

Resolution No. 16

Date: September 25, 2010

City: New York, NY

NAHB Resolution

Title: Community Reinvestment Act (CRA)
Sponsor: CRA Task Force
Submitted by: Earl Armiger

WHEREAS, the Community Reinvestment Act (CRA) is important to home builders because of its role in facilitating access to mortgage credit for low and moderate income families (who are typically first-time homebuyers), as well as in facilitating the production of affordable rental units and community and economic development,

WHEREAS, the National Association of Home Builders (NAHB) has long supported the CRA and has opposed efforts to weaken the law or implementing regulations;

WHEREAS, the collapse of the housing and financial markets has renewed focus on the CRA and has generated widely varying views on whether the CRA should be overhauled or abolished;

WHEREAS, Congress and the regulating agencies of financial institutions are considering significant changes to the CRA system;

WHEREAS, in light of the increasing focus on the CRA, the Senior Officers on December 23, 2009, established the NAHB Community Reinvestment Act Task Force (Task Force) and to evaluate current NAHB policy on the CRA and related regulations and make recommendations for any needed revisions or additions to the existing NAHB Board-approved policy;

WHEREAS, in particular the Task Force was asked to identify barriers to more efficient use of the CRA as an incentive to financial institutions to invest in affordable housing;

WHEREAS, the Task Force identified the following issues:

1. The CRA Guidance does not clearly define what constitutes “affordable housing.” Affordable housing is an eligible CRA activity under the definition of community development, and lack of specificity in the guidance can cause financial institutions to decline to invest in affordable housing activities because they cannot be assured that examiners will qualify the activity as “community development.”

2. The basis for establishing assessment areas – where deposits are taken – has not been adjusted in response to changes that have occurred in the financial services industry over the last 30 years, and, as a result, there are too many areas that are not benefitting from CRA, especially rural areas and small towns and cities outside major metropolitan areas.
3. Compliance standards and enforcement are not rigorous enough. The exams are not rigorous enough - the vast majority of banks receive a Satisfactory rating. A less than satisfactory rating means the bank prepares a plan to improve; there are no real penalties for poor performance. Additionally, there are no incentives for financial institutions to strive for an Outstanding CRA rating. The lack of incentives to achieve the highest rating effectively sets limits on the extent to which financial institutions will seek out CRA-eligible activities, regardless of the level of need in the community.
4. The current CRA guidance discourages financial institutions from investing in Low Income Housing Tax Credit equity funds. LIHTC equity funds may be organized on a regional, state-wide or national level, which makes it difficult for financial institutions to match up such investments with CRA assessment areas; and

WHEREAS, in light of the issues identified above, the Task Force determined that NAHB's existing policy should be updated to broaden the scope of issues related to CRA that are important to NAHB members and to ensure that NAHB policy is sufficient to cover the range of issues currently being debated by Congress, the regulating agencies and stakeholders,

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders urge the Congress and the federal banking regulators to amend the Community Reinvestment Act (CRA) regulations, guidance and processes as follows:

1. Develop a list of "safe harbor" federal, state and local financing programs for affordable housing to provide more clarity on which activities constitute affordable housing.
2. Provide more and better training for examiners, financial institutions and stakeholders (developers, syndicators, community leaders) on the CRA guidance as it relates to the definition of community development and what constitutes affordable housing.
3. Modernize the process for establishing assessment areas to ensure that the broadest range of communities benefit from CRA.
4. Increase the rigor of the CRA exam criteria, reduce subjective elements and increase penalties for noncompliance.
5. Work with stakeholders to develop a meaningful set of incentives that would encourage financial institutions to strive for an Outstanding rating.
6. Adopt a process that would allow a financial institution to receive CRA credit for investments outside their assessment areas, but within the state or region, if they can demonstrate a lack of opportunity or need in one or more of their local assessment areas.

BE IT FURTHER RESOLVED that the National Association of Home Builders reaffirm the following current policy that NAHB should:

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1. Oppose administrative or Congressional efforts to weaken CRA by exempting institutions from CRA requirements or further reducing CRA reporting requirements;
2. Work with state and local home builders associations to monitor the housing lending performance of banks and thrifts in the associations' areas;
3. Support Community Reinvestment Act challenges when evidence exists that the institution purchasing another institution has not served the housing credit needs of the community or is likely to significantly disrupt outstanding or future credit for housing in the area following the acquisition.

Board of Directors Action:

Executive Board Action:

Resolutions Committee:

Housing Finance Committee Action:

Federal Government Affairs Committee:

Multifamily Finance Subcommittee

of Housing Finance Committee Action:

Approved

Recommends Approval

Recommends Approval

Recommends Approval

Recommends Approval

Recommends Approval