

**A Community Reinvestment Consortium for Maine
Augusta Civic Center
Augusta, Maine
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**Cathy E. Minehan
President, Federal Reserve Bank of Boston**

Thank you Michael McNamara for that generous introduction and the leadership you are providing here in Maine as the state banking community considers the establishment of a statewide lending consortium for affordable housing.

Let me thank each of you for your willingness to take an afternoon to learn more about the Community Reinvestment Consortium concept from Susan Phinney of the Development Fund and for taking part in this discussion. As you will learn, a CRC can provide tremendous opportunities for the people of Maine who need affordable housing and for the bankers who, I know, seek to do all they can to meet community needs.

I come to you more as a cheerleader than as an expert. As I said in my letter to each of you, the topic of this meeting is the problem of affordable housing -- and how financial institutions can be part of the solution. We all agree that finding ways to make housing more affordable in this country is the right thing to do. But there are also some economic and social reasons for doing so. Failure to provide affordable housing can compromise a state's economic growth.

The Federal Reserve Bank of Boston has played a role in helping

the banking community in New Hampshire set up such a consortium, as have Federal Reserve Banks in San Francisco and Atlanta helped in seven other states.

Here in Maine, we should be able to learn from the process of establishing CRCs in the other states, especially from our neighbor in New Hampshire. In New Hampshire some thirty banks have built a pool of some \$30 million in their Community Reinvestment Consortium, which was officially established in 1995 after nearly a year in the planning process. So far they have committed \$5.5 million in five projects which include a new 40-unit housing complex in Concord, a 24-unit elderly rehabilitation project, and various other handicapped and elderly projects.

As I understand it, a task group of seven financial institutions, Maine Bankers Association, Maine Association of Community Banks, Maine Housing Investment Fund, York-Cumberland Housing Development Corporation and the Federal Reserve have been meeting with the organizing group -- the Maine State Housing Authority -- to explore the possibility of establishing a CRC in Maine during the past several months. This working group has concluded that a statewide lending consortia needs to be established following the Development

Fund's model. At this meeting you will be introduced to this concept and asked to consider becoming actively involved.

As I say, I am not an expert on the extremely important technical details of the establishment and the operation of such consortiums. We in the Federal Reserve System are impressed with the careful way in which the experts from the Development Fund have helped bankers work their way methodically through all those details. However, I would like to say just a few words on why this approach makes good sense to us.

We all know that providing housing at affordable rates is an ongoing challenge in each of our states. As Banks seek to meet the needs of their entire communities, they find that the demand for affordable housing is the need most often cited and the one that is the most challenging to fulfill. As I understand it, the Consolidated Housing and Community Development Plan for the State of Maine for program years 1995-1999 documents the needs in Maine; but no one doubts we face a serious challenge in all states.

A functioning consortium can offer substantial benefits both in spreading risks and in sharing the cost of expertise:

- o Risks as well as resources can be pooled, thus considerably

lessening the exposure and assuring safety and soundness for each participating bank.

o The cost of expertise can be shared across all the member banks. Affordable housing, relying as it does on complex, often layered subsidies, requires a level of expertise in management that few small or middle-sized banks can afford to have on permanent basis. But together, through a consortium, they can afford to hire the expertise needed.

o Finally, the whole community stands to gain from having an entity committed to making a substantial, measurable contribution to meeting the state's housing needs and to do this in a way that engaged considerable private sector resources in a responsible, safe and sound manner.

We at the Federal Reserve in Boston are committed to the idea that sound market principles with a careful assessment of risk and return involved in each deal are essential, especially in those efforts in which public funds are involved. A reinvestment consortium makes it possible to put those principles into practice.

Let me end by saying a word about regulation. One role Federal Reserve Banks have played across the country is to help Reinvestment

Consortia to gain approval from Federal regulatory agencies. As part of the New England Regulatory Compliance Council, we worked with the other members in ensuring that all regulatory concerns associated with the creation of the lending consortium in New Hampshire were resolved and that regulatory approvals are obtained. You have my commitment that the Federal Reserve will work with you in Maine in the same way.

So, congratulations to you for taking up this challenge. Your participation in this endeavor is voluntary in all respects as we know that a lending consortia is only one way to address your community reinvestment goals. Our desire at today's meeting is to make you aware of this option and to provide support and assistance in your efforts if you choose to pursue it. We look forward to your participation in any way that makes sense to you.