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THE WHITE HOUSE

Office of the Press Secretary

BACKGROUND BRIEFING
BY
SENIOR ADMINISTRATION OFFICIAL

July 15, 1993

The Briefing Room

1:13 P.M. EDT

MR. JONES: This BACKGROUND BRIEFING on the community development banks and the Community Reinvestment Act will be conducted by [names deleted].

SENIOR ADMINISTRATION OFFICIAL: Thanks. I'll be real brief here, and we get right on to questions.

Basically, as you know, we've got two initiatives announced today. They both fit into one another, and they both fit into as parts of the President's overall economic program. Clearly, the community development banks are intended to be genuine investments. The whole program is designed to foster the growth of institutions that will continue on into the future. This is not just a one-time expenditure, but rather to help develop existing institutions further and promote new institutions that continue on indefinitely to support their communities.

It's designed to have maximum leverage at the private sector so that ultimately the amount of funds that are put up by the federal government can be multiplied substantially in terms of the total amount of credit delivered to the distressed communities. It's targeted particularly for the distressed communities. And it's intended to help build the communities themselves, the businesses in those communities that can then provide jobs, housing in those communities that can then make them more revitalized. This is both inner city and rural, Indian reservation -- it's got a broad potential application. And as the President mentioned, it's a number of different kinds of financial institutions, not just banks.

Again, this fits in with the overall program of the President. It's very important that we get this total economic program, the total budget passed in order for this to fit in as a piece of it. The Community Reinvestment Act is oriented, as the President said, just simply to get performance -- objective measures of how banks are doing in terms of actually delivering credit to the communities in which they operate, particularly credit; other services, too.

And one of the factors which will be taken into consideration in measuring the performance of banks is the degree to which they support, by investment or otherwise, the community development banks that are going to be developed as part of the other program. So again, the pieces fit together.

With that brief introduction we'd be happy to take your questions.

Q Do you have a rough estimate of how many new community development institutions this will create as opposed to helping existing institutions?

SENIOR ADMINISTRATION OFFICIAL: We don't have a particular bias one way or the other about new or existing institutions. We don't have a -- the question was do we know how many new institutions are going to be created. There's no initial bias one way or the other. If we have an institution -- we're open to applications. The fund is intended to be open to applications from existing entities which are maybe community development banks, maybe community development credit unions, micro-lenders, community development corporations that may be already operating successfully and need more capital in order to expand. If they have a good track record and a good program to present to the board of this fund, they will be eligible for funds that can help them expand. If somebody else comes in with a new idea, they want to form a new institution of any one of these forms in a distressed community and they file an application, they will get equal treatment. There's no particular bias one way or the other.

We anticipate that the number of institutions that will actually be provided some capital in one form or another by the fund will exceed 100 and could actually be in the hundreds as the years go by.

Q What does this say about the banking industry in America, whereby the people you had at your event couldn't get money from mainstream banks and couldn't make a go of what turned out to be successful enterprises?

SENIOR ADMINISTRATION OFFICIAL: I think the Community Reinvestment Act change that has been showcased by the President really offers us a great deal of opportunity to deal with that issue. Banks have been spending a lot of time focusing on process instead of focusing on results. During the campaign, the President heard constant complaint about the emphasis on process. Nobody was happy -- the community groups weren't happy, the banks weren't happy. It was just not coming together.

The President got it exactly right when he said what we need is performance, not paperwork. And the President has come forth with this initiative with a date certain, a process to turn that set of goals, "performance, not paperwork," into reality, and a structure, in terms of moving towards objectivity. That will address those needs better. This is an important change. And I think he's got it just right.

Q Well, does this take those banks off the hook then from living up to all the requirements of the CRA that the President mentioned --

SENIOR ADMINISTRATION OFFICIAL: Absolutely not. I mean, the whole thrust of this CRA is to look at what they're doing, not what they're saying. In other words, there is -- this is object oriented instead of totally subjective.

Now, there's a subjective element that is bound to remain. We have a very big country. It's very diverse. And one has to take account of that diversity. But at the same time, moving in the direction of objectivity in terms of measurement -- what are you doing, not what are you saying -- will definitely put some emphasis where it belongs and will change lending habits.

Q How are you going to measure performance? Are you going to tell banks to allocate a certain amount of their credit in inner cities?

SENIOR ADMINISTRATION OFFICIAL: No, I don't think you need go that far. Let me say it is a process. And we're going to be talking to bankers, and we're going to be talking to community groups; and the regulators will be meeting among themselves constantly, as well as members of Congress.

There is such a huge distance -- you can go from the current system, which has pages upon pages in the regulations of what documents to supply, to a system that is more objective. You can move so far along that spectrum without ever getting near credit allocation and still make a big difference. And that's where we're going. But I don't want to prejudge the result.

Q Do you expect stiffer sanctions for CRA violations after you rewrite all the rules?

SENIOR ADMINISTRATION OFFICIAL: One would hope that what the CRA change will mean is that outstanding will really be outstanding; and people will -- I'd like to see every bank outstanding, because they've really done the job. At the same time, we are certainly going to be very sensitive to the fact that banks under CRA are required to do a job, and that currently there's a very lumpy situation where when you're going to apply for an application for a branch, you can get a CRA protest to stop you. But if you're not apply for an application, CRA doesn't really bite. That produces some very odd results. In rural areas where there's less applications, there's less CRA, if you will, enforcement. So we're going to be considering that very seriously and try to address that problem.

Q Do you expect the fight to be tougher? And if so, in what ways?

SENIOR ADMINISTRATION OFFICIAL: Moving toward objectivity, I think, creates a playing field that everybody understands. And I would hope that it doesn't necessarily mean tougher for tougher sake. In other words, one's not trying to increase burden here. This really should lessen burden and be a winwin situation both for community groups and for banks. Knowing what targets to shoot at should help everybody.

Q Can you try to give us an example of the kind of paperwork that's now involved versus the kind of standard you want to move to? And also, how much of their obligation could be met through these contributions to the foundations and banks -- 50 percent, 75 percent? Any more specifics?

SENIOR ADMINISTRATION OFFICIAL: Let me give you a story that I'll mention today when I testify. A number of people came to me early on in my term and say -- gave me stories about the Community Reinvestment Act. One person talked of a banker -- and I believe these stories are credible -- that said, "Oh, I know how to get by CRA. What I do is when I go to the Kiwanis Club, I come back to my office and I write a big, long memo that says 'met with community leaders and talked about credit needs of the community.' I put it in the file." And he said, "Then when I go out later in the evening, I go socializing with my old buddies." He said, "I come back to the office the next morning and I write out a big, long memo that said 'met with community leaders and addressed CRA needs,' and put it in the file. And then when your examiners come, there's a big pile of paper for them to look at, and that's what they're supposed to look at -- that big pile of paper. Well, that doesn't pass the smile test.

Refocusing that energy in terms of focusing on paper towards going out into the community and addressing credit needs is what this is all about. And, as I said, there's a very long way you can go on this -- with moving towards objectivity.

Q On the second part of that question, how much -- if you find a bank hasn't been meetings its obligations, can they then turn around and say, well, we're going to give $5 million to this community development --

SENIOR ADMINISTRATION OFFICIAL: Absolutely not. The President, in his directive to us, recognized that there are a variety of different ways one can meet Community Reinvestment Act needs, no one of which is sort of an exemption. In other words, we will be -- you should get some credit for making an investment and you should get significant credit for making an investment in a community development financial institution. That's helping to meet the needs. But that's not going to be a pass. That's not going to be an exemption. That's one thing that will be measured and looked at, and that's why these things fit so nicely together. Because for the first time, you'll be able to give meaningful credit to making an investment -- a meaningful investment, and community development financial institution.

Q What's meaningful credit?

SENIOR ADMINISTRATION OFFICIAL: Well, that's why there's a process. That's why there's a process. That is a set of tough questions and we've got a set of tough hurdles to jump over between now and January 1, 1994.

Q What incentive is there for the most pressed communities, both in the inner city and in rural areas that don't have an existing institution, to actually start one to be able to take advantage of this?

SENIOR ADMINISTRATION OFFICIAL: Well, one of the nice features of this bill is that everybody is eligible to apply. And we are very confident that not only the national foundations, but a variety of private corporations, and particularly the states are going to be interested in working with their local communities to come up with applications that are worthy of funding.

If you remember the President's remarks that he made himself about Elkhorn Bank and the contributions that were made there, and that I think in the area that exists in Arkansas would qualify under your definition of a very poor distressed rural community. And yet from a variety of sources, a minimum amount, by the way, which came from the state government, they were able to do this. So with this extra incentive that we have here of this investment that the federal government fund will put together we hope to attract an awful lot of private persons, state governments, and foundations to come up with -- and work with their local communities to come up applications that should be funded. And this is going to be a network of banks that serve all communities across the country.

Q Is it fair to say that in the first few years, since existing institutions already have staffs who can work on these types of things, that you expect the program to be weighted towards existing institutions rather than new institutions?

SENIOR ADMINISTRATION OFFICIAL: Well, we're going to have a board that I think will be broadly representative of both the interested portions of the federal agencies that are committed to making community reinvestment work. You're going to have persons from the private sector who are going to serve on that board. And I think you'll be pleasantly surprised by the type of balance and the type of objectivity and the type of judgments they make in bringing this to fruition.

Q Are you going to control in any way the distribution of funds across the country between geographical areas, urban, rural?

SENIOR ADMINISTRATION OFFICIAL: There's a selection criteria in the bill which relates one of about 10 or 12 of the selection criteria that we have proposed in our bill, one of which is the geographic diversity issue.

Q Would you go through the numbers involved in this? The President said about $400 million. How much overall? How much in the budget for next year? How many years are you --

SENIOR ADMINISTRATION OFFICIAL: Over a four year period there's $384 million, or such greater amounts as the Congress may choose to appropriate based on our actual experience. There will be -- for this year we are working very hard to try and cooperate with both the authorizing committees and the appropriating committees to get this started this year, both authorized and $60 million in funds appropriated.

In terms of the numbers of dollars that that may make available, there will be at least $300-and-some million actually invested in community development institutions. But there will also be funds available for the type of technical assistance that, in fact, might help some applicants who otherwise can't get their act together in other ways, but are deserving.

That will be leveraged, then, by -- if it's a depository institution, just as an example, the leverage can be anywhere from 8- to-1 to 14-to-1 in terms of the dollars that will end up in actual lending credit. And to take a nondepository institution as an example, many of our most successful CDCs across the country, they have a 9-to-1 leverage. They're getting $9 from other financial institutions for every dollar that they invest. So there's a tremendous potential here to help the entire country.

Q Will you take into consideration a community that's hurt by the closing of military bases, say, something like that, or a community that sent so many people off to the Persian Gulf and they've been suffering ever since?

SENIOR ADMINISTRATION OFFICIAL: Well, I think the selection criteria, when you look at them, are based on the degree of essentially distress. And as I mentioned to you, you're going to have a board that I think represents the types of interests in both the government and in the private sector that are going to be in there trying to help.

Secondly, I think you have to realize that this is one of many programs that are targeted to try and help communities that are in distress for one reason or another. There are specific measures, as you know, related to base closing. And on that particular issue with this initiative, I think that's something that I personally have not considered.

Q I understand that a commercial bank or a community development subsidiary of a commercial bank would not be eligible for funding under this program. If that's true, why did you make that decision to leave commercial banks out?

SENIOR ADMINISTRATION OFFICIAL: Well, I'd be glad to defer to my colleague on this, but I think his response was very accurate. The Community Reinvestment Act itself imposes obligations on our major financial institutions. And those are obligations that we think that the President, in his directive to the regulators, will strengthen CRA tremendously. And, given those obligations, we think that the banks themselves are the ones who should live up to those obligations. And insofar as there are failures in the market, insofar as there are communities that are not served by existing banking institutions, those are the ones for which the CDFI initiative is reserved.

Q You said $300 million into the economy over the next five years -- is that what you said?

SENIOR ADMINISTRATION OFFICIAL: No, I said that there were -- the bill itself would invest at least $300 million in equity in local community development financial institutions around the country. That then will be matched by private equity contributions from the types of foundations, other banks, state governments, a variety of private sources. Then that pool of equity, which is what the base is for any of your financial institutions, they will then lend against that. And the Treasury has an estimate that, conservatively, over $2 billion will go into the economy in actual lending over the next four or five years.

Q There's one segment of the population that has a hard time getting --

Q What's the source of the $300 million?

SENIOR ADMINISTRATION OFFICIAL: The source of the $300 million would be an appropriation from Congress to the fund.

Q There's one section of the country that has a hard time getting -- one section of the population a hard time getting credit often, and that's women. When you name this board, are you going to be mindful of that fact?

SENIOR ADMINISTRATION OFFICIAL: I'm sure the President will be.

Q Can you tell me on the geographic distribution, can you be a little more specific on that? Is it one -- there has to be at least one for every state, or is more diverse? And is there a poverty threshold in the criteria or urban defined or urban-rural split, urban areas get half the money?

SENIOR ADMINISTRATION OFFICIAL: No, there are no such hard and fast rules. Basically we have, as I mentioned, about 10 or 15 criteria. I'd be glad to share the bill with you and the legislation and go over those criteria with you in detail. Essentially, no one of them is a win or lose situation. They are to be viewed as a whole.

Q Do you have a timetable when this is all going to take place?

SENIOR ADMINISTRATION OFFICIAL: Well, I think we were pleased, as the President reported, that the hearings before the Senate banking committee on our particular initiative will occur at 2:00 p.m. this afternoon. And Chairman Gonzalez, in cooperation with all the subcommittee chairs of House Banking, will hold their hearings within the next two weeks. So we hope that initiative will go forward.

SENIOR ADMINISTRATION OFFICIAL: I just want to -- if anybody has any more questions for my colleagues, they have to go in two minutes to the hearings.

Q Is the $60 million for this coming year already part of the President's budget package that was already --

SENIOR ADMINISTRATION OFFICIAL: Yes, it is.

Q Will any of the flood disaster states be given any sort of special preferential treatment in this package?

SENIOR ADMINISTRATION OFFICIAL: There is no particular -- obviously, as this legislation was drafted over the past few months, there is no particular selection criteria related to the terrible flooding tragedy that's going on now.

Q Or to Hurricane Andrew, so there's no application to natural disasters whatsoever?

SENIOR ADMINISTRATION OFFICIAL: That's correct.

Q When does a bad loan risk to a commercial bank become a good loan risk to a community development bank?

SENIOR ADMINISTRATION OFFICIAL: Well, I don't think either of these programs are giveaways. Frankly, there is a huge need in the inner city, low and moderate income areas, and poor rural areas. Both these initiatives meet a slice of that. But it's a very important slice. It's a slice that brings people, as the President said earlier, into the economic mainstream of the society. CDFIs fulfill a very important niche -- if you will, a more entrepreneurial niche. They fill niches both -- likely to fill niches both geographically and substantively that banks have not filled.

At the same time, banks have an enormous role to play here. They're all over the country. They're in virtually every community -- most communities. And if you look at banks having $4 trillion of assets currently, increased activity as a result of the Community Reinvestment Act is very significant.

Q Will you tell us if there's going to be housing for the homeless from this program?

SENIOR ADMINISTRATION OFFICIAL: If I could just add a point to the previous question, which is these are not bad risks. The experience with ShoreBank in Chicago is that small loans to lowincome entrepreneurs have a much lower default rate than most mainstream banks have experienced. The trouble is most mainstream banks don't have the lending expertise to make these loans and identify good risks in low-income communities.

Q The banking industry has a lot of hopes for regulatory relief and there's a theory that they will act to get these things tacked on to this bill. Do you have a scheme for getting this through without a lot of --

SENIOR ADMINISTRATION OFFICIAL: Let me respond to the one about regulatory relief, but we had a prior question about the homeless, which my colleague is going to respond to first.

SENIOR ADMINISTRATION OFFICIAL: Thank you. I think this, as you've heard from the President and at this briefing, this initiative in and of itself is very significant. The need is tremendous for a resource such as the one that's presented today. It is even more significant when you look at the total context that it is within. The premise is that we have to get economic development going on in distressed urban and rural areas. That's what CD banks are all about. That's also what empowerment zones which is an initiative that has been previously announced and introduced is also about. They are two measures to do the same for the same purpose, for the same overall initiative -- spur economic development.

This does not have a specific homeless initiative in it. However, CD banks are designed to work in tandem with empowerment zones which bring in a comprehensive redevelopment strategy. They bring tax incentives to attract a business. This is -- CD banks would be yet an additional access to capital strategy in the midst of a comprehensive redevelopment plan that has housing together with economic development, together with infrastructure.

So when you put it all together you will be taking care of, at least addressing, the multifaceted needs of the community.

SENIOR ADMINISTRATION OFFICIAL: Let me respond to the question about regulatory relief and then my colleague and I do need to leave. The question was, is regulatory relief for banks some how or other going to be involved in this whole process. And the answer is that we're treating that as a separate, discreet issue. And in fact the transmittal letter from the President to Congress on the Community Development Bank specifically asked Congress to treat this as a separate issue. The Community Development Banks are a very constructive step unto themselves, don't need to be tied into other things.

We do have, as you know, the regulatory credit crunch alleviation program that has completed most of its steps, but there are some continuing regulatory review processes that are on-going as part of that. The CRA initiative itself is not exactly a regulatory relief step, it's a regulatory rationalization step. And in a sense, rationalizing these regulations will turn out to be a relief. As my colleague said before, it's a win-win situation. It will produce more for the communities and should make life more livable for the bankers because they will have more objective, clearer understanding of what they need to do to meet the regulations.

Whether or not we then go on to address some legislative issues that might be appropriate for furthering the efficiency and the flow of credit through the banking system is something that we have not yet addressed and that's something later on in the agenda.

THE PRESS: Thank you.

END1:37 P.M. EDT