

City of Detroit

CITY COUNCIL

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TO: Honorable Detroit City Council

FROM: David D. Whitaker
Legislative Policy Division Staff

DATE: August 26, 2019

RE: **Affirming Support for the Community Reinvestment Act**

On August 21, 2019, the Honorable Council President Brenda Jones requested that the Legislative Policy Division draft a resolution affirming support for the Community Reinvestment Act.

The draft resolution is attached for your review.

BY COUNCIL PRESIDENT BRENDA JONES

**RESOLUTION TO AFFIRM SUPPORT IN THE PROTECTION OF THE
FEDERAL COMMUNITY REINVESTMENT ACT**

WHEREAS, The mission of the Detroit City Council is to promote the economic, cultural and physical welfare of Detroit's citizens through Charter-mandated legislative functions; and

WHEREAS, The Community Reinvestment Act (the "CRA") was enacted on October 12, 1977, to remedy the once common discriminatory practice of "redlining" by financial institutions of drawing a red line on a map around the neighborhoods where they had not offered financial services; and

WHEREAS, Prior to the CRA's enactment, redlining made it nearly impossible for low and moderate-income Americans, racial and ethnic minorities, and their neighborhoods to access credit services, such as mortgages and business loans, regardless of their qualifications or creditworthiness; and

WHEREAS, The CRA establishes a regulatory regime for monitoring the level of lending, investments, and services in low and moderate-income neighborhoods traditionally underserved by lending institutions, and examiners from the federal Office of the Comptroller of Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve Board assess and "grade" the activities of lending institutions in low and moderate income neighborhoods; and

WHEREAS, Under the CRA regulated financial institutions have continuing and affirmative obligations to help meet the credit needs of the local communities in which they are chartered; and

WHEREAS, Despite the CRA's impact, discrimination in lending remains a problem. Agency examiners' findings that a financial institution is not serving moderate income neighborhoods may result in the delay or denial of such institution's request to merge with another lender, to open a branch, or expand any of its other services, or conditionally approve a merger application subject to an institution's meeting specified improvements in lending or investment services in low- and moderate-income neighborhoods, and its CRA grade may be downgraded if evidence of illegal, abusive, or discriminatory lending on their fair lending exams is found; and

WHEREAS, According to analysis of bank lending data by the National Community Reinvestment Coalition (NCRC), since 1996 CRA-covered banks issued more than \$25 million small business loans in low and moderate income tracts, totaling more than \$1 trillion, and \$980 billion in community development loans that support affordable housing and economic development projects benefiting low- and moderate-income communities; and

WHEREAS, The annual dollar amount of community development loans increased 442 percent from \$17.7 billion in 1996 to \$96 billion in 2016; and

WHEREAS, Studies have found that CRA-covered home lending is safer and sounder than non-CRA covered lending; when a larger share of lending is issued by CRA-covered banks than by independent mortgage companies, a neighborhood experiences lower delinquency rates and less risky lending; and

WHEREAS, Despite the tremendous benefits of the CRA to communities, the full potential of CRA has not been realized because it hasn't been updated to take-into account changes in the banking industry and the economy, and independent mortgage companies not covered by CRA now make more than 50 percent of the home mortgage loans in the United States and financial technology companies not covered by CRA operating via the internet are rapidly increasing their lending; and

WHEREAS, In addition to the need to modernize CRA, there are real concerns to be addressed that some federal regulators intend to takes steps that will substantially weaken the CRA; and

WHEREAS, A recent forecast from the NCRC, projects that a weakening of the CRA could reduce lending in low and moderate-income communities up to \$105 billion over five years – \$139 million in US Representative Brenda Lawrence's district and \$1.9 billion in Michigan overall. The forecast calculated likely losses in both small business and mortgage lending in every census tract in the nation; and

WHEREAS, Detroit's residents are still experiencing the negative impact of redlining in that the same communities that were prevented from obtaining mortgage loans are still experiencing little to no lending; and

WHEREAS, A modernized CRA should expressly provide that covered financial institutions are obligated to fairly serve all races and ethnicities, and banks that engage in large-scale illegal and harmful activities should fail their CRA exams; and

BE IT RESOLVED, That the Detroit City Council support efforts aimed at modernizing the CRA by: expanding its application to non-banking institutions such as mortgage companies, financial technology companies, and credit unions; implementing a clearly-defined grading system that emphasizes lending, bank branches, fair lending performance, and responsible loan products for working class families; holding financial institutions accountable for not passing CRA exams or seeking to merge with an institution with a higher CRA grade, encouraging community benefits agreements and other efforts to motivate financial institutions to increase lending and investment in traditionally underserved communities, as well expand the scope of financial services they provide; and

BE IT FINALLY RESOLVED, That the Detroit City Council opposes rulemaking that would in any way undercut the Community Reinvestment Act intent to reduce illegal redlining practices and make loans more accessible to poorer communities; and

NOW THEREFORE BE IT FINALLY RESOLVED, That copies of this resolution be forwarded to the Mayor, the Governor, the U.S. House Committee on Financial Services, the U.S. Senate Committee on Banking, Housing and Urban Affairs and to all U.S. Congressional delegates from Michigan.