



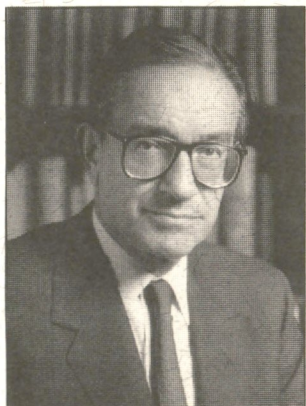
SPECIAL CRA ISSUE

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Greenspan Speaks on CRA Reform



Alan Greenspan

As an illustration of the significance of the recently revised CRA regulations, Federal Reserve Chairman Alan Greenspan gave a May 17 presentation on the topic in Washington, D.C.

During the presentation, Greenspan explained that those working on CRA reform—the OCC, FDIC, OTS and the Federal Reserve Board—were forced to juggle agency, community and regulator needs to produce the best-possible package.

“The new CRA regulations are surely not perfect, but they probably are the best that we could do given all the competing considerations,” he said.

Greenspan said the carrying out of the revisions is likely to be just as involved—and challenging. “There will be difficult steps in developing training for the agencies, lenders and community groups and in successfully implementing the new rules,” he said.

“We will be looking for, and paying close attention to, feedback from the lenders, community organizations and other interested parties on our progress.”

Greenspan said that cooperation will be key to making the transition to a new, and improved, system. “With everyone working together, we think that this will continue to be important to sound community development,” he said.

CRA Assessment Areas

Under the new CRA regulation, a bank will generally delineate one or more assessment areas within which the regulators will evaluate its record of helping to meet the credit needs of its community.

Although the bank’s delineation of its assessment area(s) will not be evaluated as a separate performance criterion, where appropriate, examiners will consider the following information about the assessment area to assist them in understanding the context in which the bank’s performance should be evaluated:

1) economic and demographic characteristics;

- 2) lending, investment and service opportunities;
- 3) product offerings and business strategy;
- 4) capacity and constraints;
- 5) prior performance of the bank and similarly situated institutions; and
- 6) any other relevant information.

This performance context will be used to help inform examiners about the bank’s performance record before the examination. Examiners will also request any information that the institution would normally use to prepare a business plan or identify potential

markets and customers.

The delineated area must consist of an MSA or one or more contiguous political subdivisions, such as counties, cities or towns. The area must also include the communities where the bank has its headquarters, branches and deposit-taking ATMs, as well as the areas where it originates or purchases loans.

Although the regulation does not state that a bank must lend to every Census tract in its delineated area, it does state that the bank must not arbitrarily exclude low- or moderate-income communities.

Standard Performance Test Key Components

Under the revised CRA regulation, the focus of bank examinations will be on lending, investment and service tests. These three assessment tests replace the 12 assessment factors currently used in CRA examinations.

Lending Test

The *Lending test* evaluates how a bank lends in its community as measured by:

- The number and amount of a bank's home mortgage, small business and small farm loans in its assessment area.
- The geographic distribution of loans, including the proportion of total loans made in a bank's assessment area(s).
- The distribution of loans by income levels and borrower characteristics.
- The number and amount of community development loans.
- Any innovative/flexible lending practices.
- One or more of the following consumer lending categories, if consumer lending constitutes a substantial majority of a bank's business *or if* the bank chooses to be evaluated in this area: motor vehicle, credit card, home equity, other secured and other unsecured loans.
- At the bank's option, lending by an affiliate or third-party (lending consortia) if the activity meets the definition of community development loans.
- A bank's letters of credit and commitments, as well as other loan information, if the bank wishes.

Investment Test

The *Investment test* evaluates a bank's record of helping to meet credit needs through **qualified investments** that benefit either its assessment area(s), or a broader statewide or regional area that includes the bank's assessment area(s), by focusing on the:

- Dollar amount of qualified investments.
- Innovativeness or complexity of these investments.
- Responsiveness to credit and community development needs and the degree to which these investments are not routinely provided by private investors.

Qualified investments include, but are not limited to: grants or investments through CDCs, Small Business Investment Companies, not-for-profit organizations, and state and municipal bonds that specifically support affordable housing or finance community development.

The grants and investments can also support or develop:

- organizations engaged in affordable housing rehabilitation and construction;
- facilities that promote community development for low- and moderate-income areas/individuals, such as development of day care facilities; or
- organizations that provide home-ownership and credit counseling or other financial services education.

Service Test

The *Service test* analyzes both the availability and effectiveness of a bank's delivery

of its products and the extent and innovativeness of its community development services by considering:

- The current distribution of branches among various income areas and the opening and closing of branches, particularly those serving low- or moderate-income individuals or areas.
- The availability and effectiveness of alternative systems, such as ATMs, banking by phone and loan production offices, to low- and moderate-income individuals or areas.
- The range of services and the degree to which those services are tailored to meet the needs of all income levels.

Community development services are required to be related to financial services. Examples are: low-cost or free government check cashing, credit counseling, executive loans to organizations that facilitate affordable housing construction and rehabilitation, and the provision of technical expertise to nonprofit organizations serving low- and moderate-income housing needs.

In contrast, general participation by a bank's employees in community activities that do not take advantage of their technical or financial expertise would not qualify.

Flexibility Offered by New Regulations

Timetable for Implementation

Certain provisions of the new CRA regulations take effect beginning July 1, 1995. However, the two key dates for you to remember in the final rule are: Jan. 1, 1996, and July 1, 1997.

On Jan. 1, 1996:

- Small bank examinations will begin.
- Banks may submit strategic plans.
- Banks will begin collecting additional loan data.
- Banks may elect evaluation under large bank or wholesale/limited purpose examinations.

On July 1, 1997, evaluation becomes mandatory under the lending, investment, service and community development tests.

Since banks vary greatly in size and the type of communities they serve, the new CRA regulations allow them—assuming they qualify—to choose how they will be examined.

Three basic choices are available: the small bank streamlined examination, the wholesale/limited purpose examination, or the strategic plan options examination. These choices would replace the standard lending, investment and service tests.

By allowing banks to decide how they will be examined, regulators hope that lenders will tailor programs to meet the special needs of their communities and their own business strategies.

Streamlined Small Bank Assessment

Small banks have the option of being examined under a new streamlined CRA process. Banks are considered small if they have less than \$250 million in assets and, if owned by a holding company, the holding company has less than \$1 billion in assets.

Under the streamlined examination, small banks would be assessed under the following criteria:

- 1) loan-to-deposit ratio and, as appropriate, lending-related activities, such as community development lending or investments and loan originations for sale on the secondary market;
- 2) percentage of loans and other lending-related activity in the assessment area;
- 3) lending to borrowers of different income levels and to businesses and farms of different sizes;

- 4) geographic distribution of loans; and
- 5) record of taking action in response to written complaints about its performance in meeting credit needs.

The evaluations will also take into account the bank's size, financial condition and the credit needs of the assessment area.

Although the maximum rating that can be obtained from the streamlined exam is satisfactory, a bank may choose to be examined for its investment and service performance to obtain a rating of outstanding.

Wholesale & Limited Purpose Banks

A bank must submit a written request and obtain approval from its regulator before the CRA examination to qualify for this classification.

Wholesale banks are defined as institutions that are not in the business of extending home mortgage, small business, small farm or consumer loans to retail customers. Limited purpose banks are defined as institutions that offer only a narrow product line to a national or regional market. These banks will be examined under the Community Development test, which borrows the community development lending aspects from the lending test, the qualified investments from the investment test and the community development service from the service test.

Strategic Plan Option

The strategic plan option allows a bank the flexibility to

devise a CRA plan that meets the particular credit needs of its service area. To do so, a bank must seek suggestions from the public informally while developing its plan.

Once the plan is developed, the bank must solicit written public comment for at least 30 days. The plan is then submitted to the bank's regulator for approval.

The plan must contain measurable goals for helping to meet the credit needs of the assessment area(s), particularly low- and moderate-income individuals and areas. These goals must address all three of the performance categories, while emphasizing lending and lending-related activities.

However, if the characteristics and needs of the service area call for a focus on one or more of the performance categories, this emphasis is also acceptable. The plan must stipulate goals for a satisfactory rating and, if a bank chooses, an outstanding rating.

Examiners will base their ratings on how well these goals are met. If a bank fails to meet the goals stated in its plan, it has the option of being assigned a rating using one of the other tests.

New CRA Data Collection & Reporting Guidelines

- Small banks are not subject to any additional data collection and reporting requirements, unless they opt out of the streamlined assessment procedures.

- Large banks are required to collect and report to regulators:

- the aggregate number and amount of small business and small farm loans by Census tract or block numbering area;
- whether the business or farm had \$1 million or less in revenue;

- the aggregate number and amount of community development loans they originated or purchased during the previous year; and

- based on an amendment to HMDA, the location of applications and originations of home mortgages made outside the metropolitan statistical areas (MSAs) where they have branches.

- Data on the race and gender of small business and farm borrowers will not be collected or reported. A proposed

amendment to Equal Credit Opportunity would permit voluntary collection of this data.

- Regulators will prepare small business and small farm loan data disclosure statements annually for each individual reporting bank and aggregate disclosure statements for each

MSA and non-MSA portion of each state. Regulators will make aggregate disclosure statements available to the public at central depositories; banks must place their individual disclosure statements in their public CRA files.

Examination Ratings

For each of the lending, investment and service tests in an examination, a bank receives a specific number of points (*see chart*). When added together, these points determine the overall composite rating. A bank must score at least a "low satisfactory" on the lending test to be eligible for an overall rating of "satisfactory."

If a bank scores below this, the rating will be calculated using three times the lending test score. For example: If a bank scores 3 (on lending) + 6 (on investment) + 6 (on service) for a total of 15, the overall rating would be 9, which is three times the lending rate of 3.

CRA Component Test Ratings

	Lending	Investment	Service
Outstanding	12	6	6
High Satisfactory	9	4	4
Low Satisfactory	6	3	3
Needs To Improve	3	1	1
Substantial Noncompliance	0	0	0

CRA Composite Ratings

Points	Composite Assigned Rating
20 or over	Outstanding
11 through 19	Satisfactory
5 through 10	Needs to Improve
0 through 4	Substantial Noncompliance

CRA-Related Resources Available

The following resources are available by calling Judy Armstrong, Community Affairs, at (314) 444-8646.

- *Rural Economic Development—A Profile of Eight Rural Areas in the Lower Mississippi Delta Region*, a report by the Federal Reserve Bank of St. Louis. It provides demographic and anecdotal background information; an assessment of credit needs

and related issues; and programs developed by bankers, local governments and community organizations to address those needs.

- *Economic Rebirth: The Business of Nurturing*, a nine-minute video by the Federal Reserve Bank of St. Louis, featuring community development projects in four Mississippi communities. Segments include: Main

Street in Senatobia, affordable housing in Indianola, a business incubator in Clarksdale, and industrial development and job creation in Greenville.

- Copies of the revised CRA regulation, along with an associated amendment to the Home Mortgage Disclosure Act, and a proposed amendment to Regulation B, Equal Credit Opportunity.

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