



PRESS RELEASE

Federal Deposit Insurance Corporation

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FDIC AGREES TO SEEK PUBLIC COMMENT ON REVISED PROPOSAL FOR IMPROVING COMMUNITY REINVESTMENT ACT

FOR IMMEDIATE RELEASE

The FDIC Board of Directors today agreed to issue for public comment a revised proposal to better evaluate lending and investment by financial institutions within their communities, particularly low-and-moderate income areas.

The new proposal, which also is being issued by the three other federal regulators of banks and thrifts, represents a modification of a proposal the agencies published in December 1993 to change the way institutions are evaluated under the Community Reinvestment Act (CRA).

The revised proposal retains the structure and principles of the December plan. For example, both would replace the 12 factors now used to assess an institution's CRA performance with a more objective, performance-based evaluation system. However, in response to concerns raised in the public comments, the revised plan would make the performance tests more flexible, simplify data reporting requirements and increase the importance of community development lending, such as loans for affordable housing and economic development in low-and-moderate income areas.

The revised proposal gives greater recognition to the importance of all types of lending to low- and moderate-income individuals and neighborhoods. Community development lending would be treated as a principal component of lending performance. In addition, an institution's loans outside its service area to low- and moderate-income individuals and to small businesses and small farms could be considered as part of its CRA performance.



Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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FDIC Chairman Andrew C. Hove, Jr., said today that the revised proposal "is more flexible, more realistic and, we think, more workable than the one initially proposed." Hove said the revised plan would help eliminate unnecessary procedures and requirements so that lenders can spend "less time filling out paperwork and filling up government file cabinets, and more time making loans to people and businesses in low-and-moderate income neighborhoods." He added that the revised proposal also would result in "more and better data that will help our examiners, our institutions and the public better assess whether the needs for credit and services are being adequately addressed."

As in the December proposal, large financial institutions (generally those with \$250 million or more in assets) would be evaluated for their CRA performance under three "tests" -- a lending test, an investment test and a service test. However, under the revised proposal, the tests would be less rigid and would allow the examiner more flexibility to take into account the characteristics and needs of a community and the capacity and limits of an institution.

Large institutions also would be required to file new data about their lending and investments, but less than what was proposed in December. The revised proposal would, however, add one significant new reporting requirement: data on an institution's loans to small businesses and small farms would include information on the race and gender of the borrowers.

Small banks and thrifts would be evaluated under a streamlined assessment method that would not subject them to additional reports of loan data, similar to what was envisioned in the December proposal. However, the revised proposal would not require a small institution to have at least a 60 percent loan-to-deposit ratio in its community in order to be given a "satisfactory" CRA rating. The agencies instead propose to consider each institution's financial condition and the credit needs of the community in determining the appropriate ratio.

Written comments on the proposed rule will be accepted for 45 days after it is published in the Federal Register.