The Community Reinvestment Act: Reviewing Who Wins and Who Loses with Comptroller Otting's Proposal

Oral Testimony of
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Thank you, Chairman Meeks, Ranking Member Luetkemeyer and Members of the Subcommittee, for holding this important hearing and for inviting CRC to testify.

Good afternoon, my name is Paulina Gonzalez-Brito, I am Chicana, the daughter of immigrants from my ancestral land of the Purepecha people in Mexico. I am the Executive Director of the California Reinvestment Coalition. CRC is the largest state wide reinvestment coalition in the country with a membership of over 300 organizations that serve low-income communities and communities of color. I am also a proud board member of NALCAB, the National Association of Latino Community Asset Builders.

You should know that the CRA works. While the CRA can be improved, Comptroller Joseph Otting's proposal is a deregulatory scheme designed to help the largest and most powerful banks. It will weaken CRA rules, undermine the purpose of the statute, and will ultimately harm low-income communities and communities of color in California.

This afternoon, I will focus on our experience with Mr. Otting as he led a California based bank that had one of the worst CRA records in California, refused to do business in neighborhoods of color, otherwise known as redlining, foreclosed on thousands of families, and made a mockery of the public comment process during a critical bank merger.

Poor Reinvestment Record

When Comptroller Otting was CEO, OneWest had one of the worst reinvestment records in the state. CRC tracks reinvestment data in California, and in 2013, out of 12 banks analyzed OneWest ranked 10th or 11th from the bottom.

As one example of OneWest's lack of reinvestment activity, under Mr. Otting's leadership the bank made very few small business loans.

In the final quarter of June 2015, under Mr. Otting's leadership, OneWest did 1/10 the amount of small business lending in comparison to banks of the same size.

As another example, during Mr. Otting's leadership, OneWest had 15 percent of its branches in Low to Moderate Income (or LMI) communities, compared to 30 percent for the rest of the industry.

Mr. Otting has written the proposed CRA rule so that banks like the one he led, that do little reinvestment, ace their CRA tests. For example, the Comptroller's proposed CRA rule benefits banks by loosening the rules around small business lending and by devaluing the importance of branches in LMI census tracts.

Redlining by Joseph Otting's Bank

On redlining, Comptroller Otting certainly does have experience. While Mr. Otting was CEO of the bank, OneWest had 70 branches, but only 1 branch was located in an Asian American majority census tract, and no branches in African American majority census tracts.

During his tenure over a 2 year period, the bank originated only 2 mortgage loans to African Americans in the greater Los Angeles area. Hard to believe given the size of LA's African American population.

OneWest Foreclosures

It would be bad enough if OneWest merely did a poor job meeting community credit needs as required by CRA.

But in fact, the Bank that Joseph Otting ran also substantially damaged community credit needs through mass foreclosures. Most of this harm was inflicted on communities of color.

Between 2011 and 2015, when Mr. Otting was CEO of OneWest, the bank foreclosed in neighborhoods of color 3 times as often as it made mortgages in neighborhoods of color.

We are concerned that the Comptroller's proposal will lead to a return to redlining and more harm to communities given its focus on the one ratio that prioritizes quantity over quality, and overall numbers over serving local community needs.

A Merger Marred by Fake Public Comments

CRC and over 100 organizational opponents of the OneWest/CIT merger raised many of these concerns during the public comment process for the CIT/OneWest merger. As part of the merger, Mr. Otting solicited letters of "support" from his Wall Street contacts via a form letter on the bank's website. Our analysis of these letters observed a number of anomalies.

Our suspicions were confirmed when CRC received a call from a supposed "supporter" of the merger who was upset his email address had been used to support a bank merger he knew nothing about. He said "his identity had been stolen."

Our subsequent FOIA request to the OCC uncovered documents reflecting email exchanges with the OCC from individuals upset that they had been listed as supporters for a merger they had never heard about.

The letters at issue, supposedly submitted by these "supporters' appear to be the same form letter that Mr. Otting had urged his Wall Street contacts to submit via the bank's website.

What does this mean for the integrity of the CRA public comment period overseen by Mr. Otting himself?

Concerning Public Statements by Comptroller Otting

We also have concerns based on Mr. Otting's public statements, regarding his ability to fairly receive and incorporate public input.

Comptroller Otting was quoted in the American Banker as saying, "During an exam cycle, if a bank wants "to open a branch, close a branch or make an acquisition, certain community groups know how to hold you hostage during that process and they use your *lack of compliance* in between the reviews in order to be able to do that,"

Perhaps most alarmingly, Comptroller Otting was quoted as saying "…We won't tolerate groups that do not provide services to these communities to disrupt the process and affect our decisions."

These comments suggest that the Comptroller cannot be trusted to objectively consider public comments from community groups, just as he is soliciting public comment on plans to weaken the nation's primary anti-redlining law.

Conclusion

The proposed rule led by Comptroller Otting will do great harm to communities of color and low income communities while advancing the interests of big banks who have little interest in reinvestment.

I thank you for the opportunity to discuss our concerns today.