City Council
Chief Clerk's Office
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Philadelphia, PA 19107

Legislation Text

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Urging the U.S. Department of Treasury to help protect access to banking services in lower-income communities by declining to adopt harmful proposed changes to Community Reinvestment Act regulations.

WHEREAS, Decades of racially discriminatory home-loan policies by the federal government, commonly known as redlining, exacerbated segregation and disinvestment in American neighborhoods. The Community Reinvestment Act of 1977 (CRA) was enacted to remediate this damage. The CRA mandates that banks provide adequate financial services, include access to home loans, in low- and moderate-income (LMI) communities. The Office of the Comptroller of Currency (OCC), the Federal Depository Insurance Corporation (FDIC), and the Federal Reserve Board review and grade bank performance from "substantially noncompliant" to "outstanding." Underperforming banks are subject to penalties; and

WHEREAS, The Department of the Treasury released a memorandum on April 3, 2018 recommending changes to CRA regulations, as administered by the OCC, FDIC, and the Federal Reserve. While some recommendations, like standardizing oversight across agencies and enhancing financial education services, could be beneficial, most threaten to undermine the original intent of the CRA; and

WHEREAS, The memorandum recommends reducing penalties for banks receiving "needs to improve" or "substantial noncompliance" ratings. Currently, banks receiving these ratings must receive additional approval to open new branches, relocate existing branches, or conduct other corporate activities. These penalties ensure that banks actively work to meet the needs of their communities. Banks that are unable to meet their current community obligations should not have the opportunity to expand or relocate until those needs are met; and

WHEREAS, The Treasury recommends de-emphasizing physical branches, asserting that modern banking reduces the importance of these brick-and-mortar establishments. However, FDIC Chief Economist Richard Brown asserts this trend is "substantially overstated". Indeed, a 2016 FDIC report on unbanked and underbanked consumers found that distrust leads to un- or underbanked LMI households, however long-term partnership and a variety of services can build trust. Specifically, a "local connection to the community" and locations with accessible hours increases trust and familiarity. While regulation should seek to identify innovative ways to regulate FinTech and its increasing role in banking, branch locations remain important to the communities that the CRA aims to help; and

WHEREAS, A recent study by the Center for Investigative Reporting (CIR) found that racial disparities in home lending persist today. In Philadelphia, Black home loan applicants are denied at 2.7 times the rate of White applicants. These findings demonstrate that the CRA must be strengthened, not weakened, in order to advance the goal of economic equity; now, therefore, be it

RESOLVED, BY THE CITY COUNCIL OF PHILADELPHIA, That this body urges the U.S. Department of Treasury to help protect access to banking services in lower-income communities by declining to adopt harmful proposed changes to Community Reinvestment Act regulations.

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