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The Fed Letter

a publication of the Federal Reserve Bank of St. Louis • Nov-Dec 78

Basic CRA Provisions

The Community Reinvestment Act went into effect November 6 after federal regulators (the Federal Reserve Board, Comptroller of the Currency, FDIC, and FHLBB) considered more than 500 comment letters from the public and acted to clarify and simplify the CRA requirements.

The Act requires that the regulatory agencies encourage financial institutions to help meet the credit needs of their communities, including low- and moderate-income neighborhoods, in a manner consistent with safe and sound banking operations. An institution's record of providing local credit services will be taken into consideration when it applies for branches, mergers, charters, insurance, and certain other approvals. Past performance may be grounds for denial, and the regulators will also consider the views of state supervisory authorities when state-chartered institutions apply for federal deposit insurance or other approvals.

There are four key CRA provisions:

- preparation, and review at least annually, of a map showing the community or communities comprising the entire community served by the lender, including low- and moderate-income neighborhoods;
- adoption by each institution within 90 days after the Act took effect of a CRA Statement for each delineated local community, showing the main types of credit the lender will extend;
- posting in the lender's lobby, also by early February, 1979, of a public notice affirming the institution's CRA commitment, announcing the availability of its current CRA statement(s) and public comments, and specifying where CRA-related comments may be sent;
- maintenance of files accessible to the public containing all signed written public comments on the lender's CRA performance or statement received within the past two years.

One of the most complex aspects of the Act concerns the delineation of a "community." The regulation specifies three alternate bases of community delineation:

- boundaries such as those of a standard metropolitan statistical area, or counties, where an institution's office(s) is/are located; or
- a lender may use its effective lending territory as delineating its local community, defined as areas where it makes a substantial portion of its loans, and other equidistant areas around each of its offices; or
- a lender may use any other reasonably delineated area that meets the purposes of the Act and does not exclude low- and moderate-income areas.

AFT Advertising Guidelines

The Board of Governors has provided specific advertising guidelines to member banks to help them in their promotion of the automatic transfer of funds from savings to checking accounts. The new transfer service became available nationally on November 1, and the Board's pointers are designed to help bankers avoid making unclear or potentially misleading advertising claims.

The Board has advised that advertisements and promotional materials must indicate clearly that the new service involves two separate accounts — a checking account and a savings account. Automatic transfer service ads should not convey the impression that interest is being paid on a checking account or that checks may be written against an interest-bearing savings account.

Member banks have also been reminded that, in offering the new service, they must specifically disclose, in written agreements with customers desiring the service, that the bank reserves the right to require at least 30 days' notice of withdrawal from savings accounts.

New Banking Law Signed

Hours before it adjourned, the 95th Congress passed a wide-ranging banking law which was subsequently signed by the President. The law's provisions will impact various operations at banks in the Eighth Federal Reserve District and throughout the nation, allowing, for instance, interest rate parity (at the commercial bank ceiling) for savings accounts in banks, mutual savings banks, and savings & loan associations that are subject to pre-arranged automatic transfer to a checking account.

The effective date of the "Financial Institutions Regulatory and Interest Rate Control Act of 1978" is 120 days after enactment, although some provisions take effect on other dates.

Among the legislation's highlights:

- expansion of federal bank regulatory agency powers, including potential imposition of civil penalties on banks and bankers violating laws or regulations, subject to the safeguard of due process;
- doubling of the dollar limitation on loans which may be made by a member bank to its executive officers to permit a \$60,000 loan for purchase of a home; \$20,000 to finance children's education; and \$10,000 for any other purpose;
- extension to February 27, 1981, of the ban on imposing a surcharge for use of a credit card by consumers;
- issuance of cease-and-desist orders to individuals and institutions, and removal of officers and directors, deemed to threaten an institution's safety and soundness;
- adoption of consumer safeguards for electronic funds transfers;
- insurance of IRA and Keogh accounts to \$100,000;
- notification to individuals (subject to challenge by them) that an agency wants their banking records, with banks to be reimbursed the costs of providing necessary documents;
- creation of a Financial Institution Examination Council to develop uniform standards of examination and improve coordination among regulators. Council membership would include the Comptroller of the Currency, a Federal Reserve Board Governor, and the Chairmen of the FDIC, FHLBB, and NCUA.

Automated Clearing House Network

A coast-to-coast network of financial institutions automatically handling pre-authorized payments via electronic communications and using Federal Reserve System facilities has been completed.

The interregional network connects all 12 Federal Reserve Districts through 32 automated clearing house associations where payment instructions recorded on magnetic tapes are cleared and sorted. It links approximately 9,400 banks and 1,500 thrift institutions which are members of automated clearing house associations with 6,000 customer corporations.

The system utilizes computers in 34 Federal Reserve offices, as well as one privately operated automated clearing house in New York City.

The interregional exchange began as a pilot project in 1977, with 10 automated clearing houses exchanging electronic payments submitted through various financial institutions by private corporations. The network was finished as scheduled on September 11, 1978, when the Federal Reserve Bank of St. Louis was included in the system.

Completion of the network will permit more extensive use of electronic payments which, at present, primarily consist of payroll deposits and payments of recurring bills (mortgage payments, etc.) or other recurring amounts, such as U. S. Treasury deposits for social security benefits.

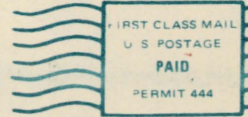
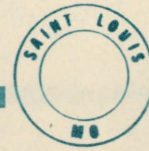
Contact your local ACH to determine ways in which your bank can take full advantage of the opportunities offered by this new network to better serve your corporate customers.

Flood Insurance Requirements

An amplification has been mailed to your bank regarding Federal Insurance Administration guidelines for "Mandatory Purchase of Flood Insurance."

In an effort to expedite the closing of loans secured by improved real estate located or about to be located in a special flood-hazardous area of a community participating in the National Flood Insurance Program, a copy of a mortgagor's check issued in payment of the flood insurance policy premium, or an agent's certification or letter that a mortgagor has purchased the requisite flood insurance, is considered sufficient proof of the purchase of flood insurance. Also acceptable is a completed HUD Form 1506 ("Certification of Proof of Purchase of Flood Insurance"), tendered at closing. These, or any other documents accepted by a state member bank in good faith, will be regarded as acceptable evidence of the bank's compliance with Section 208.8(e)(1) of Regulation H.

Standard flood insurance policies take effect no later than 15 days from the application date for the insurance and submission of the premium for the first year of coverage. Accordingly, a state member bank may decide to delay a loan closing for 15 days from the date of a borrower's application execution. The delay enables the bank to make sure there is no interim period during which improved real property located or to be located in a flood-hazardous area in a participating community that secures a loan is not covered by flood insurance.



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Notify Fed of Structure Changes

The St. Louis Federal Reserve requests that it be notified by Eighth District banks as far in advance as possible of any plans to change a bank name or location, open or close a branch or other banking facility, or make a similar structural change. Please indicate the type of change contemplated and when it is likely to take place. Notices should be sent to the Bank Relations and Public Information Department at the Federal Reserve Bank of St. Louis.

This information on Federal Reserve member banks as well as non-member financial institutions in the Eighth District is gathered by the Federal Reserve Board of Governors in order to provide records of bank identification for System statistical, regulatory, supervisory, legal, and economic research purposes.

Consumer Credit Brochure

A new leaflet describing "How to File a Consumer Credit Complaint" has been issued by the Federal Reserve Board of Governors. The brochure defines the steps which a consumer may take to obtain assistance if a problem is experienced with a state-chartered bank that is a member of the Federal Reserve System. It also contains a comprehensive complaint form for consumer use and outlines the major protections afforded by federal consumer credit laws.

In the leaflet, it is noted that the Federal Reserve has established a separate office in Washington — the Division of Consumer Affairs — to handle consumer complaints. Anyone who is unable to solve a consumer credit problem by discussing it directly with bank personnel is advised to mail the completed form directly to that office.

Requests for copies of the new brochure should be directed to the Bank Relations and Public Information Department at the Federal Reserve Bank of St. Louis.