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BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

FEDERAL DEPOSIT INSURANCE CORPORATION

OFFICE OF THE COMPTROLLER OF THE CURRENCY

and

OFFICE OF THRIFT SUPERVISION

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JOINT PUBLIC HEARING ON
COMMUNITY REINVESTMENT ACT (CRA) REGULATIONS

+ + + + +

MONDAY,
JULY 19, 2010

+ + + + +

The Hearing convened at 9:00 a.m.
in Conference Room C3050 of the Virginia
Square offices of the Federal Deposit
Insurance Corporation, located at 3501 Fairfax
Drive, Arlington, Virginia, Martin J.
Gruenberg, Vice Chairman, FDIC, presiding.

PRESENT:

- MARTIN J. GRUENBERG, Vice Chairman, Federal
Deposit Insurance Corporation
- ELIZABETH A. DUKE, Governor, Board of
Governors of the Federal Reserve System
- JOHN C. DUGAN, Comptroller of the Currency
- JOHN E. BOWMAN, Acting Director, Office of
Thrift Supervision
- SANDRA F. BRAUNSTEIN, Director, Division of
Consumer and Community Affairs, Board of
Governors of the Federal Reserve System

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1 P-R-O-C-E-E-D-I-N-G-S

2 9:03 a.m.

3 VICE CHAIRMAN GRUENBERG: Good
4 morning. If I may, I'd like to begin. We have
5 a full program today and we're going to try,
6 if possible, to keep as close to our schedule
7 as we can.

8 My name is Martin Gruenberg. I'm
9 the Vice Chairman of the FDIC. And I'm
10 pleased to welcome all of you to this first of
11 four public hearings on the regulations
12 implementing the Community Reinvestment Act.

13 These hearings are being jointly
14 sponsored by the Board of Governors of the
15 Federal Reserve System, the Office of the
16 Comptroller of the Currency, the Office of
17 Thrift Supervision, and the FDIC.

18 Future hearings will be held on
19 August 6th in Atlanta, August 12th in Chicago
20 and August 17th in Los Angeles.

21 The purpose of these hearings, as
22 stated in the *Federal Register* notice

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1 announcing them, is to receive public comment
2 on the Community Reinvestment Act regulations
3 and to solicit views on whether and how the
4 agencies should revise the regulations to
5 better serve the goals of the Community
6 Reinvestment Act.

7 CRA was enacted in 1977. It's
8 purpose is to encourage insured depository
9 institutions to help meet the credit needs of
10 their communities, including low- and
11 moderate- income neighborhoods, consistent
12 with the safe and sound operation of the
13 institutions.

14 The four regulatory agencies
15 holding these hearings share responsibility
16 for developing regulations, for conducting
17 examinations and for developing public
18 performance evaluations to carry out the CRA.

19 There has not been a comprehensive
20 review of the regulations implementing CRA
21 since 1995. During the past 15 years, as is
22 well understood, there have been dramatic

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1 changes in the financial services industry.
2 We have moved from an industry in which most
3 banks have branches in one state to an
4 industry in which many institutions have
5 branches in multiple states and a number have
6 deposit facilities nationwide. Some
7 institutions now conduct the majority of their
8 deposit and lending activities using
9 alternative delivery systems such as the
10 Internet.

11 The basic purpose of CRA-- to
12 expand access to credit and basic banking
13 services on a sustainable basis to homeowners,
14 small businesses and consumers in underserved
15 communities-- has never been more relevant,
16 particularly given the current challenging
17 credit market environment. Low- and moderate-
18 income and minority neighborhoods have been
19 particularly impacted by tight credit market
20 conditions. In light of that, as well as the
21 dramatic changes in banking over the past 15
22 years, it makes sense to consider whether and

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1 how CRA could be made more effective.

2 These hearings are designed to
3 solicit a diverse range of views on the
4 Community Reinvestment Act. Although they are
5 not limited to particular topics, the agencies
6 outlined in the *Federal Register* notice a
7 broad set of issues on which we are seeking
8 public comment including:

9 Geographic coverage;

10 CRA performance tests and asset
11 thresholds;

12 Affiliate activities;

13 Small business and consumer lending
14 evaluations and data;

15 Access to banking services;

16 Community development;

17 Ratings and incentives and the
18 effect of evidence of discriminatory or
19 illegal credit practices, and;

20 CRA evaluations.

21 These are just some of the issues
22 on which we will be hearing comment today.

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1 An outstanding and extensive array
2 of witnesses is prepared to testify.

3 If I may, I would like to commend
4 the exceptional work by the staff of all the
5 regulatory agencies sponsoring these hearings.

6 In regard to today's hearing, I would
7 particularly like to recognize the work of the
8 FDIC staff, especially Janet Gordon and Ellen
9 Lazar.

10 I would now like to ask my
11 colleagues, Governor Duke from the Federal
12 Reserve, Comptroller of the Currency Dugan and
13 OTS Director Bowman if they would like to make
14 additional comments.

15 Governor Duke, I understand you
16 have to leave for your Board meeting, but
17 you'll be able to come back this afternoon.
18 And while you're away, Sandra Braunstein,
19 Director of the Division of Consumer and
20 Community Affairs, will sit in for you.

21 GOVERNOR DUKE: Thank you. That's
22 correct. And my apologies to the first two

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1 panels.

2 On behalf of the Board of Governors
3 of the Federal Reserve System, I'm pleased to
4 add my welcome and to express appreciation to
5 the participants here today in this first of
6 four public hearings to solicit views on
7 whether and how the agencies should update
8 their regulations to better serve the goals of
9 the Community Reinvestment Act.

10 As we begin, I would note that in
11 the financial regulatory reform legislation
12 that it passed last week, Congress reaffirmed
13 our responsibility and authority to implement
14 CRA. These hearings represent the first step
15 in the process of reviewing and updating CRA
16 to ensure its relevance in the evolving
17 financial marketplace.

18 Since the CRA's enactment, the
19 implementing regulations have been
20 substantially amended three times; in 1989,
21 1995 and 2005. In each case changes to the
22 roles reflected both experience gained in the

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1 implementation of the law as well as ongoing
2 developments in financial markets and in the
3 economy.

4 In developing revisions, the
5 regulatory agencies seek to maximize the
6 effectiveness of the CRA in promoting adequate
7 financial services for lower income
8 communities while minimizing compliance
9 burden. Progress toward these goals is
10 facilitated by the flexibility of the original
11 statute which allows the regulators to adapt
12 the rules to changing market and economic
13 circumstances and give financial institutions
14 the latitude to meet their CRA obligations in
15 diverse, creative and cost effective ways.

16 Today's financial landscape is
17 vastly different from the one that existed
18 when the CRA was enacted in 1977. We've seen
19 significant changes in the structure of the
20 financial services industry and the delivery
21 of banking services to consumers.

22 In the wake of the foreclosure

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1 crisis there are new needs and challenges
2 related to housing and community development.

3 And many small businesses report significant
4 difficulties in accessing the credit they need
5 to recover from the severe downturn in
6 economic activity.

7 As we consider these conditions and
8 how to revise the regulations in light of
9 them, our key priority is ensuring that
10 financial institutions affirmatively meet the
11 credit needs of their entire communities.
12 With this in mind, I'd like to offer a few
13 principles that might help guide our thinking
14 about modification of the CRA regulations.

15 First, I believe that any
16 regulatory initiative should be as transparent
17 as possible. Regulatory goals must be clearly
18 stated and regulations must be effectively
19 designed to achieve these goals. Much of the
20 motivation for the 1995 CRA regulatory
21 amendments stemmed from the vagueness of the
22 original approach.

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1 The revised regulations were
2 crafted to provide the necessary clarity to
3 spur increases in lending and investment
4 activity.

5 Second, I believe that the
6 regulations should be tailored to meet their
7 goals as effectively and efficiently as
8 possible. For example, the documentation
9 requirements should take into account the size
10 and resources of the institution and
11 documentation of activities should not
12 overwhelm the activities themselves.

13 Moreover, performance measurement
14 for any institution must take a broad view of
15 community needs balancing quantitative
16 measures of performance with consideration of
17 the quality of the credit investments and
18 services extended.

19 Finally, the flexibility that has
20 been a hallmark of the CRA should be
21 maintained. Regulators' ability to redesign
22 CRA rules over the years has kept it relevant

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1 amid numerous changes in financial markets and
2 community needs. Past revisions recognized
3 the difficulty in measuring success in meeting
4 the credit needs of rural communities that do
5 not have clearly delineated neighborhoods with
6 differing income levels. They also offered
7 added incentives for financial institutions to
8 provide assistance in disaster areas.

9 Today, there's a pressing need to
10 provide housing-related assistance to
11 stabilize communities affected by high levels
12 of foreclosures. Among the many consequences
13 of high foreclosure levels are growing
14 inventories of vacant properties, depreciating
15 home values, declining property tax basis and
16 the overall destabilization of communities.
17 In response to this need, the agencies again
18 demonstrated the value of CRA flexibility in a
19 proposed CRA revision that would assist in the
20 stabilization of communities that have been
21 hardest hit by the foreclosure crisis.

22 Specifically, the proposed change

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1 would encourage depository institutions to
2 support the Neighborhood Stabilization Program
3 administered by the U.S. Department of Housing
4 and Urban Development.

5 We do not know how the economy and
6 financial system will change in coming
7 decades. But given the experience of the past
8 few years, it's safe to assume the change will
9 be rapid. Considerable creativity and
10 flexibility will thus be necessary to ensure
11 that the CRA continues to serve as an
12 effective means to promote community
13 development and otherwise encourage the
14 provision of responsible financial services to
15 lower income households and communities
16 without placing an undue burden on financial
17 institutions.

18 Although each of the stakeholders
19 represented here today play different roles
20 and have different perspectives, all share a
21 common goal: Working to make sure that high
22 quality financial services are readily

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1 accessible in low- and moderate-income
2 communities consistent with safe and sound
3 operation of financial institutions. With
4 this overarching purpose in mind, I look
5 forward to today's testimony and discussion.

6 Thank you.

7 VICE CHAIRMAN GRUENBERG: Thank
8 you.

9 COMPTROLLER DUGAN: Thank you, Vice
10 Chairman Gruenberg, and thank you to all who
11 will be joining us today for this quite
12 important hearing.

13 We're holding these hearings to
14 solicit views on how we can better serve the
15 goals of the Community Reinvestment Act. CRA
16 requires the banking agencies to encourage
17 insured depository institutions to help meet
18 the credit needs of their entire communities,
19 including low- and moderate-income areas
20 consistent with safe and sound banking
21 practices.

22 We look forward to hearing your

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1 views on how we can update the CRA regulations
2 in light of this statutory obligation and
3 recent changes in the financial services
4 industry.

5 As I've said on many occasions, CRA
6 has become an important bridge uniting banks,
7 their customers and other community
8 stakeholders in successful community
9 development partnerships. CRA supports banks
10 doing what they do best and what they should
11 want to do well: Making viable lending,
12 services and investment decisions in their own
13 communities that are consistent with their
14 business plans and acceptable rates of return.

15 During the many community tours
16 I've taken during my term as Comptroller I've
17 witnessed on the ground the positive impact
18 that CRA partnerships have had in transforming
19 communities, expanding home ownership and
20 promoting job creation and economic
21 development.

22 And just as an aside I would say it

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1 was something of a surprise to me when I came
2 back to the Government how much this had
3 changed, become less adversarial and quite a
4 bit more productive in producing real benefits
5 to communities around the country.

6 But while CRA has helped us
7 accomplish a great deal, it was designed for a
8 financial services delivery system that really
9 is much different than exists today. In 1977
10 when CRA was enacted, banks and thrifts
11 provided the deposit services and financing
12 for most individuals and businesses. Home
13 mortgage securitization was just emerging and
14 commercial securitization did not exist at
15 all. Banks were not allowed to have branches
16 in more than one state, and bank holding
17 companies could not combine banking,
18 securities or insurance activities.

19 Fifty-four percent of the nearly
20 19,000 federally regulated banks and thrifts
21 in 1997 were based in a single location. In
22 contrast today, we are down to just over 8,000

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1 insured depository institutions, some of which
2 have become much, much broader in scope.

3 For example, last year 14
4 institutions had branches in 15 or more states
5 and these institutions held 43 percent of
6 total domestic deposits.

7 Moreover, banks face much stiffer
8 competition from non-bank financial firms than
9 they did 30 years ago, including from mortgage
10 and consumer finance companies, securities
11 firms, hedge funds and private equity firms,
12 none of which are subject to CRA.

13 In addition, technology has brought
14 new methods of credit scoring and streamlined
15 lending processes that have dramatically
16 altered and expanded the availability of
17 credit and financial services to consumers and
18 businesses. As a result, banks and other
19 financial institutions can provide mortgages,
20 consumer loans and other financial products
21 far beyond -- far beyond where they have a
22 physical branch or office. And this is a fact

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1 that challenges the traditional geographic
2 notions of what a community is under the
3 Community Reinvestment Act.

4 And of course, the financial reform
5 legislation that the President is about to
6 sign into law will obviously bring additional
7 significant changes to the nation's banking
8 system.

9 All of these changes suggest that
10 now really is a good time to re-examine our
11 CRA regulations. While changes that have been
12 discussed in this CRA debate will require
13 legislation, there are others that can be
14 addressed by regulatory adjustments, and that
15 is the purpose of these hearings. And I do
16 want to stress this point: We are bound by
17 the congressional limits which are quite
18 significant on what CRA is and what its
19 boundaries are. Although we have some
20 flexibility, we must be mindful of that
21 statutory directive. And there may be a
22 number of good ideas that come up in these

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1 hearings that we just can't do by regulation,
2 but that can be taken up as a legislative
3 priority as we go forward.

4 So in that context we look forward
5 to hearing your views and to learning more
6 from public comments on the topics and
7 questions that these hearings cover.

8 Thank you very much.

9 ACTING DIRECTOR BOWMAN: Good
10 morning. I am John Bowman, the Acting
11 Director of Office of Thrift Supervision.

12 I'd like to join my colleagues in
13 welcoming you to the first of four Community
14 Reinvestment Act hearings to be held between
15 now and mid-August in four cities throughout
16 the country.

17 The CRA requires financial
18 institutions to meet the credit needs of their
19 entire communities, including low- and
20 moderate-income areas. Consistent with this
21 mandate, both the CRA and the agencies'
22 implementing rules have encouraged

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1 institutions to maintain branches in low- and
2 moderate-income neighborhoods and to develop
3 innovative products and services for lower
4 income households. In addition, CRA has been
5 implemented in a manner that promotes access
6 to credit and related banking services for
7 underserved communities.

8 The agencies responsible for
9 evaluating CRA performance have created this
10 opportunity for stakeholders to provide their
11 perspectives on potential changes to the CRA
12 regulations. Collectively we are committed to
13 making these rules as effective and meaningful
14 as possible for both the financial
15 institutions covered by the CRA and the
16 communities and consumers that such
17 institutions serve. I believe that these
18 public hearings are an excellent way for us to
19 gather information and gain a greater
20 understanding of the challenges and needs of
21 low- and moderate-income communities and
22 individuals throughout the United States.

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1 Many questions can be discussed as
2 we consider how to remodel CRA rules. While
3 the responses to some of those questions would
4 require legislation to implement, the emphasis
5 today and throughout the four hearings is on
6 regulatory changes that would come within the
7 purview of the agencies represented here.

8 To focus our discussion we have
9 assigned specific topics to specific hearings.
10 Today we hope to hear in detail about
11 community development, CRA ratings and
12 incentives and the effect of evidence of
13 discriminatory or other illegal credit
14 practices on CRA performance evaluations.

15 With respect to community
16 development a fundamental question is whether
17 the regulations reflect current thinking about
18 best practices that strengthen communities.
19 Do the rules provide an appropriate framework
20 for evaluating community development
21 performance? If not, how should the rules be
22 adjusted? I look forward to hearing your

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1 thoughts on the subject.

2 Another area in the spotlight today
3 is the CRA rating system. Should it be
4 refined to further allow better distinctions
5 between those institutions that are performing
6 well and those that are not? Should the
7 incentives for high performance be adjusted?
8 Again, I look forward to hearing your views on
9 these issues.

10 Finally, under the current rules
11 illegal credit practices receive adverse
12 consideration as CRA performance is evaluated.

13 While the statute requires that CRA
14 activities be carried out consistent with safe
15 and sound operations, an unsettled question is
16 whether the regulations should be revised to
17 more specifically address how evidence of
18 unsafe and unsound lending practices might
19 adversely affect CRA ratings. We've sought
20 input on that question today, and I'll be very
21 interested to hear your thoughts on it.

22 In considering these questions and

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1 others, we are committed to work with all
2 stakeholders to ensure that the mission of CRA
3 continues to be fulfilled. We are keenly
4 interested in building on current CRA rules to
5 improve the means of bringing financial
6 products and services to communities and
7 consumers in a responsible, affordable and
8 safe and sound manner. Your input is
9 invaluable in this process.

10 Thank you all for participating in
11 this hearing. And I know that we will benefit
12 greatly from the thoughtful recommendations
13 that you offer us.

14 VICE CHAIRMAN GRUENBERG: Thank
15 you. Thank you all very much.

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