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Remarks by
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Good morning, and thank you -- thank you for asking me here today and thank you for participating in what truly is an important and historic conference in the evolution of economic development in this country.

This morning, I want to share my thoughts on the tremendous progress made in community development in the past 20 years as a result of the Community Reinvestment Act and the Home Mortgage Disclosure Act. I also want to discuss both CRA's additional potential as an effective tool for revitalizing our cities and communities -- and a potential threat CRA faces.

I believe that the past two decades have proved that the Community Reinvestment Act of 1977, along with HMDA's robust public information on bank lending activity, has been an extremely important and far-reaching piece of legislation. CRA as initially implemented was not without its flaws. However, these shortcomings have now been addressed responsibly through regulatory reform. Today, CRA is more effective than ever.

In many ways, CRA was a law ahead of its time. The philosophy behind CRA is straightforward -- banks should serve all segments of their communities, including low- and moderate-income neighborhoods. What makes CRA unique and groundbreaking is that it relies on private sector ingenuity and market forces to accomplish an important purpose. In that way, CRA symbolizes what the public has come to demand -- real results achieved, not by government alone, but through government reliance on private sector, local initiatives.
CRA involves no massive bureaucracy, nor charitable giveaways. Indeed, as made clear in the revised regulations, CRA loans must be safe and sound and should be profitable. Further, through what can only be called its catalytic power, CRA has spawned hundreds and hundreds of collaborative public and private partnerships -- partnerships that are continually bringing sustainable capital to previously underserved, yet credit-deserving families and businesses and proving that where there's a will, there's a way.

Of course, CRA's ability to produce these results has been enhanced by the public having accurate data on bank lending performance. HMDA has provided that crucial data for home mortgage lending, and because of recent regulatory changes to

CRA, we are poised to gain similar data for small business lending.

The continuous democratization of credit has been the American way throughout our history. Democratization of credit is the story of once novel, revolutionary approaches for extending credit becoming part of the mainstream. Because of it, today's consumers and businesses have credit products that were enjoyed by only a select few -- if any -- in earlier generations. This democratization of credit -- truly dramatic when considered as an historic trend -- did not happen all at once. Rather, it has been a series of advances made possible because innovative leaders have stretched the boundaries of conventional wisdom to discover new ways to serve new borrowers profitably. The community development lending and investing stimulated by CRA continues this trend of developing new profitable markets through innovation.

I doubt if the drafters of CRA had any notion of the kind of numbers we're now able to talk about twenty years after its enactment. Since CRA became law in 1977, we have witnessed over $140 billion of loan commitments for community development. Remarkably, $100 billion -- a full 70 percent of the total -- was made in the past three years alone. A great deal of this investment has been focused on increasing housing opportunity. As HMDA data show, the progress is significant -- home purchase loans to African-American borrowers are up nationally 47.5 percent since 1993 . . . loans to Hispanic families up 36 percent . . . mortgages made in low- and moderate-income census tracts up 22 percent.

Impressive results. Indeed, CRA's successes give me cause for optimism for the future of community development. I'm convinced that we are capable of taking community development to new heights for a number of reasons.

First, we stand to learn a great deal more about the small business market and local economic development needs in the months to come.

As I alluded to earlier, this year, the public will -- for the first time -- have comprehensive information on where banks are making small business loans. Banks and thrifts with over $250 million in assets -- those banks with nearly 85 percent of the industry's assets -- will report aggregate small business and small farm loan data as required under the revised CRA regulation.

These institutions will report to their regulators information by census tract on:

-- the number and amount of small business loans in three categories: under $100,000; between $100,00 and $250,000; and more than $250,000.

In addition, they will report:

-- the number and amount of loans to businesses and farms with gross annual revenues of $1 million or less.

Regulators, in turn, will prepare small business and small farm loan data disclosure statements annually for each individual reporting institution, and aggregate disclosure statements for each metropolitan statistical area (MSA) and the non-MSA portions of each state. Reports for individual institutions will contain information for each county or assessment area with a population less than 500,000 showing small business and farm loans made in low-, moderate-, middle- and upper-income census tracts as well as the number and amount of loans made to enterprises with annual revenues of less than $1 million.

For each county or assessment area of more than 500,000, the number and amount of small business lending and farm loans will be broken down into more refined categories of census tracts based on the area median income. The aggregate disclosure statements will indicate -- separately for each census tract -- the number and amount of small business and small farm loans originated or purchased by all reporting institutions.

We do not know what the information will tell us. But the lesson of HMDA suggests that the data will create heightened understanding of lending patterns and greater opportunities for organizations such as yours to serve a constructive role -- both interpreting the data and working with lenders to serve the needs of local businesses for credit and capital.

Second, the new data on small business lending will support the direction the market has already been taking in focusing on serving the financial needs of growing enterprises.

Today, banks of all sizes are actively courting small businesses. According to the Small Business Administration, the number of commercial loans under $250,000 increased by 8.9 percent nationally from 1994 to 1995.

The total dollar amount for small business lending also increased by 5.4 percent, or $8.3 billion. And as reported in The Wall Street Journal earlier this year, big bank portfolios of small business loans rose 12 percent last year, outpacing the seven percent growth in overall business loan portfolios. In addition, many banks have started to make use of credit scoring technology to reduce the cost of lending to small businesses, and thus make small business loans more readily available in smaller amounts than might otherwise be the case.

What we're seeing is a sea change in mindset. As one industry consultant has put it, banks are "viewing small business customers as the upper end of the consumer credit market rather than the bottom of the commercial credit market."

Third, community development is poised for greater success because a secondary market for community development securities is beginning to emerge.

A secondary market for community-based securities can offer the prospect of extending the benefits of securitization to the commercial side of community development, such as micro-enterprise, multi-family and small business lending. While securitization has proved a reliable -- and growing -- source of funding for home mortgages to borrowers of all incomes, its potential is largely unrealized as a resource to finance community development beyond single family affordable housing.

There are several reasons why broader community development securitization has been limited to date, such as a lack of conformity in the underlying loans. A second major obstacle to this market's growth has been the fact that community development securities typically do not receive a rating from a nationally recognized rating agency. Receiving a security rating can be a very expensive and burdensome process, and the organizations interested in securitizing and offering community development securities often do not have the resources necessary to accomplish this task.

Further, the underlying loans may lack long-term performance data, making them difficult to rate even if the packager chooses to use scarce financial resources to get a rating. As a result, community development securities remain an underutilized investment option -- but one I believe is necessary to keep capital flowing toward your community development efforts.

The OCC has received numerous requests from national banks, community development loan funds and other community-based organizations regarding investments in community development securities.

I'm pleased to announce today that the OCC is sending an advisory letter to all national banks, clarifying how banks can invest in community development securities and advising banks on how they can receive CRA credit for these investments.

The advisory makes clear that national banks are, indeed, permitted to purchase and hold community development securities, even if they lack ratings or performance data, consistent with safe and sound banking practices.

Recently revised OCC regulations permit greater flexibility in this area. Under the Investment Securities Regulation -- Part I of the OCC's rulebook -- a bank can invest up to 5 percent of its unimpaired capital and surplus in community development securities if the bank has developed reliable estimates of the security's performance.

This performance documentation may be based on the bank's assessment of the projects underlying the security, credit underwriting standards, or credit enhancements offered by the issuing organization that support the security and the underlying pool of loans. Other factors that can be considered are the use of mortgage insurance, over-collateralization of small business loans, and the issuer's commitment to repurchase delinquent loans. Over time, as securities develop performance track

records, it may be possible for an institution to invest a higher percentage of its capital.

The advisory letter emphasizes that a bank's investment in securities backed by a pool of loans whose purpose is primarily community development is a qualified investment that receives favorable consideration under the new performance-based CRA regulation. The OCC recently issued a CRA opinion letter explaining that a bank can receive favorable CRA consideration, even if the securities are backed by community development loans that are not directly in the bank's assessment area, provided the loans are located in a statewide or a regional area that includes the bank's assessment area. This ruling should make it easier to fund community development partnerships that serve a broad geographic area, as many of yours do.

Bank participation as both purchasers and issuers of these securities is one pivotal way to stimulate this important market -- and one that we feel can benefit communities as well as banks. But, clearly, the market's evolution will require the participation of others in the financial services industry as well. Other players that can be instrumental in building and securitizing community-based debt instruments include finance companies, foundations and state and local government agencies -- including organizations like yours.

A fourth reason for optimism is that public and private partnerships are being developed and are working to achieve lasting results across the country.

As I travel around the country and visit communities that are being revitalized, it's apparent that sustainable economic development requires concerted, coordinated effort. It simply cannot be forged alone. The successful economic development projects I have observed are most often built from broad-based partnerships among the public sector, private businesses and not-for-profit organizations -- all of whom bring unique strengths and assets to the table. Collaboration is critical.

Local government officials like you have a leading role to play as a catalyst and broker of resources. You know your communities best, and you have the opportunity to bring together those parties that share a stake in your community's future. You know well -- and often control -- the availability of public development resources. To make community development work -- and to develop a strong secondary market for CD securities -- banks will depend upon your leadership to establish partnership infrastructures where lenders see potential lending opportunities.

The OCC can help in the creating strong partnerships. Our community reinvestment and development specialists are available to assist you and the banking industry. Our Community Development Division here in Washington can work with lenders to prepare investment proposals.

As the public development funding landscape is increasingly

decentralized, here are some additional things for you to consider. You can help steer block grants toward credit enhancement vehicles to better leverage scarce public sector resources.

You can also help through efforts to reduce the processing time it can take for public funds to get to the market and into the deals. Finally, I'd ask you to consider ways to offer technical assistance to build the capacity of business development intermediaries -- those intermediaries that provide information on business development, business networking and mentoring to growing firms and entrepreneurs in your community.

And finally, a cause for both optimism and concern.

I want to close with a few words about an important policy debate in Washington that has far-ranging implications for community development. Twenty years after CRA was passed, another issue is being discussed in Congress that has similar long-term consequences for economic development -- financial modernization.

A few weeks ago, I testified before Congress and outlined the five principles that I believe must drive financial modernization. One principle I focused on is that any reform must broaden access to financial services for all consumers and communities. In recent years, the banking industry has made significant progress in expanding access and reaching out to previously underserved communities, and financial modernization must build upon that success.

This principle comes into focus as we consider one of the critical questions in the financial modernization debate -- whether banks should be given the flexibility to undertake new activities, such as insurance sales and securities underwriting, in subsidiaries of the bank, or should be required to set up holding company affiliates. I believe that anyone with a stake in community development should have concerns about proposals for financial modernization that would allow new activities only within holding company affiliates.

What that will do is force assets out of the CRA umbrella -- which applies only to the bank -- and shrink the assets and income available for community reinvestment. If, on the other hand, new activity is conducted within an operating subsidiary of a bank, the income from that new activity flows directly to the bank. As income from new activity grows, that expanding pie factors into the assessments of an institution's CRA obligation, because the asset size of a bank -- including its subsidiaries -- is part of the performance context in which regulators evaluate a bank's CRA performance.

Consequently, the shape that financial modernization takes has crucial implications for anyone who wants the momentum for community development to continue and grow into the 21st century.

Conclusion

I'm hopeful, of course, that the positive momentum created over CRA's first two decades can continue into the next century. The successes we've seen to date have given thousands of families renewed hope, and businesses and communities across the country economic optimism. Those who have pioneered innovation and accomplishments are inspirations to us all -- but it's increasingly important that we follow their lead and continue to find new methods to bring long-term revitalization to America's cities, towns and rural communities.

I thank you for all you've done for community development -- the tireless hours, your commitment to innovation and a track record of remarkable accomplishments. I'm convinced that working together, we can pass on to our children a truly revitalized American community.

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The OCC charters, regulates and supervises approximately 2,800 national banks
and 66 federal branches and agencies of foreign banks in the U.S., accounting
for more than half the nation's banking assets. Its mission is to ensure a
safe, sound and competitive national banking system that supports the citizens, communities and economy of the United States.