



NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

NR 2004-5

FOR IMMEDIATE RELEASE
January 20, 2004

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Comptroller Hawke Voices Support for Inter-Agency Proposal to Amend the Community Reinvestment Regulations

WASHINGTON -- Comptroller of the Currency John D. Hawke, Jr. issued the following statement today regarding the FDIC's vote to issue for public comment a set of proposed amendments to the inter-agency regulations that implement the Community Reinvestment Act:

Today, the FDIC is voting to issue for public comment a set of proposed amendments to the inter-agency regulations that implement the Community Reinvestment Act. The OCC and the other Federal banking agencies will be acting shortly to issue for comment identical sets of proposed changes. The proposed amendments of all the agencies will be published together in the Federal Register thereafter.

This proposal is the result of an extensive and collaborative review of the CRA regulations by the banking agencies. Our staffs analyzed roughly 400 comments received in response to the Advance Notice of Proposed Rulemaking that we issued in July 2001. The fact that we are just now proposing amendments to the regulations reflects both the care with which the review was undertaken and the complexity of the issues presented.

The comments that we received indicated a high degree of consensus that the fundamental approach of the regulations is sound, but commenters offered a myriad of suggestions for improvements. Community organizations generally advocated expanded application of CRA and more detailed reporting requirements; financial institutions focused on reducing the burdens that flow from various features of the current regulation.

The agencies carefully considered the many possible approaches suggested by commenters, as well as other options. We recognized, however, that we were not writing on a blank slate, and we were mindful of the need to balance the desire to make changes and improve the regulations, with the need to avoid unnecessary and costly disruption to reasonable CRA policies and procedures already in place.

We concluded that the current CRA regulations are essentially sound, and we focused on a limited number of areas where we thought there would be a clear and substantial benefit from updating the regulation to keep pace with developments in the financial industry. We also recognized that updating is not a one-way street, favoring only the views of industry or community organizations. We believed that a balanced approach to changes in the CRA regulation was essential, and the changes we are proposing today embody a careful balance between easing unnecessary regulatory burdens on small institutions and enhancing achievement of the underlying goals of the Community Reinvestment Act.

First, we are proposing to amend the definition of "small institution" to mean an institution with total assets of less than \$500 million, without regard to the assets of any other institution owned by the same holding company. This revised threshold takes into account the asset growth and industry consolidation that have occurred since the "small institution" threshold was set at \$250 million in 1995, and recognizes the disproportionate regulatory burden placed on smaller-sized institutions by the data collection and reporting requirements associated with classification as a "large institution" for CRA purposes. This change would have a minimal impact on the

percentage of industry assets that would remain subject to the “large institution” provisions of the CRA regulation – the percentage would decline slightly from a little more than 90% to slightly less than 90%. Most importantly, this change would not diminish in any way the continuing, affirmative obligation of institutions that would now be classified as “small institutions” to help meet the credit needs of their communities, nor does the proposal affect the statutory exam cycle established under the Gramm-Leach-Bliley Act for institutions above and below \$250 million of assets. Rather, the changes affect the regulatory burden associated with detail and extent of information that institutions must collect and report to the bank regulator that conducts their CRA evaluation.

Second, in order to more appropriately address evidence of discriminatory, illegal and abusive lending practices in an institution’s CRA rating, the proposal provides that evidence that an institution has engaged in discriminatory and other illegal credit practices will adversely affect the institution’s CRA evaluation, and specifically lists examples of types of such illegal credit practices, including unfair or deceptive practices. The proposal also provides that a pattern or practice of secured lending based predominantly on the liquidation or foreclosure value of the collateral, where the borrower cannot be expected to make the payments required under the terms of the loan will similarly adversely affect an institution’s CRA evaluation. Thus, practices such as loan flipping and fee packing, that are shown to be unfair or deceptive, or a pattern or practice of equity-stripping motivated underwriting, will adversely affect an institution’s CRA evaluation. These proposed changes reflect our strongly-held view that discriminatory, illegal and abusive lending practices are inconsistent with the fundamental purposes of the CRA.

Third, the proposed regulation clarifies that an institution’s CRA evaluation also can be affected by evidence of discriminatory, other illegal, and abusive credit practices in an assessment area by *any affiliate*, if *any loans of that affiliate* have been considered in the institution’s CRA evaluation. This change would close what some perceive to be a gap in the current regulation that may allow an institution to “cherry-pick” certain lending activities of certain affiliates to enhance the institution’s CRA evaluation, while not taking account of other lending activities by the affiliate that might negatively impact the evaluation.

Finally, the agencies are proposing to enhance the detail of information contained in the public performance evaluation the agencies prepare for each institution at the conclusion of its CRA examination. These changes should make it easier for the public to understand and evaluate the institution’s lending activities. It does not change institutions’ data collection or reporting procedures, but rather the detail and format of the reports that the agencies prepare.

We believe the changes proposed reflect a balanced approach to constructive changes to the CRA rule. Others may well disagree. We welcome views and suggestions from all perspectives and look forward to considering them in the public comment process.

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The OCC charters, regulates and examines approximately 2,100 national banks and 52 federal branches of foreign banks in the U.S., accounting for more than 55 percent of the nation’s banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.