

CUNA Issue Summary

COMMUNITY REINVESTMENT ACT (CRA)

ISSUE: Congress enacted the Community Reinvestment Act (CRA) in 1977 in response to the unjustified “redlining” of lower income and minority neighborhoods by banks and thrift institutions during the 1960s and early 1970s. The purpose was to ensure that for-profit financial institutions (including both federal and state-chartered commercial and savings banks) were adequately meeting the financial service needs of all parts of the communities from which they draw deposits. Periodic CRA examinations and ratings assess the extent to which banks and thrifts are meeting the credit needs of lower income and minority consumers, providing needed and affordable services to all customers and investing in local economic and community development projects. CRA ratings are taken into consideration by the banking regulatory agencies when banks or thrifts seek to open new branches, initiate mergers or acquire other financial institutions.

Credit unions, as not-for-profit, community based institutions, have been exempt from CRA requirements. There was an effort during the passage of the [Credit Union Membership Access Act \(H.R. 1151\)](#) to place CRA-like marketing requirements on community credit unions, but the provision was stripped from the final Senate version of the bill.

CUNA POSITION: CUNA is opposed to any effort to include credit unions under CRA requirements. Credit unions, by their nature and mission of “people helping people,” already meet the financial needs of a broad spectrum of people that fall within their fields of membership, and play an active role in community development and growth. By virtue of their membership requirements, credit union products and services are offered within local communities. Therefore, credit unions should not be subject to burdensome regulatory requirements when they are already meeting and exceeding the intent behind CRA.

OPPOSING VIEWS: The banking industry insists that CRA be applied to credit unions. However, they continue to object to having to meet CRA obligations themselves. Understanding that the credit union tax-exemption is unlikely to be in jeopardy this Congress, the bankers have shifted their efforts to impose CRA on credit unions. Recent attempts came from the National Community Reinvestment Coalition (NCRC), an organization that gets partial funding from the banking industry, which issued a misleading study on credit unions and their service to low-income individuals.

CUNA analysis has shown that as credit unions ability to serve communities has increased, their performance in lending to low-and moderate-income (LMI) borrowers is superior to other lenders. According to 2007 data collected through the *Home Mortgage Disclosure Act* (HMDA) reporting:

Credit unions make a greater proportion of HMDA-covered loans to LMI borrowers than do other mortgage lenders.

Credit unions approve first mortgage loans to LMI and minority borrowers at much higher rates than do other lenders. Similarly, credit unions deny first mortgage loans to LMI and minority borrowers at much lower rates than do other lenders.

Credit unions are much less likely than other lenders to make high-rate loans. When credit unions make high-rate loans, the rates tend to be substantially lower than the rates typically

charged by other lenders.

Credit unions are portfolio lenders, whereas other lenders are much more likely to use the originate-to-sell model -- which has been recognized as one of the key drivers of subprime lending abuse and recent mortgage market disruptions.

IMPACT ON CREDIT UNIONS: It would not make sense to implement additional regulatory burdens on credit unions since (1) credit unions did not participate in the “redlining” activities that prompted Congress to impose CRA requirements on the banks and thrift institutions, (2) credit unions serve people within their fields of membership and all income levels, and (3) Congress is looking to make regulatory requirements on financial institutions more efficient and effective, not increase burdens for the sake of redundancy. If credit unions were subjected to CRA requirements, the time and resources used to document the work they are *already* doing would take away from new initiatives to enhance existing services and expand to new underserved areas.

STATUS/OUTLOOK: On March 12, 2009, Rep. Eddie Bernice Johnson (D-TX) introduced H.R.1479, the *Community Reinvestment Act Modernization Act of 2009*. CUNA strongly opposes this bill because it would extend CRA requirements to credit unions. CRA is unnecessary for credit unions because they serve their members at all income levels, offer affordable products and continuing to lend when others have reduced credit availability. H.R. 1479 seeks to measure credit union service to consumers who are not members of the credit union. Credit unions face an important restriction with respect to who they can serve: they can only serve their members who join from defined fields of membership. This legislation recognizes neither credit unions strong history of serving low- and moderate income individuals nor the statutory restrictions the keep credit unions from doing more.

On September 16, 2009, the House Financial Services Committee held a hearing entitled *Proposals to Enhance the Community Reinvestment Act*. During the hearing, Rep. Luis Gutierrez (D-IL), chairman of the Subcommittee on Financial Institutions and Consumer Credit pledged to hold a hearing on HR 1479 later in the 111th Congress.

CUNA will continue to monitor these hearings and defend credit unions against the banker lobby attacking credit unions and suggesting that CRA be applied to them.

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RELATED DOCUMENTS:

[Letter from Dan Mica to House Financial Services Committee Chairman Barney Frank regarding H.R. 1479, the Community Reinvestment Modernization Act.](#)

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