

Talking Points
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FINAL VERSION

CRA IS NOT ONLY THE LAW BUT ALSO A CONSUMER ISSUE THAT CONTINUES TO GAIN MOMENTUM

- Last year, as part of the thrift bailout, the Home Mortgage Disclosure Act was amended to require home lenders to make their community investment records and examination files available to the public.
- Drives by consumer groups have gained interest and attention over the last decade, a trend that is expected to continue.

ROLES PLAYED BY SUPERVISORS -- LET MARKET PLAY A ROLE

- Set uniform inter-agency guidelines for assigning ratings; prepare consistent and understandable evaluations; and, ensure public access -- Supervision and Regulation.
- Facilitate information and educational assistance -- Community Affairs.

BANKS MUST ADDRESS CRA FROM A STRATEGIC STANDPOINT

- CRA must be considered a risk to shareholders.
- Market will increasingly factor in CRA compliance to share value.
- Big depositors, such as city and state governments and unions, may pull money from institutions with poor CRA ratings (Cincinnati is an example).
- Failure to comply could put bank or BHC out of expansion game.
 - Prevented Continental Illinois from acquiring an institution.
 - Delayed First Union Corp's acquisition of Florida National Bank.
 - Held up merger of Atlanta's Citizens and Southern Corp. and Sovran Financial Corp. in Norfolk, Va.
- More scrutiny by the media.
- However, also are benefits of doing CRA well.
 - Know markets better (for example, may keep an institution on the leading edge to address consumer needs and develop products).
 - Generate new business relationships through outreach programs.
 - Ways in which the community benefits serves to benefit the institution in the long run.

FORMAL STRUCTURE AND PROCESSES OF BANK MUST SUPPORT EFFORTS

- Devote appropriate resources.
- Incorporate CRA into strategic plans and business plans so that it filters down into corporate culture, attitudes, policies, operations, etc.
- More than just documentation, provide a feedback loop in organization to monitor progress.

MYTHS OF CRA

- Myth: CRA is a form of harassment and provides a means of extortion by particular groups.
 - The new data can protect lenders by justifying loan approval and denial.
 - If don't have anything to hide, then there are no means of pressure.
- Myth: CRA involves making bad loans.
 - May involve bad loans if politics enter into policy (Federal Reserve Bank of Atlanta study); otherwise guidelines of prudent lending can be maintained.
 - CRA does not involve below-market financing with high credit risk.
- Myth: CRA is not profitable.
 - In general, we have found that the most profitable 4D banks have most active CRA programs.