City of Toledo

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Legislation Details (With Text)

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Title: Resolution to protect the Federal Community Reinvestment Act - lending & investment in low- and moderate communities around the country.

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Council Members Melden and Moline

Resolution to protect the Federal Community Reinvestment Act - lending & investment in low- and moderate communities around the country.

WHEREAS, the Federal Community Reinvestment Act (CRA) was a landmark civil rights law enacted on October 12, 1977 to end the discriminatory practice of “redlining” by financial institutions where they would draw a red line on a map around the neighborhoods they did not want to offer financial services; and

WHEREAS, 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; and

WHEREAS, the City of Toledo is still experiencing the negative impact of redlining in that the same communities that were prevented from obtaining mortgage loans are still experiencing little to no lending; and

WHEREAS, the City of Toledo has experienced a significant loss of FDIC insured bank branch locations in low-income and minority neighborhoods; and

WHEREAS, data provided through the Home Mortgage Disclosure Act reveals that in recent years the largest banks in the Toledo area have provided little or no home mortgage lending in low-income and minority census tracts; and

WHEREAS, discrimination still exists in lending; and

WHEREAS, the CRA states that “regulated financial institutions have continuing and affirmative obligations to help meet the credit needs of the local communities in which they are chartered”; and

WHEREAS, the CRA establishes a regulatory regime for monitoring the level of lending, investments, and services in low and moderate-income neighborhoods traditionally underserved by lending institutions; and

WHEREAS, CRA examinations conducted by three federal agencies: the Office of the Comptroller of the Currency (OCC), which examines nationally chartered banks, the Federal Deposit Insurance Corporation

(FDIC) and the Federal Reserve Board - both of whom examine state-chartered banks; assess and “grade” a lending institution’s activities in low- and moderate-income neighborhoods; and

WHEREAS, if a regulatory agency finds a financial institution not serving these neighborhoods, it can delay or deny that institution’s request to merge with another lender or to open a branch or expand its services. The financial institution regulatory agency can also approve the merger application subject to specific improvements in a bank’s lending or investment record in low and moderate-income neighborhoods; and

WHEREAS, 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; and

WHEREAS, since 1996, according to analysis of bank lending data by the National Community Reinvestment Coalition (NCRC), CRA-covered banks issued more than 25 million small business loans in low and moderate-income tracts, totaling more than $1 trillion, and $980 billion in community development loans that support affordable housing and economic development projects benefiting low- and moderate-income communities; and

WHEREAS, the annual dollar amount of community development loans increased 443 percent from $17.7 billion in 1996 to $96 billion in 2016, and a 2016 review of the CRA examinations of intermediate small banks (ISBs)/mid-sized banks (banks with asset sizes today between $313 million and $1.252 billion) found that ISBs produced over $9.3 billion of community development loans and grants; and

WHEREAS, studies have found that CRA-covered home lending is safer and sounder 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; and

WHEREAS, despite the tremendous benefits of the CRA to communities, the full potential of the CRA has not been realized because it has not been updated to take into account changes in the banking industry and the economy. Independent mortgage companies not covered by the CRA now make more than 50 percent of the home mortgage loans in America and financial technology companies (“Fintech”) not covered by the CRA and operating via the internet are rapidly increasing their lending; and

WHEREAS, notwithstanding the need to modernize the CRA, we are concerned about efforts from some federal regulators that would substantially weaken the law; and

WHEREAS, geographic assessment areas must remain the focus of CRA exams for all banks. Banks should continue to be graded based on every geography where they lend or receive a significant percentage of their deposits. Banks cannot be allowed to cherry-pick where they lend and where they don’t lend or to ignore the credit needs of distressed and vulnerable communities; and

WHEREAS, regulators review of a bank’s CRA commitment should not be consumed by a “one ratio” approach on which most or all of a bank’s CRA rating would be based. One ratio would consist of the dollar amount of a bank’s CRA activities (loans, investments, and services to low and moderate-income people) divided by the bank’s assets or the bank’s “Tier One” capital. One fraction cannot sum up how, if and where a bank is lending and investing and whether they are being responsive to the particular credit needs of their local community; and

WHEREAS, more banks and not fewer banks, including ISBs/mid-sized banks, should be examined under the CRA for their community development lending and investments; and

WHEREAS, the CRA should explicitly state the law’s obligation to fairly serve all races and ethnicities. Banks that engage in large-scale illegal and harmful activities should fail their CRA exams; NOW, THEREFORE,

Be it resolved by the Council of the City of Toledo:

SECTION 1. That the City of Toledo opposes regulators efforts to raise bank thresholds and exempt more banks, such as ISBs/mid-sized banks, from examination of their community development lending and investments.

SECTION 2. That the City of Toledo supports efforts to modernize the CRA, and oppose efforts to relax or undermine the law's goal and intent.

SECTION 3. That the City of Toledo supports modernizing the CRA to apply it to non-bank institutions including mortgage companies, and financial technology companies.

SECTION 4. That the City of Toledo opposes regulators efforts to weaken the penalties under the CRA for discrimination.

SECTION 5. That the City of Toledo supports a CRA with a clearly-defined grading system that emphasizes lending, bank branches, fair lending performance, and responsible loan products for working people and families.

SECTION 6. That the City of Toledo supports efforts to hold a bank accountable if it fails its CRA exam or wishes to acquire a bank with a better CRA grade, and urges 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.

SECTION 7. That the City of Toledo is concerned about the lack of stakeholder and community engagement and feedback in the rulemaking process for the proposed CRA rules up to this point and implores the OCC to seriously consider the impact these proposed rules will have on the communities they are intended to protect.

SECTION 8. That this Resolution shall take effect and be in force from and after the earliest period allowed by law.

Adopted: _________________: yeas _____, nays _____.

Attest: _________________________ _________________________________

Clerk of Council President of Council

Approved: ______________________ _________________________________

Mayor

I hereby certify that the above is a true and correct copy of a Resolution adopted by

Council _________________________.

Attest: _________________________

Clerk of Council