



Office of Thrift Supervision  
Department of the Treasury

Director

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December 21, 1993

**TO THE CHIEF EXECUTIVE OFFICER OF THE SAVINGS ASSOCIATION  
ADDRESSED:**

Attached for your review and comment is a notice of proposed rulemaking, as published in the Federal Register on December 21, 1993, revising regulations concerning the Community Reinvestment Act (CRA). The length of this transmittal to you reflects the importance of this proposal. I would like to take this opportunity to highlight the key points of the proposal, and urge you to read it in its entirety and send us your comments.

This proposal was developed by the Office of Thrift Supervision, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and Board of Governors of the Federal Reserve System in response to President Clinton's CRA Reform Initiative. The President directed the agencies to reform the CRA regulations to emphasize performance over documentation, and refocus the regulations on making credit and financial services available to all communities, particularly underserved areas throughout urban and rural America.

In developing this proposal, the agencies worked closely with community organizations, representatives of local government, and the banking and thrift industries to craft clearer and more objective evaluation standards for CRA compliance, eliminate unnecessary documentation requirements, and improve consistency in CRA examinations and enforcement. Many of you who participated in the public hearings the agencies held this past summer on CRA reform were undoubtedly struck, as I was, by the broad and diverse views of those with an interest in CRA. It became clear to me that much of the existing controversy over CRA, and the way it has been implemented by the industry and administered by the agencies, stems directly from an existing approach that is too subjective and lacks measurable standards. This has made CRA compliance difficult for all. Even those institutions with excellent CRA programs indicated that too much of their energy is spent documenting their internal process, to the detriment of their community lending efforts.

## Evaluation Tests

The President directed the agencies to focus this reform effort on three specific areas: lending, investments, and services. This proposal does just that. It replaces the existing 12 regulatory assessment factors with three tests. Under the proposal, not every institution would be subject to assessment in each of these three areas. In general, an institution would be evaluated based on its record of serving its entire community, including low- and moderate-income neighborhoods.

The lending test evaluates an institution's direct lending; and, at the institution's option, evaluates indirect lending through loan pools, lending consortia, subsidiaries and affiliates, and community development or affordable housing lenders in which the institution has made investments. The lending test compares the institution's market share of loans in low- and moderate-income geographies to its market share of loans in its entire service area. The lending test also evaluates the percentage of an institution's outstanding loans to low- and moderate-income geographies or individuals, or the percentage of low- and moderate-income geographies in which it has made a significant number of loans. The lending test gives extra credit to institutions for making complex or innovative loans that serve pressing community development needs without undermining safety and soundness.

The investment test evaluates an institution's record of qualified investment in organizations and initiatives that foster community development, small and minority-owned business development, or affordable housing lending, including state and local government agency housing or revenue bonds.

The service test evaluates an institution's provision of branches accessible to low- and moderate-income areas and the provision of services that promote the availability of credit. Special accomplishments or programs that provide greater access to credit, capital or services would also receive consideration. Services such as low-cost check cashing, "lifeline" accounts and credit counseling can also work to improve and institution's CRA rating.

One of the underpinnings of this proposed regulation, as well as the CRA statute, is the recognition that the CRA obligation must be met using prudent business practices. This proposal in no way suggests a change to that basic tenet, nor does it encourage or expect a liberalization of underwriting standards to the detriment of safe and sound lending principles.

I want to emphasize this point. Unfortunately, I have recently heard industry representatives discuss CRA not in terms of new business opportunities but in terms of burden and cost. Many have suggested that the only way to meet the CRA obligation is to make poor quality loans and incur necessary losses. This approach is wrong and benefits no one. We do not expect you to sacrifice safety and soundness standards to make any loan, but we do encourage you to be innovative in attempting to create products to meet the various needs of a diverse customer base.

#### **Streamlined Examinations**

Under the proposal, certain small institutions are eligible for a streamlined CRA examination. Small institutions are defined as independent institutions with total assets under \$250 million, or members of a holding company with total banking and thrift assets of less than \$250 million. The streamlined examinations would consider an institution's loan-to-deposit ratio, whether it makes most of its loans locally, its loan mix (including the distribution of loans across income levels), and its record of community complaints and substantive compliance with the fair lending laws.

#### **Strategic Plans**

An institution would have the option of submitting to its regulator a CRA plan for approval and then being evaluated under that plan. The plan would be publicly available and have measurable goals. Regulators would consult with community groups to decide whether the plan is responsive to community credit needs. If an institution failed to meet or exceed the preponderance of goals set forth in the plan, its performance would be evaluated under the lending and service tests.

#### **Regulatory Burden**

The proposal also makes significant reductions in regulatory burden. Institutions would no longer have to prepare CRA statements, review those statements annually and document those reviews in minutes of the board of directors, justify the basis for their community delineations, or maintain documentation supporting marketing efforts or ascertaining community credit needs. Large institutions would be required to report additional data on the geographic distribution of their small business and some consumer loans, and summary data collected by the regulators will be made available to the public. Data collected under the Home Mortgage Disclosure Act would still be made available to the public. CRA performance evaluations would be redesigned consistent with the new evaluation standards and would continue to be made public by the institutions and the agencies.

## Enforcement

The agencies would continue to consider CRA performance in evaluating certain corporate applications. Regulators would also encourage public comment on CRA performance. Institutions that receive a rating of Substantial Noncompliance would be subject to formal enforcement actions.

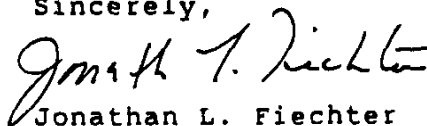
## Transition Period

Although the proposal calls for revised data collection and reporting procedures to go into effect after a short adjustment period, evaluation under the new CRA standards would not be mandatory until July 1995. During the interim period, institutions could elect to be evaluated under either the current CRA regulation or the new CRA provisions.

## Public Comment Period

The public comment period for this proposal runs until February 22, 1994. We are anxious to receive your comments. The testimony we heard during the public hearings was instrumental in shaping this proposal; the comments we anticipate on this proposal will be equally significant in helping us to forge a final regulation. Although comment is invited on all aspects of this proposal, the Federal Register document highlights a series of questions on specific issues that are of interest to the agencies. I am also interested in your reactions to how you believe this proposal will affect your operations and your ability to meet your CRA obligation. I encourage you to provide comments.

Sincerely,



Jonathan L. Fiechter  
Acting Director

Attachment