FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 78-180
December 29, 1978

REGULATION BB--COMMUNITY REINVESTMENT ACT

Examination Procedures Under the Community Reinvestment Act

TO ALL STATE MEMBER BANKS
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The Federal Reserve Board, Comptroller of the Currency, Federal Deposit Insurance Corporation, and Federal Home Loan Bank Board are making public procedures developed by an interagency task force for examination of financial institutions covered under the Community Reinvestment Act and associated regulations.

The CRA became effective November 6. It is intended to encourage Federally insured commercial banks, mutual savings banks, and savings and loan associations to help meet the credit needs of their entire communities, including low and moderate income neighborhoods, while preserving the flexibility needed to operate safely and soundly.

Among Federally insured financial institutions, the Federal Home Loan Bank Board supervises savings and loan associations, the Federal Deposit Insurance Corporation supervises mutual savings banks and State chartered commercial banks that are not members of the Federal Reserve System, the Federal Reserve supervises State chartered member banks, and the Comptroller of the Currency supervises national banks.

The examination procedures developed by the staffs of the four agencies, working together, will be closely monitored and altered if necessary in the light of experience with the procedures.

A copy of the procedures, including a statement of their objectives and premises, is printed on the following pages. Questions on the Community Reinvestment Act, Regulation BB, or the examination procedures should be directed to the Consumer Affairs Section at Ext. 6171 or Ext. 6169.

Sincerely yours,
Robert H. Boykin
First Vice President

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-492-4403 (intrastate) and 1-800-527-4970 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

FEDERAL RESERVE

press release

This announcement is being made on
behalf of the following agencies:

Comptroller of the Currency
Federal Deposit Insurance Corporation
Federal Home Loan Bank Board
Federal Reserve Board

For immediate release November 22, 1978

Federal regulators of bank and thrift institutions today made public procedures developed by an inter-agency task force for examination of financial institutions covered under the new Community Reinvestment Act and regulations.

The CRA became effective November 6. It is intended to encourage Federally insured commercial banks, mutual savings banks and savings and loan associations to help meet the credit needs of their entire communities, including low and moderate income neighborhoods, while preserving the flexibility needed to operate safely and soundly.

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COMMUNITY REINVESTMENT ACT EXAMINATION PROCEDURES

Federal Deposit Insurance Corporation

Federal Home Loan Bank Board

Board of Governors of the Federal Reserve System

Office of the Comptroller of the Currency

November 1978

COMMUNITY REINVESTMENT ACT EXAMINATION PROCEDURES

I. INTRODUCTION

This statement was prepared with several objectives in mind.

To provide specific examination procedures.

To indicate the general scope, character, and intent of the Community Reinvestment Act (CRA) examination.

To provide guidance for the examination of diverse institutions in varied circumstances.

To make publicly available a self-contained general statement on examination procedures.

Premises

The statement is based on several premises.

The CRA review will be integrated into existing examination procedures, although precisely how this will be done is left to each agency.

Each agency will adopt a reporting method consistent with its current procedures. The respective "report" or "comment" page will reflect similar procedures and will be furnished to the institutions on a confidential basis.

The examiner will discuss with management the overall findings or assessment along with supporting details.

II. OVERVIEW

A. Community Reinvestment Act

The Community Reinvestment Act, a copy of which is provided in Appendix A, is intended to encourage regulated financial institutions[1/] to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods, while preserving the flexibility necessary for the institutions to operate in a safe and sound manner.

Encouragement is to be provided by four supervisory agencies,[2/] each of whom is required:

> To use its examination authority to encourage an institution to help meet the credit needs of its entire community, consistent with the safe and sound operation of the institution.
>
> To assess, in connection with its examination, an institution's record of helping to meet the credit needs of its entire community.
>
> To take that record into account in evaluating an application for a charter, deposit insurance, branch or other deposit facility, office relocation, merger, or holding company acquisition of a regulated financial institution.

Proponents of the Community Reinvestment Act were concerned among other things with situations in which local lenders reportedly exported local deposits to other areas despite sound local lending opportunities. Such disinvestment was considered a threat to community and neighborhood vitality. Lenders are, therefore, encouraged to

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1/ The term "regulated financial institution" means a commercial bank, mutual savings bank, or a savings and loan association which is Federally insured.

2/ The four agencies are: Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, and Federal Reserve Board.

give particular attention to local housing and development needs of urban and rural areas. Increased lender sensitivity to such lending needs would help preserve, rehabilitate, and revitalize such neighborhoods. Moreover, even though credit for local housing and community development was emphasized, it was realized that other types of credit provide community facilities and services necessary for neighborhood vitality and, more generally, a healthy local community.

The Act is not intended to inject hard and fast rules or ratios into the examination or application process. Rather the law contemplates a judgmental evaluation of a lender's record in order to accommodate varying circumstances. Nor does the Act require financial institutions to make high risk loans that jeopardize their safety. Rebuilding and revitalizing communities are viewed as beneficial for both communities and financial institutions.

B. CRA Regulation

The implementing regulation, a copy of which is provided in Appendix B, requires the board of directors of each institution to adopt and at least annually review a Community Reinvestment Act Statement. The Statement must include: (1) a delineation on a map of each local community served by the institution, (2) a list of specific types of credit that the institution is prepared to extend within each local community, and (3) a copy of the Community Reinvestment Act Notice. The regulation also encourages each institution to include in its Statement a description of its efforts to ascertain and help meet community credit needs.

An institution must provide in each office a Community Reinvestment Act Notice, the exact wording of which is prescribed in the regulation. The public notice indicates that the CRA Statement is available, that written comments on the Statement and the institution's community lending performance may be submitted to the institution or its supervisory agency, that a file of such comments is publicly available, and that the public may request announcements of applications covered by CRA from the supervisory agency.

Each institution must keep a public file of CRA Statements in effect and CRA-related public comments received during the past two years or since the effective date of the regulation (November 6, 1978), whichever period is less.

The CRA regulation sets forth a list of factors that the agency will consider in connection with its examination in making its assessment of each institution's record of helping to meet community credit needs, including those of low- and moderate-income neighborhoods. Institutions are not required to adopt particular activities on the list since the regulation is designed to allow each institution considerable flexibility in determining how it can best help to meet the credit needs of its entire community in view of its particular skills and resources.

The agency's assessment of an institution's CRA record will be taken into account in evaluating a variety of applications by the institution.

In essence, the regulation encourages institutions to become aware of the full range of credit needs of their communities and to offer the types of credit and credit-related services that will help to meet those needs. However, the regulation does not require institutions to offer particular types or amounts of credit.

III. BACKGROUND FOR EXAMINATIONS

In connection with examinations, the agency is required to assess an institution's CRA record. The examiner plays a major role in this assessment process, with other agency personnel such as community affairs specialists and applications staff complementing the examiner's efforts.

A. Judgmental Process

In conducting a CRA examination, the examiner is expected to adjust the CRA procedures on a case-by-case basis to accommodate institutions that vary in size, expertise, and locale. Community credit needs will often differ with the specific characteristics of each local community, and institutions may serve these local credit needs in a variety of ways. Each institution should be evaluated on the basis of its attempts to ascertain, its determination to help meet and its performance in helping to meet, community credit needs in the context of its resources and local circumstances.

B. Balanced Viewpoint

The examiner should maintain a balanced perspective in conducting a CRA examination. The examiner cannot normally conclude on the basis of any one factor that an institution is or is not helping to meet the credit needs of its local community or communities. Nor can the examiner adequately assess a lender's performance on the basis of any one source of information, data, or opinion. For that reason, the procedures are designed to ensure that information from both the institution and the community are objectively reviewed and evaluated.

C. Institution's Input

The examination procedures give each institution the opportunity to demonstrate that it is having a beneficial influence on its local community or communities. Institutions that are helping to meet community credit needs are proud of that fact and will be of substantial assistance to the examiner in assessing their performance.

D. Examiner Encouragement 3/

When appropriate, an examiner should encourage an institution to improve its CRA record by discussing with management various ways in which the institution may strengthen its performance. The examiner should not, however, insist upon any specific action by the lender, such as the making of a certain type of loan, which would interfere with an institution's responsibility for the establishment of its policies.

3/ The Federal Home Loan Bank Board will accomplish these items through the joint efforts of both field examiners and supervisory agents.

E. Examination Burden

The examiner must be careful not to unduly burden the institution since Congress did not intend to impose significant new reporting or recordkeeping requirements on financial institutions. The examiner should normally request only required records and other existing information, but the scope of the review must always be sufficient for an adequate assessment.

F. Institution's Financial Condition and Size, and Legal Impediments and Local Economic Conditions

An institution's ability to help meet community credit needs is influenced by its financial condition and size, as well as by legal impediments and local economic conditions under which it operates. An examiner must take these considerations into account in assessing a lender's performance and in providing encouragement.

G. Technical Compliance with the Regulation

The examiner will check for compliance with the specific requirements of the regulation. However, compliance with procedural requirements does not imply that a lender has been serving local credit needs. The converse is also true: noncompliance with a technical requirement does not necessarily mean that an institution is not helping to meet community credit needs. The examiner must not lose sight of the intent of the statute in checking for technical compliance with the regulation. The entire examination is designed primarily to determine the extent to which a lender has helped and is helping to meet community credit needs.

H. Communication, Community Development, and Low- and Moderate-Income Neighborhoods

In assessing the record, the examiner should bear in mind the special emphasis placed on effective communication and community development activities. With respect to communication, the premise is that community needs which can be met on a safe and sound basis are more likely to be met when the community is aware of the types of credit available and the lender is well informed about community credit needs. Hence, efforts to ascertain community credit needs and to publicize available credit services, including measures to identify the credit needs of, and to advertise in, low- and moderate-income neighborhoods, are encouraged. The examining staff is authorized to conduct interviews with community members when such action would be appropriate in determining community awareness of the institution's credit services and local perception of credit needs.

CRA also focuses on activities that foster development within the entire community, including low- and moderate-income neighborhoods. Consequently, housing-related extensions, participation in community development programs, and small business financing, including loans to small farms, are viewed favorably.

IV. SELECTED FEATURES OF CRA EXAMINATIONS

This section is designed to provide the examiner with a better understanding of selected features of the CRA examination. Each agency will provide additional training and instructional aids as needed to carry out the purposes of the CRA examination.

A. The CRA Statement

An institution must prepare a separate CRA Statement for each local community it serves, including a delineation of the relevant local community. It does not necessarily follow, however, that the Statement prepared for each local community must contain a unique list of available credits. A lender serving several local communities may elect to prepare Statements that contain lists of credits which are similar or identical for the local communities served. Since some credit needs are common to many local communities, such an approach would be consistent with the intent of CRA. There are other ways for a multi-community lender to satisfy this requirement. The examiner need not be especially concerned with the specific method employed by a multi-community institution so long as it makes a good faith effort to inform members of each local community about their community's boundaries and the types of credit extended there.

B. Reasonableness of Community Delineation

Each institution must delineate the local community or communities that it serves. For instance, a statewide branching institution would serve a number of "local communities," the sum total of which would constitute its "entire community." Further, more than one office of an institution may serve the same local community. For example, an institution may have offices throughout a city and its suburbs and consider that entire metropolitan area to be the local community for those offices. Each community delineation must, of course, include the contiguous areas surrounding each office or group of offices.

Because many factors influence the size and shape of a lender's community, the regulation provides guidelines to assist each institution in defining its local community or communities.

The first guideline suggests the use of widely recognized existing boundaries such as those of SMSAs or counties for delineating an institution's local community or communities. Such boundaries frequently constitute a reasonable approximation of the institution's local community.

In general, a local community based on existing boundaries should be no larger than an entire SMSA[4/] or a county in a non-SMSA area. (The agencies have used such areas to approximate relevant markets for evaluating the competitive effects of mergers and holding company acquisitions.) If an institution has offices in more than one such area, it will have more than one local community. When an institution has an office near the boundary of an SMSA or county, it should include those portions of adjacent counties that it serves. In rural areas, a local community may sometimes encompass more than one county, but, generally, institutions should not use states or regions of states to delineate local communities. A small institution

4/ Except in the New England States, a Standard Metropolitan Statistical Area (SMSA) is a county or group of counties which contain at least one city of 50,000 inhabitants or more, or "twin cities" with a combined population of at least 50,000. In addition to the county or counties containing such a city or cities, contiguous counties are included in an SMSA if, according to certain criteria, they are socially and economically integrated with the central city. In the New England States, SMSAs consist of towns and cities instead of counties.

that serves an area smaller than an SMSA or county may define its community to be a part of the SMSA or county. An institution may make adjustments in the community delineation in the case of areas divided by State borders, or significant geographic barriers, or areas that are extremely large or of unusual configuration.

The second guideline proposes the use of effective lending territory, a concept more familiar to savings and loan associations than to commercial and mutual savings banks. The effective lending territory is that local area or areas around each office or group of offices where the lender makes a substantial portion of its loans and all other areas equally distant. If an institution employs its effective lending territory, it is encouraged to follow existing boundaries where practical.

One should not conclude from this guideline that each office necessarily serves a separate and distinct local community because each office typically has a different, though possibly partially overlapping, effective lending territory. If an institution is represented throughout a trade or market area, it may be more reasonable to use that area as its local community.

Finally, the regulation allows an institution to use any other reasonably delineated area. An institution is thus given substantial leeway in specifying its local community so long as the definition is reasonable; that is to say, the institution can provide a sensible rationale for the delineation and has not arbitrarily excluded any low- and moderate-income neighborhoods.

C. Low- and Moderate-Income Neighborhoods

In determining whether the community definition is reasonable, the examiner must be alert to situations where low- and moderate-income neighborhoods are gerrymandered out of a delineated area. Moreover, in assessing an institution's record, the examiner should focus particular attention on the lender's performance in low- and moderate-income neighborhoods within a local community.

Low- and moderate-income neighborhoods may be identified in most cases in a manner similar to the approach taken by HUD in administering the Community Development Block Grant Program. For this purpose, such neighborhoods are approximated by those census tracts in an SMSA where median family income is less than 80 per cent of median family income for the entire SMSA. Unfortunately, these data are not available for non-SMSA counties, and the latest complete census income data by SMSA census tract were collected in 1970.

Non-SMSA areas, especially rural areas, present a particular problem in identifying low- and moderate-income neighborhoods. In those areas, the examiner may have to rely on personal knowledge of the area, physical inspection as necessary, discussion with institution personnel, or a combination of these.

D. Small Business Lending

Small business loans represent one type of credit which the agencies believe is directly related to the purposes of the CRA. In considering small business lending, the examiner should not be concerned with any hard and fast or precise definition of what constitutes a small business. Instead, the examiner should regard as small business lending any loans to local firms whose access to credit is limited to local sources because of the firm's size.

V. EXAMINATION OBJECTIVES

1. To determine if the institution's policies address the intent of the Community Reinvestment Act.

2. To encourage sensitivity and responsiveness of the institution to community credit needs. 3/

3. To determine that the institution is complying with the requirements of the CRA regulation.

4. To determine the reasonableness of the institution's delineation(s).

5. To assess the institution's record in helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, 5/ consistent with the safe and sound operation of the institution. 3/

6. To develop, organize and report information on the institution's record for use in the supervisory and application process.

VI. EXAMINATION PROCEDURES

The following steps should be performed at each examination:

5/ Examiners will be supplied information to help indicate which areas may be low- and moderate-income neighborhoods.

1. Ascertain from institution personnel what steps the institution has taken or plans to take which indicate whether it is helping to serve the credit needs of its local community or communities.

2. Obtain the following:

   a. Minutes of the board of directors' meetings, particularly those dealing with the adoption, review, and revision of all CRA Statements.

   b. The institution's Files of Public Comments and recent CRA Statements.

   c. Comment letters received by the supervisory agency.

   d. The institution's loan and investment policy and procedural manuals, along with other manuals relating to the CRA.

3. Review minutes of directors' meetings and verify that the board has:

   a. Adopted a CRA Statement for each delineated community.

   b. Reviewed each Statement at least annually.

   c. Acted upon any material change in each Statement at the first regular meeting of the Board following the change.

4. Review and analyze the Public Files for:

   a. Any signed, written comments received from the public during the past two years that specifically relate to any CRA Statement or to the institution's performance in helping to meet the credit needs of its community or communities. Determine that the comments do not contain any material specifically prohibited by the regulation. However, the examiner shall consider letters containing any such material.

b. Any responses to the commentors that the institution may have made.

c. All CRA Statements in effect during the past two years.

Note: Inherent in the process of reviewing public files is the option of contacting commentors and/or community members to the extent deemed necessary.

5. Review each CRA Statement in effect during the past two years and:

a. Ascertain if the institution's delineation of its local community or communities is reasonable. Give special attention to the following:

1. Considerations used by the institution to define its community.

2. Community boundaries that are sharply asymetrical, too narrowly drawn, or so broad that the institution fails to focus on its local community.

3. Whether any low- and moderate-income neighborhoods have been arbitrarily excluded.

4. Public comments specifically relating to the reasonableness of the institution's delineation(s).

5. Any relevant information obtained from other work programs that have been performed.

If a question remains regarding the reasonableness of the community delineation, a review of the community boundaries drawn by comparable local institutions may provide useful information.

b. Review and analyze for completeness specific types of credits within certain categories that the institution is prepared to extend within the local community. Determine if the types of credit in the CRA Statement correspond to the types of credit actually being extended by the institution. Request explanation of any differences. If feasible and appropriate, review the list of available credits prepared by comparable local institutions.

c. Determine that a copy of the CRA Public Notice is included.

d. Analyze any of the following optional information that the institution may have included:

1. A description of how its efforts, including special credit-related programs, help to meet community credit needs.

2. A periodic report regarding its record of helping to meet community credit needs.

3. A description of its efforts to ascertain the credit needs of its community, including efforts to communicate with members of its community regarding credit services.

4. Any other material the institution may have included.

6. Analyze the institution's policies, procedures and operating practices to determine if the institution:

   a. Provides the CRA Public Notice in a manner specified by the regulation. (An institution may reprint this notice as a poster or flyer to be placed in its lobby. The notice requirement may also be satisfied by making the CRA Statement, which includes the notice, available as a brochure in the lobby.)

   b. Makes all CRA Statements available to the public as provided by the regulation.

   c. Makes the Public Comment files readily available for public inspection as provided in the regulation.

7. Review the institution's credit underwriting and appraisal criteria and terms and conditions of loans to determine if they are being used for exclusionary purposes, contrary to the objectives of CRA.

8. Assessment Factors

   a. <u>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.</u>

Ascertain from institution records and through the interviewing process the extent to which the institution has communicated with members of its local community or otherwise has attempted to determine such needs. Pertinent factors may include:

1. Management review of written, signed public comments received in response to the institution's CRA Statement(s).

2. Studies conducted or reviewed by the institution concerning local credit needs.

3. The extent of the institution's efforts to communicate with members of its community regarding the credit services it is providing. Such members might include customers of the institution, the PTA, merchants' associations, religious organizations, local government officials, block clubs, neighborhood organizations, coalitions of neighborhood organizations, local civil rights, consumer, minority, and non-English speaking groups, housing counseling service centers, community development corporations, nonprofit housing development corporations, and local development corporations.

4. The institution's communications with private organizations as may be identified by the Office of the Assistant Secretary for Neighborhoods, Voluntary Associations and Consumer Protection at HUD.

5. The institution's review of the local government's Community Development Plan and Housing Assistance Plan prepared in conjunction with HUD's Community Development Block Grant Program.

6. Economic forecasting, as developed or used by the institution.

b. <u>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.</u>

Review the institution's marketing program and determine if it is adequately designed to encourage applications for loans in its community, particularly in low- and moderate-income neighborhoods. Pertinent factors may include:

1. Any working relationships the institutions may have with real estate brokers or others who service low- and moderate-income neighborhoods.

2. Mortgage counseling programs and programs of management assistance for small or minority businesses.

3. Development and participation in mortgage review boards.

4. Credit and credit-related services in low- and moderate-income neighborhoods compared to such services in other neighborhoods served by the institution.

5. Use of institution representatives for seeking out potential housing-related and small business demand in low- and moderate-income neighborhoods.

6. Advertising the types of loans the institution is willing to make in media likely to reach low- and moderate-income individuals in the institution's local community or communities.

7. Availability of convenient hours in offices accessible to residents of low- and moderate-income neighborhoods.

8. Use of informational brochures and participation in other educational efforts.

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 purpose of the Community Reinvestment Act.

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

Review other fair lending examination programs, particularly as they pertain to interviewing and prescreening. Additionally, ascertain the following:

1. Whether administrative loan personnel and loan officers are aware of the CRA and the requirements of the implementing regulation.

2. Whether lending officers are aware of the institution's delineation of its local community or communities and its policies, if any, with respect to its commitment to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods.

3. Whether loan officers are aware of the types of credit the bank offers to members of its local community or communities.

4. Whether public contact personnel are aware of the availability of the institution's CRA Statement(s) and Files of Public Comments.

5. Whether the institution is prepared to extend types of credit in some local communities or neighborhoods but not in others. An explanation of any difference should be requested from the institution.

6. The extent to which the institution is willing to make loans in its delineated local community or communities, utilizing information derived in e. below. Special attention should be given to specific reasons why loan applications have been denied, whether or not such denial has been on a prohibited basis.

7. Whether loan officers or other public contact personnel prescreen potential applicants from obtaining loans that the institution has stated it is willing to make, particularly applicants from low- and moderate-income neighborhoods.

e. The geographic distribution of the institution's credit extensions, credit applications and credit denials.

Determine whether there is any indication of a geographic distribution of credit extensions, applications for credit, and credit denials which would signify failure to serve selected areas of local communities, particularly low- and moderate-income neighborhoods. Initial reliance may be placed upon discussion with other examiners, review of reports of examination, and review of working papers from other programs performed. For those institutions located in Standard Metropolitan Statistical Areas (SMSA's), additional reliance may be placed upon other fair lending examination programs for ascertaining the volume and location of housing-related credits.

For loans made outside SMSA's, particularly with respect to institutions that are not located in such areas, interview management and review internal files to determine the extent of housing-related lending in low- and moderate-income neighborhoods and the extent to which the institution has not extended such credit in those areas.

Reliance may be placed upon geocoding of credit extensions, credit applications, and credit denials. Where the institution is required to maintain registers or logs of applications, the examiner will review the registers or logs to determine the geographic distribution of loans, applications and denials. In conjunction with other fair lending examination programs it may be necessary to analyze further the geographic distribution of small business loans, including loans to small farms within the institution's local community.

f. <u>Evidence of prohibited discriminatory or other illegal credit practices</u>.

Review the prior reports of examination and, in conjunction with other examination programs, determine the extent to which the institution is currently complying with the law.

g. <u>The institution's record of opening and closing offices and providing services at offices</u>.

Information can be provided by the supervisory authority or obtained from the institution's records. Ascertain the impact of such activities through the interviewing process and the review of public comments with particular focus on low- and moderate-income neighborhoods.

h. <u>The institution's participation, including investments, in local community development and redevelopment projects or programs.</u>

Review written lending policy and procedural manuals and interview lending officers to ascertain whether current programs include, or if the institution has considered involvement in, programs for satisfying potential credit needs such as the following:

- HUD's Community Development Block Grant Program.
- Local neighborhood preservation efforts.
- Community Development Corporations.
- Financing for Local Development Corporations.
- Neighborhood Housing Services.
- Investments in, or coordination with, Minority Enterprise Small Business Investment Corporations (MESBIC's), or Small Business Investment Corporations (SBIC's) in providing loans to business for which equity or subordinated debt is provided by MESBIC or SBIC.
- Purchase of securities of State and local housing agencies.

i. <u>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.</u>

Review the institution's financial statements, other appropriate records including Home Mortgage Disclosure Act statements, its written lending policy and procedural manuals, and interview lending personnel to ascertain whether the institution has originated or purchased such loans or has plans to do so.

j. The institution's participation in governmentally-insured, guaranteed, or subsidized loan programs for housing, small business or small farms.

This information may be obtained in ways similar to the ones in assessment factor i above. Examples of such government loan programs include:

- FHA/VA/FMHA mortgage loans to members of its community or communities.
- FHA Title I home improvement loans.
- SBA loan guaranty programs.
- Similar programs conducted by state or local agencies.

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

The financial condition of the institution may be ascertained from discussion with other examiners or review of examination work papers and reports.

Small institutions may not have the specialized staff or financial resources needed to participate in some loan programs.

Legal restrictions on permissible activities, interest rates, and branches may affect a lender's ability to help meet community credit needs.

Adverse economic conditions caused by local or general economic difficulties may force an institution to temporarily curtail its lending activities.

Other factors may affect an institution's ability to help meet community credit needs.

1. <u>Other factors that in the agency's judgment reasonably bear upon the extent to which the institution is helping to meet the credit needs of its entire community</u>.

Pertinent factors may include:

1. Purchases of state and municipal bonds, secondary mortgage market securities or such other activities when they further special purposes in the community, such as the construction or rehabilitation of low- and moderate-income housing or other neighborhood or community development, or are issued by municipalities or other local public financing units which do not have access to the capital markets.

2. Whether the institution's policies promote efforts to assist existing residents in neighborhoods undergoing a process of reinvestment and change.

3. Any other relevant factors.

9. Determine if the record of performance of the institution's facilities demonstrates its recognition of its continuing and affirmative obligation to help meet the credit needs of its entire community including low- and moderate-income neighborhoods, consistent with safe and sound operation.

10. Review the following with management:

a. The extent to which the bank is helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation.

b. Suggestions that might better enable the institution to help meet the credit needs of its entire community.

c. Procedural violations of the regulation.

d. Deficiencies or exceptions in policies or practices.[3/]

3/ Refer to footnote on page 6.

11. The examiner staff [3/] will prepare a narrative statement for the Examination report which will include:

a. Reasonableness of Community Delineation(s)

Under the above heading, discuss the reasonableness of the community delineations, including any suggestion made to management.

b. Assessment

Under the above heading provide a narrative assessing the institution's record of performance in helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the bank. In developing this narrative, give particular consideration to each of the assessment factors (a through l of the CRA regulation). The narrative should include any suggestions made to management that might better enable the institution to help meet such credit needs.

c. Noncompliance and Corrective Action

CRA Regulation

Include under the above heading each violation of the regulation. If there are no violations, so state. Example format follows:

- <u>Delineation of Community</u>. The institution has not used maps to portray community delineations.
- <u>Corrective Action</u>. Management has stated that the institution will acquire the necessary maps on which it will portray the required delineations.
- <u>Community Reinvestment Act Statement</u>. Etc.

12. For Agency use only, the examiner staff[3/] will assign a rating of 1 to 5 based on the institution's overall CRA performance. In connection with this rating, the examining staff[3/] will develop a narrative for Agency use specifically addressing the institution's efforts to help meet the credit needs of the low- and moderate-income neighborhoods in its local community.