

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8267]
February 1, 1978

COMMUNITY REINVESTMENT ACT OF 1977
Proposal to Develop Implementing Regulations

To All State Member Banks in the Second Federal
Reserve District, and Others Concerned:

Following is the text of a statement issued January 19 by the Board of Governors of the Federal Reserve System, regarding plans for developing regulations to implement the Community Reinvestment Act of 1977:

The Federal bank and thrift institution regulators today announced plans for developing regulations to carry out the new Community Reinvestment Act (CRA).

The Comptroller of the Currency (*Supervisor of national banks*), Federal Deposit Insurance Corporation (*Federal supervisor of State chartered banks and savings banks that are not members of the Federal Reserve System*), Federal Home Loan Bank Board (*Supervisor of Federally chartered savings and loan associations, and savings and loan holding companies*), and Federal Reserve Board (*Supervisor of State member banks and bank holding companies*):

1. Announced they will hold a hearing in Washington, D.C., on March 15 and 16, and expect to hold hearings in Atlanta, Boston, Chicago, Dallas and San Francisco, during the period March 20 to April 20, to receive suggestions from the public on how to implement the new law.
2. Invited the public to submit written comment through March 8, on any aspect of interest to individuals or organizations, but particularly to give the agencies responses to a list of questions on subjects to be addressed in implementing regulations the four agencies will write.

The questions are contained in the joint announcement by the four Federal regulators [*reprinted herein*].

The CRA is part (Title VIII) of the Housing and Community Development Act (P.L. 95-128) signed into law October 12, 1977. Among other things, it requires the four Federal regulators to have implementing regulations in force not later than November 6, 1978.

The CRA requires that the Federal agencies:

- encourage bank and thrift institutions that they supervise to meet the credit needs of their entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the lending institutions, and
- take into account the lenders' records in meeting this standard in assessing applications by the lenders to open new offices under a Federal charter, obtain Federal deposit insurance, establish branches, carry out mergers and the like.

Printed on the following pages is an excerpt from the *Federal Register* of January 25, 1978, containing the text of an announcement made by the four supervisory agencies advising of public hearings to be held on this matter, the text of the Community Reinvestment Act, and several questions that the agencies would like to have addressed by those commenting on the Act. Comments should be submitted by March 8, 1978, and may be sent to our Consumer Affairs and Bank Regulations Department.

PAUL A. VOLCKER,
President.

[6210-01]

**BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM**

[12 CFR Ch. II]

[4810-33]

DEPARTMENT OF THE TREASURY

Comptroller of the Currency

[12 CFR Ch. I]

[6714-01]

**FEDERAL DEPOSIT INSURANCE
CORPORATION**

[12 CFR Ch. III]

[6720-01]

FEDERAL HOME LOAN BANK BOARD

[12 CFR Ch. V]

[FRB Docket No. R-0139]

COMMUNITY REINVESTMENT ACT OF 1977

Joint Hearing

AGENCY: Federal Reserve System, Comptroller of the Currency, Federal Deposit Insurance Corporation, and Federal Home Loan Bank Board.

ACTION: Notice of joint hearing.

SUMMARY: The Community Reinvestment Act of 1977 (the "CRA") requires each appropriate Federal financial supervisory agency to use its authority when examining financial institutions, to encourage such institutions to help meet the credit needs of the local communities in which they are chartered consistent with the safe and sound operation of such institutions. This document announces a joint hearing to be held to aid these agencies in the preparation of regulations prescribed by the "CRA". The document also sets forth questions the agencies are especially interested in having addressed in written and oral submissions.

DATES: Hearing: March 15 and 16, 1978, at 10 a.m. Comments: Due on or before March 8, 1978. The agencies also expect to hold hearings in the following cities between March 20 and April 20, 1978: Atlanta, Boston, Chicago, Dallas, and San Francisco. Details regarding exact times and places will be announced later.

ADDRESSES: Hearing location: Conference Room E, Terrace Level, Federal Reserve Martin Building Annex, 20th and C Street NW., Washington, D.C. Comments: Send to Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

**FOR FURTHER INFORMATION
CONTACT:**

Robert J. Lawrence, Deputy Staff Director for Management, Federal Reserve System, Washington, D.C. 20551, phone 202-452-3766.

SUPPLEMENTARY INFORMATION: On October 12, 1977, the President signed into law the Housing and Community Development Act of 1977 (Pub. L. 95-128). Title VIII of that Act is the Community Reinvestment Act of 1977 ("the CRA"). The CRA requires that, in connection with its examination of a financial institution within its jurisdiction, the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board (collectively referred to as "the agencies") shall assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution, and that the appropriate agency take that record into account in its evaluation of any application by the institution for a charter, deposit insurance, branch of other deposit facility, office relocation, merger, or acquisition of bank or savings institution shares. Pursuant to the authority contained in section 806 of the CRA, the agencies will prescribe regulations to carry out the purposes of the CRA to take effect no later than November 6, 1978.

On behalf of the four agencies, notice is hereby given that, to aid in the preparation of those regulations, a hearing will be held before representatives of the agencies in conference room E on the terrace level of the Federal Reserve's Martin Building Annex, 20th and C Streets NW., Washington, D.C., on March 15 and 16, 1978. The proceedings will commence at 10 a.m. on both dates and will consist of presentations of statements in oral or written form. Interested persons are invited, however, to submit written comments regardless of whether they intend to participate in the hearing.

The agencies also expect to hold hearings in the following cities between March 20 and April 20, 1978: Atlanta, Boston, Chicago, Dallas, and San Francisco. Details regarding exact times and places will be announced later.

Any person desiring to submit written comments, give testimony, present evidence, or otherwise participate in the proceedings should file with the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, on or before March 8, 1978, four copies of their written comments or a written request containing a statement of the nature of the petitioner's interest in the proceedings,

the city in which petitioner wishes to testify, the length of time requested for oral presentation, a summary of the matters concerning which the petitioner wishes to give testimony or submit evidence, and the names and identify of witnesses who propose to appear. Copies of all written submissions will be distributed by the Board of Governors to each of the other agencies and will be made available for public inspection and copying upon request in accordance with the agencies' respective rules regarding availability of information. All material submitted should refer to Docket No. R-0139.

To aid persons in preparing written comments and testimony, the text of the CRA is reprinted below, followed by questions that the agencies are especially interested in having addressed in written and oral submissions.

TITLE VIII—COMMUNITY REINVESTMENT

SEC. 801. This title may be cited as the "Community Reinvestment Act of 1977."

SEC. 802. (a) The Congress finds that—

(1) 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 to do business;

(2) The convenience and needs of communities include the need for credit services as well as deposit services; and

(3) Regulated financial institutions have continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered.

(b) It is the purpose of this title to require each appropriate Federal financial supervisory agency to use its authority when examining financial institutions, to encourage such institutions to help meet the credit needs of the local communities in which they are chartered consistent with the safe and sound operation of such institutions.

SEC. 803. For the purposes of this title—

(1) The term "appropriate Federal financial supervisory agency" means—

(A) The Comptroller of the Currency with respect to national banks;

(B) The Board of Governors of the Federal Reserve System with respect to State-chartered banks which are members of the Federal Reserve System and bank holding companies;

(C) The Federal Deposit Insurance Corporation with respect to State-chartered banks and savings banks which are not members of the Federal Reserve System and the deposits of which are insured by the Corporation; and

(D) The Federal Home Loan Bank Board with respect to institutions the deposits of which are insured by the Federal Savings and Loan Insurance Corporation and to savings and loan holding companies;

(2) The term "regulated financial institution" means an insured bank as defined in section 3 of the Federal Deposit Insurance Act or an insured institution as defined in section 401 of the National Housing Act; and

(3) The term "application for a deposit facility" means an application to the appropriate Federal financial supervisory agency otherwise required under Federal law or regulations thereunder for—

(A) A charter for a national bank or Federal savings and loan association;

(B) Deposit insurance in connection with a newly chartered State bank, savings bank, savings and loan association, or similar institution;

(C) The establishment of a domestic branch or other facility with the ability to accept deposits of a regulated financial institution;

(D) The relocation of the home office or a branch office of a regulated financial institution;

(E) The merger or consolidation with, or the acquisition of the assets, or the assumption of the liabilities of a regulated financial institution requiring approval under section 18(e) of the Federal Deposit Insurance Act or under regulations issued under the authority of title IV of the National Housing Act; or

(F) The acquisition of shares in, or the assets of, a regulated financial institution requiring approval under section 3 of the Bank Holding Company Act of 1956 or section 408(e) of the National Housing Act.

Sec. 804. In connection with its examination of a financial institution, the appropriate Federal financial supervisory agency shall—

(1) Assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of such institution; and

(2) Take such record into account in its evaluation of an application for a deposit facility by such institution.

Sec. 805. Each appropriate Federal financial supervisory agency shall include in its annual report to the Congress a section outlining the actions it has taken to carry out its responsibilities under this title.

Sec. 806. Regulations to carry out the purposes of this title shall be published by each appropriate Federal financial supervisory agency, and shall take effect no later than 390 days after the date of enactment of this title.

QUESTIONS

A. Community. Section 804 of the Act requires the Agencies to assess an institution's record of meeting the credit needs "of its entire community, including low- and moderate-income neighborhoods * * *"

1. How should the terms "entire community" and "low- and moderate-income neighborhoods" be defined?

2. Should the geographic determination of community vary for different types of credit needs, such as mortgage, agricultural, business, or consumer credit needs?

3. Should identical community measurement criteria be used for urban, suburban, and rural communities?

4. Should the definitions take into account the size, location, or branch structure of an institution?

5. Should the geographic criteria for these definitions be framed in terms of political boundaries, such as city limits, counties and metropolitan areas; or should the criteria relate to economic bases such as trading areas, areas from which deposits are obtained, or banking market areas?

B. Credit needs. Section 804 of the Act requires the agencies to assess an institution's record of meeting the "credit needs" of its community.

1. How should "credit needs" be defined and measured? What is the difference, if any, between needs for

credit and demands for credit? To what extent should the lenders' creditworthiness standards influence the definition and measurement of credit needs?

2. Do community credit needs include financing needs of State and local governments and other local public agencies?

3. How should the credit needs of those who have access to regional or national credit markets, and those who do not have such access, be taken into account in determining community credit needs?

4. To what extent do community credit needs include the credit needs of borrowers operating within many communities such as the Federal government and large manufacturing and retail firms?

C. Assessing an institution's record. Section 804 of the Act requires the agencies "to assess" an institution's record in meeting community credit needs.

1. What reporting or record keeping by financial institutions is necessary to carry out the purposes of the Act?

2. To what extent should the agencies consider lending policy statements of a financial institution?

3. In the assessment process, should the same standards be applied to national banks; State-chartered banks which are members of the Federal Reserve System; bank holding companies; State-chartered banks which are not members of the Federal Reserve System and the deposits of which are insured by the Federal Deposit Insurance Corporation; savings banks which are not members of the Federal Reserve System and the deposits of which are insured by the Federal Deposit Insurance Corporation; institutions the deposits of which are insured by the Federal Savings and Loan Insurance Corporation; and savings and loan holding companies?

4. Should the agencies apply the same standards in assessing the records of large and small institutions? Urban, suburban, and rural institutions? Institutions that may lawfully open branches and those that may not?

5. For what period of time should an institution's record be assessed?

6. In determining whether the credit needs of a community are being met, should the credit extended by all financial institutions in that community be combined and compared to the community's total credit needs? Should a particular institution be considered to have a satisfactory record if it is contributing a proportionate share of the total credit extended in the community?

7. Should an institution's efforts in meeting specific types of local credit needs be weighed equally in assessing whether it is helping to meet the credit needs of its entire community?

8. In making assessments, how should the agencies take into account specialization in meeting certain types of credit needs (for example, agricultural loans, business loans, mortgage loans, investments in municipal securities) by an institution being assessed or by other institutions in the community?

9. What criteria should be used in determining whether an institution is helping to meet community credit needs "consistent with the safe and sound operation" of that institution?

10. How should the agencies assess the record of institutions with branch offices, of affiliated institutions within a holding company, or of affiliated institutions not in a holding company? How should the records of individual offices be taken into account in assessing the parent or affiliated company?

11. In making the assessment, what consideration, if any, should be given to the institution's costs and sources of funds? To its rate of return on investment? To its liquidity?

12. For institutions with foreign offices, how should the extent of foreign loans and foreign deposits be taken into account, if at all, in the assessment?

D. Evaluating applications. Section 804 of the Act requires the agencies to take an institution's record into account in evaluating its applications.

1. What weight should be given to the record of the institution in meeting community credit needs compared to the weight given other factors such as competition, safety and soundness, and other managerial and financial factors?

2. Under what circumstances, if any, should the agencies deny an application? Approve an application on the condition that the institution improve its record? Grant unconditional approval?

E. Other administrative matters. 1. Section 802(b) of the Act indicates that its purpose is to require the agencies to "encourage" institutions to help meet community credit needs. In addition to decisions on applications, how may or should the agencies use their authority to "encourage" institutions?

2. If an agency believes that an institution's record in meeting community credit needs is unsatisfactory, what action, if any, may or should the agency take when there is not a pending application?

3. What are the specific policies or regulatory requirements, other than those stated in response to the previous questions, which you believe the agencies are required to follow or should follow in fulfilling their responsibilities under the Act?

This notice is published pursuant to section 553(b) of Title 5 United States Code.

THEODORE E. ALLISON,
Secretary of the Board.

GAIL W. POHN,
Associate Deputy Comptroller.

ALAN R. MILLER,
*Executive Secretary, Federal
Deposit Insurance Corporation.*

J. J. FINN,
*Secretary,
Federal Home Loan Bank Board.*

JANUARY 19, 1978.

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