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OTS 00-83 - OTS Director Seidman offers strategy for successful Community Reinvestment

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OTS Director Seidman Offers Strategy for Successful Community Reinvestment

WASHINGTON, D.C., Oct. 5, 2000 - Asserting that Community Reinvestment Act (CRA) responsibilities "are now an acknowledged aspect of business operations throughout a bank or thrift," Director Ellen Seidman of the Office of Thrift Supervision (OTS) today laid out a five-point strategy for effective community reinvestment.

These elements, while not new or novel, are important to the upcoming 2002 review of the Community Reinvestment Act regulations, she said in a San Francisco speech to the National Association of Affordable Housing Lenders. "The key to making CRA and its implementing regulations both effective and supported by financial institutions and communities is that they be consistent with, and encouraging of, the development and implementation of each institution's comprehensive strategy for serving its community," Ms. Seidman said. "This objective should guide us in our CRA review in 2002."

The key elements she identified are: 1. Understanding the market and accurately assessing business opportunities in new markets. "Businesses that are able to recognize the untapped potential in "undervalued" communities will have a key competitive advantage." She told of a Milwaukee, Wis., thrift that, upon realizing an imbalance in lending, opened a storefront branch in the heart of the city's Hispanic community, hired Spanish-speaking employees and developed a mortgage loan product that was not only responsive to the community's needs but also became the foundation for a new state bond program.

2. Having a community reinvestment vision and strategy. She noted how a small community thrift in Georgia has been able to forge long-term banking relationships with a segment of its community, that was not well housed or well served financially, by developing an innovative in-house, first-time homebuyer program and building on that in partnership with others.

3. Developing partnerships. Many institutions still don't fully appreciate the importance of building strategic alliances as part of their reinvestment strategy. Success is predicated on identifying the stakeholders, the right partners and helping to shape a shared strategy.

4. Being a responsible lender. This means making loans on responsible terms to people who can afford to pay them back and making certain borrowers both understand the terms of the loan and have the opportunity to get the best terms available given their credit and financial position. It also means expanding both the market for and affordability of loan products.

5. Investing and providing services. Their value can't be overstated in the context of developing business in new or underserved markets. Moreover, "how investments and services continue to be evaluated for CRA purposes," Ms. Seidman said, "is certain to be among the issues the regulators will face when reevaluating the CRA regulations..."

While "we got it mostly right" in the 1995 revamping of the CRA regulations, the OTS Director said that notwithstanding the emphasis placed on performance, there still are occasions where numbers drive decisions. Sometimes the stiff competition for business drives off small community institutions and artificially reduces the profitability of loans that "count" for CRA purposes.

"These trends, if they continue, threaten to play into the hands of those who argue that CRA lending is an unprofitable business. Our goal must be CRA regulations that foster sustainable community reinvestment," she said.

She cited a recent Federal Reserve Board study that shows lending to low- and moderate-income borrowers to be a profitable and successful business. Moreover, CRA, which encourages financial institutions to expand access to credit among these borrowers, has been critically important in homeownership in America reaching an all-time high at the end of June 2000, with 67.2 percent of households owning their homes.

Other areas that need review, she added, deal with the investment test, including how investments are rated and weighed in the evaluation process, and the assessment area definition. While institutions have a wide variety of business strategies and alternative delivery systems, Seidman said, she is "confident that we can find solutions to the assessment issue as long as we are guided by the principle that institutions have a statutory obligation under CRA to the low-and moderate-income segments of the communities they are chartered to serve - even if that charter is for nationwide service"

Another important issue Ms. Seidman touched on was predatory lending. Combating this type of mortgage lending requires a three-part strategy, she said, including active enforcement of laws and regulations, consumer education and responsible competition.

"Competition from responsible conventional and sub-prime lenders in markets being preyed upon by unscrupulous lenders is critical," she said. "You need to be that competition, responsibly meeting home improvement and other credit needs as well as providing home purchase loans."

Community Reinvestment Speech - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2000-83a.pdf>

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The Office of Thrift Supervision (OTS), an office of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS's mission is to ensure the safety and soundness of thrift institutions and to support their role as home mortgage lenders and providers of other community credit and financial services. For copies of news releases or other documents visit the OTS web page at www.ots.treas.gov.