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STATEMENT FOR THE RECORD

SUBMITTED BY

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TO THE SUBCOMMITTEE ON

COMMERCE, CONSUMER AND MONETARY AFFAIRS

OF THE

HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

As requested on January 29, 1981, by the Chairman of the Subcommittee on Commerce, Consumer, and Monetary Affairs, the General Accounting Office has ascertained the steps taken by various Federal financial institutions regulatory agencies to implement Section 603 of the Housing and Community Development Act of 1980. This statement explains the work we performed and the facts we ascertained.

Our general observation is that the agencies are informing their institutions of the congressional intent contained in section 603 but are taking no steps to enforce it, per se.

GAO WORK LIMITED TO CONDUCTING INTERVIEWS
AND COLLECTING WRITTEN POLICIES

We confined our inquiry to interviewing officials at six Federal agencies--the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the

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Comptroller of the Currency, the Federal Home Loan Bank Board, the National Credit Union Administration, and the Federal Financial Institutions Examination Council--and to obtaining any written policies and procedures produced by them since the act was passed in October of last year. We did not evaluate the effectiveness of any of the actions taken by the agencies.

We focused our inquiry around the three questions raised by Chairman Reuss of the House Committee on Banking, Finance, and Urban Affairs, and Chairman St Germain of that Committee's Subcommittee on Financial Institutions, Regulation, and Insurance--also raised by this subcommittee in its request--in their October 1980 letter to the regulatory agencies.

Those were,

- How will the agencies discourage financial institutions from lending for conversions that would adversely impact low-income, handicapped, and elderly persons?,
- How will the agencies inform various public organizations about the congressional action in section 603?, and
- How will the agencies assure that section 603 is being implemented by financial institutions they supervise?

AGENCIES INFORMING INSTITUTIONS BUT
DEVELOPING NO SPECIFIC REGULATIONS

None of the five regulatory agencies nor the Council has developed, or is planning to develop, any specific regulations to enforce section 603. This is because they consider it, as a "sense of the Congress" resolution, to be unenforceable.

With regard to the first question, four of the agencies-- the Federal Reserve, the National Credit Union Administration (NCUA), the Federal Home Loan Bank Board, and the Federal Deposit Insurance Corporation (FDIC)--told us they were discouraging their institutions from making loans for conversions with adverse impacts by informing them in writing of the sense of the Congress expressed in section 603. The former Comptroller of the Currency informed several members of the Congress that he intended to notify each national bank of the enactment of section 603 and to encourage appropriate conduct by the banks. As of the date of our review, the Comptroller's office had not done so, but the staff reiterated the intention to inform national banks.

Each agency has avoided more stringent measures because, as stated earlier, they question the enforceability of the section. In addition, it is difficult, they said, to assess the potential effects on a community of a conversion project, and neither the lending institution nor its regulator may be able to do so. A representative of the FDIC stated that lending for apartment conversions could be considered in some localities a positive factor in that such lending represents investment in the community, resulting in increased tax revenues and an upgrading of property. The other agencies maintained that it was simply too hard to assess that impact.

Most of the regulatory agency officials we spoke to said there were no plans to use the Community Reinvestment Act of 1977 as a means to enforce section 603 objectives. They cited the 1980 Housing Act's legislative history as being unclear as to the applicability of the Community Reinvestment Act for that purpose. They also cited the lack of clear enforcement language in section 603 as another reason not to employ the Community Reinvestment Act. Officials at only one agency--the Comptroller of the Currency--stated that they intended in any way to link adverse conversion impact to a financial institutions' performance under the Community Reinvestment Act. The Comptroller's officials said they, for example, would treat a conversion displacement complaint as a possible negative factor in assessing a bank's performance. They similarly would consider a bank's attempt to mitigate the effects of displacement as a positive factor.

In response to the second question, as to how the agencies will inform various public organizations about the congressional action in section 603, none of the agencies have specific plans to inform civic, religious, or other organizations about section 603. Each said it would take whatever opportunities arose to inform such organizations. The FDIC said it could send information out to a list of organizations it keeps but had not done so, and the Federal Reserve has specifically urged its district staff members to inform groups they come in contact with.

None of the agencies has developed procedures to assure that section 603 is being implemented by financial institutions. Federal examiners are informed of the general issue of displacement in training sessions held by the Federal Financial Institutions Examination Council. Individual instructors may cite section 603 in their presentations. The Federal Reserve and the Home Loan Bank Board have written letters to their field office examining and supervising personnel pointing out the congressional sentiment. But no special examination procedures have been or will be designed to identify loans for conversions that might adversely impact certain groups.

The National Credit Union Administration (NCUA) is in a somewhat unique position among the agencies in that credit unions are severely restricted in the kinds of real estate loans they may make. They can only make loans secured by first liens in residential real property to finance or refinance a one-to-four family dwelling, and this dwelling must be the principal residence of the credit union member. Therefore, credit unions are effectively precluded from making direct conversion loans. Nonetheless, the Chairman of NCUA has informed federally insured credit unions and NCUA staff of the section 603 provisions.