

CDFI/CRA

Presidential Memorandum to Banking Regulators

THE WHITE HOUSE

WASHINGTON

July 15, 1993

MEMORANDUM FOR:

THE HONORABLE EUGENE ALLAN LUDWIG  
COMPTROLLER OF THE CURRENCY

THE HONORABLE ANDREW C. HOVE  
ACTING CHAIRPERSON  
FEDERAL DEPOSIT INSURANCE CORPORATION

THE HONORABLE ALAN GREENSPAN  
CHAIR, BOARD OF GOVERNORS  
FEDERAL RESERVE SYSTEM

THE HONORABLE JONATHAN FIECHTER  
ACTING DIRECTOR  
OFFICE OF THRIFT SUPERVISION

The Community Reinvestment Act ("CRA"), enacted in 1977, requires banks and thrifts to help meet the credit needs of the communities in which they do business. In recent years, the statute has come to play an increasingly important role in making credit opportunities available to underserved communities both urban and rural, across America.

Despite its successes, I believe the CRA's full potential remains unrealized. Its implementation has focused too much on documentation and process, and not enough on actual performance. Banks complain about excessive paperwork and inconsistent implementation of the law. Community groups complain that their communities remain unserved, and the CRA evaluations often fail to reflect actual community reinvestment activities.

We can do better. By giving our banks and thrifts clearer guidance as to how the regulatory agencies will evaluate CRA performance, we can eliminate much meaningless documentation and improve consistency in CRA enforcement. By focusing that guidance on the provision of real investment and services, we can increase support to communities that need it.

CRA evaluations cannot be totally objective. A system too inflexible to recognize the real differences among the circumstances in which our banks and thrifts operate would poorly serve both our financial system and our communities. The system we have today leaves great room for improvement -- improvement that would serve both communities and financial institutions.

Accordingly, I am writing to make four requests. First, I ask your agencies -- in close consultation with the banking industry, the thrift industry, congressional leaders, and community groups across the country -- to work together to reform the CRA enforcement system by developing new regulations and procedures that replace paperwork and uncertainty with greater performance, clarity, and objectivity. Second, I ask that you seek to complete this effort by January 1, 1994. Third, that you develop a well-trained corps of regulators who specialize in CRA examinations. Finally, I ask that, in undertaking this effort, you work to promote consistency and even-handedness, improve public CRA performance evaluations, institute more effective sanctions against banks and thrifts with consistently poor performance, and, most significantly, develop and set forth more objective, performance-based, CRA assessment standards that minimize the compliance burden on financial institutions while stimulating improved CRA performance. The new standards might appropriately focus on three types of community reinvestment activities in both urban and rural areas:

- . Lending to low- and moderate-income individuals and neighborhoods, small businesses, and small farms;
- . Investments in low- and moderate-income neighborhoods;
- . Provision of banking services to residents of low- and moderate-income neighborhoods.

By refocusing the CRA enforcement system in this manner, I believe we can reduce confusion and uncertainty in CRA evaluations, increase access to lending and banking services and recapture the true spirit and purpose of the Community Reinvestment Act.