CRA Conference
January 20, 1994
San Francisco

ON THE HORIZON: THE NEW CRA

Good morning. I'm Bob Parry, President and Chief Executive Officer of the Federal Reserve Bank of San Francisco and I want to welcome all of you to this conference on the "new CRA." I am delighted to see so many in attendance.

The "new CRA" actually hasn't come into being yet. We're still at the stage where the proposed changes to CRA regulations are out for public comment. In the next day and a half, this conference will be a forum for you to learn about the proposed revisions and what they mean for community investment. For example, you'll hear about the impact these revisions may have on the regulatory reporting and examination process. Another session will go over successful strategies that can improve CRA performance. And there'll be a discussion of the role community representatives can play in the process.

To emphasize how important these changes are, let me remind you that the call for change originated in the Oval Office of the White House. In July last year, President Clinton directed the four regulatory agencies to make CRA work better. The agencies responded by proposing the most extensive amendments to the regulation since the Act was passed in 1977.

I'm not going to go into detail about the proposed amendments because we have experts on the agenda to cover that. But I do want to take a minute to talk about why we're seeing a push to reform CRA now. I think there are three main reasons.

First, there's the concern that there's too much emphasis on paperwork and procedure and not enough emphasis on results. Certainly we've all heard stories that lenders are spending too much time documenting their work rather than actually providing credit to low- and moderate-income neighborhoods. And providing credit is what CRA is all about. Scarce credit in low- and moderate-income communities stunts economic growth, limits opportunities for advancement, and contributes to urban decay in these areas. This isn't a new insight. But, because of the slow recovery and the concern that a credit crunch could have been partly to blame, the effectiveness of CRA has emerged as a pivotal issue.

Second, there's a common perception that agency supervision is inconsistent. As you know, four separate regulatory agencies administer compliance with CRA. And some people feel that each agency applies slightly different standards to the examination process. If true, this would mean that banks earn different ratings depending on their regulator.

Third, there's simply less in the way of available federal dollars to stimulate economic development. Put this together with a belief, among some people, that government efforts to revitalize communities generally aren't successful, and it seems to make sense to increase the emphasis on private sector involvement. Whether or not you agree with this, in the public's mind, financial institutions share a responsibility to meet the credit and financial service needs of all communities. And this perception is growing stronger all the time.

The proposed new regulation attempts to address these issues. It's designed to emphasize performance rather than process. It's designed to promote consistency in assessments and to give clearer guidance to financial institutions on the nature and extent of their CRA obligations and on how CRA performance will be assessed. Finally, it's designed to permit more effective enforcement against institutions with poor performance and to reduce unnecessary compliance while stimulating improved performance.

It's important to keep in mind that the proposed regulation is not final and is subject to modification based on comments received from the public. Given the serious implications of CRA performance, I strongly encourage you to state your views so that the changes can result in a more effective regulation for all concerned.

I also want to emphasize that it's not too early for you and your organization to begin formulating a strategy to accommodate the changes that are coming. That strategic planning may mean rethinking credit delivery and reporting systems, operational changes, and finding more economical ways to underwrite and service loans to reach low- and moderate-income areas.

The final version of the "new CRA" may differ from what's on the table now, but you can be sure that change is on the horizon. And it will be up to all of us to make the new CRA as effective as possible in serving our communities' credit needs. Your presence here today is evidence of your commitment to do just that.

I want you to know that this Federal Reserve Bank stands ready to assist you in your efforts to understand and comply with the new regulation. I'm pleased to say that the Community Affairs Department of the San Francisco Fed plays an important role in promoting community reinvestment by serving as a clearinghouse for information and by sponsoring conferences and workshops like this one. We are serious about community investment and want to help financial institutions, community organizations, and public officials work together to meet the needs of their communities.

Now I'd like to turn the program over to Kelly Walsh. Kelly is the Community Affairs Officer at the Federal Reserve Bank of San Francisco. She'll go over some housekeeping items and introduce our first speaker. Kelly...