

FDIC
Speeches

TESTIMONY OF

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WASHINGTON, D.C.

ON

THE COMMUNITY REINVESTMENT ACT

BEFORE THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

10:00 a.m.
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Dirksen Senate Office Building

Good morning, Mr. Chairman and members of the Committee. I am pleased to be here today to present the views of the Federal Deposit Insurance Corporation on enforcement of the Community Reinvestment Act (CRA). Attached are detailed answers to the questions contained in your recent letters on this subject.

Introduction

Since enactment of this important law in 1977, the FDIC has worked hard to enforce the CRA mandate. That mandate requires us to encourage State chartered, nonmember banks to help meet local community credit needs, including those of low- and moderate-income neighborhood residents, consistent with the safe and sound operation of those banks.

In carrying out its responsibilities under the CRA, the FDIC realizes the importance of the availability of residential mortgage credit and home improvement and rehabilitation loans in preventing the decline of neighborhoods, communities and entire cities. We also are mindful of the value of community reinvestment by banks in making small business loans and loans for community development and redevelopment projects and programs. Such lending efforts help build the physical, social and economic fabric of our nation's neighborhoods and cities and, thus, improve the quality of life for people in our nation's neighborhoods and communities.

The FDIC views the CRA as an integral part of the comprehensive network of fair lending laws that includes the Fair Housing Act, the Equal Credit Opportunity Act, and the Home Mortgage Disclosure Act. This agency works diligently to enforce the objectives of all federal fair lending statutes for which it has enforcement responsibility. We view the effective enforcement of every fair lending law within our jurisdiction as necessary, not only to assure that our statutory mandates are being met, but also to strengthen consumer confidence and trust in the banks supervised by the FDIC.

The FDIC's Role Under the CRA

The fundamental role of the federal financial regulators under the CRA is to encourage the institutions we supervise to help meet local community credit needs, consistent with safe and sound banking practices. The FDIC performs its role primarily through effective bank supervision and enforcement. We administer a compliance examination program by which FDIC-supervised banks are regularly examined, evaluated and rated as to compliance with fair lending laws, including the CRA. This program is carried out according to comprehensive, specific and detailed examination procedures used by each of the federal financial regulators.

In order to enforce compliance with the CRA, in 1978 the FDIC adopted Part 345 of its regulations and comprehensive CRA examination procedures. The major measures of effectiveness in CRA compliance are the assessment factors outlined in our CRA regulations. After applying those factors, the FDIC rates banks in accordance with the Uniform Interagency CRA Assessment Rating System.

The ratings range from 1 to 5, with one being the best. We give special supervisory attention to banks with compliance and CRA ratings of "3," "4," and "5."

In the CRA examination process, examiners evaluate banks on a case-by-case basis taking into account their size, expertise and locale. Community credit needs often differ based on the characteristics of each local community. Banks are evaluated on the basis of efforts to ascertain, determine and help meet community credit needs in the context of local circumstances and resources. FDIC examiners also discuss their findings regarding the bank's CRA performance with bank management. Examiners provide appropriate CRA-related information and technical assistance at that time, thereby helping banks to understand the purposes of the CRA and the FDIC's enforcement role.

Monitoring and enforcing bank compliance with the CRA mandate is critical in the FDIC's evaluation of bank applications for deposit insurance, to establish a branch, to relocate a home office or branch, to merge and in other specified instances. In making decisions on such applications, the FDIC gives due consideration to the bank's CRA performance record. This is required in all cases, not merely in instances where a protest has been filed. As a result of these evaluations, CRA-related violations have resulted in remedial corrective advisements, memoranda of understanding and delayed or conditional approval of applications, as well as application denials.

In addition to enforcing the CRA as part of the examination process and in the context of individual applications, our Office of Consumer Affairs (OCA)

coordinates the processing of CRA complaints filed against banks. Such complaints are investigated by the FDIC or referred to the appropriate federal financial regulator for handling.

All in all, we at the FDIC believe our CRA enforcement efforts have been effective. This view is based on the large number of banks which receive a satisfactory or higher CRA rating, the low number of CRA consumer complaints or protests we have received and the few public comments found in files of FDIC-supervised banks relating to their CRA statement or CRA performance.

Bank Compliance with the CRA

Banks generally comply with CRA requirements. Banks which do not comply find that noncompliance violations can lay the groundwork for CRA protests and complaints against banks resulting not only in denials of applications but in costly time delays. Our overall experience, with few exceptions, has been that once a problem is brought to a bank's attention immediate steps are taken to correct it.

Of the 1,228 banks examined for CRA compliance by the FDIC in 1986, 20 were assigned less than satisfactory ratings. Also, preliminary figures indicate that about two percent (or 42) of the 2,155 banks examined for CRA compliance in 1987 had less than satisfactory ratings.

We believe that the low ratio of less than satisfactory ratings indicates that FDIC-supervised banks are in substantial compliance with the requirements and spirit of the CRA and Part 345 of the FDIC's regulations. A CRA rating does

not reflect an isolated instance of technical noncompliance with a regulation but is a rating of a bank's performance record over time. Violations, when detected by the FDIC, are called to the bank's attention as matters requiring immediate corrective action. Banks generally comply promptly.

Thus, the great majority of FDIC-supervised banks have been found to be in satisfactory or better compliance with the requirements of the CRA. When banks which were rated less than satisfactory on their most recent CRA examination apply for a branch, a relocation, or a merger, we investigate each situation and, when deemed appropriate, conduct an on-site CRA assessment. If the applicant bank is again found to be less than satisfactory as to CRA performance, the FDIC obtains commitments from the bank to favorably resolve all CRA-related problems before approval is granted. Such commitments may be informal or may be stipulated in a memorandum of understanding. No FDIC-supervised bank rated less than satisfactory on the basis of compliance with CRA has had its application approved without agreeing to appropriate corrective actions to favorably resolve FDIC-identified, CRA-related problems.

Since the Act's inception, the FDIC has denied three applications for deposit facilities due to CRA factors. This is .01 percent of the total number of applications subject to the CRA that were filed with the FDIC. The rate of application denials on CRA grounds, however, should not be considered the sole or even a major factor in measuring the effectiveness of the FDIC's use of its authority in enforcing the CRA. CRA-related problems often are corrected by banks at the request of the FDIC, prior to our action on an application. The incidence of such preapproval corrections have not been aggregated by the

FDIC. However, in May 1987, the FDIC's Division of Bank Supervision implemented a new Applications Tracking System which enhances our ability to ascertain which applications were protested based on CRA performance factors and to determine whether the FDIC imposed any CRA-related conditions in conjunction with the approval of those applications.

The FDIC received two CRA-related application protests in 1986 (against two banks) and nine in 1987 (against seven banks). In addition, we received six written CRA complaints and inquiries in 1986 and eight in 1987 that did not concern a specific bank application. Investigations of each of these complaints revealed no illegal CRA practices. Also, FDIC examiners have found very few CRA comments in banks' public files.

The FDIC's toll-free "hotline" also is useful in measuring the effectiveness of the FDIC's enforcement of the CRA. During 1987, the FDIC's Office of Consumer Affairs and our Regional Offices reported approximately 29,100 telephone calls for information and assistance. Of this number, only 194 calls involved community reinvestment matters. OCA also processed about 3,533 written complaints and inquiries, only eight of which involved CRA-related issues.

Improvements in the FDIC's CRA Program

Office of Consumer Affairs. In December 1986, the Board of Directors of the FDIC transferred consumer-affairs responsibilities from the Division of Bank Supervision to a newly established Office of Consumer Affairs. That Office is an independent component of the FDIC and its director reports directly to the Office of the Chairman.

The OCA staff includes a fair-lending analyst whose primary areas are community investment and civil rights. Among other responsibilities, OCA reviews all CRA-related protests filed against an FDIC-supervised bank in relation to an application and presents a written recommendation to our Division of Bank Supervision regarding the disposition of that bank's application. OCA also is charged with the task of continuously evaluating the adequacy of the FDIC's examination program as a mechanism for detecting and correcting violations of consumer protection and civil rights laws. This is in addition to the monitoring of our entire examination process by DBS.

Training. The FDIC provides CRA staff training in four primary ways. The bulk of compliance training, including CRA, is conducted on-site by senior field examiners. These individuals are generally the most experienced examiners who handle the more complex compliance and safety and soundness assignments. Our Regional Office staff keeps those examiners updated on all pertinent information relating to the scope of work assigned to them, including CRA-related information.

More formally, the FDIC's Division of Bank Supervision Training Center administers the Corporation's Consumer Protection School (CPS). Most CPS attendees are examiners with a minimum of two years' bank supervision experience. In 1986, there were three CPS sessions lasting eight days each resulting in the training of 39 students. In 1987, there were four CPS sessions lasting five days each which provided consumer protection and fair lending training to 62 FDIC students. In 1988, we plan to hold six five-day sessions with a total of 132 students scheduled to attend.

In addition to the above training, a two-hour overview of consumer protection laws is included in our advanced training for assistant examiners. We have had approximately ten sessions which included this overview, with approximately 25 assistant examiners (having an average of two years' experience) attending each session.

The FDIC's Office of Consumer Affairs also conducts a 2 1/2-day compliance seminar annually for Regional Office (DBS) Consumer Affairs and Civil Rights Review Examiners and their assistants and/or field examiners. Many of these Review Examiners then provide similar training seminars to their respective regional examination staffs.

We plan to continue our emphasis on compliance training programs, including CRA.

Examinations. The FDIC supervises nearly 9,000 banks. In 1985, approximately 1,069 banks were examined for compliance with the CRA. There were 1,228 examinations conducted in 1986 and approximately 2,155 during 1987. Because of the dramatic increase in the number of failed and problem banks in recent years, the FDIC has had to devote significantly more resources to problems involving safety and soundness.

We are working to improve examiner staffing shortfalls relative to compliance examinations. That endeavor will be facilitated by the provisions in the recently enacted Competitive Equality Banking Act removing the FDIC from certain budgetary constraints. We believe the significantly increased

compliance examination activity during 1987 will continue in 1988. Additional resources again will be allocated to compliance enforcement, including CRA, as we hire and train new examiners and as the number of problem banks begins to stabilize or decrease. In fact, in the budget that was approved by the FDIC Board of Directors on January 19, 1988, the number of compliance examinations during 1988 is projected to increase by approximately 60 percent.

Conclusion

As you know, Mr. Chairman, we have experienced a record number of bank failures over the last two years. Most have taken place in the hard-pressed farm and energy-dependent communities of the South, Southwest and Midwest. In at least 70 percent of these cases, the FDIC has been able to arrange the takeover of all or part of the failed bank by a healthy bank. This has important and positive social and economic consequences for the communities affected by bank failures. It means that along with the FDIC meeting its mandate to safeguard bank deposits, we have been able to secure continued access to credit for meeting local needs. The purchase of all or part of a failed bank by a healthy institution allows the banking relationships of local businesses and consumers to remain uninterrupted in many cases.

At the FDIC, we encourage the banks we supervise to help meet the credit needs of the residents of their local communities. We plan to do more outreach in order to increase awareness of the CRA among both consumers and bankers. Last March, we invited several community groups and consumer protection and civil rights organizations to the FDIC to meet with me and senior Corporation staff for an exchange of views on community reinvestment and other consumer and

community-related issues. That meeting was productive and another is being planned for 1988. In addition, to further our industry outreach efforts in the coming year, the FDIC plans to invite bankers from various parts of the country to compliance seminars where CRA concerns and other consumer-related laws and regulations will be addressed. We continue to believe that it is important to have regular dialogue with representatives from both community and consumer groups and the banking industry.

Thank you once again, Mr. Chairman and members of the Committee, for giving us this opportunity to express our views on an issue of special importance to the nation's communities and financial system. We will be pleased to respond to any questions.

Attachments