



**Statement**

**of**

**Ronald A. Homer  
Chief Executive Officer  
Access Capital Strategies LLC**

**“The Community Reinvestment Act: Thirty Years of Accomplishments,  
but Challenges Remain”**

**House Committee on Financial Services  
U.S. House of Representatives**

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Access Capital Strategies LLC  
419 Boylston Street, Suite 501  
Boston, MA 02116  
[www.AccessCapitalFunds.com](http://www.AccessCapitalFunds.com)  
617-236-7274

Chairman Frank, Ranking Member Bacchus and Members of the Committee

Good morning. I am particularly honored and pleased to have the opportunity to testify before you today.

**Background**

Since 1997, I have been the CEO of Access Capital Strategies LLC (Access Capital), a registered investment adviser. Access Capital's mission is to create a double bottom line return by investing in debt securities that support community development activities serving low and moderate income individuals and communities across the U.S.

These activities include investments in homeownership, affordable housing, education, community health centers and small businesses. Access Capital currently manages more than \$700 million in this strategy from 120 banks and 10 other investors that include insurers, foundations, public pension funds and state reserve funds. These investments have been made in 46 states, the District of Columbia and Guam.

Access Capital does not invest in sub-prime mortgages, specialized investment vehicles (SIVs), collateralized debt obligations (CDOs), private label mortgage backed securities, home equity loans or loans for second homes or vacation properties.

I am also the Vice Chair of the Initiative for a Competitive Inner City (ICIC), a national not-for-profit organization founded in 1994 by Harvard Business School Professor Michael Porter, to focus research on market-based opportunities in inner cities that create jobs and income for its residents.

Prior to co-founding Access Capital, I was the CEO of a community bank located in Boston for more than thirteen years. During that time I served on The Federal Reserve Board Consumer Advisory Council and was the founding chair of the American Bankers Association's Center for Community Development. As a result of my experience, I was an active participant and gave a number of testimonies before this body, in the

dialogue between the regulators and the banking industry regarding the revisions made to the Community Reinvestment Act regulations in 1995.

These revisions, with some modifications, form the basis for the CRA performance based evaluations carried out by bank regulators today. Therefore, I am especially appreciative that you have invited me back some thirteen years later to share with the Committee my observations and opinions on this matter.

**CRA's role in increasing access to credit, investments and services in underserved communities**

My experiences as a banker, businessman, investor and advocate are consistent with the research findings of Harvard's Joint Center for Housing Studies "The 25<sup>th</sup> Anniversary of the Community Reinvestment Act: Past Accomplishments and Future Regulatory Challenges". Indeed had many of its recommendations been heeded, the magnitude of the problems created by the unchecked expansion of the sub-prime market in low and moderate income communities may have been averted or mitigated.

Since the adoption of performance based evaluations, CRA has provided significant incentives for CRA-regulated institutions to expand the provision of credit to lower income and/or minority communities where those institutions maintain deposit-taking operations. As a result of these regulations, CRA-regulated lenders have consistently made more conventional, conforming prime home purchase loans to CRA-eligible borrowers than out of area lenders or noncovered organizations.

HMDA data shows that the CRA-eligible share of conventional prime lending to blacks is 20 percentage points higher for CRA-regulated lenders operating in their assessment areas than for independent mortgage companies. For Hispanics, the equivalent gap is 16 percentage points.

These statistics are particularly important given the estimates that between 30 to 50 percent of these populations have opted for sub-prime loans even though they could have received a conforming conventional prime loan. It is reasonable to conclude that without CRA the fallout from foreclosures in some neighborhoods would be even more dramatic.

### **Are current examination criteria sufficient?**

While I have been out of the banking industry for more than 10 years, the nature of our current business requires us to work with a vast range of banks in preparation for their regulatory exams. For the most part, the examination criteria are adequate however one suggested reform would be to build upon the CRA's traditional mortgage lending focus by expanding assessment areas to cover a larger share of lending by banking organizations. Federal regulators should be encouraged to consider expanding assessment area definitions to include loans made by CRA-regulated entities outside of the areas where they maintain deposit-taking branches.

The current exam criteria place all of the emphasis on lending and investment activity in a bank's assessment area. Given the changes in the banking and mortgage industries, the use of technology in deposit gathering and mortgage lending, more examination should be given to CRA activity across its lending footprint. In particular, banks should also be evaluated on the lending activities of their affiliated mortgage companies.

Some of the sub-prime lending abuses may have been mitigated if banks had been evaluated over the past five years on the ratio of their conforming conventional prime lending to sub-prime lending in low and moderate income communities through their entire lending footprint as opposed to limiting this evaluation to activity in their respective assessment areas.

### **Adequacy of the enforcement mechanism**

Over the last five years, I have noticed a waning of interest on the part of banks in seeking CRA lending and investment opportunities. I believe that this may reflect the longer exam cycles, less consolidation in the industry and lower intensity of enforcement by the regulators including grade inflation in ratings. Additional regulatory oversight by the legislative branch along with a change in the attitude of the executive branch may improve both enforcement and the flow of capital. The fallout from sub-prime foreclosures may also cause more attention for the need for responsible credit products and alternatives. Perhaps a more aggressive use of CRA ratings in the approval of branch expansion and business line expansion may be considered.

### **The role of public comment**

Public comment has played an important role in developing large-scale CRA commitments from very large banks. However, more emphasis should be

given to a bank's ongoing performance as well as some reward for sustaining an outstanding CRA rating over multiple exam cycles. This may encourage mid-sized banks to be less scrutinized by advocacy groups allowing them to conduct a more sustained CRA effort.

### **Changes in the structure of the financial services industry**

The fact that loans made by CRA-regulated institutions in their designated assessment areas as a percentage of all loans have declined has several implications. First, a large and growing share of the mortgage lending industry such as independent mortgage companies, finance companies, and credit unions falls entirely outside the CRA's regulatory reach. Even among CRA-regulated banking organizations, the fastest growth has been in out-of-area lending, or lending that takes place outside the markets where these organizations maintain deposit-gathering branches, and therefore is not subject to the CRA examination process.

In addition, many of these banking organizations facilitated the dramatic growth of the sub-prime market through their investment banking operations and through the purchase and sale of exotic mortgage related securities.

Given the sub-prime debacle and its impact on the overall economy, federal regulators should be encouraged to expand its CRA examination to all of the mortgage related lending activities of banks. In addition, Congress should consider expanding the CRA to include the residential mortgage lending operations of a more diverse set of organizations playing an important role in lending to lower income people and communities.

### **Adequacy of the federal banking agencies' examination of discriminatory, predatory and illegal lending**

Since I am no longer directly involved in this process, it is difficult for me to give a fact-based opinion. However, it appears to me that most of the known abuses have been from non-regulated entities and the best preventative measure would be an expansion of the number of entities that are subject to regulatory examination.

### **Factors that influence the effectiveness of CRA**

The law has been effective when and where applied. In my opinion, the biggest factor in the effective implementation has been in having a well-vetted and shared clarity of scope, purpose and goals of the ACT coupled

with an effective and constant communication among the stakeholders regarding the progress made in achieving the goals.

**Conclusion**

Chairman Frank and distinguished members, I thank you for the opportunity to participate in today's hearing. From my company's name you can tell that we believe that the efficient access to capital is essential to the healthy development of a community. To that end, I commend your leadership on these important matters and we stand ready to assist in its implementation.