BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

FEDERAL DEPOSIT INSURANCE CORPORATION

OFFICE OF THE COMPTROLLER OF THE CURRENCY

and

OFFICE OF THRIFT SUPERVISION

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JOINT PUBLIC HEARING ON
COMMUNITY REINVESTMENT ACT (CRA) REGULATIONS

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MONDAY,
JULY 19, 2010

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The Hearing convened at 9:00 a.m.
in Conference Room C3050 of the Virginia
Square offices of the Federal Deposit
Insurance Corporation, located at 3501 Fairfax
Drive, Arlington, Virginia, Martin J.
Gruenberg, Vice Chairman, FDIC, presiding.

PRESENT:
MARTIN J. GRUENBERG, Vice Chairman, Federal
Deposit Insurance Corporation

ELIZABETH A. DUKE, Governor, Board of
Governors of the Federal Reserve System

JOHN C. DUGAN, Comptroller of the Currency

JOHN E. BOWMAN, Acting Director, Office of
Thrift Supervision

SANDRA F. BRAUNSTEIN, Director, Division of
Consumer and Community Affairs, Board of
Governors of the Federal Reserve System

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VICE CHAIRMAN GRUENBERG: Good morning. If I may, I'd like to begin. We have a full program today and we're going to try, if possible, to keep as close to our schedule as we can.

My name is Martin Gruenberg. I'm the Vice Chairman of the FDIC. And I'm pleased to welcome all of you to this first of four public hearings on the regulations implementing the Community Reinvestment Act.

These hearings are being jointly sponsored by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the FDIC.

Future hearings will be held on August 6th in Atlanta, August 12th in Chicago and August 17th in Los Angeles.

The purpose of these hearings, as stated in the Federal Register notice...
announcing them, is to receive public comment on the Community Reinvestment Act regulations and to solicit views on whether and how the agencies should revise the regulations to better serve the goals of the Community Reinvestment Act.

CRA was enacted in 1977. Its purpose is to encourage insured depository institutions to help meet the credit needs of their communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institutions.

The four regulatory agencies holding these hearings share responsibility for developing regulations, for conducting examinations and for developing public performance evaluations to carry out the CRA.

There has not been a comprehensive review of the regulations implementing CRA since 1995. During the past 15 years, as is well understood, there have been dramatic
changes in the financial services industry. We have moved from an industry in which most banks have branches in one state to an industry in which many institutions have branches in multiple states and a number have deposit facilities nationwide. Some institutions now conduct the majority of their deposit and lending activities using alternative delivery systems such as the Internet.

The basic purpose of CRA-- to expand access to credit and basic banking services on a sustainable basis to homeowners, small businesses and consumers in underserved communities-- has never been more relevant, particularly given the current challenging credit market environment. Low- and moderate-income and minority neighborhoods have been particularly impacted by tight credit market conditions. In light of that, as well as the dramatic changes in banking over the past 15 years, it makes sense to consider whether and
how CRA could be made more effective.

These hearings are designed to solicit a diverse range of views on the Community Reinvestment Act. Although they are not limited to particular topics, the agencies outlined in the Federal Register notice a broad set of issues on which we are seeking public comment including:

Geographic coverage;

CRA performance tests and asset thresholds;

Affiliate activities;

Small business and consumer lending evaluations and data;

Access to banking services;

Community development;

Ratings and incentives and the effect of evidence of discriminatory or illegal credit practices, and;

CRA evaluations.

These are just some of the issues on which we will be hearing comment today.
An outstanding and extensive array

of witnesses is prepared to testify.

If I may, I would like to commend
the exceptional work by the staff of all the
regulatory agencies sponsoring these hearings.

In regard to today's hearing, I would
particularly like to recognize the work of the
FDIC staff, especially Janet Gordon and Ellen
Lazar.

I would now like to ask my
colleagues, Governor Duke from the Federal
Reserve, Comptroller of the Currency Dugan and
OTS Director Bowman if they would like to make
additional comments.

Governor Duke, I understand you
have to leave for your Board meeting, but
you'll be able to come back this afternoon.
And while you're away, Sandra Braunstein,
Director of the Division of Consumer and
Community Affairs, will sit in for you.

GOVERNOR DUKE: Thank you. That's
correct. And my apologies to the first two
On behalf of the Board of Governors of the Federal Reserve System, I'm pleased to add my welcome and to express appreciation to the participants here today in this first of four public hearings to solicit views on whether and how the agencies should update their regulations to better serve the goals of the Community Reinvestment Act.

As we begin, I would note that in the financial regulatory reform legislation that it passed last week, Congress reaffirmed our responsibility and authority to implement CRA. These hearings represent the first step in the process of reviewing and updating CRA to ensure its relevance in the evolving financial marketplace.

Since the CRA's enactment, the implementing regulations have been substantially amended three times; in 1989, 1995 and 2005. In each case changes to the roles reflected both experience gained in the
implementation of the law as well as ongoing
developments in financial markets and in the
economy.

In developing revisions, the
regulatory agencies seek to maximize the
effectiveness of the CRA in promoting adequate
financial services for lower income
communities while minimizing compliance
burden. Progress toward these goals is
facilitated by the flexibility of the original
statute which allows the regulators to adapt
the rules to changing market and economic
circumstances and give financial institutions
the latitude to meet their CRA obligations in
diverse, creative and cost effective ways.

Today's financial landscape is
vastly different from the one that existed
when the CRA was enacted in 1977. We've seen
significant changes in the structure of the
financial services industry and the delivery
of banking services to consumers.

In the wake of the foreclosure
crisis there are new needs and challenges related to housing and community development. And many small businesses report significant difficulties in accessing the credit they need to recover from the severe downturn in economic activity.

As we consider these conditions and how to revise the regulations in light of them, our key priority is ensuring that financial institutions affirmatively meet the credit needs of their entire communities. With this in mind, I'd like to offer a few principles that might help guide our thinking about modification of the CRA regulations.

First, I believe that any regulatory initiative should be as transparent as possible. Regulatory goals must be clearly stated and regulations must be effectively designed to achieve these goals. Much of the motivation for the 1995 CRA regulatory amendments stemmed from the vagueness of the original approach.
The revised regulations were crafted to provide the necessary clarity to spur increases in lending and investment activity.

Second, I believe that the regulations should be tailored to meet their goals as effectively and efficiently as possible. For example, the documentation requirements should take into account the size and resources of the institution and documentation of activities should not overwhelm the activities themselves.

Moreover, performance measurement for any institution must take a broad view of community needs balancing quantitative measures of performance with consideration of the quality of the credit investments and services extended.

Finally, the flexibility that has been a hallmark of the CRA should be maintained. Regulators' ability to redesign CRA rules over the years has kept it relevant.
amid numerous changes in financial markets and community needs. Past revisions recognized the difficulty in measuring success in meeting the credit needs of rural communities that do not have clearly delineated neighborhoods with differing income levels. They also offered added incentives for financial institutions to provide assistance in disaster areas.

Today, there's a pressing need to provide housing-related assistance to stabilize communities affected by high levels of foreclosures. Among the many consequences of high foreclosure levels are growing inventories of vacant properties, depreciating home values, declining property tax basis and the overall destabilization of communities. In response to this need, the agencies again demonstrated the value of CRA flexibility in a proposed CRA revision that would assist in the stabilization of communities that have been hardest hit by the foreclosure crisis.

Specifically, the proposed change
would encourage depository institutions to support the Neighborhood Stabilization Program administered by the U.S. Department of Housing and Urban Development.

We do not know how the economy and financial system will change in coming decades. But given the experience of the past few years, it's safe to assume the change will be rapid. Considerable creativity and flexibility will thus be necessary to ensure that the CRA continues to serve as an effective means to promote community development and otherwise encourage the provision of responsible financial services to lower income households and communities without placing an undue burden on financial institutions.

Although each of the stakeholders represented here today play different roles and have different perspectives, all share a common goal: Working to make sure that high quality financial services are readily
accessible in low- and moderate-income communities consistent with safe and sound operation of financial institutions. With this overarching purpose in mind, I look forward to today's testimony and discussion.

Thank you.

VICE CHAIRMAN GRUENBERG: Thank you.

COMPTROLLER DUGAN: Thank you, Vice Chairman Gruenberg, and thank you to all who will be joining us today for this quite important hearing.

We're holding these hearings to solicit views on how we can better serve the goals of the Community Reinvestment Act. CRA requires the banking agencies to encourage insured depository institutions to help meet the credit needs of their entire communities, including low- and moderate-income areas consistent with safe and sound banking practices.

We look forward to hearing your
views on how we can update the CRA regulations in light of this statutory obligation and recent changes in the financial services industry.

As I've said on many occasions, CRA has become an important bridge unifying banks, their customers and other community stakeholders in successful community development partnerships. CRA supports banks doing what they do best and what they should want to do well: Making viable lending, services and investment decisions in their own communities that are consistent with their business plans and acceptable rates of return.

During the many community tours I've taken during my term as Comptroller I've witnessed on the ground the positive impact that CRA partnerships have had in transforming communities, expanding home ownership and promoting job creation and economic development.

And just as an aside I would say it
was something of a surprise to me when I came back to the Government how much this had changed, become less adversarial and quite a bit more productive in producing real benefits to communities around the country.

But while CRA has helped us accomplish a great deal, it was designed for a financial services delivery system that really is much different than exists today. In 1977 when CRA was enacted, banks and thrifts provided the deposit services and financing for most individuals and businesses. Home mortgage securitization was just emerging and commercial securitization did not exist at all. Banks were not allowed to have branches in more than one state, and bank holding companies could not combine banking, securities or insurance activities.

Fifty-four percent of the nearly 19,000 federally regulated banks and thrifts in 1997 were based in a single location. In contrast today, we are down to just over 8,000
insured depository institutions, some of which have become much, much broader in scope. For example, last year 14 institutions had branches in 15 or more states and these institutions held 43 percent of total domestic deposits.

Moreover, banks face much stiffer competition from non-bank financial firms than they did 30 years ago, including from mortgage and consumer finance companies, securities firms, hedge funds and private equity firms, none of which are subject to CRA.

In addition, technology has brought new methods of credit scoring and streamlined lending processes that have dramatically altered and expanded the availability of credit and financial services to consumers and businesses. As a result, banks and other financial institutions can provide mortgages, consumer loans and other financial products far beyond -- far beyond where they have a physical branch or office. And this is a fact
that challenges the traditional geographic notions of what a community is under the Community Reinvestment Act.

And of course, the financial reform legislation that the President is about to sign into law will obviously bring additional significant changes to the nation's banking system.

All of these changes suggest that now really is a good time to re-examine our CRA regulations. While changes that have been discussed in this CRA debate will require legislation, there are others that can be addressed by regulatory adjustments, and that is the purpose of these hearings. And I do want to stress this point: We are bound by the congressional limits which are quite significant on what CRA is and what its boundaries are. Although we have some flexibility, we must be mindful of that statutory directive. And there may be a number of good ideas that come up in these
hearings that we just can't do by regulation, but that can be taken up as a legislative priority as we go forward.

So in that context we look forward to hearing your views and to learning more from public comments on the topics and questions that these hearings cover.

Thank you very much.

ACTING DIRECTOR BOWMAN: Good morning. I am John Bowman, the Acting Director of Office of Thrift Supervision.

I'd like to join my colleagues in welcoming you to the first of four Community Reinvestment Act hearings to be held between now and mid-August in four cities throughout the country.

The CRA requires financial institutions to meet the credit needs of their entire communities, including low- and moderate-income areas. Consistent with this mandate, both the CRA and the agencies' implementing rules have encouraged
institutions to maintain branches in low- and moderate-income neighborhoods and to develop innovative products and services for lower income households. In addition, CRA has been implemented in a manner that promotes access to credit and related banking services for underserved communities.

The agencies responsible for evaluating CRA performance have created this opportunity for stakeholders to provide their perspectives on potential changes to the CRA regulations. Collectively we are committed to making these rules as effective and meaningful as possible for both the financial institutions covered by the CRA and the communities and consumers that such institutions serve. I believe that these public hearings are an excellent way for us to gather information and gain a greater understanding of the challenges and needs of low- and moderate-income communities and individuals throughout the United States.
Many questions can be discussed as we consider how to remodel CRA rules. While the responses to some of those questions would require legislation to implement, the emphasis today and throughout the four hearings is on regulatory changes that would come within the purview of the agencies represented here.

To focus our discussion we have assigned specific topics to specific hearings. Today we hope to hear in detail about community development, CRA ratings and incentives and the effect of evidence of discriminatory or other illegal credit practices on CRA performance evaluations.

With respect to community development a fundamental question is whether the regulations reflect current thinking about best practices that strengthen communities. Do the rules provide an appropriate framework for evaluating community development performance? If not, how should the rules be adjusted? I look forward to hearing your
thoughts on the subject.

Another area in the spotlight today is the CRA rating system. Should it be refined to further allow better distinctions between those institutions that are performing well and those that are not? Should the incentives for high performance be adjusted? Again, I look forward to hearing your views on these issues.

Finally, under the current rules illegal credit practices receive adverse consideration as CRA performance is evaluated. While the statute requires that CRA activities be carried out consistent with safe and sound operations, an unsettled question is whether the regulations should be revised to more specifically address how evidence of unsafe and unsound lending practices might adversely affect CRA ratings. We've sought input on that question today, and I'll be very interested to hear your thoughts on it.

In considering these questions and
others, we are committed to work with all stakeholders to ensure that the mission of CRA continues to be fulfilled. We are keenly interested in building on current CRA rules to improve the means of bringing financial products and services to communities and consumers in a responsible, affordable and safe and sound manner. Your input is invaluable in this process.

Thank you all for participating in this hearing. And I know that we will benefit greatly from the thoughtful recommendations that you offer us.

VICE CHAIRMAN GRUENBERG: Thank you. Thank you all very much.