

FDIC
Speeches

TESTIMONY OF

L. WILLIAM SEIDMAN
CHAIRMAN
FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

ON

THE COMMUNITY REINVESTMENT ACT

BEFORE THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

10:00 a.m.
Wednesday, March 23, 1988
Dirksen Senate Office Building

Good morning, Mr. Chairman and members of the Committee. I am pleased to be here today to present the views of the Federal Deposit Insurance Corporation on enforcement of the Community Reinvestment Act (CRA). Attached are detailed answers to the questions contained in your recent letters on this subject.

Introduction

Since enactment of this important law in 1977, the FDIC has worked hard to enforce the CRA mandate. That mandate requires us to encourage State chartered, nonmember banks to help meet local community credit needs, including those of low- and moderate-income neighborhood residents, consistent with the safe and sound operation of those banks.

In carrying out its responsibilities under the CRA, the FDIC realizes the importance of the availability of residential mortgage credit and home improvement and rehabilitation loans in preventing the decline of neighborhoods, communities and entire cities. We also are mindful of the value of community reinvestment by banks in making small business loans and loans for community development and redevelopment projects and programs. Such lending efforts help build the physical, social and economic fabric of our nation's neighborhoods and cities and, thus, improve the quality of life for people in our nation's neighborhoods and communities.

The FDIC views the CRA as an integral part of the comprehensive network of fair lending laws that includes the Fair Housing Act, the Equal Credit Opportunity Act, and the Home Mortgage Disclosure Act. This agency works diligently to enforce the objectives of all federal fair lending statutes for which it has enforcement responsibility. We view the effective enforcement of every fair lending law within our jurisdiction as necessary, not only to assure that our statutory mandates are being met, but also to strengthen consumer confidence and trust in the banks supervised by the FDIC.

The FDIC's Role Under the CRA

The fundamental role of the federal financial regulators under the CRA is to encourage the institutions we supervise to help meet local community credit needs, consistent with safe and sound banking practices. The FDIC performs its role primarily through effective bank supervision and enforcement. We administer a compliance examination program by which FDIC-supervised banks are regularly examined, evaluated and rated as to compliance with fair lending laws, including the CRA. This program is carried out according to comprehensive, specific and detailed examination procedures used by each of the federal financial regulators.

In order to enforce compliance with the CRA, in 1978 the FDIC adopted Part 345 of its regulations and comprehensive CRA examination procedures. The major measures of effectiveness in CRA compliance are the assessment factors outlined in our CRA regulations. After applying those factors, the FDIC rates banks in accordance with the Uniform Interagency CRA Assessment Rating System.

The ratings range from 1 to 5, with one being the best. We give special supervisory attention to banks with compliance and CRA ratings of "3," "4," and "5."

In the CRA examination process, examiners evaluate banks on a case-by-case basis taking into account their size, expertise and locale. Community credit needs often differ based on the characteristics of each local community. Banks are evaluated on the basis of efforts to ascertain, determine and help meet community credit needs in the context of local circumstances and resources. FDIC examiners also discuss their findings regarding the bank's CRA performance with bank management. Examiners provide appropriate CRA-related information and technical assistance at that time, thereby helping banks to understand the purposes of the CRA and the FDIC's enforcement role.

Monitoring and enforcing bank compliance with the CRA mandate is critical in the FDIC's evaluation of bank applications for deposit insurance, to establish a branch, to relocate a home office or branch, to merge and in other specified instances. In making decisions on such applications, the FDIC gives due consideration to the bank's CRA performance record. This is required in all cases, not merely in instances where a protest has been filed. As a result of these evaluations, CRA-related violations have resulted in remedial corrective advisements, memoranda of understanding and delayed or conditional approval of applications, as well as application denials.

In addition to enforcing the CRA as part of the examination process and in the context of individual applications, our Office of Consumer Affairs (OCA)

coordinates the processing of CRA complaints filed against banks. Such complaints are investigated by the FDIC or referred to the appropriate federal financial regulator for handling.

All in all, we at the FDIC believe our CRA enforcement efforts have been effective. This view is based on the large number of banks which receive a satisfactory or higher CRA rating, the low number of CRA consumer complaints or protests we have received and the few public comments found in files of FDIC-supervised banks relating to their CRA statement or CRA performance.

Bank Compliance with the CRA

Banks generally comply with CRA requirements. Banks which do not comply find that noncompliance violations can lay the groundwork for CRA protests and complaints against banks resulting not only in denials of applications but in costly time delays. Our overall experience, with few exceptions, has been that once a problem is brought to a bank's attention immediate steps are taken to correct it.

Of the 1,228 banks examined for CRA compliance by the FDIC in 1986, 20 were assigned less than satisfactory ratings. Also, preliminary figures indicate that about two percent (or 42) of the 2,155 banks examined for CRA compliance in 1987 had less than satisfactory ratings.

We believe that the low ratio of less than satisfactory ratings indicates that FDIC-supervised banks are in substantial compliance with the requirements and spirit of the CRA and Part 345 of the FDIC's regulations. A CRA rating does

not reflect an isolated instance of technical noncompliance with a regulation but is a rating of a bank's performance record over time. Violations, when detected by the FDIC, are called to the bank's attention as matters requiring immediate corrective action. Banks generally comply promptly.

Thus, the great majority of FDIC-supervised banks have been found to be in satisfactory or better compliance with the requirements of the CRA. When banks which were rated less than satisfactory on their most recent CRA examination apply for a branch, a relocation, or a merger, we investigate each situation and, when deemed appropriate, conduct an on-site CRA assessment. If the applicant bank is again found to be less than satisfactory as to CRA performance, the FDIC obtains commitments from the bank to favorably resolve all CRA-related problems before approval is granted. Such commitments may be informal or may be stipulated in a memorandum of understanding. No FDIC-supervised bank rated less than satisfactory on the basis of compliance with CRA has had its application approved without agreeing to appropriate corrective actions to favorably resolve FDIC-identified, CRA-related problems.

Since the Act's inception, the FDIC has denied three applications for deposit facilities due to CRA factors. This is .01 percent of the total number of applications subject to the CRA that were filed with the FDIC. The rate of application denials on CRA grounds, however, should not be considered the sole or even a major factor in measuring the effectiveness of the FDIC's use of its authority in enforcing the CRA. CRA-related problems often are corrected by banks at the request of the FDIC, prior to our action on an application. The incidence of such preapproval corrections have not been aggregated by the

FDIC. However, in May 1987, the FDIC's Division of Bank Supervision implemented a new Applications Tracking System which enhances our ability to ascertain which applications were protested based on CRA performance factors and to determine whether the FDIC imposed any CRA-related conditions in conjunction with the approval of those applications.

The FDIC received two CRA-related application protests in 1986 (against two banks) and nine in 1987 (against seven banks). In addition, we received six written CRA complaints and inquiries in 1986 and eight in 1987 that did not concern a specific bank application. Investigations of each of these complaints revealed no illegal CRA practices. Also, FDIC examiners have found very few CRA comments in banks' public files.

The FDIC's toll-free "hotline" also is useful in measuring the effectiveness of the FDIC's enforcement of the CRA. During 1987, the FDIC's Office of Consumer Affairs and our Regional Offices reported approximately 29,100 telephone calls for information and assistance. Of this number, only 194 calls involved community reinvestment matters. OCA also processed about 3,533 written complaints and inquiries, only eight of which involved CRA-related issues.

Improvements in the FDIC's CRA Program

Office of Consumer Affairs. In December 1986, the Board of Directors of the FDIC transferred consumer-affairs responsibilities from the Division of Bank Supervision to a newly established Office of Consumer Affairs. That Office is an independent component of the FDIC and its director reports directly to the Office of the Chairman.

The OCA staff includes a fair-lending analyst whose primary areas are community investment and civil rights. Among other responsibilities, OCA reviews all CRA-related protests filed against an FDIC-supervised bank in relation to an application and presents a written recommendation to our Division of Bank Supervision regarding the disposition of that bank's application. OCA also is charged with the task of continuously evaluating the adequacy of the FDIC's examination program as a mechanism for detecting and correcting violations of consumer protection and civil rights laws. This is in addition to the monitoring of our entire examination process by DBS.

Training. The FDIC provides CRA staff training in four primary ways. The bulk of compliance training, including CRA, is conducted on-site by senior field examiners. These individuals are generally the most experienced examiners who handle the more complex compliance and safety and soundness assignments. Our Regional Office staff keeps those examiners updated on all pertinent information relating to the scope of work assigned to them, including CRA-related information.

More formally, the FDIC's Division of Bank Supervision Training Center administers the Corporation's Consumer Protection School (CPS). Most CPS attendees are examiners with a minimum of two years' bank supervision experience. In 1986, there were three CPS sessions lasting eight days each resulting in the training of 39 students. In 1987, there were four CPS sessions lasting five days each which provided consumer protection and fair lending training to 62 FDIC students. In 1988, we plan to hold six five-day sessions with a total of 132 students scheduled to attend.

In addition to the above training, a two-hour overview of consumer protection laws is included in our advanced training for assistant examiners. We have had approximately ten sessions which included this overview, with approximately 25 assistant examiners (having an average of two years' experience) attending each session.

The FDIC's Office of Consumer Affairs also conducts a 2 1/2-day compliance seminar annually for Regional Office (DBS) Consumer Affairs and Civil Rights Review Examiners and their assistants and/or field examiners. Many of these Review Examiners then provide similar training seminars to their respective regional examination staffs.

We plan to continue our emphasis on compliance training programs, including CRA.

Examinations. The FDIC supervises nearly 9,000 banks. In 1985, approximately 1,069 banks were examined for compliance with the CRA. There were 1,228 examinations conducted in 1986 and approximately 2,155 during 1987. Because of the dramatic increase in the number of failed and problem banks in recent years, the FDIC has had to devote significantly more resources to problems involving safety and soundness.

We are working to improve examiner staffing shortfalls relative to compliance examinations. That endeavor will be facilitated by the provisions in the recently enacted Competitive Equality Banking Act removing the FDIC from certain budgetary constraints. We believe the significantly increased

compliance examination activity during 1987 will continue in 1988. Additional resources again will be allocated to compliance enforcement, including CRA, as we hire and train new examiners and as the number of problem banks begins to stabilize or decrease. In fact, in the budget that was approved by the FDIC Board of Directors on January 19, 1988, the number of compliance examinations during 1988 is projected to increase by approximately 60 percent.

Conclusion

As you know, Mr. Chairman, we have experienced a record number of bank failures over the last two years. Most have taken place in the hard-pressed farm and energy-dependent communities of the South, Southwest and Midwest. In at least 70 percent of these cases, the FDIC has been able to arrange the takeover of all or part of the failed bank by a healthy bank. This has important and positive social and economic consequences for the communities affected by bank failures. It means that along with the FDIC meeting its mandate to safeguard bank deposits, we have been able to secure continued access to credit for meeting local needs. The purchase of all or part of a failed bank by a healthy institution allows the banking relationships of local businesses and consumers to remain uninterrupted in many cases.

At the FDIC, we encourage the banks we supervise to help meet the credit needs of the residents of their local communities. We plan to do more outreach in order to increase awareness of the CRA among both consumers and bankers. Last March, we invited several community groups and consumer protection and civil rights organizations to the FDIC to meet with me and senior Corporation staff for an exchange of views on community reinvestment and other consumer and

community-related issues. That meeting was productive and another is being planned for 1988. In addition, to further our industry outreach efforts in the coming year, the FDIC plans to invite bankers from various parts of the country to compliance seminars where CRA concerns and other consumer-related laws and regulations will be addressed. We continue to believe that it is important to have regular dialogue with representatives from both community and consumer groups and the banking industry.

Thank you once again, Mr. Chairman and members of the Committee, for giving us this opportunity to express our views on an issue of special importance to the nation's communities and financial system. We will be pleased to respond to any questions.

Attachments



FEDERAL DEPOSIT INSURANCE CORPORATION, Washington DC 20429

OFFICE OF THE CHAIRMAN

January 25, 1988

Dear Mr. Chairman:

The enclosed answers are in response to your letter of October 22, 1987, requesting information on the Federal Deposit Insurance Corporation's policies, procedures and regulatory experiences relative to the Community Reinvestment Act. As agreed to with your staff, we will respond by February 1 to the additional CRA questions posed in your letter of December 23, 1987.

We hope the enclosed information is helpful.

With best wishes.

Sincerely,

L. William Seidman
Chairman

Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Enclosures

I. GENERAL ENFORCEMENT

I.a. Question:

Since enactment of the CRA, how many applications have been denied solely or substantially due to CRA factors? What percentage of total applications processed subject to the CRA does this represent? Does this rate of denial adequately enforce compliance with CRA, or would increased use of the sanctions provision strengthen compliance?

I.a. Answer:

Since the Act's inception, the FDIC has denied three applications for deposit facilities due to Community Reinvestment Act factors. This is .02 percent of the total number of applications subject to the CRA. (The number of applications processed from 1979 through August 1987 was 14,586.) The rate of application denials on CRA grounds, however, should not be considered the sole or even a major factor in measuring the effectiveness of CRA enforcement.

We believe the means employed by the FDIC to enforce compliance with the CRA are generally effective. If we find a CRA problem, we issue a correction advisement. If necessary, we follow up the advisement with a memorandum of understanding. Other sanctions include the conditional approval of bank applications for deposit facilities.

Banks generally comply with CRA requirements. Those which do not, however, find that violations can lay the groundwork for CRA protests and complaints against banks resulting not only in denials but in costly time delays. At the FDIC, our experience has been that once a problem is brought to a bank's attention, immediate steps are taken to correct it.

I.b. Question:

How many examinations of regulated institutions that assess CRA compliance are conducted each year? On average, how often is a regulated institution's compliance with the CRA assessed through an examination?

I.b. Answer:

The FDIC supervises nearly 9,000 banks. In 1985, 1,069 compliance examinations and visitations including CRA were conducted. There were 1,125 in 1986 and 1,824 during 1987. Because of the dramatic increase in the number of failed and problem banks in recent years, the FDIC has had to devote more resources to problems involving safety and soundness.

We are working to improve this manpower situation relative to compliance examinations, and certainly that endeavor will be facilitated greatly by the provisions in the recently enacted Competitive Equality Banking Act removing

the FDIC from certain budgetary constraints. We believe the increased compliance examination activity during 1987 will continue in 1988. Additional resources will be allocated again to compliance enforcement, including CRA, as we hire and train new examiners and, eventually, as the number of failed and problem banks begins to decrease. In fact, in the budget that was approved by the FDIC Board on January 19, 1988, the number of compliance exams during 1988 is projected to increase by approximately 60 percent.

The FDIC's compliance examination goals differ by compliance ratings. For 1- and 2-rated banks, the goal is assessment every 36 months. For 3-rated banks, the goal is every 18 months, and for 4- and 5-rated banks, the goal is every 12 months. To the extent that we are able to continue hiring additional bank examination staff, we will be better able to achieve our compliance examination goals.

I.c. Question:

What quantitative and qualitative criteria does your agency use to measure the effectiveness of regulatory enforcement of the CRA? What factors indicate that CRA enforcement has been effective? What factors indicate that CRA enforcement has not been effective?

I.c. Answer:

The FDIC rates banks in accordance with the Uniform Interagency CRA Assessment Rating System. The ratings range from 1 to 5, with one being the best. We give special attention to banks with compliance and CRA ratings of "3," "4," and "5."

In order to enforce compliance with the CRA, in 1978 the FDIC adopted Part 345 of its regulations along with concomitant examination procedures set forth in our Compliance Examination Manual. The major measures of effectiveness are based on the assessment factors outlined in Part 345. These include, but are not limited to, activities conducted by the bank to ascertain the credit needs of their communities and the bank's marketing of its services; the types of credit offered and extended by the bank to the community; the geographic distribution of the bank's loans; the impact of the opening or closing of any offices and the services offered at these facilities; the bank's compliance with anti-discrimination and other credit laws; and the bank's participation in community development in order to meet local credit needs.

In conducting a CRA examination, the examiner evaluates banks on a case-by-case basis to take into account banks that vary in size, expertise and locale. Community credit needs often differ with the specific characteristics of each local community, and banks are evaluated on the basis of attempts to ascertain, determine, and help meet community credit needs in the context of local circumstances and resources.

The main factors which indicate whether our CRA enforcement policies and procedures are effective include the number of banks which receive a satisfactory or higher CRA rating, the number of CRA consumer complaints or protests we receive, and the number of public comments found in files of banks relating to a bank's CRA statement or to the bank's performance in helping to meet the credit needs of its community.

The FDIC received two application protests in 1986 and seven in 1987. In addition, we received six CRA complaints in 1986 and eight in 1987 that did not concern a specific bank application. Investigations of each such complaint revealed no findings of illegal practices involving the CRA. Also, FDIC examiners have found very few CRA comments in the public files of banks.

Another means of assessing the effectiveness of the FDIC's enforcement of the CRA is the FDIC's toll-free "hotline." For the first six months of 1987 the FDIC's Office of Consumer Affairs and our Regional Offices reported approximately 14,120 calls for information and assistance. Of this number only 77 calls involved community reinvestment matters.

Additionally, within the last year we have restructured the FDIC Office of Consumer Affairs. That Office now operates independently of our Division of Bank Supervision and continuously evaluates the adequacy of the Corporation's compliance examination program.

We believe that the FDIC's CRA enforcement efforts generally have been effective. As mentioned above, however, we plan to increase the number of FDIC compliance examinations in 1988. We think the following factors would indicate that FDIC enforcement was not being effective: a larger percentage of banks with less than satisfactory ratings; a significantly increasing number of CRA protests and/or CRA complaints along with findings of unlawful conduct; heavier input into bank public files indicating community reinvestment problems; or increasing communications from community groups or individuals indicating possible problems with FDIC-supervised banks. We are not seeing evidence of these negative indicators.

II. CRA Ratings

II.a. Question:

How many regulated institutions were assigned CRA ratings of "3", "4", or "5" in 1986? What percentage of total rated institutions received these ratings? Were each of these institutions examined in 1986, or did some ratings rely on previous examinations? On what basis can the low level of "less than satisfactory" CRA ratings be justified?

II.a. Answer:

Of the 1,125 banks examined by the FDIC in 1986 for CRA compliance, 20 were assigned less than satisfactory ratings. As of June 1987, under 2 percent (or 132) of all FDIC-supervised banks examined for CRA compliance had less than satisfactory ratings.

The low ratio of less than satisfactory ratings, we believe, indicates that FDIC-supervised banks are in substantial compliance with the requirements of the CRA and Part 345 of the FDIC's regulations. A CRA rating does not reflect an isolated instance of technical noncompliance with a regulation but is a rating of a bank's investment record over time. Violations, when detected by the FDIC, are called to the bank's attention as matters requiring immediate corrective action. Banks generally comply promptly.

II.b. Question:

Have applications for institutions with CRA ratings of "3", "4", or "5" been approved by your agency? If so, how can these approvals be justified?

II.b. Answer:

No FDIC bank rated less than satisfactory on the basis of compliance with CRA has had its application approved without agreeing to appropriate corrective actions to favorably resolve FDIC-identified CRA-related problems.

As indicated above, the great majority (98%) of FDIC-supervised banks have been found to be in satisfactory or strong compliance with the requirements of the CRA. When banks which were rated less than satisfactory on their most recent CRA examination apply for a branch, a relocation, or a merger, we investigate each situation and, when deemed appropriate, conduct an on-site CRA assessment. If the applicant bank is again found to be less than satisfactory as to CRA performance, the FDIC obtains commitments from the bank to favorably resolve all CRA-related problems before approval is granted. Such commitments may be informal or may be stipulated in a memorandum of understanding.

In May 1987, the FDIC's Division of Bank Supervision implemented a new Applications Tracking System which will enhance our ability to ascertain which applications were protested based on CRA performance factors and to determine whether we imposed any CRA-related conditions upon the approval of those applications.

II.c. Question:

The regulatory agencies have long held the position that individual CRA ratings should not be made public, to protect the confidential relationship between a regulator and the regulated institution. However, the intent of Congress in enacting CRA was that, consistent with safety and soundness, sanctions could be imposed on regulated institutions with inadequate CRA records. The use of public CRA ratings would appear to reward institutions with good ratings and sanction institutions with less than satisfactory ratings. Is there any movement in the direction of public disclosure of individual CRA ratings by your agency?

II.c. Answer:

Currently there are no plans at the FDIC to publicly disclose individual CRA ratings, and we do not believe such disclosure is necessary at this time. The Home Mortgage Disclosure Act (HMDA) serves to provide the public with important information to enable them to determine whether depository institutions appear to be fulfilling their obligations in meeting the housing needs of the communities and neighborhoods in which they are chartered to do business. If there are indications of problems, the FDIC investigates. We believe that the banking agencies' supervisory efforts regarding community reinvestment have proven workable and effective.

III. HOME MORTGAGE DISCLOSURE ACT

III.a. Question:

When regulatory examinations of an institution's HMDA statements show that few or no housing loans are being made in low- or moderate-income areas, and that the volume of loans in these areas is disproportionately low compared to the volume of loans in other areas of the local community, how is this interpreted by your agency? If HMDA records indicate "unreasonable" lending patterns, is this sufficient cause for denial of an institution's application? If not, what steps are taken by your agency to correct the imbalance?

III.a. Answer:

From a regulatory standpoint, HMDA statements serve as a tool for closer analysis if and when problems concerning a bank's CRA compliance are suspected. The HMDA statement is generally considered a reliable indication of the number and dollar amount of mortgage loans extended in a bank's lending area.

At times, a bank's HMDA statement may reveal a disproportionately low number of loans in low- or moderate-income areas relative to other areas in the community. If this is found, our examiners investigate further into the reasons for any such patterns. If such a lending pattern cannot be justified, it would serve as a basis for a less than satisfactory CRA rating. The FDIC would advise the bank to improve its record by seeking to meet the credit needs of those in its lending community.

We cannot conclude, however, solely on the basis of few loans in low- or moderate income areas relative to other areas, that there has been a violation of CRA or fair lending laws. HMDA statements alone are not capable of supporting such conclusive interpretations. A HMDA statement which leads to questions about a bank's lending patterns serves as a valuable indicator for FDIC examiners. It causes an examiner to research, for example, whether omitted census tracts are indeed zoned residential, whether a bank's advertising of loan programs is actually reaching residents of these locales, and whether any demand for loans has emanated from these areas and if not, why not. These questions tie-in directly with the CRA assessment factors. As stated earlier, findings based on these factors have resulted in remedial corrective advisements, memoranda of understanding, and delayed or conditional approval of applications. They also have resulted in application denials.

III.b. Question:

There is an increasing call by community groups to expand HMDA to include disclosure of small business loans. Given the fact that the CRA assessment criteria specifically includes an institution's small business lending record, would an expansion of HMDA to include small business loans be appropriate?

III.b. Answer:

The focus of HMDA is on home mortgage disclosure and expanding this Act would change this focus. Moreover, as regulators we need to become more familiar with the views of small business borrowers before making any such recommendation. Before requiring disclosure of small business loans, it would

be necessary to have an agreed-upon definition acceptable and applicable to the various geographic regions with differing economic environments. This will likely present considerable difficulties.

IV. THE SECONDARY MARKET

IV.a/b. Question:

Is there any evidence that banks avoid making loans in certain low income areas because of the need to resell all loans to the secondary market? Have you discussed this situation with secondary market players? Can you come to a regulatory solution?

IV.a/b. Answer:

The FDIC is not aware of any evidence that banks avoid making loans in certain low income areas because of the need to resell all loans to the secondary market. We have not discussed the matter with secondary market participants, because we have received no complaints, written or oral, concerning this matter from either bankers or consumers. We do not believe any bank regulatory action is warranted at this time.

FEDERAL DEPOSIT INSURANCE CORPORATION

OFFICE OF THE CHAIRMAN

February 1, 1988

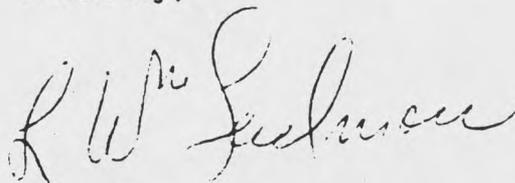
Dear Mr. Chairman:

The enclosed materials are furnished in response to your letter of December 23, 1987, requesting additional information concerning the Federal Deposit Insurance Corporation's enforcement of the Community Reinvestment Act.

We hope the enclosed information is helpful.

With best wishes.

Sincerely,



L. William Seidman
Chairman

Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Enclosures

Item (a): CRA staff training: include a profile of the staff trained, the type of training and the average training period.

Response: FDIC CRA staff training is provided primarily in four ways. The bulk of compliance training, including CRA, is conducted on-site by senior field examiners. These individuals are generally the most experienced examiners who handle the more complex compliance and safety and soundness assignments. Our Regional Office staff keeps these examiners updated on all pertinent information relating to the scope of work assigned to them, including CRA-related information.

More formally, the FDIC's Division of Bank Supervision Training Center administers the Corporation's Consumer Protection School (CPS). Most CPS attendees are examiners with a minimum of two years' bank supervision experience:

Year	Total Number of Sessions	Length of Each Session	Total # of FDIC Students	Hours of Fair Lending Training Per Session			
				CRA	FH	ECOA	HMDA
1987	4	5 Days	62	2	2	3	1
1986	3	8 Days	39	3.5	2	5	2
1985	3	8 Days	38	3.5	2	5	2
1984	2	8 Days	34	3.5	2	5	2

In addition to the above training, a two-hour overview of consumer protection laws is included in our advanced training for assistant examiners. We have had approximately 10 sessions which included this overview, with approximately 25 assistant examiners (with approximately 2 years' experience) attending each session.

Also, the FDIC's Office of Consumer Affairs (OCA) annually conducts a 2 1/2-day compliance seminar for Regional Office (DBS) Consumer Affairs and Civil Rights Review Examiners and their assistants and/or field examiners. Many of these Review Examiners then provide similar training seminars to their respective regional examination staffs.

Item (b): CRA examination process: include an estimate of examination time by size of institution (with thresholds of \$25, \$100 and \$500 million); actual examination reports on institutions which have been the subject of consumer protests during 1985-87, and a description of supervisory procedures to correct identified violations.

Response: For compliance examinations undertaken during 1985, 1986, and 1987, the average examination time ranged generally from 8 hours to 40 hours for smaller banks and up to 200 hours for larger banks. Hours, however, may relate more to the type of bank (e.g., commercial vs. savings bank, wholesale vs. retail) than to asset size. For special CRA examinations conducted in response to a bank application or a protest during each of the 3 years cited, the number of hours expended was substantially higher. Also, there were several examinations where (because of type, size and/or location of the bank) only 1 or 2 hours were spent on CRA -- a factor which lowers considerably the

average time expended per compliance examination. The following Table shows the average number of hours spent per examination on CRA compliance matters.

Average Hours Expended Per Examination on CRA

<u>Average Hours Per Exam</u>	<u>\$25 million</u>	<u>\$100 million</u>	<u>\$500 million</u>
1985	6	7 1/4	23
1986	5 1/2	10 1/2	18
1987	5	8	23

As agreed to with your staff, in lieu of the actual compliance examination reports initially requested, we have enclosed examples of two redacted compliance reports. We believe these illustrate the compliance enforcement practices followed by the FDIC.

To correct a compliance problem, including any CRA-related instance, we bring the issue to the bank's attention both orally and in writing. We also issue a correction advisement and, if necessary, issue a memorandum of understanding. Other sanctions include denying (or approving upon condition of compliance with the CRA) a bank's application for depository facilities. In extreme cases, we also have the authority to initiate a formal enforcement proceeding against the bank.

Item (c): CRA procedures: include procedures governing notice, comment, extensions and hearings, and monitoring of settlement agreements; report on disposition of protests (1981-87); include case files on applications protested 1985-87.

Response: Enclosed is a copy of A Citizens Guide to CRA prepared by the Federal Financial Institutions Examination Council. This publication contains a general explanation of the FDIC's CRA procedures. Excerpts from our Manual for Compliance Examinations also are provided. FDIC staff are reviewing current procedures to determine whether revisions are needed.

The FDIC does not, as a general rule, monitor CRA-related settlement agreements unless they were associated with a CRA protest. However, agreements are reviewed as part of the regular examination process.

The disposition of the CRA protests filed from 1981-1984 is as follows:

	<u>Applicant Bank</u>	<u>Disposition</u>
1981	Hamilton Bank Lancaster, Pennsylvania	Application Approved
	State Bank of Raleigh Raleigh, North Carolina	Application Approved
1982	The Boston Five Cent Savings Bank Boston, Massachusetts	Application Approved
1983	No protests received	
1984	No protests received	

The enclosed CRA Protest Summary Table includes disposition information on the CRA protests filed with the FDIC from 1985 through 1987. As agreed to with your staff, this Table is a substitute for the case files initially requested in your letter.

CRA PROTESTS AGAINST FDIC-SUPERVISED BANKS

<u>APPLICANT'S NAME/ADDRESS</u>	<u>PROTESTANT'S ADDRESS</u>	<u>TYPE AND DATE OF APPLICATION</u>	<u>SUBJECT OF THE PROTEST</u>	<u>DISPOSITION</u>
1985				
The Arizona Bank 101 North 1st Avenue Phoenix, Arizona 85003	Arizona Association of Community Organizations for Reform NOW (ACORN) 917 North 5th Street Phoenix, Arizona 85004	Branch - April 18, 1985	<ul style="list-style-type: none"> - Inadequate ascertainment of community credit needs; - Geographical distribution of credit; - Service charges too high. 	Informal hearing held July 10, 1985. FDIC approved application October 8, 1985.
Commercial and Industrial Bank 200 Madison Avenue Memphis, Tennessee 38103	Mid-South Peace and Justice Center P.O. Box 11428 Memphis, TN 38111-0426	Branch - July 15, 1985	<ul style="list-style-type: none"> - Inadequate branches in low and moderate income areas; - Insufficient number of housing loans; - Inadequate advertising. 	Informal proceeding held on September 18, 1985; FDIC approved application November 7, 1985.
1986				
The Waterloo Savings Bank 425 Cedar Street Waterloo, Iowa 50701	Citizens for Community Improvement 501 Sycamore Street P.O. Box 875 Waterloo, Iowa 50704	Merger - April 16, 1986	<ul style="list-style-type: none"> - Inadequate home improvement loans and small business loans; - Asked for increased contributions to local foundations. 	Examiner met with representatives of protestant. FDIC approved application September 24, 1986.
People's Trust Company 145 Westminster Street Providence, Rhode Island 02901	South Providence Revitalization Committee, Inc. 386 Prairie Avenue Providence, Rhode Island 02905	Branch Relocation - April 23, 1986	<ul style="list-style-type: none"> - Protestants not sent current CRA and HMDA statements. - Inadequate determination of community credit needs; communication with community; inadequate geographical distribution of credit extensions. 	FDIC approved application May 21, 1986.
1987				
Allied Bank of Texas 808 Travis Houston, Texas 77251	Houston Reinvestment Alliance c/o Robinson & Davis Attorneys 2905 Elgin Ave Houston, Texas 77288	Branch - May 13, 1987	<ul style="list-style-type: none"> - HMDA statement evidences failure to meet the credit needs of low and moderate income and minority residents; - Inadequate distribution of housing loans; - Alleged violation of discrimination under CRA, the Fair Housing Act and ECOA, including discouragement. 	Application held in abeyance by FDIC until application for OCC charter and merger acted upon.
Same as above	NAACP - Houston Branch 4101 San Jacinto, Suite 233 Houston, Texas 77004	Same as above	<ul style="list-style-type: none"> - Lending record of low and moderate income residents. 	
Beverly Bank 1357 West 103rd Street Chicago, Illinois 60643	Chicago Roseland Coalition for Community Control c/o Legal Assistance Foundation of Chicago 343 South Dearborn Street Chicago, Illinois 60604	Branch - June 15, 1987	<ul style="list-style-type: none"> - Failure to meet credit needs of lending community; - Bank does not make mortgage loans. 	Protest withdrawn September 16, 1986, following signed CRA agreement between bank and protestant; Informal proceeding held on October 13, 1987; FDIC approved application December 17, 1987.

<u>APPLICANT'S NAME/ADDRESS</u>	<u>PROTESTANT'S ADDRESS</u>	<u>TYPE AND DATE OF APPLICATION</u>	<u>SUBJECT OF THE PROTEST</u>	<u>DISPOSITION</u>
Same as above	Council on Employment and Economic Development (CEED) Coordinating Committee c/o Chicago Urban League 4510 South Michigan Avenue Chicago, Illinois 60653	Same as above	- Failure to meet credit needs of the lending community. - Discrimination against Black student loan applicants.	FDIC offered to meet with protestant but offer was declined.
The Merchants and Planters Bank of Raymond, Mississippi P.O. Box 699 Raymond, MS 39154	Mr. Berry G. Phompson Supervisor Heinz County, Mississippi I-20 N. Frontage Rd Rte 1, Box 20-B Bolton, Mississippi 39041	Merger - September 12, 1986	- Discriminatory lending; - Failure to involve minorities in the affairs of the bank.	1987 exam reflected CRA compliance; FDIC approved application August 4, 1987.
Delaware Trust Company 900 Market Street Mall Wilmington, Delaware 19801	Community Legal Aid Society, Inc. 913 Washington Street Wilmington, Delaware 19801	Phantom Merger - September 14, 1987	- Failure to meet the convenience and needs of low and moderate income and minority residents; - Discriminatory treatment; - Failure to adequately ascertain credit needs or to develop an adequate marketing program; - Inadequate CRA statement; - Failure to provide the CRA public notice.	Following adoption by the bank of a formal plan to correct CRA - related deficiencies, the FDIC approved the application November 30, 1987.
Citytrust 961 Main Street Bridgeport, Connecticut 06601	Asylum Hill Organizing Project 243 Sigourney Street Hartford, Connecticut 06105	Two branches - October 29, 1987 November 12, 1987	- "Very poor lending practice in minority neighborhoods"; - Bank has played a major role in the disinvestment of the Asylum Hill Community.	FDIC offered to meet with protestant but no response; application pending.
Peoples and Union Bank P.O. Box 589 Lewisburg, Tennessee 37091	The Tennessee Save the Family Farm Alliance Route 2, Box 46-A1 Indian Mound, Tennessee 37079	Merger - August 31, 1987	- Discriminatory lending practices toward farmers, e.g., higher interest rates charged relative to other equivalent risk loans; - Avoidance of FmHA guaranteed farm loans; - Inflexible foreclosure practices; - Improper linkage of farm debt with consumer loans.	FDIC offered to meet with protestant but no response; application pending.