COMMUNITY REINVESTMENT ACT

More than $1 Trillion of Financial Commitments to Underserved Communities

President Clinton Said Today That He Will Protect the Community Reinvestment Act (CRA), Which Has Helped Bring More than $1 Trillion of Financial Commitments to America's Underserved Communities. In 1977, Congress enacted CRA 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. Federal bank and thrift supervisors assess financial institution's performance: loans made, services provided, and investments in their communities. Banks and thrifts make their CRA ratings public and the public has an opportunity to comment on CRA performance before the start of a scheduled examination.

CRA Helps Bring Capital To Our Neighborhoods Without Being Burdensome to Banks:

- In April 1995, the Clinton Administration dramatically simplifed and strengthened CRA. Under the new regulations, CRA compliance is less intrusive and burdensome -- and more productive. The emphasis is now on results -- not paperwork and process. As James McLaughlin of the American Bankers Association said: "For the vast majority of banks it reduced record keeping, exams went quicker, and banks now know what is required of them."

CRA Is Working To Bring The Spark of Private Enterprise To America's Communities:

- 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. That means that there have been 23 times more financial commitments to distressed communities from banks in the past six years than in the previous 15 years combined.

- According to Home Mortgage Disclosure Act data, lending to minorities and low-income borrowers is on the rise. For example, since 1993, the number of 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.

CRA Helps Small Businesses -- The Engine of Our Economic Growth:

- 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. And for the first time, large banks are reporting small business loan data by census tract.

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- **Lawrence Lindsey, former Governor of the Federal Reserve:** "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."

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What is CRA?

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

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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.
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- 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.

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- 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.

- [redacted]

- 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.

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.

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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.

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

Isn't CRA credit allocation?

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

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

Why is CRA important for small banks?

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

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

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

What about a small bank exemption?

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

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

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

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

- There is no need for this amendment. The new CRA rules already lifted the regulatory burden on small banks, with a streamlined examination. These institutions are exempt

from reporting requirements, and are no longer subject to process-based documentation requirements. Instead, examiners rate their loan performance.

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

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

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

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

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

Why is CRA important to Rural America?

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

Why is CRA important to Indian Country?

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

reservation have benefitted from an array of new mortgage and small business loans.

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

- H.R. 1151 rightly reaffirms and reinforces credit unions' mission of serving persons of modest means. Section 204 would require periodic review of each federally insured credit union's record of meeting the needs of such persons within its field of membership. This requirement is flexible, tailored to credit unions, and will impose no unreasonable burden.

- The requirement rests on the Congressionally mandated mission of credit unions and on the benefits of federal deposit insurance. Such deposit insurance gives credit union members ironclad assurance about the safety of their savings, and thus helps credit unions compete for deposits with larger, more widely known financial institutions (just as it helps community banks and thrifts).

- Section 204 is particularly appropriate in view of how the bill liberalizes the common bond requirement and thus facilitates credit unions' expansion beyond their core membership groups.

- Under Section 204, the NCUA would periodically review the record of federally insured credit unions in serving persons of modest means within their field of membership. The NCUA would develop criteria for evaluating community credit unions, and to issue regulations that emphasized performance, not paperwork.

- Credit unions would **not** be required to serve non-members, or to make preferential loans to persons of modest means. Credit unions are cooperative institutions, and are organized to serve their membership. The bill would simply require credit unions to serve their entire field of membership, including persons of modest means.

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

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

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

What about a small bank exemption?

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

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

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

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

- There is no need for this amendment. The new CRA rules already lifted the regulatory burden on small banks, with a streamlined examination. These institutions are exempt

from reporting requirements, and are no longer subject to process-based documentation requirements. Instead, examiners rate their loan performance.

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

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

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

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- 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

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

- H.R. 1151 rightly reaffirms and reinforces credit unions' mission of serving persons of modest means. Section 204 would require periodic review of each federally insured credit union's record of meeting the needs of such persons within its field of membership. This requirement is flexible, tailored to credit unions, and will impose no unreasonable burden.

- The requirement rests on the Congressionally mandated mission of credit unions and on the benefits of federal deposit insurance. Such deposit insurance gives credit union members ironclad assurance about the safety of their savings, and thus helps credit unions compete for deposits with larger, more widely known financial institutions (just as it helps community banks and thrifts).

- Section 204 is particularly appropriate in view of how the bill liberalizes the common bond requirement and thus facilitates credit unions' expansion beyond their core membership groups.

- Under Section 204, the NCUA would periodically review the record of federally insured credit unions in serving persons of modest means within their field of membership. The NCUA would develop criteria for evaluating community credit unions, and to issue regulations that emphasized performance, not paperwork.

- Credit unions would **not** be required to serve non-members, or to make preferential loans to persons of modest means. Credit unions are cooperative institutions, and are organized to serve their membership. The bill would simply require credit unions to serve their entire field of membership, including persons of modest means.

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President Clinton Said Today That He Will Protect the Community Reinvestment Act (CRA), Which Has Helped Bring More than $1 Trillion of Financial Commitments to America's Underserved Communities. In 1977, Congress enacted CRA 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. Federal bank and thrift supervisors assess financial institution's performance: loans made, services provided, and investments in their communities. Banks and thrifts make their CRA ratings public and the public has an opportunity to comment on CRA performance before the start of a scheduled examination.

CRA Helps Bring Capital To Our Neighborhoods Without Being Burdensome to Banks:

- In April 1995, the Clinton Administration dramatically simplifed and strengthened CRA. Under the new regulations, CRA compliance is less intrusive and burdensome -- and more productive. The emphasis is now on results -- not paperwork and process. As James McLaughlin of the American Bankers Association said: "For the vast majority of banks it reduced record keeping, exams went quicker, and banks now know what is required of them."

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- 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. That means that there have been 23 times more financial commitments to distressed communities from banks in the past six years than in the previous 15 years combined.

- According to Home Mortgage Disclosure Act data, lending to minorities and low-income borrowers is on the rise. For example, since 1993, the number of 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.

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- 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.

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

Isn't CRA credit allocation?

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

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

Why is CRA important for small banks?

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

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

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

What about a small bank exemption?

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

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

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

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

- There is no need for this amendment. The new CRA rules already lifted the regulatory burden on small banks, with a streamlined examination. These institutions are exempt

from reporting requirements, and are no longer subject to process-based documentation requirements. Instead, examiners rate their loan performance.

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

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

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

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

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

Why is CRA important to Rural America?

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

Why is CRA important to Indian Country?

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

reservation have benefitted from an array of new mortgage and small business loans.

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

- H.R. 1151 rightly reaffirms and reinforces credit unions' mission of serving persons of modest means. Section 204 would require periodic review of each federally insured credit union's record of meeting the needs of such persons within its field of membership. This requirement is flexible, tailored to credit unions, and will impose no unreasonable burden.

- The requirement rests on the Congressionally mandated mission of credit unions and on the benefits of federal deposit insurance. Such deposit insurance gives credit union members ironclad assurance about the safety of their savings, and thus helps credit unions compete for deposits with larger, more widely known financial institutions (just as it helps community banks and thrifts).

- Section 204 is particularly appropriate in view of how the bill liberalizes the common bond requirement and thus facilitates credit unions' expansion beyond their core membership groups.

- Under Section 204, the NCUA would periodically review the record of federally insured credit unions in serving persons of modest means within their field of membership. The NCUA would develop criteria for evaluating community credit unions, and to issue regulations that emphasized performance, not paperwork.

- Credit unions would **not** be required to serve non-members, or to make preferential loans to persons of modest means. Credit unions are cooperative institutions, and are organized to serve their membership. The bill would simply require credit unions to serve their entire field of membership, including persons of modest means.