**Democrats Preparing Bill to Expand CRA Beyond Banks**

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WASHINGTON — Democratic leaders on the House Financial Services Committee are assembling legislation to expand Community Reinvestment Act requirements beyond banks, but may also target financial institutions by adding greater depth of detail to ratings.

Lawmakers have pledged to push the initiative, which has been long awaited by consumer and community groups who have been lobbying for years to expand the CRA, as far as they can through Congress this year.

House Financial Services Committee Chairman Barney Frank and Rep. Luis Gutierrez, the chairman of the financial institutions subcommittee, are expected to introduce a CRA expansion bill as soon as this week that advocates hope will set the wheels in motion for meaningful and sweeping reform.

"The journey of a thousand miles begins with a single step," said John Taylor, the president and chief executive of the National Community Reinvestment Coalition, who is leading the effort. "It's a very significant thing because this is the unfinished business of financial reform. Financial reform was about creating more transparency and accountability and prohibiting bad practices. CRA modernization is about making sure the average person continues to have expanded access to the financial services sector. That's the single biggest complaint from middle-income and moderate-income people in America right now — that banks are not lending."

The bill is still being written and it is unclear what exactly it will entail. A spokeswoman for Frank shared no details and a spokesman for Gutierrez confirmed only that the Illinois Democrat is working on legislation.

But a few provisions appear clear, according to multiple sources. For one, the bill is not expected to target credit unions, even though Frank and others have said such institutions should eventually face CRA-like requirements. Instead, the legislation appears targeted at expanding the CRA to cover investment banks, insurers and mortgage brokers.

Several other potential reforms may also be part of the bill. Consumer groups are pressing for tougher oversight and enforcement of existing CRA requirements for banks, including detailed ratings that could differentiate between banks that receive "satisfactory" ratings. Currently, banks can receive one of only four ratings: "Outstanding," "Satisfactory," "Needs Improvement" or "Substantial Noncompliance." (The latter rating is very rare.)

Consumer groups are also pressing for more penalties for failure. Currently, CRA scores are factored into merger and branch applications, but consumer advocates said regulators should be able to charge more for deposit insurance or offer discounts for exemplary performance.

"We are open to suggestions of how it might be done, but we would like to see that rating to have more meaning at a minimum," said Barry Zigas, the director of Housing Policy for the Consumer Federation of America. "We'd also like to see enforcement that goes beyond being able to withhold approval of mergers and acquisitions."

But whether Frank can push the bill through this year appears unlikely. Even if the Massachusetts Democrat succeeded in passing the bill through the House, which advocates say is his intention, the Senate is not expected to follow suit.

With the upcoming November elections poised to give Republicans more seats in the Senate, and possible control of the House, legislation expanding the CRA seems unlikely to pass. The GOP has largely blamed the law for causing the housing crisis, arguing it has forced banks to lend to risky borrowers. (Regulators have rejected this analysis since poor quality loans do not qualify for CRA credit.)

Some expect Republicans to try and pare back the law next year.

"Obviously there's not much time left in this Congress to do anything and there's no way you can do a CRA expansion bill by unanimous consent in the Senate, so it's dead this year," said Mark Calabria a former GOP Senate aide and now the director of financial regulation for the Cato Institute. "The real question would be to what extent Republicans roll back parts of CRA next year. I think they are going to attempt to do it but I don't think they would have a lot of success. However one thing you can safely assume is that in the next Congress there will not be any expansion of CRA."

Even the bill's supporters argue it faces an uphill battle, particularly in the Senate.

"The Senate is having a hard time getting even simple things passed like unemployment or food safety, which is a harbinger of things to come," Zigas said. "Clearly if we fail and if it doesn't happen this session of Congress then everything starts over next session. It will be a new Congress and we'll do whatever we have to do, but obviously our challenge will be to try to get this passed this year."

Other observers questioned the content of the bill, saying it makes no sense to leave out credit unions. "The whole intellectual underpinning of CRA goes to geographic deposit taking and credit unions fit that mold a lot more readily than do investment banks," said Cornelius Hurley the director of the Morin Center for Banking and Financial Law at Boston University. "The only difference is that credit unions have more grassroots political power than do investment banks."

For the banking industry's part, the issue is generating little attention. Bankers have long backed extending the CRA to credit unions but since the bill is unlikely to include that provision, and instead just add more enforcement obligations, they are likely to resist tougher enforcement.

Steve Verdier, a senior vice president of the Independent Community Bankers of America, said that bankers have enough on their plate with the implementation of the Dodd-Frank Act.

"Bankers are so worried and concerned about those issues that worrying about more CRA changes — no matter who they would affect, no matter what they would do — would be very difficult," he said.