

## How to Use This Manual

The Community Reinvestment Act (CRA) was enacted as Title VIII of the Housing and Community Development Act of 1977. Its purpose was to ensure that financial institutions are made aware of the credit needs of their communities, and that they will work with consumer and community groups to see that those needs are met. Federal regulatory agencies provided guidelines for the implementation of CRA. In 1980, the Community Reinvestment Act Information Statement further defined the agencies' examination criteria, rating system, and expectations regarding bank performance under CRA.

Despite the addition of the 1980 statement, however, from 1977 to 1987, enough CRA-based protests were handled by the Federal Reserve so that, based upon input from various consumer groups and other sources, Congress raised serious questions regarding the regulatory agencies' efforts to assure compliance with CRA. The result, briefly stated, was that the regulatory agencies received a message from the federal legislators to improve CRA compliance.

In March 1989, a revised joint statement was issued by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Home Loan Bank Board, and the Federal Deposit Insurance Corporation. The statement clarified the types of policies and procedures that should be in place to fulfill the responsibilities of a financial institution under the terms of CRA.

However, Congress was still not completely satisfied with the joint interagency statement and the projected results, including increased regulatory scrutiny. In August 1989, the Financial Institutions Reform, Recovery and Enforcement Act was passed. Two significant clauses were included:

- CRA was amended to require public disclosure of CRA evaluations by regulatory agencies. Although a portion of the report will remain confidential, comments regarding each financial institution's performance and the assessment of that performance, including an overall rating, will appear in the open section which is available to the public. Since July 1, 1990, regulators have been required to publicly disclose CRA ratings for each institution.
- The Home Mortgage Disclosure Act (HMDA) was amended to require lenders to compile, verify accuracy of, and report data on mortgage loan applications and mortgage loans approved. Information by census tract must be captured for borrower identification including race, income, and gender. The information had to have been gathered, compiled, and published in tables in the fourth quarter of 1990. This information is used to assess whether discriminatory lending practices exist.

In April 1990, the FFIEC approved disclosure guidelines and a revised rating system. The Federal Deposit Insurance Corporation Improvement Act of 1991 focused on the other aspects of CRA-related issues, including notice of branch closures, activities in distressed communities, and expanded disclosures in the CRA Public Evaluation Report Section. Additionally, the FFIEC issued a new geocoding policy statement in December 1991 that acknowledges the need for depository institutions to analyze the geographic distribution of their lending as part of their Community Reinvestment Act planning process.

For boards of directors and management teams throughout the United States, it is time to perform a self-assessment regarding CRA performance. This book is designed to help financial institutions assess their performance and identify potential areas of concern.

Compliance with CRA and HMDA reporting requirements can appear, at first glance, deceptively straightforward. The specific regulatory requirements are few and require only that you develop a CRA statement and public notice, maintain a public file, and regularly report your lending activity within your local market area, if covered by HMDA filing requirements.

The real difficulty in CRA compliance is in satisfying the spirit of the law. This requires that your bank meet the needs of its local community for credit and deposit services, as well as provide noncredit-related support. How this should be done is your decision, but the regulation is clear. Your bank's failure to satisfy legitimate local community needs will result in regulatory sanctions that can include denials of supervisory permissions in certain instances.

## **NAVIGATING THIS MANUAL**

One of our goals of this book was to ensure that significant and ongoing information is immediately apparent and available. At the same time, we know that large institutions and smaller ones often have different regulatory obligations, so we wanted to offer information tailored to your specific needs.

To accommodate these objectives, we have combined the guidance for both small and large institutions and CRA/HMDA guidance is conveniently all in one manageable binder.

## **IMPLEMENTING THE CRA PROGRAM**

Every institution will not need to follow every recommended step, but the *CRA/HMDA Regulatory Compliance Manual* suggests an organized process for developing and managing a CRA compliance program. The program includes the minimum requirements for compliance, as well as more elaborate steps for assessing market needs, conducting community outreach programs, personnel training, and internal auditing. This manual guides you through the process of developing and maintaining your ongoing compliance program.

## **PREPARING FOR AN EXAMINATION**

At some point, a regulatory examination team will contact your institution to coordinate a CRA examination. Without a formal CRA program or process in place to ensure compliance with CRA requirements, preparing responses to the examiner's request letter and answering questions/providing data during the actual examination may become quite problematic. Or, in preparing information, it may become evident that if only there was a little more time, management and staff could have possibly made several more community development loans, conducted several outreach activities to enhance community services, and/or invested in a local bond that qualified for CRA purposes. The following information highlights what to consider when ascertaining whether your institution is prepared for the next CRA examination.