Joint Public Hearing on Community Reinvestment Act

Witness: Janice L. Mathis

404 394 1500

OTS -2010-0019

I want to thank the Federal Reserve for the opportunity to offer a few thoughts about proposed regulations implementing the Community Reinvestment Act. The Rainbow PUSH Coalition encounters the Community Reinvestment Act in several ways, but I want to focus on just two of those today.

First, we have a category of members who own and operate businesses across the United States. They are principally concentrated in the nation's urban centers including Chicago, Atlanta, New York, Washington, Los Angeles, the San Francisco Bay Area, Houston and New Orleans. These members are almost exclusively disadvantaged business enterprises in the sense that they operate in and/or serve underserved markets.

Over the past ten years that I have worked here in Atlanta to assist dozens of them in growing these businesses, we face a constant, intractable dearth of credit, which has only been worsened by the recent economic implosion over the past two years. Like the proverbial canary in the mine, what for mainstream business enterprises has been a reduction in the amount of credit available, has been for these businesses, an almost complete elimination of bank credit. Even profitable firms with well-known names and high-profile visibility in Atlanta have had extraordinarily difficult time obtaining credit in the local market.

Prior to the economic recession such credit as was available to these firms required extraordinary documentation and collateral to obtain. Owners reported having to put up their homes and sign personal guarantees, despite decades of successful business operation. Many of them traveled to distant states outside the South where credit was available on better terms and conditions. Others maintained relationships with local minority-owned banks, Citizens Trust and Capitol City, in order to satisfy their credit needs. These institutions, however, are limited in the size of loans they are able to make.

Despite the severe credit shortage in the Atlanta market, virtually no banks have been found to violate the CRA. A cursory review of the CRA ratings between 2004 and 2010 shows that only 63 banks across the nation received a rating of "Needs to Improve" or "Substantial Non-Compliance." Of those 63, only 6 were located in the Deep South, 1 was in Florida and 4 were in Texas. It is apparent from this review that the ratings are inconsistent with reports of credit scarcity that we have consistently seen and heard in this region over the past decade. Action should be taken to strengthen the rating system to more heavily weight the extension of credit to disadvantaged business enterprises.

The other issue that I would like to comment on is CRA and its relationship to foreclosure Tsunami that has engulfed this region. Rainbow PUSH has offered one-on-one mortgage modification and other foreclosure prevention assistance for more than two years. Having worked with hundreds of families, we can report with confidence that the firms most reluctant to offer meaningful alternatives to foreclosure are those that are not subject to CRA. We see a high correlation between successful alternatives to foreclosure and those lenders covered by CRA. We have seen no evidence that CRA compliance caused mortgage failures. Most of the high-cost loans to homeowners we serve were extended through mortgage brokers and other firms not covered by CRA.