

# NAAHL PRINCIPLES FOR REVITALIZING COMMUNITY REINVESTMENT

## First Principle

**First, and most important, address the weaknesses in the current regulatory structure that discourage bank participation in important community development work that benefits low-and moderate-income (LMI) communities. Restore meaningful regulatory incentives for undertaking high-impact activities that reflect best practices in community development.**

### **Policy Recommendations**

- Reward high-impact, innovative, high-quality, often costly community development lending, services and investments that respond to a local government/community's needs assessment.
- Ensure that the regulations are sufficiently flexible to align with local policies, new markets, and financial instruments.
- Eliminate unrealistic bank "benchmarks" that have caused some market distortions by requiring specific market shares regardless of profitability or responsiveness to community needs.
- Provide meaningful incentives for an Outstanding rating.
- Reform regulatory techniques for evaluating performance. Increasing emphasis on the quantitative versus the qualitative impacts of Community Reinvestment Act (CRA) activities has discouraged risk-taking and innovation, and undercuts support for Community Development Financial Institutions (CDFIs). Provide more flexibility to encourage banks and others with affirmative obligations to reach deeply into underserved areas.

From *"Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act"*, February 2009

**Roberto Quercia/Janneke Ratcliffe:** *Fine-tune the measurements to remain in step with shifting markets.*

**Mark Willis:** *The 1995 rewrite of the regulations steered the CRA toward rewarding dollar and unit volumes rather than focusing on rewarding those deals that do the most to strengthen and revitalize communities...many of the measures chosen to measure performance were fatally flawed.*

**Gene Ludwig:** *Enhance the professionalism of supervision.*

## Second Principle

**Do no harm. For more than 30 years CRA has encouraged insured depositories to help meet the credit needs of their communities. Any changes to the law should be carefully considered, practical to implement, and incentivize banks to engage in high-impact community development activities that fall outside of their normal course of business.**

### **Policy Recommendations**

- Maintain the focus of CRA on LMI borrowers and neighborhoods in local markets where financial institutions have a physical presence and staff. Broadening CRA's objectives to address a wide range of social and economic problems and expanding the geographic reach beyond where banks can effectively engage in CRA activities risks diluting the positive impacts of the law for community development.
- Permit limited purpose and wholesale depositories that lack "on the ground presence" to have nationwide assessment areas.
- Level the regulatory playing field and address the dual mortgage market problem by expanding CRA's affirmative obligations, safety and soundness, and consumer protection laws, including examinations and enforcement, to all primary and secondary market lenders.
- Maintain the combined oversight of safety and soundness, and the efforts to meet LMI credit needs.
- Maintain the integrity of separate laws. CRA has been effective because of a continuing focus on expanding capital and banking services to LMI households and neighborhoods. Other laws and regulations play important and separate roles in the Federal construct of consumer protection, including fair lending/anti-discrimination, unfair and deceptive practices, appropriate disclosures, etc. If existing consumer protection laws, regulations, examination practices, and enforcement are inadequate they should be enhanced to achieve the appropriate scope.

From "*Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act*", February 2009

**William Apgar:** *The CRA should be uniformly expanded to cover independent mortgage banking companies and other newly emerging nonbank lenders... subsidiaries and affiliates of depository institutions... enforced through an appropriately funded regulator.*

**Willis:** *Every extension of the CRA runs the risk of diverting attention and resources that are presumably already being effectively used.*

**Willis:** *Looking to the CRA as the solution may simply delay the adoption of the type of legislation or regulations that are needed.*