1996-SE-006099

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 18, 1996

MEMORANDUM FOR DEPUTY SECRETARY SUMMERS

THROUGH UNDER SECRETARY HAWKE

FROM: Kirsten S. Moy
Director, CDFI Fund

SUBJECT: Evaluation of CDFI Program

Per your request at the July 12th Bureau Heads meeting, I would like to briefly describe the CDFI Fund's plans for evaluating the CDFI Program.

First of all, the Fund is mandated by statute to perform certain evaluations on at least an annual basis. For example, the Fund must review the overall progress of each recipient of Fund assistance in implementing its business plan at least annually. Recall that the Fund can provide loans, grants, deposits and equity investments to CDFIs. A formal agreement between the Fund and each CDFI documents the terms and conditions of the assistance provided as well as specific performance goals, tailored to each recipient of Fund assistance, based on its business plan. Recipients are required to report quarterly as well as annually on their progress in meeting the performance goals, which may represent financial outcomes as well as community impacts.

Examples of financial outcomes to be evaluated include the performance of the CDFI's loan or investment portfolio, the financial health and degree of self-sustainability achieved by the organization, the performance of the loan or equity investment provided by the CDFI Fund and the leverage of CDFI Fund monies.

Examples of community impacts to be evaluated by the Fund include results of the CDFI's activities to expand economic opportunity, facilitate revitalization, promote affordable housing, and provide increased financial services for residents or technical assistance to borrowers in the community.

In addition, the Fund is required to conduct an annual evaluation of the overall activities of the Fund and the organizations assisted by it and submit a report of its findings to the President and the Congress not later than 120 days after the end of its fiscal year. The Evaluations Staff of the IG's Office has offered to provide assistance to the Fund in conducting its first annual evaluation.

With respect to more comprehensive evaluations, the Fund has had several exploratory conversations with foundations and other funding sources interested in the development of the CDFI industry. These discussions will continue as the Fund's design of a longer term evaluation strategy evolves.

Please let me know if you would like any further information on the Fund's evaluation plans.

TREASURY CLEARANCE SHEET

NO. ____________
Date July 17, 1996

MEMORANDUM FOR: ☐ SECRETARY ☒ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ____________

FROM: Kirsten Moy
THROUGH: Under Secretary Hawke 7/18/96
SUBJECT: Plans for Evaluation of CDFI Program

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
☐ Domestic Finance
☐ Economic Policy
☐ Fiscal
☐ FMS
☐ Public Debt

☐ Under Secretary for International Affairs
☐ International Affairs

☐ Enforcement
☐ ATF
☐ Customs
☐ FLETC
☐ Secret Service
☐ General Counsel
☐ Inspector General
☐ IRS
☐ Legislative Affairs
☐ Management
☐ OCC

☐ Policy Management
☐ Scheduling
☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
☐ E & P
☐ Mint
☐ Savings Bonds

☐ Other ____________

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
REVIEWERS				
M. Jones	MAJ	7/18/96	CDFI Fund	2-8662

SPECIAL INSTRUCTIONS

☐ Review Officer Date ____________ ☐ Executive Secretary Date ____________

DO F 80-02.1 (04/89)

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

March 28, 1996

The Honorable Bob Livingston
U.S. House of Representatives
Washington, D.C. 20515

Dear Bob:

I am writing to urge that you support the provisions of the Senate version of the continuing resolution relating to the FY 1996 appropriation for the Community Development Financial Institutions (CDFI) Fund in the Conference Committee. The CDFI was created in accordance with Public Law 103-325 which passed the House 410-12 and the Senate unanimously as a part of the Community Development and Regulatory Improvement Act of 1994. The $50 million provided in Title I by the Senate is the minimum needed to keep this new and innovative initiative moving forward.

The CDFI Fund offers an exciting new direction for locally-based, private sector driven community development, and is worthy of continued strong bipartisan support. The CDFI Fund uses limited public resources to invest in and help build the capacity of the <u>private sector</u> to address the community development financing needs of distressed urban and rural communities. The Fund's initiatives will unleash large amounts of private capital, emphasize private sector market discipline, and take full advantage of private sector human talent, energy and creativity. Decisions about which specific projects and businesses to finance are left to the private sector. Over time, these efforts can help address market inefficiencies which exist in distressed communities, restore healthy private market activity, promote entrepreneurship, revitalize neighborhoods, generate tax revenues, and empower local residents. CDFI will mean more private sector capital investment, more jobs, and more hope for economically distressed communities.

Demand from the private sector for the CDFI Fund's initiatives have already dramatically exceeded expectations. For example, in response to the CDFI Fund's initial Notice of Funds Availability, the CDFI Fund has received 318 applications from existing CDFIs, proposed CDFIs, banks and thrifts from 47 states and the District of Columbia with requests for financial investments or incentives in excess of $300 million.

The House version of the bill would not directly appropriate any funds for FY 1996, but instead contains $25 million only in Title IV of the bill. This funding is contingent on other actions, and would continue to impose a ceiling of 10 FTEs on the CDFI Fund. These limitations would prevent the Fund from effectively leveraging the significant private sector interest already evident.

In this context, the $50 million contained in the Senate version for FY 1996, which is merely the same level appropriated for FY 1995, is a modest amount, but it does keep the initiative moving forward. I urge that you support the Senate version of this bill.

Sincerely,

Bob Rubin

Robert E. Rubin

The Honorable Bob Livingston
U.S. House of Representatives
Washington, D.C. 20515
Bob

The Honorable John T. Myers
U.S. House of Representatives
Washington, D.C. 20515
Mr. Myers

The Honorable C.W. Bill Young
U.S. House of Representatives
Washington, D.C. 20515
Mr. Young

The Honorable Ralph Regula
U.S. House of Representatives
Washington, D.C. 20515
Mr. Regula

The Honorable Jerry Lewis
U.S. House of Representatives
Washington, D.C. 20515
Mr. Lewis

The Honorable John Edward Porter
U.S. House of Representatives
Washington, D.C. 20515
Mr. Porter

The Honorable Harold Rogers
U.S. House of Representatives
Washington, D.C. 20515
Mr. Rogers

The Honorable Joe Skeen
U.S. House of Representatives
Washington, D.C. 20515
Mr. Skeen

The Honorable Frank R. Wolf
U.S. House of Representatives
Washington, D.C. 20515
Frank

The Honorable Barbara F. Vucanovich
U.S. House of Representatives
Washington, D.C. 20515
Ms. Vucanovich

The Honorable Jim Lightfoot
U.S. House of Representatives
Washington, D.C. 20515
Jim

The Honorable Sonny Callahan
U.S. House of Representatives
Washington, D.C. 20515
Sonny

The Honorable James T. Walsh
U.S. House of Representatives
Washington, D.C. 20515
Mr. Walsh

The Honorable David R. Obey
U.S. House of Representatives
Washington, D.C. 20515
Dave

The Honorable Sidney R. Yates
U.S. House of Representatives
Washington, D.C. 20515
Mr. Yates

The Honorable Louis Stokes
U.S. House of Representatives
Washington, D.C. 20515
Louis

The Honorable Tom Bevill
U.S. House of Representatives
Washington, D.C. 20515
Mr. Bevill

The Honorable John P. Murtha
U.S. House of Representatives
Washington, D.C. 20515
Mr. Murtha

The Honorable Charles Wilson
U.S. House of Representatives
Washington, D.C. 20515
Mr. Wilson

The Honorable Julian C. Dixon
U.S. House of Representatives
Washington, D.C. 20515
Mr. Dixon

The Honorable W.G. Hefner
U.S. House of Representatives
Washington, D.C. 20515
Mr. Hefner

The Honorable Alan B. Mollohan
U.S. House of Representatives
Washington, D.C. 20515
Mr. Mollohan

The Honorable Henry Bonilla
U.S. House of Representatives
Washington, D.C. 20515
Mr. Bonilla

The Honorable Ernest J. Istook, Jr.
U.S. House of Representatives
Washington, D.C. 20515
Mr. Istook

The Honorable Dan Miller
U.S. House of Representatives
Washington, D.C. 20515
Mr. Miller

The Honorable Jay Dickey
U.S. House of Representatives
Washington, D.C. 20515
Mr. Dickey

The Honorable Frank Riggs
U.S. House of Representatives
Washington, D.C. 20515
Mr. Riggs

The Honorable Roger Wicker
U.S. House of Representatives
Washington, D.C. 20515
Mr. Wicker

The Honorable Steny H. Hoyer
U.S. House of Representatives
Washington, D.C. 20515
Steny

The Honorable Nancy Pelosi
U.S. House of Representatives
Washington, D.C. 20515
Nancy

The Honorable Nita M. Lowey
U.S. House of Representatives
Washington, D.C. 20515
Nita

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

March 26, 1996

The Honorable Patty Murray
United States Senate
Washington, D.C. 20510

Dear Patty:

I am writing to urge that you support the provisions of the Senate version of the continuing resolution relating to the FY 1996 appropriation for the Community Development Financial Institutions (CDFI) Fund in the Conference Committee. The CDFI was created in accordance with Public Law 103-325 which passed the House 410-12 and the Senate unanimously as a part of the Community Development and Regulatory Improvement Act of 1994. The $50 million provided in Title I by the Senate is the minimum needed to keep this new and innovative initiative moving forward.

The CDFI Fund offers an exciting new direction for locally-based, private sector driven community development, and is worthy of continued strong bipartisan support. The CDFI Fund uses limited public resources to invest in and help build the capacity of the <u>private sector</u> to address the community development financing needs of distressed urban and rural communities. The Fund's initiatives will unleash large amounts of private capital, emphasize private sector market discipline, and take full advantage of private sector human talent, energy and creativity. Decisions about which specific projects and businesses to finance are left to the private sector. Over time, these efforts can help address market inefficiencies which exist in distressed communities, restore healthy private market activity, promote entrepreneurship, revitalize neighborhoods, generate tax revenues, and empower local residents. CDFI will mean more private sector capital investment, more jobs, and more hope for economically distressed communities.

Demand from the private sector for the CDFI Fund's initiatives have already dramatically exceeded expectations. For example, in response to the CDFI Fund's initial Notice of Funds Availability, the CDFI Fund has received 318 applications from existing CDFIs, proposed CDFIs, banks and thrifts from 47 states and the District of Columbia with requests for financial investments or incentives in excess of $300 million.

The House version of the bill would not directly appropriate any funds for FY 1996, but instead contains $25 million only in Title IV of the bill. This funding is contingent on other actions, and would continue to impose a ceiling of 10 FTEs on the CDFI Fund. These limitations would prevent the Fund from effectively leveraging the significant private sector interest already evident.

In this context, the $50 million contained in the Senate version for FY 1996, which is merely the same level appropriated for FY 1995, is a modest amount, but it does keep the initiative moving forward. I urge that you support the Senate version of this bill.

Sincerely,

Robert E. Rubin

Robert E. Rubin

The Honorable Mark O. Hatfield
United States Senate
Washington, D.C. 20510
Senator Hatfield

The Honorable Ted Stevens
United States Senate
Washington, D.C. 20510
Senator Stevens

The Honorable Thad Cochran
United States Senate
Washington, D.C. 20510
Thad

The Honorable Arlen Specter
United States Senate
Washington, D.C. 20510
Arlen

The Honorable Pete V. Domenici
United States Senate
Washington, D.C. 20510
Pete

The Honorable Christopher S. Bond
United States Senate
Washington, D.C. 20510
Kit

The Honorable Slade Gorton
United States Senate
Washington, D.C. 20510
Senator Gorton

The Honorable Mitch McConnell
United States Senate
Washington, D.C. 20510
Mitch

The Honorable Connie Mack
United States Senate
Washington, D.C. 20510
Connie

The Honorable Conrad Burns
United States Senate
Washington, D.C. 20510
Senator Burns

The Honorable Richard C. Shelby
United States Senate
Washington, D.C. 20510
Senator Shelby

The Honorable James M. Jeffords
United States Senate
Washington, D.C. 20510
Jim

The Honorable Judd Gregg
United States Senate
Washington, D.C. 20510
Senator Gregg

The Honorable Robert F. Bennett
United States Senate
Washington, D.C. 20510
Bob

The Honorable Ben Nighthorse Campbell
United States Senate
Washington, D.C. 20510
Senator Campbell

The Honorable Robert C. Byrd
United States Senate
Washington, D.C. 20510
Senator Byrd

The Honorable Daniel K. Inouye
United States Senate
Washington, D.C. 20510
Senator Inouye

The Honorable Ernest F. Hollings
United States Senate
Washington, D.C. 20510
Senator Hollings

The Honorable J. Bennett Johnston
United States Senate
Washington, D.C. 20510
Bennett

The Honorable Patrick J. Leahy
United States Senate
Washington, D.C. 20510
Pat

The Honorable Dale Bumpers
United States Senate
Washington, D.C. 20510
Dale

The Honorable Frank R. Lautenberg
United States Senate
Washington, D.C. 20510
Frank

The Honorable Tom Harkin
United States Senate
Washington, D.C. 20510
Tom

The Honorable Barbara A. Mikulski
United States Senate
Washington, D.C. 20510
Barbara

The Honorable Harry Reid
United States Senate
Washington, D.C. 20510
Harry

The Honorable J. Robert Kerrey
United States Senate
Washington, D.C. 20510
Bob

The Honorable Herb Kohl
United States Senate
Washington, D.C. 20510
Herb

The Honorable Patty Murray
United States Senate
Washington, D.C. 20510
Patty

1996-SE-003389

May 5, 1996

Dear Secretary Rubin,

The last few weeks have been a critical time for the CDFI Fund, and I felt compelled to write to tell you not only what your unwavering commitment and support has meant to me and my staff (simply put, it has meant everything), but the impact of what you, as much as anyone, has wrought.

The passage of the recent budget bill, which gave the Fund $45 million of two-year money with no FTE caps, is transforming the perception *and reality* of the President's program from a one-time opportunity for a few organizations to get some money, to a multiple-year, multi-faceted community institution building initiative with the potential for enduring.

The additional $45 million allows the Fund to begin thinking about the design of a secondary market initiative, the components of a major program of technical assistance and capacity building for the industry, the structure of a substantially revised Bank Enterprise Award Program, and a second round to be held at a time sufficiently far (though not too far) in the future to give new and emerging organizations the opportunity to compete. The presence of money through September 30, 1997 gives the Fund a toehold in time; in the early stages of development of any program, each additional year of operation increases the likelihood of survival and success immeasurably. And the lifting of the FTE cap alleviates one of the greatest worries I have had since becoming the director of the CDFI Fund: i.e., that the Fund would not have adequate and appropriate staff to operate in the informed, proactive, diligent and professional manner that characterizes a first-rate investment organization, or any other organization of quality.

Your belief in the mission of the CDFI Fund, the sense of importance you accord to its activities and your visible support gives us access to critical resources both within and outside of Treasury that we would not otherwise receive. These resources are vital to the establishment and growth of the Fund and we would not be here, with an operational (if somewhat tortured) bank incentive program that has the potential to noticeably increase the amount of bank investment in CDFIs, a close-to-operational presidential awards program for microenterprise (with a video tape <u>and</u> brochure -- more on that later), the likely selection of CDFI awardees by the third week of June, and much brighter prospects for our funding and staffing in the future (not to mention for a new appropriations home), without your interest, attention and support.

It hardly seems sufficient to end a letter like this with a thank you. I only hope you will know and believe how of a difference you have made for the Fund and the industry.

With deepest appreciation,

Kirsten Moy

KIRSTEN MOY, CDFI FUND

DEPARTMENT OF THE TREASURY
1500 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20220
OFFICIAL BUSINESS

SECRETARY RUBIN

PERSONAL

94-137094

DEPARTMENT OF THE TREASURY
WASHINGTON

UNDER SECRETARY

ACTION

August 16, 1994

MEMORANDUM TO SECRETARY BENTSEN

FROM: Frank Newman
Under Secretary for Domestic Finance

SUBJECT: Memorandum to the President on CDFI Legislation

ACTION FORCING EVENT:

The attached memorandum to the President outlines actions we are taking to make the President's CDFI program operational as soon as possible. It also provides a status report on the appropriations process and provides information on the selection of the Fund Administrator.

Recommendation:

That you sign the attached letter.

LMB Agree ________ Disagree ________ Let's Discuss

ESK
Edward S. Knight

137094

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

August 17, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: Lloyd Bentsen

SUBJECT: Implementation of the Community Development Banking Act

The purpose of this memorandum is to outline the actions we are taking to make the community development financial institutions (CDFI) program operational as soon as possible. As you know, the legislation passed both houses of Congress with extremely strong bipartisan support (410 to 12 in the House, unanimous consent in the Senate), after an extensive interagency effort led by Treasury. It is anticipated that the bill will be ready for your signature in early September.

Your budget requests funding of $500 million over 4 years, $125 million of which is to be spent in the first year. The FY 95 Senate VA-HUD Appropriations bill contains budget authority for the $125 million; the House Appropriations bill provides no funding. The House/Senate conference is scheduled to take up the funding issue as early as Wednesday, August 17. The conferees will also have to address final funding levels for the program sponsored by Congressman Flake based on the Bank Enterprise Act. The CDFI bill allows for one-third of the total money to go toward Congressman Flake's program.

The legislation also contains several other noteworthy titles unrelated to CDFIs, including reduction in regulatory burdens for banks, securitization of small business loans, improvements in detection of money laundering, and prevention of abusive second-mortgage practices. Many of these provisions will also require Treasury involvement, but this memo concentrates on the main program you initiated: community development banking.

The CDFI Fund will be run by an Administrator, to be appointed by you, with Senate confirmation. In addition, there will be an Advisory Board consisting of representatives of key Executive Branch Departments, including Treasury, plus 9 members of the public appointed by you. In anticipation of passage, we started the search, in coordination with Presidential Personnel, for candidates for the key position of Administrator, as well as potential Advisory Board members, with emphasis on strong backgrounds in community development and banking. Working with Veronica Biggins, we plan to have recommendations for you to consider for the Administrator within the next few weeks.

In addition, the bill provides for a special transition role for Treasury to start many of the administrative functions, including hiring limited staff, before the Administrator is confirmed. The Fund is also required to establish and publish standards for applications for funding in accordance with specified criteria. We plan to set this process in motion immediately, so that the program can get off to a running start once the Administrator is officially on board. We hope our efforts will allow the Fund, with the Administrator in place, to begin processing applications and actually start investing in community development financial institutions within the coming fiscal year.

TREASURY CLEARANCE SHEET

NO. ______
Date ______

MEMORANDUM FOR: ☐ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER ______

FROM: U/S Newman FNw
THROUGH: ______
SUBJECT: Memo to the President

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
☐ Domestic Finance
☐ Economic Policy
☐ Fiscal
☐ FMS
☐ Public Debt

☐ Under Secretary for International Affairs
☐ International Affairs

☐ Enforcement
☐ ATF
☐ Customs
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☐ General Counsel
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☐ Management
☐ OCC

☐ Policy Management
☐ Scheduling
☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
☐ E & P
☐ Mint
☐ Savings Bonds

☐ Other ______

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Frank Newman	for FNw	8/12/94	U/S Domestic Finance	2x2800
REVIEWERS				
Jean Hanson			General Counsel	2-0287

SPECIAL INSTRUCTIONS

☐ Review Officer Date ______ ☐ Executive Secretary Date ______

DO F 80-02.1 (04/89)

ADMINISTRATION HISTORY APPENDIX
CHAPTER FOUR: INCREASING ECONOMIC OPPORTUNITY

COMMUNITY REINVESTMENT ACT (CRA)

2000-SE-004141

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

MEMORANDUM FOR SECRETARY SUMMERS

THROUGH: Gary Gensler
Under Secretary
Domestic Finance

FROM: Michael S. Barr
Deputy Assistant Secretary
Community Development Policy

Melissa Schroder
Community Development Policy

SUBJECT: CRA Study

ACTION FORCING EVENT:

Attached are copies of the various documents that will be included in the Treasury-CRA report. They include: the prefaces to the report from both you and the President, and the four transmittal letters to Speaker Hastert, President Pro Tempore Thurmond, Senator Daeschle, and Representative Gephardt.

RECOMMENDATION:

That you sign the attached letters.

NC ok to autopen per LS 4/14/00

N **Agree** ________ **Disagree** ________ **Let's Discuss**

ATTACHMENTS: Tab A: Your preface for the Treasury CRA report.
Tab B: Preface from the President for the Treasury CRA report.
Tab C: Transmittal Letters to Senators Thurmond and Daeschle, Speaker Hastert, and Rep. Gephardt.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

PREFACE

The Gramm-Leach-Bliley Act of 1999 called on Treasury to study the extent to which adequate services are being provided as intended by the Community Reinvestment Act (CRA) of 1977 as a result of the changes permitted by the Gramm-Leach-Bliley Act. Congress requested that Treasury submit a "baseline report" this spring, followed by a final report within two years of the law's enactment. This report fulfills the first part of this Congressional mandate.

In completing this report, we engaged the assistance of Robert E. Litan, Vice President and Director of the Economic Studies Program at The Brookings Institution. Mr. Litan assembled a team of experts including Nicolas Retsinas, Director of the Joint Center for Housing Studies, Harvard University, and Eric Belsky, Executive Director of the Joint Center for Housing Studies, Harvard University and Susan White Haag. Treasury Department staff guided the study, and several offices participated in its final composition.

This report provides a sound analytical framework to assess financial institution performance under CRA, and suggests important areas for further research. I am indebted to Mr. Litan and his team for their valuable contribution to this critical area of research.

CRA is a central element of the regulatory framework for financial institutions, and a core component of the legal framework under which the private sector is increasing expanding access to capital. As this report explains, home mortgage lending has expanded dramatically to previously underserved communities. Small business and community development lending are at significant levels. Community development investments are helping to strengthen local communities across the country. And there is evidence that more Americans are gaining access to basic financial services. But much more needs to be done.

To fully realize the opportunities afforded by modernizing our financial system, we must remain focused on assuring that the financial service industry evolves in a way that continues to enhance its accessibility and utility for all Americans.

Sincerely,

Lawrence H. Summers

Lawrence H. Summers

Statement of William Jefferson Clinton

Ensuring that all Americans have an opportunity to share in our nation's economic prosperity has been at the core of my Administration's domestic agenda. We have made progress, but there is much more that we can do to extend the benefits of the vibrant American economy, including our innovative financial markets, to all Americans.

The Community Reinvestment Act (CRA) is central to that goal. Early in my Administration, I asked the federal banking regulators to revise the regulations implementing CRA to focus on the performance of banks and thrifts in serving the credit needs of their local communities. Since 1993, banks and thrifts under CRA have made well over $600 billion in home mortgage, small business, and community development loans for low- and moderate-income neighborhoods and borrowers. Today, credit is more widely available than ever before for Americans who wish to borrow to buy a house, or start a business.

The financial modernization legislation that I signed into law last fall allows the integration of banking, insurance and securities industries. Consumers should benefit from enhanced competition and innovative products and services. As part of modernizing these banking laws, the financial modernization legislation requires that a bank have a satisfactory CRA rating prior to expanding into these newly authorized lines of business.

As we modernize our financial system, we must remain watchful to ensure that it works for all Americans. The Treasury Department's baseline report on CRA will serve as a useful guidepost in assessing progress made thus far and what remains to be done. The report will also provide a benchmark against which to assess changes in access to credit and financial services as the industry continues to evolve in the years ahead.

William Jefferson Clinton

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

April 14, 2000

The Honorable Richard Gephardt
House Democratic Leader
United States House of Representatives
Washington, D.C. 20515-6501

Dear Mr. Gephardt:

Pursuant to section 715 of the Gramm–Leach–Bliley Act, I hereby transmit a report entitled "The Community Reinvestment Act After Financial Modernization: A Baseline Report."

Sincerely,

Lawrence H. Summers

Lawrence H. Summers

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

April 14, 2000

The Honorable Tom Daschle
Minority Leader
United States Senate
Washington, D.C. 20515-6501

Dear Mr. Daschle:

Pursuant to section 715 of the Gramm-Leach-Bliley Act, I hereby transmit a report entitled "The Community Reinvestment Act After Financial Modernization: A Baseline Report."

Sincerely,

Lawrence H. Summers

Lawrence H. Summers

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

April 14, 2000

The Honorable John Dennis Hastert
Speaker
U.S. House of Representatives
Washington, D.C. 20515-6501

Dear Mr. Speaker:

Pursuant to section 715 of the Gramm–Leach–Bliley Act, I hereby transmit a report entitled "The Community Reinvestment Act After Financial Modernization: A Baseline Report."

Sincerely,

Lawrence H. Summers

Lawrence H. Summers

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

April 14, 2000

The Honorable Strom Thurmond
President Pro Tempore
United States Senate
Washington, D.C. 20515-6501

Dear Senator Thurmond:

Pursuant to section 715 of the Gramm–Leach–Bliley Act, I hereby transmit a report entitled "The Community Reinvestment Act After Financial Modernization: A Baseline Report."

Sincerely,

Lawrence H. Summers

Lawrence H. Summers

EXECUTIVE SUMMARY

In November 1999, President Clinton signed into law the Financial Modernization Act (FMA), perhaps the most sweeping revision to this nation's financial laws of the post-War era. Among other things, the FMA directed the Treasury Department to prepare within two years of the law's passage a report on the Act's impact on the provision of adequate services as intended by the Community Reinvestment Act of 1977 (CRA). As part of this requirement, the FMA also directed the Department to prepare a "baseline" report on the impact of the CRA against which to measure any subsequent changes resulting from the FMA. This report fulfills the "baseline" requirement.

The CRA established an obligation on the part of federally insured depository institutions to meet the credit needs of the local communities they serve, including low and moderate-income neighborhoods. An inadequate record under CRA may be grounds for denying or conditioning an application to merge with or acquire another depository institution. Public release of CRA examinations and ratings since 1990 also gives CRA-covered lenders additional incentives to provide credit to credit-worthy individuals and businesses.

Under the most recent CRA regulations, banks and savings institutions with assets of $250 million or more are graded on their CRA compliance according to a three-part test. This test evaluates actual performance in lending, investing and services to the community including, for the purposes of this report, low- and moderate-income ("LMI") borrowers, and borrowers (individuals or businesses) located in LMI areas (collectively referred to here as "underserved borrowers").

To establish the baseline, this report reviews the legislative and regulatory history of the CRA, describes its purposes, and discusses the economic rationales for the Act. The report also contains baseline information on lending levels in 1998: CRA-regulated depository institutions and their affiliates made $184 billion in home mortgage, small business and community development loans to underserved borrowers in 1998. The report provides quantitative measures of recent trends in the provision of credit and banking services to LMI communities and borrowers. The purpose of reviewing these trends – and past efforts to account for them – is to help provide context for the next phase of this study, which will focus on the impact that financial modernization may have on the provision of financial services as intended by the CRA.

This report also reviews past efforts to analyze the impact of CRA on lending patterns and other banking services. The report closes with recommendations for the design of the broader study of the FMA's impact on meeting the purposes of the CRA.

Table ES-1 provides a current baseline against which future changes in CRA-related financial services may be assessed. It is important to note that the years leading up to 1998 reflect an unusual period. These years saw a vigorous economic expansion fueled by low mortgage interest rates, an unusually rapid pace of mortgage-finance innovation, new CRA regulations, the enactment of affordable housing goals for the government-sponsored enterprises, and increased enforcement of fair housing and equal credit laws. Comparisons of future trends to recent trends, therefore, should include appropriate controls for economic conditions and regulatory activity.

Table ES-1: Key CRA Facts For 1998

Mortgage Lending	
Residential mortgage lending (Originations and Refinances) by CRA-covered lenders to underserved borrowers	$135 billion
Home purchase loans to underserved borrowers, as a share of all mortgage originations for home purchases by CRA-covered Lenders	32%
Home refinance originations to underserved borrowers, as a share of all home refinance originations by CRA-covered lenders	25%
Numbers of mortgages (originations and refinances) extended to underserved borrowers by CRA-covered lenders	1.7 million
Small Business Lending	
Volume of small business lending to underserved borrowers by reporting CRA-covered lenders (Billions)*	$33 billion
Share of small business lending by reporting CRA-covered lenders going to underserved borrowers	20%
Community Development Lending and Investments	
Volume of community development lending by CRA-covered lenders	$16 billion
Volume of community development investments by CRA-covered lenders	N/A
Depository Services	
Percentage of American families with some type of transaction account at a financial institution	90.5%

* Reporting institutions for small business loans are those with $250 million or more in assets and those of any asset size owned by a holding company with $1 billion or more in assets.

The balance of this Executive Summary reviews some of the key findings of the report.

CRA-Eligible Lending Activity

In assessing a financial institution's performance under the CRA, regulators currently assign a 50 percent weighting to lending performance, compared to a 25 percent weighting each for investment and services performance. Eligible lending generally includes home mortgage, home improvement, small business and community development lending. Single-family mortgage originations constitute by far the largest portion of credit provided by financial institutions to low-to-moderate income borrowers and communities that is evaluated under the CRA. Regulators consider overall lending volumes, geographic distribution, borrower characteristics and the innovation and flexibility shown in meeting underserved community lending needs. In addition, evidence of discriminatory or other illegal credit practices adversely affects the regulators' evaluation of a bank's performance.

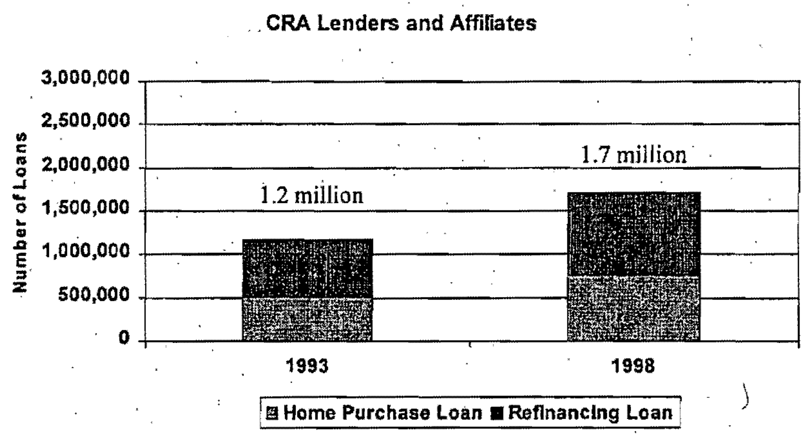
Principal Findings About CRA-Related Mortgage Lending

The findings about mortgage lending reported here are based on the data that lenders disclose under the Home Mortgage Disclosure Act (HMDA). As important as these data are, they have a number of well-recognized limitations that are discussed in the text and appendices of the report. Because the data between these two years is most comparable, we focus on the period from 1993 to 1998. The following facts and trends in mortgage lending to "underserved borrowers" – those purchasing homes in LMI areas or those with low-to-moderate incomes – are noteworthy.

CRA-eligible mortgage lending has increased sharply. Mortgage originations – both for both home purchase and refinance of single family properties – to underserved borrowers rose dramatically over the 1990s. Between 1993 and 1998, depository institutions covered by CRA and their affiliates made $467 billion in mortgage loans to underserved borrowers. Of this total amount, $187 billion flowed to LMI areas, $277 billion to LMI borrowers purchasing or refinancing homes outside these areas, and $3 billion to other LMI loans. In 1998, the latest year for which data are available, the total amount of mortgage lending by CRA-regulated institutions to underserved borrowers stood at $135 billion, up from $75 billion in 1993 – an 80 percent increase.

The increase in the dollar volume of mortgage credit to underserved borrowers has been matched by a substantial increase in the number of loans extended (Chart ES-1). In 1993, CRA-covered depository institutions and their affiliates made 1.2 million loans to underserved borrowers. By 1998, the number of such loans had risen to over 1.7 million – a gain of 45 percent. In contrast, the home mortgage market as a whole for covered institutions grew more slowly – by 27 percent in number of loans and 57 percent in dollar volume.

Chart ES-1: CRA-Eligible Lending Increased Significantly Between 1993 and 1998[1]



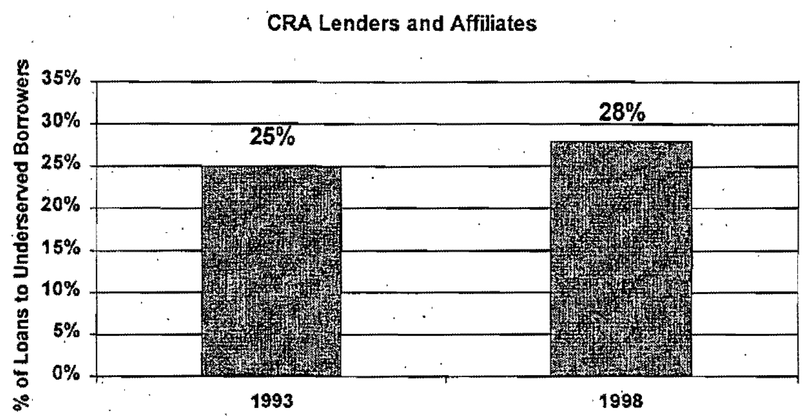
Source: Joint Center for Housing Studies of Harvard University, Tabulations of Borrower Database

Loan originations to underserved borrowers by CRA-covered institutions have grown more rapidly than originations to middle and high-income (MHI) borrowers in MHI areas. Loans to underserved borrowers increased by 43 percent, compared to 4 percent for loans to MHI borrowers in MHI areas. As a result of the large increase in mortgage lending to underserved borrowers as compared to the market as a whole, the share of total mortgage originations by depository institutions and their affiliates reported under the Home Mortgage

[1] The analysis of loan originations described in the body and appendices of the report is based on a restricted set of HMDA records that had complete information for borrower race, borrower income, MSA code, on loans of at least $15,000 or more (where the loan amount is not more than 5 times borrower income). We drop these restrictions when compiling aggregate CRA lending, whether counts of loans or loan amounts, in order to provide a complete account of lending that has taken place.

Disclosure Act (HMDA) going to CRA-eligible borrowers rose from 25 percent in 1993 to 28 percent in 1998 (Chart ES-2).

Chart ES-2: Loans to Underserved Borrowers as a Share of All Lending Grew 1993 to 1998

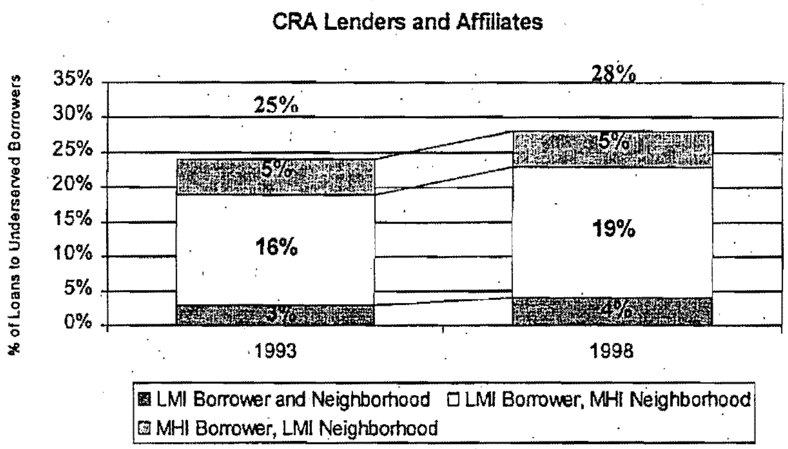


Source: Joint Center for Housing Studies of Harvard University, Tabulations of Borrower Database

Lending has increased even more rapidly for underserved minority borrowers, whose share of total lending by CRA-covered institutions to underserved borrowers increased from 20 percent in 1993 to 26 percent in 1998. FHA-insured lending has contributed to this trend. Between 1993 and 1998, the share of loans to underserved minority borrowers made by CRA-covered lenders without government insurance or guarantees rose from 17 percent to 20 percent, while the share of FHA-insured loans to underserved minority borrowers grew even faster, from 20 percent to 35 percent.

Loans to underserved borrowers increased most for LMI borrowers purchasing or refinancing homes in MHI areas, jumping from 16 percent of mortgage originations in 1993 to 19 percent in 1998 among all lenders among institutions covered by the CRA (Chart ES-3). Lending to all borrowers regardless of income in LMI areas grew from 8 to 9 percent of originations over the same period for institutions covered by the Act.

Chart ES-3: Loans to LMI Borrowers in MHI Neighborhoods Drove Growth in Lending to Underserved Borrowers

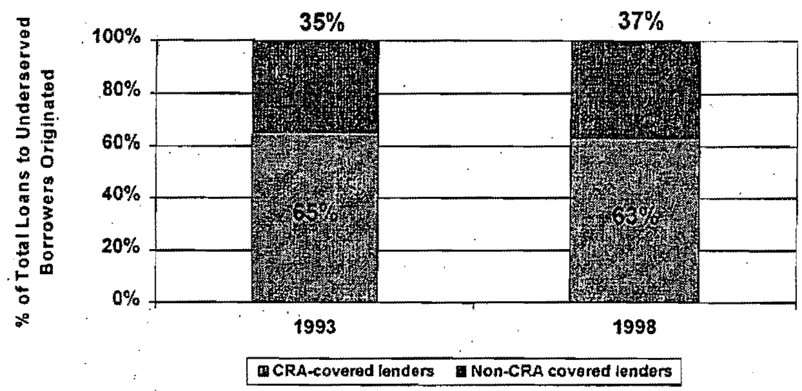


Source: Joint Center for Housing Studies of Harvard University, Tabulations of Borrower Database

Lending to underserved borrowers grew faster than other categories of lending for both home purchases and refinances. In fact, refinances of mortgages held by LMI owners in LMI communities were up substantially in 1998 over 1993, while the market for refinancing homes owned by MHI borrowers in MHI areas was down 10 percent.

Primarily due to the growth in "subprime" lending, lending to underserved borrowers increased even among institutions not covered by the CRA, but CRA-covered lenders remain the dominant originators of loans to underserved borrowers. Institutions covered by CRA and their affiliates lost some market share of originations to underserved borrowers to institutions that are not covered by CRA, such as independent mortgage and finance companies (Chart ES-4), but remained responsible for 63 percent of lending to such borrowers.

Chart ES-4: CRA-covered Lender and Affiliate Market Share of Lending to Underserved Borrowers Fell Slightly 1993-98



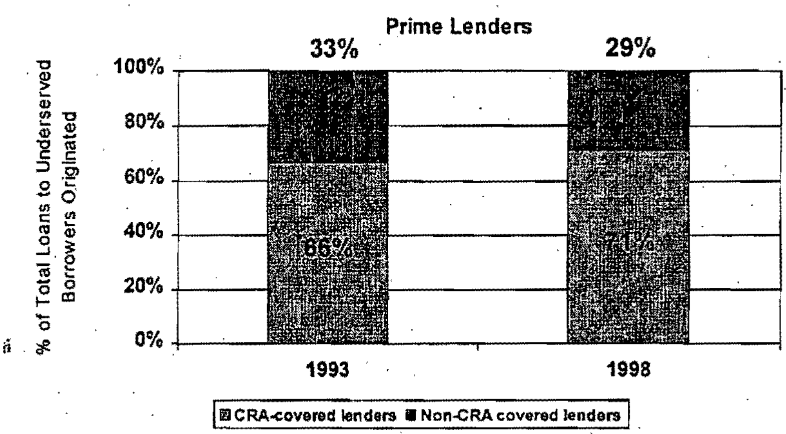
Source: Joint Center for Housing Studies of Harvard University, Tabulations of Borrower Database

Most of the growth in lending to underserved borrowers among lenders not covered by the Act has been due to the expanding activities of lenders specializing in "subprime loans" – those to borrowers with impaired credit histories – and in loans collateralized by manufactured homes. Indeed, independent mortgage companies, as discussed below, lost market share in other types of loans to underserved borrowers. Subprime lenders accounted for a full two-thirds of the growth in loans to underserved borrowers by institutions not covered by CRA, but only 15 percent of the growth in loans to underserved borrowers by CRA-covered institutions and their affiliates. Banks and thrifts have traditionally shied away from specializing in subprime and manufactured home lending because such loans may be riskier and demand larger set-asides for reserves against credit losses. Instead, banks and thrifts have focused on "prime lending" to borrowers without impaired credit histories. Prime lending still accounts for the greatest share (91 percent) of both home purchase and refinance loans originated in the United States, even after several years of explosive growth of subprime lending.

Depository institutions covered by the CRA and their affiliates gained market share in

prime lending to underserved borrowers from lenders not covered by the Act that specialize in prime lending (Chart ES-5). In 1993, institutions covered by the CRA and their affiliates accounted for 66 percent of the loans to underserved borrowers originated by prime lending specialists. By 1998 they had increased that share to 71 percent.

Chart ES-5: Between 1993 and 1998, CRA Lenders and Affiliates Gained Market Share in Prime Lending to Underserved Borrowers



Source: Joint Center for Housing Studies of Harvard University, Tabulations of Borrower Database

Although some of this gain is due to acquisitions of non-depository lenders, this trend nonetheless suggests that CRA probably helped to increase prime lending to CRA-eligible borrowers. Furthermore, by helping banks and thrifts discover that lending to CRA-eligible borrowers can be profitable, the CRA may have had a positive "demonstration effect" on lenders not covered by the Act, and thus indirectly increased lending by these institutions as well.

The fact that both lenders covered and not covered by the CRA recorded gains in mortgage lending to underserved borrowers from 1993 to 1998 suggests that CRA and a variety of other factors have helped to expand mortgage credit to underserved borrowers over the 1990s. These other factors include:

- The strong economy and relatively modest interest rates of the 1990s (which have stimulated mortgage demand across the board and especially for marginal mortgage loan applicants, such as LMI families);

- Faster growth in incomes of black families relative to white families during the 1993-98 period, which has enabled proportionally more black families to qualify for mortgage credit;

- Advances in risk management and more rapid mortgage product innovation by lenders, in part spurred by the CRA, that have improved the capacity of the industry to reach out to LMI borrowers and areas in a way that is consistent with safe and sound lending;

- Enactment of affordable and underserved area goals for the GSEs and reforms in the Federal Housing Administration (FHA) loan guarantee program that have enabled it to reach more CRA-eligible borrowers;

- Stepped up enforcement of fair housing and equal credit laws;

- Disclosure under HMDA of mortgage rejection rate information by race and income, which has drawn public, regulatory and judicial attention to the provision of mortgage credit to minority areas and borrowers; and

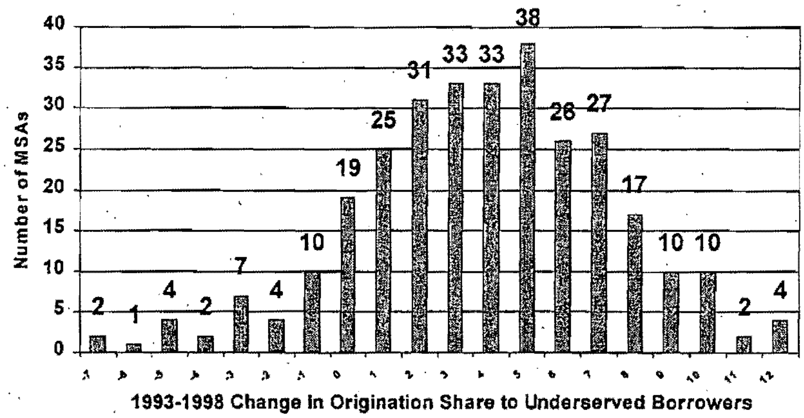
- Intensified merger activity among depositories, which has increased incentives for these lenders to take CRA performance seriously.

The absolute levels of – and recent changes in – CRA mortgage lending vary widely among metropolitan areas throughout the United States, underscoring the importance of examining the CRA in the context of other factors that influence mortgage credit flows. For example, although on average, the number of mortgage originations to underserved borrowers in metropolitan areas across the country was up by 43 percent between 1993 and

1998, there were 54 metro areas where it expanded by 90 percent or more. At the other extreme, in 22 metro areas, the number of originations to underserved borrowers contracted. These variations also appear when one focuses on the share of all originations to underserved borrowers made by CRA lenders and their affiliates between 1993 and 1998 (Chart ES-6). For instance, although the share of CRA lenders' originations to underserved borrowers was up about 3 percentage points nationally, the share declined in 30 metro areas, and increased by more than 7 percentage points in 43 metro areas.

Among metropolitan areas with at least 10,000 loan originations to underserved borrowers in 1998, Nashville (9 percentage points), Houston (8 percentage points) and Memphis (8 percentage points) had the largest gains in portfolio share. Phoenix (-4 percentage points), Orange County (-4 percentage points) and San Diego (-5 percentage points) had the largest drops (See Appendix Table C-14 for data on the 39 largest MSAs). The difference in lending patterns across MSAs is undoubtedly related, in part, to a series of factors other than the CRA, such as variations in economic conditions, home ownership levels, housing stock supply, household income levels, and other demographic factors. As a result, statistical analysis that attempts to sort out the significance of each of these factors, along with CRA, would be highly desirable.

Chart ES-6: CRA Lender and Affiliate Loan Origination Shares to Underserved Borrowers Varied Across Individual MSAs



Source: Joint Center for Housing Studies of Harvard University, Tabulations of Borrower Database

The rapid growth in lending to underserved borrowers by CRA-covered lenders, coupled with their increasing share of the market for prime loans to underserved borrowers, suggest that the CRA has contributed to the recent increase in mortgage lending to such borrowers. This and other evidence reviewed in this report, on balance, is consistent with the view that CRA has encouraged lending to underserved borrowers. Prior studies have not quantified this link, nor does this report.

Principal Findings About CRA-Related Small Business Lending

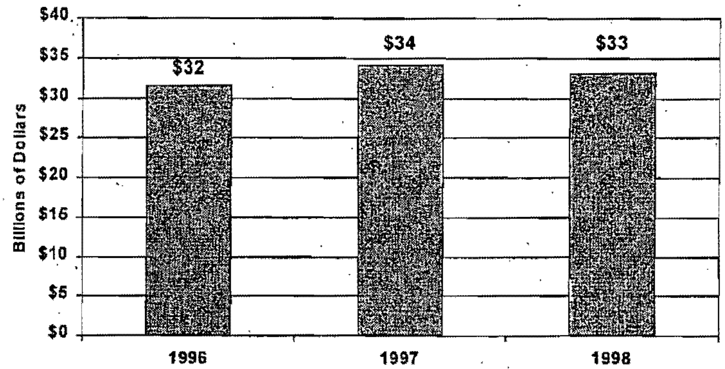
Large depository institutions were not required to collect small business lending data until 1996, and even now only about two-thirds of the aggregate volume of small business lending provided by banks and thrifts is reported, since smaller institutions are exempt from this reporting requirement. In addition, other financial institutions – such as finance companies – that provide loans for small business are not required to report such activities at all. Because of these factors, the available small business lending data cover less than half the total volume of loan originations. Furthermore, because financial institutions currently cannot, in general, collect information on the race of owners of small businesses, it is difficult to know the extent to which business credit needs of credit-worthy minorities are being adequately met by CRA-covered depositories (or other financial institutions).

With these data limitations in mind, this report finds that lending by CRA-covered institutions to small businesses in LMI areas was relatively stable between 1996 and 1998 – in excess of $32 billion annually (Chart ES-7). Because overall lending to small businesses rose modestly over this period, the proportion of those loans extended to businesses in LMI areas declined slightly, from approximately 21 percent in 1996 to 20 percent in 1998.

CRA-reporting institutions also provided loans to businesses with revenues of less than $1 million that are located in MHI areas. In 1998, this latter type of lending to underserved borrowers accounted for $61 billion, or almost double the total for all small business lending in low and moderate-income areas. Combining lending in both LMI and MHI areas, CRA-reporting institutions increased their small business lending to underserved borrowers from $81 billion in 1996 to $94 billion in 1998. Total small business lending to underserved borrowers accounted for 58 percent of the dollar volume, and 67 percent of the number of loans, of CRA-reporting lenders' total small business lending in 1998 (up from 55 percent of the dollar volume and 61 percent of the number of loans in 1997).

As additional information about small business lending becomes available, it may be possible to draw conclusions about the impact of the CRA on small business lending during this or earlier periods.

Chart ES-7 : Small Business Lending in LMI Areas by Reporting CRA-covered Lenders was Stable Between 1996 and 1998



Source: FFIEC, 1999

Community Development Lending

Community development lending is considered in CRA examinations and defined by current regulations to include loans that have community development as a primary purpose. Loans for affordable housing rehabilitation and construction, loans to financial intermediaries such as community development financial institutions (CDFIs) or local lending consortia, and loans to local nonprofit organizations that serve low-to-moderate income housing or other community development needs may all be included if they have not otherwise been reported under HMDA or CRA small business loan data. As with small business loans, only large depository institutions are required to report, and even then the only obligation is to report the aggregate volume of such lending and not its destination, by type of borrower or location.

Based on the current definitions, community development lending by CRA-covered institutions totaled nearly $16 billion in 1998, down somewhat from the high of $19 billion in 1997, and from $18 billion in 1996. Average loan sizes ranged from $542,000 to $745,000. As with small business lending, this reporting requirement became effective in 1996, so there is insufficient data to draw conclusions about trends over time.

CRA-Eligible Investment Activity

In assessing CRA performance, regulators assign 25 percent weighting to a financial institution's qualified investment activity. Eligible investments, grants or deposits may be in a variety of community development intermediaries such as CDFIs, community development corporations ("CDCs"), low-income or community development credit unions, Neighborhood Housing Services, and a wide variety of other community programs. Such investments are valuable in their own right, and also facilitate the provision of credit by depository institutions by bolstering these local institutions, which have critical market knowledge and expertise. These institutions can partner with banks and thrifts to originate loans, share risk, or provide essential services such as homebuyer counseling, thus enhancing the performance of bank and thrift loans. More importantly, these investments also enhance the stability of the neighborhoods in which banks and thrifts lend, further bolstering loan performance. Other eligible investing activities include amounts invested in Small Business Investment Companies (to the extent such investments serve a community development purpose), purchases of syndications in Low-Income Housing Tax Credits, or investments that promote community development for LMI populations or LMI neighborhoods.

Currently, no data reporting is required under CRA in connection with these activities, although regulators record an institution's qualified investments in the Performance Evaluation of each bank charter and each state of a multi-state charter. To date, no compilation is available to serve as a "baseline." Nonetheless, there is some evidence that the CRA has been an important vehicle for facilitating the growth of these institutions – together with support from the federal government, foundations and state governments for CDFIs and other community-based organizations. As one indication of investment activity, according to data collected by the Comptroller of the Currency, during the 1993-98 period, national banks invested in one type of community development – investments permitted under "Part 24" authority – seven times as much in real dollars as they had in the previous 28 years.

CRA-Eligible Services Activity

The extent to which depository institutions provide services to underserved populations also receives a 25 percent weighting in the regulators' evaluation of compliance with regulations under the Act. This includes consideration of both the distribution of banking offices and the range of retail products and services available at these locations. Furthermore, access to depository services may be an important link to credit access by facilitating the ability to manage household finances, accumulate savings, and enhance creditworthiness. Account ownership may also facilitate cross-selling by financial institutions of loan products to depositors. Research suggests that the provision of depository services helps to reinforce access to credit. Holding economic and demographic factors constant, low-income families with deposit accounts have been found to be significantly more likely to own financial products such as credit cards, home mortgages and auto loans.

Of the few studies that have been done on depository services, several contain findings that are relevant for purposes of this report. During the 1975-95 period, for example, banking offices became more evenly distributed on a per-capita basis across neighborhoods of different income levels, suggesting that LMI communities were not being significantly disadvantaged. In addition, the fraction of the population with some form of transaction (or "banking") account has been rising, from 84 percent in 1992 to over 90 percent in 1998. The share of the "unbanked" may decline in future years, as more financial institutions begin to offer electronically-based account products and other alternative delivery systems for LMI individuals, which are encouraged by the CRA regulations.

The CRA Services test also considers community development services, such as those that promote credit availability or affordable housing or the provision of technical assistance to other organizations working to meet the credit needs of LMI communities and borrowers. To our knowledge, no compilations of these activities exist; attempting to establish a "baseline" of these activities would require additional field research, at a minimum.

Remaining Credit Market Imperfections

The evidence suggests that CRA has contributed to increased lending to underserved borrowers, but there are indications of continuing imperfections in credit markets for LMI borrowers, especially minorities, as well as for some small businesses in LMI neighborhoods. So-called "matched pair studies," which attempt to control for economic and demographic factors in actual tests of the behavior of loan officers, have revealed instances of discrimination against minorities when applying for mortgages and searching for homes, although the national incidence of the problem is unknown. Findings of racial discrimination derived from statistical studies of mortgage denials remain contested, but raise important questions about continuing market failures.

As for small business, there is suggestive evidence that the credit needs of firms in LMI areas are not being met as fully as those businesses located in middle and upper-income areas. Other studies suggest that minority borrowers are less successful than whites at obtaining small business loans after controlling for the amount of personal equity invested and the borrower's education level. More research needs to be done to determine whether, and to what extent, the differences in the supply of credit to businesses in different areas is due to differences in demand or the effects of imperfections in credit markets.

Recommendations for Studying the Impact of Financial Modernization on CRA Goals

It will be difficult even two years from now to isolate the impact of the FMA on CRA-related financial services from the many other forces that also affect these patterns. Nonetheless, several possible research approaches may help shed some light on the issue.

One approach is to conduct case studies of financial institutions most likely to take advantage of the new financial holding company structures authorized by the FMA. These case studies could be used to improve understanding of how the companies most likely to use these new structures would view their obligations, organizational capacities, and organizational constraints in reaching out to underserved borrowers after taking advantage of the new powers authorized by the FMA. Another indicator may be the extent to which CRA-covered insured depositories elect to have the lending, investment and services of their non-bank financial holding company affiliates considered during a CRA evaluation. This information could be supplemented by interviews with community groups, business leaders, and regulators to obtain their views of how the FMA will influence CRA lending.

Existing diversified financial holding companies include unitary thrifts (which have long had activity powers even more extensive than those authorized by the FMA). It is therefore also worth examining whether their mortgage lending patterns in 1993 and 1998 differed from those of other financial institutions.

Further research is also warranted into the metropolitan area variations in mortgage lending to underserved borrowers. One potentially useful exercise would be to explore, through formal statistical methods, the causes of census-tract variation in mortgage lending to these borrowers, with strong controls for metropolitan area characteristics and a view toward isolating the potential impact of the CRA from other possible factors contributing to this variation. These factors include differences in local economic conditions, demographic compositions of local populations, and the structure of local housing and mortgage markets.

At least three other important trends in the banking industry – indeed, the financial services industry more broadly defined – appear to be influencing flows of credit to individuals and small businesses in LMI and minority areas and to minority owned businesses: the use of credit scoring technologies, credit card lending, and consolidation of the banking industry. The closing section of the report briefly discusses these forces, but suggests that more research will be required to provide more precise estimates of the direction and magnitude of the impacts of each of these developments. Additional information not now reported under the HMDA or CRA – in particular, data relating to fees and interest rates – also would allow for a better understanding of the access of underserved borrowers to credit and how lending to them affects their communities.

Finally, the FMA requires the Federal Reserve Board to study the profitability, delinquency and default rates of CRA lending. Therefore, we touch on that subject only briefly here. In this area, it is noteworthy that through 1998, the charge-off rates for mortgage loans were low and generally stable, despite the dramatic increase in mortgage lending to underserved borrowers during the 1993-98 period documented in this report. The survey that the Federal Reserve is conducting to meet the FMA requirement may provide financial institutions' views of the relative profitability of CRA-related lending. This survey information will need to be compared with other evidence about the costs and benefits of the CRA. Any costs associated with the CRA must be weighed against the benefits of the Act in addressing failures in the credit markets for underserved populations and prompting institutions to discover and exploit profitable opportunities they might have otherwise overlooked.

95-147667

6/29/95

THE SECRETARY OF THE TREASURY

Mr. President:

Attached is a letter I sent to Chairman Jim Leach explaining our opposition to H.R. 1362, which cripples the CRA and undermines the safety and soundness of our banking institutions. In the letter I explained that if this bill were passed in its present form, I would recommend you veto the bill.

Bob Rubin

155611

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

February 21, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: SECRETARY ROBERT E. RUBIN

SUBJECT: COMMUNITY DEVELOPMENT LENDING

I thought you would be interested in the attached article, which highlights the success of community development lending under the Community Reinvestment Act (CRA). As you know, we have been fighting congressional attempts to eviscerate CRA, so far successfully. To get out the good word, we have distributed this article widely, to the press, Members of Congress and interested groups.

I also wanted to let you know that the CDFI Fund is thriving in its new home in Treasury. I recently opened the Fund's first Advisory Board meeting, and the level of excitement was high. Moreover, response to the Fund's first call for applications has been outstanding, with requests from mainstream financial institutions and community development funds outstripping available resources by roughly 10 to 1. We have some exciting new initiatives coming on, including establishing, at your direction, Presidential Awards for microlending. I think we have a real opportunity to take your community development initiatives to scale over the next five years.

I will be discussing these issues tomorrow at the Comptroller of the Currency's community development conference, as well as announcing the details of the brownfields tax incentive that you called for in your State of the Union address. I think this incentive holds out real prospects for helping to get abandoned, contaminated industrial sites productive again.

THE WALL STREET JOURNAL TUESDAY, FEBRUARY 13, 1996 A1

Giving Credit

Mortgage Lending To Minorities Shows A Sharp 1994 Increase

Regulators and the Market Both Fuel Trend, as Do Low-Income Loan Plans

Buying With Nothing Down

By JOHN R. WILKE
Staff Reporter of THE WALL STREET JOURNAL

From the South Bronx to the suburbs of Los Angeles, mortgage lenders are making loans to blacks and Hispanics as never before.

The surge in credit is being fueled by tough fair-lending enforcement, federal community-investment rules that encourage such loans and required public disclosure of every mortgage lender's loans by race and income. And another reason: "It's good business," says Karen Wegmann, executive vice president at Wells Fargo Bank in California. "We're making money."

The rise in lending is most striking in hard-hit inner-city and rural areas, heavily populated by minorities, that long were underserved by banks and mortgage companies. Indeed, in many cities, low-income and minority borrowers can now find mortgage credit on better terms than affluent whites, Federal Reserve officials say.

The targeting of these borrowers is changing the makeup of the mortgage market. A Wall Street Journal computer analysis of millions of mortgages from the latest data available shows that home-loan approvals to blacks soared more than 38% in 1994 from 1993, while approvals of loans to whites rose just under 12%. Loan approvals for Hispanics rose steeply as well, by 31%, with approvals for Asians up 17%.

"It's a new day," says John Taylor, a longtime bank critic who heads the National Community Reinvestment Coalition. "Five years ago, most banks didn't take the community-lending laws seriously," he says. "Today there's more lending in low-income urban and rural communities than ever before."

Part of the reason is the wave of takeovers in the banking industry. Regulators whose approval is needed for mergers are taking a harder line on banks' and savings-and-loans' performance under the Community Reinvestment Act, a law that requires them to lend in every community where they take deposits. A weak lending record can slow or even derail a deal, while a strong one can speed approval and head off protests by community groups.

In recent months, some eye-popping community-lending commitments have been made by banks that are in the merger market. For example, Wells Fargo & Co., which is taking over California rival First Interstate Bancorp, promised $45 billion for lower-income and small-business loans over 10 years.

Approvals Soar

Mortgages approved, by race

	1994	RISE FROM 1993
Black	242,968	38.3%
Hispanic	236,186	30.9
Native American	20,134	27.1
Asian	116,432	17.0
White	3,038,940	12.0

Market forces have also helped. With slower growth in the demand for large and middle-size mortgages, lower-income borrowers of all races emerged as a source of new business toward the end of 1994. "Bankers discovered that the community-lending laws were a blessing in disguise," says Karen Shaw Petrou of ISD Shaw Inc., a Washington consulting firm. "It's the only part of the market showing robust growth right now."

Lenders' new focus on minority and low-income borrowers comes even as congressional Republicans seek to exempt many banks and S&Ls from the Community Reinvestment Act. Its critics call the 1977 law a heavy-handed affirmative-action program. But Democratic Rep. Joseph Kennedy of Massachusetts, a longtime advocate of more minority lending, says the latest numbers "clearly show that CRA works."

Much of the new wave of lending is at below-market terms, offering low closing costs, low down payments or relaxed standards for such things as a borrower's credit rating, income and level of debt. An unpublished survey by the Federal Reserve found such programs proliferating in almost every city, many offering as much as a one-percentage-point break on interest rates or on the "points" charged at the closing. The programs may become even more common because of newly revised CRA rules under which banks' lending records will be measured in part by comparison with their peers'.

"We're going to see banks offering cheap money to buy market share in low-income areas, especially after they realize that under the new rules, CRA ratings depend on it," predicts Catherine Bessant, a senior vice president at NationsBank Corp., of Charlotte, N.C.

This acquisition-minded "superregional" bank has itself begun offering one of the country's most aggressive low-income-loan programs. Working through a Boston nonprofit housing group, NationsBank is making available $500 million of home loans in four Southeastern cities to as many as 10,000 borrowers with no need to come up with any down payment at all, nor to pay any closing costs.

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Who Gets What

cont

31

Lending

The below-market loan programs also raise the sensitive issue of fairness. "In some cases, it is now cheaper to get a home loan in the inner city than in the suburbs," says Lawrence Lindsey, the Fed governor who oversees community lending. The new programs "have not only leveled the playing field but begun to go in the other direction," he says, as big lenders aggressively move into the inner city to demonstrate to their regulators that they are complying with fair-lending laws.

Mr. Lindsey makes clear that he welcomes the new and easier credit flowing into the inner city, something federal regulators have been seeking for years. But ultimately, he says, "we want to end up as a society where all people are treated equally when applying for credit."

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Ratings Rise

As banks get involved in such programs to impress regulators, their Community Reinvestment Act ratings have been rising. A General Accounting Office survey shows that "outstanding" ratings have more than doubled in four years, while "needs to improve" ratings have dropped by more than half.

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CTX Mtge. Dallas	100.0	79.3	26.2
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Copy

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Tough fair-lending enforcement by the Justice Department has also helped spur minority lending, with the department bringing six such cases in the past three years, after more than a decade with no significant actions. "There's no question that enforcement is tougher today," says Andrew Sandler, an attorney with Skadden, Arps, Slate, Meagher & Flom. Most cases target banks, but lenders that aren't required to comply with CRA are under scrutiny as well, he says.

The Journal analysis of the 1994 home-mortgage numbers shows that lenders still rejected a much higher percentage of black applicants than of whites – 31.2% vs. 16.71%. Thus, the greater number of loans made mostly reflected a surge in the number of applications taken.

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A few institutions that did more lending to blacks made most such loans to families living in heavily white census tracts, where average income is higher. Bank of America FSB, an Oregon-based unit of BankAmerica Corp., had the third-highest number of home loans to blacks, making nearly twice as many in 1994 as in 1993. Yet 98.9% of them were to blacks living in largely white census tracts.

On the CEO's Desk

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"That sent a message to the rank and file that we were serious about turning this around," Mr. Mozilo says. But to do so, he adds, "lenders have had to stretch the rules a bit."

The new push in minority lending comes as federal housing funds and community-development grants are being slashed by the Republican-controlled Congress. Mr. Taylor of the community-investment coalition says this makes continued progress by the private sector vital if the renewal of poor inner-city and rural communities is to continue. "There is still so much more to be done," he says.

8221

1996-SE-000493

THE WHITE HOUSE

WASHINGTON

THE PRESIDENT HAS SEEN
2/26/96

February 24, 1996

To: L. Mog
Michel Barr

MEMORANDUM FOR THE PRESIDENT:

FROM: TODD STERN
HELEN HOWELL

From: Bob Rubin

SUBJECT: Recent Information Items

We are forwarding the following recent information items:

(A) Rubin note on community development lending. Upbeat note attaching Feb. 13 WSJ article on success of community development lending under the Community Reinvestment Act. Rubin says that the CDFI Fund is thriving in its new home at Treasury, and response to the Fund's first call for applications has been outstanding, with requests outstripping available resources by 10 to 1: "We have some exciting new initiatives coming on, including...Presidential Awards for microlending. I think we have a real opportunity to take your community development initiatives to scale over the next five years." Note the WSJ article The article states that regulators whose approval is needed for mergers are taking a harder line on banks' and S&Ls' performance under the CRA, which requires them to lend in every community where they take deposits. A weak lending record can slow or even derail a deal.

(B) Lake response on river blindness. A December NYT article said the U.S. "refused to contribute" to efforts to eradicate river blindness in Western Africa. In fact, USAID has funded a ***global*** eradication effort since 1974 and hopes disease can be destroyed by 2002. U.S. decision not to fund the West Africa program mirrors that of other major donors to the global effort. AID will lend technical support to the West Africa program, but cannot fund it because of AID's austere budget.

(C) Congressional notes. *Markey* -- thanks you for the "magnificent" telecom signing ceremony, for the electronic pen, and for highlighting children's tv and V-chip. Asks to meet with you before you see entertainment leaders and such a meeting *has* been scheduled for Wednesday, February 28; *Nunn* -- thanks you for your recent note and the enclosed cross-word puzzle. "Mother has now moved from Perry to Atlanta in an assisted care home, so she will love this puzzle completed by our nation's leader;" *Leahy note and family photo* -- thanks you for your holiday greeting. "We want to send you our very best for 1996 as well as a photo of all the family celebrating our son Mark and Kristine's wedding at our tree farm in Vermont last summer."

The Honorable Robert Rubin
Department of the Treasury

VIA SPECIAL MESSENGER

THE PRESIDENT HAS SEEN
2/26/96

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

96 FEB 22 P4:55

SECRETARY OF THE TREASURY

February 21, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: SECRETARY ROBERT E. RUBIN RER

SUBJECT: COMMUNITY DEVELOPMENT LENDING

I thought you would be interested in the attached article, which highlights the success of community development lending under the Community Reinvestment Act (CRA). As you know, we have been fighting congressional attempts to eviscerate CRA, so far successfully. To get out the good word, we have distributed this article widely, to the press, Members of Congress and interested groups.

I also wanted to let you know that the CDFI Fund is thriving in its new home in Treasury. I recently opened the Fund's first Advisory Board meeting, and the level of excitement was high. Moreover, response to the Fund's first call for applications has been outstanding, with requests from mainstream financial institutions and community development funds outstripping available resources by roughly 10 to 1. We have some exciting new initiatives coming on, including establishing, at your direction, Presidential Awards for microlending. I think we have a real opportunity to take your community development initiatives to scale over the next five years.

I will be discussing these issues tomorrow at the Comptroller of the Currency's community development conference, as well as announcing the details of the brownfields tax incentive that you called for in your State of the Union address. I think this incentive holds out real prospects for helping to get abandoned, contaminated industrial sites productive again.

THE WALL STREET JOURNAL TUESDAY, FEBRUARY 13, 1996 A1

Giving Credit

Mortgage Lending To Minorities Shows A Sharp 1994 Increase

Regulators and the Market Both Fuel Trend, as Do Low-Income Loan Plans

Buying With Nothing Down

By JOHN R. WILKE
Staff Reporter of THE WALL STREET JOURNAL

From the South Bronx to the suburbs of Los Angeles, mortgage lenders are making loans to blacks and Hispanics as never before.

The surge in credit is being fueled by tough fair-lending enforcement, federal community-investment rules that encourage such loans and required public disclosure of every mortgage lender's loans by race and income. And another reason: "It's good business," says Karen Wegmann, executive vice president at Wells Fargo Bank in California. "We're making money."

The rise in lending is most striking in hard-hit inner-city and rural areas, heavily populated by minorities, that long were underserved by banks and mortgage companies. Indeed, in many cities, low-income and minority borrowers can now find mortgage credit on better terms than affluent whites, Federal Reserve officials say.

The targeting of these borrowers is changing the makeup of the mortgage market. A Wall Street Journal computer analysis of millions of mortgages from the latest data available shows that home-loan approvals to blacks soared more than 38% in 1994 from 1993, while approvals of loans to whites rose just under 12%. Loan approvals for Hispanics rose steeply as well, by 31%, with approvals for Asians up 17%.

"It's a new day," says John Taylor, a longtime bank critic who heads the National Community Reinvestment Coalition. "Five years ago, most banks didn't take the community-lending laws seriously," he says. "Today there's more lending in low-income urban and rural communities than ever before."

Part of the reason is the wave of takeovers in the banking industry. Regulators whose approval is needed for mergers are taking a harder line on banks' and savings-and-loans' performance under the Community Reinvestment Act, a law that requires them to lend in every community where they take deposits. A weak lending record can slow or even derail a deal, while a strong one can speed approval and head off protests by community groups.

In recent months, some eye-popping community-lending commitments have been made by banks that are in the merger market. For example, Wells Fargo & Co., which is taking over California rival First Interstate Bancorp, promised $45 billion for lower-income and small-business loans over 10 years.

Approvals Soar

Mortgages approved, by race

	1994	RISE FROM 1993
Black	242,968	38.3%
Hispanic	236,186	30.9
Native American	20,134	27.1
Asian	116,432	17.0
White	3,038,940	12.0

Market forces have also helped. With slower growth in the demand for large and middle-size mortgages, lower-income borrowers of all races emerged as a source of new business toward the end of 1994. "Bankers discovered that the community-lending laws were a blessing in disguise," says Karen Shaw Petrou of ISD/Shaw Inc., a Washington consulting firm. "It's the only part of the market showing robust growth right now."

Lenders' new focus on minority and low-income borrowers comes even as congressional Republicans seek to exempt many banks and S&Ls from the Community Reinvestment Act. Its critics call the 1977 law a heavy-handed affirmative-action program. But Democratic Rep. Joseph Kennedy of Massachusetts, a longtime advocate of more minority lending, says the latest numbers "clearly show that CRA works."

Much of the new wave of lending is at below-market terms, offering low closing costs, low down payments or relaxed standards for such things as a borrower's credit rating, income and level of debt. An unpublished survey by the Federal Reserve found such programs proliferating in almost every city, many offering as much as a one-percentage-point break on interest rates or on the "points" charged at the closing. The programs may become even more common because of newly revised CRA rules under which banks' lending records will be measured in part by comparison with their peers'.

"We're going to see banks offering cheap money to buy market share in low-income areas, especially after they realize that under the new rules, CRA ratings depend on it," predicts Catherine Bessant, a senior vice president at NationsBank Corp., of Charlotte, N.C.

This acquisition-minded "superregional" bank has itself begun offering one of the country's most aggressive low-income-loan programs. Working through a Boston nonprofit housing group, NationsBank is making available $500 million of home loans in four Southeastern cities to as many as 10,000 borrowers with no need to come up with any down payment at all, nor to pay any closing costs.

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The Secretary of the Treasury

February 28, 1996

NOTE FOR KIRSTEN MOY
MICHAEL BARR

FROM: BOB RUBIN

Please see attached comments
from the President.

Attachment

Information Only Coversheet

27-Feb-96

PROFILE #:	1996-SE-000493
DATE CREATED:	2/27/96
ADDRESSEE:	Robert E. Rubin Secretary
AUTHOR:	Stern, Todd White House
SUBJECT:	CC Of Memorandum For The President Re Recent Information Items
ABSTRACT:	CC of Memorandum for the President re Recent Information Items (Community development lending). (NOTE: The President has seen this memo.)
DISTRIBUTION:	CHIEF OF STAFF US, DOMESTIC FINANCE EXECUTIVE SECRETARY

95-151137

DEPARTMENT OF THE TREASURY
WASHINGTON

September 29, 1995

INFORMATION

MEMORANDUM FOR DEPUTY SECRETARY SUMMERS

FROM: Under Secretary Hawke

SUBJECT: CRA Lending Volume

Attached please find three articles that may address your question on how much lending can be attributed to CRA. In the American Banker piece FRB Governor Larry Lindsey attributes (incorrectly) CRA as delivering \$4 billion to \$6 billion a year to low-income areas. His figures are most likely based on the conclusions from the National Community Reinvestment Coalition study showing CRA commitments since 1977. There is very little information available directly on this subject other than the NCRC study.

I have also attached ~~for~~ your review information from the Federal Financial Institutions Examination Council which collects data covered by the Home Mortgage Disclosure Act. Although not specifically attributable to CRA, these data may serve as a close proxy.

Attachments

To Bob Rubin —

Jerry has sent me the available stuff on how much money CRA has channelled. It makes no real attempt to find what the incremental effect of CRA is, or whether banks can earn a return on what is genuinely incremental

The Deputy Secretary of the Treasury

October 5, 1995

Secretary Robert Rubin

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Larry

Room 3326 622-1080

94-135469

MEMORANDUM

To: Lloyd Bentsen

From: Gene Ludwig

cc: Frank Newman

Re: Community Reinvestment Act Reform

Date: June 23, 1994

The key issue that has emerged in completing the regulatory reform of the Community Reinvestment Act is the collection and public disclosure of race and gender-based data for small and medium-sized business lending. Home mortgage lenders are currently required to collect and report such data for residential real estate loans.

As you might guess, this is a controversial subject. The fault lines in the controversy are not surprising. Banks and Republicans in Congress tend to disfavor collection and disclosure of such data. The current Federal Reserve Board has, to date, also opposed collection and disclosure. On the other hand, Democrats and community groups tend to favor collection and disclosure. The FDIC and OTS also favor collection and disclosure.

The issue in terms of the current CRA effort has some unusual dimensions. First, a number of community groups are sufficiently keen on collection and disclosure of lending data that they would be willing to be flexible on a variety of other issues about which the banks care a great deal. On the other side of the debate, several banks have signaled to us that if we are prepared to make certain concessions in other areas, they would not fight on collection and dissemination of this data. This data is, therefore, a critical element in our attempts to create a balanced proposal. Substantively, race and gender data represent only a minor addition to the reporting requirements in the proposal and yet fill a significant information void.

Moreover, for a variety of reasons the White House (NEC and Domestic Policy Council) want us to move forward with a collection and dissemination provision in the rule. The White House view is shared by the Congressional Black caucus, many members of the California delegation and the leadership of the House and Senate banking committees.

The Fed, most notably Governors Lindsey and LaWare, had initially opposed the collection of this kind of data. However, earlier this year, one large bank, Comerica, asked for permission to collect and disclose such information voluntarily. The Fed turned them down. This resulted in a public expression of unhappiness by a number of Congressmen.

The Fed was initially inclined to hold with its position and tell Congressional critics to deal with the matter legislatively if they were dissatisfied. However, following discussions that I have had with Governor Lindsey, the Fed has decided not to take a firm position on this issue at this time but rather to wait and discuss it further in the CRA context. Moreover, I have had discussions of this issue at some length with Alan Greenspan, and while he is no fan of collection and disclosure, he might be willing to accept the concept as part of a revised CRA.

The specific plan Frank Newman and I worked out with the White House is to have mandatory collection and disclosure of race and gender data for small business loans, voluntary collection and disclosure for consumer loans, and a legislative proposal for the collection and disclosure of such data by nonbank lenders.

I believe that Frank and I reached the right result. Although these are not easy questions, substantively the best answer is to collect the data. First, such data should help the institution determine whether or not any of its people or divisions are discriminating. Second, a bank cannot protect itself from Justice Department charges that its policies are having a discriminatory impact if it does not have the information well in advance to make such changes to its policies as are prudent. Third, the availability of accurate data in this area is more likely to result in positive change in a free market fashion than almost any other part of the reform.

I am proceeding to work with the other federal bank and thrift regulators to prepare the final draft of the CRA reg which should be completed this summer. I will keep you informed as to whether we encounter stiff resistance on the race and gender data issue from the Fed.

June 23, 1994

DC ECONOMIC DEVELOPMENT PLAN (EDP)

1997-SE-002951

March 7, 1997

MEMORANDUM FOR PRESIDENT CLINTON

FROM: Franklin D. Raines
Robert E. Rubin R.E.R.

SUBJECT: D.C. Economic Development Plan

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The plan is designed to complement the other elements of your "National Capital Revitalization and Self-Government Improvement Plan." It responds to the unique needs of the District of Columbia, draws on the best features of successful economic development models in other cities, and builds on the Administration's urban agenda.

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Additional Expensing. To bolster small businesses in the District, the plan proposes a roughly $20 million tax incentive, to permit eligible small businesses in distressed areas to deduct up to $20,000 in additional expenses per year for certain equipment costs. The expensing provision is similar to, but less restrictive than, that contained in the Empowerment Zone legislation.

Private Activity Bonds. The EDC would also be given the authority to issue a new, broader category of tax-exempt private activity bonds to finance businesses located in distressed areas in D.C. Eligible businesses, including commercial and retail facilities, must be located in census tracts with a poverty rate of at least 15 percent, and have a workforce at least 35 percent of which is made up of District residents. Again, this provision is similar to, but less restrictive, than that found in the Empowerment Zone legislation.

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Challenge Committee. We suggest that at Tuesday's announcement, you call on business and community leaders to form a Challenge Committee to bring the D.C. and regional community together behind your plan and to build the consensus necessary to make the new Economic Development Corporation work effectively. The Committee would report back to you in 60 days on their progress. The Booster Committee was conceived so that progress may be made toward implementing your D.C. plan even before the legislation is passed and the EDC up and running.

THE WHITE HOUSE

WASHINGTON

DATE: March 10, 1997

NOTE FOR: The Honorable Robert E. Rubin

The President has reviewed the attached, and it is forwarded to you for your:

Information [X]

Action [ ]

Thank you.

Staff Secretary
(x6-2702)

Written by M. Barr
cleared by J. Gotbaum
Neal Wolin
Karl Scholtz
Mike Froman
NCC original to WH
RER signed 3/7/97
NCC cc to LS
Please Log IN

THE PRESIDENT HAS SEEN
3-10-97

March 7, 1997

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Robert E. Rubin R.E.R.

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THE WHITE HOUSE

WASHINGTON

DATE: March 10, 1997

INFORMATION

NOTE FOR: The Honorable Robert E. Rubin

The President has reviewed the attached, and it is forwarded to you for your:

Information ☒

Action ☐

Looks good.- but I have a problem just announcing this without any attempt to have GOP buy-in on the front end. - BC

Thank you.

Staff Secretary
(x6-2702)

cc: NCC to RER (reading)
NCC to LS
NCC CC TO JBN

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3-10-97

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