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Oral Statement of

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Forum on Community Reinvestment and Access to Credit:
California's Challenge
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Congresswoman Waters, Congresswoman Roybal-Allard, and other members of the Banking Committee, I appreciate the chance to participate in today's forum on community reinvestment. I want to commend all of you, and in particular the chairperson, Congresswoman Waters, for providing this opportunity. Congresswoman Waters, you have long been a leader in the fight for fair and equal access to financial services. You have continued to ask the hard questions about these important issues facing our nation. I commend you for your leadership in bringing together public officials and private sector leaders to discuss opportunities for expanded economic growth and opportunity here in Los Angeles and across California.

Since the day I became Comptroller few things have been as important to me as ensuring fair and equal access to credit and other financial services throughout this country and, in particular, in low and moderate income areas. As I will detail below, I am proud that the Office of the Comptroller has taken important steps in this area. But let me be clear at the outset: there is much more that we need to do -- and do together -- to make further progress and our Office is committed to take the steps necessary to move forward.

South Central Los Angles has been a community that has taught me a great deal about these critical issues. During my term in office, I have visited this community and walked these streets three times with community development leaders. In fact, four and a half years ago -- in this very auditorium -- I chaired a joint agency hearing on CRA reform and heard first-hand impassioned testimonials on the economic development needs of this city and this state. That hearing and others like it led to significant progress in improving the effectiveness of CRA, so it seems auspicious to me that we return here today to begin taking the next steps to address these critical issues.

Over the last five years, we have pursued a broad strategy at the Office of the Comptroller to promote sound community development lending and investment by national banks. We have worked toward this goal by reforming our regulations and supervisory policies; by assuring effective and efficient bank supervision and enforcement; by issuing legal opinions and approvals supportive of innovative bank programs; and, by engaging in more aggressive community development outreach to national banks and their community development partners.

We began our program by working with our fellow depository institution regulators to change the CRA regulations from rules that focused on process -- what people were saying -- to performance -- what they are actually doing. That reform was completed and in full force by the summer of last year. Importantly, as a part of that reform we have begun collecting and making publicly available for the first time geo-coded small business lending data for every depository institution in America with more than $250 million in assets.

Also, from the beginning, we have focused on dramatically increasing our fair lending examination and enforcement efforts. Indeed, since I became Comptroller we have completed well over 3,000 fair lending examinations utilizing more effective procedures, and we have during this period made 25 referrals of fair lending violations to the Departments of Justice and HUD compared to only a single referral in the entire prior history of our Office.

We have augmented this reform of the CRA regulations and more vigorous enforcement of the fair lending laws with an aggressive community outreach effort. I personally have met with hundreds of community leaders throughout the United States, convening dozens of meetings every year both in Washington and in cities and towns across the nation. We have established a separate Consumer and Community Law Division in our Law Department. Our Office of Community Relations and our community reinvestment and development specialists -- two in each of our six districts, work full-time with community groups and banks on these issues.

We have also revised other rules beyond the CRA to facilitate community development activities by banks. For example, our revised Part 24 makes it easier for national banks to make equity investments in community development corporations and projects and other public welfare investments.

We have seen the results of these efforts. The increased attention given to CRA, community development and fair lending at the OCC and at our fellow regulatory agencies has yielded concrete results. From 1993 to 1996, home mortgage loans to African-American and Hispanic-American borrowers across the nation have increased dramatically -- by 52.5 percent and 55.6 percent, respectively. During this same period, mortgage lending to all low and moderate income borrowers has increased by 33 percent. By contrast, mortgage lending to all borrowers regardless of race or income, increased by about 22 percent. In other words, the increase in home mortgage lending to African-Americans and Hispanic-Americans has been running at twice the growth rates as lending to all Americans.

This encouraging trend is reflected right here in the 35th Congressional District where mortgage loans to African-Americans and Hispanics increased by 56.2 percent and 64.5 percent, respectively, from 1993 to 1996. During this same period, mortgage lending in Los Angeles to all borrowers regardless of race increased by about 31 percent. As with the nation as a whole, mortgage lending to minorities has increased at roughly twice the rate for lending to all borrowers in the Los Angeles area over this four year period.

In addition, since I became Comptroller in 1993, national banks and their community development partners have quadrupled their targeted community development and public welfare investments. Today, equity investments by national banks in community development projects are running at a rate of about $1.4 billion per year. These investments have led to important innovations. For example, recently a national bank created the first investment bank aimed at assisting small businesses -- particularly minority small businesses -- that are in turn engaged in community development activities. That bank will have over $100 million to invest.

In California, within the last year we have chartered two community development national banks, Neighborhood National Bank in San Diego and Mission Community Bank in San Luis Obispo. These are banks that are devoted to making loans and investments in low and moderate income neighborhoods, and to otherwise serving these neighborhoods.

Finally, it is worth mentioning that bank commitments under the CRA have increased within the last four years by $270 billion, representing 86 percent of all bank commitments since the CRA began in 1977.

We can take pride in our accomplishments to date. However, clearly there is a great deal more we can and must do to revitalize low and moderate income urban areas.

Today, while continuing to make the revised CRA more effective and pursuing a policy of zero tolerance' for discrimination in the fair lending area, I believe we must focus renewed attention on five additional important areas: community partnerships, innovation, more rigorous analytical study, government commitment, and enhancing the strength and competitiveness of our banking system.

The first of these areas is strengthening community partnerships. We must move from an era of confrontation to partnership. Strengthening neighborhoods requires the collective strengths of community development organizations, government, business leaders, religious and social organizations, and committed members of the financial service industries. Everything I have seen over the past four and a half years convinces me that vibrant partnerships are the key to successful and lasting community development. All of us need to be involved in assuring their continued growth and formation.

Second, we must encourage and reward innovation. One of the things that stands out in the history of banking and bank regulation is the extent to which, time and again, traditionally-held views about the creditworthiness -- or lack thereof -- of a particular group of Americans have been proven wrong. At one time, virtually all working class Americans were deemed unworthy of credit. It took experience to prove this view was mistaken. Most of all, it took a willingness to challenge traditional assumptions and to revise the old ways of doing business that has allowed millions of Americans to demonstrate they can and do use credit responsibly if they are only given the chance. The bottom line is that innovation is essential if we want to increase the availability of credit and other financial services to underserved populations.

Third, we must face and carefully analyze the facts. Increased community partnerships and continued innovation must be accompanied by sound factual analysis of the needs and capacities of under served borrowers and communities.

For example, I am aware of a few single-family affordable lending programs that are experiencing higher than normal delinquency rates. Some have said that the higher delinquency rates indicate that aggressive lending programs for low- and moderate-income individuals are unsafe and unsound, while others suggest that we should disregard those delinquencies for the sake of expanding home ownership. Neither position is correct. By carefully examining programs with higher delinquency rates, as well as programs with lower delinquency rates, we have an opportunity to learn a number of important lessons, two of which are readily apparent.

One lesson we have learned is that there are prudent steps banks can pursue to lower delinquency rates for these programs. In an OCC advisory letter last year on affordable mortgage portfolios, we highlighted that banks with lower delinquency rates had common characteristics: requirements for borrowers to participate in credit counseling; rapid delinquency intervention programs; and a controlled layering of credit risk factors. Many of these banks also participated in counseling and loan referral partnerships with community organizations.

Another critical lesson that emerges from our analysis is that even in those programs with the highest delinquency rates, more than nine out of ten borrowers are paying in full and on time. Let me emphasize this point: even in the most aggressive programs we have seen, the vast majority of borrowers using these programs have proven thus far to be good credit risks.

Fourth, as you have often reminded us, Congresswoman Waters, government, at all levels, cannot shy away from its responsibility to dedicate the resources necessary to attract private sector investment for economic development. Obviously, public sector resources are, and are likely to remain, scarce. All the more reason we must not miss opportunities to better leverage public resources for community development and assure that available funds help support the ongoing innovation of private sector lenders.

The final challenge concerns the course of financial modernization. The plain fact is that the traditional business of banks -- taking deposits and making loans -- has become only one of many financial services activities in this country, and banks' share of this traditional business activity relative to non-banks has declined. If, in the future, we limit banks to engaging only in these traditional activities -- or if only these traditional bank activities are covered by CRA -- the impact of CRA will suffer a marked decline. To maintain a strong CRA program, we must allow banks to grow and expand their activities and allow these new bank activities to support CRA. That is why it is so important to allow banks to get involved in new activities through bank operating subsidiaries, as we and the Treasury Department have proposed. Indeed, I would say the Op Sub proposal is crucial to the future of community reinvestment.

In conclusion, while I am encouraged by the progress we have made thus far, it is clear we can and must accomplish even more. Significant challenges remain, and I commit to you that the Office of the Comptroller of the Currency will continue to do everything it can to advance the gains already made in providing our neediest citizens with improved access to credit and other financial services.

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