What are the benefits of CRA to small businesses?

- Under the CRA regulations, small business lending is an integral part of bank CRA compliance. Banks are assessed on their effort to support small businesses under the lending, investment and services tests. For the first time, large banks will report small business loan data by census tract, in order to identify new market opportunities.

What are the benefits of CRA to banks?

- Good CRA performance is good banking business.

- "Businesses that learn how to meet [community reinvestment] demand profitably, and integrate it into their business lines, will gain a tremendous competitive advantage." Richard Rosenberg, former Chairman and CEO, BankAmerica Corporation.

- "Lending in the inner city [has] turned out to be the most profitable part of our business over the past few years." Mario Antoci, Chairman and CEO, American Savings.

- "Many [institutions] now recognize that in an era of growing competition, CRA performance may be critical to an institution's ability to adjust to the new banking environment. CRA-related activities can help develop new markets, potentially profitable business, and improve a bank's public image." Lawrence Lindsey, former Governor, Federal Reserve System.

Isn't CRA burdensome?

- The banking regulators, after an exhaustive period of review and public comment, revised the regulations under CRA in April 1995. Under the new revised regulations, CRA compliance is now less intrusive and burdensome, and more productive. The emphasis is now on actual performance, rather than paperwork and process.

- CRA exams are now tailored to differences in institutions' structures and operations. There is an assessment method for large retail institutions that focuses on lending, investment, and services; a streamlined method for small institutions focused on lending; and separate methods for wholesale or limited purpose institutions; Institutions may also choose to submit strategic plans to implement CRA.

- As James D. McLaughlin, director of regulatory and trust affairs at the American Bankers Association has said, "For the vast majority of banks it reduced record keeping, exams went quicker, and banks now know what is required of them." (American Banker, Jan. 20, 1998).

- "We commend the regulators for instituting a meaningful, streamlined tiered examination system.... The new rules should alleviate the paperwork nightmare of CRA for community banks." Richard Mount, President, Independent Bankers Association of America.

CRA Fact Sheet

What is CRA?

- Congress enacted CRA in 1977 to combat the practice of "red-lining" communities by publicly-insured banks and thrifts.
- CRA encourages banks and thrifts to meet the credit needs of their communities, consistent with safe and sound banking practices.

How Does CRA work?

- Federal bank and thrift supervisors assess financial institution's performance: loans made, services provided, and investments in their communities. The CRA regulation provides a streamlined examination for banks and thrifts with assets under $250 million.
- Banks and thrifts make their CRA ratings public. The public has an opportunity to comment on CRA performance before the start of a scheduled examination.

What are the benefits of CRA to communities?

- CRA is working to restore healthy markets in distressed communities.
- 1996 Home Mortgage Disclosure Act data show that lending to minority and low income borrowers is on the rise. For example, 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.
- Since 1992, the National Community Reinvestment Coalition estimates that the private sector has pledged over $1 trillion in loans going forward for community development.

What are the benefits of CRA to small businesses?

- Small business lending is an integral part of bank CRA compliance. Banks are assessed on their effort to support small businesses under the lending, investment and services tests. For the first time, large banks are reporting small business loan data by census tract.

What are the benefits of CRA to banks?

- CRA is good banking business. "Businesses that learn how to meet [community reinvestment] demand profitably, and integrate it into their business lines, will gain a tremendous competitive advantage." Richard Rosenberg, former Chairman and CEO, BankAmerica Corporation.
- "Lending in the inner city [has] turned out to be the most profitable part of our business over the past few years." Mario Antoci, Chairman and CEO, American Savings.
- "Many [institutions] now recognize that in an era of growing competition, CRA performance may be critical to an institution's ability to adjust to the new banking environment. CRA-related activities can help develop new markets, potentially profitable business, and improve a bank's public image." Lawrence Lindsey, former Governor, Federal Reserve System.

LONGER/MORE DETAILED VERSION OF PREVIOUS PAGE + MORE BACKGROUND.

What is CRA?

- Congress enacted CRA in 1977 to combat the practice of "red-lining" communities by publicly-insured banks and thrifts.

- The goal of CRA is to encourage banks and thrifts to meet the credit needs of their entire communities, including low and moderate income areas, consistent with safe and sound banking practices.

How Does CRA work?

- Under CRA, federal bank and thrift supervisors assess financial institution's performance: loans made, services provided, and investments in their communities.

- The CRA regulation provides a streamlined examination procedure for banks and thrifts with assets under $250 million.

- Banks and thrifts make their CRA ratings public. The public has an opportunity to comment on CRA performance before the start of a scheduled examination.

- Under the Home Mortgage Disclosure Act, banks and thrifts report on their home mortgage lending, which is considered in the assessment of CRA performance. Under CRA, larger banks and thrifts also collect and report aggregate data on their small business and small farm loans by census tract. This data is made publicly available.

What are the benefits of CRA to communities?

- CRA is working to restore healthy markets in distressed communities.

- ~~[illegible] Home Mortgage Disclosure Act data [illegible] the [illegible] for Blacks, 58 percent [illegible] Americans, and [illegible] Whites. During the same five-[illegible] of home purchase [illegible] applicants having incomes [illegible] 80 percent of the median [illegible] their metropolitan statistical area) increased [illegible]~~

- In 1996 alone, large commercial banks made nearly $18 billion in community development loans, in addition to their affordable housing and small business loans.

- Since 1992, nonprofit community groups estimate that the private sector has pledged nearly $1 trillion in loans going forward for community development, which represents over 95% of CRA pledges made since CRA's enactment in 1977.

TO: Gene Sperling
FROM: Lisa Green
DATE: April 29, 1999
RE: CRA Conference call with Mayors on April 30, 1999

Location: NEC Conference Call Line 202-757-2104 code 3939

Purpose: The purpose of tomorrow's meeting is to garner support from Mayors on the Community Reinvestment Act. The meeting is an opportunity to share information with them about some of CRA provisions proposed by Gramm and to communicate our plans and strategy for safeguarding CRA.

Others Presenters: You will be joined on the call by Mickey Ibarra.

Format:
(1) Introduction by Ibarra
(2) Overview of CRA
(3) Recognition of each mayor and discussion on the economic impact of CRA
(4) Each mayor has a brief chance to comment.

Audience: List of Mayors participating will be provided by Peter.

Attachments

- Talking Points
- Memorandum from Sarah (dated 4/15) with an update on recent activities on Financial Modernization
- Early Draft of CRA memorandum to President (written by Sarah and Paul with your comments in the margins)
- New Community Reinvestment Act Numbers
- One Page Fact Sheet on Community Reinvestment Act – How Does CRA Work?
- One Pager on Financial Commitments to Underserved Communities through CRA
- Legislative Summary
- General Background Information from Treasury

TALKING POINTS FOR CRA MEETING
April 30, 1999 - 2:30 PM Conference Call

- **This Administration strongly supports CRA.** We've worked very hard to both streamline and strengthen the Community Reinvestment Act. CRA has been on the books for more than 20 years but 95% of all the financial commitments made under the law have been made since 1993, under this Administration. That's more than $1 trillion in long-term commitments to invest in people.

- **There have been 23 times more financial commitments to distressed communities from banks in the past 5 ½ years than in the previous 15 years combined.** Many of these communities are located in your cities. CRA helps bring needed debt financing to markets and businesses that would not otherwise have access to capital. Lending commitments under the CRA have increased from an average of $2.6 billion per year between 1977 and 1992 to about $180 billion per year in the past 5 ½ years.

- **The President is committed to preserving existing CRA as we know it and not as proposed by the Senate.** A veto threat was issued by the President in March in opposition to the Senate bill developed by Chairman Gramm. The bill reported out by the Senate would 1) undermine the relevance of CRA because it increases leeway for affiliations between banks and non-bank institutions but does not require them to have satisfactory CRA ratings to undertake non-bank activities 2) reduce access to credit in rural communities by exempting small banks from CRA and 3) severely dampen opportunity for public comment on the reinvestment activities of financial institutions by creating a safe harbor for instititutions that have at least a satisfactory CRA rating.

- **Our strategies to safeguard CRA in the House include helping to move forward the financial services bill put forth by the House Banking Committee, developed by Chairman Leach and Ranking Democrat LaFalce.** This bill contains no weakening of CRA and requires banks to have and maintain an adequate CRA record in order to engage in new financial activities.

- **In the Senate, Secretary Rubin held a press conference with Daschle and Sarbanes to support their alternatives to Gramm's proposals.** The Daschel and Sarbanes legislative recommendations would not weaken CRA.

- **The Administration will continue to strongly oppose any legislation that would weaken CRA.** This issue is of great personal interest and importance to the President and the First Lady. The President will not hesitate to issue additional veto threats against any bills that would weaken CRA.

  In his letter responding to Gramm's version of the Financial Modernization Act, President Clinton stated "**In its current form, the bill would undermine the effectiveness of the Community Reinvestment Act .... The CRA is working, and we must preserve its vitality as we write the financial constitution for the 21st Century. ... 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.**"

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.

Rosen,
Kaplan, Sally

Sarah Rosen
04/15/99 05:53:01 PM

√ GS 4/20/99

Record Type: Record

To: Melissa G. Green/OPD/EOP, Sally Katzen/OPD/EOP

cc: Richard L. Siewert/WHO/EOP, Paul J. Weinstein Jr./OPD/EOP, Roger S. Ballentine/WHO/EOP, Broderick Johnson/WHO/EOP

Subject: Fin Mod/CRA Update

Gene and Sally -- Lots going on. A brief update.

[Paul/Roger/Broderick -- Did I miss anything?]

Greenspan on CRA: Shrewd Gramm asked the Fed Chair for his analysis of the CRA provisions of the House and Senate Fin Mod bills. Greenspan said that the House bill would affect CRA in 3 ways: (1) new requirement to have satisfactory CRA rating before approval for securities or insurance activities; (2) banks that have nonbanking affiliates and don't satisfy CRA obligations would be subject to enforcement; and (3) CRA would be applied to "woofies." The Gramm bill would affect it in ~~two ways: (1)~~ small bank exemption; ~~and (2)~~ "rebuttable presumption" about CRA compliance (the so-called "safe harbor") for banks with satisfactory ratings. Although the Greenspan letter never used the word expansion, Gramm's press release, of course, concluded that "Greenspan finds significant expansion of CRA in House [bill]."

Status in Senate: Expected to go to floor beginning of May. Lott/Gramm/Daschle/Sarbanes (possibly Rubin) meeting yet to be scheduled. [FYI -- Sarah thinks it is "dumb" ~~for Rubin to go~~ -- hurts us with House and could lock us into what Senate Dems agree, but if Daschle wants Rubin, he may have to.] Daschle will wait til Lott comes to them. After the meeting, Daschle and Senate Banking Dems will release a "Dear Colleague" about why they want a bill, but their bill is better, with President's veto letter and a side-by-side attached. Rubin is also scheduled to appear before Dem Caucus lunch.

?

Status in House: Commerce Committee mark-up is next -- date uncertain. Treasury working and making some progress but outcome on key issues is unclear.

Possible Interest Group Press Conference: Wade Henderson and a coalition of groups are planning a press conference for the end of the month. Treasury and Senate Dems would be happy to participate if it is a "save CRA" event, but it it is a "kill Fin Mod" event, we can't participate. Gail Cincotta recently got press by bringing 13 busloads of protestors to Phil Gramm's home in Texas on a sunday and littering the place with leaflets. Not the kind of event we want to participate in. Discussions with Henderson and Treasury ongoing.

CRA Outreach: As part of the follow-up to the Race Report, Maria E. and Chuck Ruff have a group that is working on various projects, including "CRA/Fair Lending Enforcement." Maria wanted to schedule a "CRA outreach" meeting with all the groups. Weinstein said: hold on. Let's coordinate here. Lots going on with the groups, Democrats on Hill, Treasury, and others in context of Fin Mod. Maria has scheduled an internal meeting to coordinate which has been rescheduled numerous times. Now rescheduled for Friday, 4/16, at 11:00. Meanwhile, apparently Wade Henderson wants to come in to meet with NEC, DPC, Treasu, and HUD on CRA strategy. Sarbanes and

Lafalce staff want to be there if this happens. Weinstein is coordinating.

SR|PW

This is a very good + helpful memo. We should clearly find a way to send this to POTUS -- even if don't include the last section. 2) Gramm's ? 2F so, message on race-based quotas must think through response. Second, what is chances that Gramm has really bad examples for housing must consider implications

GS 2/27/9

Sarah Rosen
02/22/99 08:10:07 AM

Record Type: Record

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

cc:

Subject: DRAFT POTUS CRA Memo

As I have discussed with many of you, the President has been talking "off the cuff" recently about protecting CRA. Paul and I thought it was important that he have a bit more detail about the debate on CRA, so that he understands the context in which his statements will be read. He cares passionately about the subject and has the appetite for more information here.

Attached is the draft for your comment. As I discussed with Gary, Paul feels strongly that we raise for the President the possibility (without any recommendation) of taking a more aggressive, pro-expansion position as a tactical move. I know that others feel that would be a mistake, alienating moderate Democrats, and question if it need be mentioned here. We've included a brief discussion at the end for your comment.

crapotus.me

Also, Treasury is working on the draft the reply letter to Senator Gramm. It would be easier for us to share both this memo and that draft with Gene and Bruce at the same time. Thanks.

Message Sent To:

Gary.gensler @ treas.sprint.com @ inet
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Roger S. Ballentine/WHO/EOP

February 22, 1999 -- THIRD DRAFT

MEMORANDUM TO THE PRESIDENT

CC: THE VICE PRESIDENT

FROM: GENE SPERLING
BRUCE REED
LARRY STEIN

SUBJECT: **The Community Reinvestment Act**

The Community Reinvestment Act (CRA) will be front and center in the next few months, a result of the ascendancy of its chief adversary, Phil Gramm, to Chairman of the Senate Banking Committee and its inextricable link to Financial Modernization legislation -- a high priority for the Republican leadership in both chambers. The purpose of this memorandum is to familiarize you with Senator Gramm's critique of CRA, the Administration's current strategy for responding~~, and how~~ CRA may be affect the debate over Financial Modernization legislation.

Background: How CRA Works

CRA requires the federal regulators to encourage each institution under their jurisdiction to help meet the credit needs of the communities that the institution is chartered to serve. The Act also requires the regulators to assess each institution's community reinvestment performance during periodic exams and to consider that performance in their evaluations of any applications by the institution for expansion or relocation of their operations. During your first term, amid concern about the effectiveness of CRA and the regulatory burden on institutions, you directed the regulators to rewrite the CRA regulations to address these issues.

Under revised regulations issued in 1995, regulators assess a financial institution's performance under a three-prong test: loans made, services provided, and investments in their communities. The 1995 regulations streamlined the examination process, especially for small institutions. Examinations are typically done on 24 to 36 month cycles. The public has an opportunity to comment on CRA performance at any time, including before the start of a scheduled examination, and in connection with the filing of certain applications, such as those for mergers and acquisitions and the establishment of new institutions and deposit facilities.

Analysis: Senator Gramm's Critique and Proposed "Reforms"

While acknowledging a desire to repeal "reform" CRA, Senator Gramm admits that further work is necessary before he can advance that goal. In the short-term, he offers two ways to address CRA in Financial Modernization. The first he dubs "CRA neutrality"; the second would deal with what he describes as "extortion." Both approaches are reflected in a recent draft bill that his staff released for comment.

CRA "Neutrality"

1) open new branch 2) merge 2 institutions

Under current law, an institution's CRA performance is considered when an application is filed to open a new branch or to merge two institutions. However, increasingly, we are seeing applications to merge with non-banking firms (e.g., the Citibank-Travelers merger), which does not currently require an adequate CRA record for approval. The House version of H.R. 10 last year would have required that, before a bank holding company could affiliate with a non-bank firm (e.g. a securities or insurance company), it must be found to be well capitalized, well managed, and have a "satisfactory" CRA rating. In addition, it must maintain a "satisfactory" CRA record in order to continue to operate the non-banking activities. If the institution failed to do so, the regulator could required it to submit a plan to improve. The ultimate sanction for failure to restore a satisfactory rating would be divestiture of the non-bank affiliate.

Senator Gramm describes this as a radical expansion of CRA. He proposes to eliminate the requirement of a satisfactory CRA rating to initiate or maintain non-bank activities. Senator Sarbanes and community advocates argue that, unless applied to bank requests to perform non-bank activities, CRA's relevance would be diminished. The Administration concurs. In testimony before the House Banking Committee, Secretary Rubin emphasized that the authority for financial institutions to engage in non-bank activities must be connected to satisfactory CRA performance.

Nonetheless, the Administration is in a difficult position. The Treasury's own Financial Modernization proposal in 1996 would not have required satisfactory CRA compliance for new bank powers. We explain the evolution in our position by noting that the last two years have demonstrated the far greater importance than expected of non-banking activities to financial institutions. However, moderate Democrats looking to compromise with Senator Gramm will block provisions that weaken CRA but may not support provisions that they view as expanding CRA. Our challenge is to make a compelling case that the provision is necessary to maintain CRA's current effectiveness. This issue is important particularly since any version of Financial Modernization under discussion would allow some assets current held by banks to be shifted into non-bank affiliates, thus reducing the bank-held assets subject to the CRA.

CRA "Extortion" or "Bribery"

Senator Gramm also insists that Financial Modernization legislation address what he terms "extortion." Senator Gramm alleges that advocates file CRA protests and then offer to withdraw the protest if paid by the banks, perhaps in the form of a general contribution to their organization or an "advisory" fee. He also complains that advocates insist on minority hiring and contracting "quotas."

In response, Senator Gramm proposes two amendments. The first would make it a crime to provide a contribution of any kind or to establish any "quota or set aside" for employment, purchases, sales, or other activity (other than loans), with the intent to influence the person to refrain from providing information or to influence the content of the information, in connection with a review of the bank's CRA compliance. As written, the language could make criminal much of the activities that institutions undertake to strengthen their relationship with their communities. The possibility of

Criminal sanctions? Got to be kidding

How much of Gramm's critique is "quota" - race-related + how much goes beyond that?

criminal penalties will likely deter legitimate efforts to invest in community-based organizations or make voluntary hiring, contracting or supplier commitments. The second amendment would provide a "safe harbor" for any institution with a satisfactory CRA rating during its most recent exam. Banks in the "safe harbor" would be deemed to be in compliance for all purposes, precluding any analysis of the institution's CRA record during a merger application. Although community groups can comment on an institution's performance at any time, in reality they focus their attention on institutions that have applied for merger or branch approval. As each of ____ thousand institutions **[Treasury -- how many institutions are subject to CRA?]** are examined for CRA compliance ever 24 to 36 months, groups simply do not have the resources to evaluate CRA performance of each institution on an ongoing basis.

Are there bad stories, however?

Next Steps

The Treasury Department is near completion of an analysis of CRA protests that they believe will show that few applications are protested, regulators have streamlined the process so that protests no longer result in significant delays, and thus CRA creates no opportunity to "extort." Instead, financial institutions make commitments to their communities because it is good business and good public relations.

We expect that a few prominent leaders of financial institutions will reiterate what they have often said -- community investment is good business. However, we do not wish to overstate the prospects. Few CEOs are eager to antagonize the Chairman of the Banking Committee and, in truth, most institutions would prefer not to have the oversight and examination that CRA brings.

We also are assessing other strategies to counter Senator Gramm's efforts. First, we are assessing whether there is an alternative to Senator Gramm's anti-extortion amendment that would do no harm to legitimate activities. While the Gramm amendment is unacceptable, we should not allow Senator Gramm to cast the Administration as supporters of extortion. We may wish to support a narrowly drawn amendment that would bar a community group from directly linking their support for a merger application to a payment to that group or its leadership. However, it is too early to concede the point. The case has not been made that such extortion is prevalent. And we do not want to undercut the community groups that strongly support CRA. But with their concurrence, such an amendment might provide cover to Democrats and help take that issue off the table.

Are there bad examples that he will bring out at hearings?

[FOR DISCUSSION: A second approach under consideration would have us retake the offensive by proposing to strengthen CRA in some way, such as an amendment, offered by Rep. LaFalce last year, to require all financial institutions to keep track of their progress in meeting the voluntary CRA commitments that they make. Currently, there is no accountability for meeting such commitments. Last year when the OCC asked institutions to provide voluntarily information on their progress against commitments, the institutions balked and the move was harshly criticized by the Republicans. Further analysis is required, however, before we make any recommendations. Such a move might alienate moderate Democrats who will defend CRA but oppose its expansion.]

Community Reinvestment Act (CRA) Fact Sheet

What is CRA?

- Congress enacted CRA in 1977 to encourage publicly-insured banks and thrifts to meet the needs of their communities, consistent with safe and sound banking practices.

How does CRA work?

- Federal bank and thrift supervisors assess financial institution's performance: loans made, services provided, and investments in their communities. The CRA regulation tailors 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 before the start of a scheduled examination, and in connection with the filing of certain types of applications, such as those for mergers and acquisitions, the establishment of new institutions, and deposit facilities.

What are the benefits of CRA to homeowners, small businesses, and communities?

- CRA is working to restore healthy markets in distressed communities, to extend homeownership opportunities, and to help grow small businesses and create jobs.

- 1997 Home Mortgage Disclosure Act data show that lending to minority and low income borrowers is on the rise. For example, 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.

- In 1997, large commercial banks made $18.6 billion in community development investments.

- Since 1992, nonprofit community organizations estimate that the private sector has pledged over $1 trillion in loans going forward for affordable homeownership and community development.

- In 1997, banks and thrifts subject to CRA 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.

What are the benefits of CRA to banks?

- CRA is good banking business. "Businesses that learn how to meet [community reinvestment] demand profitably, and integrate it into their business lines, will gain a tremendous competitive advantage." Richard Rosenberg, former Chairman and CEO, BankAmerica Corporation.

CRA new F/U

NEW COMMUNITY REINVESTMENT ACT NUMBERS

According to the National Community Reinvestment Coalition (NCRC), the private sector has pledged more than $1 trillion going forward in loans to distressed communities – and more than 95 percent of these financial commitments have been made since 1992.

- There have been 23 times more financial commitments to distressed communities from banks in the past 5½ years than in the previous 15 years <u>combined</u>.

- Lending commitments under the CRA have increased 69-fold from the pre-1993 era -- from an average of $2.6 billion per year between 1977 and 1992 to about $180 billion per year in the past 5½ years.

Financial Commitments To Distressed Communities Under CRA	
1977-1992:	$42.3 billion
1992-1998:	$991.7 billion
Total since 1977:	**$1.034 trillion**
% Since 1992:	**96%**

Financial Commitments To Distressed Communities Under CRA (Average Financial Commitments Per Year)	
1977-1992:	$2.6 billion per year
1992-1998:	$180 billion per year
Past 5 Years vs. Previous 15 Years	**69-Fold Increase**

NOTE: These numbers include financial commitments to distressed communities by financial institutions with merger approvals still pending.

If Only Approved Mergers Are Included:

- Under CRA, $411 billion in financial commitments have been made to low-income communities with 90 percent -- $369 billion -- has come since 1992.

SUBJECT: **Community Reinvestment Act: Update on Legislation**

ACTION-FORCING EVENT: The House and Senate Banking Committees have approved major financial services legislation. On March 12, the House Banking Committee approved its bill, developed by Chairman Leach and Ranking Democrat LaFalce, on a broad, bipartisan vote (51-8). The bill includes a provision we strongly support requiring banks to have and maintain an adequate CRA record in order to engage in newly authorized financial activities. But the Senate bill, developed by Chairman Gramm, and reported out on strict party lines (11-9) on March 4, would: significantly weaken CRA; erode the national bank charter and the Administration's role in financial services policymaking; provide inadequate consumer protections; and provide increased leeway for affiliations between banks and nonfinancial firms. The President issued a veto threat on the Gramm bill on March 2, citing these concerns.

In addition to the context of financial modernization legislation, CRA will be the focus of hearings likely to be held this spring by Chairman Gramm and House Financial Institutions Subcommittee Chair Roukema. Senator Gramm and other Republicans may also introduce CRA proposals as stand-alone bills or in "regulatory burden relief"legislation.

BACKGROUND:

Current law. CRA requires a bank to serve the convenience and needs of all communities in which it operates. Although banks are examined periodically (every 24-36 months) for CRA compliance, and these CRA ratings and evaluations are made public, enforcement comes only when a bank files an application to merge with another bank or open a new branch. The regulator must then consider the bank's CRA record in evaluating the bank's application. The public has an opportunity to comment on the application. A bank's CRA record is not *currently* scrutinized in connection with applications to affiliate with non-banking companies.

At the President's request, the banking regulators revised the CRA regulations to focus on performance, not paperwork. They now base CRA ratings on a three-pronged test: lending, services, and investments. 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 convenience and needs of low and moderate income communities, as well as minority borrowers. Home Mortgage Disclosure Act data from 1997, show that lending to minority and low income borrowers is on the rise. 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. In 1997, large commercial banks made $18.6 billion in community development investments. 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 CRA's 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. As the financial services industry becomes increasingly less focused on banks and thrifts, as the lines between banking and non-banking products become increasingly blurred, and as financial firms become larger and financial power in the industry more concentrated, community groups have become concerned that financial modernization -- both as it is already occurring in the marketplace, and in the form of new legislation -- will reduce the assets subject to CRA, reduce financial institution's connection to local communities, and thus harm low and moderate income communities. Communities groups are likely to oppose any financial modernization legislation unless CRA were extended to securities and insurance providers, an outcome with practical and theoretical difficulties that we have not supported, and which stands no chance of success in the current or forseeable political environment.

Status of Legislation

House. The Leach-LaFalce bill contains no weakening of CRA, and requires that banks must "have and maintain" a satisfactory CRA rating in order to undertake newly authorized non-banking activities. Secretary Rubin sent a letter to Leach and LaFalce on March 3 indicating our strong support for their legislation.

During mark-up, Leach and LaFalce worked together to avoid any amendments that would weaken CRA. Filed amendments by Rep. McCollum to provide small bank exemptions, and to weaken the Department of Justice's role in enforcing the Fair Housing Act and Equal Credit Opportunity Act, were not offered. Chairman Leach also chose not to offer -- despite earlier indications to the contrary -- an amendment weakening enforcement of the "have and maintain" requirement.

Democrats succeeded in passing (28-27) an amendment by Rep Lee, which we supported, requiring insurance companies to be in compliance with the Fair Housing Act prior to affiliating with insured depository institutions. An amendment by Rep. Watt requiring a study of the effect of financial modernization legislation on CRA also passed.

Democratic amendments to expand CRA to securities and insurance firms, in various ways, were defeated by significant margins, as was a Waters amendment, which we supported, to require the provision of low-cost "life-line" banking accounts as a precondition for expanded nonbanking activity (31-27). An amendment offered by Rep. Schakowsky to require reporting of race and income data on small business borrowers was withdrawn in the face of strong Republican opposition. (We have been working to get the Federal Reserve Board to change its rules, to permit (but not require) financial institutions to collect and report such data to expand access to minority small business borrowers.)

Last year, Representative LaFalce had introduced an amendment requiring financial institutions to report on their progress in meeting publicly announced "commitments" under CRA, but in recognition of Republican restraint in not offering amendments to weaken CRA, LaFalce did not offer his provision this year.

Senate. Chairman Gramm's financial modernization bill would seriously weaken CRA, and you have issued a statement that you would veto the bill in its current form. The bill has three main problems with respect to CRA: (1) it does not require banks to have and maintain an adequate CRA record as a condition for engaging in newly authorized financial activities; (2) it gives banks with satisfactory CRA records a safe harbor from CRA reviews during applications; and (3) it exempts small banks outside metropolitan areas from CRA. In addition, Gramm may yet offer an "anti-extortion" amendment that would chill legitimate relationships between financial institutions and communities. These are discussed more fully below.

Senator Sarbanes, the Ranking Democrat, worked with the Treasury to unite Banking Committee Democrats behind an alternative bill that had much in common with the Leach-LaFalce bill. The Democratic alternative lost on an 11 - 9 party line vote.

Failure to condition authority to conduct new non-banking activities on banks having a satisfactory CRA record. The Leach-LaFalce bill allows a financial services company to engage in new non-banking activities only if the company's subsidiary banks have and maintain a satisfactory CRA record. Although such a requirement was not contained in the Administration's 1997 bill, Treasury and Rep. LaFalce successfully argued that such an argument had to be included this time. The Leach-LaFalce bill has now been referred to the House Commerce Committee, and we understand that Commerce will leave this provision intact.

Basically, the "have and maintain" requirement, while not expanding the scope of CRA beyond insured depository institutions, broadens the enforcement mechanism for CRA to include the potential for denial of applications for non-banking activities as well as banking activities, and for further consequences if the bank's CRA record becomes unsatisfactory *after* the application is approved. (Under the Leach-LaFalce, this later action explicitly includes a requirement that a compliance plan be submitted and the possibility of forced divestitures of the newly approved activities. It could be read to include civil money penalties -- a sanction that the Justice Department found in 1994 does not apply under CRA as it is currently written.) In arguing for this provision in the Senate and the House testimony, Secretary Rubin noted that the financial services system of the future may include fewer bank merger applications and more non-banking activities. Thus, absent this additional enforcement mechanism, there could be fewer opportunities to take action against a bank with an unsatisfactory CRA record. A bill that is silent on CRA (and thus supposedly neutral) would, in our view, tend to weaken the effect of CRA, and we would oppose such a bill.

Gramm's safe harbor amendment. Gramm has proposed a safe harbor for applications now subject to CRA. A satisfactory CRA rating at a bank's most recent examination would conclusively establish the bank's CRA performance, unless public comment provides substantial verifiable information to the contrary. Thus, a regulatory agency could not review the bank's CRA record unless there were an adverse public comment meeting the test—even if the previous examination were old or otherwise stale. And, even if there were an adverse comment, Gramm would create a rebuttable presumption favoring approval of the application. In so doing, he would place a significant burden of proof on consumer and community organizations that generally have less access than the bank to relevant information. He would also, in effect, force community groups to stretch their limited resources to comment on many examinations, instead of focusing those resources on major applications (e.g., for mergers or acquisitions). Secretary Rubin has testified that such a safe harbor would tend to eviscerate the effectiveness of CRA, and the Administration has repeatedly threatened vetoes of bills containing safe harbors provisions.

Small bank exemption. The Committee passed an amendment (supported by all but one Republican (Sen. Santorum, PA) and opposed by all but one Democrat (Sen. Johnson, SD)) that exempts from CRA banks with less than $100 million in assets located outside metropolitan areas. These banks constitute 38 percent of FDIC-insured institutions, with 3% of assets. We have repeatedly stated that you would veto legislation containing a small bank exemption. CRA is important for small banks. Banks with less than $100 million in assets received 70% of the "needs to improve" and "substantial noncompliance" ratings under CRA. The new CRA rules lifted the regulatory burden on small banks, with a streamlined examination and no additional reporting requirements. The major small bank trade association recently praised the small bank exemption, although at the time of the release of the new CRA rules, it had praised the streamlined small bank exam "as a big step in regulatory burden reduction for community banks."

Gramm's anti-extortion amendment. Gramm also considered proposing a so-called "anti-extortion" provision. As Secretary Rubin has testified, we strongly oppose extortion. Yet laws punishing extortion, bribery, and false statements already apply to the CRA process. In our view, and that of the Department of Justice, Gramm's broad and vague proposal would criminalize normal, legitimate arms-length transactions and cooperation between banks and community groups (e.g., bank grants to support community groups' home ownership counseling programs if the community group later comments favorably on the bank's CRA record)—the very sort of activity CRA seeks to foster. Gramm may well pursue this proposal in CRA hearings, or in financial modernization, or in "regulatory burden relief" legislation.

Mischief From Mr. Gramm

NYT 3/17/99

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.

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

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

February 23, 1999

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

Dear Phil:

I am writing in response to your letter enclosing your proposed changes to the Community Reinvestment Act (CRA) in the context of financial modernization. In our judgment, the changes that you proposed would significantly weaken CRA, which encourages banks and thrifts to serve creditworthy borrowers throughout the communities in which they operate.

Since 1993, a greatly invigorated CRA has been a key tool in the effort to rebuild low and moderate income communities. Since 1993, the number of home mortgage loans extended to African Americans increased by 58 percent, to Hispanics by 62 percent, and to low- and moderate-income borrowers by 38 percent, figures all well above the overall market increase. We believe strongly that it is important to maintain CRA, and we are opposed to any efforts to weaken CRA.

The draft legislation includes a so-called "safe harbor" provision specifying that a satisfactory CRA rating in a bank's most recent examination conclusively establishes a bank's CRA performance, unless a public comment is filed that provides substantial verifiable information to the contrary. The proposal would effectively bar banking regulators from reviewing a financial institution's CRA performance when assessing applications, such as for mergers or acquisitions -- absent public comment. CRA reviews during applications are important, because CRA ratings can become "stale," circumstances can change rapidly after an examination, examiners may miss evidence with respect to a particular market, or applications may involve new markets not covered by an earlier examination.

We believe that the facts and analysis with respect to CRA performance are most effectively brought forth when the interested consumer and community groups participate actively. However, these groups do not have the resources to do so routinely, and they participate primarily when the bank applies to carry out a major transaction. This is how these groups can have the greatest impact. In addition, the provision imposes the burden of proof in the context of applications on the community-based organization to come forward with "substantial verifiable information," despite the fact that the financial institution, and their regulators, are in a better position to have the relevant information necessary to determine the veracity of the complaint.

Of equal concern, is a so-called "anti-extortion" amendment contained in the "undecided" portion of the draft bill. We are, of course, opposed to extortion, and extortion is illegal under state and federal law. I have been informally advised by the Department of Justice – and I would imagine that they would be willing to share their views on this with you as well – that this proposed addition to Federal law, with its broad and vague terms, would extend substantially beyond existing law and could criminalize normal, legitimate, arms-length transactions and productive cooperation, between banks and community groups. In addition, because of the resulting uncertainty, it could chill precisely the activity that CRA is intended to encourage. For example, banks make grants to community-based organizations to conduct home ownership counseling, which increases the bank's ability to make safe and sound loans to low income borrowers. Under this legislation, such activity could be discouraged because the participants would be uncertain about whether that activity is illegal.

Finally, we believe that any bank seeking to conduct new financial activities should be required to achieve and maintain a satisfactory CRA record. The draft bill fails to include this requirement. 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.

Sincerely,

Robert E. Rubin

COMMUNITY REINVESTMENT ACT

The Community Reinvestment Act ("CRA") was enacted in 1977 to address problems of disinvestment and redlining in low- and moderate-income communities. The law places a continuing, affirmative obligation on banks and thrifts to meet the credit needs of their communities by providing appropriate credit and services. The law is premised on the view that banks and thrifts are subject to underlying charter obligations to serve the "convenience and needs" of their local communities. This public obligation arises from the benefit financial institutions receive in the form of deposit insurance and access to the discount window.

CRA has proven to be an effective means of encouraging federally-insured financial institutions to make profitable, market rate loans in underserved rural and urban areas without creating a large federal bureaucracy or jeopardizing the safety and soundness of financial institutions. According to Chairman Greenspan, "there is little or no evidence that banks' safety and soundness have been compromised by [low- and moderate-income] lending and bankers often report sound business opportunities." In fact, before the House Banking Committee on February 11, Chairman Greenspan noted that CRA has "very significantly increased the amount of credit in these communities" and that the changes have been "quite profound."

The law does not place overly burdensome requirements on financial institutions. At the direction of President Clinton, the four federal bank regulators revised the CRA regulations in 1995 to make assessments more streamlined and performance-based.

CRA requires the appropriate federal bank regulators to assess an institution's "record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods" during periodic compliance examinations. Compliance examinations typically occur only once every 18 to 24 months. Most banks and thrifts are assessed on three factors: lending, service and investment performance. Small banks (assets less than $250 million) and limited purpose institutions have streamlined examinations. CRA performance evaluations are very flexible. An institution which cannot meet the above requirements may develop a strategic plan by which it may be assessed. Institutions receive one of the following ratings depending on the assessment of CRA performance: "outstanding," "satisfactory," "needs to improve," or "substantial noncompliance."

Regulators can only enforce CRA compliance by denying expansion applications by institutions with poor CRA performance (typically less than "satisfactory" CRA rating). Regulators encourage members of the public to express their views about a bank's performance before examinations and during application processing periods. Regulators take these public comments into account when evaluating the bank's CRA record and reaching conclusions about whether the bank is helping to meet the needs of its low- and moderate-income neighborhoods.

The law is supported by the Clinton Administration, federal bank regulators, state and local officials, community groups and many bankers. President Clinton has stated that the "law has helped to build homes, create jobs and restore hope in communities across America."

Community Reinvestment Act (CRA) Fact Sheet

What is CRA?

- 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.

How does CRA work?

- Federal bank and thrift supervisors assess financial institution's performance: loans made, services provided, and investments in their communities. The CRA regulation tailors 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 before the start of a scheduled examination, and in connection with the filing of certain types of applications, such as those for mergers and acquisitions, the establishment of new institutions, and deposit facilities.

What are the benefits of CRA to homeowners, small businesses, and communities?

- CRA is working to restore healthy markets in distressed communities, to extend homeownership opportunities, and to help grow small businesses and create jobs.

- 1997 Home Mortgage Disclosure Act data show that lending to minority and low income borrowers is on the rise. For example, 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.

- In 1997, large commercial banks made $18.6 billion in community development investments.

- Since 1992, nonprofit community organizations estimate that the private sector has pledged over $1 trillion in loans going forward for affordable homeownership and community development.

- In 1997, banks and thrifts subject to CRA's 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.

What are the benefits of CRA to banks?

- CRA is good banking business. "Businesses that learn how to meet [community reinvestment] demand profitably, and integrate it into their business lines, will gain a tremendous competitive advantage." Richard Rosenberg, former Chairman and CEO, BankAmerica Corporation.

- "CRA-related activities can help develop new markets, potentially profitable business, and improve a bank's public image." Lawrence Lindsey, former Governor, Federal Reserve System.

THE COMMUNITY REINVESTMENT ACT IS UNDER ATTACK

The version of financial modernization passed by the Senate Banking Committee ("Senate bill") weakens CRA in three ways:

1. **Eliminates H.R. 10 requirement for engaging in expanded powers.** Unlike both H.R. 10 as passed by the Senate Banking Committee last year and this year's House Banking Committee version of H.R. 10, the Senate bill does not require that all banks within a holding company have and maintain "satisfactory" CRA ratings as a condition of new affiliations and new financial powers. This represents a substantial rollback of CRA because it would allow banks that are not in compliance with CRA to affiliate with other entities and engage in new powers. In addition, Treasury Secretary Robert Rubin indicated that failure to tie CRA performance to the ability of bank holding companies to engage in the new activities could make CRA irrelevant in the new financial services world.

2. **Safe harbor for institutions with a "satisfactory" or better CRA rating.** Under the Senate bill, an institution receiving at least a "satisfactory" CRA rating on its most recent examination and all examinations within the last 36 months would be deemed in compliance with CRA unless "substantial verifiable information" arising since the time of its most recent examination is filed. This weakens CRA because:

    - This provision singles out CRA comments for unfair treatment. Individuals and groups seeking to comment on other aspects of a bank's performance, such as management and financial resources, would not be similarly curtailed.
    - Public comment on CRA performance would be effectively eliminated. Ninety-seven percent of institutions examined in 1997-98 received "satisfactory" or better ratings.
    - Regulators concede that CRA examinations are not perfect and rely on public comment to help them develop the fullest record possible on a bank's performance in meeting the credit needs of its entire community.
    - The provision that permits regulators to consider public comment only if "substantial verifiable information" is introduced is problematic. It establishes an excessive burden on ordinary citizens and prohibits the public from submitting information relevant to a bank's CRA performance if it relates to problems existing at the time of the last examination.

3. **Small bank exemption.** The Senate bill also exempts banks with less than $100 million in assets from CRA (63% of all banks). This provision will have devastating consequences for rural communities because small banks are often the only source of credit in rural areas.

    - Small banks do not automatically reinvest in their communities. In fact, small banks have the worst records under CRA, and have loan-to-deposit ratios much lower than larger banks.
    - CRA regulations were revised in 1995 to address small bank concerns about regulatory burden. The new CRA rules provide a streamlined examination for small banks (less than $250 million in assets), exempt small banks from reporting requirements, and eliminate the previous process-based documentation requirements. Ratings for small banks focus exclusively on lending and lending related activities.

CRA Questions and Answers: small banks

What about a small bank exemption?

- A small bank exemption would hurt thousands of local communities in states across the country. In the past, various small bank exemptions have been offered:

- The provision in the Senate-passed financial modernization legislation would exempt banks with under $100 million in assets and without headquarters in metropolitan areas -- 6,996 banks and thrifts, constituting 38% of total banks and 3% of total assets.

- The Clinton Administration has repeatedly stated that it would veto legislation containing a small bank exemption to CRA.

- The new CRA rules lifted the regulatory burden on small banks, with a streamlined examination. These institutions are exempt from additional reporting requirements.

- Small banks and thrifts benefitted from the regulatory burden reduction effective January 1, 1996 – more than a year earlier than for large institutions. Over 80% of 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 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 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.

- A Congressional Research Service study found that based on data from 1997 to mid-1998, banks with less than $100 million in assets received 70% of the "needs to improve" and "substantial noncompliance" ratings. Banks with less than $1 billion in assets received 99% of these 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%.

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.

What about a safe harbor?

- In the past, amendments have been offered that would provide that an institution with a CRA rating of "satisfactory" or "outstanding" should not be open to protests from community groups and individuals during the application process. The Clinton Administration has repeatedly stated that such a provision would be grounds for a Presidential veto of the legislation.

- Circumstances can change rapidly over the course of an examination cycle. CRA ratings can become "stale," requiring additional evidence at the time of applications. Examinations may miss evidence with respect to a particular market that may be brought to light in the application process.

- It would be enormously inefficient and costly for small community organizations to provide extensive public comment on every bank examination. Public comment on financial institution's CRA performance is more focused in the context of a change in an institution that is likely to have a significant impact on the community.

- During the development of the new CRA regulations, the regulatory agencies reviewed the argument for a safe harbor. The regulatory agencies argued that materials relating to CRA performance received during the application process provide relevant and valuable information. As provided in the Interagency Policy Statement Regarding the CRA, the agencies believe that information from an examination is a particularly important consideration in the application process, because it represents the on-site evaluation of an institution's CRA performance by its primary federal regulator.

- The new CRA regulations provide an incentive for an institution's good performance by basing the frequency of CRA examinations, in part, on an institution's previous CRA performance. This policy combines an efficient use of agency resources with an incentive for good performance.

Embargoed until 10:00 a.m.
Text as Prepared for Delivery
February 24, 1999

TREASURY SECRETARY ROBERT E. RUBIN
SENATE BANKING COMMITTEE

Mr. Chairman, Members of this Committee, I appreciate the opportunity to discuss the Administration's views on financial modernization, including the draft bill circulated by the Chairman last week.

Mr. Chairman, as we approach financial modernization legislation, the Administration's overall objective has always been to do what best serves the interests of consumers, businesses and communities, while protecting the safety and soundness of our financial system. We will support legislation that achieves those aims.

Let me begin by noting that the U.S. financial system is stronger and more competitive than ever. Abroad, the United States is dominant in investment banking and highly competitive in other segments of financial services. U.S. commercial banks are more competitive today than at any time I can remember. The problem our financial services firms face abroad is more one of lack of access, than one of lack of competitiveness.

Financial modernization is occurring already in the marketplace through innovation and technological advances. With the lessening of regulatory barriers, financial services firms are offering customers a wide range of financial products. Banks and securities firms have been merging; banks are selling insurance products; and insurance companies are offering products that serve many of the same purposes as banking products – all of which increases competition and thus benefits consumers.

RR-2973

Financial modernization will continue in the absence of legislation, but it can, with good legislation, occur in a more orderly fashion. Treasury has long believed in the benefits of such legislation, but we have also been clear that if this is going to be done, it needs to be done right.

Let me also say that while we favor financial modernization legislation, it does seem to me that when you look at the developments around the world over the last couple of years, and when you look at the size of mergers here in the United States over the same period, there are legitimate concerns about financial modernization with respect to economic concentration and systemic risk.

Let me turn now to the draft bill. The bill, rightly in our view, takes the fundamental actions necessary to modernize our financial system by repealing the Glass-Steagall Act's prohibitions on banks affiliating with securities firms and repealing the Bank Holding Company Act prohibitions on insurance underwriting. The bill also continues to allow bank insurance sales unencumbered by anti-competitive restrictions. I believe we could construct a bipartisan consensus on these provisions.

That said, the draft bill and its appendix of "undecided issues" contain significant provisions that are unacceptable to the Administration, and we would oppose the bill in its current form. We have five basic objections to the draft bill and its appendix – its prohibition on the use of subsidiaries by larger banks; its weakening of the effects of the Community Reinvestment Act (CRA); its extensive mixing of banking and commerce; its provisions with respect to the Federal Home Loan Bank System; and what we view as inadequate consumer protections.

First, the bill would prohibit financial services firms that include large banks from conducting new financial activities through bank subsidiaries – and force them to conduct those activities exclusively through bank holding company affiliates. Although the bill does permit smaller banks – those with under $1 billion in assets – to engage in new financial activities through subsidiaries, it prohibits all other banks from doing so. This provision is unacceptable to the Administration.

With the safeguards we have proposed, subsidiaries and affiliates are absolutely identical with respect to the ability of a bank to transfer any subsidy that may exist in the bank. And, again with the safeguards we have proposed, subsidiaries and affiliates are absolutely identical with respect to safety and soundness – except in one respect, which I will discuss in a moment, in which subsidiaries are actually superior with regards to banks' safety and soundness. The safeguards we have proposed (which the draft bill includes in part) are as follows:

- Every dollar a bank invests in a subsidiary would be deducted from the bank's regulatory capital, just as is the case with every dollar a bank pays as a dividend to its parent holding company for investment in an affiliate. A bank would have to be well-managed and well-capitalized before and after such investment is deducted from its capital and on an ongoing basis.

- A bank could not invest any more in a subsidiary than it could pay as a dividend to its parent holding company for investment in an affiliate.

- The rules governing loans from a bank to a subsidiary would be exactly the same as they are for a loan from a bank to an affiliate.

I would add that these restrictions on funding the subsidiary make this proposal fundamentally different from the European model of universal banks.

I would also observe that the draft bill permits subsidiaries of small banks to engage in the activities we have proposed.

Thus, there are no public policy reasons to deny the choice of a subsidiary; however, there are three important policy reasons to allow that choice.

First, financial services firms should, like other companies, have the choice of structuring themselves in the way that makes the most business sense and this, in turn, should lead to better service and lower costs for their customers.

Second, the relationship between a subsidiary and its parent bank provides a safety and soundness advantage. Firms that choose to operate new financial activities through subsidiaries are, in effect, keeping those assets available to the bank rather than transferring them outside the bank's reach. If the bank ever needed to replenish its capital, the bank's interest in the subsidiary could be sold, solely at the behest of the bank. If the bank were ever to fail, the FDIC could sell the bank's interest in the subsidiary in order to protect the bank's depositors and the deposit insurance fund. For this reason, the FDIC, a neutral observer with a paramount interest in safety and soundness and protecting the deposit insurance fund, its current chairman and three former chairmen – two Democrats and two Republicans – have stated that the subsidiary option is actually *preferable* from the standpoint of safety and soundness and protecting deposit insurance funds.

I would also like to observe that currently, under the Federal Reserve's jurisdiction, foreign banks underwrite and deal in securities through subsidiaries in the United States, and U.S. banks conduct securities and merchant banking activities abroad through so-called Edge Act subsidiaries. Foreign bank subsidiaries hold over $450 billion in assets, and Edge Act subsidiaries hold about $250 billion in assets. Thus, there is a proven history of subsidiaries conducting these activities.

Third, one of an elected Administration's critical responsibilities is the formation of economic policy, and an important component of that policy is banking policy. In order for the elected Administration to have an effective role in banking policy, it must have a strong connection with the banking system. That connection is currently provided by the Office of the Comptroller of the Currency, which regulates national banks. We believe that if the larger national banks were prohibited from engaging in new activities through subsidiaries, then gradually such banks would gravitate away from the national banking system, and this critical connection will be lost.

We also believe it is very important that the Federal Reserve Board maintains its strong connection with the banking system. We believe that allowing banks the choice of conducting non-bank financial activities, either through an operating subsidiary or an affiliate, serves the purpose of having both the elected Administration and the Federal Reserve strongly involved in banking policy.

With respect to the subsidiary option, we support three additional steps.

First, we proposed last year joint Federal Reserve-Treasury rulemaking to define new financial activities. We believe that this arrangement would promote consistency and would eliminate the potential for unhealthy competition or laxity in defining new activities. The draft bill establishes a process whereby the Treasury could petition the Federal Reserve to act, and veto its decisions. This arrangement is less likely to produce consensus than true joint rulemaking.

Second, we favor functional regulation. We support provisions making clear that securities and insurance regulators have the same jurisdiction over subsidiaries as over affiliates.

Third, we have no objection to requiring the largest banks to retain a bank holding company, thereby assuring the Federal Reserve a central supervisory role regardless of whether the bank operates with affiliates or subsidiaries.

Our second major objection to the draft bill is its effect on the Community Reinvestment Act.

CRA encourages a bank to serve creditworthy borrowers throughout communities in which it operates. Since 1993, a greatly invigorated CRA has been a key tool in the effort to rebuild low and moderate income communities. In fact, since 1993, the number of home mortgage loans extended to African Americans increased by 58 percent, to Hispanics by 62 percent, and to low- and moderate-income borrowers by 38 percent, figures all well above the overall market increase. We believe strongly that it is important to maintain CRA, and we are opposed to any efforts to weaken CRA.

The draft legislation includes a so-called "safe harbor" provision specifying that a satisfactory CRA rating in a bank's most recent examination conclusively establishes a bank's CRA performance, unless a public comment is filed that provides substantial verifiable information to the contrary.

- The proposal would effectively bar banking regulators from reviewing a financial institution's CRA performance when assessing applications, such as for mergers or acquisitions -- absent public comment. CRA reviews during applications are important, because CRA ratings can become "stale," circumstances can change rapidly after an examination, examiners may miss evidence with respect to a particular market, or applications may involve new markets not covered by an earlier examination.

- We believe that the facts and analysis with respect to CRA performance are most effectively brought forth when the interested consumer and community groups participate actively. However, these groups do not have the resources to do so routinely, and they participate primarily when the bank applies to carry out a major transaction. This is how these groups can have the greatest impact.

- In addition, the provision imposes the burden of proof in the context of applications on the community-based organization to come forward with "substantial verifiable information," despite the fact that the financial institution, and their regulators, are in a better position to have the relevant information necessary to determine the veracity of the complaint.

Of equal concern, is a so-called "anti-extortion" amendment contained in the "undecided" portion of the draft bill. We are, of course, opposed to extortion, and extortion is illegal under state and Federal law. I have been informally advised by the Department of Justice -- and I would imagine that they would be willing to share their views on this with you as well -- that this proposed addition to Federal law, with its broad and vague terms, would extend substantially beyond existing law and could criminalize normal, legitimate, arms-length transactions and productive cooperation between banks and community groups. In addition, because of the resulting uncertainty, it could chill precisely the activity that CRA is intended to encourage. For example, banks make grants to community-based organizations to conduct home ownership counseling, which increases the bank's ability to make safe and sound loans to low-income borrowers. Under this legislation, such activity could be discouraged because the participants would be uncertain about whether that activity is illegal.

Finally, we believe that any bank seeking to conduct new financial activities should be required to achieve and maintain a satisfactory CRA record. The draft bill fails to include this requirement. 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.

Our third objection to the draft bill concerns affiliations between depository institutions and non-financial firms. The "undecided" portion of the bill authorizes a "basket" of non-financial activities that can grow to 25 percent of the revenues of the organization, and would authorize new "unitary bank holding companies." The main text of the bill would continue current law as to the powers of the unitary thrift holding companies, thus allowing commercial companies to continue acquiring thrifts. In these ways, the draft bill would allow a dramatically expanded mixture of banking and commerce -- far more than any bill that Congress has considered over the past seven years. We would have serious concerns about these mixtures of depository institution activity and commerce under any circumstances, and these concerns are heightened as we reflect on the financial crisis that has affected so many countries around the world over the past two years.

Our fourth objection concerns provisions with respect to the Federal Home Loan Bank System that are also in the "undecided" section. We recognize the desire of many Members to see the System lend more to community banks. Indeed, we believe that the System should focus on such lending, not on using taxpayer funds for arbitrage activities and overnight lending which currently constitute so much of its activities. Changing this important System perhaps should be done separately. But if it is to be addressed in this legislation, we believe changes in the FHLB System should occur only in the context of comprehensive reform.

Our final objection concerns the relative absence of provisions designed to inform and protect consumers of the new financial products authorized under the bill. If Congress is to authorize large, complex organizations to offer a wide range of financial products, then consumers should be guaranteed appropriate disclosures and other protections.

Mr. Chairman, let me reiterate: our nation's financial institutions are strong and highly competitive, both here and abroad. In our view, financial modernization legislation can produce significant benefits, but the job must be done right. We in the Administration look forward to working with you and others in Congress to construct good financial modernization legislation that serves the interests of consumers, businesses and communities, while protecting the safety and soundness of our financial system. Thank you very much.

-30-

FOCUS - 1 OF 17 STORIES

Press Journal (Vero Beach, FL)

May 9, 1999, Sunday

SECTION: A section; Pg. A13

LENGTH: 866 words

HEADLINE: HOW YOUR LAWMAKERS VOTED

BODY:
HOUSE

FINANCIAL COMPETITION: Voting 54 for and 44 against, the Senate passed a bill (S 900) enabling the banking, securities, and insurance industries to compete directly against one another. The bill removes barriers to competition such as the 1933 Glass-Steagall Act and gives the Federal Reserve Board authority to oversee the financial conglomerates that the legislation would spawn. Agencies such as the Securities and Exchange Commission and state insurance examiners would continue to regulate specific financial services. The bill continues the 1977 Community Reinvestment Act, which requires banks to lend in low-income neighborhoods. But it so weakens the CRA that it drew opposition from civil rights and consumer organizations. The bill requires banks to post fee schedules at automatic tellers.

A yes vote was to pass the bill.

Mack

Yes

Graham

No

GRAPHIC: (B/W) Weldon

(B/W) Foley

(B/W) Graham

(B/W) Mack

LOAD-DATE: May 10, 1999

NEXT Article

LENGTH: 3661 words

HEADLINE: U.S. SENATOR TOM DASCHLE (D-SD) HOLDS BRIEFING; WASHINGTON, D.C.

SPEAKER:
U.S. SENATOR TOM DASCHLE (D-SD), SENATE MINORITY LEADER

BODY:
SENATE MINORITY LEADER HOLDS REGULAR NEWS BRIEFING

MAY 5, 1999

SPEAKERS: U.S. SENATOR TOM DASCHLE (D-SD)

SENATE MINORITY LEADER

DASCHLE: Well, let me begin by expressing our heartfelt sympathy to the families and to all of the people in Oklahoma and Kansas who have experienced the same tragedy that we experienced in South Dakota just last year. You can't imagine the magnitude of the devastation until you've actually seen it. I walked the streets of Spencer, South Dakota, about a year ago, and it is phenomenal what nature can do. And I'm all the more sensitive and appreciative of the tragic loses that occurred in the last 48 hours. And I know I speak for the entire Senate, and certainly our caucus, in expressing our determination to help the families and help the communities who have been so adversely afflicted by yet another disastrous set of circumstances.

Having said that, let me move on to another set of circumstances that were very disastrous, and that is the Littleton matter.

We had our first -- what we call it, a working group, because there is no official designation at this point, but it's a children's violence working group that is comprised of about 25 of our Democratic Senators. We had our first meeting yesterday afternoon. The staffs are meeting as we speak, and we're going to be meeting again today to talk about how we can respond in as constructive and as comprehensible way as possible to the circumstances that occurred just last week in Littleton.

I don't think there is a single solution. There is obviously a need for us to consider an array of very consequential policy options as we deal with the circumstances and the situation that schools are facing all over this country....

.. QUESTION: And can you tell us just basically what it will do, what you're compromising?

DASCHLE: Basically the compromise legislation would allow banks to operate out of subsidiaries just the way they do now in foreign countries. American banks have the opportunity to operate much more extensively out of the subsidiaries in foreign lands than they can in the United States. This would really level the playing field. This would say, regardless of where you're located, you can work out of a subsidiary. And I think it makes eminent sense. It's something that hopefully will be supported on a bipartisan basis. But that's basically what it is.

QUESTION: (OFF-MIKE) Do you think Senator Graham will follow through with his vow to pull the bill if that happens?

DASCHLE: Well, I don't know. I hope it will pass. It's got, as we know, bipartisan support. I think it depends on how badly Senator Graham wants a bill. He seems to saying, "I want a bill that's my bill, or I'll have no bill at all." I hope he doesn't feel that. That's the impression one could draw from his comments, that if this passes or if that passes, he's not going to be support of it.

I can say with regard to CRA, that is the case. We would rather not have a bill than to -- to have a bill without any kind of community investment.

But I'm convinced that the vast majority of Republicans and Democrats can work together to find a compromise on CRA that would preclude the need to be that dramatic.

QUESTION: Senator, what are your thoughts on the minimum wage bill tied to (OFF-MIKE) for small business?

DASCHLE: Well that is the approach we used before, and I'm not averse to it. I think that if we can find a win-win situation again legislatively this year, I'd be prepared to look at it. I don't know what kind of tax cuts have been considered at this point. I do think we have to find offsets for any one of the tax cuts that would be offered, and that obviously is never easy. But I'd be certainly prepared to look at it.

QUESTION: (OFF-MIKE) that means someone who isn't -- unless you're 21, you can't buy the rifle. Now, does that mean you can't use the rifle? Suppose you're a parent, can you buy the rifle and go hunting with your son and give him the rifle?

DASCHLE: Oh, I would assume so.

QUESTION: (OFF-MIKE) is there any -- do you guys treat the rifle the way you would treat the (OFF-MIKE)? In other words, if you gave your -- you know, you could break the rule -- you do -- do you know what I'm asking?

DASCHLE: Right.

QUESTION: I mean, isn't the real issue that -- (OFF-MIKE) age you raise it to, if you don't have a penalty for the adult that gives the weapon to the child, you're not going to ever control this, right?

DASCHLE: Again, it goes back to something I've said, David, before. I -- I think we can find simplistic solutions to these complex problems anywhere we look. And some would argue that all we have to do is to add 10 or 15 additional items to the law on guns and the problem will go away. I honestly don't think that will ever happen. We need gun laws that work; that are enforceable; that can be applied in all circumstances; and that are just good common sense.

And I think we can over-react. I believe that the things that I've mentioned fall into that category. I think they are workable. I think they are common sense. But they are not the panacea. They will not solve the problem standing alone. We have to look at a much more comprehensive way with which to address these problems than just that.

QUESTION: Senator, on this juvenile Brady bill, (OFF-MIKE).

DASCHLE: Yes.

QUESTION: How many states? (OFF-MIKE) the states.

DASCHLE: Well, I think there are some states that prohibit it, but by and large, juveniles can buy guns if they -- I mean, in fact, as I understand it -- I don't know all the details of the Littleton case ...

QUESTION: (OFF-MIKE)

DASCHLE: That's right. No, not -- well, I think the federal law today is 18, so you can't buy them under 18.

QUESTION: So you would ...

DASCHLE: Move it to 21.

QUESTION: (OFF-MIKE) you have been convicted of a felony and you're 18, you can't buy it.

DASCHLE: That's correct.

QUESTION: OK.

QUESTION: (OFF-MIKE) some people in dealing with kind of a parental issue involved in safekeeping guns, the use of guns. Some people proposed, you know, holding parents liable unless guns are safely stored. You know, if there's reckless behavior there. Then some have also talked about child safety locks. And I was just wondering on those two issues, what do you make of those?

DASCHLE: Well I -- those are cases that I don't think you can really enforce. I'm not as convinced that from a practicality point of view, you can enforce them; you can monitor them; you can -- so, I have a concern about both of those issues.

DASCHLE: of those issues. I'm not in all cases adverse to looking for ways with which to address both of the issues, but today I would be apprehensive about whether they work.

QUESTION: (OFF-MIKE) what is the compromise (OFF-MIKE)?

DASCHLE: Well, the compromise simply would say look let's not extend CRA beyond its current scope so long as the scope includes all new services. That is, if a bank currently is going to purchase a securities company or an insurance company, we think the CRA requirements ought to apply to their activity regardless of circumstance, regardless of what kind of business they're in. If you don't do that, it would be very easy to see a bank move from banking to insurance just to avoid the requirements of the CRA. So you could see this migration, if you will, to other services just because they don't want to have to comply.

So what we're saying is, we're not going to expand the requirements of CRA, but we would ensure that the scope is consistent regardless of what kind of enterprise the financial institution may be involved with.

Thank you all.

END

NOTES:
???? - Indicates Speaker Unkown
- Could not make out what was being said.
off mike - Indicates Could not make out what was being said.

LANGUAGE: ENGLISH

LOAD-DATE: May 5, 1999 UNITED STATES (84%); SOUTH DAKOTA, USA (72%); KANSAS, USA (57%); OKLAHOMA, USA (57%); WASHINGTON, DC, USA (76%)

Next Article

FOCUS - 9 OF 17 STORIES

<=1> View Related Topics

APRIL 27, 1999, TUESDAY

SECTION: IN THE NEWS

LENGTH: 2660 words

HEADLINE: PREPARED STATEMENT OF
ELLIOT L. MARKS
VICE-PRESIDENT
NORTHWEST AND HAWAII DIVISION
AND DIRECTOR, WASHINGTON STATE CHAPTER OF
THE NATURE CONSERVANCYCONCERNING
BEFORE THE SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES
SUBJECT - S.25, THE CONSERVATION AND REINVESTMENT ACT OF 1999
S. 446, THE RESOURCES 2000 ACT
S. 532, THE PUBLIC LAND AND RECREATION INVESTMENT ACT OF 1999

S. 819, THE NATIONAL PARK PRESERVATION ACT
AND THE ADMINISTRATION'S LANDS LEGACY INITIATIVE

BODY:

Mr. Chairman, and members of the Committee, I appreciate the opportunity to submit this testimony for the record on S. 25, the Conservation and Reinvestment Act of 1999, S. 446, the Resources 2000 Act, S. 532, the Public Land and Recreation Investment Act of 1999, S. 819, the National Park Preservation Act and the Administration's Lands Legacy Initiative.

The Nature Conservancy is an international, non-profit organization dedicated to the conservation of biological diversity. Our mission is to preserve the plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. The Conservancy has more than 900,000 individual members and over 1,500 corporate associates. We currently have programs in all 50 states and in 17 nations. To date our organization has protected more than 10.5 million acres in the 50 states and Canada, and has helped local partner organizations preserve millions of acres overseas. The Conservancy owns more than 1,600 preserves - the largest private system of nature sanctuaries in the world. The Conservancy's conservation programs are characterized by sound science and strong partnerships with public and private landowners. We are dedicated to achieving tangible and lasting conservation results in all of the many locations at which we work.

We are now cooperating with our partners to develop a "conservation blueprint" that will identify the sites, at scales from landscape to nature preserve, that will be required to conserve -- ecoregion by ecoregion -- the nation's full array of plants, animals and natural communities. We and all our partners, who are daily working to conserve the nation's natural treasures, will be far better able to accomplish our common goals with the increased resources envisioned in legislation before this Committee.

We thank Senator Landrieu, Senator Boxer, Senator Feinstein, Senator Graham and Chairman Murkowski for their leadership in proposing substantive reform of the Land and Water Conservation Fund and other new conservation programs. The President's Lands Legacy Initiative is a complementary, far-reaching design that would also provide much needed federal funds for biodiversity conservation. Congress and the President have an historic opportunity to work together to achieve the non-partisan goal of protecting the nation's biodiversity, natural areas and open spaces. There is an enormous demand and need for the financial resources these bills would provide. Throughout the nation, voters are approving local ballot measures to increase public investment in parks, natural areas, critical wildlife habitat and open space. But these local efforts need to be supplemented with an enhanced national commitment.

Last month, we had the honor of presenting The Nature Conservancy's "1998 Conservation Leadership in Government Award" to Governor Christine Todd Whitman for her leadership on a state-wide ballot campaign that secured $1.85 billion to protect 1,000,000 acres of open space in New Jersey. Last November, voters endorsed 84 percent of 148 state and local open space ballot measures in the United States, generating over $5.2 billion in public land acquisition dollars. Congress now has the opportunity to do its part; to contribute in a visionary manner to meet this rising public demand; and leave a natural legacy for future generations.

This opportunity comes at a time of great urgency. At least 110 species of plants and animals are now extinct in the United States, with another 416 missing and feared extinct. Seven percent of plant and animal species in the United States are classified as critically imperiled, 9 percent as imperiled, and 15 percent are considered vulnerable.1 Aquatic animals are even more imperiled than terrestrial species. The plight of salmon in the Northwest and New England is widely recognized. It is less well known that two-thirds of the nation's freshwater mussels are at risk of extinction, and nearly 1 in 10 species may already be extinct. Forty percent of the nation's freshwater fishes and amphibians are at risk of extinction, as are one-half of crayfish species.2 There has never been a more important time for Congress to attend to the critical federal and state programs that conserve the nation's legacy of biodiversity.

The Conservancy pledges its assistance to the Committee as it considers new proposals for increasing funding for conservation areas and programs.

The bills before the Committee approach the goal of providing significant new investments in natural resource protection in different ways. The Nature Conservancy believes the following elements and principles ought to guide whatever legislation the Committee ultimately adopts:

1. FULL AND PERMANENT FUNDING OF THE LAND AND WATER CONSERVATION FUND ("LWCF"):

The LWCF is one of the nation's most important conservation achievements. The principle of investing proceeds from a non-renewable resource, offshore oil and gas reserves, into permanent land and water resource conservation is an outstanding expression of our nation's stewardship commitment. This Committee will make a lasting and historic contribution by creating a permanent funding stream for both the state and federal sides of the LWCF at their fully authorized level of $900 million. Even at this level of LWCF funding, however, long-term conservation of the nation's biodiversity and natural areas will also require significant additional investments envisioned in the other proposals before the Committee.

2. EQUITABLE TREATMENT FOR STATE AND FEDERAL PROGRAMS:

In recent years, the federal government has ceased appropriating the state portion of the Land and Water Conservation Fund. The Conservancy favors restoration of this federal(1998).funding for state conservation action. Recent ballot measure results evidence the substantial need and demand in many states for land acquisition, conservation and recreation purposes. Enormous good can come from leveraging state commitments with federal matching funds.

3. INCREASED FEDERAL SUPPORT FOR STATE FISH AND WILDLIFE AND PLANT PROGRAMS INCLUDING STATE NATURAL HERITAGE PROGRAMS:

State programs to support biodiversity conservation programs have been chronically underfunded. The Conservancy endorses increased funding for state fish and wildlife and plant programs. New dollars should target efforts to conserve native and nongame fish and wildlife, native plants and natural communities. Legislation must also explicitly provide funding for state natural heritage programs. These programs are recognized leaders in the conservation of native fish and wildlife, native plants and natural communities. Nearly two-thirds of state natural heritage programs, including successful ones in New Jersey, Pennsylvania, Minnesota, Colorado, Ohio and Florida, are not part of state fish and wildlife agencies, and would not be assured funding in proposals now before the Congress.

The Committee should also ensure that new funds support new investments in habitat and stewardship rather than replacing existing operating funds.

4. INCREASED SUPPORT FOR INCENTIVE-BASED, NON-REGULATORY PROGRAMS THAT ASSIST PRIVATE LANDOWNERS IN CONSERVING ENDANGERED SPECIES:

The Nature Conservancy strongly supports dedicated funding to enhance incentive-based, non-regulatory programs for private landowners to voluntarily assist in endangered and threatened species recovery. The Conservancy, along with private and public partners in the Natural Community Conservation Planning initiative, is using federal and state dollars to conserve habitat for nearly 100 species and more than two dozen natural communities in five southern California counties. By voluntarily joining this program, landowners can achieve greater certainty with respect to potential development uses of land, as well as avoiding unexpected consequences of future species listings under the Endangered Species Act.

The Administration's $80 million request for the U.S. Fish and Wildlife Service's Cooperative Endangered Species Fund reflects the critical importance and unmet public funding needs of programs such as this.

5. INCREASED SUPPORT FOR NORTH AMERICAN WETLANDS CONSERVATION ACT:

The North American Wetlands Conservation Act has provided significant federal costshare funding for state fish and wildlife agencies and private organizations to conserve, restore and enhance critical wildlife habitat. The Committee should ensure that funding mechanisms, such as directing interest that accrues from the Pittman-Robertson Act, benefit the purposes of the North American Wetlands Conservation Act. Such a mechanism is provided in HR. 701.

6. REINVESTMENT OF OUTER CONTINENTAL SHELF ("OCS") REVENUES IN COASTAL STATES:

Coastal states, particularly Louisiana, have suffered significant environmental damage as the result of OCS activities. A portion of OCS revenues should be dedicated to environmental restoration programs in coastal states. We are hopeful that the Chairman, Senator Landrieu and other sponsors of S. 25 will work with members of the environmental community to ensure that S. 25 does not create incentives for communities to rescind existing moratoria on OCS activities.

7. INCREASED SUPPORT FOR COASTAL AND MARINE CONSERVATION:
Restoring and protecting coastal and marine ecosystems is a critically important conservation priority. Many of our fisheries are near collapse, pollution is creating offshore "dead zones" and coral bleaching and disease are increasingly common. Our nation's coastal areas and oceans contain biodiversity rivaling tropical rain forests, yet we as a nation have focused little attention on their conservation. We cannot simply purchase a section of ocean and set it aside for conservation purposes. New permanent funding should invest in the range of actions necessary for protecting marine habitats, including conservation, restoration and acquisition of critical coastal areas, water quality improvements and management of living marine resources and habitat. In the Florida Keys, for example, the Conservancy's Florida Bay Watch program has documented increased nutrients in near shore waters, highlighting the need to upgrade and retrofit waste and stormwater systems.

8. PACIFIC COASTAL SALMON RECOVERY
Pacific salmon populations have declined precipitously from historical levels, resulting in Endangered Species Act listings of an increasing number of both coastal and inland salmon runs. While the reasons for this are complex, it is clear that habitat destruction, over- appropriation of water rights, pollution, stream blockages from hydropower and other developments, over-harvesting, and unintended hatchery impacts on native runs have all played a significant role. Experience from the Florida Everglades to the Columbia River Basin has demonstrated that vast amounts of money can be spent on habitat restoration and recovery that could have been more efficiently spent on habitat protection before the systems had been altered and degraded. We may now have to make some tough choices about where fish can be successfully recovered, but we should focus our efforts on functioning systems with relatively healthy habitats and salmon populations.

The Nature Conservancy recognizes that there is a clearly established need for significant additional funding beyond the Administration's $100 million for these efforts to succeed,perhaps as much as $200 million annually for several years. Given the size of the recommended appropriation, it is imperative that priority be given to efficient prevention strategies such as habitat protection over more costly recovery efforts.

9. INCREASED SUPPORT FOR AGRICULTURAL FOREST AND OPEN SPACE PROTECTION:
Matching grants for agricultural, forest and open space conservation, like state appropriations from LWCF, would increase the conservation effect of state investments and federal initiatives such as the Forest Legacy program. The Conservancy is working with farmers along New York's Fish Creek and Illinois' Mackinaw River to address resource conservation issues while enhancing the ec viability of sustainable farming operations. Increased opportunities for conservation easements could enable farmers, ranchers, and forest owners to maintain sustainable economic uses while providing important public conservation benefits. Such programs would also help mitigate the threat to biodiversity caused by habitat fragmentation, an increasing and pervasive threat to biodiversity.

10. DEDICATED FUNDING FOR URBAN PARKS:
Although the Conservancy's mission focus is biodiversity conservation, we join and support our colleagues who seek dedicated funding for urban parks through a revitalized Urban Park and Recreation Recovery program. Creation of a separate dedicated funding source would ensure that urban park funding does not compete with the state and federal land acquisition programs supported by the LWCF.

11. DETERMINATION OF LWCF PRIORITIES WITHOUT GEOGRAPHIC OR OTHER STATUTORY RESTRICTIONS:
LWCF funding should be available for acquisition of high-priority lands without arbitrary geographically-based limitations on location or land management agency. Restricting purchases to inholdings or Congressionally designated areas could sometimes direct federal attention and funding away from the most important and significant conservation opportunities for protection of the nation's biodiversity.

12. APPROVAL OF LWCF ACQUISITIONS IN AN EXPEDITIOUS MANNER:
The Congress should not require approval of land acquisitions by multiple committees. Land acquisition programs should be designed to minimize the risk of increased costs and lost conservation opportunities to the people of the United States. They should also avoid unreasonable burdens and delays on private land owners who wish to sell their land to government.

13. THE NATIONAL PARK PRESERVATION ACT
The Nature Conservancy has long-supported funding to restore the Everglades and the South Florida ecosystem. The magnitude of the restoration efforts necessary to ensure the long-term viability of the South Florida ecosystem, including the Florida Keys, requires the sustained investments provided by Senator Graham's legislation. Programs to ensure the ecological integrity of many other National Parks would also benefit from the dedicated funding provided in S. 819.
14. BUDGET ISSUES:
The funding levels called for in these bills will not be achieved without changes to the existing budget caps. Although we understand that this Committee does not have jurisdiction over the budget process, we urge members of the Committee to raise these issues with the leadership of the Senate and members of the Budget Committee. This Congress will fail to realize the full promise of the important legislative proposals under consideration by this Committee if the Budget Committee fails to allocate, or the Appropriations Committee fails to appropriate, the necessary funds.
CONCLUSION
The Nature Conservancy wishes to express its gratitude to Senators Murkowski, Landrieu, Boxer, Feinstein, Graham and the cosponsors of their respective legislative proposals for bringing historic legislation to the Committee. In addition, numerous state and local government agencies and non-governmental organizations deserve enormous credit for developing broad-based public support for land conservation and biodiversity. This Committee can respond to that support and forge a lasting legacy by passing legislation that incorporates the principles described above.
The Nature Conservancy welcomes the opportunity to work with the Committee as it crafts legislation that will be signed into law. 1 1997 Species Report Card: The State of U.S. Plants and Animals, The Nature Conservancy (1997). 2 Rivers of Life: Critical Watersheds for Protecting Freshwater Biodiversity, The Nature Conservancy
END

LANGUAGE: ENGLISH

LOAD-DATE: April 29, 1999

Next Article

FOCUS - 14 OF 17 STORIES

<=1> View Related Topics

MARCH 17, 1999, WEDNESDAY

SECTION: IN THE NEWS

LENGTH: 3599 words

HEADLINE: PREPARED TESTIMONY OF
RICHARD MOE
PRESIDENT
NATIONAL TRUST FOR HISTORIC PRESERVATION
BEFORE THE SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
SUBJECT - COMMUNITY GROWTH AND ENVIRONMENTAL QUALITY: OVERVIEW

BODY:

Mr. Chairman, Members of the Committee. Thank you for the opportunity to testify before you today about the issue of community growth and environmental quality. My name is Richard Moe and I am President of the National Trust. for Historic Preservation, a non-profit membership organization, chartered by Congress in 1949. The National Trust for Historic Preservation works to revitalize America's communities by preserving our heritage--the buildings, neighborhoods, downtowns and landscapes that link us with our past and define us as Americans. Our mission is summed up in a short phrase: "Protecting the Irreplaceable." Sprawl destroys the irreplaceable, which is why the National Trust is concerned about sprawl--and why I am pleased to appear before this Committee today. On behalf of our 275,000 members, the National Trust advocates for the protection of the built environment as well as natural landscapes of historic and cultural significance. The integrity, indeed, the very existence of these resources, are threatened by poor planning and inappropriate development. America today is engaged in a great national debate. It's a debate about sprawl. The central question in the debate is this: Will we continue to allow haphazard growth to consume more countryside in ways that drain the vitality out of our cities while eroding the quality of life virtually everywhere? Or will we choose instead to use our land more sensibly and to revitalize our older neighborhoods and downtowns, thereby enhancing the quality of life for everyone?

The debate touches every aspect of our lives--the quality of the natural and built environments, how we feel about the places where we live and work and play, how much time we have for our family and civic life, how rooted we are in our communities. I believe that this debate will frame one of the most important political issues of the first decade of the 21 st century. Ultimately, its outcome will determine whether the American dream will bee. me a reality for future generations.

Preservation is in the business of saving special places and the quality of life they support, and sprawl destroys both. It devours historic landscapes, It makes the strip malls and subdivisions on the edge of Washington look like those on the edge of Albuquerque or Birmingham or any other American city. It drains the life out of older communities, stops their economic pulse and often puts them in intensive care--or sometimes even the morgue.Sprawl reminds me of Justice Stewart's remark about pornography: It's hard to define, but you know it when you see it. In simple terms, sprawl is the poorly planned, low-density, auto-oriented development that spreads out from the edges of communities. But it is best defined by the way it affects us in our daily lives, Winston Churchill said, "We shape our buildings, and then our buildings shape us." The same holds true for communities: The way we shape them has a huge impact on the way we feel, he way we interact with one another, the way we live. By harming our communities, sprawl touches us all--and one way or another, we all pay for it.

We pay in open space and farmland lost. Since 1950 the state of Pennsylvania has lost more than 4 million acres of farmland; that's an area larger than Connecticut and Rhode Island combined. Metropolitan Phoenix now covers an area the size of Delaware. It's estimated that over the next 45 years, sprawl in the Central Valley of California will affect more than 3.6 million acres of America's most productive farmland.

We pay in time lost. A study last year reported that each of us here in Washington spends about 59 hours a year--the equivalent of a week and a half of work--stuck in traffic. The price tag for time and fuel wasted is roughly $860 annually for every man, woman and child in the Washington area. In Los Angeles, the average speed on the freeways is expected to drop to 11 miles per hour by 2010. A new term-"road rage"--has been coined to describe drivers' frustration over traffic. We pay in higher taxes. Over the decades, we've handed over our tax dollars to pay for infrastructure and services--things like police and fire protection, water and sewer lines, schools and streetlights--in our communities. Now we're being asked to pay higher taxes to duplicate those services in sprawling new developments, while the infrastructure we've already paid for lies abandoned or under used in our older city centers and suburbs. Even worse, local governments use our tax dollars to offer incentives and write-offs to sprawl developers--in effect, rewarding them for consuming our landscape and weakening our older communities.

Finally, we pay in the steady erosion of our quality of life. Inner cities have become enclaves of poverty. Long, frustrating commutes leave us less time with our families. Tranquil neighborhoods are destroyed by road-widening. Historic landmarks get demolished and carted off to the landfill. Everyplace winds up looking more and more like Noplace. These signs point to an inescapable fact: Sprawl and its byproducts represent the number-one threat to community livability in America today. And in a competitive global marketplace, livability is the factor that will determine which communities thrive and which ones wither. Nobel Prize-winning economist Robert Solow puts it this way: "Livability is not some middle-class luxury. It is an economic imperative."

Sprawl is finally getting the attention it deserves. It was the subject of major initiatives announced by the President and the Vice President in back-to-back speeches in January.Bipartisan caucuses focusing on smart growth and community livability have been formed in both the House and Senate. Governors across the political spectrum have announced programs to control sprawl and encourage smart growth. The Urban Land Institute, the American Institute of Architects, the National Governors Association, and foundations and nonprofit organizations of every stripe hold seminars and workshops on sprawl. Last November, voters from Cape Cod to California overwhelmingly approved some 200 ballot initiatives related to growth management and urban revitalization.

All this attention is welcome. Sprawl is a national problem, and it needs a national debate. But the debate shouldn't focus on finding a national solution, because there isn't one. There are two essential elements in any effective program to combat sprawl: sensible land-use planning and the revitalization of existing communities. These are issues traditionally and best handled at the state and local levels- and that, in the end, is where the fight against sprawl will be won or lost. But the federal government also has a crucial role to play in the process.

There are obviously many factors such as crime, drugs and bad schools and public services that have helped propel the exodus of people and jobs from our central cities, but that exodus has been greatly facilitated-even accelerated--by the effects of federal policies. Sometimes these effects have been intended and sometimes they have been inadvertent, but in most cases they have been profound. Because the federal government has contributed so heavily to the problem, it has a clear duty to help find solutions.

It can--and should--do so in four ways:

First, it should correct policies that encourage or reward sprawl The direct role of federal policies and investments in promoting suburban development at the expense of cities is difficult to pin down. It's never been systematically studied. But we do have a very good idea where to look, because sprawl-friendly policies and practices exist in almost every federal agency. I'll mention only a few examples.

The federal tax code, in all its complexity, is heavily tilted toward new development and the consumption of open space. The tax code has historically subsidized upper middle class homeownership in the suburbs. It needs to put at least as much emphasis on promoting opportunities for revitalization and stabilization of older communities. Federal tax policy needs to provide incentives-which are currently lacking--for middle-class and moderate-income households to become urban homeowners.

Nearly 1 ? million people work directly or indirectly for the federal government. With a workforce that size, decisions about where the government locates its offices can have a huge impact on a community's economic health. Executive Order 12072, signed by President Carter, and Executive Order 13006, signed by President Clinton, require the General Services Administration and other federal agencies to look first at downtowns and historic buildings and areas when considering where to locate federal facilities. Since the 1980s, therehas been a growing trend toward federal agencies leaving downtowns and locating in new suburban developments.

Unfortunately, implementation of these executive orders has been spotty and inconsistent, with agency heads continuing to pressure the GSA for locations in new developments. Right now, for example, in the small, economically-depressed town of Glasgow, Montana, the U.S. Department ot Agriculture is putting its county office in a new building that will be constructed in pasture land on the edge of town. A suitable downtown building was available, but USDA rejected it because the parking lot is a block away instead of right next door.

Relocating post offices to suburban sites can also deal a body blow to a small-town Main Street--and put historic buildings at risk as well. Because post offices serve an important role in the social and business life of many towns, the U. S. Postal Service needs to give communities more say in where these essential facilities are to be located. I want to take this opportunity to commend Senator Baucus, who along with Senator Jeffords and Congressman Blumenauer, has championed the Post Office Community Parrtnership Act, which would establish minimum citizen involvement requirements that would apply to the renovation, relocation, closing, or consolidation of post offices, and requires the Postal Service to comply with any local zoning or building codes imposed at the state or local level.

The list goes on and on, but the biggest offender of all is federal transportation policy, which can be summed up in a short phrase: "feed the car, starve the alternative." As Jessica Mathews wrote a while ago in the Washington Post, "Americans are not irrationally car-crazed. We seem wedded to the automobile because policy after...policy...encourages us to be." Transportation officials generally try to "solve" problems by building more roads--an approach which is often like trying to cure obesity by loosening your belt.

People need transportation choices and communities need balanced transportation systems. Historically, federal policy hasn't done a good job of offering them--but that is changing, thanks to your leadership, Mr. Chairman, and this Committee's, in building on the vision of ISTEA through the Transportation Equity Act for the 21st Century (TEA-21). TEA-21 encourages planning that looks beyond irrelevant political boundaries and allows for greater citizen and local government participation in making transportation investment decisions. Now that TEA-21 is law, we need to move forward with the hard work of implementation at the state and local levels to fulfill its promise. First and foremost, however, fulfillment of the goals of TEA-21 provides a great opportunity for the federal Department of Transportation to take a leadership role in urging the states to take full advantage of this landmark legislation.

Second, the federal government should reward states and communities that promote smart growth and help revitalize existing communities.

Being anti-sprawl is not being anti-growth. The question is not whether our communities should grow, but rather how they will grow. More and more people--private citizens and publicofficials alike--are realizing that the answer to that question lies in sensible land-use planning.

Three states have recently launched different efforts to manage sprawl. Last May, Tennessee passed a law that requires counties and municipalities to adopt "growth plans" which, among other things, set firm boundaries for new development and public services. Closer to home, Governor Glendening's Smart Growth initiative in Maryland is one of the most innovative--and potentially one of the most significant-- in the country. Under Governor Whitman's leadership, residents of New Jersey have approved up to $98 million in tax revenue annually for conservation and historic preservation; over 10 years this measure will protect a million acres of land--a marvelous gift to future generations.

We should encourage efforts like these in other states. I suggest that we design a federal "smart growth scorecard"--a system that favors sensible, sustainable growth and evaluates the effectiveness with which states and communities meet that test. States that amend their building codes to make them more "rehab-friendly" or that remove their constitutional ban against the use of state gas tax revenues for mass transit projects, for example, are taking positive steps to fight sprawl and restore communities. They ought to be rewarded. The federal scorecard would give states credit for initiatives such as these and would give smart-growth projects an edge in the competition for federal funds.

Third, the federal government should promote regional cooperation as a key to effective control of sprawl.

Metropolitan areas now contain close to 80% of the total U.S. population. Half the people in this country now live in just 39 metropolitan areas. But governmental structures in noway reflect this reality.

Urban decline and sprawl are practically guaranteed wherever there is a balkanized system of local jurisdictions. There's a perfect example right here in Washington, where our metropolitan area is a patchwork quilt comprising two states, the District of Columbia, a dozen counties and a score of municipalities--each with its own budget, each following its own agenda.

When it comes to sprawl, city limits and county lines are often meaningless marks on a map. Limited jurisdiction makes it hard for local government to deal with an issue of this magnitude, and efforts to control sprawl in a limited area often just shift the problem from one community to another. It's like trying to stop a flood with a picket fence.

States need to encourage local governments in the same region to better coordinate their land-use and transportation plans, and the federal government can help a great deal by simply providing basic information that regions need. Much of this information--dealing with things such as the geographic mismatch between workers and jobs and the extent of out migration from cities to suburbs--already exists, but it is difficult and expensive for localities to obtain. That's a fairly easy problem to fix, and the federal government ought to do it.

While regionalism by itself does not curb sprawl, it can moderate one of the engines of sprawl: the costly bidding wars between neighboring jurisdictions for sprawl-type development that holds out the hope for new tax revenues. Admittedly, the performance of some regional governments has been lackluster, but in other areas--Portland, Oregon, for example--regionalism is making a difference in addressing the problems of sprawl and poorly managed growth. Encouraging and assisting similar efforts all over the country should be a cornerstone of federal policy.

Happily, both Congress and the Clinton Administration are taking steps to utilize federal policy to promote responsible growth. Enterprise zones and empowerment communities, the HUD Homeownership Zones program, brownfields, and other programs are intended to spur reinvestment in older areas. The "Livability Agenda" recently announced by Vice President Gore proposes a major initiative to reduce barriers to regional governance and to fund local partnerships that pursue smart-growth strategies across jurisdictional lines. This will be the first flexible source of funding provided by the federal government to promote smarter metropolitan growth.

Controlling sprawl is only half the battle, which brings me to the fourth thing the federal government should do: provide incentives for reinvestment in existing communities.

Discussions about the plight of the cities often overlook a simple fact: When people leave the city it's not necessarily because they love sprawl or hate urban life, but because leaving is the rational thing to do. More than anything else, urban flight is an indictment of bad schools, crime and poor public services. As if this "push" weren't enough, people are "pulled" out of the city by policies and practices that make homes and infrastructure in the suburbs less expensive and easier to build.

In place of this "push-pull" combination, we need public policy that favors existing communities. Fifty years ago the government began to offer economic inducements to families that wanted to flee to the suburbs; it's time to offer those same kinds of inducements to entice middle-class residents to return to, or stay in, the city.

It all comes down to choosing where to make investments. If the federal government chooses to pour funding into more outer beltways and more suburban infrastructure, sprawl will continue to spread like an epidemic. But if the government makes a commitment to existing communities, it can have an enormous, positive impact on the critical need to keep people in urban neighborhoods and give others a reason to move back to the city.

One way to do this is by enacting the Historic Homeownership Assistance Act, which you, Mr. Chairman, have championed here in the Senate, along with Senator Graham. This legislation would extend a federal tax credit to homeowners who renovate homes in historic districts, giving residents of older neighborhoods incentives to stay and invest in their community's future, and providing an incentive for others to move back into the city. By offeringa way to put deteriorated property back on the tax rolls while making homeownership more affordable for lower-income residents, this legislation could greatly benefit communities all over the country. Obviously, this one act won't solve America's urban problems--but it can help, and a step in the right direction is better than standing still.

This is the missing piece of the Administration's Livability Agenda, which includes a heavy focus on the preservation of open space. There's no question that we need to speed up our efforts to protect open space and farmland through land trusts, easements, the purchase or development rights and other means. I should also mention at this point that the National Trust endorses the Permanent Protection for America's Resources 2000 Act, legislation introduced by Senator Barbara Boxer and Congressman George Miller that would fully fired the Historic Preservation Fund, the Land and Water Conservation Fund, and other programs and make them true trust funds by taking them "off budget."

Yet while saving greenspace is a very good thing, but it's not enough by itself. We could buy all the open land in the country and still not solve the problem of sprawl. The National Trust supports expanding eligible activities for the Administration's proposed Better America Bonds program to include infill construction on brown fields, and historic preservation. The proposed Lands Legacy Program should be broadened to include full funding of the Historic Preservation Fund at $150 million for Fiscal Year 2000.

We also need to focus energies and resources on reclaiming the streets and neighborhoods where people live-the towns, inner cities and older suburbs that we've neglected so badly for the past half-century. We must develop homing policies and programs that advance the goal of economic integration of our communities and lessen the concentration of poor households in inner-city areas. We must attract middle- income families back to the towns and cities, and we must generate reinvestment in lower income neighborhoods. At a minimum, we need to protect the Community Reinvestment Act, which requires that financial institutions help meet the credit needs of their communities, including low and moderate income areas, consistent with safe and sound lending practices. CRA is currently threatened by banking modernization legislation that has been reported out of the Senate Banking, Housing, and Urban Affairs Committee.

In fighting sprawl, we're dealing with an issue that undermines many of the national goals and values that we've embraced over the years. The provision of affordable housing, improved mobility, a clean environment, the transition from welfare to work, the livability and economic health of our communities --all of these are undermined by sprawl. In fact, there is scarcely a single national problem that is not exacerbated by sprawl or that would not be alleviated if sprawl were better contained.

We can continue turning much of our nation into a tragic patchwork of ruined dries and spoiled countryside, or we can insist on sensible federal policies that strengthen communities instead of scattering them randomly across the landscape. I want to commend you,Mr. Chairman, and your colleagues, for demonstrating leadership on this issue by holding this hearing.

Thank you very much for the opportunity to appear before this Committee.

END

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