportunity for further review and analysis.

(Stats from report on how much of lending are outside of assessment areas and how much of that is high cost…)