



Office of Thrift Supervision
Department of the Treasury
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Nicolas P. Retsinas
Director

RESCINDED

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Any attachments to this document are rescinded only as they relate to national banks and federal savings associations.

MEMORANDUM FOR: Chief Executive Officers

FROM: Nicolas P. Retsinas
Director *Nicolas P. Retsinas*

SUBJECT: Welfare to Work Movement and the
Community Reinvestment Act (CRA)

The implementation of sweeping welfare reform legislation will impact all of our communities. Ultimately, the success of this reform effort depends on job creation and skill building for those moving from welfare to work. President Clinton has challenged us-in the government and in the private sector-to play a role in this reform effort. In response, we have received questions from savings associations about how various supportive endeavors might be considered under the Community Reinvestment Act ("CRA").

We believe that there is a natural synergy between the welfare to work movement and the principles of the CRA. As you know, President Clinton has championed the cause for more results-oriented community involvement by banks and thrifts. He has recognized that the CRA has encouraged banks and thrifts to make billions of dollars of investments to revive communities, and is committed to maintaining that record of performance. The new CRA regulation rewards thrifts that are engaged in community development activities, including those activities that revitalize communities and further employment growth through small business financing.

If you have not considered this aspect of CRA, let me review a few items with you. First, the definition of "community development" in the new CRA regulation includes not only support for affordable housing, but also activities that revitalize or stabilize low- or moderate-income geographies, or that promote economic development by financing small businesses or farms. In fact, interagency guidance indicates that community development lending in the form of small business financing that supports permanent job creation, retention, and/or improvement for persons who are currently low- or moderate-income receives favorable CRA consideration.

Second, CRA complements the President's multi-faceted initiative of investment incentives for creating new jobs through support of Community Development Financial Institutions (CDFIs), and Empowerment Zones and Enterprise Communities (EZ/ECs). OTS and the banking regulatory agencies have given notice that lending to, or investing in, a particular EZ/EC's endorsed programs that build job skills or expand employment

opportunities qualify for positive CRA consideration. In addition, loans to and investments in CDFIs and Community Development Corporations are prime examples of activities that the new CRA regulation credits as community development.

Third, the new CRA regulation recognizes the value of lending to small businesses and farms throughout the communities our industry serves. As the President has acknowledged in praise of microenterprises, lending directly, or through consortia or specialized funds, to the smallest of entrepreneurs can assist many who are "struggling to move from welfare to work." Direct lending and lending through third parties are both appropriate paths to follow in meeting CRA obligations through small business lending.

With the ability to exercise new powers and authorities, and to develop new products responsive to credit needs not previously addressed by the traditional focus on housing-related financing, the thrift industry now has the flexibility to recast itself as a significant presence in a full service community financial system. By participating in community revitalization efforts, a thrift can identify itself as a leader in its community's growth and in the economic well-being of its citizens.

By providing credit and financial acumen, thrifts can help others leverage their resources to accomplish the objectives of economic development and community revitalization. It is through the discharge of their CRA obligations in this manner that our industry shoulders its responsibilities as partners in the welfare-to-work movement.

Thank you for your continuing commitment to community reinvestment and for realizing that there is good business to be done in pursuit of a better America for all.