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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Memorandum For the President [partial] [pages 2-3 withdrawn in whole] (3 pages)	05/04/1999	P5

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FOLDER TITLE:

CRA [Community Reinvestment Act] [Folder 2]

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RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
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RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

- The GAO has found that "the regulators have made extensive efforts in revising the regulations to address the diverse concerns raised about the effectiveness of CRA. GAO wrote that "the burden associated with documenting efforts and processes is to be eliminated."

Isn't CRA credit allocation?

- No. CRA has nothing to do with quotas or allocations. CRA does not specify the number or types of loans that must be made. CRA is broad and flexible.

- "The essential purpose of the CRA is to try to encourage institutions who are not involved in areas where their own self interest is involved, in doing so. If you are indicating to an institution that there is a foregone business opportunity in an area X or loan product Y, that is not credit allocation. That, indeed, is enhancing the market." Alan Greenspan,

Why is CRA important for small banks?

- While many small banks do a good job of serving their communities, research shows that a significant number of smaller banks invest only a small portion of their depositors' funds in their local communities.

- In 1997, for example, banks under $100 million in assets received 82% of the substantial non-compliance ratings.

- Many small banks have low loan to deposit ratios; fully half of small banks have loan to deposit ratios of 70%, and a quarter of small banks have ratios of less than 58%.

What about a small bank exemption?

- In the Senate Banking Committee, an amendment was offered to the credit union bill that would have exempted all banks under $250 million in assets from the CRA. This amendment was defeated on a tie vote.

- The Clinton Administration has repeatedly stated that it would veto legislation containing a small bank exemption to CRA. This amendment, which is divisive and not germane to the credit union legislation, would prevent enactment of this historic legislation.

- The amendment would exempt more than 85% of all banks from CRA. A small bank exemption would hurt thousands of local communities in states across the country.

- In 30 states, small banks make up over 80% of the banks in the state.

- There is no need for this amendment. The new CRA rules already lifted the regulatory burden on small banks, with a streamlined examination. These institutions are exempt from reporting requirements, and are no longer subject to process-based documentation requirements. Instead, examiners rate their loan performance.

- CRA regulatory reform reduced burdens on small banks and thrifts early and in overwhelming numbers. Small banks and thrifts benefited from the regulatory burden reduction effective January 1, 1996 – more than a year earlier than large institutions. In addition, more than 80% of all banks covered by CRA qualify for the streamlined performance standards for small banks and thrifts.

- Actual time spent in community banks on CRA examinations has been reduced by 30%.

- The Independent Bankers Association of America "hailed the final interagency CRA rules... as a big step in regulatory burden reduction for community banks." The IBAA "commended the regulators for instituting a meaningful, streamlined tiered examination system that recognizes the differences between community banks and their large regional and multinational brethren." IBAA press release, April 19, 1995.

- "There are some real benefits to both communities and banks under the new rules. The streamlined exam [for small banks] is particularly positive because it will free up much needed resources at these smaller institutions." Donald Ogilvie, American Bankers Association.

- Small banks have praised the reduction in burden under the revised CRA rules. Bankers have said: -- "The new regulation takes a lot of burden off our bank and is much fairer." -- "The recent change in regulation helped. The examination was less burdensome and less time consuming." -- "We are comfortable with the new examination; it was much better than the old one." -- "I loved the last exam. It was straightforward and easy to comply with." (Bankers in Raymond, IL., Hawley, MN, Madill, OK, and Lancaster, OH).

Why is CRA important to Rural America?

- Many rural communities, faced with high poverty rates and low incomes, are desperate for new economic activity. Access to bank credit in rural communities, where markets are often dominated by a few institutions, is often scarce. Banks in rural communities often receive poor CRA ratings and lag behind their peers in local lending for consumers and businesses.

Why is CRA important to Indian Country?

- CRA encourages banks to lend in their entire communities, including in Indian reservations near the banks' main offices, branches or deposit-taking ATMs. CRA has helped to increase lending, service and investment in Indian country. For example, on the Navajo reservation in 1994, before the CRA regulatory reform, there were three bank branches. Today, there are 12. In 1994, the Navajo had 2 ATMs; today they have 19. Today, the Navajo branches are highly profitable for the banks, and the residents of the reservation have benefitted from an array of new mortgage and small business loans.

Why should we require credit unions to serve their entire field of membership?

- H.R. 1151 rightly reaffirms and reinforces credit unions' mission of serving persons of modest means. Section 204 would require periodic review of each federally insured credit union's record of meeting the needs of such persons within its field of membership. This requirement is flexible, tailored to credit unions, and will impose no unreasonable burden.
- The requirement rests on the Congressionally mandated mission of credit unions and on the benefits of federal deposit insurance. Such deposit insurance gives credit union members ironclad assurance about the safety of their savings, and thus helps credit unions compete for deposits with larger, more widely known financial institutions (just as it helps community banks and thrifts).
- Section 204 is particularly appropriate in view of how the bill liberalizes the common bond requirement and thus facilitates credit unions' expansion beyond their core membership groups.
- Under Section 204, the NCUA would periodically review the record of federally insured credit unions in serving persons of modest means within their field of membership. The NCUA would develop criteria for evaluating community credit unions, and to issue regulations that emphasized performance, not paperwork.
- Credit unions would not be required to serve non-members, or to make preferential loans to persons of modest means. Credit unions are cooperative institutions, and are organized to serve their membership. The bill would simply require credit unions to serve their entire field of membership, including persons of modest means.

CRA Talking Points

- CRA is working to create jobs, build homes, and grow businesses in communities across the country.

- The President has been a strong supporter of CRA from the beginning of his Administration. At the President's request, the banking regulators reformed CRA to focus on performance, not paperwork.

- The results have been impressive: while we have much more progress to make, home mortgage lending to African Americans is up 58 percent, to Hispanics by 62 percent and low and moderate income borrowers by 38 percent, well above the overall market.

- In 1997, banks and thrifts made $18.6 billion in community development loans and investments. Over the last six years, the private sector has pledged over $1 trillion in loans under CRA -- that's over 96% of pledges made since CRA's enactment in 1977.

- Now – again – CRA is under attack. The Senate has voted out a bill on party lines that would seriously weaken CRA in three ways:

- First, the bill provides a safe harbor for banks with satisfactory CRA ratings in their last examination, effectively removing public comment from the merger application process.

- Second, the bill exempts small banks in rural areas from CRA entirely, removing 38% of banks and thrifts from CRA in the communities that often face the worst problems.

- Third, the bill fails to include a provision that banks have and maintain an adequate CRA record as a condition of engaging in newly authorized financial activities, despite the fact that the importance of these new activities is going to keep growing in the decades ahead.

- The President has made it clear that he will veto the Senate bill in its current form. It is wrong for financial modernization and it is wrong for America's communities.

- By contrast, the House banking bill was voted out of committee on an overwhelmingly bipartisan basis, 51-8, and does not contain these problems. It is a bill we support. We believe that it will help to preserve CRA's relevance in the years ahead.

- The House bill will go to the floor as early as this week. We are urging that there be no amendments permitted on CRA. Unless we get agreement on having no CRA amendments, there is a real danger that the congressional majority could offer up and win on quite damaging CRA amendments, leaving all of us in a weaker position in conference.

- Our strategy is to remain strong and vigilant on CRA.

- The President, the Vice President, and Secretary Rubin have all made it clear how strongly we stand for CRA. In the days and months ahead, we will continue to make our case.

- CRA is a moral issue. It is an economic issue. And it is a civil rights issue. CRA is vital to bringing real economic opportunity to all our communities. With all the progress we have made together, now is not the time to turn back.

- Thank you very much for joining us here today.

Department of Treasury
Community Development Policy
Questions and Answers: the Community Reinvestment Act
June 28, 1999

Community Reinvestment Act

Question:
What are the benefits of CRA?

Answer:
CRA is helping to rebuild homes, grow small businesses, create jobs, and restore hope in neighborhoods across the country. By encouraging banks and thrifts to explore opportunities to make safe and sound loans in low income communities, CRA is helping to expand the reach of the private sector marketplace.

For example, between 1993 and 1997, home loans to low and moderate income communities grew by 45% compared to average growth of 33%. Banks and thrifts subject to CRA's reporting requirements made $159 billion in small business loans in 1997, with about 20% going to businesses in low and moderate income areas.

Banks and thrifts made $18.6 billion in community development loans in 1997. In the six year period 1993-1998, national banks invested eight times as much in community development as they did in the previous 30 years.

Question:
As an economist, how can you justify CRA?

Answer:
Federally insured banks and thrifts receive benefits from comprehensive federal regulation, access to the Federal Reserve Board's discount window and the payments system, and federal deposit insurance, and are required under their charters to meet the convenience and needs of their communities.

CRA helps to overcome market failures in the provision of credit in low and moderate income communities. For example, given imperfect competition in these markets, and the fact that information has the attributes of a public good, the costs of gathering information about profitable loans in low income communities may create barriers to entry that can be efficiently reduced through CRA's obligations.

I think what you will find is that banks have, because of CRA, entered into new markets and found profitable loans to make to creditworthy borrowers. As Alan Greenspan has said, CRA is helping by "enhancing the market."

Question:

Will the Administration veto Financial Modernization legislation over the Community Reinvestment Act?

Answer:
President Clinton and Secretary Rubin have made clear that the Administration would veto legislation that weakened or failed to preserve the relevance of CRA.

With respect to the Senate-passed financial modernization legislation, the President has said that he would the bill, in part because in his judgment the bill would undermine the effectiveness of the Community Reinvestment Act.

By contrast, the Administration supports the House passed version of financial modernization, which preserves the relevance of CRA.

Background:
Congress enacted CRA in 1977 to encourage federally insured banks and thrifts to help meet the needs of their communities, consistent with safe and sound banking practices. Federal bank and thrift supervisors assess financial institution performance: loans made, services provided, and investments in their communities. CRA regulations tailor examinations to specific types of institutions. The regulation provides a streamlined examination for banks and thrifts with assets under $250 million, a community development test for wholesale and limited purpose institutions, and a strategic plan option for all institutions. Examinations are typically done on 24 to 36 month cycles.

Banks and thrifts make their CRA ratings public. The public has an opportunity to comment on CRA performance at any time, including in connection with scheduled examinations, and the filings of certain types of applications, such as those for mergers and acquisitions, the establishment of new institutions, and deposit facilities.

S. 900, the Senate financial modernization legislation, weakens CRA in three ways: 1) The bill provides a "safe harbor" for banks with a satisfactory or better CRA rating. Such an institution would be deemed to be in compliance with CRA unless Asubstantial verifiable information@ arising since the time of its most recent examination is filed. 2) The bill provides a small bank exemption that exempts banks with less than $100 million in assets located outside metropolitan areas from CRA B 38 percent of total banks and thrifts. 3) The bill fails to include the House-banking bill requirement that insured depositories have and maintain a satisfactory record on CRA as a condition for engaging in newly authorized financial activities.

Gramm is likely maneuvering for a ACRA neutral@ bill out of conference, dropping his anti-CRA provisions, but omitting our Ahave and maintain@ requirement. Given the changing nature of the financial services industry, with an increased focus on newly authorized activities, and a decreased emphasis on bank mergers, we have taken the position that such a bill is not CRA neutral, but would in fact weaken CRA over time.

EXTORTION

Gramm position:
Gramm believes that CRA is used by community groups to extract payments from banks for improper purposes by threatening to protest their applications. Specifically, Gramm contends that community groups have extorted $9 billion from banks under CRA.

Question:
Isn=t the Community Reinvestment Act extortion?

Answer:
We believe extortion is wrong. Extortion is already illegal under federal and state laws, and extortion in any context should not be tolerated.

The vast majority of applications subject to review under CRA are approved without adverse public comment on CRA. Even applications that receive such comments are overwhelmingly approved. The regulators determine a bank=s CRA record based on its performance, not based on agreements reached with community groups.

CRA encourages banks and thrifts to serve the needs of their entire communities, consistent with safe and sound banking practices, and I believe it is serving its purpose.

Additional proposals might chill legitimate, normal, arms-length transactions and productive cooperation between banks and community groups. For example, banks make grants to community-based organizations to conduct homeownership counseling, which increases the bank=s ability to make sound loans to low-income borrowers.

Further Background
We would support something along the lines of the disclosure requirement included by Senators Gramm and Sarbanes in S. 900. Under the provision, banks and community groups would have to report to the banking regulators on agreements they reach under CRA. Community groups are divided over the provision.

Gramm claims that under CRA, community groups have extorted from banks over $9 billion "in cash" for community groups. The reality is that the $9.5 billion he refers to is the amount that the National Community Reinvestment Coalition estimates that banks have pledged under CRA in 1997-98, going forward over the next ten years, for a range of community development efforts – only a tiny fraction of which represents operating grants to community groups.

Of the $9.5 billion, $6 billion derives from the $115 billion Citigroup pledge, issued by press release upon its merger announcement, not under any agreement with a community group. The $6 billion includes loans, grants, equity investments and technical assistance for a wide range of community development purposes over the next 10 years – not just grants to community groups. It includes investments in low income housing tax credits, equity investments in community development activities, investments in affordable housing securities, community development grants for neighborhood revitalization projects, expansion of a training institute for community development managers and lenders, project and working capital loans to nonprofit community organizations and developers of affordable housing, loans to intermediary organizations that provide financial and technical services to community based organizations, and other activities.

Of the $9.5 billion, $2 billion derives from the $350 billion Bank of America pledge, issued by press release upon its merger announcement. Bank of America similarly pledged to undertake a wide variety of community development activities, including investments in community development intermediaries, such as the Local Initiatives Support Corporation, the Enterprise Foundation, Rural Community Assistance Corporation, the Neighborworks Network, and CDFIs.

Grants to non-profits include those for home counseling programs, which are proven risk management techniques that increase a bank's ability to make affordable housing loans to a broader range of individuals consistent with safe and sound business practices.

Only a very small fraction ($170,000) of the $9.5 billion in the NCRC sample of 1997 and 1998 agreements, cited by Gramm, constituted operating grants to community groups signing CRA agreements.

(see further background under banks and community groups)

SUNSHINE AMENDMENT

Question:
Do you support the CRA Sunshine Amendment in S.900, which requires community groups and banks to disclose and report on their CRA agreements?

Answer:
We support disclosure. We support sunshine. We'd like to work with the Congress on the precise language.

SMALL BANK EXEMPTION
Gramm position: S. 900 exempts banks with $100 million or less in assets outside metropolitan areas from CRA. Gramm believes that small banks should be exempt because their whole mission is serving their local communities, and the burdens of CRA are thus unjustifiable.

Question:
Shouldn=t we relieve the regulatory burden on small banks?

Answer:
Most community banks do a good job of serving their communities. However, small bank CRA ratings are not better than the ratings of large banks. In fact, a 1998 Congressional Research Service study found that banks with less than $100 million in assets received 70% of the Aneeds to improve@ and Asubstantial noncompliance@ ratings.

The revised CRA regulation issued in 1995 already relieved small banks of much of the regulatory burden of CRA. Small banks with assets less than $250 million, are subject to a streamlined examination that focuses on lending.

The Administration is opposed to the small bank exemption in S. 900. Small banks, with assets less than $100 million, located outside metropolitan areas, comprise 38 percent of all banks. Exempting small banks from CRA would have devastating effects on local communities, particularly rural communities throughout the country.

Background
Paperwork Reduction Act estimates released by the banking regulators in June find that small banks spend only an estimated 10 hours per year on CRA record keeping requirements.

SAFE HARBOR

Gramm position:
Gramm favors a Asafe harbor@ for banks that receive a satisfactory or better rating in their last examination. Under his bill, there would be a presumption that such banks are complying with CRA unless substantial evidence to the contrary arising since their last examination were presented. He argues that this will prevent frivolous complaints from delaying applications.

Question:
Why shouldn=t a financial institution be able to rely on its most recent Asatisfactory@ CRA rating during application reviews?

Answer:
The Administration opposes any Asafe harbor@ for banks receiving a satisfactory rating their last examination.

A bank=s CRA rating can become stale. For example, circumstances can change quickly after an examination, examiners may miss evidence with respect to a particular market, or applications may involve new markets not covered under the earlier examination. The Asafe harbor@ would prevent regulators from even considering such matters unless a public comment is filed meeting the evidentiary burden.

In addition, the safe harbor puts a significant burden on the public to identify Asubstantial verifiable information@ despite the fact that financial institutions and their regulators are better able to produce relevant information necessary to determine the veracity of the comment.

Regulators already have discretion to ignore frivolous comments, and they exercise that discretion.

HAVE AND MAINTAIN - NEWLY AUTHORIZED ACTIVITIES

Question:
The Administration supports expanding CRA to non-bank financial institutions. Doesn=t that deviate from the original focus on institutions that take federally insured deposits?

Answer:
The Administration has not supported extending CRA to non-bank financial institutions. We have insisted that financial modernization legislation contain a provision that insured depository institutions have and maintain a satisfactory record on CRA in order to engage in newly authorized financial activities.

If we wish to preserve the relevance of CRA at a time when the relative importance of bank mergers may decline and the establishment of non-bank financial activities will become increasingly important, the authority to engage in newly authorized activities must be connected to a satisfactory CRA performance. Achieving and maintaining an adequate CRA record furthers the long standing public purpose of banks: to serve the convenience and needs of their communities.

CREDIT ALLOCATION

Gramm position:
$ Gramm believes that CRA is credit allocation and is fond of asking others their view on the matter. He argues that any government attempt to influence the flow of capital is credit allocation.

Question:
You are an economist. Isn=t CRA credit allocation?

Answer:
$ Credit allocation can mean different things, but I think Chairman Greenspan had it about right. He said, AThe essential purpose of the CRA is to try to encourage institutions who are not involved in areas where their own self interest is involved, in doing so. If you are indicating to an institution that there is a foregone business opportunity in an area X or loan product Y, that is not credit allocation. That, indeed, is enhancing the market."

"POLITICIZATION" OF OCC EXAMINATION STAFF

Question:
Gramm charge: The OCC examination staff were asked to find bankers to speak out in favor of CRA. How can you ask us to support the operating subsidiary when the OCC is engaged in these political activities?

Answer
I am familiar with the incident. My understanding is that the OCC promptly corrected the problem. Any effort to politicize the examination staff would be wrong.

The Department is not involved in any case specific matters before the OCC and is committed to an impartial OCC. We are committed to maintaining the dual banking system in the United States, with appropriate roles for both federal and state-chartered banks, because it has served our country well. We also believe that the Executive Branch needs to maintain its input into questions of banking regulatory policy, as was the case, for example, with the measures needed to ease the credit crunch in 1993.

PAPERWORK BURDEN REDUCTION ACT ESTIMATES

Question:
The banking regulators found that the burden under the revised CRA regulations increased by up to 8 times what the burden had been in 1993. How can you say that you reduced the burden on banks under CRA?

Answer:
The banking regulators recently revised their estimates of the time it would take banks and thrifts to comply with CRA record keeping and reporting requirements. The regulators did not determine that the actual burden had increased. The regulators determined that their estimate of the actual burden had been inaccurate. In large measure, the inaccuracy arose because the regulators had believed that easy to use software would be quickly developed to permit automatic "geo-coding" of small business loans – that is, recording where small business loans were being made. This software took longer to develop and to disseminate than anticipated.

The burden on small banks is modest. The regulators estimate that it would take a small bank about 10 hours of one employee's time each year to comply with CRA.

For large banks, with assets over $250 million, the burden estimates are 15 weeks per year. These large banks have an average asset size of $3.2 billion and 859 employees.

These burdens do not seem disproportionate to the benefits of CRA in terms of increased lending for housing, jobs and small business growth in communities.

CRA AND THE INTERNET

Question:
You're for a tax-free zone on the Internet, do you agree with OTS Director Seidman that we should tax internet banks with CRA?

Answer:
We strongly support CRA and want to be sure to preserve its relevance in the 21st century. I am not very familiar with the precise issue you raise. My understanding is that Director Seidman posed an interesting, but technical question about the appropriate assessment area for such institutions.

EXPANSION OF CRA

Question:
Do you support expanding CRA to insurance and securities firms? If not, won't CRA simply wither away?

Answer:
CRA arose in the context of a bank's requirement to serve the convenience and needs of its community as part of its charter. We have not proposed expanding CRA to other contexts. In addition, in the current climate, pushing for such an expansion may significantly weaken our ability to hold a majority for our position opposing any safeharbors or small bank exemptions, and our insistance on the "have and maintain" requirement. We believe that this requirement will help to maintain CRA's relevance in the years ahead.

Fair Lending

Question:
Do you consider so-called "predatory lending" practices a problem? If so, what steps would you recommend to address them?

Answer:
While important strides have been made in extending access to credit to low income communities for home ownership and business expansion, significant problems remain. In some instances, lenders may engage in practices that are unfair or deceptive.

In July 1998, the Federal Reserve Board and the Department of Housing and Urban Development issued a joint report which identified abusive lending problems and suggested proposals to address them. The report noted a number of abusive practices.

For example, lenders may fail to disclose fully the costs of a loan, loans may include high up-front costs and short-term balloon payments that result in "loan flipping," the frequent need to refinance loans and the rapid reduction of a borrower's equity in his home.

The Administration believes that Congress should enact the report's recommendations. In addition, the Administration has made additional recommendations to address problems identified in the report, and has asked the Federal Reserve Board to improve reporting under Home Mortgage Disclosure Act and the Equal Credit Opportunity Act.

Background:
The July 1998 HUD/Fed Report documented continued abuses in the subprime lending market. The report made a number of recommendations with respect to changes in the Truth in Lending Act (TILA), the Real Estate Settlement Practices Act (RESPA), and the Home Ownership Equity Protection Act (HOEPA). The President recently endorsed the report's recommendations, and we also proposed additional steps, primarily related to further changes in HOEPA.

Question:
What is your view of permitting financial institutions to collect race and gender data on small business and other non-mortgage borrowers?

Answer:
We support permitting creditors to collect such information on the race and gender of borrowers.

We were pleased that the Board decided last week to propose amending Regulation B, implementing the Equal Credit Opportunity Act, to permit such data collection.

Currently, under HMDA, financial institutions must report the race and income of home mortgage applicants, but under the Federal Reserve Board regulations implementing the Equal Credit Opportunity Act, banks had been forbidden from collecting such data. Treasury and other agencies had asked the Federal Reserve to permit banks to collect data on small business and other borrowers' race and gender.

Additional Questions and Answers on Community Reinvestment Act and related issues – Possible Democratic Amendments

Q: Would you support a lifeline banking amendment?

A: We strongly support the goal of increasing access to financial services for all Americans. We have, for example, through out EFT '99 initiative, been encouraging insured depository institutions to offer low-cost electronic accounts for the receipt of federal benefit payments. A lifeline banking amendment that flexibly encouraged financial institutions to offer low cost accounts such as these would have much to commend it. In fact, we supported last year's House-passed amendment with respect to lifeline banking. We would be happy to take a look at any amendment you might offer in this regard.

Background: Last year, the House-passed H.R. 10 included a provision for lifeline banking, which we supported. Some versions of lifeline banking may be overly rigid, so we would want to be careful about what provision we support.

Q: Would you support a ban on ATM surcharging?

A: While ATM surcharges can prove to be high, the rapid expansion of ATMs, supported in part by such fees, has tended to increase the convenience for consumers to access their funds. We do believe that it is important for financial institutions to disclose prominently any fees that they may charge prior to insertion of one's ATM card in the machine.

Background: We have not taken a position on ATM surcharging. We support increased disclosure, which is part of our proposed financial security act to be unveiled later this month.

Q: Would you support extending CRA to non-bank affiliates of banks?

A: We strongly support CRA and believe that it has helped to build homes and create jobs in communities across the country. We have stood firm against attempts to weaken CRA. And we have said that, to preserve the vitality of CRA into the 21st century, banks should have and maintain adequate CRA performance as a condition for the bank or its holding company conducting newly authorized activities. This obligation is at the core of what it means to fulfill a bank charter: to meet the convenience and needs of the community.

[In addition, because the Leach/LaFalce bill permits newly authorized financial activities to be conducted in operating subsidiaries of banks, banks that choose this approach will have greater assets to bolster their ability to perform strongly under CRA.]

CRA has its origins in the banking charter and federal deposit insurance. We have not supported extending CRA to other kinds of institutions that do not have that link.

Q: Would you support disclosure requirements similar to the Home Mortgage Disclosure Act (HMDA) for insurance companies?

A: You raise a very important question. Public disclosure of HMDA data has helped to improve the home mortgage lending market. Recent data indicate that such lending to African-Americans and Hispanics, for example, and to low and moderate income borrowers, is increasing well above overall market levels. As you know, insurance is primarily regulated by the states. A number of states have laws addressing the obligations of insurance companies with respect to serving their communities.

Q: Shouldn't insurance companies be required to be in compliance with the Fair Housing Act if they are to be affliated with banks?

A: Compliance with the Fair Housing Act is essential for the fair and efficient functioning of insurance, and it seems to me that you have a strong argument that insurance firms should be required to comply with this existing obligation as a condition of affiliation.

Q: Shouldn't there be a requirement that regulators take into account public comment with respect to CRA when a bank seeks to engage in newly authorized financial activities?

A: We believe that it is essential that banks both have and maintain adequate CRA performance as a condition for conducting newly authorized financial activities. We believe that communities should be given an opportunity to comment on a bank's CRA record in the context of a regulator's review of these newly authorized activities.

Q: Then how can you support Leach/LaFalce? Isn't this a safe harbor for banks with a satisfactory record?

A: As I said, we strongly support making it clear that communities should be given an opportunity to comment on a bank's CRA record in the context of a regulator's review of these newly authorized activities. The creation of the new enforcement mechanism for CRA in this bill – requiring that banks both have and maintain an adequate CRA record as a condition for conducting newly authorized financial activities – is a significant one. We believe that this provision will preserve the vitality of CRA into the 21st century.

Q: Banks make public commitments to enhance their reputations under CRA, but no one seems to know whether these commitments are ever fulfilled. Shouldn't the banking regulators monitor compliance with commitments?

A: We believe that CRA is working. Currently, banking regulators monitor compliance with a bank's performance under CRA. Publicly announced commitments are not the basis for a CRA rating, unless they are reflected in a bank's strategic plan submitted for review, or result in actual loans, investments or services. As you may know, the OCC has requested comment on whether it should collect information from national banks with respect to their CRA commitments. You do raise an important question.

Research Confirms: CRA is Expanding Lending in Low and Moderate Income Communities.

- Evanoff and Segal's study of mortgage lending in lower-income areas between 1991 and 1996 found "overwhelmingly statistically significant" evidence that an increase in mortgage loan originations to low- and moderate-income neighborhoods was attributable to CRA.

- Federal Reserve Governor Edward Gramlich has said: "There seems to be little doubt that most of these outcomes would not have occurred in the absence of CRA and other fair lending laws."[4]

- The LaCour-Little study cited by Gramlich found that at least half of the loans made to low-income individuals in low-income census tracts would not have been made without CRA if standard credit-scoring was the only screening criterion.[5]

- A Federal Reserve study found that recent consolidation among banking organizations has not reduced home mortgage lending to lower-income and minority borrowers and neighborhoods.[6] In fact, consolidated organizations increased their proportion of loans going to lower-income and minority borrowers by more than institutions not involved in consolidations. The study notes that "these results are consistent with the view that CRA has been effective in encouraging banking organizations, particularly those involved in consolidation, to serve lower-income and minority borrowers and neighborhoods." The study also notes that banks may have become aware of newly perceived profit opportunities and may have determined that increased lending to targeted areas would serve their long-term interest in community stability as well.

- According to the 1998 Federal Reserve Board's *Report to the Congress on the Availability of Credit to Small Businesses*, CRA enabled bankers to identify opportunities and redesign products to increase small business lending.

CRA Loans: Sound and Profitable

CRA lending has been expanded consistent with safe and sound banking practices. Banks report strong performance of loans in the low- to moderate-income housing market.

- For example, BankBoston lent $140 million to low- and moderate-income borrowers and found performance to be no different than in its regular mortgage portfolio.[7]

- According to Federal Reserve Chairman Alan Greenspan, "there is little or no evidence that banks' safety and soundness have been compromised by [CRA] lending and bankers often report sound business opportunities."[8]

- A 1997 Federal Reserve study examining the net operating income of commercial banks that vary in the extent to which they provide home loans to lower-income borrowers or in lower-income neighborhoods, found that banks that are active lenders in these markets do not have any

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[4] Edward M. Gramlich, "Examining Community Reinvestment," remarks at Widener University, 11/6/98.
[5] Cited by Gramlich, op cit.; Michael LaCour-Little, unpublished paper, 5/98.
[6] Avery, Bostic, Calem, and Canner, 1999.
[7] "Success in Community Development Lending," The Federal Reserve Bank of Philadelphia, 1993.
[8] Los Angeles, California, January, 1998.

lower profitability than other mortgage-oriented commercial banks.[9]

- A 1996 survey of large financial institutions active in home lending in metropolitan areas found that 98 percent said that CRA lending was profitable and credit risk manageable.[10]

- A Bear Stearns study found that CRA home loans had low prepayment risk for investors, and borrower credit scores consistent with conventional financing guidelines.[11]

- Statistical analysis did not find any notable relationship between bank profitability and the level of lower-income mortgage lending.[12]

- Former Federal Reserve Board Governor Lawrence Lindsey has said: "The CRA has helped stimulate loans for home mortgage, housing construction and rehabilitation, and small and minority business development in low- and moderate-income communities ... without sacrificing safety and soundness."[13]

CRA: Vital to Overcoming Continued Barriers to Capital

The economic literature points out that market imperfections in the supply of credit persist, highlighting the continuing importance of CRA for both the business and home mortgage markets. For example, uncertainties or the lack of information may lead to missed opportunities for profitable lending in low-income or minority communities.[14] Altering the strategic incentives of lenders through CRA can induce profitable entry and increase efficiency. Especially for institutions that do not have prior experience in these markets, assessing the creditworthiness of these borrowers may be relatively difficult. These arguments are born out by banks' experience, cited in the studies above, that profitable loans can be made in communities that had previously been overlooked.

Ongoing Barriers to Business Credit

- In 1997, the loan-to-business ratio in upper-income areas was roughly 40% greater than the ratio in low-income areas.[15]

- In 1992, minority enterprises represented a small share of the business community, accounting for just 11.4% of all firms and 6% of business receipts despite the fact that minorities were 25% of the population. While African-Americans accounted for approximately 12% of the population, African American-owned businesses represented 3.6% of businesses and accounted for just 1% of all business receipts.

- Controlling for net worth, education, age, and other factors, African Americans get smaller bank loans than whites with identical traits: African-Americans received $0.92 in loans for a dollar

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[9] Canner and Passmore, 1997.
[10] Meeker and Myers, 1996.
[11] Bear Stearns, "Securities Backed by CRA Loans," 10/2/97.
[12] Avery, Bostic, Calem, and Canner, 1996.
[13] Statement to Congress, 3/8/95.
[14] Beshouri and Glennon (1996) and Calomiris et al (1994)
[15] Federal Financial Institutions Examination Council, 1998.

CRA

Sarah Rosen Wartell
08/16/99 02:11:00 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:
Subject: CRA Letters

See below letter to pOTUS from 60 groups thanking for support and urging he hold strong on CRA in Fin Mod conference. (Better than one from Greenlining coalition and friends that urged him to veto the Fin Mod bill because it doesn't expand CRA to securities and insurance.) Do we want to send a reply to these groups from President? Another chance to be on the record? WH correspondence may do something in any event, so best we make sure it is what we want. If so, only 4 or 5 sentences. Treasury want to do a first draft?

--------------------- Forwarded by Sarah Rosen Wartell/OPD/EOP on 08/16/99 02:06 PM ---------------------------

William G. Dauster
08/16/99 01:48:12 PM

Record Type: Record

To: Sarah Rosen Wartell/OPD/EOP@EOP

cc:
Subject: CRA Letters

FYI:

--------------------- Forwarded by William G. Dauster/OPD/EOP on 08/16/99 01:48 PM ---------------------------

Patrick Lester <pwlester@chn.org>
08/16/99 11:38:54 AM

Please respond to Patrick Lester <pwlester@chn.org>

Record Type: Record

To: "Hill/Admin List" <chn3@lyris.ombwatch.org>

cc:
Subject: CRA Letters

============================

Community Reinvestment Act
Organizational Sign-on Letters

==============================
August 16, 1999

The following letters, each signed by over 60 organizations, were sent to conferees on pending financial modernization legislation (HR 10/S 900) and to the president earlier this month. The letters urge the preservation of the Community Reinvestment Act (CRA) in the final bill that emerges from Congress and is sent to the president.

- Patrick Lester, CHN

August 6, 1999

Re: Financial Services Modernization

Dear Conferee:

As you begin the process of reconciling the differences between the "financial modernization" bills passed earlier this year by the House (H.R. 10) and Senate (S.900), we urge you to take a strong stance in support of preserving the Community Reinvestment Act (CRA). The CRA has brought development, opportunity and hope to Americans in low and moderate income and minority neighborhoods in rural and urban communities across the country. Your negotiations over the final language in S. 900 will determine whether or not the CRA will continue to open up doors to the financial mainstream for all Americans in the future.

The bill passed by the Senate contains three provisions that, individually or collectively, would severely undermine the CRA. It exempts 72% of the nation's rural banks from community responsibility, 3,893 banks with branch offices across the nation. These may be small banks, but it is not the size of the bank that counts; it is the size of the needs of the citizens that live in the communities whose convenience and needs these banks are chartered to serve. The bill also places a gag on citizens and communities, effectively blocking meaningful public comment on banks' lending performance when they seek to merge or otherwise expand. It also contains an unacceptable amendment (under the guise of "sunshine") which will create mounds of meaningless paperwork and discourage the cooperation and agreements which the CRA has fostered between banks and community groups as part of mutually beneficial community development efforts.

The House bill adapts CRA to the changes in bank structure that are authorized by the legislation. It requires that when banks expand through financial holding companies, they have and maintain a satisfactory CRA rating. CRA has always required that the banking regulators consider community lending records when banks expand, and certainly the formation of financial holding companies, combining banks with insurance companies and securities firms, is a significant expansion. The House bill also creates a new class of banks -- wholesale banks -- and simply applies CRA to those banks as it does to other banks.

Some would contend that the House bill expands CRA. We disagree. Matching CRA to the changes in bank structure, as dictated by the Congress, is not expansion. Rather, these two provisions are the minimum needed to insure that the benefits of this important law are not lost in the new financial services system created by this legislation.

This is not a situation where you can split the difference and still produce legislation that preserves the CRA. We urge you to craft a final bill that maintains the provisions from H.R. 10 that preserve CRA and eliminates the provisions in S. 900 that would undermine CRA. This is essential to make sure that CRA continues to be a useful tool into the next century.

Sincerely,

Alliance for Children and Families
Alliance to End Childhood Lead Poisoning
American Friends Service Committee
American Network of Community Options and Resources
Americans for Democratic Action
ARC of the United States
Association for Enterprise Opportunity
Association of Community Organizations for Reform Now (ACORN)
Campaign for America s Future
CDFI Coalition
Center for Community Change
Coalition on Human Needs
Consumers Union
Development Training Institute
Employment Support Center
Enterprise Foundation
Greenlining Institute
Housing Assistance Council
International Union of United Auto Workers
Jesuit Conference
Local Initiatives Support Corporation
McAuley Institute
NAACP
National Alliance to End Homelessness
National American Indian Housing Council
National Association of Counties
National Association of Housing and Redevelopment Officials
National Association of Housing Partnerships
National Center on Poverty Law
National Coalition for the Homeless
National Community Capital Association
National Community Development Association

National Congress for Community Economic Development
National Council of La Raza
National Council of Senior Citizens
National Fair Housing Alliance
National Family Farm Coalition
National Federation of Community Development Credit Unions
National Housing Conference
National Housing Law Project
National Housing Trust
National League of Cities
National Low Income Housing Coalition
National Neighborhood Coalition
National Neighborhood Housing Network
National People s Action
National Puerto Rican Coalition
National Rural Housing Coalition
National Training and Information Center
National Urban League, Inc.
NETWORK: A National Catholic Social Justice Lobby
Office for Church in Society, United Church of Christ
Organization for a New Equality
PolicyLink
Ralph Nader
Surface Transportation Policy Project
Sierra Club
Union of Needletrades, Industrial & Textile Employees
United Methodist Church, General Board of
Church and Society
US Public Interest Research Group (PIRG)
Volunteers of America
Woodstock Institute

August, 6 1999

The Hon. William J. Clinton
President of the United States
1600 Pennsylvania Avenue, NW
Washington, DC 20500

RE: Financial Services Modernization

Dear President Clinton:

We are most appreciative of your consistent support of the Community Reinvestment Act (CRA) throughout the consideration of financial deregulation legislation (H.R. 10 and S. 900). Your clear message that any bill that weakens CRA would be subject to veto has been cheered by citizens in low and moderate income and minority neighborhoods across the nation -- rural and urban communities where CRA has brought development, opportunity and hope.

Your forceful support is needed more than ever as the House and Senate conferees prepare to paste together a final legislative product out of H.R. 10 and S. 900. The conference holds special dangers for CRA and the future of urban and rural communities.

As you have pointed out, the Senate bill rolls back CRA. The Senate version is pitted against a House bill which essentially contains a bare bones, status quo approach to CRA. This leaves no room for traditional compromises where House and Senate conferees simply "split the differences." While there are many provisions in the legislation where splitting the difference might work well, it would be a disaster for CRA, and would negate your efforts to preserve and reinvigorate the Act.

The Senate bill exempts 72% of the nation's rural banks from community responsibility, 3,893 banks with branch offices across the nation. These may be small banks, but it is not the size of the bank that counts; it is the size of the needs of the citizens that live in the communities whose convenience and needs these banks are chartered to serve. The bill also places a gag on citizens and communities, effectively blocking meaningful public comment on banks' lending performance when they seek to merge or otherwise expand. It also contains an unacceptable amendment (under the guise of "sunshine") which will create mounds of meaningless paperwork and discourage the cooperation and agreements which your administration has attempted to foster between banks and community groups as part of mutually beneficial community development efforts.

Senate Banking Committee Chairman Phil Gramm will contend that the House bill, rather than maintaining the status quo, expands CRA. This argument is without merit.

The House bill does not expand CRA. Rather, it adapts CRA to the changes in bank structure that are authorized by the legislation. It requires that when banks expand through financial holding companies, they have and maintain a satisfactory CRA rating. CRA has always required that the banking regulators consider community lending records when banks expand, and certainly the formation of financial holding companies combining banks with insurance companies and securities firms is a significant expansion. The House bill also creates a new class of banks -- wholesale banks -- and simply applies CRA to those banks as it does to other banks. Matching CRA to the changes in bank structure, as dictated by the Congress, is not expansion.

We urge you to maintain your strong stance on CRA during this final phase of deliberations over the financial deregulation legislation, and to let the Congress know that you will not sign a bill that contains any of the three provisions in S. 900 that would undermine CRA or that fails to contain either of the provisions in H.R. 10 that preserve CRA. This is the bare minimum needed to insure that this bill, which has been called the "financial constitution" for the new millenium is a constitution that includes, rather than excludes, low and moderate income and minority Americans.

Sincerely,

Alliance for Children and Families
Alliance to End Childhood Lead Poisoning
American Friends Service Committee
American Network of Community Options and Resources
Americans for Democratic Action
ARC of the United States
Association for Enterprise Opportunity
Association of Community Organizations for Reform Now (ACORN)
Campaign for America s Future
CDFI Coalition
Center for Community Change
Coalition on Human Needs
Consumers Union
Development Training Institute
Employment Support Center
Enterprise Foundation
Greenlining Institute
Housing Assistance Council
International Union of United Auto Workers
Jesuit Conference
Local Initiatives Support Corporation
McAuley Institute
NAACP
National Alliance to End Homelessness
National American Indian Housing Council
National Association of Counties
National Association of Housing and Redevelopment Officials
National Association of Housing Partnerships
National Center on Poverty Law
National Coalition for the Homeless
National Community Capital Association
National Community Development Association
National Congress for Community Economic Development
National Council of La Raza
National Council of Senior Citizens
National Fair Housing Alliance
National Family Farm Coalition
National Federation of Community Development Credit Unions
National Housing Conference
National Housing Law Project
National Housing Trust
National League of Cities
National Low Income Housing Coalition
National Neighborhood Coalition
National Neighborhood Housing Network
National People s Action
National Puerto Rican Coalition

National Rural Housing Coalition
National Training and Information Center
National Urban League, Inc.
NETWORK: A National Catholic Social Justice Lobby
Office for Church in Society, United Church of Christ
Organization for a New Equality
PolicyLink
Ralph Nader
Sierra Club
Surface Transportation Policy Project
Union of Needletrades, Industrial & Textile Employees
United Methodist Church, General Board of Church and Society
US Public Interest Research Group (PIRG)
Volunteers of America
Woodstock Institute

Patrick W. Lester
Senior Program Associate
Coalition on Human Needs
1700 K Street, NW
Suite 1150
Washington, DC 20006

Phone: 202-736-5886
Fax: 202-785-0791
Email: pwlester@chn.org
Web: http://www.chn.org

Message Sent To:____

michael.barr@do.treas.gov @ inet
cliff.kellogg@do.treas.gov @ inet
marne.levine@do.treas.gov @ inet
gary.gensler@do.treas.gov @ inet
Lisa Green/OPD/EOP@EOP
Paul J. Weinstein Jr./OPD/EOP@EOP
Joel K. Wiginton/WHO/EOP@EOP
Broderick Johnson/WHO/EOP@EOP

FAX COVER SHEET

FROM
GENE SPERLING
DIRECTOR, NATIONAL ECONOMIC COUNCIL
THE WHITE HOUSE
SECOND FLOOR, WEST WING
WASHINGTON, D.C. 20502

PHONE 202/456-2807
FAX 202/456-2878

TO: Gene Sperling / Kaplan / Green

PAGES (INCLUDING COVER SHEET): 21

COMMENTS: URGENT! - they should be arriving w/ POTUS shortly.

THE WHITE HOUSE

WASHINGTON

March 2, 1999

The Honorable Phil Gramm
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This Administration has been a strong proponent of financial legislation that would reduce costs and increase access to financial services for consumers, businesses and communities. Nevertheless, we cannot support the "Financial Services Modernization Act of 1999" now pending before your Committee.

In its current form, the bill would undermine the effectiveness of the Community Reinvestment Act (CRA), a law that has helped to build homes, create jobs, and restore hope in communities across America. The CRA is working, and we must preserve its vitality as we write the financial constitution for the 21st Century. The bill would deny financial services firms the freedom to organize themselves in the way that best serves their customers, and prohibit a structure with proven advantages for safety and soundness. The bill would also provide inadequate consumer protections. Finally, the bill could expand the ability of depository institutions and nonfinancial firms to affiliate, at a time when experience around the world suggests the need for caution in this area.

I agree with you that reform of the laws governing our nation's financial services industry would promote the public interest. However, I will veto the bill if it is presented to me in its current form.

Sincerely,

Bill Clinton

May 4, 1999

MEMORANDUM FOR THE PRESIDENT
VICE PRESIDENT

FROM: ROBERT RUBIN
BRUCE REED
CHUCK RUFF
GENE SPERLING
LARRY STEIN

SUBJECT: Community Reinvestment Act (CRA) Strategy

Action Forcing Event

CRA will be a central issue in the Senate floor debate on financial modernization legislation scheduled to begin as early as Monday. The Gramm bill, voted out of committee on a straight party-line vote, would significantly weaken CRA. We expect that both sides will offer CRA amendments. Democrats have made procedural demands in exchange for their cooperation in bringing the bill to the floor.

We will work to focus the message on a unified Democratic position on CRA. Earlier today Secretary Rubin spoke to the Democratic Caucus where he reiterated your veto pledge on CRA, and he will also testify on financial modernization in the House Commerce Committee tomorrow (5/5). Just as he was today, we expect that he will be asked to clarify the items you cited in your letter threatening to veto the Gramm bill tomorrow as well. Specifically, we expect that he will be asked whether, if all other problems with the financial modernization bill were resolved, you would veto a bill that fails to require that banking organizations "have and maintain" an adequate CRA record as a condition for engaging in newly authorized financial activities.

Background

You sent a letter on March 2, 1999 (attached) to the Senate saying that you would veto the bill for four reasons, including concern that the bill would weaken CRA. Your letter did not specify how the Gramm bill would seriously weaken CRA, but it does so in three ways:

1. Its "safe harbor" provision exempts any bank that received a satisfactory CRA rating in a previou banking examination from regulators' review -- and community groups' input -- at the time of an application to merge or expand.

2. Its "small bank exemption" provision removes some 4,000 banks and thrifts with under $100 million in assets, located outside metropolitan areas (38% of all banks and thrifts) from CRA.

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Memorandum For the President [partial] [pages 2-3 withdrawn in whole] (3 pages)	05/04/1999	P5

COLLECTION:

Clinton Presidential Records
Policy Development
Lisa Green
OA/Box Number: 20587

FOLDER TITLE:

CRA [Community Reinvestment Act] [Folder 2]

2012-0043-S
ms433

[001]

3. It fails to include a requirement that banking organizations both *have* a satisfactory CRA rating as a precondition to engage in newly authorized financial activities and *maintain* their CRA rating in order to continue engaging in these activities. Chairman Gramm considers this requirement an expansion of CRA. We, on the other hand, believe that failure to include this provision would seriously erode CRA's relevance over time, as banking organizations increasingly focus on these new activities. (See appendix.)

In the House, the Banking Committee reported out a bipartisan bill (51-8), that we endorsed, that does not contain any anti-CRA provisions. The House Banking bill includes the "have and maintain" requirement. If a bank fails to maintain its rating it must develop and implement a compliance plan or risk penalties -- including the possibility of forced divestitures of the newly approved activities and, according to some interpretations of the bill, civil money penalties.

When the Senate bill comes to the floor, Democrats currently plan to introduce both a Democratic substitute bill, and a comprehensive CRA amendment striking the anti-CRA provisions and adding the "have and maintain" requirement. Democrats will likely vote for the amendment -- although support for individual pieces may vary -- and against final passage if the amendment fails. Republicans may offer anti-CRA amendments. In addition, there may be amendments offered by members of either or both parties with respect to permitting banking organizations to conduct new activities through operating subsidiaries, and limiting the unitary thrift provisions. We support such amendments as consistent with your veto letter, although there is some question about our likelihood of success on the floor. Our strong support for the "have and maintain" requirement for CRA is likely to further bolster our support from Democrats for these other amendments. If the Democratic CRA amendment fails, Democrats are likely to be unified in opposing the bill on final passage, and we may have more leverage to fix other issues in conference, such as banking and commerce or the operating subsidiary. If the CRA amendments succeed, we may be in a weaker position to make other changes to the legislation in conference.

Community groups strongly support our opposition to the Gramm bill, but believe that the House-passed version, with its "have and maintain" requirement, is at best minimally acceptable. They are likely to oppose any financial modernization legislation that does not significantly expand CRA.

P5

APPENDIX: BACKGROUND ON CRA

Current Law. CRA requires a bank to serve the convenience and needs of all communities in which it operates. The Fed, OCC and OTS examine the banks they each regulate periodically (every 24-36 months) for CRA compliance, and make these CRA evaluations public. However, enforcement comes only when a bank files an application to merge with another bank or opens a new branch. (A bank's CRA record is not currently scrutinized in connection with applications to affiliate with non-banking companies.) In considering an application, the regulator must take into account the banks CRA and the public has an opportunity to comment. Regulators issued regulations in 1995 in response to your request that CRA focus on performance not paperwork. CRA ratings are now based on a three-pronged test: lending, services, and investments. In addition, regulators revised and streamlined the examination process, particularly for smaller institutions.

Effectiveness of CRA. Evidence suggests that public disclosure of CRA ratings, together with the changes made by the regulators under your leadership, have significantly contributed to improved performance by financial institutions in meeting the needs of low and moderate income communities and minorities. Since 1993, the number of home mortgage loans to African Americans increased by 58 percent, to Hispanics by 62 percent, and to low and moderate income borrowers by 38 percent, well above the overall market increase. Since 1992, nonprofit community organizations estimate that the private sector has pledged over $1 trillion in loans and investment under CRA. In 1997, banks and thrifts subject to CRAs reporting requirement made 2.6 million small business loans for a total of $159 billion, two-thirds of all small business loans made that year. More than one-fifth of those loans were made to small businesses in low and moderate income communities.

Changing Nature of the Financial Services Industry. Commercial banks have seen their share of total financial intermediary assets decline from about 60 percent at the end of World War II, to roughly 25 percent today. In the future, the relative importance of banking merger applications -- and, thus, occasions for reviewing a bank's CRA record, may decline and the establishment of non-bank financial activities will become increasingly important. Communities groups are likely to oppose any financial modernization legislation unless CRA were extended to securities and insurance providers, which Treasury has not supported in the past, which stands no chance of success in the current or foreseeable political environment, and which presents practical and theoretical difficulties.

CONFIDENTIAL

THE WHITE HOUSE

WASHINGTON

March 2, 1999

The Honorable Phil Gramm
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This Administration has been a strong proponent of financial legislation that would reduce costs and increase access to financial services for consumers, businesses and communities. Nevertheless, we cannot support the "Financial Services Modernization Act of 1999" now pending before your Committee.

CONFIDENTIAL

In its current form, the bill would undermine the effectiveness of the Community Reinvestment Act (CRA), a law that has helped to build homes, create jobs, and restore hope in communities across America. The CRA is working, and we must preserve its vitality as we write the financial constitution for the 21st Century. The bill would deny financial services firms the freedom to organize themselves in the way that best serves their customers, and prohibit a structure with proven advantages for safety and soundness. The bill would also provide inadequate consumer protections. Finally, the bill could expand the ability of depository institutions and nonfinancial firms to affiliate, at a time when experience around the world suggests the need for caution in this area.

I agree with you that reform of the laws governing our nation's financial services industry would promote the public interest. However, I will veto the bill if it is presented to me in its current form.

Sincerely,

CONFIDENTIAL

Bill Clinton

2012-0043-S
DETERMINED TO BE AN
ADMINISTRATIVE MARKING
INITIALS: MA DATE: 11-7-11

CRA TALKING POINTS

- CRA is working to restore healthy markets in distressed communities and to create jobs, build homes and grow businesses in communities across the country.

- Since 1992, the National Community Reinvestment Coalition estimates that the private sector has pledged more than $1 trillion in loans going forward for community development.

- CRA regulatory reform reduced burdens on small banks and thrifts early and in overwhelming numbers. Small banks and thrifts benefited from the regulatory burden reduction effective January 1, 1996 – more than a year earlier than large institutions.

- In addition, more than 80% of all banks covered by CRA qualify for the streamlined performance standards for small banks and thrifts.

- Actual time spent in community banks on CRA examinations has been reduced by 30%.

The Importance of CRA in Rural America

- Many rural communities, faced with high poverty rates and low incomes, are desperate for new economic activity. Access to bank credit in rural communities, where markets are often dominated by a few institutions, is often scarce. Banks in rural communities often receive poor CRA ratings and lag behind their peers in local lending for consumers and businesses.

The Importance of CRA in Indian Country

- CRA encourages banks to lend in their entire communities, including in Indian reservations near the bank's main offices, branches or deposit-taking ATMs. CRA has helped to increase lending, service and investment in Indian Country. For example, on the Navajo reservation in 1994, before the CRA regulatory reform, there were three bank branches. Today, there are 12. In 1994, the Navajo had 2 ATMS; today they have 19.

Now CRA is Under Attack

The Senate has voted out a bill on party lines that would seriously weaken CRA in three ways:

- First the bill provides a safe harbor for banks with satisfactory CRA ratings in their last examination, effectively removing public comment from the merger application process.
- Second, the bill exempts small banks in rural areas from CRA entirely, removing 38% of banks and thrifts from CRA in the communities that often face the worst problems.
- Third, the bill fails to include a provision that banks have and maintain an adequate CRA record as a condition of engaging in newly authorized financial activities.

Sarah Rosen Wartell
09/20/99 02:07:04 PM

Record Type: Record

To: Lisa Green/OPD/EOP@EOP

cc:

Subject: Re: People Attending CRA Meeting

I am preparing for gene a paper that describes the 5 issues that are in the groups letter, what the groups say on those issues, and the administration's position on those 5. It will highlight what Gramm is signalling he wants in a compromise, and where we might be willing to go, so Gene knows where to leave some room and where he can be emphatic.

I also will include to American Banker articles: (1) citing Larry Summers speech at the CBC showing that the Administration will not back down on CRA just cause Rubin left; and (2) citing Gov. Bush's recent endorsement of Senator Gramm's views on CRA.

The rest of the packet should be the stuff that you cited. Does this work?

It now looks like i am doing a hill briefing during the meeting, so you will be there on your own.

Per Melissa, I have a call into Henderson to get a better feel what they want out of the meeting. Based on the list, however, I guess they are looking for further assurances we won't back down specific by specific.

ROUTING SLIP

DATE: 09/20/99
FROM: Stephanie Streett
Assistant to the President and Director of Presidential Scheduling

File PENDING

Comments

SUBJECT: SPEAK AT CRA RALLY AND PRES. RECOGNITION EVENT FOR AWARDS MADE BY DEPT. OF TREASURY

Kris Balderston		Joe Lockhart	✓
Paul Begala		Sean Maloney	
Lisa Berg		Capricia Marshall	
Samuel Berger		Thurgood Marshall Jr.	
Sidney Blumenthal		Minyon Moore	
Charles Burson		Bob Nash	
Mary Beth Cahill		Beth Nolan	
Davis/Emrich	✓	Jennifer Palmieri	
Maria Echaveste		John Podesta	
Terri Edmonds	✓	Steve Ricchetti	
George Frampton		Bruce Reed	
Nancy Hernreich		Dan Rosenthal	
Mickey Ibarra		Patti Solis-Doyle	
Ben Johnson		Doug Sosnik	
Joel Johnson		Gene Sperling	✓
Neal Lane		Larry Stein	
Sara Latham	✓	Carrie Street	✓
Ann Lewis		Loretta Ucelli	✓
Bruce Lindsey		Melanne Verveer	
Mark Lindsey		LISA GREEN	✓

SCHEDULE PROPOSAL September 14, 1999

_________ACCEPT _________REGRET _________PENDING

99 SEP 15 A11:44

TO:	Stephanie Streett Director of Scheduling
FROM:	Gene Sperling Assistant to the President and Director of the National Economic Council
REQUEST:	CRA "rally" and Presidential recognition event for awards made by the Department of Treasury's Community Development Financial Institutions Fund. These awards will be announced in early September and will involve a total of $80 million in public sector grants, most of which will be matched by private sector investments in CDFIs across the country. As part of the event we would also focus on the importance of the Community Reinvestment Act. The event could be held at a local CDFI in the DC metropolitan area. The audience and attendees would include more than 100 representatives from CDFIs and major commercial banks that are receiving technical assistance grants and bank enterprise awards. We would also invite representatives from private financial institutions and foundations that are making matching investments in CDFIs.
PURPOSE:	This event would be billed as a New Markets follow-up event and could include an announcement about the Fall tour. It would also be an opportunity to emphasize the President's support for the Community Reinvestment Act.
BACKGROUND:	Community Development Financial Institutions (CDFIs) are locally based institutions with expertise in lending and investment in underserved areas. They represent an important vehicle for greater investment in new markets. The President's FY 2000 budget includes $125 million for expansion of the CDFI Fund. The Community Reinvestment Act was enacted in 1977 to address problems of disinvestment in low and moderate income communities. President Clinton and Vice President Gore have been champions of the CRA which is now under attack by some members of Congress.
DATE AND TIME:	Any time in early October.
BRIEFING TIME:	15 minutes
DURATION:	45 minutes

PARTICIPANTS:	President, Vice President, and Members of Congress who have CDFIs located in their districts that are receiving awards.
OUTLINE OF EVENTS:	Speaking program to include representatives from a CDFI and a Senior Executive or CEO from a major commercial bank, that is supportive of CRA.
REMARKS REQUIRED:	To be provided by speechwriting
MEDIA COVERAGE:	Open.
FIRST LADY'S ATTENDANCE:	The First Lady may want to participate in this event given her strong interest in micro-enterprises which is part of the overall New Markets Initiative framework.
VICE PRESIDENT'S ATTENDANCE:	Requested
RECOMMENDED BY:	Gene Sperling
CONTACTS:	Lisa Green, 6-2803

CRA

BACKGROUND ON CRA ISSUES IN FINANCIAL MODERNIZATION
September 20, 1999

On August 6, 1999, a letter signed by over sixty organizations was sent to the President. (See attached.) The letter expressed the groups' appreciation for the President's "consistent support of the ... [CRA] throughout the consideration of financial deregulation legislation." It also adds:

> "[Y]our forceful support is needed now more than ever.... The conference holds special dangers for CRA and the future of urban and rural communities."
>
> "As you have pointed out, the Senate bill rolls back CRA. The Senate version is pitted against a House bill, which essentially contains a bare bones, status quo approach to CRA. This leaves no room for traditional compromises where House and Senate conferees simply "split the differences." While there are many provisions in the legislation where splitting the difference might work well, it would be a disaster for CRA, and would negate your efforts to preserve and reinvigorate the Act."

Finally, the letter asks the President to let the Congress know that he will not sign any bill that contains any of the three provisions that undermine CRA or fails to contain the two provisions that preserve CRA. (For your reference, the five issues mentioned in the letter, the position of the advocacy groups, and the Administration's views on these issues are all detailed below.)

The Leadership Conference for Civil Rights is not a signatory to the letter; however, a few of the groups attending your meeting are signatories and the letter reflects the full inventory of CRA-related concerns of low-income advocates.

Note that Treasury has been asked to draft a reply to the groups' letter to the President on CRA. (The draft was delayed because Cliff Kellogg just had a baby, but they promise a draft this week.) It will present an opportunity for us to be a bit more specific on the nature of our veto threat than we have been before, without eliminating all flexibility for a compromise that saves face for Gramm.

Senator Gramm – Signaling Interest in a Compromise on CRA

In a September 15th meeting between the leading players in the Fin Mod conference (Gramm, Sarbanes, Leach, LaFalce, and Bliley – Dingell was unavailable), Senator Gramm's posture was reportedly constructive. On CRA, he indicated that he wanted three things: (1) the sunshine amendment; (2) limitations on penalties for have and maintain; and (3) eliminate reporting requirements and enforcement mechanisms for small banks (not a full small bank exemption as previously proposed, but effectively similar). In public statements, Gramm has focused on the importance of the first two items. Conventional wisdom says that, in these two areas, some compromise (face-saving for Gramm) will be possible. (These issues are explained in more detail below.)

Small Bank Exemption

> ***Description:*** The Senate bill would exempt from CRA rural institutions under $100 million. This would exempt 72% of non-metropolitan banks (3893) from community responsibility. No comparable House provision.

Groups' View: "It is not the size of the bank that counts; it is the size of the needs of the citizens that live in the communities whose convenience and needs these banks are chartered to serve."

Administration Position: In 1995, the Administration threatened to veto the Financial Institutions Regulatory Relief bill in significant part because it contained a (much larger) small bank exemption from CRA. Although we have not specifically itemized CRA provisions that we would veto, we have said that the President would not sign a bill that weakened CRA. It is widely assumed inside the Administration and on the Hill, that we would veto any small bank exemption from CRA.

Gramm signals: Senator Gramm recently suggested that he just wanted to exempt these institutions from CRA reporting and annual audit requirements. Thus, CRA would apply but there would be no enforcement.

CRA Safe Harbor

Description: The Senate bill provides that banks rated "satisfactory" in the most recent exam and for the last 3 years shall be deemed to be in compliance until their next exam (and thus when a merger or new activities application is filed), unless substantial verifiable information arising since the last exam demonstrating noncompliance is filed with the regulator. The regulator must determine if there is sufficient proof that the bank is no longer in compliance, with the burden on the complainant to show noncompliance. As thousand of institutions are examined for CRA compliance every 24 to 36 months, community groups simply do not have the resources to evaluate CRA performance of each institution on an ongoing basis. They focus their attention on institutions that have applied for merger or branch approval. This would dramatically diminish their ability to raise questions about community service at the time when that question is most relevant. There is no comparable provision in the House bill.

Groups' View: "The bill places a gag on citizens and communities, effectively blocking meaningful public comment on banks' lending performance when they seek to merge or otherwise expand."

Administration Position: While we have not itemized which CRA provisions would prompt a veto, we have said we would veto if the bill weakened CRA. It is assumed that this provision is entirely unacceptable.

Gramm Signals: Gramm has not mentioned this provision in recent comments on CRA.

Sunshine Amendment

Description: Senate bill requires that any "CRA agreement" be filed with regulator and disclosed to public. Also requires reporting to regulators about activities under the agreement. If not disclosed, agreement is unenforceable. "CRA agreements" are any between bank and non-governmental entity with a value of $10k or more. No comparable House provision.

Groups' View: The bill "also contains an unacceptable amendment (under the guise of "sunshine") which will create mounds of meaningless paperwork and discourage the cooperation and agreements which your administration has attempted to foster between banks and community groups as part of mutually beneficial community development efforts." Despite this statement, we believe that some groups are more open to some sunshine provisions remaining than others.

Administration Position: While grossly over-broad (might be read to cover, for example, contracts between banks and mortgage brokers or mortgage insurers involving community lending), the amendment was accepted on the Senate floor by UC. The Administration shared our concerns about its breadth and potential chilling effect privately with both Gramm and Senate Democrats, but we have not made any public statement about the amendment. It is generally thought that the Democrats and Administration cannot be positioned to be against "sunshine." We must not imply that there is something to Senator Gramm's extortion arguments that we are seeking to hide by hiding the terms of these agreements. However, the burden and overbreadth of the amendment should be addressed.

Gramm Signals: Conventional wisdom is that Gramm needs something on "sunshine" as minimal face-saving if he is to compromise on the small bank and safe harbor provisions.

"Have and Maintain" Requirement

Description: The House bill provides that a financial holding company can engage in activities "financial in nature or incidental to..." (i.e., insurance and securities) provided the depository subsidiaries are well capitalized, well managed and "have and maintain" at least a satisfactory CRA rating. Also provides for substantial fines for officers and directors of non-compliant institutions.

Groups' Views: "The House bill does not expand CRA. Rather, it adapts CRA to the changes in bank structure that are authorized by the legislation. It requires that when banks expand through financial holding companies, they have and maintain a satisfactory CRA rating. CRA has always required that the banking regulators consider community lending records when banks expand, and certainly the formation of financial holding companies combining banks with insurance companies and securities firms is a significant expansion."

Administration Position: While never stated in writing, Secretary Rubin told Senate Democrats that the Administration is prepared to veto the bill if "have and maintain" language is not included. We have made clear in various statements that we believe that the absence of "have and maintain" requirement would "weaken CRA." However, we have not gotten involved in the Hill discussions of what penalties and enforcement mechanisms are necessary to ensure that the "have and maintain" requirement is meaningful. As the options have not been fully presented, there may not be a consensus in the Administration yet on what penalty provisions would be acceptable. Democrats on the conference committee also have indicated openness to discuss the penalty provisions for this requirement.

Gramm Signals: Along with sunshine, the penalty issue is one that Gramm recently identified he must have on CRA. He said his simply couldn't allow banks to be incurring million dollar a day penalties for CRA noncompliance. This is his "bottom line."

Wholesale Financial Institutions

Description: The House bill authorizes the establishment of WFIs ("woofies") – uninsured banks that may not receive deposits of less than $100,000. These banks for banks must be well capitalized, well managed, and **are subject to CRA.** The Senate bill does not authorize the establishment of WFIs, so the issue of application of CRA to WFIs did not arise in that bill.

Groups' Views: "The House bill also creates a new class of banks … and simply applies CRA to those banks as it does to other banks. Matching CRA to the changes in bank structure, as dictated by the Congress, is not expansion."

Administration Views: When the Administration proposed its own legislation in 1997, WFIs were subject to CRA. We believe that, if they are created, they should be subject to CRA. However, recently, industry interest in the authority to establish WFIs has dramatically diminished. Thus, the Senate bill has no WFIs at all. It may be easier to simply drop the WFI provisions of the House bill than to have a fight about CRA application, which Gramm claims is CRA expansion.

Gramm Signals: WFIs are not even in the Senate bill.

American Banker Monday, September 20, 1999

Treasury Chief Vows to Resist Call for Easing Of CRA Rules

◆ By DEAN ANASON

WASHINGTON — Treasury Secretary Lawrence H. Summers on Friday strongly defended the Community Reinvestment Act, dispelling questions about whether he might be softer than his predecessor on the issues stalling financial reform legislation.

Speaking at a Congressional Black Caucus forum on banking, Mr. Summers said the "next frontier" of civil rights policy is promoting economic opportunity for all Americans. He underscored his point by modifying an adage popularized by First Lady Hillary Rodham Clinton.

"It takes capital to build a village," said Mr. Summers, who moved into the top Treasury post in July, succeeding Robert E. Rubin. "We have to democratize the access to capital in this country and make capital available to all."

Preserving the 1977 reinvestment law, he emphasized, is the top priority of the Clinton administration's economic development agenda.

Without referring directly to Senate Banking Committee Chairman Phil Gramm, Mr. Summers made it clear that the administration will not cave to the Texas Republican's demands to exempt small, rural banks from the CRA or roll back other parts of the law — even if it means vetoing financial reform legislation.

"We are this year, I hope, going to pass comprehensive legislation to modernize our financial system," Mr. Summers said. "But we should pass legislation that is right.... We will not accept it [the CRA] being scaled back or its basic function spurring investment in communities being interfered with."

Speaking to reporters after his speech, Mr. Summers said the reform deal being negotiated by a House-Senate conference committee also must grant broad powers to direct bank subsidiaries and contain adequate privacy and other consumer protections.

When Mr. Summers succeeded Mr. Rubin, observers wondered how hard Mr. Summers would fight for the administration's positions on reform, or whether he might be more inclined to compromise. Treasury officials had maintained all along that no change in policy would occur, but last week Mr. Summers raised his profile on the legislation.

Early in the week, for example, he praised four studies released by the Financial Services Roundtable supporting the Treasury's argument that direct subsidiaries of banks enjoy no unfair competitive advantages over holding company units or nonbanks.

"The work of these economists," he said, "confirms the conclusion that the Treasury Department, the Federal Deposit Insurance Corp., and other independent analysts reached some time ago: a financial services modernization bill should allow banking organizations to choose the structure that best serves their customers without adversely affecting competition or safety and soundness."

Besides CRA, Mr. Summers listed other administration priorities to promote economic opportunities for minorities.

Noting that 10% to 13% of Americans — including an estimated 25% of blacks — do not have bank accounts, he urged more banks to provide the low-cost accounts that Treasury recently unveiled for electronic delivery of federal benefits payments.

"There won't be high fees or punitive overdrafts," he said, "and more Americans can come into the mainstream."

The federal government also must ensure that banks are abiding by fair-lending laws and that they openly disclose their criteria for evaluating borrowers, Mr. Summers said. "We cannot allow discrimination in lending in this country," he said.

Summers

The secretary urged Congress to appropriate the $125 million the administration is seeking for the Community Development Financial Institutions fund, and he praised the President's New Markets Initiative to promote economic development in inner cities.

But the bulk of Mr. Summers' remarks centered on CRA and insisting that compliance with the law is actually in banks' self-interest.

In 1998, he said, banks and thrifts made $32 billion of small-business loans in low- and moderate-income areas and another $16 billion in community development loans. Mortgage lending to minorities has skyrocketed, too.

"Banks are doing that because it is profitable," he said. "We speak often to banker after banker who tell us that they now have profitable lines of business in communities and areas ... where they never would have been without the spur" of the CRA. ◇

7

Jesse Jackson Assails Gramm And ABA in Defense of CRA

◆By DEAN ANASON

The Rev. Jesse L. Jackson presented a powerful defense of the Community Reinvestment Act on Wednesday, blasting Senate Banking Committee Chairman Phil Gramm and the American Bankers Association for trying to weaken the 1977 law.

"The Community Reinvestment Act is to economic justice what Brown v. Board of Education is to public accommodations," the civil rights leader said at a community development conference co-sponsored by the ABA and the Federal Housing Finance Board.

"I will fight with every last ounce of energy I have to preserve the CRA," he said, describing Sen. Gramm's position as the economic equivalent of George Wallace's blocking black students from entering Alabama public schools. "I will battle those who wish to undo it or weaken it. I will go to the mat on this one."

But on Wednesday, Sen. Gramm picked up a potent

See page 2

American Banker,
September 16, 1999
p. 1.

Jesse Jackson Assails ABA, Gramm in Defense of CRA

Continued from page 1

ally as presidential candidate George W. Bush backed his fellow Texas Republican.

"Gov. Bush supports the Community Reinvestment Act, which has helped provide access to credit to many historically underserved communities and their residents," according to a policy statement released Wednesday by the Bush campaign.

"However, the law is not perfect and needs to be reformed. Sen. Gramm has proposed some reasonable reforms, including helping small banks that are overly burdened by the current CRA requirements and requiring public disclosure of all CRA deals between banks and community development groups."

Community activists and Department of Housing and Urban Development officials called for tougher enforcement laws after releasing studies Wednesday showing that mortgage lenders continue to discriminate against minority borrowers.

"The report makes it clear that Congress should be looking at strengthening CRA, not weakening it," said Maude Hurd, president of the Association of Community Organizations for Reform Now. An Acorn study of 41 lenders across the country has concluded that blacks are twice as likely as whites to be rejected for conventional loans, and that refinanced mortgages increased 162% for whites last year but 85% for blacks and 136% for Latinos.

When minorities do get a mortgage, they tend to get worse terms on the loan, according to the report commissioned by HUD. In most of the cities surveyed, "minorities were less likely to receive information about loan products, received less time and information from loan officers, and were quoted higher interest rates," it found.

Jackson

Rev. Jackson, speaking about the CRA for the second time this year, toughened his anti-Gramm rhetoric since his last speech in April. And his remarks Wednesday were distinctive in directly criticizing his host, the ABA, for supporting Sen. Gramm.

"It's got to be a little dysfunctional sponsoring a conference on community development while calling for a rollback in the very piece of legislation that has breathed new life into community banking efforts," he said. "You shouldn't be able to have it both ways. A commitment to economic and community development requires a commitment to the CRA."

Rev. Jackson pointed to a letter that ABA president R. Scott Jones sent the Senate this spring. It endorsed two changes to the CRA sought by Sen. Gramm in the pending financial reform bill: preemption of rural banks with less than $100 million of assets, and a requirement that protesters must present substantial evidence to block the merger of a bank that has earned a "satisfactory" or better CRA rating for three consecutive years.

Judith Knight, director of the ABA's Center for Community Development, defended the group's position by saying small banks – which represent a tiny portion of industry assets – must serve their entire communities in order to survive, and that CRA red tape only hinders them.

"By exempting rural banks with assets less than $100 million, we would free up the tools and resources community banks need to broaden their lending practices," Ms. Knight said in a statement. "We also believe that banks that receive satisfactory or higher ratings under CRA should be able to proceed with normal business practices."

A spokeswoman for Sen. Gramm said Rev. Jackson "completely misrepresents" the lawmaker's comments and positions.

Rev. Jackson accused Sen. Gramm of overstating the default rate on CRA loans and understating the number of banks failing to comply with the law. Noting that less than 1% of mergers have been protested, Rev. Jackson also said that the Texas lawmaker has exaggerated the ability of community groups to extract donations by threatening to hold up deals.

But Sen. Gramm's spokeswoman disputed the figures offered by Rev. Jackson and said the threat of blackmail alone is enough "to make banks cough up money."

Katharine Fraser contributed to this article

Memorandum

To: Gene Sperling
Lisa Green

From: Michael Barr

Subject: CRA Briefing

Attached, in declining order of importance, please find:

- CRA Talking Points for Civil Rights Briefing
- CRA Update on Legislation
- NYT Editorial
- Veto letter
- Rubin letter
- CRA Background
- CRA Fact Sheet
- CRA is under attack
- Small bank exemption
- Safe harbor
- Rubin testimony

CRA Talking Points

- CRA is working to create jobs, build homes, and grow businesses in communities across the country.

- The President has been a strong supporter of CRA from the beginning of his Administration. At the President's request, the banking regulators reformed CRA to focus on performance, not paperwork.

- The results have been impressive: while we have much more progress to make, home mortgage lending to African Americans is up 58 percent, to Hispanics by 62 percent and low and moderate income borrowers by 38 percent, well above the overall market.

- In 1997, banks and thrifts made $18.6 billion in community development loans and investments. Over the last six years, the private sector has pledged over $1 trillion in loans under CRA -- that's over 96% of pledges made since CRA's enactment in 1977.

- Now – again – CRA is under attack. The Senate banking committee has voted out a bill on party lines that would seriously weaken CRA in three ways:

- First, the bill provides a safe harbor for banks with satisfactory CRA ratings in their last examination, effectively removing public comment from the merger application process.

- Second, the bill exempts small banks in rural areas from CRA entirely, removing 38% of banks and thrifts from CRA in the communities that often face the worst problems.

- Third, the bill fails to include a provision that banks have and maintain an adequate CRA record as a condition of engaging in newly authorized financial activities, despite the fact that the importance of these new activities is going to keep growing in the decades ahead.

- The President has made it clear that he will veto the Senate bill in its current form. It is wrong for financial modernization and it is wrong for America's communities.

- By contrast, the House banking bill was voted out of committee on an overwhelmingly bipartisan basis, 51-8, and does not contain these problems. It is a bill we support.

- The President, the Vice President, and Secretary Rubin have all made it clear how strongly we stand for CRA. In the days and months ahead, we will continue to make our case.

- CRA is a moral issue. It is an economic issue. And it is a civil rights issue. CRA is vital to bringing real economic opportunity to all our communities. With all the progress we have made together, now is not the time to turn back.

- Thank you very much for joining us here today.

Peter A. Weissman

04/21/99 02:13:27 PM

Record Type: Record

To: Brian A. Barreto/OPD/EOP, Melissa G. Green/OPD/EOP, Lisa Green/OPD/EOP@EOP

cc:
Subject: Re: CRA

Here is the background I was able to gather from Maritza. I suggest someone check in w/ Barr's office for more detail.

Treasury (Michael Barr) has been meeting w/ these groups but some of the members asked, where is the White House on this (esp Wade Henderson of LCCR). The groups are supportive but, it is time to get them re-focused.

Wade's group also has some concerns with us that Barr should be able to outline for us.

Maritza stressed that this is not a "briefing" (where we would be making presentations to them), but a meeting (ie- more back and forth dialogue).

We are doing this meeting because:

We need to refocus and re-energize these civil rights and religious groups on CRA.

Listen to their concerns- some will say we are not going far enough supporting CRA because we do not extend it securities.

Although the groups have been meeting with Treasury, Aida Alvarez and Sarbannes were concerned that we weren't doing enough to beat back Gramm's proposal.

The Hispanic groups have not been very involved, so with this meeting we should motivate them.

To show that the White House is concerned about CRA and that we are on-board with the meetings Treasury has been having with them.

---------------------- Forwarded by Peter A. Weissman/OPD/EOP on 04/21/99 01:29 PM ---------------------------

Maritza Rivera
04/21/99 01:24:22 PM

Record Type: Record

To: Peter A. Weissman/OPD/EOP

cc:
bcc:
Subject: Re: CRA

By the way. Another point of the meeting is to get the Hispanic community on board with this issue.
Peter A. Weissman

Peter A. Weissman

04/21/99 01:07:59 PM

Record Type: Record

To: Maritza Rivera/WHO/EOP

cc:
Subject: Re: CRA

yes. noon tomorrow.
just let me know the room.

LC
CR

Leadership Conference on Civil Rights

1629 "K" St., NW, Suite 1010
Washington, D.C. 20006
Phone: 202/466-3311
Fax: 202/466-3435
www.civilrights.org

March 18, 1999

The Honorable Phil Gramm
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Senator Gramm:

We are writing to express our deep concern over your public mischaracterizations of the Community Reinvestment Act (CRA), and over the treatment of CRA in the Financial Services Modernization Act of 1999 as reported out of the Senate Banking Committee on March 4.

The Leadership Conference on Civil Rights is the nation's oldest, largest, and most diverse coalition of organizations committed to the protection of civil rights in the United States. As leaders of the civil rights community, we take strong issue with your description of CRA as a vehicle for "fraud and extortion."[1] and to your characterization of CRA as "perhaps the greatest national scandal in America."[2] To the contrary, we agree with President Clinton that the Community Reinvestment Act is "a law that has helped to build homes, create jobs, and restore hope in communities across America."[3]

CRA has proven to be an effective means of encouraging federally insured financial institutions to extend prudent and profitable loans in underserved urban and rural communities. CRA has been credited with

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[1] *Congressional Record*, September 30, 1998.

[2] *Congressional Record*, October 5, 1998.

[3] Letter from President Clinton to Senator Phil Gramm, March 2, 1999.

Senator Phil Gramm
March 18, 1999
Page two

the dramatic increase in homeownership rates among minority, and low- and moderate-income individuals. Since 1993, the number of home mortgage loans extended to African-Americans has increased by 58%, to Hispanics by 62%, and to low- and moderate-income borrowers by 38%.[4] CRA has similarly served as the impetus for revitalizing distressed rural and urban communities through small business and small farm lending and community development investments.

Data from federal bank regulators reveal that the CRA has not been used arbitrarily to block or delay bank applications to the regulators. Community groups and others rarely file adverse comments to bank applications based on CRA. Less than 1% of bank applications have received adverse comments.[5] Moreover, assertions that banks provide commitments to community groups and others because they are afraid that regulators will deny or substantially delay the processing of their application is not supported by the record. Bank applications that receive adverse comments are denied only 1% of the time.[6] In addition, few applications are substantially delayed due to an adverse CRA comment.

Despite the strong record of CRA success and the lack of evidence of abuse, the bill that was reported out of the Senate Banking Committee seriously weakens CRA in three ways. First, it does not require that all banks in a bank holding company have a "satisfactory" CRA rating to exercise the new powers provided by the legislation. This would substantially roll back CRA by permitting banks that are not meeting the credit needs of their communities to benefit from the expanded powers to affiliate with securities and insurance firms.

Second, the bill would provide a "safe harbor" from public comment on CRA performance for banks with a "satisfactory" CRA rating. Under the bill, an institution receiving at least a satisfactory CRA rating during the previous 36-month period would be deemed in compliance with CRA and immune from public comment unless individuals present "substantial verifiable information" to the contrary arising since the last examination. Since over 95% of banks receive a satisfactory rating, the provision would fundamentally undercut the right of community groups and others to comment on a bank's CRA performance.[7] Community group participation in the CRA process has been critical to the success of CRA. Public comment on other aspects of a bank's

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[4]Home Mortgage Disclosure Act data cited in Secretary Robert Rubin's letter to Senator Phil Gramm, February 23, 1999.

[5]Comptroller of the Currency, Office of Thrift Supervision, Federal Deposit Insurance Corporation, and Federal Reserve Board.

[6]Id.

[7]Federal Financial Institutions Examination Council.

Senator Phil Gramm
March 18, 1999
Page three

performance, such as management or financial resources, would not face similar limitations on the scope of information that may be introduced nor be subject to the same burden of proof.

Third, the bill exempts banks with less than $100 million in assets from CRA. This represents 63% of all banks.[5] If enacted the provision will have devastating consequences for rural communities because small banks are often the only source of credit in rural areas. Despite claims that small banks by their nature serve the credit needs of local communities, data from regulators reveal that these institutions have disproportionately poor CRA records.

We would note that the financial services bill reported out of the House Banking Committee last week on a bipartisan vote of 51-8 did not contain any of these shortcomings in regard to CRA. This is in sharp contrast to the 11-9 party line vote by which the Senate Banking Committee reported out its bill, in significant measure because of the controversial CRA provisions.

Fair access to credit, which is the purpose of CRA, is a critical civil rights issue. As the President has said, "CRA is working, and we must preserve its vitality as we write the financial constitution for the 21st century."[7] As reported out of the Senate Banking Committee, the Financial Services Act of 1999 would drastically weaken CRA. Unless this shortcoming is addressed, we would urge strong opposition to this legislation.

Sincerely,

Dr. Dorothy I. Height
Chairperson
Leadership Conference on Civil Rights

Andrew H. Mott
Executive Director
Center for Community Change

Barbara Arnwine
Executive Director
Lawyers' Committee for Civil Rights Under Law

Wade Henderson
Executive Director
Leadership Conference on Civil Rights

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[5] Federal Deposit Insurance Corporation.

[7] See supra note 3.

Senator Phil Gramm
March 18, 1999
Page four

Karen Narasaki
Executive Director
National Asian Pacific American
Legal Consortium

Hilary Shelton
Washington Bureau Director
National Association for the Advancement
of Colored People

JoAnn K. Chase
Executive Director
National Congress of American Indians

Raul Yzaguirre
President
National Council of La Raza

Shanna L. Smith
Executive Director
National Fair Housing Alliance

Manuel Mirabal
President and Chief Executive Officer
National Puerto Rican Coalition, Inc.

Hugh B. Price
President and Chief Executive Officer
National Urban League

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

FAX TRANSMITTAL SHEET

Date: 21 April 99

Number of Sheets to Follow: 1

TO: Lisa Green

Addressee's Fax # :

Addressee's Confirmation # :

From: Melissa Schroder

Sender's Fax # : (202) 622-5672

Sender's Confirmation # (202) 622-5732

SPECIAL INSTRUCTIONS/COMMENTS:

So far, the e-mails are bouncing back. Please call me in am if you've not received it.

Thanks,
Melissa

National Organizations Opposing Gramm's CRA Provisions (as of 4/12/99)

Organization and Date	**Opposition to the Bill**
Hispanic Groups (4/8): -League of United Latin American Citizens -Mexican American Legal Defense and Education Fund -National Association of Latino Elected Officials Education Fund -National Council of La Raza -National Hispanic Housing Council -National Puerto Rican Coalition -Puerto Rican Legal Defense and Education Fund	Oppose three provisions in the bill and support amendments that strengthen CRA
National Low-Income Housing Coalition (4/6)	Oppose three CRA weakening provisions in bill
California Hispanic Chambers of Commerce (4/2)	Oppose Senator Gramm's efforts to weaken the CRA.
AFL-CIO (3/25)	Opposes the three CRA provisions
National Farmers Union (3/24)	Opposes the three provisions particularly small bank provision
Leadership Conference on Civil Rights (3/18)	Opposes three provisions in the bill
MaryKnoll Sisters (3/11)	Oppose legislation that weakens CRA
United States Catholic Conference (Department of Social Development and World Peace) (3/4)	Oppose efforts in bill to weaken consumer protections and dilute fair lending laws

Jesuit Conference Board of the Society of Jesus in the United States (3/3)	Urge continuing support for safeguarding CRA and effectively applying CRA to financial modernization.
NAACP (Washington Bureau) (3/2)	Oppose efforts in financial modernization bill to weaken CRA

grsupp1.wpd

NATIONAL LOW INCOME HOUSING COALITION/LIHIS

Rafael Torres, Chair
Sheila Crowley, President

April 6, 1999

The Honorable Paul S. Sarbanes
United States Senate
Hart 309
Washington, DC 20510

Dear Senator Sarbanes,

On behalf of the National Low Income Housing Coalition, I must express in the strongest terms possible our objection to the evisceration of the Community Reinvestment Act in the Financial Services Modernization Act of 1999 recently reported out of the Senate Banking Committee.

The National Low Income Housing Coalition represents thousands of local housing organizations that are doing the hard work at the local level to rebuild neighborhoods that have been depleted by disinvestment, and to produce safe, decent, and affordable housing for people at the low end of the economic spectrum. These are organizations that are masterful at the management of multiple funding streams, bringing together the public and private resources required to stimulate and produce new housing and economic development initiatives at the local level. Each of our members can attest to the necessity of the Community Reinvestment Act in putting together the resources required to do the job we all expect of them. At a time when responsibility for solving serious community problems is being devolved to local organizations, it is mystifying as to why one of their most critical resource development tools would be pulled out from underneath them.

Especially serious is the provision in the Senate bill which allows banks not in compliance with CRA to expand their affiliations and engage in new powers. This would essentially render the CRA useless in the new world of financial modernization.

We also object to the creation of so-called "safe harbors" for institutions with at least a satisfactory CRA rating, which in effect eliminates opportunity for public comment on the community reinvestment activities of the banks, while maintaining opportunity for public comment on all other aspects of the institutions' functioning.

Finally, the small bank exemption would mean that rural communities have no options for acquiring credit, as small banks are often the only source of credit in many rural parts of the country.

1012 Fourteenth Street, NW, Suite 610 · Washington, DC 20005 · Tel: 202/662-1530 · fax: 202/393-1973 · e-mail: info@nlihc.org · http://www.nlihc.org

The Community Reinvestment Act is a model of the Federal government at its best, stimulating investment in poor neighborhoods and creating a true partnership among the private, for profit sector; the private, not for profit sector; and the public sector. As we move into an era of a bigger and more comprehensive banking system, building on, not tearing down, this core element of community reinvestment should be an essential principle.

We urge that the Senate not take this action, and prevent the dire consequences that would result in its wake of its passage.

Sincerely,

Sheila

Sheila Crowley
President

Dear Barbara—
I hope all is well with
you. Hope to see you soon.
Sheila

CALIFORNIA HISPANIC CHAMBERS OF COMMERCE

EXECUTIVE COMMITTEE

PRESIDENT
Andrew Ysiano
LA Marketing Group
Stockton, CA

REGIONAL VICE PRESIDENTS

CENTRAL REGION
Frank C. Franco
Fresno, CA

NORTHERN REGION
Alex Cota Torres
Torres Enterprises
Aptos, CA

SOUTHERN REGION
Gilbert Carbajal
Ace Business Consultants
Moreno Valley, CA

SECRETARY
Cecilia Larios
Business Consultant
Perris, CA

TREASURER
Philip Arreguin
Boardroom Consultants
Santa Barbara, CA

PARLIAMENTARIAN
Luis De La Cruz
De La Cruz and Associates
Watsonville, CA

IMMEDIATE PAST PRESIDENT
Manuel A. Rosales
Inter-American Financial Services
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343 East Main Street
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April 2, 1999

The Honorable Trent Lott
United States Senate
SR-487
Washington, DC 20510

Latino Business Growth, Home Ownership and CRA

Dear Senator Lott:

We are writing on behalf of major Latino groups including the two largest Latino business groups in California, the largest immigrant citizenship group in the U.S. and the largest Latino political organization in California[1].

In California alone, there are more than eleven million Latinos and 500,000 Latino-owned small businesses. In the year 2000, it is expected that over 15 percent of the voters will be Latino.

Latinos in California are primary beneficiaries of the Community Reinvestment Act, including billions in small business loans and multi-millions in equity and philanthropic investments. Similarly, since CRA was enforced, Latino homeownership has significantly increased.

We do not view CRA as a political football. It is an essential part of our struggle to share in the growing American economic pie. Our views are shared by virtually all the CEOs of major California financial institutions and the vast majority of the 34 million Hispanics in our great nation.

We therefore urge you and members of the Senate Banking Committee to dissociate yourself from Senator Gramm's misguided hostility to our legitimate aspirations. To help the Latino community, including our rapidly increasing business base, every Senator should vote to fully enforce CRA, and to expand CRA to all financial institutions including investment houses and insurance companies.

Senator Lott, 34 million Hispanics ask for the opportunity to share in the American economic pie.

---

[1] Latin Business Association, CA Hispanic Chamber of Commerce, Hermandad Mexicana Nacional, and Mexican American Political Association.

Sincerely,

Andrew Ysiano
State President
CA Hispanic Chamber of Commerce

Ben Benavidez
State and National President
Mexican American Political Association

Viola Gonzales
Executive Director
Latino Issues Forum

Raul Medrano
President
Orange County Minority Business Council

David Lizarraga
President
TELACU

Jorge Corralejo
Board Member
Latin Business Association

Bert Corona
Co-Executive Director
Hermandad Mexicana Nacional

Mateo Camarillo
Vice President of Board
Chicano Federation

Arabella Martinez
President and CEO
Spanish Speaking Unity Council

cc: Members of the U.S. Senate Banking Committee

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

815 SIXTEENTH STREET, N.W.
WASHINGTON, D.C. 20006

JOHN J. SWEENEY
PRESIDENT

RICHARD L. TRUMKA
SECRETARY-TREASURER

LINDA CHAVEZ-THOMPSON
EXECUTIVE VICE-PRESIDENT

LEGISLATIVE ALERT!

(202) 637-5090

March 25, 1999

Dear Senator:

The AFL-CIO is deeply concerned that the Financial Services Modernization Act of 1999, as reported by the Senate Banking Committee, severely undermines the Community Reinvestment Act (CRA) an essential instrument in ensuring working families' access to capital. We urge you to oppose the bill in its current form.

The CRA was enacted in 1977 to address problems of disinvestment and redlining in low and moderate income communities. The law places an obligation on banks and thrifts to meet the needs of the local communities from which they draw deposits by providing appropriate credit and services. Under the CRA, financial institutions have committed more than one trillion dollars to low and moderate income communities without compromising the institutions' safety or soundness. This public obligation is a reasonable exchange for the benefits financial institutions receive in the form of Federal deposit insurance and access to discounted borrowing.

The Financial Services Modernization Act undercuts the CRA in three fundamental ways. First, the legislation eliminates the requirement that all banks within a holding company have and maintain satisfactory CRA ratings as a condition for exercising new financial powers provided by the legislation. Currently, regulators may deny the applications of banks that are not meeting the credit needs of their communities. Without this modest requirement, banks would be permitted to exercise the new powers even though they were not meeting existing credit needs. The bill could make CRA irrelevant in the super-merger prone financial services industry.

Next, the bill provides a "safe harbor" to institutions that received a satisfactory CRA rating during the previous 36 months. This would render banks immune from public comment on CRA performance unless "substantial verifiable information" is filed. Regulators often rely upon public comments to assist them in gaining a comprehensive view of a bank's performance in meeting the credit needs of its communities. This new standard would effectively eliminate public comments on banks CRA performance and create an unfair and excessive burden that most ordinary citizens would not be able to meet.

Finally, the bill completely exempts rural banks with less than $100 million in assets from the CRA requirements (76% of all rural banks). This exemption is particularly disturbing given the tremendous need for credit in rural areas. Rural communities generally have only one bank and small banks already have the worse CRA performance records. Removal of this minimal requirement for banks could have devastating effects on working families in rural communities, particularly family farmers.

The CRA has significantly increased working families' ability to acquire and maintain small businesses, purchase homes, and pay for their kids' educations. The AFL-CIO will oppose any attempts to roll-back these CRA gains. We urge you to oppose the Financial Services Modernization Act of 1999 until these provisions are addressed.

Sincerely,

Peggy Taylor, Director
DEPARTMENT OF LEGISLATION

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NATIONAL FARMERS UNION

March 24, 1999

Dear Senator:

On behalf of the 300,000 farm and ranch families of the National Farmers Union, I write to express our strong opposition to the Financial Services Modernization Act of 1999, as reported out of the Senate Banking Committee earlier this month. Specifically, we are concerned that the bill would undercut the Community Reinvestment Act (CRA)—a law that has significantly expanded access to credit in rural communities across the nation.

The Community Reinvestment Act prohibits redlining, and encourages banks to make affordable mortgage, small farm and small business loans. Under the impetus of CRA, banks and thrifts made $11 billion in farm loans in 1997. CRA loans assisted small farmers in obtaining credit for operating expenses, livestock and real estate purchases. Low- and moderate-income residents in rural communities also benefited from $2.8 billion in small business loans in 1997.

In 1999, access to credit is tighter than usual, making it critical to maintain the CRA. There are three provisions in the pending legislation that jeopardize the CRA.

First, the bill exempts banks and thrifts that are located in rural areas and have less than $100 million in assets, from CRA requirements. This provision would exempt 76 percent of all banks and thrifts in rural communities. A Congressional Research Service study of data from 1997 to mid-1998 found that banks with less than $100 million in assets receive 70 percent of the "below satisfactory" CRA ratings.

Second, the banking bill fails to require that banks have a satisfactory CRA rating in order to affiliate with securities and insurance firms. In the absence of this requirement, banks could ignore local credit needs in favor of expanding to other areas.

Third, the bill has the effect of eliminating the public's opportunity to comment on a bank's performance pending expansion, if that bank has had a satisfactory CRA rating during the previous 36 months.

There is no compelling reason to weaken the CRA. In fact, CRA regulations were revised in 1995 to reduce compliance burdens on small banks and allow for streamlined examination.

The CRA has been extremely successful in encouraging financial institutions to help meet the credit needs of rural communities across the nation. Therefore, we urge you to oppose the Financial Services Modernization Act of 1999 until the provisions against the CRA are removed.

Sincerely,

Leland Swenson

Leland Swenson
President

400 Virginia Avenue, S.W. • Suite 710 • Washington, D.C. 20024 • Phone (202) 554-1600

Maryknoll Sisters
eastern united states region

2806 Lake Ave.
Baltimore, MD 21213
March 11, 1999

Senator Paul S. Sarbanes
U.S. Senate
Washington, D.C. 20510

Dear Senator Sarbanes,

We are writing with concern about proposed financial modernization legislation that will have a negative effect on the Community Reinvestment Act of 1977. This legislation would promote the creation of nationwide financial conglomerates without holding them accountable to laws that foster community reinvestment and consumer protection.

This legislation will essentially make the Community Reinvestment Act ineffective in meeting the needs of local communities, especially low and middle-income people. CRA works, and must be strengthened, not weakened.

If Congress intends to modernize the banking system, it must modernize the CRA at the same time. Mega-banks that are created out of mergers will receive one CRA rating, meaning local community needs will not be well served. Provisions must be extended to cover these new financial realities.

We must work to promote institutions that understand that local community development is at least as important as making a profit. We urge you to work and vote against any legislation that weakens the Community Reinvestment Act. Thank you for giving this your attention. Peace to you.

Sincerely,

S. Rita Nixon, MM   Helen Scheel M.M.   Marjorie Schnellinger

Sister Rita Nixon   Sister Helen Scheel   Sister Marjorie Schnellinger

Maryknoll Sisters

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384586
384587

UNITED STATES CATHOLIC CONFERENCE

Department of Social Development and World Peace
3211 4th Street N.E. Washington, DC 20017-1194 FAX (202)541-3339

ECONOMIC JUSTICE FOR ALL

March 4, 1999

The Honorable Paul Sarbanes
Banking, Housing, and Urban Affairs Committee
United States Senate
Washington, D.C. 20510

Dear Senator Sarbanes:

I write to ask that you oppose any provisions in the Financial Services Act of 1999 that may eliminate consumer protections and/or dilute the fair lending laws.

The United States Catholic Conference has vigorously supported the disclosure of lending patterns since 1975 and was one of the original supporters of the Home Mortgage Disclosure Act. We believe people must have access to information about the lending practices and patterns of the financial institutions in their communities that are seeking their business. In the past banks, mortgage companies, insurance brokers and other financial institutions have discriminated against minority populations, low-income individuals and the communities in which they live with virtual impunity. The Community Reinvestment Act (CRA) and the effective enforcement of its regulations have proved significant tools in ensuring that financial institutions meet the credit needs of the local communities in which they are located, particularly by increasing the flow of credit to low-income and minority communities.

Since 1977, CRA has channeled tens of billions of dollars profitably back into rural and urban communities This success of local communities gaining access to private capital should not be jeopardized. Communities and neighborhoods need the investment of private capital particularly as government curtails its spending on housing and social services programs and local communities are being asked to assume more responsibility for their own development. Low and moderate income families of all races and ethnicities have benefited from CRA with increased opportunities to purchase homes, open small businesses or operate farms.

As Congress seeks to modernize the banking and financial industry, fair lending laws must not be undermined. Once more, we urge you to oppose any effort to diminish consumer protections and to weaken fair lending laws.

Sincerely,

Roger Cardinal Mahony

His Eminence
Cardinal Roger Mahony
Archbishop of Los Angeles
Chairman, Domestic Policy Committee

JESUIT CONFERENCE
THE SOCIETY OF JESUS IN THE UNITED STATES

The Honorable Paul Sarbanes
Senate Committee on Banking, Housing, And Urban Affairs
United States Senate
Washington, DC 20510

March 3, 1999

Dear Senator Sarbanes,

We are writing you on behalf of the Jesuit Conference Board of the Society of Jesus in the Unitec With the House and Senate Banking Committees scheduled to mark-up financial modernization l this week and vigorous discussions already underway, we call your urgent attention to the status c Community Reinvestment Act (CRA) in this debate. We urge your vocal and unconditional supp safeguarding and effectively applying CRA to any proposed financial modernization legislation. maximizing the capital available to underserved urban and rural areas, CRA has proven to be an c means of promoting vital and sustainable communities. CRA should be allowed to continue its ir work.

There are approximately 4,000 U.S. Jesuit priests and brothers working abroad and in our domest which include: 28 Jesuit-affiliated universities and colleges, more than 50 Jesuit high schools and schools, nearly 100 Jesuit parishes, and various other apostolic programs throughout the country. overriding commitment to empower individuals, families and communities who are most at-risk i society. In essential ways, CRA enables these marginalized groups to fully integrate into society.

Propelled by a mission of justice and social progress, Jesuit institutions have CRA-type goals of i the communities where they are located. For example, Fordham University is situated in one of t urban counties in the nation. In 1983, Fordham formalized a long-standing partnership with the N Bronx Community and Clergy Coalition to form the University Neighborhood Housing Corporati UNHP believes in working aggressively to develop and preserve innovative, community-controlle affordable housing. With the strength and leverage of CRA, UNHP has built a positive, working r with Chase Manhattan Bank. From the late 1980s, this relationship has resulted in millions of dol capital for affordable housing and economic development in the northwest Bronx. Recently, this s partnership yielded $25 million in housing rehabilitation funding from Fannie Mae. The force of c leaders working with university, banking and Fannie Mae representatives is not merely a lifeline f northwest Bronx; it has added self-sustaining stability and growth to an historically distressed, der populated neighborhood. This is one example of an estimated $1 trillion in CRA-leveraged financ commitments since 1977.

We ask for your continued support for national economic development policies which equip peopl means to lead respectful and dignified lives. CRA is in the interest of underserved communities; interest of our Jesuit institutions; and it is in our collective, national interest.

Thank you for your consideration and efforts.

Sincerely,

Rick Ryscavage, SJ

Rev. Richard Ryscavage, S.J.
Secretary
Jesuit Social & International Ministries

British Robinson

Ms. British Robinson
National Director
Jesuit Social & International Min

1616 P STREET N.W. SUITE 400 WASHINGTON, D.C. 20036-1405 PHONE: 202-462-0400 FAX: 202 328-9

WASHINGTON BUREAU
NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF COLORED PEOPLE
1025 VERMONT AVENUE, N.W. • SUITE 1120 • WASHINGTON, D.C. 20005
(202) 638-2269 FAX (202) 638-5936

March 2, 1999

The Honorable Paul S. Sarbanes
U.S. Senate
Washington, D.C. 20510

RE: **The Financial Services Modernization Act and the COMMUNITY REINVESTMENT ACT**

Dear Senator Sarbanes;

The National Association for the Advancement of Colored People (NAACP), the nation's oldest and largest grassroots civil rights organization, strongly supports the Community Reinvestment Act (CRA) and opposes any attempts to weaken it. The CRA has been instrumental in the revitalization of literally tens of thousands of communities nationwide, and is an important tool in the NAACP's efforts to help people and communities achieve their goals at no cost to the taxpayer.

Through CRA, financial institutions are discovering that there are benefits to working in and with low to moderate income and minority communities. Since its enactment in 1977, CRA has helped lenders tap into previously unchartered areas and consequently they are learning what a viable, profitable market the low-moderate and minority communities are.

One example of a CRA success story would be the NAACP's Community Development and Resource Centers (CDRCs). The NAACP, working together with NationsBank, opened our first CDRC in 1992 in part to help NationsBank comply with CRA. Since that time, NAACP-CDRCs have made mortgage, consumer and small business loan referrals amounting to over $100 million, and more than 10,000 individuals and businesses have received counseling or technical assistance through CRDCs.

Due to the vital role the banking industry plays in the success or failure of every American neighborhood, CRA is a necessary tool for the sustained economic development of our nation. Thus the NAACP urges you, in the strongest terms possible, to oppose any amendments or bills that would in any way weaken the effectiveness of CRA. The NAACP also urges you, again in the strongest terms possible, to support any move to expand or modernize CRA as the financial services industry is allowed to change and grow. By not including CRA in any restructuring of the financial services industry, you would effectively be denying whole communities access to much-needed mortgages, consumer or small business loans, or basic financial assistance.

I hope that you will feel free to contact me if you have any questions regarding the NAACP position on CRA, or if there is any way that I can work with you to ensure that CRA is allowed to continue to prosper and provide assistance to people and communities across the nation.

Sincerely,

Hilary O. Shelton
Director
NAACP Washington Bureau

HOS/cnk

Newspaper/Date	Title of Editorial/Article
Pittsburgh Post-Gazette (PA) March 24, 1999	"Good (Re)investment: Don't Scrap a Law that Boosts Neighborhood Loans"
The Record (Bergen County, NJ) March 22, 1999	"A Bad Banking Idea--Keep Incentives for Community Investment"
The Charleston Gazette (W. VA.) March 19, 1999	"Neglect Return to Slums?"
St. Petersburg Times (FL) March 19, 1999	"Keep the Loans Flowing"
The New York Times March 17, 1999	"Mischief from Mr. Gramm"
Newsday (NY) March 10, 1999	"Release Banks from Depression-era Restraints"
The Providence Journal (RI) March 9, 1999	"Let's Not Abandon the Community Reinvestment Act"
The Philadelphia Inquirer (PA) March 4, 1999	"Communities and Lenders--Don't Curtail mandates for inclusive banking that have helped people and neighborhoods."

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5TH STORY of Level 1 printed in FULL format.

March 24, 1999, Wednesday, SOONER EDITION

SECTION: EDITORIAL, Pg. A-24

LENGTH: 539 words

HEADLINE: GOOD (RE)INVESTMENT;
DON'T SCRAP A LAW THAT BOOSTS NEIGHBORHOOD LOANS

BODY:

Between 1980 and 1987, Union National Bank made one mortgage loan in the North Side for a grand total of $ 10,000. In 1997, National City Bank, the merged successor to Union National, made 88 home purchase mortgage loans and 69 refinancing and home improvement loans on the North Side, totaling $ 7.29 million.

Several factors may contribute to that staggering jump in investment, but the key was putting the Community Reinvestment Act to work. Now Sen. Phil Gramm, a Texas Republican, is aiming to limit its effectiveness. That would be a devastating blow to urban revitalization.

The law, which requires banks to make loans in the neighborhoods from which they attract deposits, passed in 1977, but its effects were not felt in Pittsburgh until 1988. That's when a group of community activists focused attention on Union National's pathetic record of lending in low-income and minority neighborhoods and urged the bank to do better.

Union National responded quickly and promised to make $ 105 million in loans to low-income neighborhoods throughout the area over the next five years. The bank has made good on its promise through its various mergers and permutations.

From that beginning, the Pittsburgh Community Reinvestment Group has negotiated agreements with 13 lenders resulting in $ 3 billion in investment over the last decade to neighborhoods that had been traditionally redlined or overlooked.

Individuals who had previously been denied were able to own their own homes, neighborhoods were saved from abandonment and the banks found that, while the delinquency rates may be marginally higher, the loans have not been a losing proposition. Many banks contend that they discovered opportunities they didn't realize existed.

Sen. Gramm, nonetheless, insists that the procedure is no better than extortion. And he dismisses the bank testimonials, saying that businesses paying the mafia for protection don't readily complain either.

The Texas Republican must be holding his chart on power relations upside down if he thinks that community activists wield enormous sway over poor, defenseless banks. The Community Reinvestment Act gives some measure of power to the community, but it hardly levels the playing field. It simply says that because banks get many services from the federal government, that they must contribute something back.

As Congress considers legislation revamping banking regulations to allow lending institutions to expand the nature of the financial services they engage in, Sen. Gramm is seizing the opportunity to target the Community Reinvestment Act. He has proposed that banks with assets of less than $ 100 million - that's 65 percent of all banks - be exempted from its provisions.

But that is exactly the wrong direction in which to move. The reinvestment act is so important that it should not only survive, but it should also be extended to any bank-related institution that engages in lending.

Nationally some $ 1 trillion has been reinvested in cities bringing new life to communities that had languished without resources and without hope. The Community Reinvestment Act shares a large portion of the credit for that success. It deserves continued support.

LOAD-DATE: March 24, 1999

Bergen Record editorial

A bad banking idea
Keep incentives for community investment

Monday, March 22, 1999

BEFORE 1977, banks routinely denied loans to minorities and others who lived in poor neighborhoods. Some people found it next to impossible to get loans, even from banks where they had accounts. The practice was called red-lining.

To combat this widespread lending discrimination, Congress that year passed the federal Community Reinvestment Act. It gave the government the power to fight red-lining by blocking mergers or expansions of banks that did not have satisfactory CRA ratings.

The CRA is partially responsible for revitalizing communities throughout the country. Unbelievably, Sen. Phil Gramm, R-Texas, has proposed legislation that would exempt 65 percent of all banks from CRA obligations. Fortunately, President Clinton has vowed to veto it.

Mr. Gramm's CRA revisions are part of a financial overhaul bill recently approved by the Senate Banking Committee. The main purpose of the bill is to remove the barriers between banks, securities firms, and insurance companies. It would allow companies in any of these three areas to expand into the other two. Theoretically, these businesses could create huge financial supermarkets that offer consumers checking accounts, mutual funds, insurance policies, and more.

An amendment supported by Mr. Gramm -- head of the Senate Banking Committee -- would exempt banks with less than $100 million in assets from community lending laws. Mr. Gramm complains that community groups use the CRA to extort money from banks and says the CRA paperwork requirements are odious.

It's true that the CRA requires paperwork, but it also takes time and effort to comply with fair housing and employment laws. But that's not a justification for eliminating those laws. As for extortion, the community groups that Mr. Gramm is complaining about do not have much leverage over banks abiding by the fair-lending rules.

Poor and minority communities have received more than $1 trillion in loans since the CRA passed. In the past 10 years, New Jersey Citizen Action — a Hackensack-based coalition of 90 community organizations -- has negotiated deals worth more than $8 billion.

The deals have provided special loan programs for first-time homeowners and personal and home-improvement loans at competitive interest rates. Banks have established loan programs for homeowners who need to remove dangerous lead paint from their houses, or provide handicap accessibility. Non-profit groups have received grants and loans to build affordable housing.

Would banks continue to make money available for such worthy projects without the CRA requirements? Some probably would. But the banking industry's sorry history before federal intervention suggests that many would not.

3RD STORY of Focus printed in FULL format.

The Charleston Gazette

March 19, 1999, Friday

SECTION: Editorial; Pg. P4A

LENGTH: 252 words

HEADLINE: Neglect Return to slums ?

BYLINE: Gzedit

BODY:

TWO DECADES ago, when Democrats controlled Congress, they passed the Community Reinvestment Act, forcing banks to lend money for better homes in black and poor neighborhoods that previously were shunned. Since then, the National Community Reinvestment Coalition says, more than $ 1 trillion has been lent for such housing. The result, according to The New York Times:

"Cities that were in drastic decline 20 years ago are experiencing rebirth, thanks to new homeowners who are transforming neighborhoods of transients into places where families have a stake in what happens."

But now, with Republicans in control of Congress, an effort is being made to cut aid to ghettos. Sen. Phil Gramm, R-Texas, says the Reinvestment Act is unfair to bankers.

The Times says Gramm wants "a return to the bad old days, when banks took everyone's deposits but lent them only to the affluent."

Gramm would drop the reinvestment requirement for banks with less than $ 100 million assets - two-thirds of all banks. His bill also would weaken other lending requirements that help low-income families.

When inner cities are abandoned, left to sink into decay, everyone suffers, including comfortable folks in the suburbs.

America must not cease efforts to rescue blighted neighborhoods. We hope West Virginia's Democratic members of Congress, although outnumbered, do whatever they can to obstruct Gramm's bill.

LOAD-DATE: March 19, 1999

4TH STORY of Focus printed in FULL format.

March 19, 1999, Friday, 0 South Pinellas Edition

SECTION: EDITORIAL; EDITORIALS; Pg. 20A

LENGTH: 377 words

HEADLINE: Keep the loans flowing

BODY:

Neighborhoods and communities that only two decades ago were dying or in rapid decline are now showing new signs of life, thanks in part to the Federal Community Reinvestment Act. The 1977 law effectively outlawed redlining by requiring banks to invest in low-income and minority areas where lenders historically refused to make loans, even to their own depositors. Just as the success of the act is becoming visible, some members of ngress want to weaken it.

U.S. Sen. Phil Gramm, chairman of the Senate Banking Committee, and other Senate Republicans are supporting legislation that would exempt banks with assets of less than $ 100-million from the community reinvestment law. That accounts for about 65 percent of all banks. The bill also would make it more difficult for communities to prove a bank's lending practices are unfair or discriminatory.

According to the National Community Reinvestment Coalition, banks have committed more than $ 1-trillion to urban revitalization efforts since the law passed. The effects are visible as far away as New York, Los Angeles and Dallas. Closer to home in St. Petersburg, a $ 4-million partnership between NationsBank and Neighborhood Housing Services is bringing 50 affordable single-family homes to the Bartlett Park area.

Congress should reject Gramm's attempt to undermine such progress at a time when many impoverished communities are beginning to rebound. Banks put themselves at risk and often earn less when they make small, community-based loans. Without pressure from the federal government, the financial resources that have been trickling into struggling communities over the past 22 years would begin to dry up.

Gramm claims the act needs to be rewritten because community organizations that build affordable housing and help promote small business are using it to "extort" money from banks. That is a sham argument. Few banks are clamoring to change the Community Investment act, and many have been pleasantly surprised with the success of the loan programs they have instituted under it.

Too much progress has been made for Congress to allow Gramm to take away the capital that has been the lifeblood for the gentrification slowly taking place in cities all over the United States.

LANGUAGE: ENGLISH

LOAD-DATE: March 19, 1999

THE NEW YORK TIMES · WEDNESDAY, MARCH 17, 1999

A20

Mischief From Mr. Gramm

Cities that were in drastic decline 20 years ago are experiencing rebirth, thanks to new homeowners who are transforming neighborhoods of transients into places where families have a stake in what happens. The renaissance is due in part to the Federal Community Reinvestment Act, which requires banks to reinvest actively in depressed and minority areas that were historically written off. Senator Phil Gramm of Texas now wants to weaken the Reinvestment Act, encouraging a return to the bad old days, when banks took everyone's deposits but lent them only to the affluent. Sensible members of Congress need to keep the measure intact.

The act was passed in 1977. Until then, prospective home or business owners in many communities had little chance of landing loans even from banks where they kept money on deposit. But according to the National Community Reinvestment Coalition, banks have committed more than $1 trillion to once-neglected neighborhoods since the act was passed, the vast majority of it in the last six years.

In New York City's South Bronx neighborhood, the money has turned burned-out areas into havens for affordable homes and a new middle class. The banks earn less on community-based loans than on corporate business. But the most civic-minded banks have accepted this reduced revenue as a cost of doing business — and as a reasonable sacrifice for keeping the surrounding communities strong.

Federal bank examiners can block mergers or expansions for banks that fail to achieve a satisfactory Community Reinvestment Act rating. The Senate proposal that Mr. Gramm supports would exempt banks with assets of less than $100 million from their obligations under the act. That would include 65 percent of all banks. The Senate bill would also dramatically curtail the community's right to expose what it considers unfair practices. Without Federal pressure, however, the amount of money flowing to poorer neighborhoods would drop substantially, undermining the urban recovery.

Mr. Gramm argues that community groups are "extorting" money from banks in return for approval, and describes the required paperwork as odious. But community organizations that build affordable housing in Mr. Gramm's home state heartily disagree. Mayor Ron Kirk of Dallas disagrees as well, and told The Dallas Morning News that he welcomed the opportunity to explain to Mr. Gramm that "there is no downside to investing in all parts of our community."

In a perfect world, lending practices would be fair and the Reinvestment Act would be unnecessary. But without Federal pressure the country would return to the era of redlining, when communities cut off from capital withered and died.

5TH STORY of Level 1 printed in FULL format.

Newsday (New York, NY)

March 10, 1999, Wednesday, NASSAU AND SUFFOLK EDITION

SECTION: VIEWPOINTS; Page A42

LENGTH: 292 words

HEADLINE: EDITORIAL / RELEASE BANKS FROM DEPRESSION-ERA RESTRAINTS

BODY:

Sen. Phil Gramm (R-Texas) seems determined to sacrifice reform of this country's outdated banking laws to combating his pet peeve, the federal rules that ensure that banks put their money to work in all segments of their communities.

Now that he has replaced former Sen. Alfonse D'Amato (R-N.Y.) as chairman of the House Banking Committee, he has pushed through a bank deregulation bill that weakens existing community-investment rules, alienating the committee's Democratic minority and inviting a presidential veto.

Modernizing Depression-era banking laws is important if banks are to adapt to the demands of 21stCentury finance (even if bank regulatory agencies have managed to reinterpret existing law enough to give banks some needed latitude). And the communityinvestment rules have helped ensure that bankers attend to their poorest depositors needs, without being impossibly burdensome.

Gramm, who blocked a promising bill last year when he was a mere member of the committee, pledged when he became chairman to win early passage of a broadly acceptable bill. Now he's Qbollixed things up badly.

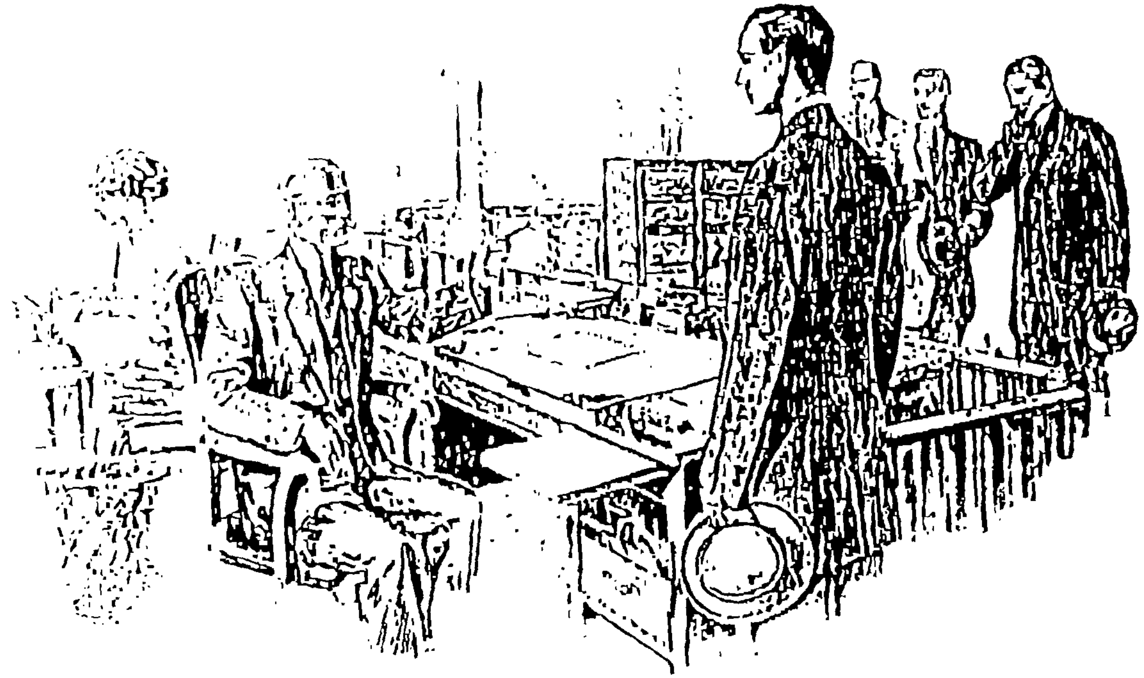
Fortunately, the House is developing a consensus bill that appears to achieve the essential goals of reform - allowing banks to engage more freely in securities and insurance businesses - without foolish additions that invite a well-deserved presidential veto.

It's not clear whether Gramm can even get his bill through the Senate, with the baggage he has loaded onto it. If it doesn't die there, the House-Senate conference committee should excise Gramm's additions. Then Congress may actually achieve what it has tried in vain to do for two decades - no thanks to the current chairman of the Senate Banking Committee.

LANGUAGE: English

LOAD-DATE: March 10, 1999

Let's not abandon the Community Reinvestment Act



NICOLAS P. RETSINAS
CHARLES D. TANSEY

EVERY YEAR AROUND CHRISTMAS, we turn on the television to see James Stewart as community banker George Bailey. The movie *It's a Wonderful Life* tells a heartwarming story. But where is George Bailey today when you need a loan? Who has time to listen to your story? Do you know who is going to approve or decline your loan? Do you know who is going to buy your loan once it's been made? Does he, she or anyone know you?

The questions go right to the heart of the debate on financial modernization now under way in the U.S. House and Senate Banking committees. Particularly vulnerable is the Community Reinvestment Act (CRA), which, for the last 21 years, has encouraged banks to lend to undercapitalized, undercollateralized and underserved businesses and individuals in their neighborhoods. Opponents contend that it costs too much.

A banker will almost always find it harder to lend a million dollars to 10 local businesses than a billion dollars to General Motors. Getting to know local businesses is an expense. From an accountant's perspective, what community banker George Bailey knows about his customers and what he does for them is a "transaction cost" that is increasingly difficult to justify. For banks today, centralizing the loan decision and approving or declining your loan on the basis of a statistical credit score is simply cheaper. Bankers can also achieve substantially better returns on assets and equity by packaging your loan with other loans and selling them off wholesale.

As banks become ever bigger, and face ever tougher competition from "nonbanks" (e.g., mortgage companies), it is inevitable that transaction costs will be cut even further. When the Bedford Falls Building and Loan Association gets acquired by Big Bank USA, George Bailey will take early retirement. Call it economies of scale. Call it banking at the millennium. But one way or another, say goodbye to the banker who had the time and interest to follow your story.

To be sure, these cost-saving measures benefit customers, too: Credit is cheaper than it would be otherwise, and loan decisions come more quickly. For customers who fit the credit-scored cookie cutter, a much larger number get served, and served more efficiently. In short, customers can also benefit from the new economies of scale.

But there is a downside. Consolidation in the banking industry is a necessary fact, and credit gaps are an inevitable, market-driven result. Can we afford these gaps? In a word, no. The country was not built only by financially prudent investors, manufacturers and farmers whose first order of business was to credit-score well. (Even William C. Durant, the founder of General Motors, would have failed the test.) Capital formation can be rational and methodical, but it can also be inspired and volatile.

To promote capital formation effectively and efficiently across the full range, the banking system must incorporate knowledge of the customer, expensive as it is, into the decision-making process. The Federal Deposit Insurance Corporation recently dramatized this imperative, albeit in a tangential way. Under the aegis of "Know Your Customer," the FDIC's Financial Action Task Force proposed and then subsequently withdrew a banking regulation that would require banks to profile and categorize all of their depositors to better control flows of illegal funds.

A hail of e-mail stopped the effort, not because knowing your customer was a bad idea but because the intrusion into daily financial affairs would prove onerous, time-consuming and unconstitutional. Suffice it to say, were George Bailey presiding at every local branch no such regulation would be necessary. CRA is based on the premise that federally regulated financial institutions have an obligation to serve local credit needs. To do this effectively requires knowledge as well as money.

George Bailey would have been proud to claim credit for the Community Reinvestment Act: Knowing his customers and reinvesting in his community is what he did every day. It should go without saying that the private sector, rather than the public sector, remains the best way to encourage capital formation in all of its forms in all of the communities and among all of the constituencies nationwide. But, ironically, as we lament the demise of the branch banker, this fundamental notion is being attacked on Capitol Hill.

Instead of celebrating partnerships in community lending that have produced remarkable successes over the years, CRA opponents would like to take the "community" out of community banking. But why? If the government has identified "Knowing Your Customer" as the foundation of good lending — which it is — why dismantle the CRA incentives that promote it? As the debate heats up in Congress, you can almost hear George Bailey declare from his rocking chair, "Good golly, what's wrong with reinvesting in your community, anyway?"

Nicolas P. Retsinas is the director of the Joint Center for Housing Studies at Harvard University and former director of the Office of Thrift Supervision and board member of the Federal Deposit Insurance Corporation. Charles D. Tansey is managing director of Commonwealth Capital Partners, an institutional advisory firm.

5TH STORY of Level 1 printed in FULL format.

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March 10, 1999, Wednesday, NASSAU AND SUFFOLK EDITION

SECTION: VIEWPOINTS; Page A42

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HEADLINE: EDITORIAL / RELEASE BANKS FROM DEPRESSION-ERA RESTRAINTS

BODY:

Sen. Phil Gramm (R-Texas) seems determined to sacrifice reform of this country's outdated banking laws to combating his pet peeve, the federal rules that ensure that banks put their money to work in all segments of their communities.

Now that he has replaced former Sen. Alfonse D'Amato (R-N.Y.) as chairman of the House Banking Committee, he has pushed through a bank deregulation bill that weakens existing community-investment rules, alienating the committee's Democratic minority and inviting a presidential veto.

Modernizing Depression-era banking laws is important if banks are to adapt to the demands of 21stCentury finance (even if bank regulatory agencies have managed to reinterpret existing law enough to give banks some needed latitude). And the communityinvestment rules have helped ensure that bankers attend to their poorest depositors needs, without being impossibly burdensome.

Gramm, who blocked a promising bill last year when he was a mere member of the committee, pledged when he became chairman to win early passage of a broadly acceptable bill. Now he's Qbollixed things up badly.

Fortunately, the House is developing a consensus bill that appears to achieve the essential goals of reform - allowing banks to engage more freely in securities and insurance businesses - without foolish additions that invite a well-deserved presidential veto.

It's not clear whether Gramm can even get his bill through the Senate, with the baggage he has loaded onto it. If it doesn't die there, the House-Senate conference committee should excise Gramm's additions. Then Congress may actually achieve what it has tried in vain to do for two decades - no thanks to the current chairman of the Senate Banking Committee.

LANGUAGE: English

LOAD-DATE: March 10, 1999

TX Banking-Gramm, Bjt,0633
Gramm's stance on community lending draws unwanted guests

WASHINGTON (AP) The 13 busloads of community activists who spilled onto Senate Banking Committee Chairman Phil Gramm's front lawn in a bit of political theater represent the latest manifestation of the sensitivity surrounding Congress' attempted rewrite of Depression-era banking laws.

Gramm, R-Texas, has drawn the ire of community housing organizations and has placed himself on a collision course with the Clinton administration and Senate Democrats with his dislike for the Community Reinvestment Act. That 1977 law requires banks to lend money in low- and moderate-income neighborhoods.

Last year, Gramm killed a sweeping financial modernization bill that would allow full-throttled competition between banks, insurance companies and securities firms because of the legislation's community lending provisions.

Newly installed as chairman of the Senate Banking Committee, Gramm last month pushed through his committee a new financial modernization bill that would water down some aspects of community lending. That bill, which diverges widely from a measure pending in the House, has drawn a veto pledge from President Clinton. The administration contends the Senate bill doesn't do enough to protect consumers and would harm community lending laws.

Gramm's stance drew a visit Sunday from hundreds of protestors who massed outside his Washington home, dropping leaflets calling him ``Philly the Kid" and accusing him of being a ``hired gun" for the banking and insurance industries.

``If they think they are intimidating him or the Banking Committee, they are very wrong," committee spokeswoman Christi Harlan said of the demonstration organized by National People's Action.

Gramm, who was home at the time, didn't address the activists, who eventually were shepherded away by police.

``I have no regrets," one demonstrator, Tommy Calvert of San Antonio, said Monday. ``He refused to attend our conference, so we went to his house."

Calvert, who is president of the Neighborhood First Alliance of San Antonio, charged that Gramm has ``sold his soul to the banking lobby."

Community lending laws remain an important tool to ensure that people and businesses in low- and moderate-income communities have access to capital, community activists say.

But Gramm has voiced concern that the provisions are too onerous. He also contends the CRA, which allows community groups to comment on pending banking merger applications, provides a forum for those organizations to demand concessions from banks in exchange for their silence. He has likened the practice to extortion.

``Every small banker in America chafes under" the 1977 laws, Gramm said, insisting that the government shouldn't dictate to banks what people or companies they can do business with.

But the head of the National Community Reinvestment Coalition and other activists say Gramm has vastly overblown reality. ``Sen. Gramm is basing a premise on faulty information," NCRC President

John Taylor said in an interview.
``We feel that there's this push to fix something that isn't broken,'' Taylor said.
The president of the Independent Bankers Association of Texas acknowledges that while small banks are philosophically opposed to community lending laws, in practice the mandates aren't overly onerous.
``Most of the small banks are really very accustomed to complying with CRA,'' said Christopher Williston. ``Now that they know exactly what the regulators are looking for, many of my members would just say `CRA is here and I can live with it.'''

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:SUBJECT: TX

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League of United Latin American Citizens (LULAC)
Mexican American Legal Defense and Educational Fund (MALDEF)
National Association of Latino Elected Officials (NALEO) Educational Fund
National Council of La Raza (NCLR)
National Hispanic Housing Council (NHHC)
National Puerto Rican Coalition (NPRC)
Puerto Rican Legal Defense and Education Fund (PRLDEF)

April 8, 1999

The Honorable Paul S. Sarbanes
309 Senate Hart Office Building
United States Senate
Washington, DC 20510

Dear Senator. Sarbanes:

The undersigned organizations write to express strong opposition to the Financial Services Modernization Act of 1999 as reported out of the Senate Banking Committee on March 4th. The Act would restructure the financial services industry in the United States by allowing broad affiliations among banks, insurance companies, and security firms. Currently, the law strictly limits ownership among different financial entities and between financial companies and commercial corporations. The Act seeks to ease these restrictions, without commensurate expansion of the Community Reinvestment Act (CRA) to cover insurance companies, securities firms, mortgage companies, and other financial entities allowed to affiliate with banks. The Act would undermine one of the most effective revitalization vehicles for underserved low-income and minority communities, including Hispanic American communities across the country.

We have found, and research confirms, that all too often the credit and financial needs of these communities are severely underserved. Historically, many financial institutions have avoided investing in these communities due to their perceived higher level of risk. Unfortunately, "perceived higher level of risk" is often code for "low-income" or "minority." But the facts show that low-income and minority communities are not inherently riskier than other communities. In fact, most financial institutions find them to be quite profitable, once they begin investing in them. Unfortunately, without the CRA, many financial institutions have not and would not be encouraged to do so.

As the data show, Hispanics are the fastest-growing population in the United States. We are a growing force in the expansion of homeownership and small business development, two leading indicators of the economic well-being of this country. For example, between 1987 and 1992, Hispanic-owned business grew by over 76%, compared to 26% for U.S. businesses overall. According to a 1997 Harvard study, "the number of Hispanic homeowners has shown the most spectacular rise" in recent years compared to that of Whites and of other minority groups. Population projections forecast Hispanics to be the largest minority group in the U.S. by the year 2005, causing the U.S. economy to be increasingly dependent on the continued prosperity of the Hispanic American community. Without the CRA, this growth may be impeded.

As reported out of the Senate Banking Committee, the Financial Services Modernization Act of 1999 would hinder that growth by weakening the CRA in the following three ways. First, a "satisfactory" CRA rating is not required in order for financial institutions to enjoy the new powers afforded to them by the legislation, thereby allowing banks to exercise their privilege, even if they are not meeting the credit needs of the communities where they do business.

Second, banks receiving a "satisfactory" CRA rating would be given a "safe harbor" from public comment on CRA performance. Since over 95% of banks receive a "satisfactory" rating, this would undermine the effectiveness of the law by restricting a community's right to voice its experience with banks. While a "satisfactory" rating provides a helpful guide to a bank's overall performance, it may not provide an accurate picture at the neighborhood level.

Third, the Act proposes to exempt all small rural banks (those with less than $100 million in assets) from CRA, thereby releasing 76% of all rural banks from their CRA obligations. As with the safe harbor provision, this undermines the spirit and the effectiveness of the law by exempting most rural banks. This would have particularly adverse consequences in low-income rural communities where often the only source of credit is a small bank. Moreover, researchers have found that small banks have disproportionately poor CRA records compared to larger banks, thereby highlighting the need for CRA in rural communities and small towns.

CRA is one of the strongest incentives to encourage investment in low-income and minority communities. Over the last twenty-two years, neighborhoods across the country have benefited from CRA-encouraged investments. This has resulted in increases in homeownership and business development, leading to the rebirth of many American neighborhoods. However, many communities remain underserved by capital and investment vehicles. For this reason, reinforcement, not weakening, of CRA is critically needed. We urge you to support the continued strengthening of America's communities by vigorously opposing the Financial Services Modernization Act of 1999 as reported out of Committee, and supporting amendments that would strengthen the Bill's CRA protections. Thank you.

Sincerely,

Rick Dovalina
National President
League of United Latin American Citizens

Antonia Hernandez
President and General Counsel
MALDEF

Arturo Vargas
Executive Director
NALEO Educational Fund

Raul Yzaguirre
President and Chief Executive Officer
National Council of La Raza (NCLR)

Ruth Pagani
Executive Director
National Hispanic Housing Council (NHHC)

Manuel Mirabal
President and Chief Executive Officer
National Puerto Rican Coalition (NPRC)

Juan Figueroa
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