

**Remarks
by
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Chairman
Federal Deposit Insurance Corporation
Before
the
11th Annual Convention
of the
National Community Reinvestment Coalition
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Good morning. I'm very pleased to have this opportunity - six months into my term as the Chairman of the FDIC - to address the National Community Reinvestment Coalition. The NCRC - with over 800 members from every state in the union - is a leading advocate for community reinvestment and development. Many of you perform a vital role in working with financial institutions to promote the flow of capital into your local communities. We at the FDIC appreciate your contributions and I look forward to working with you.

The theme of this conference-building assets in a weakening economy-is particularly interesting to me. You see, I spent my professional life as a banker in Amarillo, Texas. I can speak with some experience about the challenges of building assets in a weakening economy. About 15 years ago, I was struggling just to keep my bank alive in the midst of the weakest economy the state of Texas has seen during my lifetime. The bank's future was by no means certain, but we saw opportunities to expand our operations while others were retrenching. We had to prepare for a future that looked different from a more comfortable past. Our decision to reinvest in Amarillo where others had failed laid the foundation for our bank's later successes.

Just as we were in a period of transition during the late 1980s, we are in another transition period now. But while the circumstances - thankfully - aren't as dire, the challenges are indeed formidable. I don't have to tell you that globalization, consolidation, deregulation, and technology are transforming our world. The banking industry I joined 30 years ago is not the banking industry I left last August to come to the FDIC. To survive and thrive, all of us must adapt and adjust our thinking to ensure we are achieving our goals in a way that makes the most sense in the new world we're living in. The banking industry has certainly changed significantly in recent years and bank supervision and regulation must adapt accordingly. That's something I've been thinking a lot about since I joined the FDIC six months ago, and I am sure organizations like yours are going through a similar process of self-evaluation. And we'd better do this if we are to remain relevant in a fast-moving world.

As you know, the FDIC was created in 1933 to provide stability to the banking system by insuring deposits. The FDIC has always done that job well and it is a record the

Corporation is very proud of. The public has confidence in us. Because of the role filled by the FDIC in promoting safety and stability in the banking system and enforcing consumer protection laws and regulations, America is a better place. I am proud of our history on these issues and I am committed to ensuring that the FDIC's good track record on compliance and consumer protection is not diminished during my tenure as Chairman. It is our goal at the FDIC to be the thought leader in all the great banking policy questions of our time. And I can assure you today that this goal includes being the thought leader in compliance and consumer affairs as well as risk management, receivership management, and safety and soundness. Let there be no doubt: Our heart is in the right place on these issues. And I know you'll be watching us to make sure we are achieving our ambitious goals.

But can we rely on what we've always done and the way we've always done it? In a word, "no." We will constantly be alert for better ways to deliver our services, information, policy and results to bankers, consumers, the financial markets and the American people.

Take, for example, our responsibilities under the Community Reinvestment Act, or CRA.

As a banker, my instinct at the time the law was enacted was to question the need for such legislation. After all, like other bankers, I was in the business of lending. Our profits were derived from making loans - and a law encouraging me to lend in my local community seemed unnecessary.

As a community banker, I saw community-wide lending as a mission, a key to good corporate citizenship and important to our bottom line. I know many bankers throughout the country feel the same way.

However, now I am at the FDIC, and I want to make sure we're doing all we can to encourage every bank to serve its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices.

Banks only make loans that they expect will be repaid. A banker's stock in trade is differentiating between loans that will be repaid in a timely fashion and those that will not. In many cases, this judgment call is really quite straightforward. In other cases, though, the call is much more difficult. This may be particularly so in cases in which the banker is unfamiliar with the borrower or the community. It seems to me that CRA is speaking to those situations by encouraging banks to serve their entire communities, not just the portions of their communities with which they are most familiar.

Let me give you an example of a case in which a group of banks is making the unfamiliar familiar in ways that create new customers and expand credit availability over time, while profitably adding to their bottom lines.

In the Back of the Yards neighborhood in Chicago, six banks have joined with a local church and the Internal Revenue Service to bring Spanish-speaking immigrant

populations into the financial mainstream. The initiative provides free tax preparation assistance to low-income families to increase awareness and use of the federal Earned Income Tax Credit. Bank staff help families prepare tax returns. Banks are also opening deposit accounts with those tax credit refunds for many families who otherwise would not have a bank relationship of any kind. This seasonal program is part of a year-round effort to provide financial education classes in various locations around the community, often using the "Money Smart" curriculum developed by the FDIC. The banks see this as an opportunity to expand their customer base in the fastest growing segment of the Chicago population. With a common goal, banks and families are building assets for the future. It is our responsibility at the FDIC - through programs like Money Smart and our CRA examinations - to encourage those efforts.

So, if in fact, CRA has indeed helped to expand credit availability safely and soundly, why did I begin this discussion by saying we must change? Should the agencies go about fulfilling our CRA responsibilities differently than we have in the past?

We have an opportunity to explore these questions because, as many of you know, the banking agencies initiated a review of the CRA regulations last July and asked for public comments. As we begin this review, we are considering whether the regulation can be more effective and whether we can be more effective in our implementation.

Let me give you some examples of comments we received. Some folks worried the current regulation and the current examination methods have created a "numbers game" that values quantity over quality. They are also concerned that examiners focus on the volume of loans and investments with little recognition of the impact on community. To "make the numbers," some banks indicate they feel intense pressure to look for larger dollar loans or investments, such as those available through statewide or regional funds, and little incentive to make small loans that would perhaps have a greater impact on the local community. There are examples of banks willing to purchase loans (or securities backed by loans) made to low- and moderate-income borrowers at a hefty premium just to supplement their CRA numbers. In some instances, these banks could be engaging in such transactions solely for regulatory reasons rather than part of a comprehensive, sustained effort to do business in low- and moderate-income communities. We will take a look at these concerns as part of our ongoing review of the CRA regulations.

There is also the concern that we compound the problem by expecting that loans and investments will continually grow in volume from exam to exam. Yet, we know that more is not always better. For example, small investments that enhance the capacity of community-based organizations to build and maintain affordable housing or develop small businesses can be very effective in strengthening the community where the bank lives. The smaller efforts must be encouraged and recognized, too.

We also heard from people who commented that the services a bank provides to attract and keep customers, such as financial education and low-cost checking, are undervalued. That should not be the case, but many believe it is.

So let me address that issue head on. I want to talk for a few moments about financial education because, frankly, I share this concern. The issue of financial education - in fact, every type of education - is near and dear to my heart. I believe we all must understand how critical this is to bringing individuals into the financial mainstream. I also believe that we as regulators should be doing all we can to encourage it. The 1998 Survey of Consumer Finances conducted by the Federal Reserve Board indicates that 22 percent of low- and moderate-income households-about 8.4 million families-do not have bank accounts. You and I both know this happens for a variety of reasons. These families sometimes write too few checks to make it worthwhile to have a checking account. Others lack access to an affordable transaction account at a bank or they may not understand the benefits of an insured account. Others may fear that joining the financial mainstream may have consequences for their federal or state benefits payments. Others simply may not understand English, and the language barrier may also be a barrier to joining the financial mainstream.

Whatever the reason, we know that the impact of financial disenfranchisement is often severe. Unregulated financial providers can and sometimes do prey on these individuals, resulting in higher cost services, loans, and penalties than would occur in an insured depository institution. And without their foot in the door of the bank, these individuals may have an extraordinarily difficult time achieving other benchmarks of the American dream like savings accumulation, retirement accounts, and home ownership.

I strongly believe that this problem can be addressed by a concerted effort at finding these folks and making sure they are aware of the possibilities that exist in the financial mainstream. We at the FDIC have an obligation to work with you, with other federal agencies, with state and local governments, and with the banking industry to make this happen and I assure you we will. Efforts to bridge the gap, like the Back of the Yards initiative, are investments for the future and we will do all we can at the FDIC to encourage them. But we need your help, too, and I look forward to working with you.

As we formulate and implement new policies for CRA and for safety and soundness, we must find the right balance. To what degree might the agencies be sending a message that small, high-quality projects should be overlooked when a larger project with less direct impact on the community is available? Do the agencies' evaluations properly weight quality, risk, profitability, and impact?

Given the cost of regulatory change, I think we must first ask ourselves whether we can make the appropriate corrections through exam guidance, training, and monitoring. And we must listen - we must listen to you, to bankers, and to our staff in the field who are tasked with enforcing these regulations. That is what this current CRA review is all about, and we want to always be on the lookout for ways to improve the efficiency and effectiveness of what we do and ways to ensure we're meeting our goals.

For each issue we confront during the CRA review, we must consider what can best be addressed through regulation and what is best addressed through the examination

process. And we must also look carefully at how the industry has changed and we must recognize substantive differences in how banks conduct business because of size and resources. I can assure you we will be judicious in this process and will be consulting frequently with our fellow regulators, the industry, and with consumer groups before we reach any decisions.

The organizations represented in this hall today have done much to rebuild inner cities and rural communities. I am aware that you have succeeded in making many communities work more effectively with affordable housing, economic development, and job creation. As we move through this period of transition - in our economy, in our communities and in the banking industry - I hope you will join me in looking hard at our goals and the means we use to achieve them. And I hope you will continue to provide us with advice and input as to how we can assist you in meeting the needs of America's communities. I look forward to working with you in this effort.

Thank you.

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