NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

October 22, 2010

Councilmember Richard Alarcon
Los Angeles City Council, District 7
City Hall, Rm. 470, Los Angeles, CA 90012

Dear Councilmember Alarcon:

It is with great pleasure that the National Community Reinvestment Coalition (NCRC) strongly supports your proposed bill to establish a Responsible Banking Investment Monitoring Program (CF 09-0234). Without lending and investment of financial institutions, neighborhoods will not be able to thrive economically. Public sector programs can "prime the pump" and spark investment, but by themselves they do not have the resources to successfully revitalize neighborhoods. With this in mind, your bill to increase responsible lending and investing in communities is critically important.

Your bill, if replicated in many cities and counties across the country, will help us democratize capitalism so that it responds to community needs, as articulated by the communities themselves. Your bill will help ensure that homeowners and small business owners that are working hard and playing by the rules can receive responsible loans. It is a sound principle embedded in your bill that in return for receiving municipal deposits (which represents the wealth of the community), banks have an obligation to directly serve all city residents in a safe and sound manner.

The Federal Community Reinvestment Act (CRA) has leveraged tremendous amounts of safe and sound loans and investments but it has not yet realized its full potential. For example, in Los Angeles during 2008, CRA-covered banks issued $971 million in prime home loans to low- and moderate-income borrowers and made $3.3 billion in loans to small businesses with revenues under $1 million.

Despite these positive trends, significant disparities in lending by race remain, even for middle- and upper-income minorities. NCRC found that middle- and upper-income African-American women were 2.2 times more likely to receive high-cost loans than middle- and upper-income white women in Los Angeles. Likewise, middle- and upper-income Hispanic women were twice as likely as their white counterparts to receive high-cost loans.[1] Part of this disparity in access to affordable loans for minorities can be explained by less access to bank branches. In Los Angeles, NCRC found that predominantly white neighborhoods had one branch for every 3,677 people but that minority neighborhoods had one branch for every 7,956 people.[2]

[1] NCRC, *Assessing the Double Burden: Examining Racial and Gender Disparities in Lending*, June 2009, http://www.ncrc.org/images/stories/pdf/research/ncrc%20nosheild%20june%2009.pdf
[2] NCRC, *Are Banks on the Map: An Analysis of Bank Branch Location in Working Class and Minority Neighborhoods,* 2007, http://www.ncrc.org/images/stories/mediaCenter_reports/ncrc%20bank%20branch%20study.pdf

The Federal CRA does not explicitly consider lending and service to minorities. Your bill does! Your bill requires the City Treasurer to conduct a study assessing the record of banks receiving City deposits in serving neighborhoods of various racial and income levels. Your bill therefore will directly address racial disparities in lending and branching in contrast to the Federal CRA.

Another shortcoming of the Federal CRA is that geographical areas on CRA exams correspond to areas in which banks have branches. Many banks now lend in geographical areas outside of their branch network. Lending outside of branch networks is often not scrutinized on CRA exams. According to NCRC research, only 40 percent of the loans in the Los Angeles area were covered by CRA exams during 2008. In addition, only 6 of the top 16 banks with the most loans operating in Los Angeles had CRA exams that scrutinized their lending in the City.[3]

Your bill would increase the CRA and fair lending scrutiny of lenders since it would most likely cover a good number of the top 10 banks whose CRA exams do not include Los Angeles; it is possible that some or many of these banks would wish to receive municipal deposits.

Even when CRA exams cover lending in Los Angeles, the exam may not be effective in holding a lender accountable. In particular, large banks often have several states and cities on their CRA exams, meaning that poor performance in Los Angeles could be compensated by good performance elsewhere. Your proposed ordinance would help end this dynamic since large lenders would be motivated to improve their CRA performance in an effort to secure City deposits. Moreover, your bill ingeniously uses the spur of competition to entice banks to improve their CRA performance. The banks' CRA performance is ranked against each other as a means of deciding which banks receive municipal deposits.

Finally, your bill would also examine bank performance in offering types of loans such as home equity loans and consumer loans that are not regularly scrutinized by Federal CRA exams. In addition, while Federal CRA exams provide consideration for modifications of distressed loans, this examination is not regular or comprehensive. In contrast, your bill would require banks receiving City deposits to provide annual data on modifications of distressed loans, enabling the City to systematically examine the extent to which the banks are offering sustainable modifications.

NCRC believes that your bill has the potential to significantly increase access to responsible credit and capital for Los Angeles' working class and minority neighborhoods. NCRC will be working with stakeholders in other cities to promote your approach as well as the responsible banking ordinances of Philadelphia and Cleveland. In

[3] NCRC comment letter to the Federal bank agencies on CRA, summer 2010, available upon request.

addition, NCRC hopes that you will join us in promoting H.R. 6334, the American Community Investment Reform Act of 2010, which would strengthen the Federal CRA by bolstering enforcement mechanisms and broadening CRA coverage to include a variety of non-bank financial institutions including mortgage companies, hedge funds, and investment banks.

On behalf of NCRC's 600 community organization members working to increase access to responsible loans and investments for underserved communities, I thank you for your important initiative. We look forward to further collaboration.

Sincerely,

John Taylor
President and CEO

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The National Community Reinvestment Coalition is an association of more than 600 community-based organizations that promote access to basic banking services, including credit and savings, to create and sustain affordable housing, job development, and vibrant communities for America's working families.