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PRESS BRIEFING

BY

SECRETARY OF THE TREASURY, LLOYD BENTSEN,
ROBERT RUBIN, ASSISTANT TO THE PRESIDENT FOR ECONOMIC POLICY
AND
EUGENE LUDWIG, COMPTROLLER OF THE CURRENCY

The Briefing Room

1:30 P.M. EST

MR. RUBIN: Hi. I'm Bob Rubin, the Assistant to the President for Economic Policy, and I'm going to introduce today's topic.

The President, as you know, has a broad, comprehensive strategy for dealing with the economic problems of the country for putting the country back on the right track for the long-term. A lot of the legislative and executive actions that have taken place in 1993 have been pursuant to that long-term economic strategy of the President's.

An important component of that strategy is to deal with the problems of the inner city and distressed rural communities -- pursuant to his belief that we must make real progress in those areas if this country is going to be successful in the future for all of us. The reform of the Community Reinvestment Act is an essential building block in the efforts I've just mentioned.

In July the President asked the four banking regulators to reform CRA, to reduce paperwork in process and reward performance, and to get that done by January 1, 1994. We're delighted to report that that has been accomplished on schedule. And in conjunction with the President's Community Development Bank and financial institution legislation, which recently passed the House of Representatives, CRA reform will generate billions of dollars in new lending and extend basic banking services to the inner cities and to distressed rural communities around the country.

Before I turn this over to Secretary Bentsen who, as always, did an extraordinary job in marshalling the resources of the Treasury to deal with this priority of the President's, I would like to thank Chairman Greenspan and Governor Lindsay, of the Fed, Andrew Hove, of the FDIC, and Jonathan Fiechter of the OTS for their substantial contributions to this process. We would also like to give special thanks to Comptroller Gene Ludwig in his efforts to make CRA reform a reality.

With that, I introduce you to Secretary Bentsen.

SECRETARY BENTSEN: If you have any questions about it, the fine print's right here. You're going to have to behave

for just a minute.

Let me say that we've developed another element in that program to improve access for all Americans. I think one of the interesting phases of this one is that you saw all four regulatory agencies work together, to speak with one voice on that one. And that makes it effective.

I want to briefly tell you about it and how it fits into the Clinton administration's initiatives for change. We have developed proposed regulations to take the uncertainty out of the Community Reinvestment Act. The heavy lifting on this has been done cooperatively by the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Fed and the Federal Deposit Insurance Corporation. And that effort has been led by Gene Ludwig, of the OCC, and Lawrence Lindsay, of the Fed. Gene is going to be able to give you a great deal of the detail in just a moment.

In a nutshell, what we're proposing to do is to make it easier for lenders to show how they're complying with the Community Reinvestment Act. For those who aren't familiar with the area of banking law, the changes we're proposing are important because banks now have a very clear, quantitative standard by which their compliance can be judged. And that is very important to banks when it comes to ask regulators to approve mergers, new branches and the like.

Before our proposal banks had no certainty what effect the steps they were taking toward community reinvestment would have on applications. What we're trying to do is to make credit more readily available for small business, for small farms and distressed areas of our country.

One of the things that you've had before is a problem -- if you were going to do a small business loan, or you were going to do a large business loan, the cost was almost the same. So the incentive there was for the bank to make the large business loan. What we've tried to do is cut back a lot of the paperwork and the cost on small business loans.

The only thing that ought to matter on a loan application is whether or not you can pay it back, not where you live. There are businesses out there that are safe bets for loans. Those businesses are critical to creating jobs and sustaining the growth we're beginning to see. You see the big headlines when IBM or General Motors cuts out 5,000, 10,000 people; but what you're not seeing is the accretion, the outsourcing, the types of things taking place for small business that don't add up in themselves to large numbers, but in the total have seen an amazing change in the increase of jobs in this country.

What we're seeing is a chance for these men and women out there with dreams being achieved because of the access to more credit. And we think that this regulatory change will make that credit available so we can see more jobs created and deserving Americans see their dreams fulfilled.

Back in March when we were out on the lawn with the President talking about a very active agenda, when it comes to getting the kinks out of financial services regulation and getting money flowing again to credit-worthy borrowers, making change to make our economy work again, we've come a long way and we think we can be proud of what we've accomplished and been able to get in less than a year.

We talked then about breaking the credit crunch, and substantial progress has been made on that front. We promised we were going to get rid of the duplicative regulation in our financial institutions, and we've developed legislation to accomplish just that. We said the Clinton administration was going to get money flowing into community development financial institutions, and we're doing just that. And we also promised by year's end to bring about some sanity in the standards of the Community Reinvestment Act, and this proposal does that.

And with that, let me turn this podium over now to Gene Ludwig, the Comptroller of the Currency on the detail. And he's

done a great job on this one -- congratulations.

MR. LUDWIG: Let me ask my fellow regulators to join me up here. With me this morning are Skip Hove, acting Chairman of the FDIC, and John Downey, who's acting for Jonathan Fiechter, while he's out of town for the Office of Thrift Supervision, and Governor Lawrence Lindsay, of the Fed. I'm Gene Ludwig, Comptroller of the Currency. Thank you very much.

Fifteen years ago, Congress passed the Community Reinvestment Act. Passed it to ensure that banks and thrifts served the financial needs of their entire communities; and in particular economically empowered persons of low and moderate income. But the CRA has never achieved its full promise.

During the presidential campaign last year, then Governor Clinton, responding to the complaints of bankers and community leaders, vowed to reform CRA; to make the law work by emphasizing performance over paperwork. Following up on his campaign pledge the President, last July, challenged the federal banking regulators to breathe new life and new purpose into the law. He told us to rethink the entire system of regulation through which we put the CRA into effect and to make the law work.

The proposed reform package we are unveiling today follows the President's directive and fulfills the promise of the law. It will channel billions of dollars a year in new credit into America's distressed communities, while at the same time reducing unnecessary burdens on banks.

This reform package is the product of five long months of consultation and deliberation. Before we made a single decision on proposing reform, we turned to the people to ask what the people thought what the people needed. We walked through South Central Los Angeles, in a predominantly minority neighborhood in New York City to see with our own eyes and to listen with our own ears to what should be done. We talked with representatives of the Navajo Nation; to bankers, large and small banks, inclusive; to poor people in rural North Carolina and elsewhere. We saw and what we heard shaped this reform package.

By replacing paperwork requirements with performance tests, this package would stimulate bank lending, investment and service in low and moderate income communities. This proposal is not about formulas. Community groups and bankers both emphasized the need for flexibility. So this proposal recognizes the diversity of banks and the markets they serve. It reduces the examination burden, particularly on small banks without reducing their obligation to serve their communities; and it recognizes that regular public participation is critical if we are to achieve the goals of the law.

This reform package reflects not just the thinking of regulators, and I want to emphasize that because we really did spend a great deal of time listening hard at seven hearings -- full days of hearing to what people had to say. But it really does represent the best thinking of the American people. It represents the result, not just of technical analysis, but of participatory government. It stands not as a policy imposed from above, but as a consensus and a compromise forged among those who will live with its results.

Tomorrow, the board of the Federal Deposit Insurance Corporation will consider issuing the proposal for public comment, and the Federal Reserve will take up the issue on Friday. We anticipate that both regulatory agencies will act positively on this proposal as the Office of the Comptroller of the Currency and the Office of Thrift Supervision has already done.

Although we have confidence that the proposal goes a long way toward building the framework for CRA reform, as we go forward, we will continue to listen -- and I mean listen hard -- to the voice of the people, citizens, community groups and bankers, and we will continue to shape the final rule in response to what we hear.

Let me now review with you the attached summary -- there's an attachment to your handout. It's entitled Community Reinvestment Act Reform Proposal Fact Sheet. The proposed change to the Community Reinvestment Act provides clear and more objective evaluation standards. It eliminates unnecessary documentary requirements and it seeks to improve the consistency of CRA examinations and enforcement efforts. In sum, the new rule emphasized performance, not paperwork. I like to characterize it, it's a reform that emphasizes what you're doing, not what you're saying.

The 12 current CRA assessment factors would be replaced with three tests -- a lending test, a service test and an investment test. And I have right behind me the 12 current assessment factors which are highly subjective and really don't focus on the target of what we're talking about here which is getting loans and services and investments out to our communities. And the simple three tests we will have under the new reform: a lending test, a service test, an investment test. Are you making loans? Are you providing services? Are you making investments? It's really, in the end, just that simple.

Banks and thrifts would no longer be assessed on their method of community delineation, for example. Service areas would be defined by the geographic area or areas around the branch and main offices where the institutions make the bulk of their loans. And the new CRA rules would distinguish between large and small institutions. Independent banks and thrifts with assets of \$250 million or less, and members of a holding company with total bank assets of \$250 million will be eligible for a streamlined examination. This is a recognition that our smaller institutions simply don't have the infrastructure to do the kind of detailed work that larger institutions do. They would, however, although the analysis will be streamlined, they will be fully responsible for meeting the requirements of CRA.

Large banks and thrifts would be required to report data to regulators on the geographic distribution of their small business loans and consumer loans. Wholesale unlimited purpose banks would be evaluated based on their investment in other -- in or other support for, the community. And organizations and initiatives that they are involved in -- that is, wholesale banks -- would also be considered in their evaluation.

A bank or thrift would have the option of developing a CRA strategic plan to be approved by the regulators under which it would be evaluated. And this is an important development. One thing we learned around the country, both from banks and thrifts, as well as community groups, was the desire to harness the ordinary planning processes of banks as part of this reform. So that when a bank creates its own business plan, one can evaluate it on the basis of its plan and the achievement under that plan. Banks and thrifts would continue to make their CRA ratings public, and the public would have an opportunity to comment on CRA performance.

Finally, under the proposed rule, large banks and thrifts would begin reporting loan data on January 31, 1995, and the new evaluation standards would be mandatory July 1, 1995.

With that, I'd be pleased to take any questions you have.

Q What is the reasoning for defining the \$250 million asset threshold? I mean, is that a figure that can be revisited later? The ABA, some people there still believe that that still excludes some of the community banks, and is there anything magic about that number and can you revisit that?

MR. LUDWIG: We looked hard at that number. The -- it represents -- the banks below that number, we are fairly confident will benefit significantly by streamlined examination. The banks above that number, we believe, can comply with the CRA requirements -- the CRA examination in its entirety so that the number in terms of looking at the banks and the size, what geocoding really means to them, we believe that that is a reasonable threshold.

Q And that's final -- or could you --

MR. LUDWIG: No, this isn't -- this comment period is something we're going to be listening hard to what institutions have to say. And we believe it's the right line. We've looked at a number of banks involved and their capabilities, the number of employees they tend to have to draw that line, but we're going to listen hard to what institutions have to say and what the community groups have to say.

Q What proportion of the industry is affected by that 250 million threshold? And the other thing is, do you have a mechanism for what -- is there going to be a new mechanism for enforcing these CRA because up until now only -- not that many banks have ever really had merger applications squelched because of it. But first, just a quick question on the 250 million threshold.

MR. LUDWIG: Could you repeat your question on the 250 million --

Q What proportion of the industry does that represent?

MR. LUDWIG: We believe that it represents roughly -- OR less than 15% of the total assets in banks and thrifts today, less than 15 percent of the total assets. But it probably represents in the neighborhood of about 75 percent of the total banks and thrifts in this country.

Q Okay. And then the second one was the enforcement mechanism for this -- is there a new mechanism for enforcing the CRA contained in here, because up until now, the Fed, for example, has not really denied very many banks merger applications because of CRA.

MR. LUDWIG: Yes, there is a new enforcement mechanism. Where a bank is rated "needs to improve," that is not a "satisfactory," needs to improve one of the lower tests, but not the lowest test, it would have two years, two examination cycles, to improve its rating. If it did not, it would fall back into substantial noncompliance -- the lowest rating. If a bank or thrift is substantial in substantial noncompliance, the regulators for the first time will have the right to use their other regulatory enforcement tools with respect to that institution to cause it to comply with the law.

Q Kind of along that line, what sort of projection would you make of merger and acquisition activity because of this rule change? Do you think it's going to suddenly go up?

MR. LUDWIG: I wouldn't think that it would affect merger and acquisition activity; that is to say, we believe that because this is more objective, it will be easier to judge whether or not there is a CRA reason to turn down an application. And in that

sense, I mean, that's a big positive because you're looking at facts, you're not looking at amorphous documents. I mean, this is 12 factors of just documentary, sort of bureaucratic gobbledy-gook, and we're replacing that with objective facts that will be available to the public, as well as available to regulators.

Q In the lending test, is there some figure or some level at which lending has to occur in certain parts of a bank's market area? What is it about this test that makes it objective?

MR. LUDWIG: We have tried to make this as flexible as possible, but at the same time, as I mentioned, highly objective. And let me tell you what we've done with lending.

The entire CRA reform is very much built on rebuttable presumptions, so that you don't have odd anomalous cases which

we found around the country, where a bank had done a good job but somehow got rated poorly, or vice versa.

Now, on the lending test what we do is we have -- I would call it more a screen than a test. There was a presumption that you've passed it where you made it, basically, a two-part test. And the test is, one, are you serving low and moderate income geographies. In the same way, you have the same market share that you do in your service area generally. In other words, basically are you red-line or discriminating against low income geographies --you'd say no; in other words, that's what the screen is about.

And number two, are your loans either disbursed throughout the low and moderate income geographies, or are there a significant number that are targeted in certain areas, because that really reflects what one sees in the banking industry generally. Some institutions, in lending into low and moderate income areas, lend out of their branches and they lend broadly, the way they lend over their general service area. Other institutions have taken to targeting areas in partnership with churches sometimes, in partnerships with community groups to target one segment of that area. We're not going to disadvantage either one.

Q Well, is there some kind of bright line test that says that if a bank doesn't lend 10 percent of its portfolio and -- across this distribution --

MR. LUDWIG: The lines will not be that bright. We have -- one thing going around the country we all learned is this is a -- with more than 13,000 banks and thrifts in this country spread over this huge nation, with different needs and different economic times, to use simply a bright line or formulas or quotas or credit allocation doesn't work, and it creates unintended bad results. So we are not doing that.

Q Is it true, too, that this CRA reform requires new disclosure requirements for small business lending such that it will increase paperwork on a category since that still might threaten entrepreneurial firms lending or the cost of loans?

MR. LUDWIG: I don't think so, no. That is to say we will be requiring the gathering of that data and the public availability of that data.

Overall, over the whole banking system we believe that the burden decreases. And it decreases most substantially in those institutions we believe least able to bear the burden, the smaller institutions.

But the question is not whether there is any burden -- there is burden in making loans -- but whether the burden is productive -- such burden as there is -- and we believe that gathering this data and putting it out for public comment, what's going on, is productive; as opposed to the current situation where you build piles of papers explaining whether you met with community groups, whether you assessed the community, this is the hard factual data you need to assess.

Q But some bankers say that you can't in a simple check box, when it gets down to these really small, tiny entrepreneurial firms, easily say what was the dividing point between getting a loan or not getting a loan and that, again, this increased paper burden of trying to document those might just discourage them altogether from the smallest of the small entrepreneurial enterprises.

MR. LUDWIG: We will be listening real hard in the comment period, but I doubt very substantially whether this will discourage in any --. We are confident this will increase lending. With people, the public, the news media having access to what is actually going on and basing this test on market share will increase competition and increase lending, of that we're confident.

Q Looking just at larger banks, could you say whether or not this would increase the paperwork burden? And I wonder if we can get a comment from everybody up there.

MR. LUDWIG: Sure. I think throughout the whole banking and thrift system it decreases burden overall. I believe that it does, in fact, involve burden. And you're right to say that the burden, in terms of collecting and disseminating the data is the most significant burden, I think, in the system.

But it's hard to assess whether that's -- at any given institution -- less or more. But I will say this, that it is productive as opposed to nonproductive in terms of lending.

GOVERNOR LINDSAY: Well, in addition to what Gene said, I'd emphasize that where the burden is probably disproportionately high now is on the small banks. And they're having their burden eased. We think the larger institutions, which might on net, in answer to your question, be putting out more paperwork, probably A can bear that burden. And secondly, they have a benefit as well in the form of more clarity.

So I very much agree with what the Comptroller said.

Q What will you be doing on Friday, if you would -- there is a notation that you're going to have to consider this issue on Friday -- the Fed? I mean, is there a --

GOVERNOR LINDSAY: The Federal Reserve Board -- we have four institutions. We're going to be going forth, I guess; and what the vote will be on -- the same vote that everyone else has taken, to put this document out for public comment.

Q When do you expect to have the final rule out?

MR. LUDWIG: This will be out for 60-day public comment. We will be beavering away at it as the comments come in -- no rest for the weary. And we'll endeavor to get it out promptly after the end of the 60-day comment period.

Q Will it be out by June, for example, April, May?

MR. LUDWIG: I think June, at the outside, is a fair assessment. But we hope to do much better than that.

Q You said you were confident that this would increase lending. Looking forward five years, could you give us any indication of how much lending will be increased because of this, or how the composition of lending will change? Will there be, for instance, more lending to small businesses or lending to multi-family housing? Will there be more lending across-the-board, or would you expect disproportionate increases in certain areas?

MR. LUDWIG: Ken, you know that it's hard to give a hard and fast rule, particularly on a system where we want to be flexible, we don't want to have credit allocation or quotas.

At the same time, the CRA, for all its flaws, since 1977 it is generally agreed has increased lending in low and moderate income areas by tens of billions of dollars. We're all convinced that this is a material step forward. So it's very safe to say billions of dollars.

Will it improve the small business and the business lending? I think it's really -- almost certainly, yes. And the reason is because this is the first time we will be gathering and disseminating data. And when you take a business organization and

you say you're going to be measured on data, you're going to be measured on the facts -- and particularly here in this small business -- for the first time it's going to increase lending.

Q Will you be gathering information just on loans, or on applications, as well, for small business?

MR. LUDWIG: We will be gathering data as proposed on the basis of applications, denials and actual loans.

Q Does this mean that if I am a banker with branches in the inner city, I no longer have to have an employee keeping pins on the map of town to show where the loans are, that it's now going to be judged on dollars and cents and how much money goes where?

MR. LUDWIG: Dollars and cents, and we'll keep the pins. The data will be publicly available and the banker will not have to have a crazy map with pins all over it, which has just characterized this whole process, and spending huge amounts of time documenting every time it meets with a community group and being judged on how many documents it has. It will be judged on where the loans are.

As I said earlier, what you're doing, not what you're saying. I mean, the President wanted performance, not process -- and that's what we've emphasized, what are the dollars -- increase in lending, I think this will do it, and increase in services and investment; and three, a reduction in burden.

Q On the enforcement side, under the current system if you don't comply with CRA, is the only bad thing that could happen to you the fact that your merger application is denied? And also, do you keep any statistics on how many merger applications have been denied since the CRA was passed?

MR. LUDWIG: Let me say that this does go beyond just the -- and that is one of the things that we focused on; that the current process triggers off when you have an application pending. So it creates a very uneven application of the rule.

Now you will see enforcement, not just on the basis of loan application -- there will be some of that -- but you'll also see enforcement on the basis of how you're graded, so that it will even it out.

Now, in terms of the data as to how many have been denied, it's very few. And I don't have that with me. But after the briefing one of the members of our organization can give you information in that regard.

MS. MYERS: Why don't we just take one or two more questions --

Q Mr. Ludwig, one criticism of the current system has been that many, many banks achieve satisfactory ratings without achieving what the critics consider satisfactory performance. Do you have a sense that if this new system were dropped down whole on the industry today that you would have many more unsatisfactory ratings?

MR. LUDWIG: You know, the terrible thing is we're not sure because the current system is so amorphous that you can't be certain. I hope and believe that many banks -- I mean, most banks will be satisfactory or outstanding, that they're going to want to do that. But we'll be judging on the basis of facts, not on the basis of amorphous criteria. And that is a huge improvement, that is just a huge improvement.

Q Governor Lindsay, yesterday Governor Mullins suggested that the -- said that that is at a critical juncture in its fight against inflation. Would you agree with that? Would you say that this is a particular, specific time to be vigilant in

fighting --

GOVERNOR LINDSAY: I think this is CRA day, let's stick with that.

Q With regard to enforcement actions for an institution that's not applying for a merger, what specific enforcement actions might you envision being taken if it's in substantial noncompliance?

MR. LUDWIG: Well, we'll have the full panoply of all our enforcement armorarium, which includes cease and desist orders and civil money penalties in some cases.

Q So you could apply those, because you hadn't up until --

MR. LUDWIG: We have not, and it has not been part of the regulation. It will be part of this regulation.

Thank you very much.

END1:55 P.M. EST