

BUSINESS AND ECONOMIC DEVELOPMENT (BED)

Resolution BED-22-30

REFORMING THE COMMUNITY REINVESTMENT ACT TO ENSURE INVESTMENT IN LOW INCOME COMMUNITIES

WHEREAS, the Community Reinvestment Act (CRA) is in great need for an update to keep up with the major changes in the financial industry, particularly as many banks move to offer more services online and away from brick-and-mortar locations;

WHEREAS, the Trump Administration made rule changes to the CRA that made it easier for many banks to pass their CRA exams, and these changes reduced the incentives for banks to open branches or approve mortgages in low-income neighborhoods;

WHEREAS, African Americans face disparities in homeownership, according to a report by the Urban Institute;

WHEREAS, the CRA is in great need for an update to keep up with the major changes in the financial industry since the last major CRA reforms were enacted in 1995 and the administrative rule changes in 2020;

WHEREAS, over the past two decades or so, there has been the emergence of the Fintech or financial technology industry, including non-bank mortgage lenders; non-banking Fintech companies are not covered by the Community Reinvestment Act;

WHEREAS, the Fintech industry uses financial technology to assist companies, business owners and consumers to improve the management of their financial operations and processes, and includes computers, software, algorithms, smartphones, and the Web;

WHEREAS, nearly 14.2 million Americans, or 6% of the adult population, use digital banking as their only form of money management;

WHEREAS, the number of online banks and other digital lending facilities continue to increase as well as P2P (peer-to-peer) lending platforms, which offer an alternative to traditional bank loans;

WHEREAS, the Community Reinvestment Act is a federal law established to encourage commercial banks and savings associations to assist all types of borrowers, including low- and moderate-income communities, in meeting their credit needs;

WHEREAS, the Congress passed the Community Reinvestment Act in 1977 to halt discriminatory credit practices against minority and low-income neighborhoods—also referred to as redlining;

BUSINESS AND ECONOMIC DEVELOPMENT (BED)

Resolution BED-22-30

WHEREAS, the policy of redlining by the Federal Government prohibited African-American families and communities from the subsidized mortgages that helped create affluent suburbs and the White middle class;

WHEREAS, predominantly Black neighborhoods were marked in red on maps to identify them as hazardous for lending;

WHEREAS, the CRA requires that all banking institutions backed by Federal Deposit Insurance Corporation (FDIC) insurance have their performance evaluated by Federal banking agencies to determine if the bank offers credit that is consistent with safe and sound operation in all communities in which they are chartered to do business;

WHEREAS, the purpose of the CRA is to prevent racial discrimination by encouraging banks to better serve all the people in the places where they are based, and geographic assessment areas are used by examiners to grade the performance of banks;

WHEREAS, performance ratings are determined by such factors as lending to lower-income borrowers, providing financial education, and investing in affordable housing, and further a rating can decide the fate of mergers and expansions; and

WHEREAS, legislation has been introduced by U.S. Senator Elizabeth Warren (D-MA) and U.S. Representative Emanuel Cleaver (D-MO) entitled the “Strengthening the Community Reinvestment Act of 1977, of the American Housing and Economic Mobility Act of 2021” (S. 1368, H.R. 2768), a bill to update the Community Reinvestment Act and expand its coverage of the financial industry.

BE IT THEREFORE RESOLVED, that the National Black Caucus of State Legislators (NBCSL) supports applying the Community Reinvestment Act to the Fintech or financial technology industry, including non-banking mortgage lenders because it would help in improving the performance of the Fintech industry to prevent racial discrimination in lending and other financial services;

BE IT FURTHER RESOLVED, that NBCSL supports legislation that would update the Community Reinvestment Act and to expand its coverage of the financial industry;

BE IT FURTHER RESOLVED, that NBCSL further supports legislation that would update Section 203 by increasing lending, investments, and bank services to traditionally underserved areas by improving the rigor of CRA as applied to banks, applying CRA to mortgage companies and increasing the public accountability of credit unions;

BUSINESS AND ECONOMIC DEVELOPMENT (BED)

Resolution BED-22-30

BE IT FURTHER RESOLVED, that the NBCSL urges support of fair policy reform of the Community Reinvestment Act to take into account the changes in the financial industry since 1995 and to rescind the administrative rule changes from 2020 that reduce incentives to open locations in low-income communities;

BE IT FURTHER RESOLVED, that the NBCSL urges Community Reinvestment Act reforms to include broader assessment areas to capture the impact of national and internet banks, and use more quantitative metrics to reflect the changes in the financial industry since 1995, and strengthen the reporting of activities in minority- and low-income communities;

BE IT FURTHER RESOLVED, that the NBCSL supports rescinding the previous administration's changes to the CRA as the Biden Administration indicated it will do to ensure that the mission of the CRA is maintained and strengthened; and

BE IT FINALLY RESOLVED, that a copy of this resolution be transmitted to the President of the United States, the Vice President of the United States, members of the United States House of Representatives and the United States Senate, and other federal and state government officials and agencies as appropriate.

SPONSOR: Senator James Sanders, Jr. (NY)

Committee of Jurisdiction: Business and Economic Development (BED) Policy Committee

Ratified in Plenary Session: December 2, 2021

Ratification certified by: Representative Billy Mitchell (GA), NBCSL President