Remarks by Vice Chair Alice M. Rivlin

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Sustaining CRA's Success

I am extremely pleased to have the opportunity to meet with the National Community Reinvestment Coalition. Today, I want to talk about the Community Reinvestment Act and share some thoughts about how we can work together to make community development and CRA as effective as possible. I was delighted when you invited me and a bit worried when I found, after having accepted, that an important series of meetings I was expected to attend had been scheduled in Europe this week, ending in Paris late yesterday. But I made a special effort to get back so that I would not risk missing the opportunity to be with you.

I believe very strongly that the future of America over the next few decades depends on community action at the local level. That is where the public policy action is going to be as we enter the twenty-first century. For much of this century, the important policy decisions were national with the action occurring in Washington. This was necessary as Americans created a national market economy which requires institutions and infrastructure, such as the national highway system, the Social Security system, federal institutions that facilitate housing finance, and, of course, the Federal Reserve System.

Now that we have completed this, the policy frontier has shifted to the community level. The future now depends on people all over the country working together to make things better in their particular place. It depends on people in different kinds of places--large and small towns, urban and rural neighborhoods--asking themselves what can *we* do to make this community a more hopeful place to be young, a more rewarding place to work, and a more friendly place to grow old. The future depends on people asking themselves such questions and acting on the answers.

You are here today because you and your groups also believe in the importance of local community effort. You know that for community development to succeed, a lot of different groups--businesses, labor, churches, educators, community organizations and various levels of government--need to work hard together. Banks and other financial institutions have to be part of the team. Indeed, community effort works best when the financial institutions in the community believe they have a long term stake in its vitality and act accordingly.

I did not come to my current level of enthusiasm for local community action because I am sour on the Federal government or think there is little role for national policy and national institutions, such as the Federal Reserve. I have spent much of my career working hard to improve national fiscal policy and I am working hard at the Federal Reserve because I believe that monetary policy matters a lot to the health of the economy.

Federal government policies can establish preconditions for businesses and communities to succeed. National security and economic stability are two examples. If enemies threaten our security from without, only a national effort can mount the strong defenses necessary to keep us safe. If the national economy is suffering from a downturn or undermined by inflation, individual and community efforts alone are unlikely to be successful. Some basic institutions on which millions depend for their physical or financial security--ranging from Social Security to air traffic control--cannot be designed or managed effectively by communities, states or regions. These structures require national responsibility and support.

But there are limits to what national policy can do. Even when national responsibilities are being met, no foreign enemies threaten and the national infrastructure is in place and the economy is perking along well, as it is at the moment, things can still go badly in a lot of places. Right now, average people are not worried much about national or international matters, but about the things right around them. Americans are deeply distressed about decay in their neighborhoods, crime and drugs on their streets, job migration, poor schools, and dilapidated housing. These are the problems that only effective local community action can turn around.

Where does the Federal Reserve fit in and what can we do to help you be more successful? First, and probably most important, we can do our best to keep the national economy growing as fast as it can without overheating or generating corrosive inflation.

Right now, the national preconditions for community development are very favorable. At the national level, the economy is growing at a healthy clip, with payrolls up and unemployment low. With these labor market conditions, businesses are more willing to hire people with lower skills and to provide the job training and experience necessary for people to get ahead. Family incomes are beginning to rise, therefore making better housing more affordable. The primary challenge for the Federal Reserve is to try to keep this good news coming, and be especially vigilant against the threat of accelerating inflation which has so often derailed our economy in the past.

Steady growth with low inflation and low interest rates is what community developers need most. Growth produces jobs and provides incomes for people and profits for businesses; stable prices and affordable interest rates enable families, businesses and communities to do more with less. I cannot promise that the Federal Reserve will always be able to achieve these goals. I *can* promise that we will do our best to keep the economy on track. At the same time, we could use some help from the fiscal policy side of Washington as well. An agreement between the President and the Congress to keep federal budget deficit on its current--and very gratifying--downward track would help keep long term interest rates (including, of course, mortgage rates) down. An agreement to put the Social Security system on a sound foundation for the next generation of workers and retirees will also help our long-run prosperity.

My point here is not to elaborate on economic or monetary policy, but to make clear that the Federal Reserve's role in supporting community development is not exclusively related to CRA. To the extent that we are successful in implementing sound monetary policy, we directly further the goals of community development.

Banks and Community Development

Let me turn now to our other major role--that of bank supervisor, which requires us not only to protect the safety and soundness of the banking system, but also to enforce the CRA.

Banks are natural participants in the community development process. In the broadest sense, most financial institutions always could be considered "community development" institutions. Chartered to meet the convenience and needs of their communities, most banks remain closely tied to the economic health and growth prospects of their local markets. Even those larger interstate institutions, or "mega-banks," continue to depend on the collective health of economies that are quite local in nature.

By virtue of their traditional functions--taking deposits and reinvesting them in loans and other investments--banks help create economic value and growth by financing businesses, housing, and community facilities. These functions are central to anyone's concept of community development. Therefore, it is no wonder that the activities of banks often have been a focus of attention when questions about the health of neighborhoods and local economies are raised. It is no wonder that banks are viewed as natural and even *essential* partners in the community development process. And it is no wonder that banks remain central to any debate over equal access to credit or barriers to economic opportunity for disadvantaged persons.

The Importance of CRA

However, getting beyond banks' traditional role of fostering general community growth to a more collaborative effort in helping meet specific community credit needs has not always been easy. As generally conservative, risk-averse institutions, many banks historically did not view low- and moderate-income areas or people as profitable markets for their loans and services. Bankers sometimes did not know enough about those communities and neighborhoods, or about the wide variety of tools and techniques they could use to help meet credit needs in those areas.

The CRA was designed to change all that. We at the Federal Reserve believe that it has been quite successful in educating bankers and are proud of our role in that education process.

In the 20 years since CRA's passage, financial institutions have learned a lot about low- and moderate-income markets and how to serve them on a profitable basis. They have learned that their loan underwriting standards could be modified to take into consideration common arrangements found in lower-income families. For example, lower down-payment mortgage products that recognize lack of capital and consideration of consistent income from multiple jobs or job changes are now widely accepted.

Financial institutions have learned effective marketing techniques that help them reach low- and moderate-income markets, such as use of targeted advertising in ethnic or neighborhood newspapers, or working with community organizations to help counsel and screen potential applicants. Banks certainly have learned that there are many effective community-based organizations with which they can work in making housing, small business and other community development loans available.

Finally, financial institutions have learned a lot about how to participate effectively in the community development process. Special community development lending units, multi-bank loan consortia, and bank-owned community development corporations are just a few examples of the types of community development organizations in which banks participate throughout the country.

We at the Federal Reserve believe that CRA has helped raise the consciousness of the entire industry to the needs and opportunities in lower-income communities. Banks, community organizations, and the bank regulatory agencies have all contributed to the learning process and the increase in reinvestment activity.

But as regulators, we know that we need to continue the education process. At the Federal Reserve, we regularly remind financial institutions about the importance of their CRA obligations. We do so through examinations conducted once every 18 months and through the publication of CRA evaluations. We remind them at application time, when we review their CRA performance. We remind them through numerous conferences and forums, as well as through newsletters, publications, videos and other means. This past year alone, the Federal Reserve System sponsored more than 200 conferences and workshops on community development and reinvestment topics--attended by almost 11,000 bankers and others. Over 74,000 bankers and others regularly receive Community Affairs newsletters. The other federal regulators are active as well. All of these efforts have helped to make CRA effective.

Regulatory Issues
In the context of the overall success of CRA, community organizations, bankers and others have raised many issues over the years about CRA's implementation. In response to concerns of many in this audience and others, the supervisory agencies revised and updated the CRA regulations, with the large bank examinations under the new rules set to begin in July. I, for one, will be watching closely to see how effective the new rules are in practice.

Over CRA's history, community groups have focused on gaining access to information and to the regulatory decision-making process. The push for public disclosure of CRA ratings and evaluations, permanent extension of the Home Mortgage Disclosure Act and the new disclosures of small business lending data are just some examples. As one who values public information and open comprehensible governmental processes, I understand the importance of these issues to community groups.

One of those recent issues emerged from the Federal Reserve's efforts to amend our Regulation Y that governs the activities of bank holding companies. Many community organizations are particularly concerned with the part of Regulation Y that covers the application process used by bank holding companies in mergers and acquisitions.

We proposed the streamlined procedures to reduce the overall costs and regulatory burdens associated with the applications process. The Board reviews about 1,300 applications and notices a year under the Bank Holding Act. The vast majority of these applications raise no substantive issues that the Board needs to consider, and in more than 90 percent of the cases, no public comments are received. For example, in 1996, there were 49 cases involving CRA concerns, seven with adverse CRA ratings, and 41 cases in which there were CRA protests; one case had both a protest and an adverse CRA rating.

Our original proposal for streamlining the applications process drew over 300 comments from bankers, community organizations, and others. Most of the comments by community organizations and public officials reflected concerns that the streamlined procedures would make it harder for the public to provide comments on an applicant's CRA performance and other aspects of the convenience and needs factor that the Board must consider.

Having participated directly in the review and discussion of these comments, I can assure everyone that all of them were fully considered, and that the comments did affect the outcome. The major issues were discussed at length by the Board, and many were quite difficult. We tried to strike a balance between the need to reduce cost and paperwork burdens in the application process and the need to continue to ensure adequate public access to the process.

First, we retained the full 30-day public comment period from the date of public notice in a newspaper or in the *Federal Register*. In response to public comments, the new rule will require a holding company to publish its notice no earlier than 15 days before its full application is actually filed with the Federal Reserve. Moreover, in response to comments, the Board modified the proposal to require the applicant to discuss how the transaction will meet the convenience and needs of the communities to be served, and the steps that will be undertaken to improve any deficient CRA record.

Second, mindful of community group comments that the new procedure might reduce the time available for analysis and comment, the Board also took steps to speed access to information about applications to the public. The Board will publish a new expanded list of applications on a weekly basis and will expedite distribution of this information by posting it on the Board's Internet home page and by using a new fax on demand call-in system, made available 24 hours a day, 7 days per week. These changes represent substantial increases in the availability of the applications to potential commentors.

Third, to protect the public's capacity to develop substantive comments where warranted, the Board provided that under certain circumstances, the public comment period would be extended for up to 15 days to assure access to the application. The Board did decide to otherwise adhere strictly to comment period deadlines, and community groups will need to be mindful of this.

The Board continues to believe that in most routine cases, a streamlined process is warranted. But I would emphasize that for those cases involving larger bank holding companies in major mergers and acquisitions, where substantive protests are received, the process will continue to be much the same as in the past. In such cases, the Board will take the time necessary to fully consider public comments and obtain information from the institutions on any issues raised.

Moreover, the public has means other than the application process to raise concerns about CRA performance. The Board and the other agencies have made improvements in the way they publish CRA examination schedules so that the public and community organizations can contribute information to the agencies to be considered when examinations are done. The examination time is an important moment to raise issues with the institutions themselves.

While I understand that many of you think that your only leverage is at application time, I would encourage you to discuss your concerns with institutions and their regulators at *any* time and to focus on the examination schedule as well as application notices.

Conclusion - Sustaining CRA's Success

The success of community development depends far more on establishing good working relationships between banks and their communities than it does on regulations or regulators. I hope that CRA does not get bogged down in a slavish devotion to implementation of regulatory minutia, or excessive focus on protests which always create an adversarial tension. Now that CRA has gotten the attention of the bankers--and we regulators will continue to make sure the attention does not lapse, community groups should focus on solidifying partnerships and collaboration with banks at the local level.

We are at a fortunate point. The economy is providing the basis for sustained non-inflationary growth. CRA has helped open new markets for financial institutions, and the regulators have improved the CRA regulatory apparatus. All this comes at a time in our history when the positive, collaborative role of community-based organizations, the private sector, and government is needed more than ever and when the serious policy action is at the community level.

In the long run, CRA's success will depend on good and frequent communication among banks, local government agencies, community organizations, and the rest of the business community. I encourage community organizations to do everything they can to facilitate that communication.

I have appreciated greatly the opportunity to meet with you, and I can assure you of my strong and continuing support for CRA and the role of financial institutions in community development.

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