Montgomery County Council

Committee: Directly to Council
Committee Review: N/A
Staff: Pam Luckett, Senior Legislative Aide
Purpose: Final action – vote expected
Keywords: #keywords

AGENDA ITEM 1.5
March 24, 2020
Introduction

SUBJECT

Resolution to support the Community Reinvestment Act
Lead Sponsor: Councilmember Jawando
Co-Sponsors: Council President Katz, Council Vice-President Hucker, Councilmembers Albornoz, Friedson, Glass, and Navarro

EXPECTED ATTENDEES

None

COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

Introduction, Council Action

DESCRIPTION/ISSUE

The Community Reinvestment Act (CRA) is a landmark civil rights law enacted on October 12, 1977 to end the practice of "redlining," in which financial institutions would draw a red line on a map around the neighborhoods to which they did not want to offer financial services. Before the enactment of the CRA, redlining made it nearly impossible for low- and moderate-income Americans, racial and ethnic minorities, and their neighborhoods to access credit services, such as mortgages and business loans, regardless of their qualifications or creditworthiness.

Changes in the banking industry and the economy require updates to the CRA, however The OCC and FDIC have proposed revisions to the CRA that would substantially weaken the law.

This Resolution calls on the Federal Administration to modernize CRA without the provisions that weaken the intent of the law.

<u>**This report contains:**</u>

Memo from Councilmember Jawando	© #1
Resolution to support the Community Reinvestment Act	© #2-3

Alternative format requests for people with disabilities. If you need assistance accessing this report you may submit alternative format requests to the ADA Compliance Manager. The ADA Compliance Manager can also be reached at 240-777-6197 (TTY 240-777-6196) or at adacompliance@montgomerycountymd.gov

MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

WILL JAWANDO
COUNCILMEMBER
AT-LARGE

TO: Councilmembers
FROM: Will Jawando, Councilmember
DATE: March 19, 2020
SUBJECT: Resolution in support of the Community Reinvestment Act (CRA)

In August of 2018, the Office of the Comptroller of the Currency (OCC) released an Advance Notice of Proposed Rulemaking (ANPR). This contained ideas about how to modernize CRA regulations and examination procedures. The modernization is needed due to changes in the economy and banking industry. Unfortunately, many of the changes recommended by the OCC could subvert local lending and investing by the nation's banks. This Resolution calls on the Federal Administration to modernize CRA without the provisions that weaken the intent of the law.

The Community Reinvestment Act (CRA) was enacted in 1977 and has become an invaluable tool to ensure that low and moderate income borrowers have access to small business loans and mortgages. The CRA also ensures that investment dollars are allocated to low and moderate income communities that have historically been marginalized and/or excluded from mainstream financial resources.

Before the passage of the CRA, "redlining" was widespread. Limiting loans or refusing to make them altogether by drawing "red lines" around specific geographic areas, started with "residential security maps" created by the Home Owners' Loan Corporation, which no longer exists. These maps identified four categories of lending and investment risk for each of 239 cities; later, private lenders created similar maps. Redling was supposed to be a way to estimate credit risk, however it also resulted in discrimination against those with same credit risk as others in non-redlined areas.

Incentives created by the CRA and requirements for compliance with other laws and regulation have resulted in partnerships between community groups and banks. These partnerships have encouraged development in low and moderate income areas and have also promoted access to credit for these communities. These are just some of the ways the CRA has been successful.

A recent forecast from the National Community Investment Coalition projects that weakening the CRA could reduce lending in lower income communities up to $105 billion in the next 5 years. The forecast calculated likely losses in both small business and mortgage lending in every census tract in America. In Montgomery County, this would include: $475.8 million in Congressman Trone's district and $492.5 million in Congressman Raskin's district. The forecast does not include declines in community development lending, which more than likely would also decline if the CRA is weakened.

Once we begin recovery as a county and as a nation from the Covid-19 pandemic, the CRA will be a valuable tool to help many individuals and businesses that have been highly impacted. I am putting forth this resolution in support of the Community Reinvestment Act (CRA) and ask each of my Council colleagues to join me in this effort.

Resolution No.: ________
Introduced: ________
Adopted: ________

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsor: Councilmember Jawando
Co-Sponsor: Council President Katz, Council Vice President Hucker, and Councilmembers Albornoz, Friedson, Glass, and Navarro

---

SUBJECT: Resolution to support the Community Reinvestment Act

Background

1. The Community Reinvestment Act (CRA) is a landmark civil rights law enacted on October 12, 1977 to end the practice of "redlining," in which financial institutions would draw a red line on a map around the neighborhoods to which they did not want to offer financial services. Before the enactment of the CRA, redlining made it nearly impossible for low- and moderate-income Americans, racial and ethnic minorities, and their neighborhoods to access credit services, such as mortgages and business loans, regardless of their qualifications or creditworthiness.

2. Racial disparities and biases continue to persist in America's banking and housing markets.

3. The CRA establishes a regulatory regime to monitor the level of lending, investments, and services in low- and moderate-income neighborhoods traditionally underserved by lending institutions. Examiners from three federal agencies assess and "grade" a lending institution's activities in low- and moderate-income neighborhoods. The Office of the Comptroller of the Currency (OCC) examines nationally chartered banks; the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Board examine state-chartered banks. A financial institution's CRA grade can be downgraded if a federal agency uncovers evidence of illegal, abusive or discriminatory lending on their fair lending exams that occur at about the same time as CRA exams.

4. Since 1996, according to analysis of bank lending data by the National Community Reinvestment Coalition (NCRC), CRA-covered banks issued almost 29 million small business loans in low- and moderate-income tracts, totaling $1.156 trillion, and $1.179 trillion in community development loans that support affordable housing and economic development in low- and moderate-income communities.

5. Studies prove that CRA-covered home lending is more secure for both lender and borrower than non-CRA covered lending. When a larger share of lending is issued by CRA-

covered banks than by independent mortgage companies, a neighborhood experiences lower delinquency rates and less risky lending.

6. Changes in the banking industry and the economy require updates to the CRA. Independent mortgage companies not covered by CRA now make more than 50% of the home mortgage loans, and financial technology companies not covered by CRA operating via the internet are rapidly increasing their lending.

7. The OCC and FDIC have proposed revisions to the CRA that would substantially weaken the law. The purpose of CRA is to incentivize lenders to meet the credit and capital needs of low- and moderate-income people and small businesses frequently in need of relatively smaller sized loans. Moving to a dollar volume approach would encourage larger deals at the expense of those underserved borrowers the law was designed to protect.

8. The OCC's and FDIC's proposal would move CRA away from its focus on low- and moderate-income families and communities and count the financing of sports stadiums, middle-income rental housing, and financial education for middle- and upper-income consumers. This will radically devalue the importance of maintaining branches in low- and moderate-income neighborhoods, despite strong evidence that branches are heavily used by households with lower incomes.

Action

The County Council for Montgomery County, Maryland approves the following resolution:

1. Montgomery County Council calls on the Federal Administration to modernize CRA and apply it to non-bank institutions including mortgage companies, financial technology companies, and credit unions, but not relax or undermine the law's goal and intent.

2. Montgomery County Council opposes regulators efforts to weaken the penalties under CRA for discrimination.

3. Montgomery County Council supports a CRA with a clearly defined grading system that emphasizes lending, bank branches, fair lending performance, and responsible loan products for working class families.

4. Montgomery County Council supports holding accountable banks that fail a CRA exam, or wish to acquire a bank with a better CRA grade, and urge agencies to recognize and encourage community benefit agreements and efforts that motivate banks to make more loans, investments, and services available to traditionally underserved communities.

This is a correct copy of Council action.

____

Selena Mendy Singleton, Esq.
Clerk of the Council