



Federal Deposit Insurance Corporation
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Financial Institution Letter
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Community Reinvestment Act Joint Final Rules

Summary: The FDIC, Federal Reserve Board and the Office of the Comptroller of the Currency have published joint final rules regarding the Community Reinvestment Act (CRA). The rules, which become effective September 1, 2005, provide regulatory relief for smaller community banks and preserve the importance of community development in the CRA evaluations of these banks.

Distribution:

FDIC-Supervised Banks
(commercial and savings)

Suggested Routing:

CRA Officers, Compliance Officers and Chief
Executive Officers

Related Topics:

Interagency CRA Examination Procedures for
Intermediate Small Institutions at www.ffiec.gov

Attachment:

Joint Final CRA Rules

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Note:

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Highlights:

For "intermediate small institutions," defined as
banks with assets of at least \$250 million as of
December 31 for both of the prior two calendar
years and less than \$1 billion as of December 31 for
either of the prior two calendar years, the rules:

- Eliminate CRA loan data collection and reporting requirements for these institutions.
- Replace the lending, investment and service tests with two separately rated tests: the existing lending tests for small banks and a new, flexible community development test for intermediate small banks

For banks of any size, the rules:

- Expand the definition of community development to include activities that revitalize and stabilize "underserved and distressed" rural areas, as well as designated disaster areas.
- Clarify when discrimination and other illegal credit practices by a bank or an affiliate will adversely affect CRA performance.

COMMUNITY REINVESTMENT ACT (CRA)
Joint Final Rules

The FDIC, the Federal Reserve Board and the Office of the Comptroller of the Currency (the agencies) have issued the attached joint final rules regarding the Community Reinvestment Act. The amendments, which become effective September 1, 2005, provide regulatory relief for smaller community banks and preserve the importance of community development in the CRA evaluations of these banks.

The rules raise the small bank asset-size threshold from less than \$250 million in assets to less than \$1 billion, without consideration of holding company affiliation, and include an annual inflationary adjustment based on changes to the Consumer Price Index. "Intermediate small banks" are defined as banks with assets of at least \$250 million as of December 31 for both of the prior two calendar years and less than \$1 billion as of December 31 for either of the prior two calendar years. These banks will no longer need to collect and report CRA loan data after September 1, 2005. However, examiners will continue to evaluate bank lending activity in the CRA examinations of these institutions and disclose results in the public evaluation.

Intermediate small banks will be evaluated under two separately rated tests: the existing lending test for small banks and a new, flexible community development test that includes an evaluation of community development loans, investments and services in light of community needs and the capacity of the bank. An intermediate small bank will be required to achieve satisfactory ratings on both the lending test and the community development test to receive an overall CRA rating of "satisfactory." However, the regulations continue to allow small banks, including intermediate small banks, to opt for an evaluation under the lending, investment and service tests, provided that the data are collected.

For institutions of any size, the new rules expand the definition of community development to include activities that revitalize or stabilize distressed or underserved rural areas and designated disaster areas. In addition to low- and moderate-income census tracts already considered under the present rule, eligible rural tracts will now include middle-income, non-metropolitan tracts designated by the agencies as distressed or underserved. The agencies will publish a list of eligible rural tracts that are distressed or underserved on the Web site of the Federal Financial Institutions Examination Council (FFIEC) at www.ffiec.gov. Disaster areas would be designated by federal or state government.

Finally, the regulations clarify when discrimination or other illegal credit practices by any bank or its affiliate will adversely affect an evaluation of the bank's CRA performance. Reflecting current practice, these include discrimination and other illegal credit practices by a bank inside or outside its assessment area(s) or inside a bank assessment area by an affiliate whose loans were considered as part of the bank's lending performance.

The new *Interagency CRA Examination Procedures for Intermediate Small Institutions* also are published on the FFIEC Web site at www.ffiec.gov.

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