Remarks by

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I am pleased to be here today to discuss the Community Reinvestment Act with you. For the past two years CRA has been a hot topic in Congress and at the regulatory agencies and we may not have heard the end of it yet. Criticism has been heaped on the regulators by community organizations, banks and Members of Congress. An outsider might well wonder how we failed to do what we were supposed to do. Of course, I don't think we have. In fact, I think the Federal Reserve has been conscientious and has tried in many ways to make this one and one-half page statute a useful document. I also think many of you, my former colleagues, have done the same within your institutions and communities. But, a lot of misconceptions still persist about CRA and what it requires. I hope the thoughts I bring you today, as one who not too long ago was one of you, will help you sort some of this out.

First, I want to say that too many people still seem to think of CRA as requiring banks and thrifts to institute private charitable programs. On the contrary, I think community reinvestment can be good business and I don't believe the law expects otherwise. In fact, from my vantage point as a former banker, meeting CRA responsibilities is the most natural thing in the world. But, like other aspects of banking these days, doing it well requires a little inspiration and a lot of perspiration. At its most basic, CRA is simply about knowing and serving a market, a very familiar concept to any banker.

To neglect any market in your community is bad business. If, then, some segments of a community, a part of a market, is being neglected, then there is a market need just waiting to be served. If we allow some areas in our communities to deteriorate so that they are a lost market, then we have missed an opportunity. Banks are market dependent and bankers must have the foresight as well as the desire to preserve and exploit all segments of the market if they want to grow.

Striving for the betterment of our communities takes leadership. The bankers I know take pride in their leadership efforts to make sure their banks protected their market shares, and got more if they could manage it. "Write off" is a dirty word in any banker's lexicon. I never intended to write off neighborhoods any more than I intended to write off loans. That's the banking industry I know and it is one I think the bankers in this audience are proud to be a part of.

Now, I see some frowns out there. I suspect you're thinking "OK governor, that's a fine pep talk but how do we salvage 30 years of deterioration and neglect in some areas in our communities. All I have seen," you may be saying, "is good money down the drain." Well, I agree [pause] I agree you can't expect to cause a turnaround all by yourselves and only with the resources you have at your bank's disposal.

What I do mean is that the knowledge of various credit enhancements, the flexibility to use them and the awareness of the various credit needs in your communities you can take a leadership role in at least chipping away at the built-up problems of the past and the growing problems of the present.

This is what community reinvestment is all about. It is a challenge. A challenge and a reminder to the banking community to reestablish its community roots by helping to make those communities better places to live and do business. Since any bank is essentially the creature of the community it serves, it follows that the bank will prosper as the community prospers. In that light, community reinvestment is just plain old enlightened self-interest.

Fifteen years or so ago Americans decided to leave it up to government to correct the decline in our inner cities, to underwrite our agriculture and pay for the development of non-urban towns and counties. We had government programs for everything. In contrast, CRA may have been the first major step by the federal government to ask for help from the private sector in this effort, to admit it had not succeeded and could not afford to continue to try to it all alone. Senator Proxmire, the father of CRA, said it best when he said:

> Government through tax revenues and public debt cannot and should not provide more than a limited part of the capital required for local housing and economic development needs. Financial institutions in our free economic system <u>must</u> play the leading role.

In a way that was a challenge. I believe he was saying that the private sector should prove its claim to greater efficiency by taking the lead in solving difficult community problems. When he sounded that challenge in 1977, the federal government had already changed its approach to combatting urban decline by switching to grant-type or block-grant programs. By that change, the government proposed to provide seed capital and loan guarantees as financial incentives to banks and others to get them involved in community reinvestment. These grant programs were enticing incentives and CRA was meant to be the moral suasion to take advantage of them.

At times moral suasion can become a royal pain in the neck. Sometimes it seems that regulators are encouraging you to abandon good practice and make bad loans. And some community groups seem to delight in challenging the bank's record and impugning the banker's personal motives just when you have an important application pending. It feels like extortion and most bankers get a headache just thinking about it.

But one can hope that these pressures have built creative tension rather than bitterness. Projects such as commercial strip revitalization, multi-family rehab, inner-city mortgages, and rural economic diversification that we might not have looked at before are urged upon us for consideration. CRA has challenged banking to look at the community and to seriously consider markets sometimes too easily dismissed. Let me cite a couple of examples from my own experience.

More than twenty years ago, and long before CRA was passed, Chemical Bank became concerned about the serious deterioration of several parts of New York City. The initial idea had been to target charitable contributions at certain specific problems rather than a scattergun approach.

It soon became apparent that even a much expanded contributions program wouldn't make much of a dent in the problems. But we realized that by using lending power we might help.

In order to get a narrow enough focus to assure some tangible results, we targeted East Harlem and the Bedford Stuyvesant section of Brooklyn as points of special need. We started by developing working relationships with agencies already active in those communities. They were able to point us toward lending opportunities and provide supporting information about the borrowers who were generally small business enterprises, often run by minorities. In one case, a black entrepreneur without any money, but well regarded by one of the agencies we worked with, wanted to start a fast food operation on the corner of Second Avenue and 96th Street. A minority enterprise small business investment company put up some seed money and we financed furniture, fixtures, inventory and payroll. There was a lot of fanfare generated by the local community at the grand opening because it was, at that time in the late 1960's, an unprecedented event. There were some shaky moments in the first few months due to the inexperience of the managers. But, to make a long story shorter, the last time I was in New York that shop was still there and Chemical had long since been paid in full.

Those agencies in the communities are terribly important, because they know where the quicksand is and they represent an opportunity in themselves. They often rely on grants for their operations and since grants are funded on unreliable timetables, they often have cash-flow problems. Now that is a made-to-order lending opportunity for the bank. Loan the agency, secured by a pledge of the grant money. The bank has a sound loan, the agency's cash flow is smoothed out and the community continues to receive the agency's services uninterrupted. Good deal all around.

The biggest risk we took, or so it seemed going in, was in Bedford Stuyvesant. It was a disaster area, burned and bombed out like Berlin in 1945. No banks, no businesses, no jobs, no hope. When Bobby Kennedy was a New York Senator, he had focussed attention on Bed-Stuy and a group had developed a plan centered around an abandoned Sheffield Farms creamery. It was a large, sound structure right in the middle of the community. The idea was to convert the creamery to multi-use including offices, retail stores, fast food outlets, etc. But they felt they needed a bank to round out the list. To put a bank in that neighborhood was, we thought, like putting a honey pot in an anthill. But the logic of having a bank there, when there wasn't one for literally miles around, was persuasive. Well, we ended up lending for the rehab of the creamery. We put a branch in the building and helped some of the other businesses get started. On the day the branch opened, there was a line around the block to open accounts and the office was profitable almost from day one. Within six months we persuaded IBM to establish a modest sub-assembly operation in a nearby abandoned warehouse. It was so successful that within a short time it had expanded to the point where it employed over 900 local citizens -- the first new jobs in that area in decades.

Those are examples of what I mean by community reinvestment with the emphasis on investment.

Attitude, as you can see, plays a major role in the decision to pursue or drop a deal. For example, the fear of possible government red tape, or of dealing with an inexperienced nonprofit developer, or of just spending a lot of time to book a comparatively small loan -- those fears can be overcome by an attitude that the project is worth the effort to the community. And that change in attitude results in a willingness to learn how to fill the underwriting gaps in a project with available credit enhancements of various kinds which, in turn, can go a long way toward getting the job done. A positive attitude will also result in a willingness to accept and trust the various partners which can make a project feasible and profitable to the bank. Without the impetus of CRA, those attitudes might not have changed and the needed initiatives might have died a-borning.

Experience develops with each deal. New skills are learned. Bankers have come to accept that there are professionals, most of them not in financial institutions, who work through these types of loans every day. Bankers even listen to regulators, such as the Fed's Community Affairs staff, who offer seminars and conferences on how to use credit enhancement programs and intermediaries in community lending. Once into this development lending field,the more intriguing, challenging, satisfying and profitable it can become.

And there <u>is</u> a market. This <u>is</u> an area where profits can be made. Banks should not try to substitute for government grant programs and government should not try to replace banks as lenders. Community lending risks <u>are</u> manageable but they often require the help of federal, state and local governments and other providers of credit enhancements. In addition, the profits come in two forms. One form is tangible and is reflected on the bottom line. The other is longer term in the form of a better community and a better marketplace. I think both should be part of whatever deal you choose to make.

When Ed Boehne invited me here, I was intrigued by this rare opportunity to talk to so many top officers of banking organizations all at once. I will admit it is my purpose to accentuate the positive in the thoughts I bring to this gathering. I hope those positive thoughts have been persuasive. But, I would be less than candid if I did not admit that there is a downside risk to you and your organizations from lack of attention and lack of action in this area of responsibility. The risk relates to what you as top officers in your organizations see as your personal role. Without intending to be overly dramatic, I have to say that I think lack of commitment to CRA by you, the top officers in your organizations, puts your bank at risk.

I am not talking here about the risk of having an application delayed or denied. That is obvious but, historically and statistically, it is very small. What I am talking about is that you, as top managers, have typically spent a good deal of your time and energy to make sure your organization has a solid public image as a good corporate citizen and a responsible member of the business community. We have seen in the past year or so what happens to those carefully developed images when the headlines and stories seem to cast a different light.

Most of you are familiar with the stories about discriminatory patterns of mortgage lending that came out of

Atlanta and Detroit last year, and which have spawned similar reviews in Boston and other cities. I am not here to discuss the accuracy of those stories or the conclusions drawn. What was striking to me, however, was how many times in the interviews carried in those stories a chief executive officer or board member had to admit that he had no idea the numbers on mortgage lending looked so bad. And adding insult to injury, the stories were documented in large measure from data his own organization compiled in order to comply with the mandates of the Home Mortgage Disclosure Act.

It was obvious to me that the facts were not getting to the top and if they had things might have been different. At least there would have been a chance to change course before the torpedo hit.

I apologize if I seem to be lecturing you. But I can't shake the feeling that much of the grief was avoidable, and much of the legislative attention and activity in this area could have been forestalled if the proper management attention had been applied.

CRA must be a personal concern of the top of the house. It must not only be a concern, but it must be a personal involvement to whatever extent is necessary to assure that proper focus is on the community, that resources are allocated and competent management is assigned to administer the programs which are embraced. You simply can't assume that someone else on the team is taking care of it, because in the early stages positive CRA programs may require important changes in corporate culture. And we know the only one who can change the culture is the boss.

The Community Affairs Officers of the Federal Reserve System spend a lot of time and energy trying to educate bankers and members of the public about ways banks can become constructively involved in these efforts. Usually their conferences and seminars are attended by bank staff members or officers with first-line responsibility for dealing with CRA. Often it is one of many jobs that person has. One complaint we hear over and over again is that they feel they do not have the ear or the support of their top management. Whether it is true or not, that is the perception. That is why, at risk of seeming to preach, I've chosen to bring this matter to your attention in the hope that you will take it to heart and put yourselves in the front line.

Before I quit, I would like to make one final point. When approached as sound business, community reinvestment can be quite personally gratifying as well as profitable. If you stop and think about it, meeting community credit needs is probably part of the job description for any banker who aspires to being a community leader. It goes with the territory.

In closing, I want to emphasize something I said earlier: Reinvestment in the community from which it draws its business is enlightened self-interest for a bank, because the bank can only grow and prosper as its market grows and prospers. The most powerful instrument a bank wields is its power to lend. Used prudently, creatively and selectively that power can enhance the general welfare as well as the bottom line.