

# Rural Voices

THE MAGAZINE OF THE HOUSING ASSISTANCE COUNCIL

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## REINVESTING IN RURAL COMMUNITIES



CELEBRATING 30 YEARS OF THE  
COMMUNITY REINVESTMENT ACT

Dear Friends,

For 30 years the Community Reinvestment Act (CRA) has been an effective tool to increasing lending and investment in low-income and minority communities across the country. While this legislation has often been associated with lending in cities, CRA has also benefited rural areas in important ways. This issue of Rural Voices examines the impact of CRA and the ways in which banks and community organizations have partnered using CRA to reinvest in rural communities.

Since its passage in 1977, CRA has changed the way banks lend money and allowed local nonprofits greater access to community development funding. In the opening article, the National Community Reinvestment Coalition describes the CRA process and how local organizations can use CRA to increase funding for programs serving low-income communities. Two organizations, Rural Opportunities, Inc. and Rural Housing, Inc., illustrate how local organizations can form partnerships with banks and secure much needed funding for local projects. From creating individual development accounts to approving mortgages for low-income families, banks are doing more to promote development in their communities.

Over the past three decades, banks as well as the communities they serve have changed drastically. These changes have impacted rural communities uniquely. As many small banks have merged into larger ones and new lending products have been developed, CRA can help create more equitable mortgage financing for residents, regardless of where they live. The article by Center for Responsible Lending explains how CRA has worked against predatory lending practices and offers suggestions as to how to further expand the scope of CRA.

Articles from Bank of America and the Office of the Comptroller of the Currency provide the lender's perspective on reinvestment and the evolution of bank and community partnerships. These articles illustrate the mutually beneficial partnerships that emerge when banks and community groups work together to examine needs, focus energies, and share resources.

By celebrating CRA's success, we can see not only what has been accomplished, but what can be accomplished using this critical partnership tool.



Gideon Anders, Chair



Arturo Lopez, President



Moises Loza, Executive Director

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Cover photography provided by Rural Housing Incorporated and Rural Opportunities, Inc.



## National Rural Housing Conference

HAC hosted its National Rural Housing Conference in December 2006, celebrating rural housing partnerships with more than 700 conference registrants. Conference workshops, speakers, and forums encouraged dialogue on the role of partnerships in rural community development. Major speakers included Representatives Bennie Thompson (Miss.), Artur Davis (Ala.), Rubén Hinojosa (Texas), Sanford Bishop Jr., (Ga.) and Maxine Waters (Calif.).

During the conference, eight agenda setting sessions helped to frame a rural agenda for upcoming years. Agenda Setting Sessions highlighted challenges and opportunities for building rural communities. Summaries of these sessions and more information about HAC's 2006 conference can be found at HAC's website at [www.ruralhome.org/Conf2006](http://www.ruralhome.org/Conf2006).

## New Publications

**FARMWORKER HOUSING: EXISTING STOCK AND CHANGING NEEDS.** HAC has completed a comprehensive analysis of the USDA's Section 514/516 Farm Labor Housing stock and current farmworker trends. Using a USDA database, the report examines the characteristics of the 787 active Section 514/516 developments, which account for more than 14,000 units located across the country. Printed copies are available for \$4.00 each from Luz Rosas at HAC, 202-842-8600 ext. 137, [luz@ruralhome.org](mailto:luz@ruralhome.org).

**THROUGH PARTNERSHIP AND PROMISE: TEN YEARS OF THE SELF-HELP HOMEOWNERSHIP OPPORTUNITY PROGRAM IN RURAL COMMUNITIES** celebrates the impact of HAC's partnership with the U.S. Department of Housing and

Urban Development on the SHOP program and the thousands of families who – through hard work, determination, and commitment – have achieved homeownership.

**THROUGH PARTNERSHIP ... PROGRESS: 35 YEARS OF BUILDING RURAL COMMUNITIES** marks HAC's 35 years of working to create improved housing conditions across rural America through its loan fund program. Since HAC's founding, its loan fund has provided much needed financial resources to advance its mission of building rural communities.

*These reports are available free in PDF format on HAC's website at [www.ruralhome.org](http://www.ruralhome.org).*



## HAC Awards \$6.8 Million in SHOP Loans

Over 740 low-income families in 25 states will become homeowners within the next three years, relying on their own labor and local community development organizations that will receive loans from the Housing Assistance Council.

Most of the \$6.8 million committed by HAC comes from the Self-Help Homeownership Opportunity Program, which helps local nonprofit organizations to acquire land and prepare building sites for low-income homebuyers. "The SHOP loans from HAC help to get the process started because they cover predevelopment costs such as buying land and installing water and sewer lines. Without this program, it can be very difficult for local organizations to finance these costs," explained HAC executive director Moises Loza.

This is HAC's tenth round of SHOP funding. Since 1996, HAC has administered nearly \$75 million from SHOP, assisting in the production of nearly 7,000 self-help homes, mostly in rural areas. 

# A PRIMER ON CRA

## How CRA Works

The Community Reinvestment Act, passed by Congress in 1977, requires banks and thrifts to meet the credit and capital needs of low- and moderate-income communities in their market areas. CRA requires that every federally regulated lending institution undergo periodic CRA exams to assess how well it serves the needs of its community. Each CRA exam results in a rating of outstanding, satisfactory, needs to improve, or substantial noncompliance.

There are four federal regulatory agencies that oversee lenders and carry out CRA exams. The Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency, which regulate banks, have adopted identical CRA regulations. The Office of Thrift Supervision, which regulates savings associations (also known as savings and loans or thrifts), has taken a slightly different approach in its regulations.

CRA exams are available on the regulators' websites and can be requested from banks or thrifts directly. More information about CRA, including links to the regulators' websites, can be found at [www.ffiec.gov/cra](http://www.ffiec.gov/cra).

## CRA Exams by the Fed, FDIC, and OCC

For large banks with over \$1 billion in assets, the CRA exam consists of three parts:

- The lending test determines how well the bank distributes its home loans and small business loans among low-, moderate-, middle-, and upper-income borrowers and census tracts.
- The services test assesses the extent to which the bank's branches are accessible to low- and moderate-income persons and measures bank financial education programs and other community services.
- The investments test assesses a bank's level of investments in community development projects, which can include affordable housing.

"Small" banks, those with total assets of less than \$250 million, are evaluated only on lending activities, and the required calculations are less specific than those used for the large lender lending test.

Institutions with assets between \$250 million and \$1 billion are considered "intermediate small" lenders. They are evaluated using both the small lender lending test and a community development test that reviews their community development loans, investments, and services. Community development covers four specific types of activities:

- affordable housing for low- or moderate-income people;
- community services for low- or moderate-income people;
- economic development for small farms or small businesses; and
- revitalization or stabilization of low- or moderate-income geographies, disaster areas, or "distressed or underserved nonmetropolitan middle-income geographies." The regulators publish an annual list of places that fit this criterion, available at [www.ffiec.gov/cra](http://www.ffiec.gov/cra).

## CRA Exams by OTS

OTS divides thrifts into two categories: large, with assets over \$1 billion, and small, with assets less than \$1 billion. Large thrifts undergo the same three-part exam as large banks, but a thrift can determine the weight that will be assigned to lending, investments, and services in calculating its final rating. Small thrifts are evaluated the same way as small banks, without the community development test.

In November 2006, OTS proposed to amend its regulations to make them consistent with those of the other regulators.

# FINANCING HOPE:

## AFTER THIRTY YEARS, THE COMMUNITY REINVESTMENT ACT STILL DIRECTS FUNDS TO AFFORDABLE HOUSING

By Tim Westrich

In 2005, the predominantly rural state of Vermont was facing a housing crisis. The median purchase price for a home in Vermont rose to \$182,000, a 10 percent increase from 2004 and an 87 percent increase from 1996. The average fair market rent for a two-bedroom apartment in the state reached \$723 per month, a 29 percent increase from 1996.

In the face of these crises, banks were there to lend a hand. *Why?* Banks and thrifts engage with community groups and nonprofit organizations due, in large part, to the Community Reinvestment Act.

### Banking on the Community

Chittenden Bank, a statewide bank with branches in several Vermont towns, engaged in a number of affordable housing developments across the state. For example, the bank:

- made a \$1.4 million loan to a nonprofit organization to build a senior housing center that provided 63 units of affordable housing.
- provided refinance bridge loans totaling \$1.5 million to two nonprofit organizations for the purchase and renovation of affordable housing developments in Vermont.
- funded a \$6 million program administered by a community organization that provides an innovative set

of credit and financial products for agricultural clients to start or expand their businesses.

In total, Chittenden Bank originated more than \$27 million in community development loans to 41 different organizations from 2004 to 2006.

On the bank's 2006 CRA exam, the Federal Deposit Insurance Corporation awarded Chittenden an outstanding rating overall and on each of the three CRA tests, citing an impressive amount of community development lending and investment for a bank of \$3.4 billion in assets.

### Measuring the Impact

The size of CRA's impact in an entire region is indicated in a forthcoming National Community Reinvestment Coalition study for the Appalachian Regional Commission, which measured CRA's impact in rural areas and found that banks made \$5.43 billion in community development lending and investment in Appalachia over two and a half years. When it was possible to document the purpose of the community development financing, NCRC calculated that more than \$1 billion of the loans and investments were dedicated to affordable housing. These figures represent a significant resource for housing development in rural communities. As banks grow in size and continue to be examined under CRA, these funds are likely to increase in rural places.

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## The CRA Connection

*How does a community group use CRA to partner with a bank?* Depending on its size, every bank has either a CRA officer or a CRA department in charge of originating CRA-eligible loans and investments. Building a solid relationship with a CRA officer is critical to tapping into this financing. CRA officers may be unaware of the wide variety of nonprofits in their markets. Pitching ideas to a bank's CRA department will inform staff how a partnership between the bank and the community can be mutually beneficial.

When a bank is not responsive to a community's investment needs, or engages in discriminatory practices, CRA allows the public to comment critically on its next CRA exam. Comments must be taken into consideration by the bank's regulator, who can lower the bank's rating. Community groups may engage in a CRA agreement with a bank, often as the bank is seeking permission from its regulator to merge with another bank. These agreements establish specific dollar goals for the bank's levels of investments as well as targets for home lending, small business lending, and other services. According to an NCRC study titled *CRA Commitments*, banks have pledged \$4 trillion in various lending products and programs since CRA's inception in 1977.

Here's how you can use CRA to increase financing of affordable housing in rural communities.

- Partner with a bank by identifying its CRA department and pitching a collaboration to its staff.
- Comment on a bank's CRA exam by visiting its regulator's website to determine when its next CRA exam will be and how you can submit a comment.
- Comment on a bank's merger application when you see it announced in the media or on the regulator's website, and advocate that the new combined institution improve upon or maintain its services to low- and moderate-income communities.

## Improving CRA

While CRA's benefits are numerous, CRA is not without its weaknesses. Key among these is CRA "grade inflation." Most banks are rated outstanding or satisfactory by their regulators in their CRA exams, which can make it difficult for community groups to determine which banks are in need of improving their performance. But banks can still have very different CRA performance on each of the tests or in various geographical areas, opening up opportunities for community organizations to work with banks to improve their areas of weakness. NCRC and its membership of 600 community groups will be working to address the issue of CRA grade inflation, as well as other CRA reforms such as applying CRA to large credit unions, mortgage companies, and other non-bank lenders.

CRA is one of the nation's most advantageous laws for financing affordable housing. The United States affordable housing crisis can be ameliorated through collaboration among all parts of the community, including banks. CRA continues to be the cornerstone of this collaboration. 

***Tim Westrich is a research analyst at the National Community Reinvestment Coalition, [www.ncrc.org](http://www.ncrc.org), a national nonprofit membership organization that promotes economic justice and equal access to credit, capital, and financial services to traditionally underserved communities.***



A local Vermont bank helped Daniela Brothers save her home from foreclosure. She received counseling and financial assistance from Rutland West Neighborhood Housing Services and from Vermont National Bank, later acquired by Chittenden Bank.

# OPENING DOORS IN RURAL COMMUNITIES

By Hubert Van Tol

The 30th anniversary of the passage of the Community Reinvestment Act is the perfect time to look at the successes of this legislation as well as to think about ways to improve CRA to make it more relevant to rural communities. The law states simply that depository institutions have an obligation to meet the credit needs of the communities in which they do business, particularly low- and moderate-income geographies. While the common perception of CRA is that it is primarily designed for the benefit of urban communities, rural areas can also gain from CRA.

## CRA Successes

Rural Opportunities Inc. has had great success in developing relationships with banks, which have translated into real dollars for programs that benefit rural people. While banks are motivated to work with rural nonprofits in order to nurture future customers and reduce the number of troubled loans among their first-time homebuyer portfolios, these partnerships also look good on a bank's CRA evaluation.

ROI has been proactive in structuring its homebuyer counseling programs in ways that help deal with the scourge of predatory lending in our communities. Many first-time homeowners are especially at risk for falling into predatory traps during the first several years of homeownership, as they are deluged by offers from very convincing brokers urging them to refinance their homes. While ROI, like many other organizations, spends much of its counseling time warning first-time homebuyers about these traps, ROI also took an additional step in setting up a program designed to bring these new homeowners back into regular contact with our counselors.



Photograph provided by Rural Opportunities, Inc.  
The December 2006 graduating class of an ROI Microenterprise Assistance Program class in Honeyoye Falls, New York.

This was accomplished by convincing a large bank to provide the funding necessary to set up Individual Development Accounts that would provide matching money to new homeowners who would agree to attend a series of post-purchase counseling sessions and commit to putting small amounts of savings into their IDAs each month. The IDA funds can only be used to pay for the kind of emergencies that so often trap new homeowners into refinancing at unfavorable terms.

In addition, ROI developed a community development financial institution to make small business development loans averaging \$22,000 in rural New York. This loan fund works because of operating support grants and equity-like investments that banks and other institutions have provided. Operating funds and low-cost money for lending make it possible to offer the training and assistance that many inexperienced small business owners need as they develop their businesses.

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## The Limitations of the Law

ROI's successes point to the potential for CRA-inspired relationships with banks in rural communities, but there are also several structural problems with CRA that prevent rural groups from taking full advantage of it. The most critical issue is the way that the CRA currently defines "assessment areas."

When CRA first became law, depository institutions were the primary providers of banking services and loans. As the law developed and the first regulations were written, it was quite natural for its creators to tie CRA requirements to the areas around the branches at which these institutions took in deposits. The law's framers used the very reasonable logic that since deposits came from these surrounding communities, the banks should have an obligation to provide banking services and loans to those same communities. Thus "assessment areas," the geographies on which CRA performance would be judged, were established as the areas around a bank's branches.

Since 1977, however, the world of financial services has changed dramatically. Electronic banking has become a major force. Mortgage and finance companies that do not rely on deposits for their funds have become an important part of the market. Small business credit card lending has expanded dramatically. Insurance companies and brokerage firms have started providing banking services and products. Even companies whose primary business is not financial services have used a loophole in banking law to begin providing financial services. In 2007 there are big banks with deposit-taking branches in major urban areas, but they also sometimes own finance companies, with no CRA responsibilities, providing inferior products across rural America. As each of these developments occurred, banking regulators have, for the most part, interpreted CRA narrowly rather than using the opportunity to make CRA more relevant to the changing environment.

In addition to the assessment area issue, the difference in how CRA is applied to big banks and smaller banks is crucial in rural places. Small banks (with assets less than

\$250 million) and intermediate small banks (with assets between \$250 million and \$1 billion) are concentrated in rural communities. Because these banks have limited CRA investment reviews and the larger banks often skip over rural areas in defining their assessment areas, rural community development corporations often find themselves struggling to find the kind of investments needed to make affordable housing development and small business lending programs work in their communities.

## Making an Impact

Despite the challenges presented by the current CRA system, those of us who work in rural communities have a unique opportunity to improve the CRA law. We should take the time to praise those financial institutions that have partnered with us, and explain to our policymakers how important the Community Reinvestment Act has been in opening the doors of financial institutions to our organizations and our communities. Good community development organizations understand that much of our work is built on good public policy, and that we must always be advocates for improving the public policy that affects our communities. In cooperation with outstanding national organizations like the Housing Assistance Council, National Community Reinvestment Coalition, and the National Council of La Raza, we can act from our local base, but also have a national impact because of the power of many groups working together.

As we review the past 30 years, we can all point to many positive community development efforts made possible by the Community Reinvestment Act. Our challenge for the years to come is to keep working with our regulators and lawmakers to improve the law and make it more up-to-date and real for our rural communities. 

***Hubert Van Tol is the director for economic justice for Rural Opportunities, Inc., a New York-based nonprofit engaged in building assets and providing services for underserved individuals and communities in seven states and Puerto Rico.***

# SHARPENING CRA FOR A NEW ERA

By Deborah Goldstein

Thirty years ago, when the Community Reinvestment Act was born, Congress was operating in a world that seems barely recognizable today. In 1977, the personal computer was still only a gleam in IBM's eye. No one had conceived of a World Wide Web. Homebuyers typically obtained their mortgages from their hometown banks and many rural American families were supported by working farms and manufacturing businesses.

Fast forward to today, and the world looks like a different place. During the past three decades, CRA has done an enormous amount of good in addressing some of the major home lending issues of its time: increasing access to credit and reducing lending discrimination. CRA became a strong tool for counteracting redlining, the practice of refusing to lend in specific low- or moderate-income neighborhoods, especially those that were predominantly African-American. Without question, CRA has been instrumental in helping tens of thousands of families get access to mortgages that otherwise would have remained out of reach.



## A Changing Marketplace

In today's market, concerns have shifted from access to credit to the terms of credit. Just as many farms have converted from family operations to large-scale businesses, lenders also have consolidated and grown. Many have expanded their local bricks-and-mortar operations to serve a national market, and new Wall Street-driven finance companies have also entered the business of mortgage lending. Lenders offer a wide variety of mortgage products to a broader set of geographies, and have a range of methods for marketing their offerings, including by telephone, computer, or through a network of brokers. Risk management has become remarkably sophisticated, boosted by artificial intelligence and other advances in technology. Today, many lenders are willing to approve virtually any loan risk if the price is right for investors.

These changes in the marketplace have done much to fuel the rapid growth of subprime lending – that is, loans intended for people who have blemished credit, although sometimes even borrowers with good credit get steered into these expensive transactions. Beginning in the mid-1990s, subprime loans were a small niche among mortgages, typically representing around 10 percent of the total market from 1995 through the early 2000s. Today more than one in five of all mortgages made are subprime loans, and they are having a huge impact – much of it detrimental.

Unfortunately, when the terms are unfair, increased access to credit often fails to translate into building wealth or economic security. Too many subprime mortgages seem to embody the principle of “easy come, easy go.” Compared to loans in the mainstream prime market, subprime mortgages are much more likely to come with excessive costs, predatory or abusive

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features, and a high risk of foreclosure. A recent study conducted by the Center for Responsible Lending found that one in five subprime mortgages originated during the past two years will end in foreclosure. The study finds that this disturbingly high rate of home losses occurs regardless of a borrower's credit. Instead, foreclosures are the direct result of common abuses in the subprime market, primarily combining risky loan products with lax underwriting practices.

The implications of high foreclosures on subprime loans are even more disturbing in light of racial and ethnic disparities in that market. In a separate study, CRL found that, for most types of subprime home loans, African-American and Latino borrowers are at greater risk of receiving higher-rate loans than similarly situated white borrowers, even after controlling for risk factors that might legitimately affect loan costs.

CRA advocates were among the first to notice the downside of subprime lending. In fact, CRL was formed as a direct result of subprime lending abuses that occurred in North Carolina during the 1990s. Then as now, our affiliate, Self-Help, was engaged in making loans to lower-income and minority families who could not get mortgages and other loans from traditional lenders. Some of the borrowers were losing their homes because of abusive refinancing practices.

In one of the worst cases, an African-American widower with a young child came to Self-Help desperate to save his home from foreclosure. His refinance loan of \$29,000 had been inflated with \$15,000 in fees, most excessive or unnecessary.

### **Access to Abusive Credit Extends to Small Loans**

The expansion of "easy credit" has spilled over into other types of lending as well, including payday loans, car title lending, and overdraft loans. Although the availability of affordable mortgages and other types of credit remains a significant issue, it has never been easier to borrow money. Unfortunately, many of these loans come with triple-digit interest rates and other terms that hobble consumers rather than help them build economic security.

It was clear that the finance company behind this loan was intent on stripping all of the man's equity until he had nothing left, and this scenario was playing out in thousands of other subprime mortgages.

By forming a coalition with other advocates and leaders in the lending community, we managed to outlaw many of these practices in North Carolina. Other states followed suit, and federal regulators have also taken a close look at some predatory practices, such as single premium credit insurance, as a direct result of local advocacy efforts.

### **Sharpening CRA**

While CRA was aimed at increasing opportunities for credit, abusive lending practices are clearly counter to the Act's goal of promoting "more coordinated efforts between private investments and federal grants and insurance in order to increase the viability of our ... communities." Indeed, CRA has some important protections against predatory lending. Rules implemented in 2005 state that evidence of discrimination or violation of laws related to credit practices would adversely affect the evaluation of a bank's CRA performance. For example, a violation of the Home Ownership and Equity Protection Act or unfair or deceptive practices in violation of the Federal Trade Commission Act would affect a bank's CRA evaluation.

In addition, recently the Federal Deposit Insurance Corporation proposed using CRA to ensure that financial services are fair and responsible in the context of proposing incentives for state-chartered banks to provide affordable credit products for customers who may otherwise be victimized by high-cost overdraft and payday loans. Under the proposed guidelines, banks that provide affordable small loan products would be rewarded through favorable consideration under the CRA. These guidelines should help support an already vibrant small loan market, as they give a long-needed benchmark for banks, credit unions, and other lenders in the development of responsible small loan products.

In spite of these positive actions, CRA rules take a very limited approach to addressing predatory lending practices.

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# IF NOT FOR CRA...

By Gene Ortega

Without the Community Reinvestment Act, much of the affordable housing developed by Rural Housing, Inc. would not have been possible. With the support of banks, RHI has been able to develop housing in some of New Mexico's most economically disadvantaged areas.

Rural Housing, Inc. was established in 1976 with a mission of developing housing in rural areas, and emphasizes assistance to people who are low-income, elderly, or disabled. RHI has completed both rental and homeownership projects across New Mexico. The organization manages many of the rental properties it has developed, in addition to a number of childcare facilities and office buildings.

## A Critical Partner

Affordable housing practitioners understand the many layers of funding needed to plan and develop low-income housing, given the tremendous difficulty of keeping housing costs affordable for low-income families. Over the years, RHI has utilized many funding sources. Most recently, RHI developed three Low Income Housing Tax Credit projects in two rural communities resulting in 154 affordable rental units. RHI also accesses funds from U.S. Department of Housing and Urban Development programs such as Community Development Block Grants and HOME, from the Federal Home Loan Bank of Dallas, and through programs with local governments in New Mexico. A grant through the Temporary Assistance for Needy Families program is being used to develop a Head Start center near Deming, New Mexico that will accommodate 100 to 120 children of seasonal farmworkers.

While RHI receives funding through a number of partners – government agencies, foundations, and other nonprofits – none of our other partners is as critical as banks. In nearly



RHI's first-time homebuyer program in New Mexico was made possible by the support of banks through CRA.

every RHI project in recent years, a bank provided a very low-interest loan or grant. These resources were the result of relationships forged through the Community Reinvestment Act.

## Making the Connection

The lending test of the CRA exam offers an important opportunity for nonprofit organizations to create partnerships with their local banks. Under the lending test, a bank's regulator assesses the extent to which the bank provides community development loans – for example, loans to nonprofit housing developers. In order to do well on the lending test, banks need to finance community development activities. The bank regulators take special notice of our partnerships as they perform CRA exams, and reward the banks for loans that are particularly innovative and flexible.

In many cases, a bank has an individual on staff, a CRA officer, who is dedicated to working with local organizations. For RHI, it has been important to build strong relationships with those CRA officers. The results have been low-interest loans varying from \$50,000 to \$200,000, which have been combined with funding from other sources to make our affordable housing developments possible.

If not for these partnerships and the funding available from banks under CRA, many of these projects – which are such a positive force in rural New Mexico communities – would not have been developed. 

*Gene Ortega is the executive director of Rural Housing, Inc.*

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The CRA could be expanded or modified in a number of key ways to help borrowers have access to responsible credit, including:

- **EXPAND CRA'S SCOPE TO INCLUDE COMMON LENDING ABUSES.** While violations of existing federal laws can lead to an adverse evaluation under the CRA, these laws have limited impact on predatory or abusive lending practices. State laws have taken a much stronger approach to curbing predatory lending, and best practices in the marketplace are in some cases stronger than federal protections. CRA should be updated to reflect realities in today's marketplace, including abusive lending practices and illegal conduct that put consumers at unnecessarily high risk of foreclosure. For example, the law does not cover common equity stripping practices, such as abusive prepayment penalties or failure to consider a borrower's ability to repay a subprime mortgage.
- **INCLUDE ALL AFFILIATES.** CRA standards should apply to all affiliates of insured depository institutions. As it stands now, banks subject to the CRA are permitted to choose which, if any, affiliates' loans are evaluated for CRA purposes. The potential for abusing this privilege is obvious. A predatory lending standard within CRA is unlikely to be effective if a lender can simply shift abusive behaviors to an excluded entity to avoid scrutiny. This selective review severely weakens the effectiveness of the CRA in addressing discriminatory and abusive credit practices.

In the wake of predatory lending, families lose their homes and through ruined credit they also lose access to constructive loans, often for years. The negative ripple effects can extend to entire communities. When



predatory lending results in a rash of foreclosures, the affected communities face reduced property values and widespread disinvestment. The negative effects fall hardest on communities with low rates of homeownership and residents with little net worth. While CRA was enacted to prevent the wrongful denial of credit, one can argue that the results of predatory lending are even more devastating to individuals, communities, and our society at large. As research by the Housing Assistance Council and its partners shows, this issue of predatory lending on subprime loans is of particular concern to rural residents because high interest rate lending occurs disproportionately in rural areas.

We at the Center for Responsible Lending believe we can measure a society by how well it lifts its bottom 50 percent economically. We do not dispute that higher risk loans may warrant slightly higher interest rates. But we refuse to accept that struggling families should get loans that carry unnecessarily high costs and risks when responsible lenders could do better. 🌱

***Deborah Goldstein is executive vice president of the Center for Responsible Lending. CRL is an affiliate of Self-Help, a credit union and community lender that has provided more than \$4.5 billion in financing to help low-wealth families all over the nation buy homes, build businesses, and strengthen community resources.***

# CRA AT 30 AND RURAL COMMUNITY DEVELOPMENT

By Elizabeth Ferrer

Thirty years ago, the Community Reinvestment Act was passed as part of the Housing and Community Development Act of 1977. Spurred largely by perceived discrimination in mortgage lending by banks in urban areas, CRA was designed “to encourage banking institutions to help meet the credit needs of their local communities.”

Since then, there has been a burgeoning of lending and investing – to low- and moderate-income and minority borrowers, in low- and moderate-income census tracts – for the revitalization of commercial areas and the creation of affordable housing. True to its mission, CRA has helped banks focus on the needs of low- and moderate-income communities, families, and individuals.

While it is not clear that rural areas were much on the minds of Senator William Proxmire – the principal author of the legislation – or other drafters, there is no question that rural areas faced then and still face many of the same challenges to economic opportunity as the urban areas CRA was designed to help.

## A Changing Context

“Whether you’re talking urban or rural, CRA has been key in getting the financial community to focus on new approaches, new tools, and new products,” says Lee Beaulac, senior vice president for Community and Economic Development, Rural Opportunity, Inc. “If there hasn’t been as much progress in rural areas, one reason is that smaller community banks are not subject to the same rigorous requirements for investment under CRA as larger banks.”

Beaulac notes that the CRA legislation was passed in a time of transition. The old local financial service models in

rural communities, developed to meet the needs of mostly agrarian economies, were becoming less relevant even as banks were beginning to consolidate and the number of local banks to diminish.

But consolidation had its benefits. “Large banks have highly developed product sets and of course the scale to reach many more markets than smaller banks,” Beaulac said.

## Bank of America’s Rural Role

As the nation’s first truly coast-to-coast bank, serving 1,148 rural counties, Bank of America has long been acutely aware of the needs of rural communities, including Indian Country. In 1998, the bank announced its first public commitment to rural development – \$10 billion in loans and investments over 10 years. The combined power of the newly expanded franchise to reach rural markets was quickly apparent. The bank surpassed its goal within three years.

Affordable housing and homeownership have always been key components of the bank’s rural focus. But viable economic development takes more than housing. Bank of America has set goals for loans for small business, consumer loans to low- and moderate-income borrowers for home improvement, education or other needs, and loans and investments that create jobs, build community facilities, or work in other ways to strengthen rural economies.

One of the most valuable results of CRA legislation has been the impetus it sparked in advancing public/private partnerships. Over 30 years of community lending and investing, Bank of America has learned that it can by no means accomplish lasting community change on its

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own. The need for partners from all sectors – federal and local government, private enterprise, and nonprofit organizations – to collaborate and leverage resources is as true for rural areas as for urban neighborhoods. The bank has forged a number of valuable partnerships that have helped it reach rural markets, including relationships with the Housing Assistance Council, Rural LISC, Rural Opportunities, Inc., and others. Bank of America continues to seek opportunities for effective partnerships that expand its ability to deliver products and services and to build the capacity of nonprofits to serve rural markets.

### Rural Financial Needs

Addressing the issues affecting rural community development can be especially challenging. Distance to markets often means increased costs for transporting goods and services. Capital, either through debt or equity, can be more difficult to access. Financial and technical service providers are faced with large, low-density service areas, making it difficult to deliver programs efficiently. Less quantifiable, but no less real, is the independent spirit of rural populations, born of generations of “can do” self reliance. However, there is also a strong tradition of mutual assistance and neighbor helping neighbor, which the best models for community intervention activate.

Financial intermediaries can be especially valuable in this regard. Community Development Financial Institutions have been instrumental in targeting funds for rural community development. Through program-related investments, Bank of America has provided more than \$17 million in capital to CDFIs for rural lending and investing.

With its emphasis on encouraging “innovation,” CRA has helped banks and their partners think creatively

about reaching rural markets. For example, Bank of America worked with Raymond James Tax Credit Funds to capitalize one of the largest single investor funds earmarked for affordable housing in rural areas and Indian Country. The fund enabled the bank to invest nearly \$10 million in Indian Country, broadening its reach in a difficult market and leveraging the Raymond James firm’s expertise in working with tribal leaders. The fund helped create nearly 1,000 units of affordable housing in rural communities and Indian Country.

### Looking to the Future

Today, we stand at a moment that challenges some long-held assumptions and confronts us with new and seemingly contradictory data. A recent survey shows that 60 percent of babyboomers think they will retire to a rural area or small town. At the same time, cities across the country are reporting a new influx of residents. Empty-nesters, young professionals, people tired of long commutes – all are moving back into downtowns and

edge-of-town neighborhoods. What do these migrations – and their economic consequences – portend for rural communities and the people in them who cannot afford to move at will?

Immigration, a migrant workforce, lack of economic opportunity – and now perhaps gentrification – will be among the issues we will face in rural areas in the years to come. For just as it’s true, as Senator Max Baucus recently said, that “rural America and urban America need each other,” it’s also true that rural America and urban America are going to start looking more alike in some ways. The old dichotomies that have served to separate rural and urban community development strategies may give way to a more holistic approach.

It is with that expectation that Bank of America announced its 10-year goal to lend and invest \$25 billion in

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# COMMUNITY REINVESTMENT: A REGULATOR'S PERSPECTIVE

By Barry Wides

Look around. Here's an attractive low-income housing project in Hattiesburg, Mississippi, financed in part by a bank-owned community development corporation focusing on regional housing needs ...and here's a bank in Newton, Iowa, working with community activists to replace dilapidated properties with attractive and affordable single-family homes ... and here's a bank in rural Oklahoma working to create jobs and boost the local economy by building a co-op where raw wheat is processed into frozen pizza dough for the fast-food industry nationwide.

Examples such as these illustrate the success of partnerships between national banks and the communities they serve. In 2007 we can take it for granted that banks, regulators, and community development organizations are willing and able to work together – cooperatively and effectively – to promote investment in historically underserved inner cities and rural areas. But that hasn't always been the case.

## Humble Beginnings

In 1963 the federal government, acting through the Office of the Comptroller of the Currency, took an important step to promote investment in underserved neighborhoods. The OCC issued a legal interpretation of the National Banking Act, which deals with bank investments not otherwise expressly permitted under the law, authorizing banks to “make reasonable contributions

to local community agencies and groups to further the physical, economic, and social development of their communities.”

It's safe to say that few people outside the banking and community development communities have ever heard of the OCC's interpretive rule 7480, creating the public welfare investment authority, but it's also fair to say that the ruling was, in its understated way, revolutionary. It gave a regulatory green light to bankers willing to invest in community revitalization, and suggested a mechanism – community development corporations – through which bankers and community activists could collaborate for the common good.

Clearly, OCC's ruling did not transform the community investment scene overnight. If it had, there might well have been no need for the Community Reinvestment Act, which was enacted by Congress 14 years later. But OCC's 1963 ruling laid the foundation both for CRA and for the enormous subsequent increase in national bank investments in public welfare and community development over the next few decades.

While contested at the time by some banks and members of Congress, Comptroller James Saxon championed the rule as “a means by which national banks may play a role in [President Kennedy's] program of building a truly great society through private initiative and resources.” Following the economic and social precepts of the New Frontier,

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President Johnson vowed to build a great society in which economic opportunity would be available to all. That was a tall order, and one that remains today.

## **Moving Forward**

Over the years, Congress and the federal financial institution regulators have taken key steps to further stimulate bank investments in community development. In 1992, for example, Congress codified the public welfare investment authority for national banks and state chartered banks belonging to the Federal Reserve System, and permitted such investments in amounts up to 10 percent of a bank's capital and surplus. In 1994, Congress created the Community Development Financial Institutions Fund, providing new mechanisms to facilitate partnerships between banks and community developers. Additional CRA regulations adopted in 1995 further spurred community development involvement by formalizing the large bank investment test.

The public welfare investment authority was recently amended with the passage of the Financial Services Relief Act of 2006.

This Act increased the public welfare investment authority to 15 percent of a financial institution's capital and surplus in recognition that some banks were approaching, or had reached, the previous ceiling of 10 percent.

## **A Development Tool**

Today, banks can use their public welfare investment authority to catalyze development through a wide variety of approved investment mechanisms, including Low Income

Housing Tax Credits, New Markets Tax Credits, and CDFIs. In this regard, it's useful to look at one bank's experience to illustrate how banks committed to community development have used their public welfare investment authority to overcome barriers to neighborhood investment.

North Carolina National Bank – which later became NationsBank and then merged with Bank of America – struggled in the 1970s to encourage the development of affordable housing in Charlotte. “In general, the developers

all took a pass,” recalls Dennis Rash, an attorney, who at the time was Dean of Students at the University of North Carolina, Charlotte and a neighborhood activist. Rash notes that the city was “no garden spot,” ranking as the nation's worst in murders per capita. Local developers were risk-averse, and NCNB's initial efforts to lend money in deteriorated areas produced few results.

So the bank took a more direct approach, creating its own nonprofit community development corporation in 1977 and hiring Rash to run it. Within five years, the CDC's homeownership and home-restoration loans had made it possible for more than 1,400 families to move into the 14 core blocks of the Fourth Ward, which

was largely vacant at the onset of the CDC's involvement. These homes more than tripled the area's tax-appraised fair market value, restoring lender confidence and building owner equity.

Focusing on Charlotte's grim Fourth Ward and working with such neighborhood organizations as Friends of Fourth Ward, the NCNB-CDC became a model for similar revitalization efforts. The CDC's impact on Charlotte's revitalization efforts continues to this day, with over 50 developments – including

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8,300 housing units – announced or launched in 2006 by a broad spectrum of entities in Charlotte’s center city.

Looking back, Rash recalls many wearying challenges that had to be coped with, from reluctant realtors and appraisers to inflexible bureaucracies that impeded the CDC’s efforts to purchase failed apartment complexes. “On the other hand,” he says, “the opportunity to live and rear my children in the neighborhood that I helped develop – with all its diversity and its on-the-street energy, and the genuine joy of watching first-time homeowners move from public housing – has been a priceless experience.”

### Invested Banks

Within the context of responsible regulatory oversight, we view one of our jobs at the OCC as facilitating such national bank partnerships to help create the affordable housing, jobs, and business opportunities that communities need to thrive in today’s economy. For example, when a major business closed down in Charles City, Iowa, suddenly leaving scores of people jobless, First Citizens National Bank of Charles City contacted our Community Affairs staff for help in developing a partnership to attract new businesses to the community.

The resulting collaboration fostered the creation of the Floyd County Progressive Growth Limited Partnership, a broad-based organization that used investment capital, tax benefits, and other development tools to jump-start an industrial park site and attract Winnebago Industries. This initiative created

or retained upwards of 150 jobs and attracted additional businesses to the community when they were desperately needed. The bank and its community both were winners in this effort.

In a variety of situations, OCC’s Community Affairs Officers are able to help ensure that a bank’s investments not only meet our rules but also sustain the many-layered process of creating an effective community investment partnership. At our web site, [www.occ.treas.gov](http://www.occ.treas.gov), community activists and banks can find a wealth of information on investment strategies and success stories.

Of course, there’s always more work to be done. Community development is a never-ending challenge – for its community-based advocates and activists, its bank participants, and for the regulators who encourage and oversee community development partnerships.

But when we look back to 1963 and the OCC’s decisive role in promulgating the public welfare investment authority for financial institutions, we can all take pride in what has been accomplished since then – largely, and most importantly, by converting confrontation to cooperation. 

*Barry Wides is Deputy Comptroller-Community Affairs, Office of the Comptroller of the Currency, a federal agency that charters, regulates, and supervises all national banks.*



#### RURAL VOICES

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The Housing Assistance Council (HAC) is a national nonprofit corporation founded in 1971 and dedicated to increasing the availability of decent housing for low-income people in rural areas. HAC strives to accomplish its goals through providing loans, technical assistance, training, research and information to local producers of affordable rural housing. HAC maintains a revolving fund providing vital loans at below-market interest rates to rural housing developers. Developers can use these funds for site acquisition, development, rehabilitation or new construction of rural, low- and very low-income housing. HAC has a highly qualified staff of housing specialists who provide valuable technical assistance and training, and research and information associates who provide program and policy analysis and evaluation plus research and information services to public, nonprofit, and private organizations. HAC is an equal opportunity lender.

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rural and Indian Country communities. In 2005, the first year of production toward the goal, the bank reached nearly \$4 billion in rural loans and investments, including:

- more than \$1 billion for affordable mortgage lending to low- and moderate-income and minority borrowers and for financing the development of affordable multifamily housing in rural areas;
- more than \$1 billion in small business and small farm loans in rural areas;
- more than \$1 billion in consumer loans to low- and moderate-income borrowers – for home improvement, education, and other financial needs; and
- more than \$100 million in program-related investments, grants to nonprofit community groups and other funding for rural economic development.

Valle del Sol (see Model of Success below) epitomizes how paying attention to the needs of particular rural populations and collaborating to meet those needs results in meaningful and sustainable community change. It marks the progress of our thinking and the evolution of our skill in rural community development. Ultimately, the Community Reinvestment Act helped align public policy and business practice and opened doors to public/private partnerships that had not been tried before. Time will tell if the field will continue to grow and evolve but, looking at where we've come from, there's much hope for the future. 

*Elizabeth Ferrer is Bank of America's Global Community Impact National Programs executive.*

### Model of Success

One affordable housing development the bank financed recently illustrates the kind of partnerships that are meeting the evolving needs of many rural areas. Valle del Sol, developed by Visionary Home Builders, is located in an unincorporated rural area of Stockton, California, where agriculture forms the base of the economy. The development serves farmworker families earning 30 to 60 percent of San Joaquin County's area median income. At project inception, half the county's rental households earned less than 50 percent of the area median income.

San Joaquin County supported the project as part of its Consolidated Plan by donating land and helping Visionary Home Builders purchase adjacent land. Funding was leveraged from several sources, including the California Department of Housing and Community Development, 9 percent Low Income Housing Tax Credit funds, county HOME Funds, and the USDA/Rural Development Farm Labor Housing Grant and Loan Program. Bank of America provided \$9.7 million in construction lending.

The 76 units range in size from two to four bedrooms with Valle Del Sol being one of the few developments to provide four-bedroom units to support agricultural workers with large families. Residents have access to a community center, free Head Start day care, job training and placement services, computer classes, and health services. Not least among its amenities, the development is beautifully designed and was awarded the Nation's Best Affordable Rural/Farmworker Housing Development Project by *Affordable Housing Finance* magazine in 2005.

# FROM BAD TO WORSE: A SUMMARY OF RURAL HOUSING PROVISIONS IN THE PROPOSED 2008 BUDGET

## USDA Rural Development Housing and Community Facilities Programs

The proposed budget for fiscal year 2008 would dramatically change the federal funding landscape for rural housing. For the U.S. Department of Agriculture rural housing programs, the budget pursues trends from past years, such as favoring loan guarantees over direct lending, but goes drastically farther than previous proposals.

- △ **DIRECT LENDING PROGRAMS DEVASTATED.** As it did last year, the Administration proposes no funding for the Section 515 rental housing loan program, which produces rental units affordable for the lowest-income rural residents. In a surprising move, the proposed budget also zeroes out funding for the popular and productive Section 502 single-family direct program.
- △ **GUARANTEED PROGRAM FUNDING INCREASED.** Funding for the Section 502 single-family and Section 538 multifamily guarantee programs would be substantially increased. While these programs provide much needed funding for homeownership and rental housing development, they serve residents with more moderate incomes than the direct lending programs that have been cut from the proposed budget.
- △ **SELF-HELP GRANT PROGRAM FUNDING SLASHED.** The budget significantly cuts Section 523 grants to nonprofit organizations that administer rural self-help programs. This change, along with the deletion of funds for the Section 502 direct loans most rural self-help homebuyers receive, would significantly reduce the production of new rural self-help homes.
- △ **FARM LABOR HOUSING FUNDING REDUCED.** The budget would sharply reduce funding for Section 514 farm labor housing loans and 516 farm labor housing grants, cutting the program to only one-third of its FY 2007 level.
- △ **RENTAL HOUSING PRESERVATION JEOPARDIZED.** The FY 2008 budget would provide only \$27.8 million for vouchers and rental property revitalization. This is about the same amount Congress appropriated for preservation initiatives in FY 2006 and 2007, but those initiatives are by no means the total preservation funding available for those years. The budget

overlooks the facts that in FY 2006 \$61.8 million in Section 515 funds were used for preservation and that, even so, USDA could fund less than 2 percent of the revitalization applications it received.

## Department of Housing and Urban Development

Continuing the Administration's past trends, total funding for HUD's discretionary program would be \$38.2 billion in fiscal year 2008, \$1 billion (2.8 percent) less than funding in 2006 and \$4.3 billion (10.6 percent) below 2004 funding levels, adjusted for inflation.

- △ **CDBG FUNDING REDUCTIONS CONTINUE.** Unlike previous years' versions, the Administration's HUD budget does not propose to consolidate the Community Development Block Grant program with other HUD programs. Instead, the budget proposes cutting CDBG formula grants by \$735 million or almost 20 percent. The budget also states the Administration's intent to reintroduce its proposal to modify the formula under which CDBG funding is allocated.
- △ **ELIMINATION OF RHED, HOPE VI, AND OTHER PROGRAMS.** The budget proposes eliminating the Rural Housing and Economic Development program, Brownfields Redevelopment grants, HOPE VI program, and the Community Development Loan Guarantee (Section 108) program.
- △ **SIGNIFICANT CUTS IN MANY RENTAL HOUSING PROGRAMS AND OTHERS.** The budget proposes significant cuts for project based rental assistance, public housing, programs for elderly people and those with disabilities, and lead hazard control.
- △ **FUNDING INCREASES FOR SOME TARGETED AND FLEXIBLE PROGRAMS.** Increases are proposed for tenant-based rental assistance, HOME, programs for homeless people, Housing for People with AIDS, and the Self-Help Homeownership Opportunity Program (SHOP). 

*HAC's complete budget analysis, From Bad to Worse: Rural Housing in the Administration's FY 2008 Budget, is free at <http://www.ruralhome.org> or \$3.00 from Luz Rosas, HAC, 202-842-8600, [luz@ruralhome.org](mailto:luz@ruralhome.org).*



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