

Testimony of Lisa Green Hall  
Chief Lending Officer, Calvert Foundation,  
before the CRA Interagency Public Hearing on July 19, 2010

Members of the Federal Financial Institutions Examination Council, it is an honor and privilege to be here this morning to discuss the Community Reinvestment Act and share my thoughts on how the capital and credit needs of underserved communities – and specifically small business owners – can best be met by financial institutions and the regulatory system.

My name is Lisa Green Hall, and I am the Executive Vice President and Chief Lending Officer at Calvert Foundation, a Community Development Financial Institution since 1996, certified by the Department of Treasury's CDFI Fund. Calvert Foundation is a financial intermediary that raises capital from socially motivated individuals and institutional investors. We then invest that capital with CDFIs and other mission-driven, community development organizations, here in the U.S. and abroad. Calvert Foundation currently has \$70 million in loans outstanding with 70 CDFIs throughout the United States.

Furthermore, serving in an asset management capacity, Calvert Foundation recently announced a partnership with Citi Bank to create the Communities at Work Fund. We are managing a \$200 million commitment from Citi to invest in CDFI loan funds that finance small businesses, not-for-profits, charter schools, and other community service organizations in low-income and low-wealth communities. I also serve as a member of the CDFI Assessment and Ratings Systems (or CARS) Advisory Council, created by Opportunity Finance Network, a major trade association for CDFIs. And, lastly I am a member of the board of directors of two certified CDFIs, the Open Door Housing Fund, a local community loan fund based in the Washington, DC area, and ROC-USA, a national lender to resident-owned communities serving the manufactured housing sector. The views expressed here are my own, and not those of Calvert Foundation's or any other organization with which I am affiliated. Thank you for inviting me to be here this morning.

In the 33 years since the Community Reinvestment Act was originally enacted, and since regulations were last revised in 1995, the financial services sector has changed dramatically. CDFIs have played an increasingly important and prominent role in serving the capital needs of low-income communities and communities of color, particularly with respect to small businesses in these communities. Furthermore, these communities are generally more vulnerable to economic downturns than higher income, higher wealth communities. For the past two years low-income communities and communities of color have been disproportionately affected by the mortgage foreclosure crisis and the broader economic recession. Low-income communities and communities of color have experienced the highest unemployment rates, greatest foreclosure rates, and largest numbers of small business bankruptcies. To cite just one statistic, which we are all painfully aware of, the unemployment rate has increased for both African Americans and Hispanics' an average of 3.6 percentage points per year since 2007. While the rate for white Americans' rate has increased an average 2.5 percentage points per year—still an alarming increase.

This morning I would like to highlight the need for small business loan capital and microloan capital that we have witnessed, as evidenced by incredibly strong demand

from our CDFI borrowers. The small business lending market has been largely abandoned by traditional financial institutions – while CDFIs continue to serve and expand their lending to small business, non-profit social enterprises and community facilities. Since launching the Communities at Work Fund, we have received loan requests from a wide range of nearly 80 certified CDFIs. Of those we are actively considering, nearly every state has been represented in the applications, and requests range from \$200,000 to \$20 million. In many respects CDFIs are better suited to serve the credit needs of small businesses, especially those with employees less than 50 people and with credit needs for small dollar loans of \$1 million or less. CDFIs are particularly well suited to serve the small business credit needs in low-income neighborhoods and communities of color, because of their mission focus, specialized expertise, lower administrative burdens compared to medium and small banks, and lending criteria which can be more flexible.

One way in which CRA could have greater impact in underserved areas is to boost the type of capital available to CDFIs from financial institutions for small business lending and investment activity. In particular, the community development sector would greatly benefit from more equity like capital, if the regulations were revised to create clearer incentives to make equity equivalent investments in CDFI intermediaries, regulated CDFIs and unregulated CDFI loan funds

In addition to recommending that CRA provide more incentives for small business lending, I would also like to highlight four additional, specific items for the regulatory agencies to consider as you work to update and revise the CRA in order to meet current community development needs.

- 1. The first is to re-envision assessment areas.** The concept of an assessment area was developed at a time when banks were mostly local institutions. In today's world, banks are not defined by narrow and specific geographies. Customers are more transient and less loyal to specific locations. The dislocation between where deposit transactions are made and where loans are needed and *should* be made is even more extreme given electronic and internet banking, Automatic Teller Machines, and mobile banking. Branch presence no longer has the same significance it once did, particularly as it relates to small business needs. Customers of a financial institution may generate transactions outside of specific footprints or census tracts while seeking to be served by small businesses in low-income and minority communities. Some might argue that local connections between deposit taking and lending remain important.

However, in the CDFI sector we have witnessed traditional institutions abandon the credit needs of entire communities where traditional financial institutions no longer take deposits in a particular neighborhood and therefore derive little to no CRA benefit by delivering credit services in that neighborhood. Assessment areas, as currently defined, limit a bank's ability to serve communities in need because of the types of incentives imbedded in the original concept. A more reasonable approach – given the current activities and structure of banks operating across broad geographies – might be to require CRA investments in areas where an institution does business and delivers services, not just deposit taking, in a concentrated manner. A threshold or minimum percentage of market share could be established beyond which an institution would have an obligation to meet CRA tests.

2. **The second issue for the regulatory agencies to reconsider is tracking methods.** This is a challenging issue for CDFI intermediaries that make investments which serve community development needs primarily by making loan capital available to other CDFIs. The assessment area challenge which I just highlighted is exacerbated by the tracking and reporting demands of the current regulations. Requiring that data be tracked on a census tract level necessitates address information for most investments. For intermediaries like Calvert Foundation and other national CDFIs, which provide capital to organizations rather than to projects, this type of tracking is impractical if not impossible. Our loans are made to organizations on an unsecured basis and our borrowers then provide capital for community development purposes. It is difficult to impose census tract level reporting on the loans which we provide to other CDFIs that are in effect fungible and used for multiple purposes including critical working capital and pre-development activities. One approach might be to expand credit for investments in any CDFI regardless of location, given that all certified CDFIs must meet primary purpose tests.
  
3. **The third issue I'd like to highlight pertains to E2 or equity equivalent investments.** The EQ2 instrument enables financial institutions to bolster the balance sheet of CDFIs and allows CDFIs to leverage social investor dollars to capitalize their lending. However, the current guidelines which allow financial institutions to get CRA credit for social investment capital, are less than ideal. EQ2 investors capture a pro-rata share of future loans made with capital from social investors like high net worth individuals and faith based institutions. It would be more appropriate for the banks to get a pro-rata share of the outstanding CRA activity already present – as the new equity is standing behind the existing loans as well as new loans. For example, Calvert Foundation has more than \$100 million in CRA eligible loans that has been capitalized with social investor capital and bank EQ2 investors should be eligible to receive their pro-rata share for such loans. An increasing number of CDFIs are tapping the social investor market – and bank EQ2s could help them to do more of this. This pro-rata share for existing loan would allow CDFIs to better leverage capital. CDFIs are missing out on the opportunity to leverage this private capital to make more loans. By allowing EQ2 investments to receive investment credit for existing loan portfolios, financial institutions would have more certainty around meeting the investment test and therefore would be more motivated to make EQ2 investments, which could be used by CDFIs to leverage funding from the private sector.
  
4. **The final issue I'll highlight is that of tests: the investment and lending tests.** It is my contention that the investment and lending tests need revision, particularly as they relate to credit for small business lending activity as the tests are too narrow in their scope. We would encourage the regulatory agencies to consider a broadening of the both tests to include a wide range of community development purposes and activities including loans to community facilities, health centers, charter schools and other non-profit uses.

In addition to considering the above revisions, the regulatory agencies may also want to consider what statutory changes would be appropriate for CRA given the dramatic changes to the financial sector since the original legislation was enacted. In particular, it

would be appropriate to address the role and obligations that financial institutions other than banks have in serving the credit needs of low-income communities and communities of color. Some socially responsible mutual funds like the Calvert Mutual Funds, have established self-imposed commitments to invest 1% of their assets in impact or community investment. A practical first step in addressing this issue and regulating community development investment for more types of financial institutions could be an expansion of CRA obligations to all subsidiaries and affiliates of bank holding companies

In 1977 most households held the majority of their savings in bank deposits. In the 21<sup>st</sup> century, individuals choose from a multitude of diverse investment options which range from shares in mutual funds to instruments such as our own Calvert Foundation Community Investment Notes that allow individuals to invest in community development via a fixed-income security available through broker-dealers. Common sense tells us that the original intent of CRA and its requirement that financial institutions lend capital in the same places where they collect deposits, should apply to other financial institutions affiliated with deposit taking institutions, which raise capital from and provide services to the same customers.

In conclusion, I would like to mention that CRA is important and relevant to me from both a professional and personal standpoint. I am the daughter of a civil rights activist who fought and protested to secure fair housing and fair lending for all U.S. citizens. And, as someone who knows exactly what it meant for a neighborhood to be redlined, I am grateful for the incentives that CRA has created for financial institutions to lend where they might not otherwise make loans without regulatory incentives. There are countless consumers, businesses, and communities currently suffering in disproportionate numbers because of the current economic downturn. These individuals and families deserve a modern CRA which meets their credit needs. I urge all of the agencies responsible for regulating CRA to consider the issues outlined herein as you seek to revise and modernize this critical piece of legislation.

Thank you.