TESTIMONY OF

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ON

CHALLENGING THE REGULATORS AND INDUSTRY
TO MEET THE BANKING AND CREDIT NEEDS OF MINORITY COMMUNITIES

BEFORE THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

10:00 A.M.
SEPTEMBER 24, 1993
PRINCE GEORGE'S COMMUNITY COLLEGE, LARGO, MARYLAND

Good morning, Chairman Gonzalez and Members of the Committee. On behalf of the Federal Deposit Insurance Corporation ("FDIC"), thank you for inviting us to testify on the challenge of financial institutions and their regulators to meet the banking and credit needs of minority communities.

In this context, I will address the current state of the banking industry, nationally and in Prince George's County, and what the FDIC is doing to encourage fair lending consistent with safe and sound operations.

I. THE CURRENT STATE OF BANKING

As you are aware, the banking industry is well positioned to increase lending. Bank earnings continue to benefit from wide interest rate margins and lower loan loss provisions. Equity capital grew by $34.1 billion in 1992 and by another $18.8 billion during the first half of 1993. At yearend 1992, the equity capital-to-assets ratio for the industry was 7.5%, the highest since yearend 1965. As of June 30, 1993, the equity capital ratio had further increased to 7.9%.

Despite this capacity in the commercial banking industry, lending lagged through 1992. Total loans shrank by $4.2 billion in the fourth quarter of 1992, a decline which represented the seventh time in eight quarters, dating back to the first quarter of 1991. During this interval, total loans declined by $77.2 billion. This decline has been the focus of much attention in terms of the impact on our nation's financial recovery. It is noteworthy; however, that a $31.1 billion increase in loans was reflected for the first half of 1993. We remain optimistic for similar results for the year.

The decline in aggregate loan volume appears attributable to a number of factors, but primarily seems to reflect slack demand resulting from the 1990-91 recession and the slow pace of recovery. A normal reaction of businesses in these times, particularly small businesses (which are often prevalent in areas such as the one which is this hearing's focus), is to shore up their balance sheets by conserving cash and reducing borrowings. Often they will await an upturn in business or prospects before committing to additional borrowings to finance working capital needs, expansion, and capital expenditures. Similarly, consumers are reluctant to become indebted in times of uncertainty.

In addition, financial institutions have generally strengthened their underwriting standards in the aftermath of the excesses and losses of the 1980s. We need to remember the high rate of financial institution failures over recent years and that the industry has been under intense scrutiny. Many financial institutions are continuing to work off troubled assets and have learned some difficult lessons. Consequently, they are more selective and hesitant to finance new businesses, expansion or even continuation of established businesses without a substantial commitment of equity from the borrower and a demonstrated repayment record.

Aside from the general environment of banking, we realize there are a variety of impediments to lending especially in economically distressed areas, many of which are also predominately minority. One impediment is the general perception by many lenders that loans directed toward economically distressed areas may be high risk and therefore generally unsound. More lenders are realizing that sound and profitable loans can be made in these areas, although it may require more time and scrutiny to make necessary credit judgments or enhancements. Our discussions with representatives of the industry indicate growing recognition of that lending potential and the profitability of lending in these areas. That recognition quickly develops the specialized expertise and commitment required to take advantage of this opportunity.

Another significant impediment appears to be a lack of focus on lending objectives by both lenders and borrowers. For example, a lender may lack knowledge of qualified borrowers and/or the credit needs of community members. Community members may also lack knowledge regarding a lender's application procedures or the lender's products or services. The industry and regulators need to increase outreach opportunities that will further educational initiatives to eliminate these difficulties. We believe this hearing brings focus to that objective.

From a marketing and business outlook, some economically distressed areas may appear to no longer hold sufficient business leadership, lenders, and community interest groups to focus on the absence of investing. Without investments and loans, the economy of any distressed area will never recover. In these types of communities, the banking system alone can rarely turn the situation around. Reduced federal spending and the growing economic and social problems of central cities and rural areas that continue to result from industrial restructuring clearly suggest that new solutions must include partnerships of public and private entities.

While the above discussion on the state of banking is national in scope, it applies equally to Prince George's County and that area of the county delineated by the Committee. Eleven FDIC-supervised institutions, with combined assets of $7.1 billion (as of June 30, 1993), serve Prince George's County. Equity capital of these institutions grew by $35 million in 1992 and another $69 million during the first half of 1993. The combined equity capital-to-assets ratio as of June 30, 1993, was 8.2%, up from 7.2% at yearend 1992, and 6% at yearend 1991.

Aggregate loans, however, have steadily declined over this period, from $5.2 billion to $4.1 billion.

Three of these FDIC-supervised institutions, with combined assets of $4.1 billion (as of June 30, 1993), serve the Committee's delineated area. The three institutions have 16 offices in the area. Aggregate equity capital of these institutions grew by $14 million in 1992 and another $38 million during the first half of 1993. The combined equity capital ratio, as of June 30, 1993, was 8.9% compared to 8.0% at yearend 1992 and 7.7% at yearend 1991. As with the eleven FDIC-supervised institutions serving Prince George's County, aggregate loans for the three institutions also declined over this period, from $2.6 billion at yearend 1991 to $2.2 billion as of June 30, 1993.

Prince George's County, therefore, clearly demonstrates the dilemma faced by regulators and the Committee. The financial strength of its banks appears strong yet lending has been on a decline. And as I saw firsthand during a tour of portions of Prince George's County earlier this week, there is a need for increased, affordable banking services. Residents and small businesses of any community should not have to rely on check cashing outlets for financial services. The regulators, financial institutions, and community groups must work together to ensure credit needs are adequately identified and served.

Combined 1992 HMDA data applicable to FDIC-supervised institutions serving the delineated area reflect that of all HMDA reportable loan applications received, 19.9% were from African-Americans and 47.5% were attributed to whites. Of the applications from African-Americans, 73.4% were approved, 17.8% were denied, and the remainder were either withdrawn or approved but not accepted. Of the applications from whites, 64.7% were approved, 17.6% were denied and the remainder were either withdrawn or approved but not accepted. Our minority comparison was limited to African-Americans since they constitute the predominant minority in the area. It is our understanding that the Federal Reserve has provided the Committee with HMDA data, for all banks that serve the delineated area.

The FDIC has found the CRA performances of the three institutions serving the delineated area satisfactory, consistent with the resources and capabilities of the institutions. Additionally, the CRA Performance Evaluations indicate some involvement in various outreach activities in communities served by the institutions. For example, one institution is conducting periodic seminars, in conjunction with the Small Business Administration ("SBA") and local economic development communities, addressing eligibility requirements, application procedures, and documentation needs for SBA loans. In another instance, the institution has been involved in community revitalization projects and redevelopment programs for low- and moderate- income commercial and residential areas within its delineated community. All three institutions appear to be making valid efforts to ascertain the credit needs of their communities and to market and offer products to help serve those needs. This is not to say there are not deficiencies in their individual CRA performances, as noted by examinations. However, for the most part, when these deficiencies have been discussed with bank management, efforts have been forthcoming to correct them. Attachment 2 provides publicly available CRA Performance Evaluations.

II. FDIC'S EFFORTS TO ENCOURAGE LENDING AND ENSURE COMPLIANCE WITH CRA AND FAIR LENDING LAWS

As a regulator with responsibilities for safety and soundness in the banking industry, we are always mindful of the conflicts which arise when involved in areas promoting credit expansion. Like the other financial institution regulators, the FDIC is committed to enforcing compliance with the fair lending laws (e.g., ECOA, CRA, and HMDA). During the past few years, we have strengthened our staff and efforts to encourage compliance with all fair lending laws. The vast majority of institutions cooperate with our efforts. We, however, initiate enforcement action in cases of flagrant ignorance, or willful disregard, of the law. We believe examination and enforcement measures encourage more lending in all communities, including economically distressed areas. Two of our most significant initiatives have been the establishment in 1990 of an examination staff dedicated to the consumer compliance examination program and the establishment of a Community Affairs Program ("CAP").

Previously, the FDIC relied on safety and soundness examiners with some training in compliance and a small cadre of specialized examiners to conduct compliance examinations. There are now 250 field examiner positions at the FDIC, plus an Assistant Regional Director and examination review staff with specific responsibility for the consumer compliance examination program in each of the FDIC's eight regional Division of Supervision offices. Additional staff will be added as necessary. The FDIC has also established an extensive examiner training program, a portion of which is devoted to community development lending, and CRA and fair lending enforcement.

The primary mission of our CAP is to encourage community outreach activity in order to promote fair and nondiscriminatory lending, and to provide greater awareness of the fair lending laws and regulations on a nationwide basis. The program assists examiners in carrying out their fair lending enforcement responsibilities, as well as consumer and community groups, government officials, and other interested groups and individuals in understanding and participating in the fair lending and community development processes.

The CAP provides for a Community Affairs Officer and staff in each of the FDIC's eight regional offices. We are currently adding a Fair Lending Specialist in each regional office and in the Office of Consumer Affairs ("OCA") in the Washington office. CAP staff work with examiners, financial institutions, and community groups to exchange information, to share knowledge, and to reduce the impediments and any misinformation regarding reinvestment in communities that are disadvantaged.

The FDIC also disseminates fair lending information to the industry and the public. This information includes various pamphlets developed on an interagency basis that address practices that constitute unlawful discrimination. We provide speakers for, and participate in, fair lending conferences and seminars throughout the country. The FDIC also sponsors, at locations throughout the country, one-day compliance seminars for financial institutions where fair lending laws are frequently a significant part of the agenda. In addition, for over a decade, the FDIC has provided a toll-free consumer hotline for consumers to call with complaints and inquiries about various consumer protection laws.

Earlier this year, the FDIC established an internal Fair Lending Working Group to further explore ways of strengthening enforcement of, and compliance with, the fair lending laws. This group, comprised of senior-level staff from around the country, was charged with the mission of analyzing the FDIC's existing programs and procedures for preventing, detecting, and correcting discriminatory credit practices. A report has been presented to FDIC management for consideration of specific recommendations for improvement.

The report includes over forty recommendations addressing: (1) the FDIC's organizational structure, culture, policies, and procedures; (2) the FDIC's examination and supervisory process for monitoring compliance with the fair lending and other consumer protection laws and regulations; (3) the handling of consumer complaints; and (4) our outreach efforts to provide information to the public, financial institutions, and Congress and to enhance our credibility in deterring discrimination and enforcing compliance with the fair lending laws. A number of these recommendations are being implemented and a decision by FDIC management on the others has been committed to mid-November of this year.

III. FDIC EFFORTS TO COORDINATE WITH THE OTHER FEDERAL FINANCIAL INSTITUTION REGULATORY AGENCIES

There are two significant developments in the areas of the Committee's focus. One is the President's CRA reform initiative. This initiative is designed to increase lending and investment in underserved communities while also streamlining, clarifying, and making the regulatory process more objective.

The President has directed the federal financial institution regulatory agencies to develop new CRA regulations and examination procedures by January 1, 1994. To accomplish this goal, the agencies designated key staff to serve on interagency project groups. Projects include: identification and resolution of pertinent legal issues; conducting public hearings; developing and publishing for comment revised regulations; and revising examination procedures.

The public hearings were in response to the President's request that the agencies work together with the public, community groups, and the financial institution industry to make CRA implementation more effective. We have participated, along with the other agencies, in seven public hearings throughout the country.

The hearings have provided us with a better understanding of the views and concerns of both the financial institution industry and community representatives. The hearings made more evident, as does our analysis of the subject at today's meeting, that cooperation between financial institutions and community groups is necessary for the benefit of communities. These two entities need each other to meet their respective goals and the communities' goals. A financial institution cannot be expected to meet all of its community's financial needs, but it can play a major role toward the fulfillment of those needs.

The input gained from the hearings will be helpful to the agencies' efforts to reform the CRA regulations and the supervisory process. We want our initiatives to result in more clear and objective standards to guide institutions in their CRA responsibilities and to allow community groups, the public, and the regulatory agencies to better evaluate this performance.

Another significant development is the Administration's Credit Availability Program, as announced on March 10, 1993, in the "Interagency Policy Statement on Credit Availability" by the four federal banking and thrift regulators, including the FDIC. This policy seeks to improve credit availability, especially for low- and moderate-income neighborhoods and disadvantaged rural areas served by small- and medium-sized businesses. The policy is provided as Attachment 2.

To implement the credit availability program, the agencies subsequently announced several initiatives which address: lending discrimination and fair lending; documentation of loans; appraisal requirements; regulatory reporting requirements; valuation of real estate collateral; and examiner loan review and improved coordination of examinations. These initiatives are designed, first and foremost, to make credit available in an equitable and nondiscriminatory fashion. Further, the initiatives are intended to eliminate impediments to lending to small- and medium-sized businesses by: (1) reducing documentation necessary for these loans to a minimum, consistent with applicable law; (2) encouraging greater use of judgment and reliance on an applicant's reputation in arriving at a decision on these loans; (3) reducing the appraisal burden and, thus, improving the lending climate for such loans which are collateralized by real estate; and (4) clarifying our examination procedures with respect to these loans which should leasen the burden of the examination process. The end result of the initiatives should be more available credit to minority and small- and medium-sized businesses in communities such as the one we are focusing on here today. Details on the lending discrimination and fair lending initiatives are provided in Attachment 3.

In addition to these efforts, the Director of the FDIC's OCA currently chairs the Consumer Compliance Task Force of the Federal Financial Institutions Examination Council ("FFIEC") and is also a member of an Interagency Fair Lending Working Group. These two groups have a number of initiatives underway to address CRA and other fair lending issues, and to strengthen enforcement efforts. These initiatives include a comprehensive review of the CRA regulations and examination procedures, and improving fair lending examination procedures. These efforts have been integrated with the President's CRA reform initiative.

In April, 1993, the Task Force issued the "Revised Guidance on CRA Compliance," which will be particularly important in increasing reinvestment by financial institutions since it emphasizes that regulators are seeking "results over process." The guidance stresses that regulators focus on lending and other activities within the community which result in extensions of credit that help meet identified credit needs. Additionally, the guidance discusses specific activities, such as debt and equity investments, purchase of government guaranteed loans or participation in loans for low- and moderate-income or small business purposes, and technical assistance to community benefit related organizations. The guidance indicates that, under certain circumstances, the regulators will give positive consideration to participation in community programs and mechanisms where the financing provided may ultimately benefit low- and moderate-income borrowers and small businesses of neighborhoods located outside of the institutions' delineated community. Attachment 4 is a copy of the revised guidance.

IV. CONCLUSION

The FDIC believes that strong and cooperative fair lending efforts by the financial institution industry, supervision by its regulators, and "partnership" efforts by community groups and private individuals, as well as federal, state, and local government agencies, can benefit all neighborhoods and communities, especially small businesses, low- and moderate-income individuals, and those residing in areas such as the one we are focusing on today in Prince George's County. An improving economy, a healthy financial institution industry, and vigorous efforts to implement and enforce fair lending laws can have a marked impact on the economic growth of these areas. Mindful of our safety and soundness obligations as regulators, we will continue to support initiatives toward improved credit availability and fair lending while also further striving to improve our own outreach efforts and enforcement of the fair lending laws.

This concludes my prepared testimony. I will be pleased to respond to any questions Members of the Committee may have.

Attachments

PUBLIC DISCLOSURE

September 11, 1992

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Suburban Bank of Maryland
Greenbelt, Maryland

23150-9

Federal Deposit Insurance Corporation

452 Fifth Avenue, 21st Floor
New York, New York 10018

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of the Suburban Bank of Maryland, Greenbelt, Maryland prepared by the Federal Deposit Insurance Corporation the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of September 11, 1992. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

> An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

> An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

> An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

> An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

This institution is rated Satisfactory based on the findings presented below.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

The bank ascertains the needs of its community through the involvement of its officers, directors and employees in various civic and community organizations throughout its delineated area. The extent of such contacts is not documented.

An officer call program was instituted before the previous examination. All branch managers, assistant branch managers and lending officers are expected to make at least 20 calls per month to small businesses. Calls are made based on referrals from various sources; follow-ups founded on information obtained through other ascertainment activities, calls to existing customers or random "cold" calls to various businesses. Reports on the call program were made to Senior Vice President Burnett who reported to the board of directors monthly; however, formal reporting has lapsed. Mr. Burnett continues to informally track calls based on the submission of new loans and declinations. Mr. Burnett stated that he expects each officer to continue averaging 20 calls per month and the current volume of calls is meeting that expectation.

The bank has conducted several customer surveys during 1992. One of the surveys began in April, 1992 and has continued to the present time. The bank distributed 1,600 surveys randomly via hand-outs at the branches and at community activities and bank seminars on small business lending. To date 82, or approximately 5%, of the hand-outs have been returned. All responses have been favorable. The survey was entitled "Tell Us How We're Doing" and included questions regarding various bank services.

Tabulation of the survey will be performed at the end of October 1992. Findings will be presented to the board of directors and branch managers will follow up on any negative comments.

During February and March of 1992, 10,000 questionnaires were mailed out to the residents of Greenbelt and North Rockville, Maryland. The questionnaires were distributed by Money Mailer, Inc. and Mercury Advertising Distributors who used their own mailing lists for distribution. The questionnaires stated the following: "So that we can more effectively serve our community, we'd like to know what banking services you have the greatest need for and use the most frequently. ____Checking Accounts, ____Savings Accounts, ____Home Equity Loans, ____Car Loans, ____Personal Loans." To date the bank has received no responses from the survey. The bank plans to continue the survey until year end at which time a complete report of all survey responses will be made to management and the board of directors.

The results of the bank's ascertainment efforts have indicated that the predominant credit need in the bank's community is for small business loans. Consumer lending, particularly for automobile purchases and home equity loans, has also been determined to be needed although on a lesser scale than small business loans. The loan products detailed under Assessment Factors I and J indicate that the bank is attempting to meet these needs; however, as indicated under Assessment Factor I the penetration of the consumer market has been extremely slow.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

A review of the minutes of the board of directors' meetings and other documentation indicates that CRA is routinely considered by the board. A CRA committee was established in June 1990 and is made up of entirely of directors. The committee was charged with monitoring and reporting the bank's compliance with CRA, ensuring thorough documentation, supervising the training of employees and communicating the bank's CRA involvement to customers. The committee reports to the board on a frequent though irregular basis. The CRA statement has been reviewed and approved annually since the last examination and has been expanded in accordance with the regulation. The 1992 business plan presented to the board during December 1991 states as one of its objectives "To support community reinvestment through personal service and small business lending".

Although the board appears keenly aware of the CRA and is active, the confusion surrounding certain aspects of the CRA statement, detailed under "Reasonableness of Delineated Community" indicates misinterpretation and/or unfamiliarity with the technical requirements of the regulation.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

The bank's marketing programs are initiated by the holding company and are reviewed and approved by senior management of the bank. The programs are designed to reach all segments of the bank's business marketing area. Advertising is conducted through area business magazines which are published weekly and cover the bank's entire designated community. Marketing efforts through 1991 emphasized corporate image; however, in 1992 promotional efforts were focused on the bank's small business loan programs through the use of Small Business Administration seminars and consulting programs as detailed below. Very little marketing of consumer based credit has been performed.

Beginning in March 1992, the bank has conducted periodic seminars in conjunction with the Small Business Administration (SBA). The seminars are held in Rockville, MD and among other topics address eligibility requirements, application procedures and documentation needs for SBA loans. The seminars are advertised in a local publication, in customer account statements and in flyers distributed to accountants throughout the designated community. During mid 1992 a joint seminar was held with a local economic development commission covering the same material previously detailed. In addition, semi-monthly seminars have been held at various accounting and legal firms since September 1991, detailing the accounting and legal benefits of SBA loans as well as application procedures, etc. However, these semi-monthly seminars were discontinued during the summer months of 1992. They are to be reinstituted in the near future.

The bank's marketing and advertising programs adequately inform the small business segment of the bank's community of the various credit products offered. However, advertising of consumer oriented products is extremely limited.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

The bank's CRA statement lists the following types of credit as being available within the designated community: Secured and unsecured loans for businesses and individuals for business purposes, such as lines of credit, term loans, equipment lines and loans, letters of credit, Small Business Administration (SBA) lending program; Real Estate Loans; secured loans to individuals and businesses to construct, improve, or purchase real property and improvements or both such as income property and commercial property loans, owner occupied residential loans and Small Business Administration 504 Program; Consumer loans such as secured and unsecured loans to individuals for personal, family or household purposes such as; revolving personal lines of credit, chargecards, home equity loans, overdraft protection lines of credit and installment loans. The following loan mix analysis taken from the 12-31-89, 12-31-90, 12-31-91 and 6-30-92 Reports of Condition indicates that the bank is funding the types of loans listed on the CRA statement. However, the growth in consumer lending has been extremely slow.

	1989	1990	1991	1992
Total loans to deposits	82%	79%	72%	77%
Construction & Development	2%	4%	1%	1%
1-4 Family * Residential	7%	9%	12%	11%
Home Equity Loans	0%	0%	2%	3%
Loans to Depository Institutions	0%	1%	0%	0%
Other Real Estate Loans	42%	43%	48%	47%
Commercial & Industrial Loans	44%	38%	30%	30%
Loans to Individuals	0%	1%	2%	3%

*For the purposes of CRA the loan mix analysis distorts the volume of 1-4 Family Residential loans.

According to instructions for Reports of Condition if a business loan is more than 50% collateraled by residential real estate that loan is placed under loans for 1-4 family residences. The loans indicated in the analysis above as 1-4 family residential are in actuality business loans which are more than 50% secured by 1-4 family residential dwellings.

Information generated internally, during the examination, was used to determine the volume of installment and commercial loans made within the designated community. The bank's data processing servicer purges loans at the end of the year in which they are paid off, thus installment and commercial loan volume (number and dollar amount) and percentages are based on those loans currently remaining on the bank's books for the applicable years, hence the phrase "were originated" actually refers to the loans remaining on the bank's books. The 1989 Home Mortgage Disclosure Statement and the 1990 Loan/Application Registers (Form FR HMDA-LAR) were used to determine mortgage related loan information. In addition, neither consumer or commercial loans are geocoded by census tract therefore zip codes were used to plot these loans. All percentages used in this assessment factor are based on the number of loans rather than dollar volume.

During 1989 the bank originated no mortgage related loans. During the same year 36 consumer loans, in the amount of $375,044, were originated of which 25 in the amount of $276,559, or approximately 69%, were made within the designated community. In addition, 84 commercial loans in the amount of $9,920,731 were originated of which 66 in the amount of $7,930,103, or approximately 79%, were made within the designated community. The overall percentage of loans originated within the designated community during 1989 was approximately 76%.

During 1990 the bank originated no mortgage related loans. During the same year 111 consumer loans, in the amount of $824,701, were originated of which 72 in the amount of $717,584, or approximately 65%, were made within the designated community. In addition, 78 commercial loans in the amount of $10,801,926 were originated of which 59 in the amount of $8,503,275, or approximately 76%, were made within the designated community. The overall percentage of loans originated within the designated community during 1990 was approximately 69%.

During 1991 the bank did not originate any mortgage related loans. During this year 192 consumer loans, in the amount of $1,242,477, were originated of which 133 in the amount of $871,821, or approximately 69%, were made within the designated community. In addition, 85 commercial loans in the amount of $5,468,203 were originated of which 60 in the amount of $3,960,848, or approximately 71%, were made within the designated community. The overall percentage of loans originated within the designated community during 1991 was approximately 70%.

During 1992 the bank originated one mortgage related loan in the amount of $265,900 which was made within the designated community. During this year 132 consumer loans, in the amount of $978,714, were originated, of which 79 in the amount of $498,791, or approximately 60%, were made within the designated community. In addition, 84 commercial loans in the amount of $9,054,585 were originated, of which 62 in the amount of $8,378,894, or approximately 74%, were made within the designated community. The overall percentage of loans originated within the designated community during 1992 was approximately 65%.

During the time period detailed above, 1-1-89 through 9-11-92, the bank has originated 803 loans of which 557, or approximately 69%, have been made within the designated community.

A random sample of 85 credit denials made since the previous examination indicated that approximately 28% of the denials came from within the designated community.

The analysis detailed above indicates that the bank has undertaken efforts to address the primary community needs as identified through its ascertainment program. Although a substantial portion of the bank's loans are originated within the designated community the volume of loans originated outside of the bank's designated community indicates that consideration should be given to performing a reevaluation of the bank's designated community.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

Management stated that the credit emphasis of the bank is the origination of small business loans, which has recently focused on SBA programs with secondary interest on consumer lending. Consumer based credits have only been actively sought since 1991 with major emphasis being placed on automobile and home equity lending. Management has indicated that there is no current consideration being given to the origination of first or purchase money mortgages. Thus, the bank has not participated in any governmentally-insured, guaranteed or subsidized loan programs for consumer oriented mortgage products. The loan mix analysis contained in Assessment Factor I substantiates these findings.

Management has determined that one of the major community needs is the development of small businesses. The bank began participating with the SBA in November 1991 and has originated ten SBA loans in the original amount of $3,245,000. Nine of the loans, or approximately 90%, in the amount of $3,095,000 were originated within the bank's designated community.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

The board of directors last reviewed and approved the Community Reinvestment Act (CRA) statement on July 23, 1992. The bank's delineation of its community provides for a primary and secondary lending area and the written delineation, which is a part of the bank's CRA statement, does not conform to the required map of the bank's designated community. The bank's written delineation defines the community as follows:

> "The Suburban Bank of Maryland is committed to providing commercial banking services in a primary trade area within the counties of Prince George's and Montgomery in Maryland.

The secondary trade area includes Washington, D.C., and the counties of Charles, Calvert, Anne Arundel, Howard and Frederick in Maryland and Alexandria, Arlington, Fairfax and Louden in Virginia."

The bank's "primary trade area" was principally based on effective lending territory with consideration also given to political boundaries. The "secondary trade area" was partially based on the lending territory of the bank's affiliate, Suburban Bank of Virginia, and an expansion of the "primary trade area" to cover the majority of loans made outside of this area. No documented analysis of the geographic distribution of loans supporting management's method of determining the designated community was available.

The maps attached to and made part of the CRA statement are as follows: a map, entitled CRA Primary Market Area, showing portions of Maryland and Virginia and all of Washington, D.C. with concentric circles of five mile increments ranging out to a 30 mile diameter with Washington, D.C. being the approximate center. The second map, entitled CRA Secondary Market Area, details Prince George's County and part of Montgomery County. The second map also shows undefined portions of Montgomery, Anne Arundel, Calvert, and Charles counties in Maryland, undefined portions of Virginia and an outline of Washington, D.C.'s boundaries. Neither map indicates the extent of the community by boundary lines or other means.

Due to the breakdown of the "trade area" into primary and secondary, the lack of definition on the maps and the overall size of the trade area which the combination of the two maps portrays, the bank's delineation of its designated community is not considered to be in conformance with the regulation.

For the purposes of this examination the bank's designated community will be considered as Prince George's and Montgomery counties, Maryland, in their entireties, which management has indicated was the original intent.

A comprehensive market share analysis of the bank's deposit base was performed during mid 1992. No analysis was made of the bank's market share in reference to credits; however, the deposit analysis indicates management's awareness of the volume of the bank's competitors.

The designated community is primarily urban with major sources of employment being federal, county and local governments, military, retail establishments and government contractors. The bank's designated community (Prince George's and Montgomery counties, Maryland) is contained within the Washington, D.C.-MD-VA Metropolitan Statistical Area (MSA) #8840 and is made up of 321 census tracts of which 84, or approximately 26%, are considered to be low- and moderate-income census tracts. A low- and moderate-income census tract as defined in the FFIEC HMDA Aggregation Tables, is a census tract in which the median family income is less than 80% of the MSA median family income. The FFIEC HMDA Aggregation Tables for 1989 indicate that there are a total of 259,666 owner occupied housing units in the delineated community, of which 39,072, or approximately 15%, are considered to be in low- and moderate-income census tracts.

The delineation of the bank's community, considering the community to be Prince George's and Montgomery counties, does not exclude low- and moderate-income neighborhoods. However, the geographical analysis of loan originations, detailed under Assessment Factor I, indicates that approximately 31% of the loans made between 1-1-89 and 9-11-92 were originated outside of the bank's designated community and that a reassessment of the delineation may be warranted.

<u>Assessment Factor E</u> - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

As previously mentioned under Assessment Factor I, information generated internally during the examination was used to determine the volume of installment and commercial loans made within the designated community. The bank's data processing servicer purges loans at the end of the year in which they are paid off, thus installment and commercial loan volume (number and dollar amount) and percentages are based on those loans currently remaining on the bank's books for the applicable years, hence the phrase "were originated" actually refers to the loans remaining on the bank's books. The 1989 Home Mortgage Disclosure Statement and the 1990 Loan/Application Registers (Form FR HMDA-LAR) were used to determine mortgage related loan information. In addition, neither consumer or commercial loans are geocoded by census tract therefore zip codes were used to plot these loans. All percentages used in this assessment factor are based on the number of loans rather than dollar volume. Low- and moderate-income census tracts as defined by the 1980 census have been used for the following analysis.

No mortgage related loans were made during 1989. During this time period 36 consumer loans, in the amount of $375,044, were originated of which one in the amount of $7,000, or approximately 3%, was made in zip codes containing low- and moderate-income census tracts. In addition, 84 commercial loans in the amount of $9,920,731 were originated of which 16 in the amount of $1,520,222, or approximately 19%, were made in zip codes containing low- and moderate-income census tracts. The overall percentage of loans originated during 1989 in zip codes containing low- and moderate-income census tracts was approximately 14%.

No mortgage related loans were originated during 1990. During this time period 111 consumer loans, in the amount of $824,701 were originated of which 11 in the amount of $151,438, or approximately 10%, were made in zip codes containing low- and moderate-income census tracts. In addition, 78 commercial loans in the amount of $10,801,926 were originated of which 15 in the amount of $1,414,574, or approximately 19%, were made in zip codes containing low- and moderate-income census tracts. The overall percentage of loans originated during 1990 in zip codes containing low- and moderate-income census tracts was approximately 14%.

No mortgage related loans were originated during 1991. During this time period 192 consumer loans, in the amount of $1,242,477 were originated of which 29 in the amount of $208,223, or approximately 15%, were made in zip codes containing low- and moderate-income census tracts. In addition, 85 commercial loans in the amount of $5,468,203 were originated of which 22 in the amount of $1,392,322, or approximately 26%, were made in zip codes containing low- and moderate-income census tracts. The overall percentage of loans originated during 1991 in zip codes containing low- and moderate-income census tracts was approximately 18%.

The single mortgage related loan made during 1992 in the amount of $265,900 was not made in a low- and moderate-income census tract. During this time period 132 consumer loans, in the amount of $978,714, were originated of which 14 in the amount of $51,228, or approximately 11%, was made in zip codes containing low- and moderate-income census tracts. In addition, 84 commercial loans in the amount of $9,054,585 were originated of which 17 in the amount of $1,434,298, or approximately 20%, were made in zip codes containing low- and moderate-income census tracts. The overall percentage of loans originated during 1992 in zip codes containing low- and moderate-income census tracts was approximately 14%.

From 1-1-89 through 9-11-92 the bank has originated 803 loans of which 126, or approximately 16%, were made in zip codes containing low- and moderate-income census tracts.

A random sample of 85 credit denials made since the previous examination indicated that approximately 21% of the denials came from within zip codes containing low- and moderate-income census tracts.

The information illustrated under this assessment factor together with the analysis from Assessment Factor I suggests that the bank has achieved a reasonable penetration of all segments of its designated community, including low- and moderate-income neighborhoods.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

Each of the bank's four offices provide full service banking and are generally accessible to all segments of the bank's community within their particular service areas. The three Prince George's County offices are located in Greenbelt (Main Office), Maryland which is in the northwestern quadrant of the county. The Capitol Heights Office is located on the western boundary and in the approximate middle of the county on a north-south axis. The Oxon Hill Office is in the southwestern quadrant of the county. Since the previous examination, the bank has opened the Rockville Office, which is in the southwestern quadrant of Montgomery County, Maryland. All offices with the exception of Greenbelt have a drive-in or walk up. Two of the offices offer extended hours on Friday and Saturday. Although the bank has no ATMs of its own, cards are issued that are connected to the MOST system and no fee is charged for their use on foreign ATMs.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

No evidence of any practice designed or intended to discourage applications for the types of credit listed in the bank's CRA statement were disclosed. Credit applications are solicited from all segments of the designated community and are approved or denied based on an applicant's general creditworthiness. No written policies or procedures are currently in place.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations including Equal Credit Opportunity, Fair Housing, Home Mortgage Disclosure and any agency regulations pertaining to non-discriminatory treatment of credit applications.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

The bank is not participating in any development or redevelopment projects or programs. Senior Vice President Burnett stated that the bank remains informed as to various projects through its contact with the Economic Development Corporations of the respective counties. The bank currently has a SBA loan to a local small business within the Capitol Heights Enterprise Trade Zone. The bank also bid on a SBA loan to a small business located in Upper Marlboro, Maryland within the Collington Free Trade Zone. However, the company accepted the terms offered by one of the bank's competitors. Management stated that to their knowledge there are no programs available for the bank to participate in at the present time.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

Suburban Bank of Maryland (SBM) was formed as the result of Bancshares 2000, Inc., McLean, Virginia's (now Suburban Bancshares Inc., McLean, Virginia) acquisition of the former Jefferson Bank and Trust Company, Greenbelt, Maryland (now SBM). SBM is also an affiliate of Suburban Bank of Virginia, McLean, Virginia. The bank currently has assets of $71,296,000 of which $49,819,000, or approximately 70%, represents the loan portfolio. Commercial loans represent $43,574,000 or approximately 87%, home equity loans represent $1,459,000, or approximately 3%, and installment loans represent $4,763,000, or approximately 10% of the loan portfolio. The bank offers 25 credit products to its community. Solicitation of home equity and installment (automobile) loans has been intensified since 1991; however, small business loans remain the bank's major product.

No legal impediments were noted which restrict the bank from offering its credit services to all segments of the community. The financial condition size and local economic conditions or other known factors also offer no restrictions to the offering of credit products to all areas of the community.

Although the bank does not currently participate in any local development or redevelopment projects, the detail contained under Assessment Factors A, I, E and H indicate that the bank has established the necessary relationships to help it meet its CRA responsibilities to the community.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

None.

Batch 20
New York

COPY

PUBLIC DISCLOSURE

DECEMBER 11, 1991

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

CITIZENS BANK OF MARYLAND
09702-1

14401 SWEITZER LANE
LAUREL, MARYLAND 20707

FEDERAL DEPOSIT INSURANCE CORPORATION
DIVISION OF SUPERVISION
452 FIFTH AVENUE, 21ST FLOOR
NEW YORK, NEW YORK 10018

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating ---igned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of the Citizens Bank of Maryland prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of December 11, 1991. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

This institution is rated Satisfactory based on the findings presented below.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

The board of directors and senior bank management have implemented an outreach program to maintain contact with various sectors of the bank's delineated community.

The bank's president has been involved in a variety of outreach activities. In July 1991, he made a presentation to a homebuilders association concerning credit and banking issues related to financing residential home construction. In December 1991, he taped an interview on a local radio station concerning consumer credit and banking. Management stated that this station reaches a large low- and moderate-income audience which is centered in Prince George's County, Maryland and the Washington D.C. area. On August 28, 1991, the bank's president was the keynote speaker at a roundtable discussion sponsored by a nonprofit, self-help economic advisory group based in Maryland. He was also the keynote speaker at an economic conference in September 1991, given jointly by the Prince George's County government and concerned local small businesses. His discussion identified credit needs of Prince George's County and the degree of credit availability for small businesses in the county. He also attended a conference in December 1991, sponsored by two private sector groups concerned with improving the economic condition of Montgomery and Prince George's Counties. In addition, as president of the state bankers association, he regularly addresses the organization on various topics, including credit topics affecting the Maryland community. The bank's president was also instrumental in sponsoring banking seminars at a low-income area public high school in Prince George's County.

The board of directors also plays an active role in outreach activities as illustrated by the following: Citizens Bank of Maryland (Citizens) volunteers ongoing technical assistance to a non-profit, small business organization encompassing Prince George's and Charles Counties. The bank donated funds to this organization in 1990 and 1991. One of the bank's directors is an active member of this organization. This individual is also the owner of a consulting firm specializing in minority and small businesses. In this regard, he frequently organizes and hosts meetings at the bank for various minority church and business organizations. Topics covered include a presentation of the types of consumer services offered by this institution and the procedures involved in acquiring consumer credit. In December 1991, he hosted a meeting attended by members of a church group located in Prince George's County. His discussion centered on the mechanics of extending consumer credit.

Another of the bank's directors is a member and past president of a local chapter of a national non-profit business association in Prince George's County. He periodically brings the members of this organization up to date on current consumer banking issues, and apprises them of the various banking services offered at Citizens Bank. This individual is also a member of a non-profit consumer action group whose goal is to encourage economic growth, housing revitalization and job creation in depressed areas of the county. This organization is an official advisory council to the Prince George's County government.

This same director is a member of a local advisory council whose goal is to determine ways to revitalize and improve a part of the local community. This area is located in Prince George's County and is comprised of both residential neighborhoods and commercial locations. This council is relatively new and, to date, no definitive plan of action has been established. This director is also the chairman of a local business group that supports public libraries. This organization has obtained a bookmobile for Spanish language text to serve the Langley Park, Maryland area, a predominantly low- and moderate-income neighborhood.

In addition to the above stated efforts of the directorate to ascertain the credit needs of the bank's community, the following senior management activities further demonstrate an ongoing commitment to this institution's outreach efforts.

In September 1991, a member of senior management addressed the local chapter of a national contractors association to discuss various topics relative to the credit services offered by Citizens Bank. In October and December 1991, a bank vice president held meetings with a local homebuilders association to discuss the credit services being provided by this institution. Additionally, an assistant vice president of the bank is an active member of a state sponsored organization created to provide a clearinghouse for various types of small business consortium lending.

The outreach efforts of Citizens' employees are reaching some of the lesser known minority groups in the bank's market area. A bank employee is the treasurer of a non-profit organization made up of ethnically Middle Eastern women. This employee periodically discusses the credit services Citizens offers. Also, employees of the bank's Olney Branch perform various interactive outreach activities on a volunteer basis for a Korean American community organization. This is a non-profit organization that disseminates credit, job, and life support information to Korean consumers who speak little English. Branch personnel perform various tasks such as translating, helping to place phone calls, filling out applications, and answering various consumer credit questions.

On September 19, 1991, Citizens Bank of Maryland hosted a special seminar which was conducted entirely in Spanish at a major hotel in Silver Spring, Maryland. This seminar was conducted to increase the Hispanic community's awareness of the types of consumer financial services offered to the consumer. The topics discussed included bank safety, how to establish credit, and the procedures necessary for a consumer wishing to purchase a home. Several radio stations and a cable television station covered the seminar, and are interested in promoting future financial advice seminars on consumer credit needs. Two of the bank's branch managers coordinated this seminar. Both of these individuals speak Spanish fluently and hope to expand the promotion of the bank's consumer and small business services by offering future presentations. The bank was also represented at a business exposition Gaithersburg, Maryland on May 8, 1991. Citizens' theme was geared to the local small businessman with topics including economic development and strategic marketing.

Through the volunteer efforts of its employees, Citizens is also addressing the special needs of the low- to moderate-income elderly. Branch management has taken the lead in this regard, and meets frequently with the elderly at a home for the aged located near the branch office. Residents are brought up to date on the banking products offered by Citizens Bank. Employees at another Citizens branch provide a similar service for the elderly at a retirement home near the branch office. These employees perform help sessions on banking for these senior residents.

<u>Assessment Factor C</u> - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The board of directors of Citizens Bank of Maryland annually reviews and approves the Community Reinvestment Act statement, policy and future plans. The CRA statement was last approved in March 1991. There are also periodic presentations on CRA to the bank's holding company board.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

Marketing of the bank's services throughout its delineated community is accomplished through various media including newspapers, radio advertisements, television appearances, pamphlets and lobby brochures. The bank's marketing program has been reviewed and approved by senior management and is designed to reach all segments of the bank's market area. In 1991, this institution placed 53 advertisements in eight different newspapers covering the Maryland area. These advertisements covered a wide range of topics from consumer loan information, checking, and investments, to informing the public when a new branch opens. In addition, in October 1991, a bank branch manager participated in an interview on a Spanish language cable television station. The interview highlighted the banking services offered at Citizens and discussed how the consumer credit needs of the Hispanic community might be addressed.

The Marketing Department helped to coordinate the development of two Spanish language brochures. The first brochure is designed to give information on the different types of checking accounts, how to open a checking account, overdraft protection, an explanation of various banking terminologies, and how to obtain a money access card. The second brochure gives an explanation of savings and investment terminology and discusses the various ways a consumer can save and invest at Citizens Bank.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

The bank's lending is characterized by an approximate 50% balance between commercial and consumer loans. Residential mortgage and small business loans are among those listed in the bank's most recent CRA statement as being available to the public. However, management stated that these types of loans are not actively solicited by the bank due to a lack of expertise in these lending areas. The bank will consider such loans only if specifically requested by a customer. The bank's CRA statement as of March 19, 1991 lists the following lending services normally available to customers who qualify within the bank's underwriting criteria:

Home improvement loans;
Home equity lines of credit;
Overdraft protection for checking accounts;
Consumer loans;
Auto loans;
Residential mortgage loans (first and second mortgages);
Commercial loans for all sizes of businesses;
Commercial real estate loans;
Community development loans;
Loans to government entities; and
Credit cards (Visa and Mastercard).

A review was conducted of the bank's consumer and commercial loans utilizing zip code reports generated by the bank. Bank officials stated that average turnover for consumer loans was approximately 2.5 years, suggesting that the majority of the loans in the consumer loan portfolio were originated since the previous evaluation (10-11-88). The analysis of this report indicated that 81.4% of the consumer loan originations were extended to borrowers within the bank's entire delineated community, with 54% extended within Montgomery and Prince George's Counties, which have the heaviest concentration of bank offices. For commercial loans, the analysis of the zip code report as of the evaluation date indicated that 83.3% of total commercial loan originations were extended within the bank's entire delineated community, with 68% occurring in Montgomery and Prince George's Counties.

An analysis of housing related credit was also performed utilizing the bank's 1989 and 1990 Home Mortgage Disclosure data. As indicated above, the bank does not actively seek home mortgage loans and only 12 such credits in 1989 and 22 in 1990 were originated in response to the direct requests of those specific customers. All were within the bank's delineated community. For home improvement loans, Citizens Bank originated 371 within its community in 1989, and 239 in 1990.

Home Equity accounts were also reviewed utilizing zip code information, and 87.7% were originated within the bank's delineated community, with 68% in Montgomery and Prince George's Counties.

This overall analysis indicates that a significant volume of loans is extended within the bank's community. This loan volume is considered adequate in relation to the bank's resources and its community credit needs.

<u>Assessment Factor J</u> - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

Small business loans are among those listed in the bank's CRA statement(s) as being offered to the public as stated in Assessment Factor I. However, management states that conventional, VA, FHA and small business loans are not solicited by the bank. These loans are considered if specifically requested by an applicant. Management states that a lack of expertise precludes solicitation in these lending areas.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

Citizens Bank of Maryland defines its delineated community as consisting of all of Montgomery and Prince George's Counties and portions of Baltimore, Frederick, Charles, Calvert, Anne Arundel, Howard and St. Mary's Counties, and a portion of Baltimore City. Eighty-two percent of the bank's 111 offices are located in Montgomery and Prince George's Counties. Of these, 30% serve areas primarily identified as low- and moderate-income. Given the location of the bank's offices and the loan analysis presented in Assessment Factor I, the bank's community delineation appears to essentially meet the purpose of the Community Reinvestment Act, with one notable exception.

The bank's community delineation does not include any portions of the District of Columbia, including areas in which it has regularly extended loans to District residents. The District is bordered on the North and East by Montgomery and Prince George's Counties, which are the two counties that have the largest concentration of the bank's 111 offices. Several of these offices are in close proximity to the District border and others are within a few miles of the District line. In some cases, low- and moderate-income neighborhoods are divided by the District border, however the bank has not continued its delineation into that portion of the District even though it has extended credit to those areas. For example, the review of the bank's home improvement loans originated in Montgomery and Prince George's Counties plus the District of Columbia, indicated that 13% of these loans were originated in the District with 5.72% extended in low- and moderate-income neighborhoods of the District. The CRA regulation, while establishing state and other geopolitical boundaries as one option for delineation, provides for the inclusion of appropriate adjacent areas, absent some physical, economic or legal barrier to that inclusion.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

The geographic distribution of the bank's credit extensions was reviewed to determine if the bank is adequately serving all segments of its delineated community. Data used for this analysis consisted of FFIEC HMDA Aggregation Tables, the bank's 1989 and 1990 HMDA statements for housing related credit, and a bank generated zip code analysis of consumer and commercial loans. Based on the FFIEC HMDA Aggregation Tables, a low- and moderate-income census tract is defined as a census tract in which the median family income is less than 80% of the MSA median family income.

As indicated under Assessment Factor I, Citizens Bank is not a significant lender in terms of housing related credit, particularly residential mortgage loans. Therefore, the loan analysis which follows is focused primarily on the bank's lending record relative to its consumer and commercial extensions of credit. This analysis utilized zip code reports generated by the bank. To facilitate the use of the zip code information, the bank's record of lending, relative to low- and moderate-income neighborhoods, was measured in terms of loans extended in zip codes where low- and moderate-income census tracts are located.

Using the FFIEC HMDA Aggregation Table low- and moderate-income census tract definition, and concentrating primarily on Montgomery and Prince George's Counties, where the majority of the bank's offices are located, 14.8% of the tracts in Montgomery County and 36.6% of the tracts in Prince George's County qualify as low- and moderate-income tracts. Combined, these tracts comprise 26% of the total tracts in the two counties and encompass 13.6% of the owner-occupied housing units in this area.

For consumer loans, the bank extended 4.2% of these loans in low- and moderate-income neighborhoods in Montgomery County, where 6.3% of the owner-occupied housing units are considered low- and moderate-income. In Prince George's County, where 21.7% of the owner-occupied housing units are considered low- and moderate-income, the bank extended 46.7% of these loans to those areas.

Utilizing 1989 and 1990 HMDA statements, a review was also performed of the bank's lending record relative to home improvement loans. In 1989, the bank originated 15.8% and 22.9% of these loans in low- and moderate-income neighborhoods in Montgomery and Prince George's Counties respectively. In 1990, the figures were 7.3% and 14.8% respectively.

Citizens Bank's lending record in other portions of its delineated community, show similar results in those areas where it was possible to overlay zip code locations with census tract locations.

Overall, the above analysis in combination with the information detailed in Assessment Factor I, indicates a satisfactory level of performance relative to the bank's lending record in its delineated community, particularly low- and moderate-income areas.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

Citizens Bank of Maryland is a full service state chartered non-member bank. This institution operates 111 branch offices of which 93 are in Prince George's and Montgomery counties. Effective March 1, 1992, the bank will have new Saturday hours for 16 of its branches. These new Saturday hours will extend from 9 A.M. to 3 P.M. to better service the needs of the local community. The remaining branches will continue to operate on Saturday from 9 A.M. to 12 P.M.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

Discussions with bank personnel along with a review of the bank's credit extensions, applications, and denials revealed no evidence of any practices designed or intended to discourage applications for any of the types of credit listed in the bank's CRA statement(s) There was no prescreening of applicants noted at this examination.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

There was no evidence revealed during this examination of prohibited discrimination or other illegal credit practices.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation including investments in local community development and redevelopment projects or programs.

Citizens investment portfolio reflects a sensitivity to the development needs of its local community. This portfolio includes bond investments issued by various federal, state and local governmental agencies. These bonds total approximately $5.4 million.

This institution has approximately 27 local community industrial development loan/bond projects presently on the books. These assets total approximately $36 Million, including bonds supporting the construction financing for a veterans association building and a number of local volunteer fire department buildings. These community industrial development bonds are further examples of the diversified outreach efforts undertaken by this institution.

In April 1991, a non-profit organization centered primarily in Prince George's County was formed. The purpose of this organization is to bring together the banking community to collectively develop strategies to support economic development initiatives in and around Prince George's County. This organization is presently working in the following three specific areas: (1) To explore public financing assistance tools and create strategies to make those programs more effective; (2) To explore the practices and resources of the banking institutions to identify individual and collective strategies to broaden the availability of capital to start-up and/or to expand small businesses; and (3) To critique government and private sector revitalization strategies to ensure that the resulting products are feasible and sound. The President of Citizens Bank is a member of this organization and another senior executive bank officer is the Chairman of this organization. Citizens Bank provides free office space, other operational hardware, and technical assistance to this organization.

One of the bank's branch managers coordinates the bank's involvement in a local community revitalization project. This project is a four year endeavor which involves the revitalization of a low- and moderate-income commercial and residential area of Montgomery County. It is a joint public and private sector project. This project provides assistance to residents for the renovation of homes, storefronts and the surrounding landscape in an effort to upgrade overall living standards.

This institution's participation in community redevelopment programs can further be seen by the work that is being done at a local community development group. This group was formed to identify and address housing and credit needs of low- and moderate-income consumers and small businesses in the Randallstown, Maryland area. On October 21, 1991, a bank officer met with this group to discuss and give technical assistance in the areas of fund raising activities, capital improvement projects, and advertising. Bank management plans to continue these meetings and increase its involvement as progress is made.

<u>Assessment Factor K</u> - The institution's ability to meet various community credit needs based on its financial condition, size, legal impediments, local economic conditions, and other factors.

As indicated under Assessment Factor I, the bank's lending is balanced between commercial and consumer loans. As stated under Assessment Factor J, the bank does not actively seek Small Business Association loans nor do they, in general, participate in government insured, guaranteed, or subsidized lending due to what management feels is a lack of expertise in these areas. However, the variety of credit products offered by the bank appears adequate to meet the various credit needs of its delineated community.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

The manager of the Lanham office in Prince George's County is an active member of a prominent business women's association. Also, another bank employee is an active member of an additional business and professional women's organization in the Prince George's County area. Both of these organizations are non-profit and strive to aid prospective business women in how to get started in business. These employees will give talks periodically concerning various community redevelopment issues and discuss the technical aspects of obtaining small business loans.

Another of the bank's branch managers donates his organizational expertise to a project that brings together employers and the unemployed to a type of job fair. This project is an annual event and well received by the local community. This organization, in conjunction with a nationally known organization that helps the homeless, sponsored its latest job fair for unemployed adults on April 30, 1991.

Office of the Comptroller of the Currency
Joint Release Federal Deposit Insurance Corporation
Federal Reserve Board
Office of Thrift Supervision

(PR-20-93)

Interagency Policy Statement on Credit Availability

March 10, 1993

The four federal regulators of banks and thrifts — the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Office of Thrift Supervision — today announced a program directed at dealing with problems of credit availability, especially for small and medium-sized businesses.

The program will focus on the five areas in which the agencies will take action designed to alleviate the apparent reluctance by banks and thrifts to lend. Those areas are:

- Lending to Small- and Medium-sized Businesses
- Real Estate Lending and Appraisals
- Appeals of Examination Decisions and Complaint Handling
- Examination Processes and Procedures
- Paperwork and Regulatory Burden.

The agencies intend to complete virtually all of the changes proposed in the program within the next few months. As the specifics of any change are finalized, that change will be made and published while details of other changes are in the process of being finalized.

A complete statement about the actions the agencies have planned is attached. The statement reaffirms the agencies' belief that it is in the interest of lenders, borrowers and the general public that creditworthy borrowers have access to credit.

This policy statement will be distributed to all federally examined banks and thrifts and to all regulatory agency offices and examiners.

Office of the Comptroller of the Currency
Federal Deposit Insurance Corporation
Federal Reserve Board
Office of Thrift Supervision

Interagency Policy Statement on Credit Availability

March 10, 1993

Problems with the availability of credit over the last few years have been especially significant for small- and medium-sized businesses and farms. This reluctance to lend may be attributed to many factors, including general trends in the economy; a desire by both borrowing and lending institutions to improve their balance sheets; the adoption of more rigorous underwriting standards after the losses associated with some laxities in the 1980s; the relative attractiveness of other types of investments; the impact of higher capital requirements, supervisory policies, and examination practices; and the increase in regulation mandated by recent legislation — specifically, the Financial Institutions Reform Recovery and Enforcement Act (FIRREA) and the Federal Deposit Insurance Corporation Improvement Act (FDICIA).

The four federal regulators of banks and thrifts — the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Office of Thrift Supervision — recognize that in the last several years the buildup of certain regulations and practices has become overly burdensome. Indeed, those regulations and practices may have, in some cases, stifled lending, particularly to small- and medium-sized businesses that met prudent underwriting standards.

It is in the interest of lenders, borrowers, and the general public that creditworthy loans be made. Since economic growth, especially job growth, is fueled primarily by small- and medium-sized businesses, credit availability to those borrowers is especially important. Accordingly, the agencies are working on the details of a new program to help ensure that regulatory policies and practices do not needlessly stand in the way of lending. Loans to creditworthy borrowers should be made whenever possible, as long as they are fully consistent with safe and sound banking practices.

Background

The new program is one aspect of an overall effort by the agencies to evaluate carefully and react appropriately to risk in the United States financial-services industry. That overall effort envisions substantial oversight, in some cases more than we have now, in areas that pose greater risk to the system. By the same token, regulatory burden will be reduced where risk is low, especially for strong, well-managed banks and thrifts. This program is also part of a broader effort to ensure equal credit opportunity for all Americans and to make credit and other financial services available to low- and moderate-income neighborhoods and disadvantaged rural areas.

The Program

The new program involves a variety of regulatory and other administrative changes which have been agreed to in principle by the agencies. These changes fall into five categories, each of which is discussed below.

Timing. The agencies will work to complete virtually all of the changes outlined below within the next three months. Once the specifics of any of the changes are agreed upon, that change will be made and published, while distribution of other changes remains to be made.

1. Eliminating Impediments to Loans to Small- and Medium-Sized Businesses

Reducing Documentation. Strong and well-managed banks and thrifts will be permitted to make and carry a basket of loans with minimal documentation requirements, consistent with applicable law. To ensure that these loans are made to small- and medium-sized businesses, there will be a ceiling on the size of such loans and limits on the aggregate of such loans a bank may make.

Encouraging Use of Judgment\Borrower's Reputation. The agencies will issue guidance to make it clear that banks and thrifts are encouraged to make loans to small- and medium-sized businesses, particularly loans in the basket discussed above, and to use their judgment in broadly assessing the creditworthy nature of the borrower — general reputation and good character as well as financial condition may be elements in making these judgments. Reliance on a broad range of factors when making a credit determination is especially important.

Other Assets Especially Mentioned. Improper use of the category of Other Assets Especially Mentioned (OAEM) may inhibit lending to small- and medium-sized businesses. Accordingly, the agencies will clarify that examination and rating procedures do not group OAEM loans with classified loans.

2. Reducing Appraisal Burden and Improving the Climate for Real Estate

The experience of the last decade has underscored the importance of sound underwriting standards and effective supervision for commercial real estate loans. Nonetheless, in certain instances regulatory burdens may be adversely affecting loans to sound borrowers. This may be particularly so in the case of loans secured by real estate that are primarily used for non-real estate business purposes. Real estate collateral is often pledged for loans to small- and medium-sized companies that have few other tangible assets.

Using Real Estate Appraisals Prudently. In some cases currently required real estate appraisals may not add to the safety and soundness of the credit decision. Indeed, in some cases, appraisals may prove so expensive that they make a sound small- or medium-sized business loan uneconomical. Accordingly, the agencies will make changes to their rules relating to real estate appraisals along the following lines:

- **Accept Additional Collateral**
  When real estate is offered as additional collateral for a business loan, both the time and expense involved in obtaining an appraisal from a certified or licensed real estate appraiser may discourage a bank or thrift from taking the collateral, may increase the cost of credit significantly, or even may cause the loan not to be made. In some such cases, the real estate appraisal requirement is counterproductive from a safety and soundness perspective. Moreover, the constraint on credit flows to sound businesses may be substantial. Accordingly, the agencies will alter their real estate appraisal rules so as not to require an appraisal by a licensed or certified appraiser for such loans.

- **Reexamine Appraisal Thresholds**
  Appraisals conducted by licensed and certified real estate appraisers, even on real estate of modest value can be quite costly. In the case of a smaller loan, the requirement of an appraisal by a licensed or certified real estate appraiser may make a sound loan uneconomical. Accordingly, the agencies will reexamine their existing rules to make certain that thresholds below which formal appraisals are not needed are reasonable.

- **Limit Periodic Appraisals**
  In some cases real estate appraisals have been required after a loan has been made, and in circumstances where the appraisal did not add to the safety and soundness of the loan. Accordingly, the agencies will work to make certain that real estate appraisals are required after a loan is made only when clearly needed for safety and soundness purposes, provided of course, that all requirements under law have been met.

Changing Rules on Financing of Other Real Estate Owned. Currently, accounting and other rules may discourage banks and thrifts from providing financing to borrowers who wish to purchase real estate classified as Other Real Estate Owned. The agencies will review rules relating to the reporting treatment and classification of such loans and make appropriate changes to facilitate financing to creditworthy borrowers, consistent with safe and sound banking and accounting practices.

Reviewing In Substance Foreclosure Rules. The inappropriate use of in substance foreclosure rules have required foreclosure valuation treatment of loans when borrowers were current on principal and interest payments and could reasonably be expected to repay the loan in a timely fashion. The agencies will work with the appropriate authorities to alter that treatment and to coordinate a change in accounting principles and reporting standards.

Avoiding Liquidation Values on Real Estate Loans. Loans secured by real estate should be evaluated based on the borrower's ability to pay over time, rather than a presumption of immediate liquidation. The agencies will work with their examination staffs to ensure that real estate loans are evaluated in accordance with agency policy.

3. Enhancing and Streamlining Appeals and Complaint Processes

Appeals. It is important for bankers to have an avenue by which they can obtain a review of an examiner's decision when they wish. For that reason, each of the agencies has established an appeals process. To ensure the effectiveness of those processes, each agency will take appropriate steps to ensure that its appeals process is fair and effective.

In particular, each agency will ensure that its process provides a fair and speedy review of examination complaints and that there is no retribution against either the bank or the examiner as the result of an appeal.

Complaints. Each of the agencies has a process to handle more general complaints from the institutions they regulate and from the general public. Although the volume of such complaints can be high, each agency recognizes that reviewing and responding to these complaints is an important element of proper supervision. The agencies are particularly concerned that complaints of discriminatory lending practices be handled with the utmost seriousness and on an expedited basis.

Accordingly, the agencies will review their complaint processes to improve both the care with which complaints are scrutinized and the timeliness of responses.

4. Improving Examination Process and Procedures

Reducing the Burden of the Examination Process. A proper examination of a bank or thrift by its very nature involves some disruption to the examined institution. Such disruptions, however, are costly to the institution and can interfere with its credit functions. It is highly desirable that examination disruptions be minimized.

Accordingly, the agencies have agreed to intensify efforts to minimize such disruptions and, in particular, to take the following steps: (i) eliminate duplication in examinations by multiple agencies, unless clearly required by law, (ii) increase coordination of examinations among the agencies when duplication is required, and (iii) establish procedures to centralize and streamline examination in multibank organizations.

Refocusing the Examination Process. If examinations are to fulfill their functions both in the areas of safety and soundness, fair lending, and consumer protection compliance, it is important constantly to reexamine the elements of the examination to determine whether the process is effective. Similarly, regulations and interpretations must continually be assessed to determine whether they are fulfilling these functions.

To improve the regulatory process, the agencies have agreed to heighten their emphasis in examinations on risk to the institution and to issues involving fair lending in place of areas that have become less productive over time. Agency policies and procedures will be reviewed with this focus in mind.

Reducing Regulatory Uncertainty. Uncertainty is part of the regulatory burden that banks and thrifts face and that contributes to their reluctance to make some credits available. This uncertainty can stem from ambiguous language in regulations and interpretations, from delays in publishing regulations and interpretations, and from failures to follow uniform examination standards that clearly reflect agency policies.

Accordingly, the agencies will review their regulations and interpretations to minimize ambiguity wherever possible and will step up efforts to publish regulations and interpretations required by law or sound regulatory practice. In addition, the agencies will reemphasize to their examiners to follow agency policies and guidelines carefully and accurately in carrying out examinations and reviewing applications. The agencies will make every effort to ensure that examination and application processing is performed uniformly across the country.

5. Continuing Further Efforts and Reducing Burden

Further Efforts. Additional items will be reviewed for possible change. One item that will be reviewed relates to the treatment of partially charged-off loans. Under current practice delinquent loans that have been partially charged off cannot be returned to performing status even when the borrower is able to, and fully intends to, pay the remaining interest and principal to the bank in a timely fashion. The agencies will work to develop common standards for determining when a loan may be returned to accrual status.

Paperwork Burden. No good is served by forcing banks to bear an excessive regulatory paperwork burden. Accordingly, the agencies have begun and will continue to review *all* paperwork requirements to eliminate duplication and other excesses that do not contribute substantially to safety and soundness.

Regulatory Burden. It is not paperwork alone that unnecessarily burdens banks and thrifts. Regulations and interpretations also may be unnecessarily burdensome. In some cases the passage of time has made regulations outmoded. In other cases the regulations may not have fulfilled their goals.

Accordingly, the agencies also have begun and will continue to review *all* regulations and interpretations to minimize burden while maintaining safety and soundness standards.

Distribution: FDIC-supervised banks (Commercial and Savings)

Joint Release	Office of the Comptroller of the Currency
	Federal Deposit Insurance Corporation
	Federal Reserve Board
	Office of Thrift Supervision

For immediate release

Interagency Policy Statement on Fair Lending Initiatives

June 10, 1993

The four financial institution regulatory agencies are announcing initiatives that they will pursue over the next several months to enhance their ability to detect lending discrimination, to improve the level of education they provide to the industry and to their examiners, and to strengthen fair lending enforcement.

Background

A number of interagency efforts are already completed or are under way to improve fair lending detection techniques, enforcement, and education. For example:

- The agencies have issued a joint statement to financial institutions that reaffirms their commitment to the enforcement of the fair lending laws and provides the industry with guidance and suggestions on fair lending matters.

- The agencies are working on a revised supervisory enforcement policy for dealing with violations of the Equal Credit Opportunity and Fair Housing Acts. This revised policy will replace a policy issued in 1981. The revised policy specifies corrective actions for several different substantive violations of the ECOA and FHA.

- The agencies are developing uniform fair lending examination procedures and training programs. The agencies believe these new procedures will significantly strengthen existing discrimination detection programs. These new examination procedures will be publicly available this summer.

New Initiatives

The four agencies will pursue the following new initiatives over the next several months:

(more)

1. **Fair Lending Training for Examiners**

   The agencies will develop a new training program in fair lending for experienced compliance examiners that will be conducted on a regional basis. A pilot program could be held as early as Fall 1993.

2. **Fair Lending Seminar for Industry Executives**

   The agencies will develop and sponsor regional fair lending programs for top level industry executives (chief executive officers and executive vice presidents) to explain their efforts to enforce fair lending laws and to foster additional sensitivity and awareness among lenders about discrimination issues, specifically subtle practices that impede the availability of credit to low-income and minority individuals. The first session of this program could be held later this year.

3. **Alternative Discrimination Detection Methods**

   The agencies will explore statistically-based discrimination analysis models. These models may help identify loan applications files for review as part of the examination process. This will significantly enhance the agencies' abilities to identify loan applicants that may have received differential treatment.

4. **Stronger Enforcement of Fair Lending Laws**

   Each agency will implement an internal process for making referrals to the Department of Justice for violations of the Equal Credit Opportunity Act. These internal procedures will ensure that appropriate cases are being put forth for consideration by senior management.

5. **Improved Consumer Complaint Programs**

   The agencies believe that refinements to their consumer complaint systems can also better promote the broad availability of credit on a non-discriminatory basis. During the next few months, each agency will evaluate the effectiveness of its consumer complaint system in detecting and correcting credit discrimination, and alerting the agencies to industry practices that may inhibit the free flow of credit. Each agency will announce its own specific initiatives in these areas.

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Joint News Release

Federal Reserve Board
Comptroller of the Currency
Office of Thrift Supervision
Federal Deposit Insurance Corporation

For immediate release May 27, 1993

To address the concern that some minority consumers and small business owners are experiencing discrimination by lenders, federal bank and thrift supervisors today reiterated their commitment to effective enforcement of fair lending laws and urged bank and thrift institutions to increase their fair lending activities.

In a letter to all banks and thrifts, the heads of the four agencies said that discrimination strikes at a basic tenet of a free market system: equal opportunity for all to gain access to bank services. The letter said the regulators expect all financial institutions to do their part to design programs to ensure access to credit on a non-discriminatory basis.

The letter urged special attention to 11 specific fair lending activities, including enhanced employee training, internal second review programs for loan applications that might otherwise be denied, participation on multi-lender mortgage review boards, and affirmative marketing and call programs.

A copy of the letter and the suggested fair lending activities is attached.

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Attachments

May 27, 1993

TO THE CHIEF EXECUTIVE OFFICER:

The federal financial institutions supervisory agencies are deeply concerned that some minority consumers and small business owners may be experiencing discriminatory treatment in their efforts to obtain credit from financial institutions. Discrimination in lending, on any prohibited basis, strikes at the fabric of both our political commitment to equal opportunity and our economic commitment to free and competitive markets.

Our agencies are committed to making sure that financial institutions understand their fair lending obligations and respond appropriately. We will continue to strengthen and refine our fair lending enforcement activities. Examiners will routinely use HMDA data, as well as other information, to identify cases which require closer examination. Examiners will then conduct detailed reviews and comparisons of loan and application files to examine for compliance with fair lending laws and regulations. The agencies will continue to develop and refine computer-based programs to facilitate and improve this process. This is part of an ongoing effort to develop tools that will further help examiners and institutions analyze HMDA data, review examination procedures and determine how they can be strengthened to detect and deter discrimination in lending.

In cases where examination results or other information suggest probable fair lending violations, we will cooperate with the U.S. Department of Justice and the Department of Housing and Urban Development.

We further believe that a sustained national effort to expand and intensify educational programs for both lenders and consumers is necessary, with an emphasis on greater sensitivity to fair lending issues. We urge financial institutions to use their maximum creativity to design appropriate programs. We especially urge consideration of the ideas listed on the appended sheet.

It is clear to the agencies that more needs to be done to assure equal access to credit by everyone in our country. We expect all financial institutions to participate in this effort.

Alan Greenspan, Chairman
Board of Governors of the
Federal Reserve System

Andrew C. Hove, Jr.
Acting Chairman
Federal Deposit Insurance Corporation

Jonathan L. Fiechter
Acting Director
Office of Thrift Supervision

Eugene A. Ludwig
Comptroller of the Currency
Office of the Comptroller
of the Currency

SUGGESTED FAIR LENDING ACTIVITIES

- Use of an internal second review system for consumer, mortgage and small business loan applications that would otherwise be denied.
- Enhanced employee training that engenders greater sensitivity by financial institution management, and employees, to racial and cultural differences in our society.
- Training of loan application processors to assure that any assistance provided to applicants in how to best qualify for credit is provided consistently to all loan applicants.
- Efforts to ensure that all persons inquiring about credit are provided equivalent information and encouragement.
- Use of flexible underwriting and appraisal standards that preserve safety and soundness criteria while responding to special factors in low- and moderate-income and minority communities.
- Efforts to encourage equal employment opportunity at all levels throughout the institution, including lending, credit review, platform and other key positions related to credit applications and decisions.
- Affirmative marketing and call programs designed to assure minority consumers, realtors, and business owners that credit is available on an equitable basis; marketing may involve sustained advertising programs covering publications and electronic media that are targeted to minority audiences.
- Ongoing outreach programs that provide the institution with useful information about the minority community, its resources, credit needs and business opportunities.
- Participation on multi-lender Mortgage Review Boards which provide second reviews of applications rejected by participating lenders.
- Participation in public or private subsidy or guarantee programs that would provide financing on an affordable basis in targeted neighborhoods and communities.
- Use of commissions or other monetary or nonmonetary incentives for loan officers to seek and make safe and sound consumer and small business loans in minority communities.

FDIC
Federal Deposit Insurance Corporation
Washington, DC 20429-9990

Office of Consumer Affairs
(202) 898-3536 • (800) 934-3342

FIL-24-93
April 7, 1993

COMMUNITY REINVESTMENT ACT (CRA)

TO: CHIEF EXECUTIVE OFFICER
AND COMPLIANCE OFFICER

SUBJECT: Revised Guidance on CRA Compliance (Part 325)

The Federal Deposit Insurance Corporation, the Federal Reserve Board, the Office of the Comptroller of the Currency and the Office of Thrift Supervision have revised and reorganized the questions and answers that follow Part 345 of the FDIC's rules and regulations relating to the Community Reinvestment Act (CRA). These questions and answers are intended to help financial institutions more effectively meet their CRA responsibilities and increase public understanding of the CRA. The questions and answers address some of the most commonly asked questions about community reinvestment. They should be regarded as useful guidance, not as official interpretations.

A copy of the revised questions and answers is attached. This document differs from the previous version in several respects: it has been reorganized according to subject matter; four new questions have been added; and four previous questions have been deleted.

The four new questions address the following:

- Can an institution target a specific ethnic group, rather than a geographic area, as its delineated community and in designing and marketing products? (Question 5);
- May a state-chartered institution place a copy of its CRA performance evaluation prepared by a state regulatory agency in its public comment file maintained for public inspection? (Question 13);
- What criteria do examiners use to determine whether the outside activities of an institution's officers or employees, and whether the institution's charitable donations, contribute to CRA performance? (Question 22); and
- What emphasis are the agencies giving to lending and investment versus CRA procedures and documentation? (Question 23).

Questions previously numbered 4 (CRA statements), 5 (listings of types of credit extended), 11 (the placing of comments in the public file) and 19 (policies that restrict certain types of credit) have been deleted because of reiteration or redundancy. Other minor clarifying modifications also have been made.

For further information about the FDIC's enforcement of the CRA, please contact your Regional Office of the FDIC's Division of Supervision.

Janice M. Smith

Janice M. Smith
Director

Attachments

Distribution: FDIC-Supervised Banks (Commercial and Savings)

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

Community Reinvestment Act

Interagency Questions and Answers

AGENCY: Federal Financial Institutions Examination Council.

ACTION: Adoption of the Interagency Questions and Answers regarding community reinvestment.

SUMMARY: The Consumer Compliance Task Force of the Federal Financial Institutions Examination Council (FFIEC) today has adopted revised Interagency Questions and Answers Regarding Community Reinvestment. To help financial institutions meet their responsibilities under the Community Reinvestment Act (CRA) and to increase public understanding of the regulations and examination procedures, the staffs of the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the Office of the Comptroller of the Currency have prepared answers to the most commonly asked questions about community reinvestment. The Questions and Answers should not be regarded as official interpretations. Their purpose is to provide useful guidance to agency personnel, financial institutions and the public.

The document includes four new questions, which address the following:

- The agencies' emphasis on lending and investment rather than documentation (23);
- State CRA performance evaluations and the public file (13);
- Outside activities and CRA performance (22); and
- Institutions' targeting specific ethnic groups and CRA considerations (5).

The Questions and Answers are now organized by subject matter with the previously assigned numbers appearing in parentheses. Questions and answers previously numbered 4 and 5 were deleted because they were basically a reiteration of the regulation, and those previously numbered 11 and 19 were deleted because other questions and answers address the same issues. Other minor modifications were made as necessary to improve clarity.

ADDRESSES: Federal Financial Institutions Examination Council, 2100 Pennsylvania Avenue, NW., suite 200, Washington, DC 20037.

FOR FURTHER INFORMATION CONTACT: Debra D. Clements, Compliance Analyst, Federal Financial Institutions Examination Council, 2100 Pennsylvania Avenue, NW., suite 200, Washington, DC 20037. Specific agency related questions should be directed to the following: Federal Reserve Board—Divison of Consumer and Community Affairs (202) 452–2631; Federal Deposit Insurance Corporation—Office of Consumer Affairs (202) 898–3536, or Division of Special Supervision (202) 898–7155; Office of Thrift Supervision—Specialized Programs (202) 906–6000; Office of the Comptroller of the Currency—Compliance Management (202) 874–4446.

EFFECTIVE DATE: February 17, 1993.

SUPPLEMENTARY INFORMATION:

Interagency Questions and Answers Regarding CRA Scope of the CRA's Coverage

1. (26) Are there any "regulated financial institutions" that are excluded from the scope of CRA?

In general, the CRA defines a "regulated financial institution" as one that meets the definition of an insured depository institution, under Section 3 of the Federal Deposit Insurance Act. However, the banking agency CRA "Interpretation 101" (12 CFR 25.101, 12 CFR 228.100, and 12 CFR 345.101) excludes from CRA requirements certain institutions that serve solely as correspondent banks, trust companies, or clearing agents. The banking agencies have also excluded from CRA certain financial institutions whose activities are limited to providing cash management controlled disbursement services. The rationale used in allowing certain financial institutions to be excluded from the scope of CRA is that these institutions are only incidentally involved, if at all, in granting credit to the public. The financial supervisory agencies periodically review the applicability of CRA to other types of financial institutions.

2. (1) What does the term "office" mean as used in the regulation?

Office refers generally to a facility of an institution that accepts deposits, including an electronic deposit facility. It does not include purely administrative offices, agencies, loan production offices or facilities used, for example, only for the check collection process. In delineating a local community, an institution need not consider shared electronic deposit facilities, unless otherwise directed by the appropriate financial supervisory agency.

3. (24) How are bank and savings association holding companies affected by the CRA?

The CRA applies to applications filed by holding companies to merge or to acquire banks and savings associations. When decisions on such applications are made, the Federal Reserve Board and the Office of Thrift Supervision will consider the CRA records of all the bank or savings association subsidiaries of the applicant holding company. The parent holding company need not prepare a CRA Statement or public notice, or maintain public comment files; but are encouraged to ensure that subsidiary financial institutions have expanded CRA statements that include a description of the institution's CRA performance. The holding company must conform to the requirements of the applicable regulation for media notices of corporate applications filed to acquire a bank or savings association.

Delineation of the CRA Community

4. (2) What is meant by "local community" and how detailed a map should be used to portray it?

The term "local community" refers to the contiguous area surrounding each office or group of offices of an institution. Although the geographic areas served by an institution may vary with the type of service, only one local community is to be delineated for a particular office or group of offices. Any map which depicts an institution's local community or communities with reasonable clarity may be used. The map need not show each street in the community, nor be prepared professionally by a cartographer. Low- and moderate-income neighborhoods should not be specifically indicated on the map. The community delineation, however, must not unreasonably exclude such neighborhoods. An institution may delineate several local communities on one map. However, each local community, comprising the entire community, must be delineated with sufficient clarity so that the areas included in those local communities are obvious. If the entire community is made up of more than a few local communities, or the local communities are separated by significant distances, it may be easier and clearer to use a separate map for each local community. Furthermore, the locations of the institution's offices need not be shown on the maps.

5. (new) Can a financial institution identify a specific ethnic group, rather than a geographic area, as its delineated community; and can this financial institution target a specific ethnic group in designing and marketing products and services?

13. (new) May a State-chartered financial institution place a copy of a community reinvestment performance evaluation prepared by a State regulatory agency in the comment file(s) maintained for public inspection pursuant to Federal rules?

A signed written comment, that addresses an institution's CRA Statement or performance in helping to meet the credit needs of its community, received from the public during the past two years should be placed in the public comment file. For the purposes of the Federal financial supervisory agencies' CRA implementing rules, any comment not prepared by the institution itself or its Federal financial supervisory agency may be considered to be from "the public." Institutions should consider the answers to Questions 10 and 11 of this series if they are concerned that the disclosure of information received from a State regulatory agency or other source would violate Federal rules. Institutions are also advised to consult with their State regulatory agencies if they are unsure of what material received from the State is intended for public availability.

14. (12) Must the institution respond to any or all comments received from the public?

There is no requirement that the institution respond. However, the institution may find it helpful to respond to certain comments to foster a dialogue with members of the community or to present relevant information to a financial supervisory agency. If any institution responds to a letter in the public comment file, the response must also be placed in that file, unless it reflects adversely on any person or violates a law.

15. (8) How should past and current CRA Statements and public comment files be made available to the public in each office of an institution, particularly an institution that has offices in more than one local community?

An institution that has offices in more than one local community should maintain current CRA Statements for all its local communities at its head office and current CRA Statements for each local community in each office of the institution in that local community, except off-premises electronic deposit facilities. Any CRA Statements that were in effect during the past two years should be retained with the public comment letters in the public comment file. A comment file for the entire institution must be maintained at the head office, and a comment file pertaining to a particular local community must be retained at a designated office in that community. A copy of the most recent public CRA Performance Evaluation prepared by the institution's Federal financial supervisory agency must be maintained in each of the public comment files.

Assessing the Record of Performance Under the CRA

16. (17) Will an institution's performance in helping to meet community credit needs be assessed even if an institution does not intend to make an application covered by the CRA?

Yes. While Congress directed that the approval or rejection of applications be used to encourage community reinvestment by banks and savings associations on a safe and sound basis, it also sought to have each financial supervisory agency use its examination process "to encourage" institutions to be sensitive to their responsibilities to help meet local credit needs.

17. (16) Will activities in addition to lending be considered in the CRA assessment?

Yes. Although the principal focus is on lending, the financial supervisory agencies recognize that other activities and efforts contribute toward the CRA's goals. The financial supervisory agencies will consider the extent to which an institution's activities foster local community revitalization. For example, the agencies will consider the institution's purchase of state or municipal bonds or involvement through investment or other contributions in a local community development project. The agencies also will consider activities such as:

- Efforts to establish meaningful dialogue with community members concerning credit needs of the community;
- The institution's record of opening and closing branches and offering services (including noncredit services);
- Marketing and special credit-related programs to make community members aware of credit services offered at its offices;
- The extent of participation by the institution's board of directors in formulating policies and reviewing its CRA performance.

18. (29) In addition to traditional direct lending activities, what activities can financial institutions consider in meeting obligations and responsibilities under the Community Reinvestment Act?

The answer to this question is primarily designed to provide guidance to regulated financial institutions that are not "full service" providers. The guidance herein can also be utilized by full service institutions as a means of augmenting their traditional lending activities as part of a comprehensive CRA program. Some of these activities may require prior financial supervisory agency approval.

The following are some nontraditional activities that financial institutions may consider to help meet their responsibilities under the Community Reinvestment Act.

Debt Investments and Related Securities

- Purchase of mortgage-backed securities or collateral trust notes from lenders or other community development finance intermediaries serving primarily low- and moderate-income areas or persons.
- Purchase of housing, community and economic development loans, or participations in loans or loan pools from other financial institutions, state and local government agencies, nonprofit community-based development corporations, community loan funds, or other community development intermediaries originating loans to help meet the needs of low- and moderate-income persons or small businesses.
- Purchase of government guaranteed loans (or participations in pools representing such loans) made to low- and moderate-income persons, or to small farm and small business owners, such as:
  —SBA guaranteed loans or loan pools;
  —FmHA guaranteed farm, business or housing loans;
  —FHA insured loans;
  —EDA (U.S. Economic Development Administration) guaranteed loans;
  —State housing or economic development agency guaranteed loans.
- Purchase of state and local government agency housing mortgage revenue bonds or industrial revenue bonds.

Equity Investments

Some activities to serve community credit needs may be carried out through certain federal and state supervisory agencies' programs to promote community development investments. Such investments are required to serve predominantly a public or community purpose. Activities that might be carried out directly by an institution under these programs include:

- Purchase of limited partnership shares to provide the equity financing provided may ultimately benefit low- and moderate-income borrowers or neighborhoods located outside of the institution's delineated community. In determining whether and to what extent positive consideration will be given, the agencies assess the activities undertaken in the context of an institution's overall CRA program. Where such participation augments or complements an overall CRA program that is directly responsive to the credit needs in an institution's delineated community, it will be considered favorably in reaching an overall CRA conclusion. However, such activities and involvements will be insufficient to compensate for an otherwise deficient record of addressing the credit needs of an institution's delineated community.

Examples of such programs or intermediary organizations (other than traditional direct lending) are:

- Lending consortia or loan pools that provide community development financing and technical assistance for low- and moderate-income housing, small and minority business development, or other neighborhood revitalization projects;
- Multi-investor community development corporations;
- Limited partnerships that invest in low- and moderate-income housing;
- Secondary market corporations and programs which explicitly target loans for low- and moderate-income housing, small and minority businesses, or small farms;
- Quasi-public housing, community development or economic development finance corporations in which state or local government agencies participate, often with financial institutions or other contributors;
- State bond programs for housing, community and economic development, or public infrastructure projects;
- Public or private intermediaries which provide loan guarantees or other credit enhancements used by financial institutions to support community development lending and investment;
- Capital investment, loan participation and other co-ventures undertaken with minority and women-owned financial institutions.

These and similar vehicles help institutionalize and support community development lending and investment. In general, they enhance the capacity of financial institutions to help meet community credit needs, including those of low- and moderate-income neighborhoods.

21. (20) May an institution use a policy of making certain loans only to existing customers without adversely affecting its CRA performance?

In examining an institution, the financial supervisory agencies will pay particular attention to any restrictions placed on the availability of those types of credit that an institution has indicated on its CRA Statement that it would extend in its local community. Examiners will focus on whether any such restrictions have or would have a significantly greater impact on low- and moderate-income neighborhoods. In every case, examiners will consider:

- The business rationale for adopting a particular policy;
- Whether other policies would serve the same business purpose with less adverse impact;
- The relative ease of becoming a customer eligible for credit under the restriction;
- Whether the institution has adopted a policy of limiting certain loans to customers as a temporary response to tight money conditions or as a permanent policy.

Loans available on any restrictive basis should be listed on the CRA Statement with the restrictions noted. However, the agencies recognize that institutions occasionally make certain specialized loans to "good" customers. This type of spot lending activity need not be listed on the CRA Statement.

Any restrictive lending policies or practices found to be discriminatory on a prohibited basis will have a substantial adverse impact on an institution's CRA performance.

22. (new) What criteria do examiners use to determine whether a director's, officer's or employee's outside activities contribute to an institution's CRA performance? What criteria do the examiners use to determine whether an institution's charitable donations contribute to its CRA performance?

To contribute to an institution's CRA performance, an activity or charitable donation should fall into one of the following categories:

- It resulted in the sharing of information about the institution's lending services;
- Information was obtained regarding the community's credit needs;
- Community members were informed about how to get or use credit;
- The activity or charitable donation assisted in providing credit services or information to the community;
- The activity or donation assisted a community development or redevelopment effort.

23. (new) Some parties have commented that the financial supervisory agencies emphasize assessment criteria relating to the CRA process over results such as lending. What is the current emphasis of the agencies in their supervisory efforts?

The principal focus of the financial supervisory agencies and the activity most encouraged through an examination continues to be lending and other activities within the community that result in extensions of credit that help meet identified credit needs. The answers to Questions 20 and 30 in this series also address this issue. A conclusion that performance is satisfactory or better generally requires that the community delineation is reasonable; that credit extensions are consistent with the capacity of the institution and the identified needs of the community; and that lending activity reflects a reasonable penetration of all segments of the community, including its low- and moderate-income neighborhoods.

When the above characteristics are not found to be present in an institution's reinvestment record, the underlying causes identified by the financial supervisory agencies' examiners are likely related to deficiencies in the institution's community reinvestment process. Agency recommendations for improving the institution's CRA performance usually involve:

- Oversight by the board of directors and management;
- The establishment of goals and objectives;
- Community outreach, product development and marketing;
- Management and employee training;
- Regular monitoring of the institution's progress and performance.

Process-oriented corrective measures should be implemented to make the institution more responsive to local credit needs on a regular, ongoing basis. However, no level of emphasis by an institution on the CRA process can make upon for a seriously deficient record of lending and investment in the community.

24. (7) What is a "small" business or farm?

For CRA purposes, the term "small" refers to the absolute size of the business and farm rather than the relative size in their industries. Because a major concern of CRA is that all creditworthy borrowers have reasonable access to loans from banks and savings associations, small businesses and farms generally are viewed as those which do not have access to regional and national applicant bank or savings association has an affiliate community development corporation operating in the same community as the applicant, the applicant may ask that the contributions of that corporation in helping to meet the credit needs of the particular community be considered by the financial supervisory agency in assessing the overall CRA record of the applicant.

Dated: February 12, 1993.

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Executive Secretary, Federal Financial Institutions Examination Council.

[FR Doc. 93-3856 Filed 2-18-93; 8:45 am]

BILLING CODE 6210-01-M