Massachusetts Affordable Housing Alliance Executive Director, Tom Callahan: Testimony RE: Economic Growth and Regulatory Paperwork Reduction Act

Governor Tarullo, Comptroller Curry, Chairman Gruenberg, Commissioner Cotney, and Director Lindo, we very much thank you for the opportunity to testify today on the Economic Growth and Regulatory Paperwork Reduction Act.

The Massachusetts Affordable Housing Alliance works with banks and other mortgage lenders to make homeownership more affordable and sustainable for low- and moderate-income buyers with a specific focus on closing the racial homeownership gap in our state. Our signature organizational accomplishment was a response to the historic 1989 Federal Reserve Bank of Boston study on racial disparities in mortgage lending. The resulting mortgage program, negotiated with community organizations and public officials, is now called the ONE Mortgage program. ONE is administered by the Massachusetts Housing Partnership and offered by over 30 lenders and has now reached over 18,000 households with half being households of color.

We want to focus on a couple of points this morning. The Community Reinvestment Act was passed in 1977 when our banking environment was vastly different than it is now. Banks were largely local institutions that did business where they had bricks and mortar branches. Today, banks do business where they recognize opportunity and CRA regulations that define assessment areas as where banks have branches are hopelessly outdated.

Wells Fargo provides a good example here in Massachusetts. In 2013 in the city of Boston, Wells Fargo was the #4 mortgage lender making 610 home purchase and refinance loans. Statewide, Wells Fargo was the #3 ranked mortgage lending making 7,239 home purchase and refinance loans. Yet, Wells Fargo does not have CRA responsibilities here in Massachusetts and does not participate in two state-supported mortgage programs designed to reach low- and moderate-income borrowers. Its closest deposit-taking branch is 88 miles away from Boston in East Hartford, CT. Wells is a significant player in the Boston market in every way *except* for when it comes to the Community Reinvestment Act.

CRA assessment areas should be defined as any Metropolitan Statistical Area where a bank conducts significant business activity. Regulators could define thresholds for significant business activity such as lenders that achieve greater than .5% market share in mortgage lending, for instance.

Our second point today is the exam process that is core to CRA. We have two main comments. Regulators need to conduct more interviews with community organizations during the exam process. In the 1990's, these interviews were commonplace and helped regulators better understand the community context. MAHA would frequently host regulators in our Dorchester office and have wide-ranging discussions about specific banks, community needs, and programs designed to address those needs. Today, this type of outreach from regulators is rare and has led, in our opinion, to regulators getting an incomplete picture of community credit needs and how banks may or may not be meeting those needs. We have had only one of these face-to-face meetings over the last five years and that one was initiated by our organization.

And regulators need to be tough graders. We have noticed a possible emerging trend in the past year when 14% (13 of 93) ratings awarded in Massachusetts were outstanding, the second lowest percentage in twenty years. In addition, four "needs to improve" grades were handed out when most previous years resulted in one or none. But, overall, regulators hand out passing CRA grades to banks like homeowners hand out candy on Halloween. Only 3.6% of Massachusetts banks received a below Satisfactory in 2014 and 1.8% received failing grades in 2013 at a time when many populations remain unbanked, and an already wide racial homeownership gap is widening. Banks are not responsible for all of those inequities, of course, but they need to be held to higher standards of helping to close these gaps.

Splitting the Satisfactory grade into a high and low satisfactory grade would be one step to improving the rating system. Massachusetts has adopted this split satisfactory model and it has worked well, providing consumers and community organizations with greater clarity about a bank's performance.

Ratings and examinations should also indicate a clear preference for how a bank is meeting *local* community credit needs. It has become clear that the nation's largest banks have adopted a "too big to be local" strategy, aided and abetted by regulators. At a recent meeting with one of the nation's largest banks, they were very proud of their relationship with some 1,200 down payment assistance programs throughout the country. Local taxpayer supported programs that help the bank reach low-wealth borrowers. Good for them, you might say. But that same bank, when it comes to putting its own capital on the line, has pulled out of all locally-based affordable mortgage programs, like the ONE Mortgage program here in Massachusetts. We understand that regulators are not going to require participation in specific programs. But we need more critical questions from regulators about how banks plan on lending to underserved populations that are often best reached by targeted local programs.

And finally, while it likely beyond the scope of this hearing I hope you'll allow us to make a call for the eventual expansion of CRA to credit unions and independent mortgage companies. While Congress would have to initiate such changes, it is important to note that here in Massachusetts state-chartered credit unions, since 1982, and independent mortgage companies, since 2007, have complied with state regulations applying CRA and CRA-like standards to those institutions. It is working here and can work on the federal level.