To strengthen and promote cities as centers of opportunity, leadership, and governance.

National League of Cities

1301 Pennsylvania Ave., N.W.
Washington, D.C. 20004-1763
202-626-3000
Fax: 202-626-3043
Internet: www.nlc.org

National League of Cities
1924 75 years 1999
Opportunity, Leadership, Governance

April 30, 1999

1999 MAY -5 P 3:18
OFFICE OF THE CITY CLERK
CAMBRIDGE, MASSACHUSETTS

MEMORANDUM

TO: Members of the Community and Economic Development Policy Committee

FROM: Frank Shafroth
Director of Policy and Federal Relations
National League of Cities

SUBJECT: Defend the CRA and advocate for its modernization in financial services legislation moving in the House and Senate

Provisions in federal law which have produced more than $1 trillion in reinvestment in urban and rural neighborhoods are at stake if Congress passes any one of the three financial services reform bills currently under consideration. Congress is debating the elimination of the banking and lending services generated by the Community Reinvestment Act (CRA) in cities and rural communities. Each of the financial services modernization bills, pending in Congress, threaten the 22 year old, NLC-supported program which requires banks to lend and provide financial services in their communities.

Since its passage in 1977, the CRA has produced bank lending to minorities and low-income families and individuals for homeownership and small business development. The CRA requires federally insured banks to reinvest a portion of their deposits in financial and lending services in the areas where they take deposits. This has provided much needed capital to economically distressed communities and profits for the banking industry at the same time.

The primary purpose of financial services modernization legislation is to eliminate the separation established during the Great Depression between the nation's banking, securities and insurance companies with the passage of the Glass-Steagall Act. Since the Depression this law has prohibited banks, securities, and insurance companies from owning each other. Banks with federally insured deposits currently comply with the CRA; securities and insurance companies do not.

The House and Senate are moving forward on financial services modernization bills that could reverse the progress made due to the CRA. In early March, the House Banking Committee on a bipartisan basis voted out H.R. 10, the Financial Services Modernization Act of 1999, which is the most community oriented of the three proposals. The bill was then referred to the House Commerce Committee where it will face severe obstacles from advocates for the CRA. The Committee plans to act on the bill over the next three weeks before sending it to the full House.

The principal financial services modernization bill (unnumbered) in the Senate is sponsored by Senator Phil Gramm (D-Tx.) and has been reported out of the Banking Committee on a party-line vote. Targeting the CRA for elimination, this NLC-opposed legislation could come to the Senate floor this month. To counter Senator Gramm's bill, Senate Democrats have introduced a substitute proposal (S. 753) and will try to offer it as an amendment to the Gramm bill on the Senate floor. This reform proposal is less draconian than the Gramm bill but would not protect and modernize the CRA as NLC thinks any final bill should.

NLC President Clarence Anthony said,"if the financial services industry is going to modernize, at a minimum, the CRA should undergo parallel modernization so it continues to cover lending and financial services activities whether performed by banks, insurance, securities or mortgage lending affiliates who join in the new mega-mergers that would result with passage of financial services modernization legislation. Our intent is to ensure a community partnership that reinvests the community's resources and deposits at their source."

Passage of any one of the financial services modernization bills, as currently proposed, would create large financial conglomerates with control over vast economic resources. New securities, insurance and mortgage affiliates of banks would be allowed to provide traditional banking services without being regulated under the CRA.

The thrift institutions owned and operated by State Farm Insurance are an example of how dramatically delivery of banking services could change. State Farm will use its network of 16,000 insurance agents across the country to sell to its insurance customers a variety of financial products ranging from credit cards and mortgage loans, to certificates of deposit and deposit services. Currently, the CRA does not regulate this one-stop shopping approach to financial services so there are no assurances that minorities and the poor have access to the financial products State Farm will offer.

There is an amendment that could be offered by Rep. Luis Gutierrez (D-N.Y.) and other House Democrats, which, if incorporated in the final House version of H.R. 10, would accomplish parallel modernization of the CRA. NLC supports this amendment. It would go a long way to ensure that a holding company could not own a mortgage company or a subprime home equity lender whose activities are <u>not</u> covered by the CRA, while simultaneously owning a depository institution whose activities <u>are</u> covered by the CRA.

To close this loophole which allows financial institutions to avoid community obligations created by the CRA, the Gutierrez amendment would have to be adopted in the House Commerce Committee mark up of H.R. 10 or, if this fails, on the floor of the House. Specifically, H.R. 10

does not require securities, insurance, and real estate companies nor commercial or industrial affiliates, who lend or offer banking products, to meet the credit, investment and consumer needs of the local communities they serve.

ACTION:
Please contact your Representative to urge him/her to:

Work actively with colleagues on the House Commerce Committee to gain their support for the adoption of the Gutierrez amendment during mark up of H.R. 10 in this committee;

Contact the House Republican and Democratic leadership, and members of the House Rules Committee, to urge them to allow the Gutierrez amendment to be offered on the floor of the House if it is not adopted in the Commerce Committee mark up of H.R. 10; and

Contact your Senators and urge them to oppose Senator Gramm's bill as well as S. 753 when they are considered on the Senate floor.

OFFICE OF THE MAYOR

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139
(617) 349-4321
Fax (617) 349-4287
TTY/TDD (617) 349-4242

Francis H. Duehay
Mayor

May 5, 1999

Memo to: Members of the City Council

From: Mayor Francis H. Duehay

I enclose a memorandum from the National League of Cities with regard to the Community Reinvestment Act.

I recommend that the Council take the action recommended.

365

Comm. & Rpts. Other Officers
#1

A communication was received from Mayor Duehay, transmitting a memorandum from the National League of Cities with regard to the Community Reinvestment Act.

In Ctiy Council May 10, 1999

PLACED ON FILE on motion of Mayor Duehay