NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

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Twelve Proposals to Ensure Responsible Global Financial Reform

Responsible lending experts call on G-20 to embrace strong financial reform

Washington, DC – On the eve of the G-20 meetings, experts from responsible lending coalitions in the United States and Europe today urged world leaders to embrace strong financial reform to protect consumers and prevent another global recession. Banks and regulators are making credit harder to get for poor consumers and communities across the globe. In response, a movement to ensure that responsible lending, consistent with safety and soundness concerns, continues to reach low-wealth communities is expanding.

In the United States, policymakers are examining proposals to expand the Community Reinvestment Act of 1977, which was established so that banks had an obligation to help meet the credit needs of low- and moderate-income residents in a safe manner. There appear to be the stirring of CRA-like movements of consumers, in Britain and France, and also in Latin America and Asia. While these countries have had environmental and labor rights non-governmental groups, until now there have been few grassroots consumer and community protection groups.

"From Latvia to South Los Angeles, Bulgaria to The Bronx, people can't get loans for homes or for small business," said John Taylor, president and CEO of the National Community Reinvestment Coalition. "The global financial crisis and the tightening of credit seem is triggering an emergence of new transnational collaboration. From Ground Zero of the crisis, NCRC and its members are reaching across borders to work together on extending CRA and holding global lenders to account."

NCRC, together with the Global Community Reinvestment Coalition, INAISE and FEBEA, two networks of socially responsible banks and investors in Europe, today sent to G-20 leaders twelve proposals to guide financial reform. The regulated banks of the INAISE network alone represent a combined balance sheet of over 12 billion Euros in mid-2009, and have experienced 30% per-year growth since the beginning of the financial crisis. FEBEA members represent 21 billion Euros of assets.

12 proposals for real reform of the world financial system

Proposal 1: Regulators in each G-20 country should now require that banks and bank holding companies and their holdings demonstrate that their speculative financial activities are legally and financially fully separated from commercial banking activities and that they be fully supported by adequate, dedicated capital reserves. G-20 fiscal authorities should tax revenues from speculative financial activities at rates higher than those levied on commercial bank activities.

Proposal 2: Excess executive remuneration has promoted irresponsible behavior along the entire chain of financial services production and delivery, leading to risk-taking, misrepresentation and fraud that continues to damage local and national economies. Furthermore, over-remuneration in the financial services sector distorts employment markets, weakening long-term growth by luring many of the brightest young people away from research and production. G-20 governments should cap aggregate compensation at levels practiced in a basket of other industries.

Proposal 3: The lack of standardization, documentation and comparability among financial products weakens regulatory enforcement while it increases bank regulatory cost. It hinders truthful pricing of risk and enables fraud. Regulators must insist that all retail and markets-traded financial products be standardized and documented by their producers, to ensure full traceability of the chain of production. Agencies which rate and label financial products and institutions and their subcontractors should be licensed and their fees covered by taxes on financial services.

Proposal 4: Purely speculative financial transactions produce no sustainable value for communities, regions and countries, yet generate massive risks for them. G-20 countries should implement an international tax on speculative financial transactions. Proceeds should be used to finance oversight of systemic risk and to support economic development in less-developed countries.

Proposal 5: All bank and other retail financial service executives, experts, agents, products and services should comply a rule of "do no harm" to their clients' interests, as currently required under the European Union's Marketing and Financial Institutions Decree of 2004 (MiFID). Distributors of retail financial services products should be required to identify all retail and small business clients according their level of financial literacy, and be held to enforceable fiduciary responsibilities, specific to each level.

Proposal 6 : Retail financial products are not covered by rules of traceability and quality that are standard for most products (food, pharmaceutical products, etc,.). G-20 Regulators should be required to ensure that all financial institutions adhere to an affirmative obligation to guarantee the traceability of fiduciary engagement and document the risk of all financial products they handle as producers, (re)sellers or buyers. Regulators should enforce penalties for violation of these standards with an obligation to make the client whole.

Proposal 7: Financial exclusion and discrimination in the access to credit weakens the economies of G-20 countries, and leads to disinvestment. G-20 regulators should be required to hold all financial institutions to an affirmative obligation to serve the financial services needs of all communities and territories, consistent with safety and soundness

Proposal 8: Statistical oversight of all financial institutions is necessary to ensure that each equally respects its service obligations directly as well as through subsidiaries and holdings. To this end G-20 regulators should require financial institutions to publish annual data on their production. This data should cover all territories served in any fashion by a financial institution, and enable the disclosure of discrimination in the quality, price and availability of products and services.

Proposal 9: G-20 governments should require public representatives to sit on the board of financial institutions in which there is public investment, guarantee, or loans.

Proposal 10: All G-20 Regulators should be required to take into account the statements, complaints and requests of individuals, community groups, local elected officials and consumer organizations. Regulators should reply with fully documented responses in a timely fashion.

Proposal 11: Access to affordable, appropriate financial services including credit are a fundamental condition of economic citizenship in modern society. It is a right which imposes a duty to service on all financial institutions. In addition, G-20 regulators should develop that right by encouraging the development of credit unions, bank and non-bank social finance and community development organizations, micro-credit organizations and cooperatives. This should include favorable tax treatment.

Proposal 12 : Capital markets have weakened competition locally by creating international banking conglomerates. In addition, their size alone presents a systemic risk to the international economy. This trend hinders the creation of a diverse, resilient financial system. It should be countered by regulation, by taxation and by affirmative policy. G-20 regulators should test any proposed new regulation of finance by whether it increases the variety of financial service providers while ensuring safety and soundness. Current "one size fits all" capital standards accounting rules in IFRS and Basel II are inappropriate and should be adapted to meet the safety and soundness needs of diverse institutions. Finally, banks that generate high systemic risks should apply to higher solvency ratios in order to meet the higher risk incurred by governments responsible for their supervision.

The National Community Reinvestment Coalition is an association of more than 600 community-based organizations that promote access to basic banking services, including credit and savings, to create and sustain affordable housing, job development and vibrant communities for America's working families.

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