FEDERAL RESERVE BANK
OF DALLAS

ROBERT D. McTEER, JR.
PRESIDENT
AND CHIEF EXECUTIVE OFFICER

January 3, 1992

DALLAS, TEXAS 75222

Notice 92-01

TO: The Chief Executive Officer of each member bank and others concerned in the Eleventh Federal Reserve District

SUBJECT

Federal Financial Institutions Examination Council Approval of a Policy Statement on the Analysis of the Geographic Distribution of Lending for the Community Reinvestment Act

DETAILS

The Federal Financial Institutions Examination Council (FFIEC) has approved a policy statement on the analysis of the geographic distribution of lending for the Community Reinvestment Act (CRA). The council is recommending to the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision that they adopt the attached policy statement.

This statement of policy addresses the agencies' views concerning the need for institutions to analyze the geographic distribution of their lending patterns as a part of their CRA planning process, to indicate what the agencies expect of the institutions they supervise, and to give guidance on how financial institutions can meet these expectations.

ATTACHMENT

A copy of the FFIEC's policy statement is attached.

MORE INFORMATION

For more information, please contact Gloria Brown at (214) 651-6341. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 651-6289.

Sincerely yours,

Robert D. McTeer, Jr.

Federal Financial Institutions Examination Council

Community Reinvestment Act

Policy Statement on Analyses of Geographic

Distribution of Lending

The Community Reinvestment Act (CRA) contains a Congressional finding that regulated financial institutions are "required by law to demonstrate that their deposit facilities serve the convenience and needs of the communities in which they are chartered." It also directs the agencies to assess the institution's ".... record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods." The regulations that implement the CRA state that two of the twelve factors that will be considered by the agencies in assessing the performance of the institutions they supervise are (1) 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 CRA (Assessment Factor C) and (2) the geographic distribution of the institutions credit extensions, credit applications, and credit denials (Assessment Factor E).

The purpose of this policy statement is to articulate the agencies' views concerning the need for institutions to analyze the geographic distribution of their lending patterns as part of their CRA planning process, to indicate what the agencies expect of the institutions they supervise, and to give guidance on how financial institutions can meet these expectations.

NEED FOR AN EFFECTIVE CRA MANAGEMENT PROCESS

The Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act (54 F.R. 13742, April 5, 1989), states the agencies' belief that an effective CRA program includes a sound process for managing the institution's responsibilities under the law, including the involvement of the board of directors and senior management in setting policy and reviewing results. This position was further reflected in the revised CRA examination rating system issued by the agencies (55 F.R. 18163, May 1, 1990) to implement the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).

The agencies believe that an effective CRA management process involves (a) developing a plan for addressing the institution's CRA responsibilities, (b) implementing the plan, and (c) reviewing the results and making any necessary revisions to the plan. As part of the review element of this process, an annual or more frequent analysis of the disposition of loan applications should be made to ensure that potential borrowers are treated in a fair and nondiscriminatory manner and that all segments of the delineated community are appropriately served. As reflected in the interagency rating system, this analysis should be used by the board of directors and senior management in their CRA planning, implementation and monitoring processes.

Analyzing the geographic distribution of credit applications, credit extensions and credit denials is an integral part of effective CRA management. Therefore, the agencies consider the analysis essential to the CRA management process. The agencies expect that the institution will appropriately document this analysis and make the documentation readily available to their examiners.

A comprehensive and accurate analysis performed by the institution can provide valuable information in several respects. It can help ensure that policy and program goals and objectives are achieved and indicate whether any adjustments are necessary. It can assure that the institution receives appropriate recognition for its activities from the public and the examiners. It can help an institution recognize and avoid the problems that may result from having unexplained geographic skewing of its lending distribution. And, finally, these analyses may provide the institution with knowledge of its market, and its own position in that market, that it may not otherwise have.

TYPES OF GEOGRAPHIC DISTRIBUTION ANALYSIS SYSTEMS

The key to geographic distribution analysis is the demonstration of lending activities in response to identified credit needs within the institution's delineated community. The first element of such a system would entail collecting sufficient data to make a reliable analysis and sorting it in a geographic format that will be useful in reviewing the institution's lending efforts. The second element of such a system would involve overlaying information about the demographics (e.g. income levels, percent of minority population, age of housing stock, number of owner-occupied housing units, etc.) of the local community. The analysis would result from the merger of these data in a way that the institution could draw a conclusion about how well it is serving its entire community, including the low- and moderate-income areas and what changes it should make, if any.

The type and sophistication of the analysis will vary depending on such factors as the size of the institution, the number and types of products it offers, and the size and makeup of the community it serves. Small institutions in rural settings, for example, would not have the need for as sophisticated a system for developing data to do this analysis as would a large institution in a large city. Also, there are various degrees of institutional need and community size and composition between those two extremes. It is not the agencies' intent to prescribe a system of data gathering and analysis that is appropriate for every institution in every setting. Rather, the intent is to provide guidance regarding the types of systems various institutions might consider when they attempt to put such a program in place.

HMDA Data. For mortgage-related lending, one available source of data for most institutions in large metropolitan areas that are designated by the United States Bureau of the Census as Metropolitan Statistical Areas (MSA's), is the data generated under the Home Mortgage Disclosure Act (HMDA). This is data on home mortgage lending and home improvement lending that is reported to the institution's federal supervisory agency, aggregated and made public by the Federal Financial Institutions Examination Council. The agencies believe that an analysis by each covered institution of its own HMDA data is a necessary element of an analysis of that institution's geographic lending patterns.

HMDA data has several important aspects. First, it is collected and reported by the institution itself. Second, when aggregated, it is linked to important demographic data for the areas involved. Therefore, the data should be seen as reliable by the institution that carefully collects and reports it, and it can be used without change to reach some conclusions about the demographic impact of the geographic lending patterns of the institution's housing related loans.

Other Lending. Most institutions list other types of lending on their CRA statement as part of their lending plan for meeting their responsibilities under CRA. Therefore, it will be necessary to have data at least about the major product lines offered, and to apply the demographics to that lending data in making the analysis. What follows are intended as examples of the types of systems the agencies believe would be appropriate. However, they are not intended to be exclusive or to preclude institutions from designing different systems that fit their needs more adequately.

Many institutions, especially the larger ones, are likely to find that it is desirable to use some sort of computer application to keep track of the data necessary to make this analysis. For example, it may be useful to identify activity by location, based on codes entered into the lending databases. Alternatively, some institutions may find it sufficient to use self-developed or purchased software that facilitates an analysis through spreadsheet applications, or that correlates lending records with such things as census tract information and that develop reports using maps, tabular displays, or other representations of the community's demographics.

Other lenders, especially smaller institutions in small towns or rural areas, may find a significantly lesser effort to be sufficient to analyze their lending record. For example, the institution's lending record may be adequately demonstrated by using a paper-based reporting of lending volume by local branches or by individual lending officers. Alternatively, the data about lending location may be gleaned from plotting the actual location of the loans on a map and then correlating the resulting array with the demographics for the areas involved. All such systems, other than the HMDA system, may involve the collection of all relevant lending data or a sample that is representative of the overall lending patterns for the type of loan being reviewed.

Demographic data. Demographic data resources may be found in various locations, including county or city planning offices, regional planning authorities, and economic research studies from area colleges and universities. Personal knowledge of the institution's directors, officers, and employees regarding the community's demographic makeup should be incorporated, particularly in smaller communities. Information obtained from the institution's own community outreach and marketing efforts can be usefully correlated with raw data on geographic lending patterns to reach conclusions about the impact of the institution's lending patterns and practices.

THE ANALYSIS

The important elements in this policy statement are (1) that a documented analysis of the institution's geographic lending patterns should be done and (2) that the analysis should be reviewed and considered by the board of directors and appropriate levels of management in setting and evaluating the institution's CRA program and its lending policies. To do that, it is recognized that some data collection will be necessary and that it will be necessary to correlate that data with the relevant demographic data relating to the institution's community. The agencies believe this process will render important insights for the institutions, as well as their communities. They also believe that this effort should be an ongoing part of the management of the institution.

If an institution needs guidance regarding the specific method it can or should use for analyzing the geographic distribution of its lending activity, it may contact its supervisory agency.

# # #