

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8922]
September 25, 1980

Community Reinvestment Act Information Statement

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

The Federal Financial Institutions Examination Council has issued an information statement for the guidance of persons and organizations interested in the Community Reinvestment Act of 1977. The Examination Council's information statement is similar to an informational statement that was issued by the Board of Governors of the Federal Reserve System in January and sent to you with this Bank's Circular No. 8734, dated January 10, 1980.

The following is quoted from the Examination Council's press statement announcing its CRA information statement:

The statement was developed by the Examination Council's Task Force on Consumer Compliance, an interagency committee of senior consumer affairs officials. The Council's CRA information statement is similar to a statement issued by the Federal Reserve on January 3, 1980.

Four agencies represented on the Council have CRA responsibilities. They are the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board and the Office of the Comptroller of the Currency. As noted in the statement, the National Credit Union Administration is not covered by CRA but it requires credit unions under its jurisdiction to follow non-discriminatory policies in conformance with consumer protection laws and regulations.

The Council's CRA information statement describes the requirements of the Act and the general policies of the agencies represented on the Council in implementing CRA. The Council expects soon to follow up its information statement with a Citizens Guide to procedures under CRA to provide more detailed information on individual agency policies.

The text of the information statement issued by the Examination Council has been reprinted below from the *Federal Register* of September 23, 1980. Questions regarding the statement and other matters regarding the Community Reinvestment Act may be directed to our Consumer Affairs and Bank Regulations Department (Tel. No. 212-791-5919).

ANTHONY M. SOLOMON,
President.

**FEDERAL FINANCIAL INSTITUTIONS
EXAMINATION COUNCIL**

**Community Reinvestment Act
Information Statement**

AGENCY: Federal Financial Institutions
Examination Council.

ACTION: Public information statement on
the Community Reinvestment Act
(CRA).

SUMMARY: In response to continuing
interest on the part of individuals and
organizations in the Community
Reinvestment Act of 1977 and federal
agency regulations implementing the
Act, the Examination Council is issuing
this public information statement. The
statement briefly describes the
requirements imposed by the Act and
indicates the approach taken by the
Board of Governors of the Federal
Reserve System, the Federal Deposit
Insurance Corporation, the Federal

Home Loan Bank Board and the Office
of the Comptroller of the Currency in
implementing this statute. Within the
next 90 days, the Council also plans to
make available to the public, on behalf
of these four Federal regulatory
agencies, a "Citizens Guide" to CRA
comment procedures which will provide
more detailed information on individual
agency policies and procedures.

DATE: September 12, 1980.

FOR FURTHER INFORMATION CONTACT:
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**Community Reinvestment Act
Information Statement**

The Federal Financial Institutions
Examination Council is issuing this
statement for persons and organizations
interested in the Community

Reinvestment Act of 1977 (CRA). The
Council is composed of the five financial
institution regulatory agencies: the
Board of Governors of the Federal
Reserve System, the Federal Deposit
Insurance Corporation, the Federal
Home Loan Bank Board, the National
Credit Union Administration, and the
Office of the Comptroller of the
Currency. Financial institutions
regulated by all of the agencies, except
the National Credit Union
Administration,¹ are subject to CRA.

CRA was enacted out of concern for
unfair treatment of prospective
borrowers and unwarranted differences
in lending patterns between different

¹The National Credit Union Administration does,
however, expect all credit unions under its
supervision to be responsive to the credit needs of
all of their members as evidenced by its "anti-
redlining" regulations and enforcement of the
Federal equal credit opportunity and consumer
credit protection laws.

neighborhoods in communities served by lenders. It emphasizes the institutions' affirmative obligations to help meet the credit needs of their entire communities. In addition, it requires the agencies to:

- encourage regulated lenders to help meet the credit needs of the local communities in which they are chartered, consistent with safe and sound operation;
- assess the lender's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods; and
- consider those records in evaluating applications to expand the activities of the lender or, in certain cases, those of its parent holding company.

This last requirement applies to each application to one of the agencies for:

- a charter for a national bank or federal savings and loan association;
- deposit insurance;
- the establishment of a domestic branch or other facility with the ability to accept deposits.
- the relocation of the home office or a branch office;
- the merger or consolidation with, or acquisition of the assets, or assumption of liabilities of a regulated institution; or
- a holding company to acquire ownership, or control of shares or assets of, a bank or savings and loan, or formation of such a holding company.

CRA emphasizes that financial institutions have a continuing and affirmative obligation to help meet the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. The CRA regulations specifically require each institution to:

- define the local community served by the institution without excluding any low- and moderate-income neighborhoods in those areas;
- prepare a CRA statement, listing the types of loans the institution is willing to make in its local community;
- establish a file on all comments received by the institution on its CRA statement or on its record of helping to meet the credit needs of its community and make this file available for the public to read at an office of the institution; and
- place in a public lobby of each office of the institution the CRA public notice required by regulations of each agency.

Although CRA is directed toward meeting sound community credit needs, it was not intended that federal agencies would impose credit allocation. The CRA regulations direct individual financial institutions to make their own credit decisions after assessing the credit needs of their local communities. The agencies believe that financial institutions are in the best position to assess those needs and that meetings with community organizations, local government officials and other

representative groups should be an early and integral part of the assessment process.

Several community organizations have suggested that particular financial institutions have poor lending records because they do not return to certain neighborhoods in loans what they accept from them in deposits. The agencies believe that there are many reasons why a neighborhood may generate more deposits than loan requests, or vice versa, and that this disparity is not on its face evidence of discrimination or improper credit practices. The regulatory agencies are concerned with the lender's performance in meeting the credit needs of its local communities and with its sensitivity and response to the needs of each neighborhood.

Financial institutions may sometimes overlook or fail to identify the credit needs of creditworthy borrowers in their communities. For example, the agencies have discovered some disparities in housing-related lending in low- and moderate-income neighborhoods, compared with that in higher income areas. Factors such as housing demand and safety and soundness considerations do not appear to account fully for the extent of these disparities. When such disparities occur, the agencies investigate to determine the specific nature and extent of the lender's efforts to ascertain credit needs and publicize its credit services. A lender's claim of a "lack of demand" based on a lack of applications, will not be accepted as an adequate reason for an absence of or a substantially lower level of lending in a particular neighborhood without evidence that the lender had made substantial efforts in such neighborhood to ascertain credit needs and to publicize its credit services. The agencies also look for any policies or practices that discourage credit applications from, or discriminate against, portions of the lender's community.

The agencies expect each financial institution to offer the types of credit listed on its CRA statement throughout its community. In assessing an institution's record, the agencies view favorably the record of a lender that has defined its community reasonably and that offers credit to help meet the needs of its entire community. The agencies also give favorable weight to an institution's concerted efforts to tailor and adapt its credit programs and related services to meet the needs of low- and moderate-income areas in its community.

In acting upon applications covered by CRA, the agencies consider an institution's CRA record of performance along with other relevant factors. For existing institutions, commitments for future action are not viewed as part of the CRA record of performance, but may be given weight as an indicator of potential for improvement in a lender's performance.

The agencies expect all parties to applications to observe the agencies' procedures. Staffs of the agencies are

available to advise parties on procedural requirements for commenting on applications. It is hoped that community representatives will bring their complaints to the attention of the lenders involved before protesting applications. However, when applications are protested on CRA grounds, the agencies encourage, but do not require, further communication between applicants and protestants. The agencies expect the protestants to provide evidence to support their complaints to the extent possible. For example, information on deed transfers may indicate mortgage loan demand and be instructive in demonstrating a particular lender's role in helping, or not helping, to meet that demand. The agencies' staffs will thoroughly investigate the merits of the application and the protest to provide the necessary record for an informed decision to be reached on the application.

To date, several protests have been withdrawn after the specific issues raised had been resolved by negotiation between the parties. However, it should be noted that:

- Withdrawal of protests does not alter the agencies' obligations to assess carefully the applicants' CRA records.
- Although the agencies hope all parties will meet to explain and clarify their positions, any decisions to negotiate are entirely within the parties' discretion.
- The agencies will not approve or enforce agreements between lenders and community groups. However, the agencies will consider evidence presented to them, by the parties to the agreement, that the agreement has been adhered to by the institution when the agencies assess the record of the institution in meeting its local credit needs.

Many lenders have adopted special purpose credit or pilot programs to test new credit offerings. The agencies wish to encourage, consistent with safety and soundness, those efforts to "target" community-related investments to geographic areas or individuals that are economically disadvantaged. Investments for special housing, community development, small business and small farm programs are also encouraged.

In designing procedures to accomplish CRA's goals, the four agencies of the Federal Financial Institutions Examination Council having CRA responsibilities appreciate the useful comments they have received from lending institutions, local governments, and community groups. They welcome additional suggestions. The agencies believe that communication between financial institutions and their communities can help ensure that sound credit needs are met within the lending capacity of depository institutions.

Dated: September 12, 1980.

Robert J. Lawrence,
Executive Secretary, Federal Financial
Institution's Examination Council.