Testimony Before the New York State Senate Committee on Banks: Community Reinvestment Act Modernization

June 8, 2018

Good morning. My name is Christie Peale and I am the Executive Director & CEO at the Center for NYC Neighborhoods. I'd like to thank Senator Sanders and the members of the Assembly Committee on Banks for holding today's timely and important hearing on the Community Reinvestment Act.

About the Center for NYC Neighborhoods

The Center promotes and protects affordable homeownership in New York so that middle- and working-class families are able to build strong, thriving communities. Established by public and private partners including the City Council, the Center meets the diverse needs of homeowners throughout New York State by offering free, high quality housing services. Since our founding in 2008, our network has assisted over 55,000 homeowners. We have provided approximately $33 million in direct grants to community-based partners, and we have been able to leverage this funding to oversee another $30 million in indirect funding support. Major funding sources for this work include the New York City Council, the Governor's Office of Storm Recovery, and the Office of the New York State Attorney General, along with other public and private funders.

The Benefits of the Community Reinvestment Act in New York

The Community Reinvestment Act (CRA) has been an incredibly important force for revitalizating and building wealth in low- and moderate-income neighborhoods throughout New York state. Passed in 1977 as a response to redlining, the CRA has leveraged trillions of dollars of bank investments nationwide, and has resulted in tangible successes for New York homeowners and their neighborhoods.

Here are some examples of how the CRA supports NYC homeowners:

Housing Counseling

CRA grants are one of the most important sources of grant funding for housing counseling in New York. Housing counseling programs at community-based nonprofits help families navigate the homeownership journey, whether they are seeking to buy a home, make necessary repairs, or are struggling to afford their mortgage payments. Housing counseling programs are an invaluable service for New York families, and the CRA is an essential tool for their continued success.

Community Restoration Program

The Community Restoration Program (CRP), of which the Center is a partner, is an innovative initiative that allows New York City to purchase distressed mortgage notes from the FHA, Fannie Mae, and Freddie Mac that would otherwise have been sold at auction to the highest bidder. Traditionally, this has resulted in investor purchasers seeking to maximize profits while moving to foreclose on homeowners. The CRP was created to reclaim distressed community assets from mortgage lenders servicers in order to preserve affordable homeownership and rental opportunities in neighborhoods of greatest need throughout New York City. It is the first of its kind in the nation, and a model for other municipalities across the country. In addition to public and private funding, the $13 million program has received $6.9 million in financing from Goldman Sachs' Urban Investment Group.

Interboro Community Land Trust

The Center is a proud founding member of the Interboro Community Land Trust, New York City's first community land trust dedicated to providing permanently affordable homeownership opportunities for New York's low- and moderate-income families. Interboro is currently in the formation stages of development, but we recently received $1 million in grant funding from Citi Community Development to help accelerate development of Interboro's first 250 units. This will place Interboro on a trajectory to soon become one of the largest community land trusts in the country.

CRA Lending

CRA also imposes obligations on covered banks to lend in low- and moderate-income neighborhoods in the cities where they operate. The National Community Reinvestment Coalition's review of existing research on CRA lending has found that CRA lending obligations promote safe and affordable mortgage loans for borrowers: one study by the San Francisco Federal Reserve Bank found that loans made by banks in their CRA assessment areas were half as likely to result in foreclosure as loans issued by independent mortgage companies. Another study found that neighborhoods with a larger share of lending by CRA-covered banks than by independent mortgage companies had lower delinquency rates. Yet another study confirmed that low- and moderate-income borrowers were more likely to receive high-cost loans from independent mortgage companies than from CRA-covered banks.[1]

Principles for CRA Modernization

While we celebrate the many successes of the Community Reinvestment Act, we also acknowledge that the banking and financial services industry has undergone many major changes since its passage in 1977. Having just celebrated its 40th birthday, today, the CRA is in need of modernization. However, it is essential that any move towards modernization does not undermine the effectiveness of the CRA. As members of the National Community Reinvestment Coalition and the Association for Neighborhood and Housing Development, we endorse their principles for CRA modernization.[2] I'd like to emphasize the importance of the following principles:

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[1] NCRC, The Community Reinvestment Act: Vital for Neighborhoods, the Country, and the Economy, June 2016. Available at:
https://ncrc.org/the-community-reinvestment-act-vital-for-neighborhoods-the-country-and-the-economy/

[2] Can be found at:

Expand CRA to Cover Nonbank and Affiliate Lenders

Today many of the fastest-growing mortgage lenders in the US are not covered by the CRA. According to an analysis by ANHD, 30% of home purchase loans and 50% of refinance loans were made by non-bank lenders, which rises to 75% of FHA home purchase loans and 96% of FHA refinance loans.[3] These Nonbank lenders and FinTech companies should have a CRA requirement as well. We can not allow for a bifurcated mortgage system in which middle and upper-class borrowers have access to well regulated banks while lower income families are relegated to less regulated lenders. Additionally, banks should be required to report affiliate data on their CRA exams since large banks are increasingly channeling home loans through non-CRA mortgage companies.

Acknowledge Racial impact of CRA Activity

New York City is 22% Black and 29% Hispanic, yet Black and Hispanic borrowers only received a total of 16% of home purchase loans in 2016, according to an ANHD analysis of Home Mortgage Disclosure Act data.[4] Recognizing our history of racial discrimination in home lending and community investment, the CRA should require financial institutions to assume an affirmative obligation to serve people of color and their communities.

Serve LMI borrowers

Currently, banks receive CRA lending credit for originating mortgage loans in LMI neighborhoods, regardless of the income of the borrower. Unfortunately, in neighborhoods with rapidly rising prices, CRA can reward lenders for making loans to higher-income newcomers to a neighborhood, which can help fuel gentrification. Home Mortgage Disclosure Act data shows that this is already occurring in New York City's LMI census tracts, where higher income homeowners are much likely to receive a refinance loan than LMI homeowners. Given New York's affordable housing crisis and its gaping racial wealth gap, the CRA should promote lending to LMI borrowers, as opposed to any borrower in an LMI neighborhood.

End Grade Inflation

Each year, only about 2 percent of banks fail their CRA exams, while the rest receive either Satisfactory or Outstanding performance ratings.[5] CRA modernization should ensure that the CRA examination process provides a meaningful assessment of the totality of a bank's activities. This can be done by expanding the current rating system to include additional levels or by supplementing ratings with a point scale. A record of consumer protection violations, including violations of mortgage servicing and loss mitigation rules, should be taken into account when developing performance ratings.

Promoting Community Reinvestment in NY State

[3] ANHD, The State of Bank Reinvestment in New York City: 2018 (unpublished draft).

[4] *Id.*

[5] NCRC, Principles for CRA Reform, May 21, 2018. Available at: https://ncrc.org/principles-for-cra-regulatory-reform/#_ftn1.

In addition to promoting these principles as part of the national dialogue around CRA modernization, there is much to be done at the state level to promote access to credit, wealth-building in LMI communities, and financial empowerment. We respectfully recommend that the NY Senate works with the Assembly and Governor's office to implement the following:

Support Homeowner Stabilization Services

Many of the community reinvestment gains discussed today rely on a strong foundation of homeowner support services. Today, New York families at risk of foreclosure can rely on a robust network of statewide homeowner stabilization services, including legal services and housing counseling. Unfortunately, funding for foreclosure prevention services in New York State will permanently expire in March 2019. With the need for foreclosure services remaining high, unless funding is adopted in the next State budget, most NY homeowners in need of mortgage help will have nowhere to turn for help. Ultimately, $20 million in annual funding is needed to maintain New York's homeowner stabilization services network.

Support the New York State Community Equity Agenda

The Center for NYC Neighborhoods is a member of the coalition supporting the New York State Community Equity Agenda. Convened by the New Economy Project, the agenda calls on New York State to build individual and community wealth, hold banks accountable to the public, and ensure zero tolerance for predatory lending.[6] The Equity Agenda calls on the State to support financial institutions that are dedicated to serving low- and middle-income communities. This includes Community Development Financial Institutions, or CDFIs, which are federally-certified institutions dedicated to delivering responsible, affordable lending to help low-income, low-wealth, and other disadvantaged people join the economic mainstream, as well as Community Development Credit Unions, which are credit unions that serve low- and middle-income communities.[7] The agenda recommends funding the New York State CDFI fund at $25 million and making policy reforms to facilitate the creation of Community Development Credit Unions.

Among other recommendations, the agenda would also establish an Office of Community Wealth-Building, which would work with DFS to regularly assess banks' performance in meeting financial services and community reinvestment needs statewide, and divest public deposits from banks that fail to meet performance standards.

Support Public Banking

New York State and its municipalities deposit billions of dollars of public money in private bank accounts each year. With a public bank, New York City (or any other local government) could instead ensure that its depository funds are used to promote community projects and access to credit in underserved

[6] You can read the full agenda at:
https://www.neweconomynyc.org/our-work/campaigns/nys-community-equity-agenda/
[7] For more information on CDFIs, visit the Opportunity Finance Network at https://ofn.org/what-cdfi

markets. While the concept of a public bank may seem radical, the state of North Dakota has operated a public bank for nearly 100 years, and support for public banks is growing nationwide.

In conclusion, I'd like to thank Senator Sanders and the members of the Committee on Banks for holding today's hearing. I look forward to working with you to promote financial empowerment, wealth-building, and access to affordable credit for New Yorkers statewide.