

CRA



MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

To: The President

Through: Bob Rubin, Carol Rasco

From: Eugene A. Ludwig, Comptroller of the Currency *EAL*

cc: Secretary Bentsen
Deputy Secretary Newman

Date: October 7, 1994

Subject: Community Reinvestment Act Reform -- Status and Prospects

Memo from
RW

going to POTUS
through
CC - B Rubin

In the past two weeks, you have signed into law bills establishing a nationwide network of community development financial institutions and repealing obsolete restrictions on bank branching. Substituting performance for paperwork in the administration of the Community Reinvestment Act is your last outstanding campaign commitment in the banking arena.

On September 26, after several months of interagency negotiations, the OCC -- with support and leadership from Secretary Bentsen and Deputy Secretary Newman -- released for an abbreviated public comment period a revised proposed CRA regulation that would fulfill this remaining commitment. The OCC issued the proposal jointly with the Federal Reserve Board, the FDIC, and the Office of Thrift Supervision. The revised proposal addresses concerns raised by both banks and community groups that the initial proposal jointly released by the agencies last December was insufficiently flexible to accommodate the real-world diversity of community needs and approaches to community lending.

Initial press accounts of the revised proposal -- shaped in considerable measure by the conduct of several Federal Reserve Board governors (see below) -- were less favorable than I had hoped. But the accounts were misleading: as the attached releases show, both the banking industry and the community groups seem -- at least preliminarily -- to view the revised proposal as, on balance, both an improvement over the earlier version and a significant step forward from the status quo. When implemented, the proposed rule will significantly reduce the regulatory burden of CRA for the overwhelming majority of America's banks and thrifts. It should also stimulate higher levels of lending and financial services in distressed communities.

The most controversial feature of the new proposal would require banks and thrifts to submit to their regulators data on the race and gender of *small business* borrowers (creating a limited exception to a Federal Reserve regulation that generally prohibits collecting this data). A 1989 requirement for public disclosure of *residential mortgage* loans by race, gender, and borrower income has dramatically heightened industry interest in mortgage lending in low income

communities. Many community, minority business, and civil rights groups view collection and release of similar data on *small business* lending as the next essential step to economic revitalization of distressed communities. Some large banking organizations, some bank regulatory agencies (including the OCC), and the Departments of the Treasury, Justice, and Housing and Urban Development also support this requirement, believing the data will prove useful in monitoring compliance with federal fair lending statutes.

The Federal Reserve Board voted 7-0 to publish the new proposal. But Governors Lindsey, LaWare and Phillips -- reflecting an institutional view to which the Fed has long adhered -- have been outspoken against collecting race and gender data on small business loans. Chairman Greenspan, Vice-Chairman Blinder, and Governor Kelly have expressed no view on the requirement. Governor Yellen has spoken in its support.

Early press accounts suggest the Fed is positioning itself in some quarters as the banking industry's last bastion of defense against your administration. (See attached *Forbes* article). This posturing should strain the credulity of objective observers -- after all, the Fed is itself the architect of the current CRA rule, the burdensomeness of which has long angered the banking industry. But, as we have seen on other issues, the Fed has tremendous ability to rally around it not only the banking industry but also large portions of the media, even in defense of questionable policy positions.

The OCC alone lacks the resources to match an aggressive effort by the Fed to shape public opinion on the race and gender data issue. Accordingly, while it is early in the process, I am not sanguine about the OCC's ability to maintain the small business race and gender data requirement in the final rule.

The public comment period on the proposed rule will close November 21. I am cautiously optimistic that the agencies can promulgate a final rule by the end of this year or early in 1995.

I would be pleased to answer any questions you or your staff may have regarding the substance or status of the proposed rule.

Why is the Federal Reserve Board going along with racial lending quotas on banks?

Politics as usual

By Howard Banks

IN LATE SEPTEMBER the Comptroller of the Currency and the Federal Reserve will publish their latest proposals to strengthen the Community Reinvestment Act (CRA). Critics of the act have always seen it—despite its benign title—to be a disguised form of government-directed capital allocation. If so, the new proposals will make it more so.

The high-minded intent of the act and of the new proposals is to require banks to make more mortgage and small-business loans to women and members of "minority" ethnic groups, especially if they live in poor neighborhoods.

If enacted (as some version almost surely will be), the new proposals will expand racial lending quotas. For example, each time a small business asks a bank for a loan of up to \$1 million, it

must disclose to the bank the race, sex and even marital status of its owners. This would end an overt Fed policy of 20 years standing that bank regulation should be race-, sex- and religion-blind. It also, of course, flies in the face of lots of other laws that forbid people to inquire about such matters.

Under the new rules, each time a small firm (public companies are exempt) needs to borrow, even a relatively small amount to cover a temporary cash shortage, the borrower must list the race, gender and marital status of the firm's shareholders. Governments rarely hesitate to impose additional costly paperwork on its citizens, and these rules guarantee miles and miles of additional red tape. At the Fed's last count, there were outstanding over 4 million such small loans,

plus well over 1 million commercial real estate loans that would fall under the new rules, plus nearly 2 million farm loans.

The proposed rule lists nine racial categories: American Indian/Alaskan native; Asian/Pacific islander; black; Hispanic; white; Middle Eastern; Hawaiian (they want to be differentiated from Asian/Pacific islanders); multi-cultural; and "other." Double the categories for male and female, and multiply again for married or not. Firms owned equally by males and females—as in the classic mom-and-pop operation—will be classed as "male." Borrowers who answer incorrectly could face up to 30 years in jail and/or a fine of up to \$1 million.

Once the information is submitted to the banking regulators, the regulators will pore over it to make sure individual banks are making their quotas of loans to the targeted minority groups. How will the quotas be established? That will mostly be determined by the guidelines issued to the civil servants examining the banks—guidelines that have yet to be written.

Comptroller Eugene A. Ludwig, a Clinton appointee, believes the new rules will give him the power to levy heavy cash penalties on offenders. Even if banks escape cash fines, those that offend the bank examiners will find it difficult to get government permission to merge, buy other banks or even open a new branch in a profitable area or add new ATMs.

How did the Federal Reserve, which is supposed to watch over the health of the banking system, get involved in this social engineering? Reluctantly.

The Fed is bowing to political reality. It has been threatened with legislation to end its independence over setting monetary policy by Senator Donald W. Riegle Jr. (D-Mich.), the soon-to-depart chairman of the Senate banking committee, and by the noisy Representative Henry B. Gonzalez (D-Tex.), the



Governor Lawrence Lindsey in the Fed's Washington boardroom. Bags of protest mail helped him limit the damage.

chairman of the House banking committee. In giving ground on the quota lending issue, the Fed hopes to placate those who would make it a servant of Congress.

Lawrence B. Lindsey, a Bush appointee, is the Fed governor put in charge of formulating the Fed's proposals by Chairman Alan Greenspan. He makes no secret of his distaste for them. Says Lindsey: "Rather than risk losing our money policy independence, our choice, rightly, was obviously to sacrifice CRA."

Probably the best that can be said for the Federal Reserve's role in drafting the proposed new rules is that they would have been much worse without Lindsey at the table. Lindsey led, for example, the Fed's resistance to earlier proposals from the Comptroller's office, which would have imposed strict and bizarre formulas on minority lending. One formula would have given banks points for each dollar lent—more points for favored minority groups, down to one lousy point per dollar lent to white males.

Why would any sensible banker turn down qualified "minority" or female loan applicants? Why would they pass up a chance to make some money? Proponents of quota lending point to a study by the Boston Federal Reserve Bank claiming to show racial bias in mortgage lending. But that study was deeply flawed (*FORBES*, Jan. 4, 1993).

Even Governor Lindsey, who says he is liberal on social issues, agrees that you can't prove much discrimination by this study. He says: "Mostly [minority lending] could be a matter requiring sensitivity training for loan officers—such things as teaching them not to be put off by people who dress or speak differently."

But, however reluctantly, the Fed is throwing Peter—and financial privacy—to the congressional wolves. "It is virtually certain," says Lindsey, "that over time the new rules, if adopted, will expose identifiable crucial financial details of small firms to competitors, employees, buyout specialists or even to ex-spouses seeking to up their alimony."

Understandably, he is unwilling to add that it opens the door to political allocation of capital. ■

Intel is pushing its Pentium chip hard—too hard and too fast for the taste of its excellent customer, Compaq Computer.

A conflict of ambitions

By Christopher Palmeri



Compaq Computer chief Eckhard Pfeiffer
Lashing out at Intel.

IMAGINE, IF YOU CAN, an auto world where GM, Ford and Chrysler are simply assemblers and marketers of vehicles while the engines and drive trains are made by a single, powerful supplier. How, in such a world, would one vehicle maker achieve a substantial edge when all were selling essentially the same product and only the superficial elements differed?

The personal computer business is something like that these days, and

Intel Corp., the \$8.8 billion chip-maker, is the single, powerful supplier. Its microprocessor designs provide the brains and are typically the largest single cost element in 90% of the PCs sold in the world today.

This doesn't sit very well with the company that makes more PCs than any other, Houston's \$7.2 billion (sales) Compaq Computer Corp. According to the *Financial Times*, the differences exploded into the open at



FIRST CHICAGO
The First National Bank of Chicago

One First National Plaza
Chicago, Illinois 60670-0630
Telephone: (312) 732-6200
Fax: (312) 732-6737

Leo F. Mullin
President and
Chief Operating Officer

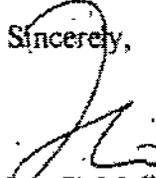
October 5, 1994

Mr. Eugene A. Ludwig
Comptroller of the Currency
250 E Street, S.W.
Mail Stop: 9-1
Washington, D.C. 20219

Dear Gene:

I want to congratulate you on your recent efforts regarding CRA. In issuing new proposed CRA guidelines, the OCC has addressed many of the concerns raised by banks of all sizes and banks from across the country. Through the OCC's responsiveness, I feel that the most important element of CRA -- the need to make credit available to low and moderate income communities -- can now be met more effectively. These proposed CRA guidelines emphasize performance over process, innovative programs, relationships with community groups, and community service. It is not an easy task to achieve the goals of Community Reinvestment without making compliance overly cumbersome. The proposal represents a sound balance between the two.

Sincerely,



Leo F. Mullin

LFM:sd

cc: Lee Cross, COMM

Hugh L. McColl, Jr.
Chairman of the Board

NationsBank

NationsBank Corporation
NationsBank Corporate Center
NC1 607-58-01
Charlotte, NC 28255
704/386-6663

September 22, 1994

Eugene A. Ludwig
Comptroller of the Currency
250 E. Street, SW
Washington, DC 20219

Dear Gene:

Thank you for sending the draft of the new CRA regulation. I appreciate the opportunity to react to the document before its public release. Having reviewed the draft and discussed it with Cathy Bessant, I want to commend you on an excellent product. It is clear that the concerns of the banking industry and of community groups have been heard, and that appropriate solutions have been hammered out.

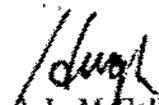
Given the nature of community development, I agree with the effort to preserve examiner discretion. Community needs and financial institution responses must be evaluated within their individual context. Having said that, it is clear that the effectiveness of this approach will depend on the level of training and expertise among the examining staff. It remains important to us to achieve consistency across regulatory agencies, across regions of the United States, and among individual examiners. I am confident that this can be accomplished given due attention.

You can expect that NationsBank will be supportive of the proposal upon its release.

Please do not hesitate to call Cathy or me if we may be of assistance.

Kindest personal regards.

Sincerely,


Hugh L. McColl, Jr.

cc: [unclear]
9/22/94



Bank of America

Donald A. Mullane
Executive Vice President

Corporate Community Development 3246

September 28, 1994

Eugene Ludwig
Office of the Comptroller of the Currency
250 E Street, SW
Washington, D.C. 20219

Dear Gene:

I thought you would be interested in the attached story that ran in the *San Francisco Chronicle* on the revised Community Reinvestment Act regulations. As the story reflects, we believe the new revision appears to strike a workable compromise while still retaining its focus on performance over process. We look forward to commenting on the proposal in more detail in coming weeks.

The OCC and other regulatory agencies are to be congratulated for the tremendous investment of time and resources they have made toward developing more effective CRA standards.

Sincerely,

Executive Vice President
Corporate Community Development

Bank Regulators Seek CRA Reform

New rules proposed for 1996

By Peter Sinton
Chronicle Senior Writer

Bank regulators yesterday proposed major revisions to the Community Reinvestment Act to make financial institutions more responsive to serving minorities and low-to-moderate-income borrowers. At the same time, officials will try not to bury banks and S&Ls in red tape.

The latest suggestions for the first major overhaul of CRA rules since they were adopted in 1978 "strike a balance between generating community reinvestment and reducing regulatory burden on banks," said Comptroller of the Currency Eugene Ludwig.

In July 1993, President Clinton directed bank and thrift regulators to revise rules to emphasize performance rather than paperwork and process.

Last December, regulators issued their first set of CRA reforms. But these raised as many questions as answers, and the bureaucrats were flooded with 6,700 letters during a stormy 90-day comment period.

Under revised rules developed by the comptroller, the Federal Deposit Insurance Corp., the Office of Thrift Supervision and the Federal Reserve Board, there will be an additional 45-day public comment period. Regulators will then vote to make the changes permanent. The rules would take effect July 1, 1996.

Among the most significant changes, 12 assessment factors used in CRA reviews of bank compliance would be reduced to just three: lending, service and investment. Retail banks would be measured primarily on lending.

"It's a very fine compromise

COMMUNITY REINVESTMENT ACT REFORMS

Rules to generate community reinvestment by banks while reducing regulatory red tape and how they differ from regulators' proposals last December.

■ Banks would be required to report data on small business and small farm loans by race and gender.

■ Simplified reporting requirements for home mortgage loans and loans to small businesses and farms to eliminate duplicating data required under other regulations. Consumer loan reporting would be optional.

■ Retail banks must have a "satisfactory" or better rating under the lending test in order to receive an overall CRA rating of "satisfactory." Under the December proposal, it was possible for a bank to receive an overall "satisfactory" rating, even though its lending was rated less than satisfactory.

■ Examiners could compare a bank's market share in lower-income areas with its share in moderate- and upper-income areas. But unlike the December proposal, market share will not be linked with a lending performance rating.

■ As in the December proposal, banks with less than \$250 million in assets would receive streamlined CRA examinations, but the 60 percent loan-to-deposit ratio has been dropped as a criterion for determining satisfactory performance.

■ Banks could choose to be evaluated under a preapproved CRA strategic plan, as in December. However, the requirements for plan development, public participation and approval are more explicit and the maximum term of the plan would go to five years from two years.

Sources: Comptroller of Currency

that will be more acceptable to commercial banks and accomplish the goals of community groups as well," said BankAmerica Corp. Executive Vice President Donald Mullane. "It's substance over form.

The rules focus on production of loans to low-income Californians versus paperwork."

One of the new CRA rules will

require banks to report race and gender information on small business loan applications. (Other proposals are listed in the adjoining chart.)

Robert Gasida, general counsel of the San Francisco-based Greenlining Coalition, told the American Banker that within five years, he expects to see "at least a tripling of the volume of small-business loans to African Americans and Latinos."

Other consumer advocates were less enthusiastic. Consumer Union's attorney Michelle Meier said she was disappointed that some of the earlier provisions were watered down. For example, the December proposal contained a test that would have compared a bank's market share of loans in low-income areas to its market share overall. Banks protested and that test was thrown out.

Similarly, the earlier rules stipulated that banks with less than \$250 million of assets (about three-quarters of all banks) qualified for a streamlined CRA exam so long as their loan-to-deposit ratio was at least 60 percent. The Independent Bankers Association of America balked, arguing that such a rigid 60 percent rule unfairly ignored "ebbs and flows in the marketplace."

The revised rule stipulates that a small bank's loan-to-deposit ratio simply be "reasonable."

Joe Belew, president of the Consumer Bankers Association, said the latest proposed reforms "are a vast improvement over the first proposal."

Bankers have long regarded CRA rules as among the most burdensome. A study by one accounting firm found that 10,000 small banks spend more than \$1 billion a year to comply with the community reinvestment rules.

Chronicle wire services contributed to this report.



NEWS

PUBLIC RELATIONS 1120 Connecticut Avenue, N.W., Washington, DC 20036 (202) 663-5000

September 26, 1994

CONTACT: Virginia Stafford
(202) 663-5465

STATEMENT BY THE AMERICAN BANKERS ASSOCIATION ON THE NEW COMMUNITY REINVESTMENT ACT PROPOSAL

ABA has long believed that the Community Reinvestment Act's regulatory framework needs to be fixed. It is encouraging that the regulators heard the concerns we detailed in our extensive comment letter on the December proposal, and made some improvements, but there are still some flaws.

- The regulators wisely eliminated the 60 percent loan-to-deposit ratio and the requirement for a "good loan mix."
- The "strategic plan" option has been improved and is more workable for banks of all sizes. Specifically, a provision for confidentiality has been added and the time frame for plans has been extended.
- We are pleased to see that the market share test carries less weight in the revised proposal. There is no justification for assuming that a bank's share of market should be identical across its entire community. As a practical matter, the market share test may tend to *discourage* the types of special products and services that many banks have found highly successful in serving low- and moderate-income neighborhoods. In addition, we believe that the potential for credit allocation by examiners still exists.
- It is disappointing that the day after the President signed legislation to significantly reduce bank paperwork, the regulators propose new reporting burdens in the form of race and gender on small business and farm loans. Such reporting is not appropriate under the Community Reinvestment Act, which directs banks and thrifts to serve all their markets, including low- and moderate-income areas. Race and gender are addressed under separate laws. Furthermore, because banks and thrifts comprise less than half of the lending market, this provision will not help the government assess the availability of credit across market segments.

We will continue to look at the details of this complex proposal; however, the real story may well be in the training of examiners and their implementation of these provisions.

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The American Bankers Association is the only national trade and professional association serving the entire banking community, from small community banks to large bank holding companies. ABA members represent approximately 90 percent of the commercial banking industry's total assets, and about 96 percent of ABA members are community banks with assets less than \$500 million.

/ADVANCE FOR RELEASE AT 10:30 A.M. EDT TODAY/

**IBAA COMMENDS LUDWIG-LINDSEY-HOVE FOR PROPOSED
STREAMLINED CRA EXAMS FOR COMMUNITY BANKS**

/ADVANCE/ WASHINGTON, Sept. 26 /PRNewswire/ -- Independent Bankers Association of America (IBAA) Executive Vice President Ken Guenther characterized the revised CRA proposal "as an excellent effort by the agencies to balance the concerns of the banking industry and community groups."

Guenther noted that "the regulators' second attempt to reform the toughest and costliest regulatory nut in the compliance arsenal indeed should have the effect of minimizing the compliance burden of thousands of community banks while stimulating improved community leading performance." Guenther applauded the streamlined examination proposal for community banks of less than \$250 million, without arbitrary numerical benchmarks like a 60% loan-to-deposit test. "This level should be \$500 million, at least for holding companies," he noted.

Guenther again thanked the strong bi-partisan groups of Senators and Congresspersons for their support of a meaningful tiered system that recognizes that the heaviest regulatory burden falls on community banks. He added that even with the welcomed reduced paperwork, the fact remains that "the branches of large multi-state banks will almost never face a hands-on CRA exam, while the community bank will undergo this unpleasant physical at least every 18 months."

The proposal is not without flaws. IBAA notes that the agencies have elected to retain enforcement provisions that have questionable statutory basis. In addition, the new race and gender data collection requirements for small business and farm loans are disturbing and also have questionable statutory basis.

The IBAA is the only national trade association which exclusively represents the interests of the nation's community banks.

-0- 9/26/94/1030

/CONTACT: Kenneth Guenther, Diane Casey or Karen Thomas of the Independent Bankers Association of America, 202-659-8111/

CO: Independent Bankers Association of America
ST: District of Columbia
IN: FIN
SU:

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STATEMENT BY JOE BELEW, PRESIDENT, CONSUMER BANKERS ASSOCIATION,
ON CRA REFORM PROPOSAL

SEATTLE, Sept. 26 /PRNewswire/ -- The following is a statement by
Joe Belew, president, Consumer Bankers Association, on CRA a reform
proposal:

"The latest proposed reform of the Community Reinvestment Act will increase the disclosure requirements and raise the hurdle for successful bank compliance with CRA. Yet, the proposal responds to many of the concerns expressed by lenders aimed at making community reinvestment more measurable and the goals more achievable, and it appears to be a vast improvement over the first proposal issued last December. We applaud the agencies for making such headway in the difficult task of reducing unnecessary burdens on financial institutions while making CRA a more meaningful measure of performance.

"In particular, we were gratified that the so-called 'market share test' no longer is a prominent part of the lending test. The increased attention to community development will also greatly improve the value of a CRA examination to the communities that CRA is intended to serve.

"Although many issues raised by CBA's comments were addressed in this proposal, we remain concerned about the inadequate attention paid to the quality and uniformity of examinations. Changing requirements, and the flexibility accorded examiners in the new proposal, will require a sophisticated and experienced examination staff. CBA urges that increased resources be devoted to CRA examiner training to ensure the success of the reform.

"CBA will be commenting in detail on this proposal, and encouraging others to do the same. But the agencies have unquestionably come a long way from where they began, and the final outcome may result in a more meaningful and valuable process for all concerned."

-0-

9/26/94

/CONTACT: Fritz Elmendorf of the Consumer Bankers Association,
206-287-4124 or 206-287-4084/

CO: Consumer Bankers Association
ST: Washington
IN: FIN
SU: LEG

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NATIONAL
COMMUNITY
REINVESTMENT
COALITION



An Open Letter To Those Interested
In Fair And Equal Access To Credit

September 27, 1994

Dear Friends and Colleagues:

Yesterday, the bank regulatory agencies released for comment a final proposal on how to best reform the current system for assessing a lender's community reinvestment performance. The proposed reforms are substantial. Their ultimate goal is to move the CRA evaluation process from one of measuring a lender's marketing and public relations efforts, to actually measuring their lending performance. A secondary goal of this effort has been to reduce the so-called 'paperwork burden', alleged to have been created by the CRA and other bank regulations. These reforms have received bipartisan support in Congress, in the lending industry, and from community activists and leaders.

The reforms, as proposed, do go a long way toward moving the regulatory CRA assessment system toward a more performance-based one. Lenders must now pass a 'Lending Test' in order to receive a 'Satisfactory' CRA rating. CRA ratings are considered by the regulator when a lender files an application to expand, acquire, merge or do some other activity.

We are urging you to read our attached comments and the proposed regulations and to weigh in on this matter within the next 45 days (contact NCRC for more information). The opportunity to increase fair and equal access to credit for traditionally underserved people -- low-income, minorities, and women -- has never been greater. We need your input on this matter and we would appreciate hearing from you.

Thank you in advance for any and all considerations and we welcome the opportunity to respond to any other information requests, or comments which you may have.

Sincerely,

John E. Taylor
President & CEO

cc: Lee Cross, COMM

John E. Taylor
President & CEO

Board of Directors

Irene Henderson, Chairperson
Community Reinvestment Association
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Johnnie Kane, Vice Chairperson
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Adrianne Anderson
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Rural Opportunities, Inc.

Gail Barks
Southern Nevada Reinvestment and
Affordable Housing Committee

Jim Caproni
Woodstock Institute

Larry N. Farmer, Sr.
Mississippi Action for
Community Education, Inc.

Allan Fishbein
Center for Community Change

Pete Garcia
Chicanos Por La Causa, Inc.

Gloria Guerrero
National Rural Development and
Finance Corporation

F. Barton Harvey, III
The Enterprise Foundation

Margaret Howard
Washington Reinvestment Alliance

Eibert James
Community Equity Investments, Inc.

Thomas L. Kayson
The National Alliance
to End Homelessness

Reverend Bill Linder
New Community Corporation

Stanley A. Lovat
Pittsburgh Community Reinvestment Group

Jesse R. Ornelas
Cabrillo Economic Development Corporation

Gene Ortega
Home Education Livelihood Programs

Jerry Reynolds
First Nations Development Institute

Benson F. Roberts
Local Initiatives Support Corporation

Paul Small
Native Action

Eubert Van Tol
Mid-South Peace and Justice Center

1875 Connecticut Avenue, NW Suite 1010
Washington, DC 20009-5728
202 986-7898
Fax: 202 986-7475 Handicapped #801748

Overview of the Revised CRA Reg

PREFACE

The Community Reinvestment Act (CRA) reform process began in July, 1993 when President Clinton called for both the funding of community development banks and CRA Reform. This past week, the President signed the Community Development Financial Institutions Bill, which creates a mechanism for giving community development financial institutions (CDFIs) over \$300 million in grant funds.

Today, September 26th, the bank regulators released the new and final version of proposed CRA regulatory reforms. The first version was released in December, 1993. Community groups responded to the December proposed reforms in greater numbers than at any other time in the history of bank regulatory requests for comment. We are now near the final stage in this critical process. The reforms proposed herein will shape the quality, context, and amount of community reinvestment lending throughout the remainder of this century.

NCRC is urging all of its member organizations and friends to weigh in on this vital and far reaching process. Please let NCRC know your views on these reform matters, and let the regulators know them as well. The deadline for comment is in mid-November (call NCRC for the precise date and list of addresses for the regulatory agencies).

OVERVIEW

Both the December, 1993 and the September, 1994 versions of the proposed regulatory reforms suggest moving the basis for CRA evaluations from one of marketing and public relations campaigns to a system based on performance, specifically lending.

Three tests are established for lenders with assets over \$250 million: lending, investment and services (branching, etc). Smaller banks have a lesser test for their examination and CRA rating. Big banks can also opt out of the three tests in favor of a "strategic plan", also called a community plan, which is a forward commitment to serve specific community credit needs.

One of the greatest flaws in the December proposal centered around the lack of race and gender based reporting for small business loans. The current proposed reforms attempt to fix this slightly by calling for the reporting of small business lending by race and gender. However, this information is specifically not used as the basis for their CRA rating. The data is merely reported.

Another major flaw was that a lender could fail the lending portion of its exam, do a great job on the service and investment test and receive an overall passing CRA grade. NCRC specifically argued that no lender should receive an overall passing grade without first passing the lending test. This has been specifically addressed in the current proposed reforms. No lender can now pass a CRA exam without first passing the lending test. There are several other improvements in the current reforms and these are addressed in some detail below.

Unfortunately, there are also several areas in the currently proposed reforms where the community perspective has been weakened. Most notably is the dropping of the market share test as the basis for measuring an individual lender's performance. This procedure called for comparing the percentage of the market that a lender had captured in poor neighborhoods versus upper-income neighborhoods. This measuring method has been dropped in favor of a less effective, more convoluted, more subjective measuring system.

One overall criticism of the current version of the reforms is that it calls for a more subjective examination process, in which the individual examiner is called upon to repeatedly do more analysis and make more judgment calls. History has shown that such analyses and judgments are rarely made in favor of community groups.

Finally, the original proposal contained a streamlined process of evaluation for small banks that we believed was a de facto exemption for these institutions. The standards for assessing small banks, rather than being strengthened, have been weakened even further in the new reg.

What follows is a more detailed description of specific areas in the reforms that NCRC staff have identified as positive advances or areas of concern. This is by no means the final comment from NCRC. In fact, we will await comments from our members, analysis by NCRC's Legislative and Regulatory Committee, Executive Committee, and Board of Directors before compiling our consensus comments on the revised rule. Please do not hesitate to call or write us with comments and questions.

POSITIVE CHANGES

Small Business Data By Race And Gender

Among the positive changes, the agencies have accepted NCRC's demand that small business lending data be disclosed by race and gender. Such data is absolutely essential to improve access to capital to women- and minority-owned businesses and is a major victory. However, the data disclosed under the proposal will be of limited use (it only includes aggregate data) and will not be used in the assessment of a bank's small business lending.

Encouragement Of Direct Lending By Banks

The agencies have also incorporated into the new rule NCRC's recommendation that banks be prohibited from "buying" a good CRA rating through investments in intermediaries. NCRC was concerned that this would allow banks to neglect their CRA obligation to directly lend in low-income communities. Under the new proposal, banks must receive a "satisfactory" rating on the lending test to receive an overall CRA rating of "satisfactory."

"Safe Harbors" Eliminated

NCRC also vigorously opposed the inclusion in the original proposal of language that provided "safe harbors" in the application process for banks with "satisfactory" or better CRA ratings. This language has been eliminated from the new rule.

Community Development Addressed

In the December proposal, NCRC was concerned that the regulation did not sufficiently encourage banks to meet the specialized and high priority credit needs of low- and moderate-income communities through community development lending and services. Under the revised regulation, community development lending is now elevated in importance, treated as a principal component in the lending test. In addition, the agencies explicitly require a credit

POSITIVE CHANGES (Cont.)

needs assessment of communities -- not required in the December proposal -- and put particular emphasis on multifamily housing, a critical need in low-income neighborhoods.

Strategic Plan Clarified

Based on suggestions from NCRC, the agencies included in the December proposal an optional form of CRA evaluation in which banks and community organizations could jointly create a lending plan to meet the credit needs of low- and moderate-income neighborhoods. However, the "strategic plan" option did not require meaningful participation of community groups and was vague in many areas. Under the revised regulations, the agencies have toughened the language on community participation and provided more specific criteria for evaluation of banks under the strategic plan.

Lending Discrimination Standard Toughened

The December proposal substantially weakened the burden of proof required by the agencies to penalize an institution for discriminatory lending practices. The revised regulation, in line with NCRC's comments, has restored the tougher language in the existing regulation.

Lending By Affiliates Of Banks Is Covered

Under the December proposal institutions could have selectively included the loans of affiliates (e.g. mortgage companies) under the lending test. However, the agencies have tightened up the rules in this area, prohibiting banks from selectively reporting the loans of an affiliate. More importantly, if the agencies determine that a bank's affiliate lending is integral to the bank's operation and business they may consider the affiliate's lending *whether or not a bank wanted to report these loans*. This will subject some affiliate mortgage banks to CRA, setting an important precedent for extending CRA to mortgage banks.

AREAS OF CONCERN

The Market-Share Test Is Replaced With An Ambiguous Standard

Under the original lending test proposed by the agencies, banks would have been primarily evaluated by comparing their market-share in low- and moderate-income areas to their market-share in upper-income neighborhoods. Banks with a lower market share in their low-income neighborhoods than in their upper-income areas would have received a poor CRA rating. NCRC, which originally proposed the market-share test, strongly supported the test because it provided a clear standard to assess compliance with the CRA, encouraged competition between lenders to expand market share in low- and moderate-income areas, and would have increased lending in distressed areas.

However, under the new proposal, the agencies have replaced the market-share test with a series of quantitative and qualitative criteria whose interpretation requires a high degree of discretion and judgment by individual bank examiners. Rather than using the market-share test, examiners will primarily assess a bank's lending performance through a two-step process. First, the regulators will examine a lender's geographic distribution of loans, the characteristics of the borrowers (race is not a factor), the number and amount of community development loans, and the use of flexible or innovative lending practices. Second, to determine a bank's CRA rating on the lending test, examiners will evaluate these indicators in the context of six factors: 1) demographic data about the community, 2) community need and characteristics, 3) the institution's capacity and constraints, 4) the bank's product offerings and business strategy, 5) prior performance of the institution, and 6) the

AREAS OF CONCERN (Cont.)

performance of similarly-situated lenders. By weighing these diverse criteria and factors, an examiner will then award a final CRA rating on the lending test.

This new proposed lending test clearly places considerable judgment and responsibility in the hands of examiners, and lacks the clearer standards and goals that characterized the originally proposed market-share test. In addition, the proposed lending test appears in many respects to resemble the existing regulation, which is widely acknowledged as subjective and lacking clear performance goals.

Race Is Not Considered In A Bank's Evaluation

Under the revised regulation (and original proposal) race plays no role in assessing a bank's performance in the lending test, despite the fact that study after study shows that minority communities and individuals face widespread discrimination by the lending industry. In NCRC's comments to the regulatory agencies on the December proposal, we said that no reform should go forward without the inclusion of race in the assessment of a bank's performance. We continue to believe that the inclusion of race in assessing a lender's performance is critical to true CRA reform.

Small Banks Still Exempt

In the original proposal, the agencies proposed a "streamlined" test for small banks under \$250 million in assets (74% of all banks). In NCRC's comments, we argued that the streamlined test was inadequate and amounted to a de facto exemption for small banks. However, instead of lowering the limit for eligible banks and strengthening the standards, the agencies have responded to the pressure of the small banking lobby and weakened the requirements even further.

Less Emphasis On Locating Branches In Low-Income Areas

In the December proposal, retail banks would have been assessed under the service test primarily on the basis of the percentage of its branches located in or readily accessible to low- and moderate-income geographies. However, the revised regulations back away from an emphasis on locating branches in low-income areas, and now considers branches equally with banking services offered by a bank. In addition, the revised rule now appears to treat ATMs the same as "brick and mortar" branches.

Significant Loss Of Data

While the revised regulation calls for the disclosure of data not included in the December proposal, most noticeably small business data by race and gender, it also substantially reduces data disclosure in other areas. Most importantly, data on the applications and denials of small business loans by census tract, small business lending by the size of the business, and consumer data (which is now optionally reported) will not be reported.

A Bank's Service Area May Exclude Low-Income Neighborhoods

Under the December proposal, a bank's service area had to be broad enough to include low- and moderate-income areas and could not arbitrarily exclude such areas. However, in the revised proposal, a bank's service area is no longer required to include low- and moderate-income neighborhoods, and the standard that banks not "arbitrarily exclude" such areas has been qualified. In addition, the agencies will not consider "loan production" offices of a bank -- "a staffed banking facility that provides lending related services such as loan information and applications" -- when assessing a bank's service area.

AREAS OF CONCERN (Cont.)

Enforcement Sanctions Against Poor Performers Could Be Weakened

In the December proposal, the agencies stated that enforcement sanctions, such as cease and desist orders and fines, would be used against banks with "substantial noncompliance" ratings. Since only 27 lenders received a "substantial noncompliance" in 1993, NCRC urged in our comments that sanctions also be used against banks with "needs to improve" ratings. However, the revised rule does not extend the sanctions against "needs to improve." Even more troubling, the agencies are hinting that the enforcement sanctions may not be included in the rule at all.

The Greenlining Coalition

1535 Mission Street
San Francisco, CA 94103
Phone: (415) 431-7430
Fax: (415) 431-1048

September 26, 1994

PRESS RELEASE

GUARDED PRAISE FOR REVISED CRA PROPOSAL - FEDERAL RESERVE CRITICIZED AS WEAK LINK

Contact: *John Gamboa, Executive Director, Greenlining Coalition, (415) 552-3152; Robert Gnaizda, General Counsel, Greenlining Coalition, (415) 431-7430.*

The Greenlining Coalition, whose membership includes the Black and Hispanic Chambers of Commerce of California, offered guarded praise for the revised CRA proposal.

The most important proposed CRA revision is the inclusion of race and gender data for small business loans of under one million dollars. This is a key to: a) a comprehensive performance-based analysis of commercial bank lending; b) minority and inner-city economic development and inner-city job opportunities; and c) future bank strategic plans as proposed in the revised CRA reforms.

Comptroller Ludwig is to be applauded for his efforts in the face of Federal Reserve opposition. (See Coalition's May 19, 1994 *New York Times* ad, "Who's Afraid of Alan Greenspan? Why, Mr. President, is the Federal Reserve in Charge of Minority and Inner-City Economic Development? And, Why is the Federal Reserve Opposed to Minority Business Loans?")

Other areas of improvement requested by the Coalition and contained in the revised proposal include:

- minimizing the potential for "safe harbors";
- insuring the significance of race discrimination in evaluating an institution's CRA rating;
- requiring an institution to have a "satisfactory" lending record in order to secure an overall "satisfactory" rating;
- increasing the input of community groups in the creation of bank "strategic plans"; and
- increasing the significance of creative and innovative lending and community development projects.

MEMBERS:

American G.I. Forum
Black Business Association
California Black Chambers of Commerce
California Hispanic Chambers of Commerce
California Rural Legal Assistance
Center for Southeast Asian Refugee Resettlement
Chinese for Affirmative Action
Filipino-American Political Association
Hermandad Mexicana Nacional
Interdominational Ministerial Alliance
Latino Issues Forum
League of United Latin American Citizens
Mexican-American Political Association
New Bayview Committee
Oakland Citizens Committee for Urban Renewal (OCCUR)
Phoenix Urban League
San Francisco Black Chamber of Commerce
World Institute on Disability

CO-CHAIRS:

George Dean, President & CEO
Phoenix Urban League
Ortenza Lopez, California Hispanic
Chambers of Commerce

EXECUTIVE STAFF:

John Gamboa, Executive Director
Greenlining Institute
Robert Gnaizda, General Counsel

Press Release
September 26, 1994
Page Two

John Gamboa, the Executive Director of the Greenlining Coalition said:

"The pro-community CRA revisions, particularly those as to race data for business loans, are attributable to Comptroller Ludwig's leadership. Were it not for the opposition of the Federal Reserve these regulations could have been 'outstanding'. Due to Federal Reserve opposition led by Chairman Greenspan, the CRA proposals merit a 'Needs to Improve'."

Gamboa added:

"The future key to CRA as an effective instrument in inner-city economic development will turn, not on the specifics of this revised proposal, but on the subjective commitment of the regulatory and enforcement agencies, particularly the Federal Reserve and the Department of Justice at merger time."

Willia White, President of the California Black Chambers of Commerce said:

"Today, less than one percent of all bank business loans are made to African-Americans. With full disclosure the volume of loans to minority-owned businesses could triple within five years. Comptroller Ludwig's support for inner-city economic development will empower minorities and help us retake the inner cities."

Ortensia Lopez of the California Hispanic Chambers of Commerce said:

"Collection of business loan data will do for minority businesses what HMDA data collection has done for home lending -- help expose and eliminate redlining. Comptroller Ludwig is to be applauded for his leadership, particularly in the context of strong opposition and passivity by FDIC."



U.S. Small Business
Administration

NEWS RELEASE

SBA Number:
For release:

94-68
September 26, 1994

For more information,
contact:

Mike Stamler
(202) 205-6740

**STATEMENT BY
ERSKINE B. BOWLES
ADMINISTRATOR
SMALL BUSINESS ADMINISTRATION**

WASHINGTON -- On Friday, Eugene A. Ludwig, Comptroller of the Currency, signed a revised proposal to reform the way the Comptroller's Office administers the Community Reinvestment Act.

This reform is important for America's small business communities -- and, particularly the small and economically disadvantaged business owners seeking lending assistance.

The revised proposal issued today would establish a framework for assessing bank performance that includes many of the same elements as the earlier (December) proposal. Most importantly for small businesses, it would replace paperwork and process with performance-based tests for assessing bank compliance.

I commend the Comptroller for his inclusionary process that allowed thousands of comments from our constituents before this reform proposal took final shape. I truly believe this reform successfully balances the Presidents' two goals of stimulating community reinvestment and limiting regulatory burden for financial institutions.

--more--

In addition, the U.S. Small Business Administration will implement the CRA reporting requirements for race and gender data for all SBA lenders, including those that are not depository institutions. We will make the data available to the public, thereby advising the public on the improvements in this area of lending.

The revised proposal will be published in the Federal Register. The Office of the Comptroller of the Currency and the other regulators will seek public comment on the revisions for 45 days after the date of publication.

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NEWS

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Mary Dixon (202) 720-4623

Statement

by

Agriculture Secretary Mike Espy

on Proposed Regulation to Improve the Community Reinvestment Act

WASHINGTON, Sept. 27 -- Agriculture Secretary Mike Espy today released the following statement concerning a proposed regulation, which was announced yesterday, to improve the Community Reinvestment Act:

"The proposed regulation announced yesterday will help ensure that farmers and rural communities are better served by financial institutions by improving access to banking services for all rural Americans.

"The revised Community Reinvestment Act reform proposal, which was issued by bank and thrift regulators, makes it clear that financial institutions have an obligation -- under the law -- to serve the banking needs of farmers and rural communities as well as the needs of urban neighborhoods. By fully embracing the Community Reinvestment Act's mandate and supporting agricultural and farm enterprises, bankers join hands with rural families to provide nourishment to the economy in rural communities.

"I applaud the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of The Comptroller of the Currency and the Office of Thrift Supervision for moving to make the Community Reinvestment Act more rural friendly."



OFFICE OF ASSISTANT SECRETARY
FOR PUBLIC AFFAIRS

U.S. Department of Housing and Urban Development
Washington, D.C. 20410-4000

**Statement of Secretary Henry Cisneros
Issuance of Proposed CRA Regulations
26 September 1994**

I am pleased with the continued progress of the federal financial regulators in proposing new regulations under the Community Reinvestment Act. The revised regulations issued today represent a positive step forward in our collective efforts to ensure that the credit needs of our low and moderate income communities are met in significant ways.

I am particularly pleased that the revised regulations place an increased emphasis on the need for increased economic development and fair lending through data collection requirements for small business loans.

The financial regulators are to be commended for their progress. I remain confident that these regulations will go a long way toward fulfilling the unmet community and economic development needs of our most distressed communities.

###

THE WHITE HOUSE

WASHINGTON

May 6, 1994

MEMORANDUM FOR BOB RUBIN

FROM: PAUL DIMOND, ELLEN SEIDMAN, PAUL WEINSTEIN

SUBJECT: CRA REGULATIONS

Gene Ludwig has done a first-rate job in keeping industry and the community/civil rights groups on the same page. Indications are that there are trade-offs on the last details of the regs that will be supported by all sides. The linchpin of these tradeoffs is the collection of information on small business loans with respect to race and gender, much as HMDA now requires for home mortgages. Gene believes he must have White House support to overcome the Fed's resistance and complete CRA reform in an expeditious manner.

The Fed has raised three concerns about the collection of this data: it may lead to "balkanization" of credit by race and sex; it may lead potential borrowers to lie about their ownership or otherwise obtain figureheads to put on their boards; and it might lead to unnecessary paperwork. These concerns are not supported by the actual facts.

First, the experience with the HMDA disclosure is that it revealed market niches that were not being served. Many regulated (and unregulated) financial institutions -- and Fannie Mae -- moved entrepreneurially to fill these gaps, on a safe and sound basis. The disclosure of home mortgage information has been a triumph for markets and free enterprise, and it poses no threat of credit allocation by race. Data on small business lending will lead to the same result: disclosure of market niches that some regulated and unregulated financial institutions will move to fill.

Second, although there is always the possibility of fronting or otherwise lying about ownership to make the statistics look good, there is considerably less incentive to do so here than in allocating scarce license (e.g., FCC, SSBIC). The stakes are not high enough in any single loan for borrower or lender in the small business loan: there are many sources, there is not a limited pool, and there is potential for expanding rather than allocating credit when all sources are considered. Moreover, several instances of "miscoding" of HMDA data by lenders have been publicized and banks properly called to account: analysis of disclosed information provides a further deterrent to such misconduct.

Finally, the paperwork burden of small business loans is minuscule compared to that already required by home mortgage disclosure because there are so many fewer small business loan requests. Indeed, the trade-offs that Gene is orchestrating include greater offsetting reductions in paperwork; and the major banks have already signalled to Gene that they are willing to accept the proposed trade-offs for this reason, as well.

Gene's proposed tradeoffs are the key to delivering a CRA reform that will garner the support of community groups, the banking industry, and Congress. We **recommend** full White House support for Gene in pushing this ball into the end zone.

cc: Carol Rasco

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.

THE WHITE HOUSE
WASHINGTON

June 26, 1993

MEMORANDUM FOR HOWARD PASTER, LORRAINE MILLER AND PAUL CAREY
BRUCE REED AND GENE SPERLING

FROM: PAUL DIMOND
SUBJECT: CDFI/CRA -- NEXT STEPS

I. BACKGROUND.

A. House. Chairman Gonzales has agreed to sponsor our CDFI bill (and will support our initiative to strengthen CRA by regulation). Representatives Waters and Rush have agreed to enthusiastically support both our CDFI bill and our initiative to reform CRA by regulation. Representative Flake, subject to his meeting on Wednesday with Frank Newman and Gene Ludwig to discuss the process of reforming CRA by regulation, has agreed to defer to our CRA regulatory reform process (rather than to press for CRA legislation) and to support our CDFI bill. Representatives Kennedy, Kanjorski, Frank, and Shumer are lined up to support both our CDFI and CRA proposals.

The Subcommittee Chairs are enthusiastic about holding hearings, and the Chairman is prepared to have a mark-up at full committee. In addition, Kelsey Meek, Staff Director of House Banking, has raised the possibility of a full Committee hearings to fast-track passage.

B. Senate. Chairman Riegle is prepared to sponsor our CDFI initiative and will be holding a hearing before the Banking Committee on July 15.

C. Constituency Groups. The Ad Hoc Community Reinvestment Coalition, the National Community Reinvestment Coalition, the National Neighborhood Coalition, the Consumer's Union and Consumer's Federation, ONE, ACORN, National Congress for Community Economic Development, Center for Community Change, major CDFI players all across the country, the regulators and GSEs, and even major banking interests (including Credit Unions, as well as some major Banks) all support these first two steps in the President's long-term, two-stage community reinvestment initiative.

II. TRANSMISSION OF BILL.

A. Congress. We need to touch base with the leadership in the Senate and the House concerning transmission of the bill on Thursday. In the House, we should also touch base again with Mfume to let him know where we are and develop and implement a strategy for

initiating discussions with selected Republicans (e.g., Leach, Ridge, Roukema, Shays). In the Senate, we should also touch base again with Senators Mikulski, Sarbanes, Dodd, Bradley, Boxer and Moseley-Braun and develop a strategy for initiating discussions with selected Republicans (e.g., D'Amato, Bond, Jeffords, Cohen, Chaffee, Danforth, Hatch, Hatfield, Mack, Domenici Pressler, Specter).

We also need to consider how to prepare interested members for questions and their own releases (e.g., CDFI Bill/CRA reform summary or talking points, as well as copies of section-by-section analysis, the CDFI Bill, and the President's letter to the regulators on CRA reform).

B. Constituency Groups. We need to give a heads-up to the major constituency groups (and provide them with similar back-up materials).

III. PRESIDENTIAL ANNOUNCEMENT AND/OR EVENTS.

The optimum kick-off would be a brief ceremony at the White House on Thursday with the President announcing the transmission of the CDFI Bill to Congress and his request to the regulators to strengthen CRA through regulatory reform. Such a brief event would provide an opportunity to thank the key members of Congress and the constituency groups and to build support for the bill. Marcia Hale advised me late Tuesday evening that the President's schedule was already too packed with events to permit even a brief announcement on Thursday.

If such an event is not possible given the press of other activities on Thursday, you may wish to consider, among other approaches, (a) a White House ceremony within ten days after the President's return from his G-7 trip to honor, reward, and encourage the members and constituency groups, (b) selected regional press events (e.g., a presidential teleconference in LA, Chicago, New York, Baltimore, Vermont-Maine) to highlight key supporters from Congress, the constituency groups, and the business community and (c), in coordination with the DNC, a broader outreach strategy with diverse constituencies that both prepares for and builds off of the hearings in the Senate and House.

The full committee Hearings (on July 15 with Senate Banking and, probably, with House Banking shortly thereafter) provide opportunities for full Administration, constituency group, and media support. Secretaries Bentsen, Brown, Cisneros, and/or Espy (and SBA Director Boles) can be made available to carry the message and theme of our community reinvestment initiative. It would also be appropriate to explain how our Micro-enterprise, relief of credit crunch and fair lending initiatives also flesh out the basic economic message of CRA/CDFI: multiply relatively small levels of public support with private dollars to stimulate substantial investment where it can make the most difference for economic growth - locally, in communities, small businesses and entrepreneurs all across the country.



*Beane:
This is a new,
stronger and sturdier,
much improved.
Paul W.*

*File:
CIA Reform*

MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

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NO. OF PAGES: COVER 3

DATE 6/21/93

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OFFICE PHONE _____

FAX PHONE 456-7739

FROM

NAME Konrad Alt

PHONE 874-4910

OCC FAX: 202-874-4950

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For your information.

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PHONE NUMBER: _____

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DRAFT 6/21/93

Proposed Presidential Statement on the CRA

The Community Reinvestment Act, enacted in 1977, requires banks and thrifts to help meet the credit needs of the communities in which they do business. In recent years, this statute has come to play an increasingly important role in making credit opportunities available to underserved communities, both urban and rural, across America. America's banks, thrifts, community groups, and the four federal regulatory agencies -- the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Office of Thrift Supervision -- can all take pride in the businesses and housing that have come into being through the Community Reinvestment Act in recent years.

But despite its successes, the Community Reinvestment Act's true potential remains unrealized. Its implementation depends too much on documentation, not enough on actual performance. Under the guise of community reinvestment, we have been actually encouraging the greatest investments in paperwork. These paperwork requirements aid neither our financial institutions nor our communities.

Meanwhile, across the country, many rural and urban communities badly need credit, capital and banking services. And millions of Americans in low- and moderate-income neighborhoods have no convenient bank or thrift branch where they can cash checks, borrow money to buy a home, or get a small loan to start a business or keep one going. Banks complain about excessive paperwork and inconsistent application of the law. Community groups complain that CRA ratings are inflated, that in many cases they do not reflect actual

DRAFT 6/21/93

performance, and that their communities remain underserved.

We can and must do better. By giving our banks and thrifts clearer guidance as to how the regulatory agencies will evaluate performance under the Community Reinvestment Act, we can reduce the need for meaningless documentation. By focusing that guidance on the provision of real investments and services, we can increase support to communities that need it.

Accordingly, I am today asking our bank and thrift regulatory agencies -- in consultation with the banking industry, the thrift industry, and community groups across the country -- to reform their enforcement of the Community Reinvestment by developing new regulations and procedures that replace paperwork with performance. In making this substitution, the regulators must improve their examination processes to promote consistency and even-handedness, enhance public CRA performance evaluations, institute tougher enforcement sanctions against banks and thrifts with consistently poor performance, and, most significantly, develop and set forth performance-based CRA assessment standards. This will be a complex and sensitive task, but I believe it must be done and I am confident our regulators can do it. It is my hope that they will finish the job by March 1, 1994.

The new CRA assessment standards cannot be completely objective. The circumstances and communities in which our banks and thrifts operate vary widely. A system too inflexible to recognize those differences would poorly serve both our financial system and our communities.

DRAFT 6/21/93

But between a rigidly objective CRA assessment system and the system we have today lies great room for improvement -- improvement that would serve both communities and financial institutions. As they reexamine the CRA enforcement system, I ask the regulators to focus on four types of community reinvestment: the provision of credit to low- and moderate-income individuals and neighborhoods; investments in low- and moderate-income neighborhoods and community revitalization; lending to small businesses and farms; and the provision of banking services to residents of those neighborhoods. In each of these areas, the regulators must look not to what the banks and thrifts say, not to the meetings they hold or the pledges they make, but to the loans they make, the credit they extend, the services they provide, and the neighborhoods they serve. By moving to an assessment system built on these sorts of performance-oriented guidelines, we can both reduce confusion and uncertainty in CRA evaluations and increase access to lending and banking services. That would be government regulation at its best, and would capture the true spirit and purpose of the Community Reinvestment Act.



*Bruce:
This is the
CRA Statement
for the President.
- JFW*

*File:
CRA Reform*

MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

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DATE 6/9/93

TO

NAME Weinstein

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FAX PHONE 456-7739

FROM

NAME Konrad Alt

PHONE 874-4910

OCC FAX: 202-874-4950

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CONTACT PERSON: Helen Fliakas

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Proposed Presidential Statement on the CRA

The Community Reinvestment Act, enacted in 1977, requires banks and thrifts to help meet the credit needs of the communities in which they do business. In recent years, this statute has come to play an increasingly important role in making credit opportunities available to underserved communities, both urban and rural, across America. America's banks, thrifts, community groups, and the four federal regulatory agencies -- the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Office of Thrift Supervision -- can all take pride in the businesses and housing that have come into being through the Community Reinvestment Act in recent years.

But despite its successes, the Community Reinvestment Act's true potential remains unrealized. Its implementation depends too much on documentation, not enough on actual performance. Under the guise of community reinvestment, we have been actually encouraging the greatest investments in paperwork. These paperwork requirements aid neither our financial institutions nor our communities.

Meanwhile, across the country, many rural and urban communities badly need credit, capital and banking services. And millions of Americans in low- and moderate-income neighborhoods have no convenient bank or thrift branch where they can cash checks, borrow money to buy a home, or get a small loan to start a business or keep one

going. Banks complain about excessive paperwork and inconsistent application of the law. Community groups complain that CRA ratings are inflated, that in many cases they do not reflect actual performance, and that their communities remain underserved.

We can and must do better. By giving our banks and thrifts clearer guidance as to how the regulatory agencies will evaluate performance under the Community Reinvestment Act, we can reduce the need for meaningless documentation. By focusing that guidance on the provision of real investments and services, we can increase support to communities that need it.

Accordingly, I am today asking our bank and thrift regulatory agencies - in consultation with the banking industry, the thrift industry, and community groups across the country - to begin a process of substituting performance for paperwork in their implementation of the Community Reinvestment Act. In making this substitution, I am looking to the regulators to set forth performance-based assessment standards, to improve their examination processes to promote consistency and even-handedness, to enhance public performance evaluations, and to institute tougher enforcement sanctions against banks and thrifts with consistently poor CRA performance.