CDFI/CRA

Articles

WASH.POST:07/19/93

Banking on the Inner City

IT'S EASY when discussing the problems of the inner city to talk about the virtues of "self-help," "enterprise" and "bootstrapping." Everybody is for the other guy "pulling himself up by his bootstraps." The problem is that the inner cities are desperately short on the very thing that entrepreneurs need: capital. As many studies have shown, banks are reluctant to lend into the inner city—and sometimes don't even want to set up branches there. No matter how sound their ideas or vast their energy, would-be businessmen and community activists won't get far without money.

President Clinton took a small step last week to ease this problem. He put forward a five-year, $382 million program to create a Community Development Banking and Financial Institutions Fund. It would provide grants, training and technical help to private groups that create community development banks. Existing community development groups could compete for the money. He hopes that by spurring matching private investment, the program will pump $2 billion into poor neighborhoods.

There shouldn't be any pretending here: This is not a vast program; it only barely begins to address the credit needs of the country's inner cities. It is also significantly less ambitious than Mr. Clinton's campaign proposal to use $850 million of federal money to establish 100 community development banks around the country modeled after Chicago's successful South Shore bank. What the proposal does represent is a modest step in the right direction. As such advocates of cities as New Jersey's Sen. Bill Bradley have been arguing, there are many successful models of community development around the country. Committed citizens in poor neighborhoods have put aside doctrinal claptrap, worked hard, defied the odds and gotten businesses started, housing rehabilitated, transportation improved and jobs created. They did this with little help from the federal government. The least Washington can do now is give a hand to enterprising and civic-minded people.

In abandoning the idea of a one-model-fits-all approach to community banking, the administration took the right road. While successful inner-city projects may have common elements, they often depend on unique combinations of gifted people on the ground, the right local governments, the right neighborhood institutions, the particular business climate of a given region. This mix is different from place to place. The administration was also right in looking specifically to community development institutions and in choosing not to shower money on established banks. If traditional banks were doing such a great job, community development banks wouldn't be necessary.

Of course much more needs to be done, and many advocates of the inner city have expressed disappointment over the modesty of this program. But Mr. Clinton has at least taken a first cut at the problem.

image. And most clearly, a big dose of eau de Potomac has been imbibed by senior Marine Corps officers sitting in front of word processors in the Pentagon.

So the Marine generals decide they will take only unmarried recruits. This is too rich. Even the Roman Catholic Church is thinking that a singles-only recruiting policy has not worked all that well.

The beauty part was the plan to have Marine Corps officers conduct "marriage awareness training" before the newly inducted recruit would be allowed to take a spouse. This news has every stand-up comic and gag writer in America in a feeding frenzy. But none could have outdone the gag lines in the directive itself, describing what would happen in these awareness sessions.

"It is an opportunity for the marine to get counsel on one of the single most important decisions of his/her life and benefit from the advice of seasoned marines who have experienced military family life."

You have to love the idea of "seasoned marines" conducting psychobabble sessions. "Lance me, it is better to march than to marry. And hey, trooper, let me help you with that Dear John/Joan letter. I've busted up a hundred of these madcap schemes."

The Commandant, Gen. Carl E. Mundy Jr., reportedly backed the zero-matrimony campaign, but he prudently said the directive had been issued without his knowledge. It also seemed to sneak up on the Secretary of Defense and the Commander in Chief, who was really hoping to get off on vacation without another Stupid Pet Trick.

David Gergen, that plastic surgeon of untoward Presidential moments, said the President was busy bragging on an Army general when the Marines ran amok. When Mr. Clinton got back to the Oval Office, why he had never, never, never, ever been so astonished.

So, no harm done. Defense Secretary Les Aspin, recovering from his own bout of astonishment, reversed the marriage ban. We can only say, Flow on, intoxicating Potomac. And thank Providence that Washington got his inspiration along the Delaware.

Fresh Money for Poor Communities

The Community Reinvestment Act was passed in 1977 to direct more commercial bank loans into poor communities. It hasn't worked very well. Community organizers, who lobbied for the bill, have been frustrated by the legal roadblocks thrown up by the banks. The banks resent the hugely expensive paperwork and being held hostage to community groups angling for concessions. Everyone agrees that the act has produced more paperwork than loans. Meanwhile distressed neighborhoods continue to wilt.

Relief may now be in sight. The Clinton Administration has proposed a new way to channel credit into blighted communities. It has also promised to re-examine the reinvestment act. If it artfully combines the two ideas, Mr. Clinton could put together a first-rate reform.

The President wants to create a $382 million fund to lend money and expertise to community institutions — such as community development banks and other nonprofit organizations — dedicated to developing poor neighborhoods. After these organizations put up matching funds, the proposal would generate about $2 billion in new loans.

The plan has critics. Community organizers say they need much more — say $15 billion. Commercial banks object that the plan makes them ineligible for the Federal money. Yet Mr. Clinton is on the right track. The plan starts out small, but if it works it can be expanded later. And he's wise to sidestep commercial bankers, who have shown that they don't want to lend to credit-risky homeowners and small businesses and probably wouldn't do a very good job if they were bribed to try.

President Clinton prefers to give money to the community development organizations because their sole purpose is to spur development in poor neighborhoods by lending to the poor; they don't need to be coaxed and bribed. Lending to promote development in a blighted area is very different from ordinary bank loans; it takes dedicated and experienced practitioners. Mr. Clinton would turn the job over to the professionals who have learned by doing.

But he still has to find enough money to make the program effective. Here's where he could turn to the Community Reinvestment Act. Some Democrats and Republicans in Congress have proposed letting commercial banks buy themselves out of their responsibilities under the act by pumping money into community development institutions instead of lending it directly to risky individuals and businesses.

It's a good idea. The commercial banks would save themselves huge legal expenses designed to prove they are complying with an act that they now mostly sidestep. The community gets the capital it desperately needs, administered by professionals dedicated to making the local economy thrive.

Community organizers will oppose allowing banks to ignore the act even though their 16-year effort to hold the banks to its terms has produced little success. But rather than fighting to hold their jobs, which consist mainly of hassling commercial banks, they should grab the far more challenging opportunity Mr. Clinton offers them: the chance to direct a fresh infusion of Federal funds to people and businesses in need.

THE NEW YORK TIMES, FRIDAY, AUGUST 13, 1993

Clinton Is to Unveil Two-Part Program To Boost Lending in Poor Communities

By KENNETH H. BACON
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — The Clinton administration is preparing to unveil a program to boost investment in poor communities by encouraging more loans from commercial banks and funding new development institutions.

Robert Rubin, who heads Mr. Clinton's National Economic Council, yesterday briefed a group of congressional Democrats on plans to establish a Community Banking and Credit Fund. It would funnel \$382 million of federal money into community development financial institutions, including banks, credit unions, loan funds and other institutions that are established to meet the needs of poor communities that aren't well served by commercial lenders. The fund, which would be run by an 11-member board dominated by bankers and community activists, must be created by Congress.

In addition, bank regulators said they already have launched an effort to redraft community reinvestment rules in line with President Clinton's promise to cut red tape, while promoting more lending. The administration's two-part program, which is likely to be announced within a week or so, is expected to win strong Democratic support. The plan incorporates many elements that Sen. Bill Bradley of New Jersey and Sen. Donald Riegle of Michigan as well as members of the congressional black caucus have already proposed, though some members of the black caucus may fight for more money for the new fund.

The 1977 Community Reinvestment Act imposes on federally insured banks and thrifts "a continuing and affirmative obligation to help meet the credit needs" of the communities where they operate.

But bankers and President Clinton have complained that the reinvestment rules impose a paperwork burden without spurring enough lending. Regulators agree. Susan Krause, a senior deputy comptroller of the currency, told a House banking subcommittee yesterday that bank examinations "have too often emphasized process, documentation, and good intentions rather than actual lending" to poor communities.

The new program would focus on increases in actual loans to finance housing and business development in low and moderate-income areas. In their community reinvestment reviews, banks also would get more explicit credit for opening or maintaining branches in inner cities and rural areas and for investing in community development financial institutions that specialize in helping people who find it difficult to get credit from commercial banks and thrifts.

During the presidential campaign, Mr. Clinton frequently cited the success of

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South Shore Bank, which helped revitalize a Chicago neighborhood, and he promised to create a network of 100 such community development banks. But the new program isn't likely to include that specific pledge, because it focuses on a broader range of development institutions, including loan funds and credit unions, as well as pressing commercial banks to lend more.

The goal of the proposed Community Banking and Credit Fund, according to a White House briefing sheet circulating yesterday on Capitol Hill, is to create "a national network" of development institutions that would compete for assistance.

To win assistance, institutions must show that they can match public funds with privately raised money and that they have a plan for eventually standing on their own without government support. The fund would provide assistance in the form of capital grants, deposits and technical assistance.

Some Republicans complained that the fund would become another costly government bureaucracy that encourages the development of small, relatively ineffectual financial institutions. "Separate banks for separate communities aren't going to go far enough to solve the problem," said Rep. Thomas Ridge of Pennsylvania, the author of a 1991 law that gives commercial banks a monetary incentive to expand services in poor neighborhoods. That law hasn't taken effect yet.

However, Rep. Maxine Waters (D., Calif.) said: "The whole idea is not to create another bureaucracy." The fund would be federally chartered, but privately run, although four cabinet secretaries would sit on its board. It also would receive limited appropriations over a four-year period, according to the proposal. After the briefing, Rep. Charles Schumer (D., N.Y.) said: "It's clear that the Clinton administration thinks this is very important, but they're not going to do a lollapalooza of a program until they see what works."

Separately, the Department of Housing and Urban Development and the Comptroller of the Currency announced the creation of a working group to help the agencies police mortgage-lending discrimination. Both agencies are in the process of setting up a program to test bank-lending procedures to determine whether all applicants are treated fairly.

—*Greg Hitt contributed to this article.*

'A New Playing Field' for Community Lending

Poor Neighborhoods Begin Reaping Benefit of Reinvestment Act Provision on Bank Credit

By Guy Gugliotta
Washington Post Staff Writer

NEW HAVEN, Conn.—In a few weeks Steve Darley will send bulldozers out to a quiet neighborhood here to knock down a rambling clapboard house and begin excavating the site of a new low-income housing apartment complex.

For Darley, the Chamberlain Street groundbreaking is simply the latest undertaking in a 20-year career as a developer of affordable housing. For his financial backers, however, it marks the beginning of a long-awaited adventure in community lending.

Darley is the first borrower from a new $7 million pool of money made available by area banks and administered by The Greater New Haven Community Loan Fund, a nonprofit organization. Darley borrowed $650,000 from the fund, by far the biggest loan it has ever made.

"Before the pool, we could fund a little piece of a project," said fund manager Carla Weil-Coleman. "The pool means we can do the whole job."

According to the National Community Reinvestment Coalition, which monitors lending in poor communities, New Haven's is one of more than 200 loan agreements negotiated by banks and nonprofits nationwide in recent years.

These partnerships, said coalition executive director John Taylor, are perhaps the most effective mechanism yet devised to get much-needed bank credit into disadvantaged neighborhoods. "It's a new playing field," he said. "These things are being taken seriously."

Banks say they are motivated by community spirit and a desire to open potentially lucrative new markets. But just as significant, they acknowledge, is their need to comply with the provisions of the Community Reinvestment Act, or CRA.

The CRA requires banks to fulfill the credit needs of their entire service areas, including poor neighborhoods. Failure to do so opens them to charges of racial discrimination and "redlining"—deliberately denying credit to low-income neighborhoods.

"Any bank must be aware of CRA," said Geoffrey G. Gregory, a senior vice president of Union Trust Co., one of the banks in the Greater New Haven consortium. "It affects everything you do—mergers, acquisitions, branch openings, closings—the implications are tremendous."

The biggest trouble with the CRA, bankers and policy makers agree, is that the law is vaguely worded, containing no concrete prescription for how much and what kinds of lending or other services a bank must provide in order to be in compliance.

"Different sets of guidelines talk about a 'sound marketing program' and an 'adequate marketing program,'" said Cathy Bessant, a senior vice president and principal community lending officer for NationsBank in Dallas. "What's the difference?"

Bessant, like many bankers, favors an "overhauled law" that demands "objective, measurable criteria." President Clinton, apparently agreeing, asked regulators on July 15 to reexamine the CRA with a view to reforming it by year's end.

"While the CRA has played an important role . . . I think we would all admit that it hasn't lived up to its potential," Clinton said. "The current enforcement system relies too much on public relations documentation and not enough on real lending performance."

Despite the lack of specifics, the CRA leaves little doubt about its basic requirement—that banks provide the same range of services for the poor that they do for everyone else.

Most banks don't. The Federal Reserve this year estimated that banks have committed $35 billion to CRA lending in disadvantaged neighborhoods, while "credit-worthy borrowers easily have a need for five times as much," Taylor said.

Some banks regard CRA as a social obligation and a bad investment, while others cite the high per-transaction expense of administering lots of small loans in low-income neighborhoods.

Both of these objections are "myths" popularized by banks who haven't tried community lending, said Nicole Kemeny of the Chicago-based National Training and Information Center, which represents community development nonprofits.

Kemeny said, and banks confirm, that community lending can be regarded like any other bank activity—it can be profitable if handled properly. "We don't want institutions to make bad loans," she said. "There are plenty of good borrowers out there."

Lacking the experience and expertise to recognize business opportunities in poor neighborhoods, banks enlist grass-roots organizations as intermediaries and all-purpose "interpreters."

"Banks have a different conception of what's risky," Weil-Coleman said. "For instance, you talk to them about a 'character loan' to someone who may not have a lot of assets but has a good track record—this is very strange to them. You have to look at development differently."

> *"We don't want institutions to make bad loans. . . . There are plenty of good borrowers out there."*
>
> —Nicole Kemeny,
> National Training and
> Information Center, Chicago

But if you do, it can pay off. Steve Darley first tried to finance his development at local banks but was turned down. He didn't know why, but he suspected the banks never had seen a project like his.

Under terms decreed by the Department of Housing and Urban Development, Darley must build the apartments at his own expense and in compliance with HUD specifications. Once completed, HUD will buy the project.

"A HUD 'takeout' is as good as anything you can have," Darley said. "But banks . . . don't even know what a HUD takeout is."

So Darley went to the Greater New Haven Fund, and the fund made his case for him, convincing bank pool members that the loan was worth making.

Many times, experts say, partnerships begin badly, with local organizations accusing banks of redlining and worse. In Connecticut, however, banks already had forged agreements in several cities. "The question" in New Haven, Union Trust's Gregory said, "was not whether to do it, but how."

Should the banks form their own organization, as many have across the country (NationsBank has put $2 billion into community lending in the past year, much of it without help), or should they use the infrastructure and experience of their local nonprofit?

"The consensus was to work with the fund," Gregory said, "but it was much easier said than done." Banks were worried about "their dollars being dominated by social workers," he said, while the fund was "concerned about the banks coming in and taking over."

In the end, advantages outweighed liabilities. The partners agreed that the fund will screen all borrowers, but can make no loans from the pool without the banks' approval.

This kind of partnership is not unusual in community lending, but details vary dramatically across the country depending on the amount of money involved, the degree of control banks want to maintain and the type of banking that the partnership will do.

And the agreements have limitations. In New Haven the partners agreed to limit themselves to construction loans, at least at first, because the notes turn over quickly, so the pool is steadily renewed as it is depleted.

The pool does not make home mortgages, Gregory said, because long-term notes would soak up the $7 million, and "then you're finished." The idea is to build confidence in the partnership by using and reusing the pool money relatively quickly.

Such limitations are the primary reason why nonprofits emphasize that New Haven-style agreements should not be a "safe harbor" for banks seeking a simple way to discharge their CRA obligations.

Communities need long-term mortgages, small business loans, infrastructure investment and branch banks—all kinds of bank business. In this context, nonprofits say, the community lending agreements fill a specific banking niche without substituting for CRA.

Still, the agreements show increasing signs of success. The coalition's Taylor estimates well over half of the CRA money making its way into poor neighborhoods gets there as a result of community lending partnerships.

And results are good. The loan loss rate nationally for community development nonprofits is about 1 percent, and in Dallas, Bessant said NationsBank's community lending performance "meets or exceeds our general portfolio." The Greater New Haven Community Loan Fund has never had a default.

For banks, Bessant said, community lending "is the best of all opportunities—we make money, we're opening a sector of the market that's underserved, and it feels good."

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President unveils program for community lending

▶ One Democratic senator calls the plan a promising way to 'rebuild distressed urban neighborhoods and rural areas'

Associated Press

WASHINGTON — President Clinton sent Congress a lending program on Thursday he said would pump $2 billion into credit-starved inner-city and rural communities. One Republican called it "just another government handout," but Democrats welcomed it as a crucial step to save decaying neighborhoods.

"The potential for creating new jobs in America through this initiative is absolutely enormous.

And they can be created in places where people have long given up on the free enterprise system," Clinton said at a ceremony on the White House lawn.

The Treasury Department has estimated the program, which would cost federal taxpayers $382 million through 1997, would spur millions in private investment, funneling $2 billion to people and businesses largely shunned by banks.

Senate Banking Committee Chairman Donald W. Riegle Jr., D-Mich., convened a hearing on the proposal less than two hours after Clinton finished announcing it.

He said it offered "a promising new way" to "rebuild distressed urban neighborhoods and rural areas."

Rep. Henry B. Gonzalez, D-Texas, chairman of the House Banking Committee, called it "a crucial rung on the ladder of economic success" made necessary by the pervasive lending discrimination of conventional banks.

However, Rep. Tom Ridge, R-Pa., called it "just another government handout" and said an existing-but-unfunded program, which he devised, would prove far more effective and would make use of the entire banking system.

The Ridge program would offer banks a discount on their deposit insurance premiums in exchange for increased lending in blighted communities. He said it would create $10 in lending for every $1 of federal spending.

Alfonse D'Amato of New York, the senior Republican on the Senate Banking Committee, called the president's program "rather meager" and said it should involve private banks. "The only thing innovative about this proposal is that the president is actually going to make good on a campaign promise," he said.

The president spoke at a shady area of the White House grounds to an audience of Cabinet secretaries, bankers, community activists including Jesse Jackson and more than 40 members of Congress, nearly all of them Democrats.

Fite CDFI Press

WASH.TIMES:07/13/93

Urban-rural loan proposal dwindles

By Dave Skidmore
ASSOCIATED PRESS

President Clinton will unveil a scaled-back loan program for credit-starved inner cities and rural areas this week, administration and industry officials said yesterday.

The $382 million to foster housing, small business and development over four years is not nearly as ambitious as the plan he spoke of during the campaign. It is less than half the $850 million over five years that aides had proposed just before the inauguration.

The White House has tentatively scheduled a ceremony to propose the program formally on Thursday, according to government officials, bankers and consumer advocates invited to attend. Mr. Clinton returns tomorrow from the economic summit in Japan and vacation in Hawaii.

Later in the day, Treasury Secretary Lloyd Bentsen, Housing Secretary Henry Cisneros and Comptroller of the Currency Eugene Ludwig are scheduled to appear before the Senate Banking Committee to answer questions about the proposal.

A draft message to Congress prepared for Mr. Clinton's signature urges early enactment of a proposed Community Development Banking and Financial Institutions Act of 1993 and asks lawmakers not to let the bill get delayed by contentious financial service issues such as interstate banking.

"In too many urban and rural communities, there is a lack of capital and credit. . . . This initiative reaffirms my commitment to helping communities help themselves," the presidential message to Congress said.

The draft and related documents were obtained by the Associated Press.

The bill would authorize $60 million next year and a total of $382 million through 1997 for a new national fund to be administered by a nine-member board. The fund would provide seed capital and grants to create new community development banks and to support existing community organizations, who lend for a wide variety of purposes ranging from cooperative housing to mom and pop businesses.

The proposal is far smaller than originally envisioned by Mr. Clinton. During last year's presidential campaign, he talked of creating 100 new community development banks. Before he took office, transition aides had prepared a proposal for spending $850 million over five years and a similar plan drafted by Senate Banking Committee aides would have provided $1.2 billion.

Commercial banks, particularly small-town banks, had pushed for a share of the money. Kenneth A. Guenther, executive vice president of the Independent Bankers Association of America, in an appeal delivered to Mr. Ludwig last month, argued that hundreds of small, locally owned banks "are engaged in community development on a daily basis" and should be provided with incentives to expand those activities.

However, the fine print in the bill virtually rules out money going to assist community lending by conventional banks. And the presidential message cited two highly specialized institutions — South Shore Bank of Chicago and the Self-Help Credit Union in Durham, N.C. — as models for serving distressed areas.

In a move aimed at blunting industry opposition, the administration plans to unveil a series of regulatory changes at Thursday's ceremony. These changes would overhaul enforcement of the Community Reinvestment Act of 1977, which bankers have complained is unwieldy.

"These changes will replace paperwork with performance-oriented standards and will include tougher enforcement measures for noncompliance," Mr. Clinton's draft message to Congress said.

In a separate letter, Mr. Clinton would direct bank and savings institution regulators to devise new procedures by Jan. 1 to "replace paperwork and uncertainty with performance and objectivity."

Although the community-lending proposal is smaller than Mr. Clinton promised in the campaign, consumer advocates said the bill would represent a good start, and they were pleased the money is going only to highly specialized community development lenders.

However, they were concerned Mr. Clinton's effort to reduce paperwork involved in complying with existing lending laws could result in lax enforcement.

The fund would provide seed capital and grants.

"We question the diagnosis that paperwork is the problem," said Chris Lewis of the Consumer Federation of America. "In our opinion, the problem is a recalcitrant industry and lackluster enforcement by regulators."

Mr. Ludwig will be authorized to broker negotiations among banking and consumer groups on the issue. Mr. Guenther, of the Independent Bankers, predicted the talks could produce a "win-win situation" in which bankers get less paperwork and clearer rules, and consumers get increased lending to poor neighborhoods.

Fleet Financial Group NEWS

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Fleet Financial Group Chairman Terrance Murray Endorses Clinton Community Development Lending Initiative

Providence, R.I., July 20, 1993: Terrance Murray, Fleet Financial Group chairman and chief executive officer, today formally endorsed President Clinton's recently announced Community Development Lending Initiative as an integral measure in providing additional capital and credit to small businesses and consumers in low- and moderate-income areas.

Noting that the proposal the President announced last Thursday needs further study, Murray believes the three-part plan will offer expanded opportunities for qualified borrowers seeking credit. A cornerstone of the President's plan is the creation of a federal mechanism that will provide capital for community development institutions, encourage banks to broaden their community development lending, and reexamine the Community Reinvestment Act to make it more performance-based.

"While it may be useful for the federal government to take a new and more active role in making capital available through community development lending programs," Murray said, "it is equally important that the White House and Congress determine that this particular initiative is the most efficient use of taxpayers' money to achieve this objective."

Murray agreed with the President, who noted in last week's announcement, that meeting the credit needs of business should remain the ultimate responsibility of the banking industry and other private sector lenders. "The government's role should be to facilitate that process as much as possible," Murray said, "and I think the President's plan is one way to achieve that objective."

-more-

Murray also welcomed President Clinton's call for reform of the Community Reinvestment Act, whose mandated procedures, he said, should be made more efficient and less costly. "This is a timely recommendation by the President since the banking industry is striving to strengthen its lending commitments in poorer communities. The reforms will be invaluable in enhancing the true objectives of the Community Reinvestment Act if they result in a less cumbersome reporting process. Fleet looks forward to working with regulators in bringing about performance-based reforms called for by the President."

Murray concluded that prompt action by the Congress on the President's proposed community lending legislation should help stimulate economic development. He also said this effort would be bolstered considerably by the enactment of federal legislation permitting interstate branch banking this year, as well as approval by the regulators of initiatives to lessen the credit crunch that the President announced several weeks ago. Murray stressed that Fleet Financial Group strongly supports each of these measures.

Fleet Financial Group is a $45-billion diversified financial services company listed on the New York Stock Exchange (NYSE-FLT) with approximately 1,200 offices nationwide. Its lines of business include commercial and consumer banking, mortgage banking, consumer finance, asset-based lending, investment management, and student loan processing.

NEWSPAPER $2.50 AUG. 2-8, 1993

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Talking Development

Community bank bill remakes urban debate

By TED WYSOCKI

"Now the children of Harlem have ice cream cones, role models and smiles," concluded Joe Holland as he described the impact of opening the first Ben & Jerry's franchise in an inner-city community.

Among those assembled on the South Lawn of the White House were members of the American Bankers Assn. who squirmed during Holland's remarks as he also described his frustrations in obtaining a bank loan.

But bank bashing wasn't the real news on July 15, when President Clinton unveiled his plan to develop a nationwide network of community development banks. The president's bill transforms the 20-year-old public debate over redlining into a call for communities, regulators and banks to collaborate on financing community development. The Community Development Banking and Financial Institutions Act of 1993 is essentially, as the president noted, a proposal to make the free enterprise system work for all Americans.

The bill will create a fund ($382 million over four years) to provide equity investments, grants, training and other assistance for a range of community development financial institutions (CDFIs). Expanding from his campaign proposal to "create 100 South Shore Banks," the president is recognizing the expertise and critical role of community development credit unions, community loan funds and non-profit community development corporations in addressing the credit needs of low- and moderate-income communities.

Chicago not only is the home of South Shore Bank, the country's premier community development bank, it also has several excellent community credit unions and the Chicago Community Loan Fund, which celebrated its first year of community development lending on July 21. Directors of CANDO's City-Wide Development Corporation currently are considering how our small business and economic development financing could best be augmented by this new legislation.

Besides housing, retail or industrial projects, this bill also would address financing facilities for day care, community arts and job training. Assistance to small businesses and micro enterprises as well as capacity building for prospective borrowers are all eligible development services.

Insured depository institutions wishing to apply for a maximum of $5 million must meet a "primary mission" test of promoting community development. Other types of CDFIs can apply for a maximum of $2 million. Since these federal funds also require at least a dollar-to-dollar match, banks will be encouraged to participate by investing in eligible CDFIs. The Treasury Department conservatively estimates between $1 billion and $1.6 billion in new credit availability.

In conjunction with "empowerment zone" legislation, community development financial institutions will mean more loans for Chicago neighborhoods most in need. More loans will mean more businesses for Chicago's future. That adds up to "jobs, jobs, jobs" and a lot of smiles for Chicago.

Ted Wysocki is executive director of the Chicago Assn. of Neighborhood Development Organizations (CANDO).

BANKING

Community Lending Proposal Challenges Clinton Plan

In a move that likely will complicate prospects for passage of President Clinton's plan to boost lending in poor communities, a bipartisan group of House Banking Committee members has offered a competing proposal much friendlier to traditional banks.

Rep. Floyd H. Flake, D-N.Y., and the committee's ranking Republican, Jim Leach of Iowa, are spearheading the effort, and a total of 10 Banking Committee members have signed on.

R MICHAEL JENKINS

Reps. Flake, Ridge and Leach on July 28 outlined their community bank bill at an outdoor news conference.

Clinton's plan (HR 2666), announced earlier this month, would authorize $382 million in assistance to community development banks and other alternative lenders. The Flake-Leach bill (HR 2707) would authorize half that amount for the Clinton proposal and broaden the pool of institutions eligible to receive assistance to include banks, thrifts and credit unions that do not have community development as their primary mission.

The other half would be used to fund the Bank Enterprise Act, which allows banks and thrifts with good lending performance in distressed areas to receive rebates on their federal deposit insurance premiums. The measure was included in the 1991 bank overhaul bill, but appropriators have not provided enough money to begin implementing it.

Flake, Leach and Tom Ridge, R-Pa. — the co-author of the Bank Enterprise Act — argue that deposit insurance rebates given to traditional banks in exchange for loans to poor neighborhoods would bring much more capital into such distressed areas than would the Clinton plan.

"This is the best investment, in my opinion, that the government could possibly ever make in urban communities if it's serious about rebuilding them," Flake said.

At a July 28 news conference, the trio presented the bill as a bipartisan alternative that would draw Republicans, who are critical of Clinton's plan, into the process.

"What some people tend to forget is that in order for legislation to pass around here, you need both sides of the aisle," Flake said.

"I feel relatively confident that the majority of Republicans would prefer Congressman Flake's leadership to the initial approach of the administration," Leach said. "I think there will be large-scale Republican sympathy."

Changes to CRA

The Flake-Leach alternative also would go beyond the Clinton plan by making legislative changes to the Community Reinvestment Act (CRA), a 1977 law that requires banks to lend in their communities.

The CRA law has been faulted both by banks, which claim it requires too much paperwork unrelated to actual lending performance, and by community groups, which say federal regulators are not tough enough on banks with poor lending records in distressed neighborhoods.

The bill would require regulators to devise "performance based" CRA standards that would more accurately reflect the amount of lending being done in distressed communities.

The administration is working to devise new performance-based CRA regulations through administrative channels that would not involve any change in the law.

The Flake-Leach bill also includes highly controversial language that would give banks that receive the highest possible ratings of compliance with CRA a so-called safe-harbor exemption from CRA enforcement sanctions initiated by community groups. And it would allow banks and thrifts to invest in community development financial institutions as a way of meeting their CRA obligations.

No Rubber Stamp

The Clinton plan, which was unveiled July 15, would create a new federal fund that would provide aid to community development banks, credit unions and loan funds. It is a scaled-back version of Clinton's campaign pledge to create 100 new community development banks patterned after Chicago's South Shore Bank. *(Weekly Report, p. 1856)*

The legislative dynamics of the community development bank bill are not yet clear, but one thing appears certain: There will be no quick rubber-stamping of the Clinton plan by the House.

Treasury Department officials reportedly were angry with Flake after he introduced his bill July 22. He met with Deputy Treasury Secretary Frank Newman a few days later and said that any tensions had been smoothed over. Flake predicted that a compromise would be reached that would allow some funding for the Bank Enterprise Act.

"Our position is that we want to work with him. We take [the Flake-Leach bill] in the spirit in which it's been presented," said a Treasury Department spokesman. "He's brought some relevant points to the table."

"I think the Flake-Leach bill will slow the legislative process down and open the door for further negotiations and further talk, and that's the normal legislative process," said Kenneth Guenther, executive vice president of the Independent Bankers Association of America.

Although Clinton has made a community development bank bill a priority, the measure may not be a strong enough vehicle to carry the kind of additional baggage that members are lining up to try to load onto it. For one thing, community groups that have embraced the Clinton plan have threatened to pull their support if the bill is amended to include language that they cannot accept, such as the safe-harbor provisions.

The Clinton initiative had been perceived as facing a tougher future in the Senate, where members — particularly top Banking Committee Republican Alfonse M. D'Amato of New York — are planning to try to add favored provisions. ■

By Andrew Taylor

Copy/File
CDFI Plan

Mortgage Lending to Minorities Rose At Many of Biggest U.S. Banks in 1992

By STEVEN LIPIN
Staff Reporter of THE WALL STREET JOURNAL

Many of the nation's biggest banks improved their mortgage lending to minorities last year, but the gap between minority and white applicants remains significant.

BankAmerica Corp. and Norwest Corp. were among those significantly increasing loans to minorities, while New York City banks also made headway, a survey of some of the largest lenders in the U.S. shows. But mortgages for minorities at Citicorp, the nation's largest bank and one of the biggest mortgage lenders, fell sharply as part of a restructuring of its lending criteria. None of the banks surveyed wiped out the disparity between white and minority applicants.

Banks have come under pressure to extend credit to minorities after disclosures in 1991 that blacks and Hispanics are much more likely to be rejected for mortgages than white applicants, even at comparable income levels. Since 1990 banks have been required by federal regulators to disclose the level of mortgages denied to minorities. Most banks have initiated measures to modify their underwriting standards and assumptions, which appears to be helping more minorities obtain credit.

Customers Draw Attention

Faced with growing competition, banks are devoting more attention to a neglected group of people — their customers. Article on page B1.

"Yes some banks are doing better, because they're working with community groups to help get mortgage money out," said Bruce Dorpalen, director of loan counseling at the Association of Community Organizations for Reform Now, an advocate group for low and moderate income people.

Banks are beginning to understand that minority applicants might have "untraditional" credit histories — such as frequent job changes — but are nevertheless creditworthy borrowers. Mr. Dorpalen said. He added that "banks traditionally don't understand how to market in low income neighborhoods."

At some institutions such as Norwest, the rejection rate rose for blacks and Hispanics, but the overall number of loans nearly doubled. Consultants say a push by banks to increase home mortgage lending could temporarily result in an increase in the denial rate if banks are courting new business.

"Rejection rates could be high for several years because they don't know how to market," said John Lind, executive director at Caniccor, a nonprofit group that analyzes home mortgage data for socially conscious investors.

Here are the results for some of the nation's largest banks:

BankAmerica's main California bank reported that last year's rejection rate, excluding refinancings of existing loans, was unchanged at 41% for blacks, although the number of loans made more than doubled; the Hispanic rejection rate declined to 41.7% from 47%, while the white rejection rate fell to 23.5% from 25.8%.

NationsBank Corp., based in Charlotte, N.C., found that its denial rate for blacks edged down to 29.6% from 32.8%, while the Hispanic rejection rate fell to 27.7% from 32.6% in 1991. The white denial rate dropped five percentage points to 13.5% last year.

"Although we are very encouraged by this progress, we recognize there is much more to be done," said Catherine Bessant, principal community investment executive at NationsBank.

Chase Manhattan Corp.'s results for its entities that operate in New York showed that, excluding refinancing of existing mortgages, 20% of black applicants were rejected, down from 23% in 1991. The white rejection rate rose to 10% from 7% in 1991. The Hispanic rejection rate fell to 21% from 26% in 1991.

Mark Willis, president of the Chase Community Development Corp., attributed the improved acceptance rates for minorities to a series of initiatives, including a review process for minority applicants, increased advertising, and an outside firm that tests for discrimination.

Chemical Banking Corp. has taken similar measures, which has helped raise the percentage of minorities obtaining mortgages. Excluding refinancings, black applicants were rejected at a 50.4% rate, down from 51.9% in 1991. The denial rate for Hispanic applicants fell to 43.9%, from 52.0%, while whites were rejected at a 25.2% rate, down from 29.5% in 1991.

First Union Corp., based in Charlotte, N.C., said its denial rate for black applicants rose to 33.6% last year, from 31.2% in 1991. The rejection rate for Hispanics fell to 23.5% of applicants, from 27.7%. Whites, meanwhile, were denied mortgages at a 12.8% rate, up slightly from 12.6% in 1991. A spokesman said the rejection rate rose for blacks because of a 7.8% increase in applications.

Wells Fargo & Co. figures, which are dominated by refinancings of existing

Please Turn to Page A10, Column 6

Many Banks Increased Mortgage Lending To Minorities in 1992

Continued From Page A2

mortgages, show that the bank declined 57% of all black mortgage applicants, compared to 74% in 1991. Fifty-six percent of Hispanic applicants were denied mortgages, compared with 70% in 1991. The white rejection rate fell to 38% last year, from 55% in 1991.

Norwest's mortgage banking arm said rejection rates edged up for virtually all groups due to what the bank said was a more aggressive push to seek clients. Including refinancing loans, the only figures available, Norwest Mortgage rejected 15.75% of black applicants and 12.25% of Hispanics in 1992, up from 13.11% and 10.80%, respectively. White applicants were rejected at a 5.32% rate, up from 4.9% in 1991. But the company says the volume of its minority lending rose to $1.07 billion from $634 million in 1991.

Fleet Financial Group said black applicants were rejected at a 20.92% rate, down from 26.44%; Hispanic applicants were rejected at a 15.89% rate, down from 18.76%, and whites were rejected at a 11.57% rate, down from 13.06%. Those figures include refinancing of existing loans.

But at Citicorp's main banking units, more minority applicants were rejected last year than the year before because of what a spokeswoman said were stricter criteria across the board. Excluding refinancings, it rejected 56% of black applicants, up from 44% in 1991. Hispanics were rejected at a 52% rate, up from 43% in 1991. The rejection rate for white applicants, however, was unchanged at 30%. The volume of mortgages for blacks and Hispanics fell about 85%; for whites, the volume fell 50%.

"It was an unintentional side effect" of the bank's effort to clean up its mortgage unit, a spokeswoman for Citicorp said. Last year as part of that effort, the banking giant suspended its program of holding mortgages on its books that it could not resell into the secondary market. Because it would only lend money to individuals with "crystal clear creditworthiness," Citicorp ended up maintaining only the rejection rate for white applicants, the spokeswoman said. White applicants tend to have higher incomes and more detailed credit histories, she said.

File - "CDFI Press"

The American Banker

July 13, 1993, Tuesday

SECTION: Pg. 1

LENGTH: 526 words

HEADLINE: Community Development Plan Excludes Banks, S&Ls

BYLINE: By ROBERT M. GARSSON

DATELINE: WASHINGTON

BODY:

President Clinton has scheduled a Rose Garden ceremony Thursday to unveil a community development bank plan that apparently would not provide incentives for existing financial institutions to participate.

The most recent draft of the President's legislative proposal would provide $382 million over four year, but only for institutions primarily engaged in community-development lending - a category that would exclude most banks and thrifts.

President Clinton is also expected to direct the bank and thrift regulatory agencies on Thursday to come up with a new approach to the Community Investment Act stressing "performance over paperwork." Criticism from Bankers

A number of bank groups invited to the ceremony criticized the White House plan for excluding their members from the financial incentives.

"We're very concerned that they will not work through existing commercial banks," said Kenneth A. Guenther, executive vice president of the Independent Bankers Association of America.

Mr. Guenther said his group won't oppose the plan, though.

"Right now, the name of the game is to try to change the administration's position," he said. After Thursday, he added, the effort will shift to Capitol Hill where lawmakers may be more sympathetic. Invitations to Industry

The White House has invited a number of industry groups to attend Thursday's announcement, including the American Bankers Association, the IBAA, and the Savings and Community Bankers of America. Although the White House had previously scheduled other tentative dates for the announcement, industry sources said they expect this one to hold firm.

Edward L. Yingling, director of government relations for the ABA, also expressed dismay that most commercial banks would be ineligible for financial incentives. But he applauded the administration for agreeing to work through existing financial institutions, rather than try to build a new network of development banks.

In his campaign, President Clinton had talked about creating a network of community development banks along the lines of Chicago's South Shore Bank. "We're very pleased that their approach is built on the existing system," said Mr. Yingling. Some congressional aides said the development bill could move very quickly through the House. One senior aide who works on banking issues said the bill would likely be taken up by the full House Banking Committee, rather than any of the three subcommittees that have shared jurisdiction.

The Senate is a different story. Sen. Alfonse M. D'Amato, R-N.Y., has advocated an approach that would give commercial banks CRA credit for investing in a development banks. Because of Senate rules, the Democratic majority may be forced to give some consideration to Sen. D'Amato.

However, interest groups involved in community development are staunchly opposed to the idea of giving commercial banks any kind of financial incentives to participate. "The money should go where resources are scarce, and banks have access to other resources," said Deepak Bhargava, banking lobbyist for the Association of Community Organizations for Reform Now.

GRAPHIC: Clinton, photo

File - "CDFI Press"

Date: 07/12/93 Time: 17:09

Clinton Shrinks Loan Plan For Inner Cities, Rural Areas

WASHINGTON (AP) President Clinton will unveil his loan program for credit-starved inner cities and rural areas this week, but the [illegible] million to foster housing, small business and development is [illegible] than he promised during the campaign, administration and industry officials said Monday.

Clinton aides have tentatively scheduled a White House ceremony to propose the program formally on Thursday, the day after Clinton returns from the economic summit in Japan and vacation in Hawaii, according to government officials, bankers and consumer advocates invited to attend.

Later in the day, Treasury Secretary Lloyd Bentsen, Housing Secretary Henry Cisneros and Comptroller of the Currency Eugene Ludwig are scheduled to appear before the Senate Banking Committee to answer questions about the proposal.

A draft message to Congress prepared for Clinton's signature urges early enactment of a proposed Community Development Banking and Financial Institutions Act of 1993 and asks lawmakers not to let the bill get delayed by contentious financial service issues such as interstate banking.

``In too many urban and rural communities, there is a lack of capital and credit. .... This initiative reaffirms my commitment to helping communities help themselves,'' the presidential message to Congress said.

The draft and related documents were obtained by The Associated Press.

The bill would authorize $60 million next year and a total of [illegible] million through 1997 for a new national fund to be administered by a nine-member board. The fund would provide seed capital and grants to create new community development banks and to support existing community organizations, who lend for a wide variety of purposes ranging from cooperative housing to mom-and-pop businesses.

The proposal is far smaller than originally envisioned by Clinton. During last year's presidential campaign, he talked of creating 100 new community development banks. Before he took office, transition aides had prepared a proposal for spending $850 million over five years and a similar plan drafted by Senate Banking Committee aides would have provided $1.2 billion.

Commercial banks, particularly small-town banks, had pushed for a share of the money. Kenneth A. Guenther, executive vice president of the Independent Bankers Association of America, in an appeal delivered to Ludwig last month, argued that hundreds of small, locally owned banks ``are engaged in community development on a daily basis'' and should be provided with incentives to expand those activities.

However, the fine print in the bill virtually rules out money going to assist community lending by conventional banks. And the presidential message cited two highly specialized institutions South Shore Bank of Chicago and the Self-Help Credit Union in Durham, N.C. as models at serving distressed areas.

In a move aimed at blunting industry opposition, the administration plans to unveil a series of regulatory changes at Thursday's ceremony. These changes would overhaul enforcement of [illegible] Community Reinvestment Act of 1977, which bankers have complained is unwieldy.

``These changes will replace paperwork with performance-oriented standards and will include tougher enforcement measures for non-compliance,'' Clinton's draft message to Congress said.

In a separate letter, Clinton would direct bank and savings institution regulators to devise new procedures by Jan. 1 to ``replace paperwork and uncertainty with performance and objectivity.''

Although the community lending proposal is smaller than Clinton promised in the campaign, consumer advocates said the bill would represent a good start, and they were pleased that the money is going only to highly specialized community development lenders.

However, they were concerned that Clinton's effort to reduce the paperwork burden of complying with the existing lending laws could result in lax enforcement.

``We question the diagnosis that paperwork is the problem,'' said Chris Lewis of the Consumer Federation of America. ``In our opinion, the problem is a recalcitrant industry and lackluster enforcement by regulators.''

Ludwig will be authorized to broker negotiations among banking and consumer groups on the issue. Guenther, of the Independent Bankers, predicted the talks could produce a ``win-win situation'' in which bankers get less paperwork and clearer rules and consumers get increased lending to poor neighborhoods.

APNP-07-12-93 1711EDT

Consumer Federation of America

<u>For Immediate Release</u>

<u>Contact</u>: Chris Lewis
202/387-6121

CFA HAILS CLINTON INITIATIVE ON COMMUNITY DEVELOPMENT BANKS

CONSUMER GROUP URGES RAPID CONGRESSIONAL ACTION

"President Clinton's initiative on community development banks is the brightest beacon of hope in years for low- and moderate-income and minority communities long neglected by our nation's commercial banking industry," said Chris Lewis, CFA's Director of Banking Policy, upon the release of the President's CDFI legislation today.

"Too many communities for far too long have been denied credit opportunities -- at great fiscal and social cost to the Nation. The President's CDFI initiative is an innovative and aggressive program to spur capital provision into distressed communities," continued Mr. Lewis. "The program deserves the highest praise."

The Consumer Federation of America urges the Congress to place the legislation on a priority track so that final passage can be accomplished before the end of this congressional session.

"We commend the President for avoiding the temptation -- and the heavy lobbying campaign -- to hand the community development bank funds over to the commercial banking industry," noted the CFA spokesperson. "Such a step would have been a gross waste of taxpayer resources. The banks would have simply substituted the federal funds for their charter obligations to serve low- and moderate-income areas -- and communities and taxpayers alike would have gained nothing," commented Mr. Lewis.

"We have no doubt that the bank trade associations will continue their efforts to grab the tax dollars when the legislation moves through the Congress," Mr. Lewis continued. "We urge that the Senate and House Banking Committees make it clear from the start that this backdoor heist of the taxpayers by the banking industry will not be tolerated. The program is intended for people and communities, not run-of-the-mill commercial banks."

"We regret that the program is funded at such a low level," the CFA Banking Director observed. "Community needs and the potential of the program are great and we trust that the Administration will move swiftly to increase the funding and the scope of the program when budgetary problems are stabilized."

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Nicole Pls clip copy
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AMERICAN BANKER

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S.S for our file

Clinton Unveils Plan For Community Loans

By ROBERT M. GARSSON and CLAUDIA CUMMINS

WASHINGTON — President Clinton unveiled his community development lending program Thursday with a show of political strength that suggested banks may have trouble gaining regulatory relief through the legislation.

Surrounded by Vice President Al Gore, Cabinet secretaries, a large congressional delegation, regulators, bankers, and community activists, the President called for a $382 million fund for community development lenders over the next four years.

Mr. Clinton also asked the four bank and thrift regulatory agencies to review the Community Reinvestment Act, with an eye toward reducing paperwork and increasing lending in low-income communities.

President Clinton
White House show of force

By involving the regulators in CRA, the President may have preempted industry efforts to have Congress ease CRA and other regulatory requirements

See **COMMUNITY** *page* **10**

Community Loan Plan Unveiled

Continued from page 1
through amendments to community development legislation.

Congress members "have indicated to us that they are looking for a vehicle for regulatory relief, and this could be it," said Edward L. Yingling, executive vice president of the American Bankers Association.

Quick Action Indicated

However, the sheer magnitude of the ceremony on the White House's south lawn, which ran for nearly an hour, indicated the administration and congressional leaders want to move the package through quickly and without amendments.

"In all the years I've been lobbying, I've never seen so much horsepower behind a banking bill," said Jim Butera, who represents several financial institutions.

The Senate Banking Committee began work on the bill Thursday afternoon, little more than an hour after President Clinton finished speaking. Rep. Henry B. Gonzalez, D-Tex., chairman of the House Banking Committee, said he would hold hearings July 21 and 28.

Speeding the Process

The chairmen of the three House subcommittees that would have jurisdiction over the bill agreed to permit consideration by the full committee – a step that will expedite the process considerably.

The most significant challenge to the Clinton plan could come in the Senate, where Republicans have more leverage.

Alfonse M. D'Amato of New York, the Senate Banking Committee's ranking Republican, argued that unless commercial banks are given incentives to participate, the President's plan "is only a pipe dream."

Not What He Promised

The program announced Thursday is considerably different from Mr. Clinton's campaign promise to create a network of 100 community development banks.

In a brief interview after his speech, Mr. Clinton said he had learned since the election "that there is a whole, huge network of people out there interested in doing this work, and we didn't want to reinvent the wheel in every community.

"So we will be creating some new community development banks in some areas, and we may even have some big banks wanting to use some of their community reinvestment funds to provide funding," he said.

"But if you've got a bank that's operating, you got a credit union, you got some other eligible institution that you can dramatically increase the capacity of, it might be better to expand the capacity of an existing institution than create a new one."

President Clinton thus sided with community groups that had argued against giving banks financial incentives to participate in the program.

Lightening the Load

"With a year of record profits, banks don't need a bribe," said Deepak Bhargava, bank lobbyist for the Association of Community Organizations for Reform Now, or Acorn.

The Clinton program promises some relief from the paperwork burden of CRA, though neither the administration nor the regulatory agencies have said specifically how the "performance over paperwork" goal might be met.

In testimony before the Senate Banking Committee Thursday, Comptroller of the Currency Eugene Ludwig said performance-based standards would not be tied to rigid numerical targets.

Hugh McColl
Supports Clinton plan

"But between a rigid system of numerical targets and the system we have today, there is considerable room for improvement," he said.

Concern over the Tone

Although bankers attended Mr. Clinton's announcement and at least one commercial banker spoke, a number of industry representatives expressed concern over the tone of the event, particularly over criticisms of bank lending practices.

"There was a pretty good ai[r] of bank bashing," said Joe Be[l]lew, president of the Consume[r] Bankers Association.

NationsBank Corp. chairma[n] Hugh McColl delivered a stron[g] endorsement for the program He said the CRA reform woul[d] leave "no excuses" for bank failing to provide credit to low income borrowers. A law "tha[t] sets tougher, more objective more quantifiable standard[s] would send the clear message t[o] banks that we will be measure[d] by our results, he said.

Remarks Criticized

Kenneth A. Guenther, executive vice president of the Independent Bankers Association o[f] America, was sharply critical o[f] Mr. McColl after the ceremony, saying his endorsement gave away the industry's bargaining power.

"We are just sitting down to negotiations," said Mr. Guenther, noting that many banks still hope the bill can be reshaped to include funds fo[r] commercial banks and some measure of regulatory relief. "Hugh McColl should know by now that you don't give away the banking industry's negotiating position in advance. "I don't know how he can say he speaks for the banking industry."

Mr. McColl declined to comment on the criticism.

President Clinton's legislative package would create a fund to provide assistance to community development financial institutions. Money would be available to all kinds of community development lenders but not to the vast majority of commercial banks, thrifts, and credit unions not engaged primarily in community development lending.

The money will be available if matched dollar for dollar with private sector contributions up to a maximum of $5 million for insured institutions and $2 million for other lenders.

Although the program provides only $382 million over four years, Treasury estimated that leverage will result in up to $2.5 billion in new credit for low-income communities. □