



FURMAN CENTER  
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The Community Reinvestment Act  
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# CRA, Short of its Full Potential and Losing Ground

- No simple, clear measure of desired impact (no consensus)
- Difficulty responding to:
  - ❑ Unintended/unforeseen consequences of evaluation methods/tests
  - ❑ Changes in banking/finance world
  - ❑ Changes in community development best practices
  - ❑ Changes in community needs over time
  - ❑ Variations in needs across localities

# Impediments to Rallying Broad Support for Reform

- Damaged reputation re: safety/soundness
- Lack of consensus among stakeholders
  - Different perspectives/interests (even within groups)
    - Bankers: want predictability, understand status quo, see community development activities as undervalued
    - Regulators: seek consistency, expect any changes to be subject to attack from all sides
    - Advocates: grade inflation, economic justice, partnerships
  - Ability to play one group off against another (zero sum)
- Engaging new industries (non-banks) into debate

# Two Routes for Reform—Legislative and Regulatory

- Factors for evaluating the relative strengths/weakness of each
  - Need for legislative authority
  - Ability to update regularly
  - Flexibility on the ground for examiners
  - Short-term prospects for tackling reform

# Ways to Spur Regulatory Changes

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- Leadership from the top
- Put one of the four regulators in the lead
- Use a framework that includes minimum standards
- Identify common ground among stakeholders
- Hold Congressional hearings

# Legislation Required

- Expand to non-banks and to non-bank affiliates within a bank/financial holding company
- Include geographies beyond where take deposits
- Provide additional incentives for an Outstanding (or even a Satisfactory) rating
  - Rewards or sanctions tied to a rating
  - Subsidies for marketing/producing specific products/services
- Broaden mandate beyond expanding access to credit

# Regulatory Reform

- Develop an easier/regular process for updates
- Better measures of impact of CRA
  - Fix/add/eliminate tests using more qualitative/process
  - Vary focus/emphasis according to local needs
  - Offer appeals process to avoid unintended consequences
- Develop additional exam prototypes for mega and for internet/ILC banks with national markets
- Apply a community development test to all banks
- Annual public review of latest CRA/HMDA data