



# Community Investments

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## A Message from the President



Through its Community Affairs Department, the Federal Reserve Bank of San Francisco actively seeks to promote community investment. Our commitment to community development is based on a belief that the strength and vibrancy of our region's economy depends on the health of its local communities. Thus, the business of preserving and revitalizing rural and urban communities within the Twelfth Federal Reserve District is a concern we share with every resident of this region. And because banking services can play a particularly important role in promoting community development, we seek to help bankers develop successful community lending programs.

Because of our commitment to community development, I am pleased to introduce *Community Investments*, our new community affairs newsletter written for bankers and community groups. Through this publication, we hope to encourage greater participation and cooperation in private and public sector programs that support community development lending.

Each quarterly issue of *Community Investments* will contain articles, interviews with bankers and community leaders, and announcements that will keep you up to date on community affairs in the Twelfth District. It will provide practical information on how to implement or enhance your community affairs program. Best of all, *Community Investments* will highlight successful community development lending programs in the nine western states that make up our District.

In this inaugural issue of *Community Investments*, we present W. Gordon Smith and his staff. Gordon is Vice President and Community Affairs Officer at the Federal Reserve Bank.

After reviewing this issue of *Community Investments*, please feel free to give us your opinions and recommendations on how to make our publication a truly useful tool to all those working in the community investment field.

Sincerely,

Robert T. Parry  
President and  
Chief Executive Officer

If your financial institution or community-based organization has an interesting community development program or idea, we would like to consider publishing an article by or about you. Contact Kelly K. Walsh, Editor, *Community Investments*, Federal Reserve Bank of San Francisco, 101 Market Street, San Francisco, California 94105

# Community Affairs at the SF Fed

The Community Reinvestment Act of 1977 (CRA) requires the Board of Governors of the Federal Reserve System and other supervisory agencies to encourage banks and thrift institutions to help meet the credit needs of their local communities, including low- and moderate-income areas, consistent with safe and sound operation of the institutions. To help achieve the goals of CRA, the Board of Governors established a Community Affairs Department within

each district of the Federal Reserve System.

The Community Affairs Department at the San Francisco Fed has a primary responsibility to promote the goals of the Community Reinvestment Act. We do this through a community outreach program, where we compile information about community credit needs, and then relay this information to lenders, community groups and local govern-

ment officials. We also frequently sponsor meetings between financial institutions and community groups, both at the Reserve Bank and throughout the District, where we discuss community development programs which will be profitable for both the bank and beneficial to the community.

Examples of programs available for financial institutions to help meet community credit needs will be profiled in this and future issues of *Community Investments*. We hope to assist you in your approach to community reinvestment through our feature interviews, program descriptions, and articles on other lenders' creative responses to community credit needs. In addition, our staff is available to help in developing your community reinvestment program.

We encourage you to call or visit us when you are in San Francisco, as we have a continuing interest in meeting community affairs officers from banks to discuss current neighborhood lending programs, and to help with suggestions or programs that can make your CRA compliance program rewarding and profitable. We look forward to hearing from you.

## MEET OUR STAFF

### W. Gordon Smith

Vice President and Community Affairs Officer Gordon Smith has been with the Federal Reserve Bank of San Francisco for 20 years, and was appointed Community Affairs Officer in 1981. Prior to his appointment, he served as assistant general counsel for the Bank. He is responsible for all of the activities of the Reserve Bank's Community Affairs unit regarding CRA compliance, resource development and banker education. He is also currently responsible for directing the discount window, payments system risk and EDP and consumer compliance examinations.



### Tami A. Bell and Kelly K. Walsh

With primary responsibility for community credit needs and member bank involvement in community investment opportunities, Community Investment Advisors Tami Bell and Kelly Walsh organize and develop community outreach and education programs and community needs reports. Their assignment also includes promoting communication between financial institutions and community groups, local governments, and community development organizations.

# CRA Policy Statement Adopted

The Federal Reserve Board, together with the Office of the Comptroller of the Currency, the Federal Home Loan Bank Board and the Federal Deposit Insurance Corporation issued a joint Community Reinvestment Act policy statement on March 21, 1989. The policy statement encourages banks to expand their annual CRA statements to include information on specific CRA compliance programs.

An institution's expanded CRA statement might include a description of the bank's CRA policy and outreach efforts, including any special programs in which they participate, and a summary of documentation collected by the institution regarding its CRA performance.

A bank may also detail the marketing and advertising campaigns used to inform the community of its lending services and the outreach efforts made to local community leaders and lower-income borrowers.

Banks are expected to have a good record of CRA performance before they file an application with the Fed, according to the policy statement. Although banks can tailor their own compliance programs, the policy statement lists several steps banks could take to enhance their CRA performance.

Currently the Fed requires banks to make their CRA statement available to the public; this gives the public an opportunity to comment on the bank's CRA performance. To date, most public comments received by the Fed refer only to a specific application. The new policy statement encourages public comment on an ongoing basis, rather than as a response to the application process.

In acting upon applications for mergers, acquisitions and expansions, the appropriate agency will consider the CRA records of the institutions involved. In line with their long-standing view that

the CRA was not intended to establish regulatory allocation of credit, the agencies will not request, as part of the application process, commitments from institutions to make particular types or amounts of loans. Commitments for future action may be given weight in the application process, however, as an indicator of potential for improvement in an institution's performance.

Although the agencies endorse ongoing discussion between a financial institution and its community, any decision to negotiate or to reach a formal agreement between the parties, either during or outside of the applications process, is completely at the discretion of the parties.

Copies of the policy statement are available by calling the FRB supply department at (415) 974-2060.

# Western Perspectives



## The Community Reinvestment Act: Compliance Strategies

by John Popovich,  
Director of Public Affairs,  
First Interstate Bank of California

### THE FIRST DECADE

On June 17, 1979, I delivered a speech to the Bank Marketing Association's Annual Conference held in San Francisco titled, "The Hidden Implication of the Community Reinvestment Act." The thesis of the address was that the CRA, because it was broadly written and open to interpretation, would have a tremendous impact on banking. I suggested that this impact on financial institutions would prove to be much greater than most bankers had anticipated or were prepared for.

In the 1979 speech, I recommended to my fellow bankers that they take some important steps to insure compliance with CRA obligations. These recommendations are as valid today as they were then, and are as follows:

**Establish an Urban and Community Affairs Function.** An office of Urban and Community Affairs requires people who are willing to find out what is really going on in the community. They must meet with, listen to, and understand what community groups are saying about their needs and transmit that information throughout their organization.

**Appoint a compliance officer** who has the knowledge, experience and attitude to command respect from high level bank people, regulators and community groups. This position is a key ingredient in a CRA effort.

**Solicit business vigorously.** Bankers cannot wait for business to walk in. Use every tool available, advertising, publicity, mail, seminars, whatever it takes to bring in customers.

**Provide counseling services for loan customers.** One of the most important things we can do is provide alternative suggestions to our customers when their

loan request is denied. Instead of flatly saying "no" to a home loan application, for example, we may be able to suggest that if the applicant pays off a car or customer finance loan, this application may be considered.

**Expand and improve training programs.** To offer the kind of services I've mentioned, we must have highly qualified people who are intelligent, sensitive and well-trained to carry out these assignments effectively.

### THE SECOND DECADE

Ten years have elapsed and the expanded mandates of CRA, resulting from interpretation by regulators and growing community expectations and needs, point to additional measures banks must take.

**Join consortia which deal with affordable housing.** First Interstate Bank has become a partner in one housing consortium and is helping develop another. By pooling funds, we can help remedy the affordable housing problem and improve our CRA posture.

**Develop in-house statistical abilities** with respect to loans, particularly in low-income areas. It will help determine geographical areas of vulnerability and help fight challenges that are without merit.

**Make certain public relations personnel are conversant with the CRA and the bank's policies and practices.** Don't be afraid to tell the world about your good works and to defend yourself when necessary.

**Develop a task force.** CRA compliance has grown in importance and can no longer be guided from headquarters alone. First Interstate Bank is going to include line personnel from every division on its CRA task force. CRA understanding and ownership must be expanded if there is going to be an effective compliance program.

**Develop a system-wide CRA monitoring program.** At First Interstate Bank of California, each branch in the system must complete a comprehensive quarterly report on all CRA activity in its market area. This information is filed in a computer system and can be analyzed to determine strengths and weaknesses in branch CRA activities.

**Create and adopt a CRA policy statement.** First Interstate Bancorp's CRA policy statement which was approved by their managing committee, in essence, restates the salient points of CRA and incorporates most of the suggestions I have outlined.

There is no easy road to CRA compliance. The myriad of economic and social forces playing upon banks are complex and often contradictory. However, if banks respond to the demands of CRA in a positive manner, we will enjoy the lasting good will of our customers and the communities we serve, as well as acting as a force for solving some of the pressing problems existing in low-income neighborhoods.

The Federal Home Loan Bank  
of San Francisco and  
The Federal Reserve Bank  
of San Francisco  
present

**Community Investment '89:**  
**UNDERSTANDING  
THE CHALLENGE**

June 1 & 2, 1989  
U.S. Grant Hotel • San Diego, California

This 1-1/2 day conference will focus on  
community needs assessment programs,  
community development lending strategies  
and existing cooperative ventures in  
community development.

**Mark Your Calendars Now!**  
Registration Materials will be  
mailed soon

# Community Investment Opportunities

## *San Jose, Pomona California*

The Community Affairs Department recently launched a program for assessing credit needs in designated communities within the 12th District. This community needs assessment program will result in the publication of written profiles for each community under study, highlighting specific credit needs and corresponding investment opportunities.

The purpose of the profiles is to stimulate the involvement of financial institutions in programs designed to help meet the community development and investment needs of the area targeted. They will encourage utilization of public/private partnerships to respond to community credit needs. These partnerships typically involve the efforts of financial institutions, city, state and federal agencies, and local community groups.

Profiles have been completed recently for the communities of San Jose and Pomona, both in California. Two primary

credit needs were identified in San Jose; the need for small business loans and the need for affordable housing financing. The San Jose profile also describes approximately 15 different programs in which financial institutions can participate to help meet the targeted credit needs.

One program discussed in the San Jose document is that of the city's housing department; here the participation of financial institutions leverages existing funding sources. Also covered are the programs of non-profit developers, the city's revolving loan fund, plans for a small business lender consortium, the Enterprise Zone program, and the county's reverse mortgage program.

The Pomona profile outlines the city's current lack of funding sources for the purchase of single-family housing. While the city has an abundance of affordable housing units for sale, there is a lack of financing alternatives available to meet the credit needs of potential borrowers. Pomona also has an under-utilized com-



*Downtown San Jose*

mercial district needing loans for small business development and facade improvement.

Community needs assessments are currently underway for the communities of Oakland and San Diego, California, as well as Salt Lake City, Utah. Copies of completed community investment profiles are available by calling the Community Affairs Department at (415) 974-2978.



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