Community Reinvestment Act Joint Public Hearings, August 12, 2010
Panel One: Thomas FitzGibbon

Thomas FitzGibbon:
Thank you. Good morning everybody. Boy, I'll tell you this is like preaching to the choir. There are about one third of you in this audience that I know in one way or another, so I'm Tommy FitzGibbon. I'm here and I'm not really representing my institution, First Michigan Bank, which I have part ownership in, or the other World Bank that I serve in the Board of Directors, the National Bank, World Bank. But I'm here really thinking about how the concerns of the practitioners in this industry sort of feel; the folks who are on the street in the community development field, the folks who are in the banking world to try to work through the community development process, and I think my testimony will reflect some concerns in that regard.

My testimony will focus on the need to address, to expand the organizations and institutions that should be covered by CRA, and the methodology for evaluating performance of those institutions and the current institutions covered by the act in rules. This is going to broach the subject of geographic concern, but it's not in the same context as the other presenters today. The elements of the examination process focused on the performance evaluation as well as the definition of wholesale unlimited purpose banks needs to be addressed.

The world has changed dramatically as we've talked about already. Major changes occurred in the rules in '91 and then updated in '95 to reflect the concern that regulated depositories should be measured for performance to ensure that they were lending, investing and surfacing in those delineated markets. Since that time, the migration internet banking as we've talked about before, wholesale and limited purpose banks as well as the explosion of barely regulated mortgage brokers and whole mortgage banking, has all but deluded the original impact of CRA intended by Congress. These situations combined with the significant consolidation of the regulated depositories--we probably have $8,000 today, probably going to go to $6,000. Got a lot of impending failures and we've seen 109 I think thus far this year and more to come. So the situation in effect results in a reverse bell curve. We've got large national banks, very few mid-sized banks that are sort of covered as community development activities under CRA, and very few smaller banks and getting fewer and fewer as we go along.

This while the consumer and small business loan demand has shifted away from non-depository channels to independent activities. So where do we go from here? Sort of echoing what Dory has said, the major players in the mortgage market at the point of origination since 1997 have been mortgage companies and mortgage brokers. I don't know how many of them are going to be left but these industries are regulated and chartered by individual states. At one point in 2007, there were more than 400,000 brokers in California alone. Illinois only had 3,000.

Was that a one minute warning? Two minutes--thank you.

As a member of the Consumer Advisory Committee the Board of Governors of the Federal Reserve System 2004 when we last looked at CRA Reform, I was asked by a representative of World Savings who was also on the Board if I supported more regulation. I responded in the affirmative. When we debated at that same public forum of about changing the roles to limit the scope of examinations for lower asset levels, I objected. Asset levels are merely one indicator of the role those depositories should be measured by. Thus, the non-depositories who originate loans should be guided by the same principles that depositories would be measured for compliance with the rules.

The designation of wholesale unlimited purpose banks must be changed to reflect the fact that these institutions also draw funds from consumers and small businesses and local markets, and loan in markets far away from their local community. I say this as an example one failed local bank here in Chicago that received an outstanding CRA rating as a wholesale bank grew significant deposits, $3 billion dollars or more, in the local market and virtually ignored any local community development efforts at all. Their claim to fame is they made two nursing home loans and banked the currency exchanges--wow.

I don't blame the examiners for rating the bank so high, but the roles that are in place for wholesale limited purpose banks give them no room for criticism. I know that what it takes to achieve an outstanding rating, and it is frustrating to be in the same class as this failed bank. It begs the question similarly about grade inflation and that subject should also be addressed with more granular rating system that provides much more detail regarding the performance of the institution.