Remarks
By
Donna Tanoue
Chairman
Federal Deposit Insurance Corporation
Before
Neighborhood Housing Services of New York
New York, New York
May 2, 2000

It is a pleasure to join you today for the 15th annual breakfast co-sponsored by the Regional Interagency Committee and the Neighborhood Housing Services (NHS) of New York City.

Many things come to mind when one thinks about New York City. One of the most indelible images is that of the Statue of Liberty - for millions the symbol of the promise of America. More than 12 million immigrants entered the United States through Ellis Island - just a few hundred yards south of the Statue - and more than 100 million living Americans can trace their roots to an ancestor who came through there. For generations, immigrants have been drawn to New York by the hope of a better life for themselves and their families. That's true today. More than four and a half million of the 20 million people in the New York metropolitan area were born in a country other than the United States - almost one out of five.

Many financial institutions - including some represented here today - thrive by serving the credit needs of immigrants.

If you look at the names of the people around this room - and the names of some of the speakers on the program - it's easy to appreciate just how much of a nation of immigrants we are.

Being a third generation "Sansei" - Japanese-American -- I feel especially close to my immigrant roots - my grandparents came to Hawaii from Japan to work on the sugar plantations in Hawaii. Like many other plantation workers of their time, my grandparents sought other work as soon as their labor contract was over. My grandmother began to sell "saimin" - or noodles in the most delicious of broths -- from a cart near the area where she lived. She was lucky. She had an acquaintance with business acumen and experience who advised her to invest in real estate and showed her how to do it. From the profits she made selling noodles off that cart, my grandmother bought a small piece of property that later became the site of a small Japanese delicatessen and the family's home. My grandmother didn't have the benefit of advice from Fran Justa and the fine staff of the Neighborhood Housing Services - I wish that she had had - but she did benefit from the advice and support of someone who was there to help her -- someone who showed her how to create equity and net worth.

NHS of New York City was founded in 1982, about five years after the passage of the Community Reinvestment Act in 1977. From its start, NHS has been committed to creating and preserving affordable housing in New York City neighborhoods - "house by house . . . block by block."

The approach differs from neighborhood to neighborhood - and that's why it is so successful.

For example, in certain neighborhoods in the South Bronx - near Yankee Stadium - the population is predominantly Latino. Housing is largely limited to multi-family apartments and co-ops. In those neighborhoods, NHS - in partnership with a large bank - developed a special mortgage product for first-time buyers of co-operative apartments or co-ops. And because of the ethnic composition of the neighborhood, virtually all of the NHS staff in the South Bronx speak Spanish.

Unlike the South Bronx, the housing stock in Northern Queens has many single-family homes. However, many have been illegally converted to apartments and flats. Some owners have foregone home improvements so as to avoid inspections, and tenants are reluctant to respond to census counts. In response, NHS - in cooperation with the Queens borough president - has developed an educational campaign about the harmful impact of illegal conversions and is exploring the possibility of a loan program to fund home improvements that would make the conversions legal.

For NHS, there is no single formula that will work in every neighborhood of the city. The same holds true for most banks as well. What is appropriate in the South Bronx may not be appropriate for Bedford-Stuyvesant, Jamaica, or Northern Queens. What is right for a $10 billion bank may not be right for a $100 million bank. What works in New York might not in Rochester or Albany.

The fact that CRA does not dictate uniform requirements for every insured depository institution is arguably its greatest strength. That fact, however, also causes frustration on the part of some bankers who want clear standards to follow.

As Chairman of the FDIC, I often talk with bankers about the CRA. They acknowledge that many effective lending programs and successful partnerships can be attributed, at least in part, to the CRA. Yet there continues to be frustration on the part of some bankers about the standards the agencies use in assigning CRA ratings. I am regularly asked questions that boil down to "What does it take to get a rating of 'Outstanding'?" Behind many of those questions, moreover, is the belief that the standards have changed - and become tougher -- over time.

What does it take to get a rating of "Outstanding?"

Probably the most accurate answer to that question is "It depends."

However, let me offer you a more complete answer.

"It depends" on whether you are a small bank or a large bank. "It depends" on whether you are primarily a business lender or a consumer lender. "It depends" on whether you are operating in a small town in need of store-front renovations on main street or a large metropolitan area in need of affordable housing or environmental clean-up.

For a small bank, the CRA rules adopted in 1995 established a streamlined examination. Compared to the earlier rules, assessments based on a bank's lending record - how much, where, and to whom - replaced 12 assessment factors that previously had required substantial paper-based documentation in the form of meeting notes, minutes, and memoranda.

Now, more often than not, small banks and thrifts rated "Outstanding" will have earned that rating through satisfactory or better lending performance augmented by qualified investments and/or a strong record of providing retail and community development services. Qualified investments and services can be looked at in a small bank to buttress an otherwise satisfactory performance based on loans, but only if the banker so desires. In other words, bankers at small institutions can use the investment test to bolster their record. It is up to them whether we use the test.

It is possible for a small bank or thrift to earn a rating of "Outstanding" without consideration of its investments or services. However, according to ratings guidance issued in 1995, performance must "materially" exceed the standard for "Satisfactory" to such an extent that a rating of "Outstanding" is warranted. This standard anticipates, in particular, exceptionally strong performance under the borrower and geographic lending criteria. A high loan-to-deposit ratio and a high inside-the-assessment area ratio alone will never be the primary basis for assigning a rating of "Outstanding" to a small bank - you have to have something else.

These standards have been in place since the revised rule went into effect for small banks in 1996.

In contrast to the small bank examination, consideration of qualified investments and services is required in all CRA examinations of large retail banks. A CRA rating of "Outstanding" would generally require good to excellent performance under the three CRA tests to which a large bank is subject - the lending, the service, and the investment tests.

Of those three tests, the lending test is given the most weight and is, therefore, the most important. However, the test that generates the most questions - and seems to be the least well-understood - is probably the investment test.

Many of the questions that I hear come down to "How much is enough?" How many qualified investments must an institution make to get a particular rating under the investment test?

There is no "bright line" standard used by examiners to evaluate the record of a large bank in making qualified investments. I suspect many of you have heard rumors to the contrary. However, although the agencies have in the past discussed whether strict quantitative standards for investment test ratings should be established - for example, qualified investments relative to capital, earnings, or assets - such standards have not been adopted. Investment test ratings continue to reflect a judgmental assessment of quantitative and qualitative factors.

The agencies have steered clear of fixed quantitative standards for good reason. Qualified investments must be tailored to the characteristics of the specific communities in which they are chartered to do business. In areas where the costs of single-family homes are particularly high and the housing stock is comprised of apartments and condominiums, financing for multifamily housing may serve a more critical need than single-family mortgage financing. And when housing costs are high relative to incomes, as is the case in New York City, affordable housing initiatives may need to be targeted at neighborhoods with incomes that exceed the usual standards - and in those cases those activities would count. The regulation, by invoking performance context, permits that degree of flexibility in CRA examinations; common sense demands it.

Clearly, examiners must exercise judgment when conducting CRA examinations. They must understand the local markets and neighborhoods in which a bank operates and they must consider an institution's business strategies and delivery systems when evaluating the institution's CRA record.

I understand that flexibility can breed uncertainty or inconsistency and frustration. However, when the CRA regulations were written in 1995, there was an overwhelming desire for some flexibility expressed by banks that commented on the proposed rules. Preliminary proposals to establish fixed standards were resoundingly rejected by the financial industry. And in New York City, we can easily see the reason why. The city has hundreds of neighborhoods - no two identical. "One size does not fit all." A cookie cutter approach to CRA might make compliance easier, but it would not make the law or regulation any better.

So both the Federal Deposit Insurance Corporation and Neighborhood Housing Services of New York City believe in the strength of a diversity of approaches. Obviously, that requires more work, but getting the job done right is worth the effort.

I thank you for the invitation today and I look forward to working with you.

Last Updated 05/03/2000