FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC AGREES TO SEEK PUBLIC COMMENT ON PLAN TO STRENGTHEN ENFORCEMENT OF COMMUNITY REINVESTMENT ACT

The FDIC Board of Directors today agreed to seek public comment on an interagency proposal to strengthen federal enforcement of the Community Reinvestment Act of 1977 (CRA).

The CRA requires the four federal regulators of banks and thrifts to evaluate how their institutions help meet the credit needs of the local communities, and to encourage loans and other services to low- and moderate-income areas. Despite the many successes of the CRA in recent years, federal examination and enforcement programs have been been criticized by community groups as too lax, and by banking organizations as inconsistent and burdensome. The agencies jointly held seven hearings around the country during August and September, gathering the views of more than 250 witnesses about how CRA enforcement could be improved.

The interagency proposal would replace 12 subjective factors now being used to assess an institutions's CRA performance with three "tests" using objective, performance-based standards in the following areas:

(1) A lending test. The bank or thrift would be evaluated on loans made to low- and moderate-income areas as well as other areas.

(2) A service test. The institution's branch locations, their accessibility to low- and moderate-income areas, and the availability of credit and other services would be reviewed.

(3) An investment test. This analysis would cover investment in community development programs that benefit low- and moderate-income areas.

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The three tests would apply differently to different types of institutions, depending on their size or specialties. For example, relatively large institutions (generally those with assets of $250 million or more) would be evaluated on additional information not now reported regarding the geographic distribution of their consumer, small business and small farm loan applications, denials and originations. Smaller institutions would be evaluated under a streamlined method that would not include additional data on the geographic distribution of loans. Also, limited-purpose institutions that do not make a significant amount of loans as part of their normal business would not be subject to the same tests as the "retail" institutions that offer broad lending services to the public.

As an alternative to the three tests, an option would permit each institution to submit a strategic plan that includes measurable goals for meeting its CRA obligations. The strategic plan would be open to public comment and would be subject to approval by the institution's primary regulator. If the institution failed to meet or exceed the goals set forth in its approved strategic plan, its performance would be evaluated under the applicable tests or standards previously described.

FDIC Chairman Andrew C. Hove, Jr., said: "Our goal is to stimulate lending and investment by financial institutions within their communities and, in particular, lower income areas, without adding to the regulatory burdens of those institutions. We believe this proposal is a good first step toward achieving that goal."

The CRA reform proposal was developed jointly with the Office of the Comptroller of the Currency, the Federal Reserve Board and the Office of Thrift Supervision. Written comments will be accepted for 60 days after the proposal is published in the Federal Register. Final rules are expected to be issued next year.

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