

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8547]
April 2, 1979]

AMENDMENT TO REGULATION BB

Financial Institutions Predominantly
Serving Military Personnel

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

The Board of Governors of the Federal Reserve System has amended its Regulation BB, "Community Reinvestment," to allow any financial institution whose business consists primarily of serving military personnel to delineate a "military community" as part of its entire community for purposes of assessment and evaluation under the regulation. Similar rules have also been adopted by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board.

Enclosed is a copy of the amendment, effective April 26, 1979. Questions on this matter may be directed to our Consumer Affairs Division (Tel. No. 212791-5919).

PAUL A. VOLCKER,
President.

Board of Governors of the Federal Reserve System

COMMUNITY REINVESTMENT

AMENDMENT TO REGULATION BB

(effective April 26, 1979)

[6210-01-M]

Title 12—Banks and Banking

CHAPTER I—COMPTROLLER OF THE CURRENCY, DEPARTMENT OF THE TREASURY

PART 25—COMMUNITY REINVESTMENT ACT REGULATIONS

CHAPTER II—FEDERAL RESERVE SYSTEM

PART 228—COMMUNITY REINVESTMENT

CHAPTER III—FEDERAL DEPOSIT INSURANCE CORPORATION

PART 345—COMMUNITY REINVESTMENT

CHAPTER V—FEDERAL HOME LOAN BANK BOARD

PART 563e—COMMUNITY REINVESTMENT

COMMUNITY REINVESTMENT ACT REGULATIONS

Amendment Relating to Institutions Serving Military Personnel

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

ACTION: Final regulations.

SUMMARY: This amendment to the Agencies' regulations implementing the Community Reinvestment Act of 1977 reflects an amendment to that law contained in the Financial Institutions Regulatory and Interest Rate Control Act of 1978 that relates to fi-

ancial institutions whose business predominantly consists of serving the needs of military personnel who are not located within a defined geographic area.

EFFECTIVE DATE: April 26, 1979.

FOR FURTHER INFORMATION CONTACT:

C. Baird Brown, Board of Governors of the Federal Reserve System: 202-452-3265; JoAnn Barefoot, Comptroller of the Currency: 202-447-0934; Jeffrey Tisdale, Federal Deposit Insurance Corporation: 202-389-4384; Nancy Feldman, Federal Home Loan Bank Board: 202-377-6443.

SUPPLEMENTARY INFORMATION: On December 7, 1978, 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") published in the FEDERAL REGISTER (43 FR 57259) a proposed amendment to their Community Reinvestment Act ("CRA") regulations. The Agencies now adopt a final version of that amendment.

The CRA requires that in connection with their examination of institutions in their jurisdiction, the Agencies assess each 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. The CRA further requires that the appropriate Agency take that record into account in its evaluation of any application by the institution for a charter, deposit insurance, branch or other deposit facility, office relocation, merger, or acquisition of bank or savings institution shares or assets. The amendment to the Agencies' regulations, which implements an amendment to the CRA passed as part of Title 15 of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (Pub. L. 95-630), permits qualified institutions to delineate a "military community"

of non-local customers in addition to a local community or communities. Together these comprise their "entire community" for purposes of Agency assessment and evaluation.

The Agencies have received comments on the proposed amendment and have revised the amendment after considering the concerns of the commenters. An explanation of the comments and of the changes in the amendment are set forth below.

QUALIFICATION FOR EXCEPTION

The proposed amendment would have permitted an institution to delineate a military community if "over half of [its] depositors are active duty or retired military personnel or their dependents who reside more than 50 miles from any of its offices." While a few commenters approved of the amendment as drafted, the majority favored liberalizing the restrictions on its application. They suggested various alternatives including reduction of the number of depositors from one half to one third, or to as little as 10 per cent, and reduction or elimination of the 50 mile limitation. While there was general agreement on reducing these numbers, no clear rationale was offered for any particular reduction. Other commenters suggested eliminating specific numerical limitations to permit the regulation to be applied more broadly and flexibly.

The Agencies' original CRA regulations give institutions flexibility in delineating their local communities, and the Agencies wish to permit similar flexibility for institutions serving military personnel. The Agencies are persuaded that particular numerical limits may operate inequitably among various institutions. They also wish to avoid burdensome recordkeeping and detailed proof of whether an institution exceeds a numerical limit. In view of these concerns, the Agencies have revised their amendment to permit delineation of a military community by an institution "whose business predominantly consists of serving persons who are active duty or retired military

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For this Regulation to be complete, retain:

- 1) Regulation BB pamphlet, effective November 6, 1978.
- 2) This slip sheet.

personnel or their dependents and who are located outside of its local community or communities."

In applying this revised provision, the Agencies interpret "predominantly" to refer to the most important aspect of an institution's business. In considering the reasonableness of an institution's inclusion of a military community in its delineation of its entire community, Agency examiners may consider evidence, such as numbers of depositors or accounts, loans granted, dollar volumes, marketing strategy, or other evidence that non-local military personnel are the institution's most important customer group. Ordinarily, examiners will not request detailed statistical verification of an institution's judgment as to predominance. Examiners will in all cases review the delineations of the institution's local community or communities to ensure that they are not unreasonably small thereby resulting in an inappropriate expansion of the institution's non-local customer base.

OTHER COMMENTS ON SCOPE

Two comments were received suggesting that institutions be allowed to delineate a military community for any branch that predominantly serves non-local military personnel. The Agencies do not believe that the CRA as amended permits this interpretation.

One comment asked that banks serving predominantly non-local military personnel be exempt from delineating a local community and three others suggested exemption if an institution's local customers were an insignificant portion of its customers. Given the

emphasis of the CRA on the credit needs of local communities, the Agencies do not believe it is appropriate to exempt any institution from assessment of its record with respect to its local community. Based on the comments and other evidence available to them, the Agencies do not believe that any institution predominantly serving non-local military personnel has an insignificant proportion of local customers.

CRA REGULATIONS AS APPLIED TO MILITARY COMMUNITIES

One comment expressed concern that various parts of the Agencies' CRA regulations that are made applicable to military communities by section (c) of the amendment cannot be readily applied to military communities. The Agencies believe that provisions of their regulations relating to the CRA Statement, Comment Files, and Public Notice are directly applicable to military communities. For the purposes of these sections, offices of the institution may serve and hence be "located" in both a local community and the military community of the institution, and the institution may choose one of those offices, including its head office, as its designated office for Comment Files relating to its military community. The Agencies recognize that the factors in the Assessment of the Record section of their regulations were not drafted with military communities in mind, and that therefore some may have no parallel in a military community. However, the Agencies have previously stated (43 FR 29919) that the list of factors is "only intended to be indicative of the

evidence that the Agencies would consider" in assessing an institution's record of performance. Some of the listed factors clearly do apply to military communities and the Agencies may consider other evidence of an institution's service to its military community.

Accordingly, the Agencies hereby amend 12 CFR Parts 25, 228, 345, 563e as follows:

PART 228—COMMUNITY REINVESTMENT

§ 228.3 [Amended]

Effective, April 26, 1979 § 228.3 is amended as follows:

(1) Paragraph (b) is revised by deleting the word "A" at the beginning of the first sentence of the paragraph and inserting, "Except as provided in paragraph (c) of this section, a".

(2) New paragraph (c) is added:

(c) A State member bank whose business predominantly consists of serving persons who are active duty or retired military personnel or their dependents and who are located outside of its local community or communities, may delineate a "military community" for those customers, in addition to its local community or communities. Provisions of this part concerning local communities shall also apply to military communities, except that military communities shall be delineated by a written description rather than a map.

(Sec. 803, Pub. L. 95-128, as amended by sec. 1502, Pub. L. 95-630, 92 Stat. 3713 (12 U.S.C. 2902))

Board of Governors of the Federal Reserve System, February 22, 1979.

THEODORE E. ALLISON,
Secretary of the Board.