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# The Fed Letter

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## Community Reinvestment Act

The Federal Reserve System, as well as the Comptroller of the Currency, Federal Deposit Insurance Corporation, and Federal Home Loan Bank Board, will be affected by implementation of the new "Community Reinvestment Act" (CRA) on November 6, 1978. The legislation was signed by President Carter last October.

Draft regulations have been prepared by all four agencies bound by the substance of the Act, accommodating the respective regulatory responsibilities of each agency. The Act joins fair housing and equal credit opportunity legislation in broadening the regulatory agencies' duties to include enforcement of consumer protection laws.

### CRA PURPOSES

The purposes of the Community Reinvestment Act are: to require banks and savings and loan associations to demonstrate that their offices serve the convenience and needs of their communities; to provide guidance to these institutions with regard to how the regulatory agencies will assess their records in satisfying their continuing and affirmative obligations to help meet the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with safe and sound operating procedures; and to provide for the consideration of these records, and those of other pertinent institutions, in connection with applications for new services, expansion, and other bank proposals.

### STATEMENT REQUIRED

Each institution will be required to adopt, within 90 days after the regulations formally take effect, a Community Reinvestment Act Statement to be posted in all offices and including the address of the appropriate regulator to whom public comments regarding the statement may be directed. The statement must encompass the bank's delineation of its entire community and local communities, and the types of credit that are being extended (mortgages, consumer loans or loans for housing rehabilitation, home improvement, small business, community development or commercial development, and any special bank programs). While not specifically defining "community," the regulations require a bank to take into account for that definition such factors as its size, geographic area, and effective lending territory -- the area where substantial portions of its loans are made. The use of maps is encouraged.

Each institution must review its Community Reinvestment Act Statement, including the delineation of its "community," at least on an annual basis and maintain for at least two calendar years a public file of all comments it has received on the CRA.



### ASSESSMENT OF CREDIT RECORD

In connection with the scheduled examination of State member banks, the Board will assess each bank's record in helping meet the credit needs of its entire community. The examiners will review the bank's CRA statement and marketing and lending policies to determine whether they are designed to help meet these needs, and assess its record of performance. A number of factors will be considered in assessing a bank's record, including activities undertaken by the institution in ascertaining community credit needs; consultations by bank officials with members of the local communities regarding the bank's plans and policies on credit services; the extent and effectiveness of bank marketing programs to make the community aware of available credit services; the extent of participation by the bank's board of directors in formulating and reviewing the bank's policies and performance with respect to CRA; geographic distribution of loans; the bank's history of opening and closing offices; and the bank's participation, including investments, in government-sponsored local community development projects or other local community re-development programs.

### EFFECT ON BANK APPLICATIONS

The regulating agencies will also take the Community Reinvestment Act into consideration in the evaluation of applications for charters, deposit insurance, establishment of domestic branches or other deposit facilities, relocation of domestic branch offices, mergers, or acquisitions.

The financial regulators will report annually to Congress on actions taken to carry out CRA responsibilities.

## Clarification on Variable Rate CDs

The Board of Governors recently issued a clarification of its amendment to Regulation Q authorizing member banks to pay interest on nonnegotiable time deposits of \$10,000 or more with maturities of exactly 26 weeks at a maximum rate equal to the discount rate on six-month Treasury bills.

● **Ceiling Rate:** The ceiling rate corresponds to the discount rate (auction average) on six-month Treasury bills issued on or immediately prior to the date of deposit. The ceiling rate is not established with reference to the coupon-equivalent or effective yield on Treasury bills. If a bank desires to round-off the ceiling rate, it may do so, but may only round this rate downward. For example, a member bank may round a ceiling rate of 7.471 percent to 7.47 or 7.4 percent.

Twenty-six week Treasury bills are auctioned weekly by the Treasury Department, usually on Monday, and are usually issued the following Thursday. Beginning on the date the bills are issued, member banks may pay interest at a rate not to exceed the discount rate (auction average) established the previous Monday, and may continue to issue certificates at such rate until the next issue date (normally a Thursday). On that date a new ceiling rate would go into effect. For example, the ceiling rate payable on Thursday, September 14, would be fixed at the discount rate (auction average) established on Monday,



September 11, and would remain in effect through Wednesday, September 20, after which date the ceiling rate would correspond to the discount rate (auction average) established on Monday, September 18.

● **Minimum Deposits and Maturities:** The certificate may be issued in any denomination of \$10,000 or more and its maturity must be exactly 182 days (26 weeks), not six calendar months. However, where the certificate would mature on a legal holiday, it may be issued with an original maturity in excess of 182 days so that it would mature on the next succeeding business day. Should such an instrument be renewed, it must be renewed for exactly 182 days.

● **Interest Computation and Withdrawal Penalty:** Interest on the new certificate is computed like any other time obligation. Compounding is permissible within the scope of Regulation Q. Interest, as specified in the issuer's contract, can be computed daily, monthly, quarterly, end of term, etc. Forfeiture of interest is also computed like other time deposits.

The twenty-six week certificate is treated like other time deposits for the purposes of the Regulation Q early withdrawal penalty.

● **Discount Form:** As with other time deposits, banks may offer this certificate in discount form where the face amount of the certificate is received by the depositor at maturity, so long as the bank initially receives at least \$10,000 from the depositor and the rate paid on the net amount deposited does not exceed with applicable six-month Treasury bill discount rate.

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## A-Z : Regulations Review

A two-stage program to implement "zero-base regulating" within the Federal Reserve System will involve an exhaustive evaluation over the next two years of all 26 Federal Reserve regulations and related interpretations and rules to determine whether they should be eliminated, simplified, or revised.

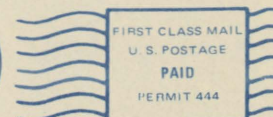
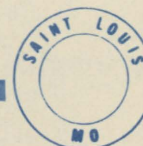
Federal Reserve Governor Philip C. Jackson, Jr., is overseeing the review, which will be carried out under the direct supervision of Richard H. Puckett, managing the newly approved "Regulatory Improvement Project." Federal Reserve Banks throughout the nation are being assigned specific regulations and related rules for review and any necessary redrafting.

### TWO-PHASE APPROACH

The project is the first of its kind undertaken by the Board of Governors since the Federal Reserve System began operations 64 years ago. Initially, regulations affecting commercial banks, bank holding companies, and other institutions outside the Federal Reserve will be examined, followed by a review of all other Federal Reserve regulations, interpretations, policy letters, and operating circulars. A principal objective is the alleviation of part of the burden of regulatory paperwork on the nation's banks.

A study of the regulations' format will precede analysis of content, and recommendations will be made to the Board of Governors regarding organizational structure, identification (by letter or an alternate





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means), and whether they should be grouped, consolidated, combined, or otherwise changed in presentation.

Proposals for regulatory changes will range from language simplification to elimination of portions of a regulation found not to be required by law. Redrafting of the regulations is expected to improve their format, elucidate their relationship to current policy goals, and increase their benefit to the public.

#### OLD, NEW REGULATIONS AFFECTED

Many of the Federal Reserve regulations, such as "A" (relating to lending by the System to member banks) and "D" (relating to member bank reserve requirements) are much-amended versions of the Board's earliest regulations. Others, such as "Z" (Truth in Lending), "B" (Equal Credit Opportunity), and "C" (Home Mortgage Disclosure), were written in the last 10 years, at the direction of Congress, to implement recent consumer credit protection laws. The review project will also establish a system to preserve the anticipated improvements in future regulatory structure and content.

The review, and any regulatory revisions or recommendations to Congress for legislative changes, are expected to be completed by late 1979.

## Record Retention Requirements Change

Certain lenders must retain for more than two years all records of credit transactions in their possession, according to a recent Federal Reserve amendment to Regulation Z (Truth in Lending).

The Federal Reserve action supports proposed uniform enforcement guidelines for Regulation Z issued last October by the Comptroller of the Currency, FDIC, FHLBB, FRS, and National Credit Union Administration, calling for reimbursement to consumers for certain violations which may have occurred more than two years before discovery. The previous record retention requirement was a maximum of two years.

The amendment requires creditors and lessors subject to the agencies to retain credit transaction records until the enforcing agency has published final guidelines, completed one examination for compliance, and assured that any corrective action has been taken.