



Federal Register

**Friday,
April 28, 2000**

Part III

Federal Financial Institutions Examination Council

**Community Reinvestment Act;
Interagency Questions and Answers
Regarding Community Reinvestment;
Notice**

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment; Notice

AGENCY: Federal Financial Institutions Examination Council.

ACTION: Notice and request for comment.

SUMMARY: The Consumer Compliance Task Force (we) of the Federal Financial Institutions Examination Council (FFIEC) is supplementing, amending, and republishing its Interagency Questions and Answers Regarding Community Reinvestment. The Interagency Questions and Answers have been prepared by staff of the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Board), the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision (OTS) (collectively, the agencies) to answer frequently asked questions about community reinvestment. These Interagency Questions and Answers contain informal staff guidance for agency personnel, financial institutions, and the public. We invite public comment on the proposed question and answer, as well as any of the new and revised questions and answers and any other community reinvestment issues that are not addressed in these Interagency Questions and Answers.

DATES: Effective date of amended Interagency Questions and Answers on Community Reinvestment: April 28, 2000. Comments on the proposed questions and answers are requested by June 27, 2000.

ADDRESSES: Questions and comments may be sent to Keith J. Todd, Executive Secretary, Federal Financial Institutions Examination Council, 2000 K Street, NW., Suite 310, Washington, DC 20006, or by facsimile transmission to (202) 872-7501.

FOR FURTHER INFORMATION CONTACT:

OCC: Malloy Harris, National Bank Examiner, Community and Consumer Policy Division, (202) 874-4446; or Margaret Hesse, Senior Attorney, Community and Consumer Law Division, (202) 874-5750, Office of the Comptroller of the Currency, 250 E Street, SW., Washington, DC 20219.

Board: Catherine M.J. Gates, Senior Review Examiner, (202) 452-3946; James H. Mann, Attorney, (202) 452-2412; or Kathleen C. Ryan, Attorney, (202) 452-3667, Board of Governors of the Federal Reserve System, 20th Street

and Constitution Avenue, NW., Washington, DC 20551.

FDIC: Robert W. Mooney, Senior Fair Lending Specialist, Division of Compliance and Consumer Affairs, (202) 942-3090; or A. Ann Johnson, Counsel, Legal Division, (202) 898-3573, Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429.

OTS: Theresa A. Stark, Project Manager, Compliance Policy, (202) 906-7054; or Richard R. Riese, Director, Compliance Policy, (202) 906-6134, Office of Thrift Supervision, 1700 G Street, NW., Washington, DC 20552.

SUPPLEMENTARY INFORMATION:

Background

In 1995, the agencies revised the Community Reinvestment Act (CRA) regulations by issuing a joint final rule, which was published on May 4, 1995 (60 FR 22156). See 12 CFR parts 25, 228, 345 and 563e, implementing 12 U.S.C. 2901 *et seq.* The agencies published related clarifying documents on December 20, 1995 (60 FR 66048) and May 10, 1996 (61 FR 21362).

The revised regulations are interpreted primarily through "Interagency Questions and Answers Regarding Community Reinvestment," which provide informal staff guidance for use by agency personnel, financial institutions, and the public, and which are supplemented periodically. We published our most recent guidance on May 3, 1999 (1999 Interagency Questions and Answers). 64 FR 23618. In addition to issuing the 1999 Interagency Questions and Answers, we proposed three questions and answers in the accompanying supplementary information. These questions and answers addressed: (1) Collection of refinanced and renewed small business and small farm loan data; (2) direct benefit of community development loans and services and qualified investments to an institution's assessment area; and (3) consideration as qualified investments of mortgage-backed securities backed by mortgages originated or purchased primarily by the investing institution. We specifically requested comment addressing the proposed questions and answers, as well as general comments and questions regarding the CRA regulations. 64 FR at 23624-26.

We received 86 letters in response to our request for comments in the 1999 Interagency Questions and Answers. Comments came from financial institutions (55), community organizations (10), financial institution trade associations (8), federal entities (5), state/local agencies (1), as well as

others (7). This document supplements, revises, and republishes the 1999 Interagency Questions and Answers based, in part, on questions and comments received from examiners, financial institutions, and other interested parties, and on comments received in response to our request for comments.

As discussed below, this document adopts two of the questions and answers proposed in May 1999, along with a conforming change to another existing question and answer. We are also reissuing for comment the third question and answer proposed in May 1999 and proposing for comment a conforming amendment to an existing question and answer. In addition, we are making slight revisions to four existing questions and answers and adding one new question and answer.

In this version of the Interagency Questions and Answers, we have deleted the "Table of Contents," which appeared in previous versions. In lieu of the table of contents, we are adding, for the first time, an index to aid readers in locating specific information in the document. The index contains keywords, listed alphabetically, along with numerical indicators of questions and answers that relate to that keyword. The list of questions and answers addressing each keyword in the index is not intended to be exhaustive. We welcome suggestions for additional entries to the index. Further, when this new version of the Interagency Questions and Answers is made available on the agencies' and the FFIEC's World Wide Web sites, the index question and answer numbers will be linked by hypertext to the questions and answers in the document to facilitate quick reference to relevant information.

Questions and answers are grouped by the provision of the CRA regulations that they discuss and are presented in the same order as the regulatory provisions. The Interagency Questions and Answers employ an abbreviated method to cite to the regulations. Because the regulations of the four agencies are substantially identical, corresponding sections of the different regulations usually bear the same suffix. Therefore, the Interagency Questions and Answers typically cite only to the suffix. For example, the small bank performance standards for national banks appear at 12 CFR 25.26; for Federal Reserve System member banks supervised by the Board, they appear at 12 CFR 228.26; for nonmember state banks, at 12 CFR 345.26; and for thrifts, at 12 CFR 563e.26. Accordingly, the citation in this document would be to

§ _____.26. In the few instances in which the suffix in one of the regulations is different, the specific citation for that regulation is provided. In order to create a meaningful index, we found it necessary to devise a slightly new question numbering system. The new question numbering system consists of the regulatory citation (as described above) and a number, connected by a dash. For example, the first question addressing § _____.21(a) would be identified as § _____.21(a)-1.

Adopting Questions and Answers Proposed in May 1999

We are adopting two of the three questions and answers that we proposed in May 1999. We are also adopting a conforming revision to an existing question and answer to provide consistency with a new question and answer.

May an Institution Receive Consideration Under the Investment Test for Mortgage-Backed Securities Backed by Home Mortgages That the Same Institution Originated or Purchased?

In May, we proposed a new question and answer that stated that an institution could not receive investment test consideration for a mortgage-backed security that is primarily or exclusively backed by loans originated or purchased by the same institution.

Twenty-seven of the 82 letters submitted to the FFIEC addressed this issue. In addition, four Federal Reserve Banks wrote to the Board with comments on this proposal. Commenters were evenly divided on this proposed question and answer. Twelve financial institutions, two trade associations and one federal entity (15 commenters) disagreed with the proposed question and answer, while six financial institutions, three community organizations, two trade associations, four federal entities (the Federal Reserve Banks) and one other commenter (an affiliate of a financial institution) (16 commenters) agreed with the proposed question and answer.

The Interagency Questions and Answers currently state that mortgage-backed securities (MBSs) designed primarily to finance community development generally are qualified investments. (§§ _____.12(s) & 563.12(r)-2.) This view was adopted based on staff's belief that, in allowing CRA consideration for MBSs backed by affordable housing loans, affordable housing loan originators would have an additional incentive to sell their affordable housing loans. As a result, they would be able to originate more

affordable housing loans with the proceeds from the sale of their loans through the MBS vehicle.

Commenters that opposed adoption of the question and answer, which as proposed would not have allowed an institution to receive consideration for MBSs that are primarily or exclusively backed by loans originated or purchased by the same institution, generally stressed that securitizing affordable housing loans had capital, liquidity, and credit and interest rate risk advantages. For example, the risk-based capital required for MBSs may be lower than for the corresponding loans held in portfolio. If an MBS is guaranteed by a government-sponsored enterprise (GSE), such as Fannie Mae or Freddie Mac, the risk-based capital requirement (on the guaranteed portion) is 20 percent, compared to a risk-based capital requirement of 50 percent for one-to-four family mortgages held in portfolio. (On the other hand, if the MBS is not guaranteed by a GSE, the risk-based capital requirement is 50 percent, the same as the requirement for loans held in portfolio.) Commenters also indicated that MBSs could be used as collateral against other borrowings, such as from Federal Home Loan Banks, whereas whole loans generally cannot be used as this type of collateral.

Proponents of the proposed question and answer generally argued, however, that if an originator of affordable housing loans securitizes its own loans and buys back the security, these transactions generally do not make available proceeds with which to originate additional affordable housing loans. A typical securitization of this type occurs as follows: An institution originates the loans and holds the loans on its books at cost. It then sells the loans (at market value) either to a trust that is established for the purpose of holding the securitized loans or to another entity, including Fannie Mae or Freddie Mac. (The originating institution could realize gain or loss on the sale due to the difference between cost and fair market value.) The security is created. The institution then purchases back either the entire issuance or a portion thereof. The cost of the security may be higher or lower than the market value of the underlying loans based upon market conditions.

Because no or limited funds are made available to enable the institution to originate more affordable housing loans, the reasoning for allowing consideration for the purchase of MBSs does not apply. And, to the extent that any funds are made available through the securitization of loans and are used to originate or purchase additional home

mortgage loans, institutions will receive consideration under the lending test for the additional home mortgage loans. Furthermore, although the purchase of the security and the origination of the loans are separate transactions, considering both would amount to double counting, in contravention of § _____.23(b).

After carefully considering both positions of the commenters, we have decided to adopt the question and answer as proposed as § _____.23(b)-2.

Should Renewals and Refinancings of Small Business and Small Farm Loans Be Collected and Reported?

The fifth question and answer addressing § _____.42(a), (§ _____.42(a)-5), originally adopted in October 1996, provided that an institution should report refinancings, but not renewals, of small business and small farm loans. In May 1999, we published for comment two alternative revisions of § _____.42(a)-5. "Alternative I" provided that an institution would not collect or report either renewals or refinancings of small business or small farm loans, unless the loan amount were increased.

"Alternative II" provided that institutions would collect and report renewals and refinancings of small business and small farm loans as originations, subject to a limit of reporting one origination per loan per year, unless an increase in the loan amount is granted, in which case the amount of the increase would be reported as a separate origination.

We received a total of 64 comments on the issue of reporting small business and small farm loans. Forty-nine of these commenters appeared to support Alternative II. Only five commenters clearly supported Alternative I. Other commenters, including some who stated that they preferred Alternative II, proposed other approaches to the issue of small business and small farm loans, including reporting these events separately from originations, or reporting them as originations but without a one-origination-per-year limit.

Commenters in favor of Alternative II believed that this approach would:

- Result in more accurate data—renewals appear to be widely used as a more cost-effective method for meeting the credit needs of small businesses and small farms;
- Help institutions serve credit needs in their communities—financial institutions will be encouraged to maintain existing relationships with small businesses and small farms;
- Reduce burden by eliminating the current confusion over the meaning of a refinancing versus a renewal;

- Remove the incentive for institutions to artificially structure small business and farm transactions as refinancings in order to enhance their CRA performance;

- Prevent “gaming” by limiting reporting to only one origination per year; and

- Allow for better comparison of data across financial institutions because all would be subject to the one origination per year limit.

In contrast, we found that the comments in favor of Alternative I were not as persuasive on the issues of serving the community, reducing burden, and ensuring data accuracy. A few commenters maintained that Alternative I would have better reflected CRA performance because financial institutions would only report *increases*, or “new money generated into the community.” However, as stated, many others supported Alternative II because the credit needs of small businesses and farms are apparently well served by renewals. Although one commenter believed that Alternative I was simply more clear and concise than Alternative II, the commenter did not elaborate. Another commenter stated that Alternative I would provide an incentive for financial institutions to maintain customer relationships because it counts increases. However, many commenters stated that Alternative II would go further in providing this incentive, because it would allow institutions to report both renewals and refinancings one time per year, as well as increases.

Based on the comments received, the agencies believe that Alternative II appears to better address the purpose of CRA and the need to minimize burden while enhancing data accuracy. Therefore, we are revising § _____.42(a)–5 consistent with proposed Alternative II. Under revised § _____.42(a)–5, an institution no longer needs to distinguish between refinancings and renewals, because it collects and reports both as loan originations, subject to the one-origination-per-year limitation set forth in the revised question and answer. Institutions will also collect and report the amount of the increase as a loan origination when they increase the amount of a renewed or refinanced loan.

We recognize that adopting Alternative II will require changes to financial institutions’ data collection and reporting procedures; however, commenters appeared to agree that either alternative would entail some burden. Systems will have to be changed to identify renewals as loan originations because they were previously not collected or reported as

originations. Further, systems will need to be programmed to identify whether a loan is made, refinanced or renewed more than one time per year to prevent reporting of more than one origination per loan (absent an increase in the loan amount). Any extra burden, however, should result in more accurate, useful, and consistent data regarding an institution’s small business and small farm lending performance. To minimize the burden placed on institutions, the revised question and answer becomes effective for CRA data collected in 2001 and reported in 2002. Until January 2001, institutions may collect small business and small farm loan data according to the guidance published most recently in May 1999.

Conforming Amendment to the Fourth Question and Answer Addressing § _____.42 Regarding Renewals of Lines of Credit

In § _____.42–4, we previously stated that renewals of lines of credit are not collected and/or reported—consistent with the treatment of loan renewals. Because we are revising § _____.42(a)–5, we are also amending § _____.42–4 so that collection and/or reporting of lines of credit for small business, small farm, and consumer purposes is consistent with the collection and/or reporting of small business, small farm, and consumer loans. Accordingly, renewals of lines of credit for small business, small farm, and consumer purposes should be collected and reported, if applicable, in the same manner as renewals of small business or farm loans as discussed in § _____.42(a)–5. Institutions that are HMDA reporters continue to collect and report home equity lines of credit, at their option, in accordance with the requirements of 12 CFR part 203. Revised § _____.42–4 also becomes effective for CRA data collected in 2001 and reported in 2002. Until January 2001, institutions may collect data on small business, small farm and consumer lines of credit according to the guidance published in May 1999.

Proposing Again for Comment One Question and Answer That Was Proposed for Comment in May 1999 and One Conforming Question and Answer

Must There Be Some Immediate or Direct Benefit to the Institution’s Assessment Area(s) To Satisfy the Regulations’ Requirement That Qualified Investments and Community Development Loans or Services Benefit an Institution’s Assessment Area(s) or a Broader Statewide or Regional Area That Includes the Assessment Area(s)?

The fifth question and answer addressing §§ _____.12(i) and 563e.12(h) (§§ _____.12(i) & 563e.12(h)–5) addresses whether there must be an immediate or direct benefit to an institution’s assessment area(s) to satisfy the regulations’ requirement that qualified investments and community development loans or services benefit an institution’s assessment area(s) or a broader statewide or regional area that includes the assessment area(s). This question and answer currently states that an institution’s assessment area(s) need not receive an immediate or direct benefit from the institution’s specific participation in the broader statewide or regional organization or activity, provided the purpose, mandate, or function of the organization or activity includes serving geographies or individuals located in the assessment area(s).

In May 1999, we proposed revising this question and answer to permit consideration of support for community development organizations or activities serving individuals or geographies located somewhere in the broader statewide or regional area that includes the institution’s assessment area. This consideration would be given even if the organization or activity did not have the purpose, mandate or function of serving geographies or individuals within the institution’s assessment area(s). Most commenters appeared to favor the proposed revision, as it would provide increased flexibility in engaging in community development activities. However, it appeared that a number of commenters did not recognize the revised answer as an expansion of existing options for institutions to engage in community development activities outside an assessment area(s). Accordingly, we are re-proposing for public comment a revised question and answer to ensure that the public understands that the question and answer expands the current guidance.

As revised for purposes of re-proposal, the question and answer contains two approaches to determine

whether qualified investments and community development loans or services benefit an institution's assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). First, as currently stated, if an activity supports an organization or program that benefits the institution's assessment area or a broader statewide or regional area that is larger than, but includes, the assessment area(s), the activity will be considered if the purpose, mandate, or function of the organization or activity includes serving the assessment area(s). Second, if, in light of its performance context, an institution has adequately addressed the community development needs of its assessment area(s), examiners will consider community development activities that benefit low- and moderate-income individuals or geographies somewhere in the broader statewide or regional area that includes the assessment area(s) even if those activities do not have a purpose, mandate, or function of benefiting the institution's assessment area(s).

The following example may be useful in explaining the two approaches. An institution is located in Chicago. Its assessment area is the Chicago metropolitan area. Its community development activities include loans, investments, and services in organizations and projects located in and benefiting Chicago, its assessment area. These activities would be considered under the first approach. The institution's community development activities also include loans and investments in several projects that benefit the entire state of Illinois, including Chicago. These activities also are considered under the first approach. In addition, the institution participated in a community development activity that benefits the entire Great Lakes region, including the Chicago metropolitan area. This activity would also be considered under the first approach. Assume that, after considering its performance context, examiners have determined that the institution has adequately addressed the community development needs of its assessment area through loans, investments or services considered under the first approach. Examiners then would also consider the institution's investment in a community development organization located in Decatur, IL, that will serve only the Decatur area—with no potential that it will ever benefit Chicago, the institution's assessment area. Decatur, of course, is in the statewide area (Illinois) that includes the institution's assessment area. The institution would

receive consideration for this activity under the second approach.

The text of the proposed question and answer follows:

Proposed §§ _____.12(i) & 563e.12(h)–5: *Must there be some immediate or direct benefit to an institution's assessment area(s) to satisfy the regulations' requirement that qualified investments and community development loans or services benefit an institution's assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s)?*

Proposed A5. No. The regulations recognize that community development organizations and programs are efficient and effective ways for institutions to promote community development. These organizations and programs often operate on a statewide or even multi-state basis. Therefore, an institution's activity is considered a community development loan or service or a qualified investment if it supports an organization or activity that covers an area that is larger than, but includes, the institution's assessment area(s). The institution's assessment area(s) need not receive an immediate or direct benefit from the institution's specific participation in the broader organization or activity, provided that the purpose, mandate, or function of the organization or activity includes serving geographies or individuals located within the institution's assessment area(s).

In addition, a retail institution that, considering its performance context, has adequately addressed the community development needs of its assessment area(s) will receive consideration for certain other community development activities. These community development activities must benefit geographies or individuals located somewhere within a broader statewide or regional area that includes the institution's assessment area(s). Examiners will consider these activities even if they will not benefit the institution's assessment area(s).

Proposed Conforming Amendment to §§ _____.12(i) & 563e.12(h)–6

Consistent with expanded consideration that would be granted under proposed §§ _____.12(i) & 563e.12(h)–5, we believe that §§ _____.12(i) & 563e.12(h)–6 must also be modified so that, in cases where an institution has already adequately addressed the community development needs of its assessment area(s), examiner discretion does not unduly impede the broader choice and judgment permitted to institutions for performing community development activities in the relevant statewide or regional area. Accordingly, we are

proposing to amend §§ _____.12(i) & 563e.12(h)–6 as follows to explain how the institution's performance will be evaluated in these situations.

Proposed §§ _____.12(i) & 563e.12(h)–6: *What is meant by the term "regional area"?*

Proposed A6. A "regional area" may be as small as a city or county or as large as a multistate area. For example, the "Mid-Atlantic States" may comprise a regional area.

Community development loans and services and qualified investments to statewide or regional organizations that have a bona fide purpose, mandate or function that includes serving the geographies or individuals within the institution's assessment area(s) will be considered as addressing assessment area needs. When examiners evaluate community development loans and services and qualified investments that benefit a regional area that includes the institution's assessment area(s), they will consider the institution's performance context as well as the size of the regional area and the actual or potential benefit to the institution's assessment area(s). With larger regional areas, benefit to the institution's assessment area(s) may be diffused and, thus, less responsive to assessment area needs.

In addition, as long as an institution has adequately addressed the community development needs of its assessment area(s), it will also receive consideration for community development activities that benefit geographies or individuals located somewhere within the broader statewide or regional area that includes the institution's assessment area(s), even if those activities do not benefit its assessment area(s).

New Question and Answer

Consumer Income Data Collection

The agencies have received questions from examiners and others about whose income should be collected and maintained in connection with consumer loans that are made to more than one borrower. We are adopting a new question and answer (§§ _____.42(c)(1)(iv)–4) to clarify what income should be reported when an institution makes such a consumer loan. The new question and answer provides that an institution that chooses to have consumer loans considered must collect and maintain the income of all primary obligors, including co-signers, to the extent that the institution considered the income of the primary obligors when making the decision to extend

credit. On the other hand, the institution should not collect and maintain the income of guarantors on consumer loans, because guarantors are only secondarily liable for the debt.

Revised Questions and Answers

Special Purpose Institutions

In 1995, all of the agencies except the OTS adopted § _____.11(c)(3) of the regulation, which addresses “special purpose banks.” More recently, the OTS added the provision to its regulation as § 563e.11(c)(2).

As a result of the OTS’s addition of § 563e.11(c)(2), we have made minor technical corrections to the two Qs and As addressing § _____.11(c)(3), to substitute the term “institution,” rather than “bank.” We have also amended the heading and question and answer numbers to include reference to OTS’s new regulatory provision.

Business Revenue Data Collection and Reporting in Connection With Sole Proprietorships

Staff have received a number of questions about what revenue information an institution should provide if it is collecting and reporting data on a sole proprietorship and has considered both the business’s revenue and the sole proprietor’s income when making the credit decision. We believe that because the purpose of small business data collection is to determine whether an institution is serving businesses of all sizes, an individual’s—such as the sole proprietor’s—outside income is irrelevant. Current § _____.42(a)(4)–1 addresses this issue. However, we are slightly amending that question and answer to clarify our position. We are amending the last sentence of the answer to read: “However, if the institution considered and relied on revenues or income of a cosigner or guarantor that is not an affiliate of the borrower, such as a sole proprietor, the institution should not adjust the borrower’s revenues for reporting purposes.”

Affordable Housing

The question and answer, §§ _____.12(h)(1) & 563e.12(g)(1)–1, finalized on May 3, 1999, discusses whether a formulaic approach is appropriate when determining whether a project is “affordable housing for low- and moderate-income individuals,” thereby meeting the definition of “community development.” A typical formula would only compare the cost of ownership, rental, or borrowing to the income levels in the area, regardless of whether the users, likely users, or

beneficiaries of that affordable housing are low- or moderate-income individuals.

The answer currently states: “For projects that do not yet have occupants, and for which the income of the potential occupants is not knowable in advance, examiners will review factors such as demographic, economic, and market data to determine the likelihood that the housing will ‘primarily’ accommodate low- or moderate-income individuals.” It then sets forth a variety of these factors.

This sentence implies that the question and answer addresses only unoccupied or new affordable housing projects that do not have occupants. However, the preamble discussion (64 FR at 23620), based on staff discussions at the time of drafting, states: “Institutions and others have asked how to determine whether a housing development will provide ‘affordable’ housing for low- and moderate-income individuals, *particularly* in a new project, *or in other projects* where the income of renters cannot be verified.”

As indicated by the preamble discussion, we intended that application of these other factors should not be restricted to new projects. In fact, examiners have applied them to other projects during examinations in urban areas for multifamily dwellings where the income of occupants cannot be verified. Therefore, we are slightly amending the question and answer to more clearly reflect the preamble discussion and our intended interpretation. The second sentence of the answer is being changed to read: “For projects that do not yet have occupants and for which the income of the potential occupants *cannot be determined* in advance, *or in other projects where the income of occupants cannot be verified*, examiners will review factors such as demographic, economic and market data to determine the likelihood that the housing will ‘primarily’ accommodate low- or moderate-income individuals.”

Community Development Loan

In May, we added a sentence to the first question and answer addressing §§ _____.12(i) and 563e.12(h) to clarify that the abatement of environmental hazards could be a part of rehabilitating affordable housing or community facilities targeted to low- and moderate-income individuals. We received several comments suggesting that we rephrase the sentence to make clear that an environmental hazard need only be mitigated, rather than abated entirely. We concur with these comments. We are rephrasing the last sentence of the

answer to read: “The rehabilitation or construction of affordable housing or community facilities, referred to above, may include the abatement or remediation of, or other actions to correct, environmental hazards, such as lead-based paint, that are present in the housing, facilities, or site”.

Discussion of Other Comments Received

As discussed previously, the FFIEC received 82 letters commenting on the May 1999 Interagency Questions and Answers and the Board received four letters from Federal Reserve Banks. Although most of the commenters limited their comments to issues addressed in the questions and answers that were proposed in May, some commenters also raised other issues. We are continuing to consider these other issues and, to the extent that we believe additional guidance is appropriate, we expect to address them in the next publication of the Interagency Questions and Answers.

General Comments

In addition to the specific request for comments on the proposed questions and answers addressing §§ _____.12(i) and 563e.12(h) and § _____.23(a), we invite public comment on the new and revised questions and answers. We also invite public comment on a continuing basis on any issues raised by the CRA and these Interagency Questions and Answers. If, after reading the Interagency Questions and Answers, financial institutions, examiners, community organizations, or other interested parties have unanswered questions or comments about the agencies’ community reinvestment regulations, they should submit them to the agencies or the FFIEC. We will consider addressing such questions in future revisions to the Interagency Questions and Answers.

Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA)

The SBREFA requires an agency, for each rule for which it prepares a final regulatory flexibility analysis, to publish one or more compliance guides to help small entities understand how to comply with the rule.

Pursuant to section 605(b) of the Regulatory Flexibility Act, the agencies certified that their proposed CRA rule would not have a significant economic impact on a substantial number of small entities and invited public comments on that determination. See 58 FR 67478 (Dec. 21, 1993); 59 FR 51250 (Oct. 7, 1994). In response to public comment, the agencies voluntarily prepared a final

regulatory flexibility analysis for the joint final rule, although the analysis was not required because it supported the agencies' earlier certification regarding the proposed rule. Because a regulatory flexibility analysis was not required, section 212 of the SBREFA does not apply to the final CRA rule. However, in their continuing efforts to provide clear, understandable regulations and to comply with the spirit of the SBREFA, the agencies have compiled the Interagency Questions and Answers. The Interagency Questions and Answers serve the same purpose as the compliance guide described in the SBREFA by providing guidance on a variety of issues of particular concern to small banks and thrifts.

The text of the Interagency Questions and Answers follows:

Interagency Questions and Answers Regarding Community Reinvestment

§ ____.11—Authority, Purposes, and Scope

§ ____.11(c) Scope

§ ____.11(c)(3) & 563e.11(c)(2) Certain special purpose institutions.

§§ ____.11(c)(3) & 563e.11(c)(2)–1: *Is the list of special purpose institutions exclusive?*

A1. No, there may be other examples of special purpose institutions. These institutions engage in specialized activities that do not involve granting credit to the public in the ordinary course of business. Special purpose institutions typically serve as correspondent banks, trust companies, or clearing agents or engage only in specialized services, such as cash management controlled disbursement services. A financial institution, however, does not become a special purpose institution merely by ceasing to make loans and, instead, making investments and providing other retail banking services.

§§ ____.11(c)(3) & 563e.11(c)(2)–2: *To be a special purpose institution, must an institution limit its activities in its charter?*

A2. No. A special purpose institution may, but is not required to, limit the scope of its activities in its charter, articles of association or other corporate organizational documents. An institution that does not have legal limitations on its activities, but has voluntarily limited its activities, however, would no longer be exempt from Community Reinvestment Act (CRA) requirements if it subsequently engaged in activities that involve granting credit to the public in the ordinary course of business. An institution that believes it is exempt from CRA as a special purpose

institution should seek confirmation of this status from its supervisory agency.

§ ____.12—Definitions

§ ____.12(a) Affiliate

§ ____.12(a)–1: *Does the definition of “affiliate” include subsidiaries of an institution?*

A1. Yes, “affiliate” includes any company that controls, is controlled by, or is under common control with another company. An institution's subsidiary is controlled by the institution and is, therefore, an affiliate.

§§ ____.12(f) & 563e.12(e) Branch

§§ ____.12(f) & 563e.12(e)–1: *Do the definitions of “branch,” “automated teller machine (ATM),” and “remote service facility (RSF)” include mobile branches, ATMs, and RSFs?*

A1. Yes. Staffed mobile offices that are authorized as branches are considered “branches” and mobile ATMs and RSFs are considered “ATMs” and “RSFs.”

§§ ____.12(f) & 563e.12(e)–2: *Are loan production offices (LPOs) branches for purposes of the CRA?*

A2. LPOs and other offices are not “branches” unless they are authorized as branches of the institution through the regulatory approval process of the institution's supervisory agency.

§§ ____.12(h) & 563e.12(g) Community Development

§§ ____.12(h) & 563e.12(g)–1: *Are community development activities limited to those that promote economic development?*

A1. No. Although the definition of “community development” includes activities that promote economic development by financing small businesses or farms, the rule does not limit community development loans and services and qualified investments to those activities. Community development also includes community- or tribal-based child care, educational, health, or social services targeted to low- or moderate-income persons, affordable housing for low- or moderate-income individuals, and activities that revitalize or stabilize low- or moderate-income areas.

§§ ____.12(h) & 563e.12(g)–2: *Must a community development activity occur inside a low- or moderate-income area in order for an institution to receive CRA consideration for the activity?*

A2. No. Community development includes activities outside of low- and moderate-income areas that provide affordable housing for, or community services targeted to, low- or moderate-income individuals and activities that promote economic development by financing small businesses and farms. Activities that stabilize or revitalize

particular low- or moderate-income areas (including by creating, retaining, or improving jobs for low- or moderate-income persons) also qualify as community development, even if the activities are not located in these low- or moderate-income areas. One example is financing a supermarket that serves as an anchor store in a small strip mall located at the edge of a middle-income area, if the mall stabilizes the adjacent low-income community by providing needed shopping services that are not otherwise available in the low-income community.

§§ ____.12(h) & 563e.12(g)–3: *Does the regulation provide flexibility in considering performance in high-cost areas?*

A3. Yes, the flexibility of the performance standards allows examiners to account in their evaluations for conditions in high-cost areas. Examiners consider lending and services to individuals and geographies of all income levels and businesses of all sizes and revenues. In addition, the flexibility in the requirement that community development loans, community development services, and qualified investments have as their “primary” purpose community development allows examiners to account for conditions in high-cost areas. For example, examiners could take into account the fact that activities address a credit shortage among middle-income people or areas caused by the disproportionately high cost of building, maintaining or acquiring a house when determining whether an institution's loan to or investment in an organization that funds affordable housing for middle-income people or areas, as well as low- and moderate-income people or areas, has as its primary purpose community development.

§§ ____.12(h)(1) & 563e.12(g)(1) *Affordable housing (including multifamily rental housing) for low- or moderate-income individuals.*

§§ ____.12(h)(1) & 563e.12(g)(1)–1: *When determining whether a project is “affordable housing for low- or moderate-income individuals,” thereby meeting the definition of “community development,” will it be sufficient to use a formula that relates the cost of ownership, rental or borrowing to the income levels in the area as the only factor, regardless of whether the users, likely users, or beneficiaries of that affordable housing are low- or moderate-income individuals?*

A1. The concept of “affordable housing” for low- or moderate-income individuals does hinge on whether low-

or moderate-income individuals benefit, or are likely to benefit, from the housing. It would be inappropriate to give consideration to a project that exclusively or predominately houses families that are not low- or moderate-income simply because the rents or housing prices are set according to a particular formula.

For projects that do not yet have occupants, and for which the income of the potential occupants cannot be determined in advance, or in other projects where the income of occupants cannot be verified, examiners will review factors such as demographic, economic and market data to determine the likelihood that the housing will "primarily" accommodate low- or moderate-income individuals. For example, examiners may look at median rents of the assessment area and the project; the median home value of either the assessment area, low- or moderate-income geographies or the project; the low- or moderate-income population in the area of the project; or the past performance record of the organization(s) undertaking the project. Further, such a project could receive consideration if its express, bona fide intent, as stated, for example, in a prospectus, loan proposal or community action plan, is community development.

§§ _____.12(h)(3) & 563e.12(g)(3)
Activities that promote economic development by financing businesses or farms that meet certain size eligibility standards.

§§ _____.12(h)(3) & 563e.12(g)(3)-1:
"Community development" includes activities that promote economic development by financing businesses or farms that meet certain size eligibility standards. Are all activities that finance businesses and farms that meet these size eligibility standards considered to be community development?

A1. No. To be considered as "community development" under §§ _____.12(h)(3) and 563e.12(g)(3), a loan, investment or service, whether made directly or through an intermediary, must meet both a size test and a purpose test. An activity meets the size requirement if it finances entities that either meet the size eligibility standards of the Small Business Administration's Development Company (SBDC) or Small Business Investment Company (SBIC) programs, or have gross annual revenues of \$1 million or less. To meet the purpose test, the activity must promote economic development. An activity is considered to promote economic development if it supports permanent job creation, retention, and/or improvement for persons who are currently low- or moderate-income, or

supports permanent job creation, retention, and/or improvement either in low- or moderate-income geographies or in areas targeted for redevelopment by Federal, state, local or tribal governments. The agencies will presume that any loan to or investment in a SBDC or SBIC promotes economic development.

In addition to their quantitative assessment of the amount of a financial institution's community development activities, examiners must make qualitative assessments of an institution's leadership in community development matters and the complexity, responsiveness, and impact of the community development activities of the institution. In reaching a conclusion about the impact of an institution's community development activities, examiners may, for example, determine that a loan to a small business in a low- or moderate-income geography that provides needed jobs and services in that area may have a greater impact and be more responsive to the community credit needs than does a loan to a small business in the same geography that does not directly provide additional jobs or services to the community.

§§ _____.12(i) & 563e.12(h) *Community Development Loan.*

§§ _____.12(i) & 563e.12(h)-1: *What are examples of community development loans?*

A1. Examples of community development loans include, but are not limited to, loans to:

- Borrowers for affordable housing rehabilitation and construction, including construction and permanent financing of multifamily rental property serving low- and moderate-income persons;
- Not-for-profit organizations serving primarily low- and moderate-income housing or other community development needs;
- Borrowers to construct or rehabilitate community facilities that are located in low- and moderate-income areas or that serve primarily low- and moderate-income individuals;
- Financial intermediaries including Community Development Financial Institutions (CDFIs), Community Development Corporations (CDCs), minority- and women-owned financial institutions, community loan funds or pools, and low-income or community development credit unions that primarily lend or facilitate lending to promote community development.
- Local, state, and tribal governments for community development activities; and

- Borrowers to finance environmental clean-up or redevelopment of an industrial site as part of an effort to revitalize the low- or moderate-income community in which the property is located.

The rehabilitation and construction of affordable housing or community facilities, referred to above, may include the abatement or remediation of, or other actions to correct, environmental hazards, such as lead-based paint, that are present in the housing, facilities, or site.

§§ _____.12(i) & 563e.12(h)-2: *If a retail institution that is not required to report under the Home Mortgage Disclosure Act (HMDA) makes affordable home mortgage loans that would be HMDA-reportable home mortgage loans if it were a reporting institution, or if a small institution that is not required to collect and report loan data under CRA makes small business and small farm loans and consumer loans that would be collected and/or reported if the institution were a large institution, may the institution have these loans considered as community development loans?*

A2. No. Although small institutions are not required to report or collect information on small business and small farm loans and consumer loans, and some institutions are not required to report information about their home mortgage loans under HMDA, if these institutions are retail institutions, the agencies will consider in their CRA evaluations the institutions' originations and purchases of loans that would have been collected or reported as small business, small farm, consumer or home mortgage loans, had the institution been a collecting and reporting institution under the CRA or the HMDA. Therefore, these loans will not be considered as community development loans. Multifamily dwelling loans, however, may be considered as community development loans as well as home mortgage loans. See also § _____.42(b)(2)-2.

§§ _____.12(i) & 563e.12(h)-3: *Do secured credit cards or other credit card programs targeted to low- or moderate-income individuals qualify as community development loans?*

A3. No. Credit cards issued to low- or moderate-income individuals for household, family, or other personal expenditures, whether as part of a program targeted to such individuals or otherwise, do not qualify as community development loans because they do not have as their primary purpose any of the activities included in the definition of "community development."

§§ ____ .12(i) & 563e.12(h)–4: *The regulation indicates that community development includes “activities that revitalize or stabilize low- or moderate-income geographies.” Do all loans in a low- to moderate-income geography have a stabilizing effect?*

A4. No. Some loans may provide only indirect or short-term benefits to low- or moderate-income individuals in a low- or moderate-income geography. These loans are not considered to have a community development purpose. For example, a loan for upper-income housing in a distressed area is not considered to have a community development purpose simply because of the indirect benefit to low- or moderate-income persons from construction jobs or the increase in the local tax base that supports enhanced services to low- and moderate-income area residents. On the other hand, a loan for an anchor business in a distressed area (or a nearby area), that employs or serves residents of the area, and thus stabilizes the area, may be considered to have a community development purpose. For example, in an underserved, distressed area, a loan for a pharmacy that employs, and provides supplies to, residents of the area promotes community development.

§§ ____ .12(i) & 563e.12(h)–5: *Must there be some immediate or direct benefit to the institution’s assessment area(s) to satisfy the regulations’ requirement that qualified investments and community development loans or services benefit an institution’s assessment area(s) or a broader statewide or regional area that includes the institution’s assessment area(s)?*

A5. No. The regulations, for example, recognize that community development organizations and programs are frequently efficient and effective ways for institutions to promote community development. These organizations and programs often operate on a statewide or even multi-state basis. Therefore, an institution’s activity is considered a community development loan or service or a qualified investment if it supports an organization or activity that covers an area that is larger than, but includes, the institution’s assessment area(s). The institution’s assessment area need not receive an immediate or direct benefit from the institution’s specific participation in the broader organization or activity, provided the purpose, mandate, or function of the organization or activity includes serving geographies or individuals located within the institution’s assessment area. Furthermore, the regulations permit a wholesale or limited purpose institution to consider community development

loans, community development services, and qualified investments wherever they are located, as long as the institution has otherwise adequately addressed the credit needs within its assessment area(s).

§§ ____ .12(i) & 563e.12(h)–6: *What is meant by a “regional area” in the requirement that a community development loan must benefit the institution’s assessment area(s) or a broader statewide or regional area that includes the institution’s assessment area(s)?*

A6. A “regional area” may be as small as a city or county or as large as a multistate area. For example, the “mid-Atlantic states” may comprise a regional area. When examiners evaluate community development loans that benefit a regional area that includes the institution’s assessment area, however, the examiners will consider the size of the regional area and the actual or potential benefit to the institution’s assessment area(s). In most cases, the larger the regional area, the more diffuse the benefit will be to the institution’s assessment area(s). Examiners may view loans with more direct benefits to an institution’s assessment area(s) as more responsive to the credit needs of the area(s) than loans for which the actual benefit to the assessment area(s) is uncertain or for which the benefit is diffused throughout a larger area that includes the assessment area(s).

§§ ____ .12(i) & 563e.12(h)–7: *What is meant by the term “primary purpose” as that term is used to define what constitutes a community development loan, a qualified investment or a community development service?*

A7. A loan, investment or service has as its primary purpose community development when it is designed for the express purpose of revitalizing or stabilizing low- or moderate-income areas, providing affordable housing for, or community services targeted to, low- or moderate-income persons, or promoting economic development by financing small businesses and farms that meet the requirements set forth in §§ ____ .12(h) or 563e.12(g). To determine whether an activity is designed for an express community development purpose, the agencies apply one of two approaches. First, if a majority of the dollars or beneficiaries of the activity are identifiable to one or more of the enumerated community development purposes, then the activity will be considered to possess the requisite primary purpose. Alternatively, where the measurable portion of any benefit bestowed or dollars applied to the community development purpose is less than a

majority of the entire activity’s benefits or dollar value, then the activity may still be considered to possess the requisite primary purpose if (1) the express, bona fide intent of the activity, as stated, for example, in a prospectus, loan proposal, or community action plan, is primarily one or more of the enumerated community development purposes; (2) the activity is specifically structured (given any relevant market or legal constraints or performance context factors) to achieve the expressed community development purpose; and (3) the activity accomplishes, or is reasonably certain to accomplish, the community development purpose involved. The fact that an activity provides indirect or short-term benefits to low- or moderate-income persons does not make the activity community development, nor does the mere presence of such indirect or short-term benefits constitute a primary purpose of community development. Financial institutions that want examiners to consider certain activities under either approach should be prepared to demonstrate the activities’ qualifications.

§§ ____ .12(j) & 563e.12(i) *Community Development Service*

§§ ____ .12(j) & 563e.12(i)–1: *In addition to meeting the definition of “community development” in the regulation, community development services must also be related to the provision of financial services. What is meant by “provision of financial services”?*

A1. Providing financial services means providing services of the type generally provided by the financial services industry. Providing financial services often involves informing community members about how to get or use credit or otherwise providing credit services or information to the community. For example, service on the board of directors of an organization that promotes credit availability or finances affordable housing is related to the provision of financial services. Providing technical assistance about financial services to community-based groups, local or tribal government agencies, or intermediaries that help to meet the credit needs of low- and moderate-income individuals or small businesses and farms is also providing financial services. By contrast, activities that do not take advantage of the employees’ financial expertise, such as neighborhood cleanups, do not involve the provision of financial services.

§§ ____ .12(j) & 563e.12(i)–2: *Are personal charitable activities provided by an institution’s employees or*

directors outside the ordinary course of their employment considered community development services?

A2. No. Services must be provided as a representative of the institution. For example, if a financial institution's director, on her own time and not as a representative of the institution, volunteers one evening a week at a local community development corporation's financial counseling program, the institution may not consider this activity a community development service.

§§ _____.12(j) & 563e.12(i)-3: *What are examples of community development services?*

A3. Examples of community development services include, but are not limited to, the following:

- Providing technical assistance on financial matters to nonprofit, tribal or government organizations serving low- and moderate-income housing or economic revitalization and development needs;
- Providing technical assistance on financial matters to small businesses or community development organizations, including organizations and individuals who apply for loans or grants under the Federal Home Loan Banks' Affordable Housing Program;
- Lending employees to provide financial services for organizations facilitating affordable housing construction and rehabilitation or development of affordable housing;
- Providing credit counseling, home-buyer and home-maintenance counseling, financial planning or other financial services education to promote community development and affordable housing;
- Establishing school savings programs and developing or teaching financial education curricula for low- or moderate-income individuals;
- Providing electronic benefits transfer and point of sale terminal systems to improve access to financial services, such as by decreasing costs, for low- or moderate-income individuals; and
- Providing other financial services with the primary purpose of community development, such as low-cost bank accounts, including "Electronic Transfer Accounts" provided pursuant to the Debt Collection Improvement Act of 1996, or free government check cashing that increases access to financial services for low- or moderate-income individuals.

Examples of technical assistance activities that might be provided to community development organizations include:

- Serving on a loan review committee;
- Developing loan application and underwriting standards;
- Developing loan processing systems;
- Developing secondary market vehicles or programs;
- Assisting in marketing financial services, including development of advertising and promotions, publications, workshops and conferences;
- Furnishing financial services training for staff and management;
- Contributing accounting/bookkeeping services; and
- Assisting in fund raising, including soliciting or arranging investments.

§§ _____.12(k) & 563e.12(j) *Consumer Loan*

§§ _____.12(k) & 563e.12(j)-1: *Are home equity loans considered "consumer loans"?*

A1. Home equity loans made for purposes other than home purchase, home improvement or refinancing home purchase or home improvement loans are consumer loans if they are extended to one or more individuals for household, family, or other personal expenditures.

§§ _____.12(k) & 563e.12(j)-2: *May a home equity line of credit be considered a "consumer loan" even if part of the line is for home improvement purposes?*

A2. If the predominant purpose of the line is home improvement, the line may only be reported under HMDA and may not be considered a consumer loan. However, the full amount of the line may be considered a "consumer loan" if its predominant purpose is for household, family, or other personal expenditures, and to a lesser extent home improvement, and the full amount of the line has not been reported under HMDA. This is the case even though there may be "double counting" because part of the line may also have been reported under HMDA.

§§ _____.12(k) & 563e.12(j)-3: *How should an institution collect or report information on loans the proceeds of which will be used for multiple purposes?*

A3. If an institution makes a single loan or provides a line of credit to a customer to be used for both consumer and small business purposes, consistent with the Call Report and TFR instructions, the institution should determine the major (predominant) component of the loan or the credit line and collect or report the entire loan or credit line in accordance with the regulation's specifications for that loan type.

§§ _____.12(m) & 563e.12(l) *Home Mortgage Loan*

§§ _____.12(m) & 563e.12(l)-1: *Does the term "home mortgage loan" include loans other than "home purchase loans"?*

A1. Yes. "Home mortgage loan" includes a "home improvement loan" as well as a "home purchase loan," as both terms are defined in the HMDA regulation, Regulation C, 12 CFR part 203. This definition also includes multifamily (five-or-more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

§§ _____.12(m) & 563e.12(l)-2: *Some financial institutions broker home mortgage loans. They typically take the borrower's application and perform other settlement activities; however, they do not make the credit decision. The broker institutions may also initially fund these mortgage loans, then immediately assign them to another lender. Because the broker institution does not make the credit decision, under Regulation C (HMDA), they do not record the loans on their HMDA-LARs, even if they fund the loans. May an institution receive any consideration under CRA for its home mortgage loan brokerage activities?*

A2. Yes. A financial institution that funds home mortgage loans but immediately assigns the loans to the lender that made the credit decisions may present information about these loans to examiners for consideration under the lending test as "other loan data." Under Regulation C, the broker institution does not record the loans on its HMDA-LAR because it does not make the credit decisions, even if it funds the loans. An institution electing to have these home mortgage loans considered must maintain information about all of the home mortgage loans that it has funded in this way. Examiners will consider this other loan data using the same criteria by which home mortgage loans originated or purchased by an institution are evaluated.

Institutions that do not provide funding but merely take applications and provide settlement services for another lender that makes the credit decisions will receive consideration for this service as a retail banking service. Examiners will consider an institution's mortgage brokerage services when evaluating the range of services provided to low-, moderate-, middle- and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

Alternatively, an institution's mortgage brokerage service may be considered a community development service if the primary purpose of the service is community development. An institution wishing to have its mortgage brokerage service considered as a community development service must provide sufficient information to substantiate that its primary purpose is community development and to establish the extent of the services provided.

§§ ____ .12(n) & 563e.12(m) *Income Level*

§§ ____ .12(n) & 563e.12(m)-1: *Where do institutions find income level data for geographies and individuals?*

A1. The income levels for geographies, i.e., census tracts and block numbering areas, are derived from Census Bureau information and are updated every ten years. Institutions may contact their regional Census Bureau office or the Census Bureau's Income Statistics Office at (301) 763-8576 to obtain income levels for geographies. See Appendix A of these Interagency Questions and Answers for a list of the regional Census Bureau offices. The income levels for individuals are derived from information calculated by the Department of Housing and Urban Development (HUD) and updated annually. Institutions may contact HUD at (800) 245-2691 to request a copy of "FY [year number, e.g., 1996] Median Family Incomes for States and their Metropolitan and Nonmetropolitan Portions."

Alternatively, institutions may obtain a list of the 1990 Census Bureau-calculated and the annually updated HUD median family incomes for metropolitan statistical areas (MSAs) and statewide nonmetropolitan areas by calling the Federal Financial Institution Examination Council's (FFIEC's) HMDA Help Line at (202) 452-2016. A free copy will be faxed to the caller through the "fax-back" system. Institutions may also call this number to have "faxed-back" an order form, from which they may order a list providing the median family income level, as a percentage of the appropriate MSA or nonmetropolitan median family income, of every census tract and block numbering area (BNA). This list costs \$50. Institutions may also obtain the list of MSA and statewide nonmetropolitan area median family incomes or an order form through the FFIEC's home page on the Internet at 'http://www.ffiec.gov/'.

§§ ____ .12(o) & 563e.12(n) *Limited Purpose Institution*

§§ ____ .12(o) & 563e.12(n)-1: *What constitutes a "narrow product line" in*

the definition of "limited purpose institution"?

A1. An institution offers a narrow product line by limiting its lending activities to a product line other than a traditional retail product line required to be evaluated under the lending test (i.e., home mortgage, small business, and small farm loans). Thus, an institution engaged only in making credit card or motor vehicle loans offers a narrow product line, while an institution limiting its lending activities to home mortgages is not offering a narrow product line.

§§ ____ .12(o) & 563e.12(n)-2: *What factors will the agencies consider to determine whether an institution that, if limited purpose, makes loans outside a narrow product line, or, if wholesale, engages in retail lending, will lose its limited purpose or wholesale designation because of too much other lending?*

A2. Wholesale institutions may engage in some retail lending without losing their designation if this activity is incidental and done on an accommodation basis. Similarly, limited purpose institutions continue to meet the narrow product line requirement if they provide other types of loans on an infrequent basis. In reviewing other lending activities by these institutions, the agencies will consider the following factors:

- Is the other lending provided as an incident to the institution's wholesale lending?
- Are the loans provided as an accommodation to the institution's wholesale customers?
- Are the loans made only infrequently to the limited purpose institution's customers?
- Does only an insignificant portion of the institution's total assets and income result from the other lending?
- How significant a role does the institution play in providing that type(s) of loan(s) in the institution's assessment area(s)?
- Does the institution hold itself out as offering that type(s) of loan(s)?
- Does the lending test or the community development test present a more accurate picture of the institution's CRA performance?

§§ ____ .12(o) & 563e.12(n)-3: *Do "niche institutions" qualify as limited purpose (or wholesale) institutions?*

A3. Generally, no. Institutions that are in the business of lending to the public, but specialize in certain types of retail loans (for example, home mortgage or small business loans) to certain types of borrowers (for example, to high-end income level customers or to corporations or partnerships of licensed

professional practitioners) ("niche institutions") generally would not qualify as limited purpose (or wholesale) institutions.

§§ ____ .12(s) & 563e.12(r) *Qualified Investment*

§§ ____ .12(s) & 563e.12(r)-1: *Does the CRA regulation provide authority for institutions to make investments?*

A1. No. The CRA regulation does not provide authority for institutions to make investments that are not otherwise allowed by Federal law.

§§ ____ .12(s) & 563e.12(r)-2: *Are mortgage-backed securities or municipal bonds "qualified investments"?*

A2. As a general rule, mortgage-backed securities and municipal bonds are not qualified investments because they do not have as their primary purpose community development, as defined in the CRA regulations. Nonetheless, mortgage-backed securities or municipal bonds designed primarily to finance community development generally are qualified investments. Municipal bonds or other securities with a primary purpose of community development need not be housing-related. For example, a bond to fund a community facility or park or to provide sewage services as part of a plan to redevelop a low-income neighborhood is a qualified investment. Housing-related bonds or securities must primarily address affordable housing (including multifamily rental housing) needs in order to qualify. See also § ____ .23(b)-2.

§§ ____ .12(s) & 563e.12(r)-3: *Are Federal Home Loan Bank stocks and membership reserves with the Federal Reserve Banks "qualified investments"?*

A3. No. Federal Home Loan Bank (FHLB) stock and membership reserves with the Federal Reserve Banks do not have a sufficient connection to community development to be qualified investments. However, FHLB member institutions may receive CRA consideration for technical assistance they provide on behalf of applicants and recipients of funding from the FHLB's Affordable Housing Program. See §§ ____ .12(j) & 563e.12(i)-3.

§§ ____ .12(s) & 563e.12(r)-4: *What are examples of qualified investments?*

A4. Examples of qualified investments include, but are not limited to, investments, grants, deposits or shares in or to:

- Financial intermediaries (including, Community Development Financial Institutions (CDFIs), Community Development Corporations (CDCs), minority- and women-owned financial institutions, community loan funds, and

low-income or community development credit unions) that primarily lend or facilitate lending in low- and moderate-income areas or to low- and moderate-income individuals in order to promote community development, such as a CDFI that promotes economic development on an Indian reservation;

- Organizations engaged in affordable housing rehabilitation and construction, including multifamily rental housing;

- Organizations, including, for example, Small Business Investment Companies (SBICs) and specialized SBICs, that promote economic development by financing small businesses;

- Facilities that promote community development in low- and moderate-income areas for low- and moderate-income individuals, such as youth programs, homeless centers, soup kitchens, health care facilities, battered women's centers, and alcohol and drug recovery centers;

- Projects eligible for low-income housing tax credits;

- State and municipal obligations, such as revenue bonds, that specifically support affordable housing or other community development;

- Not-for-profit organizations serving low- and moderate-income housing or other community development needs, such as counseling for credit, home-ownership, home maintenance, and other financial services education; and

- Organizations supporting activities essential to the capacity of low- and moderate-income individuals or geographies to utilize credit or to sustain economic development, such as, for example, day care operations and job training programs that enable people to work.

§§ _____.12(s) & 563e.12(r)-5: *Will an institution receive consideration for charitable contributions as "qualified investments"?*

A5. Yes, provided they have as their primary purpose community development as defined in the regulations. A charitable contribution, whether in cash or an in-kind contribution of property, is included in the term "grant." A qualified investment is not disqualified because an institution receives favorable treatment for it (for example, as a tax deduction or credit) under the Internal Revenue Code.

§§ _____.12(s) & 563e.12(r)-6: *An institution makes or participates in a community development loan. The institution provided the loan at below-market interest rates or "bought down" the interest rate to the borrower. Is the lost income resulting from the lower*

interest rate or buy-down a qualified investment?

A6. No. The agencies will, however, consider the innovativeness and complexity of the community development loan within the bounds of safe and sound banking practices.

§§ _____.12(s) & 563e.12(r)-7: *Will the agencies consider as a qualified investment the wages or other compensation of an employee or director who provides assistance to a community development organization on behalf of the institution?*

A7. No. However, the agencies will consider donated labor of employees or directors of a financial institution in the service test if the activity is a community development service.

§§ _____.12(t) & 563e.12(s) *Small Institution*

§§ _____.12(t) & 563e.12(s)-1: *How are the "total bank and thrift assets" of a holding company determined?*

A1. "Total banking and thrift assets" of a holding company are determined by combining the total assets of all banks and/or thrifts that are majority-owned by the holding company. An institution is majority-owned if the holding company directly or indirectly owns more than 50 percent of its outstanding voting stock.

§§ _____.12(t) & 563e.12(s)-2: *How are Federal and State branch assets of a foreign bank calculated for purposes of the CRA?*

A2. A Federal or State branch of a foreign bank is considered a small institution if the Federal or State branch has less than \$250 million in assets and the total assets of the foreign bank's or its holding company's U.S. bank and thrift subsidiaries that are subject to the CRA are less than \$1 billion. This calculation includes not only FDIC-insured bank and thrift subsidiaries, but also the assets of any FDIC-insured branch of the foreign bank and the assets of any uninsured Federal or State branch (other than a limited branch or a Federal agency) of the foreign bank that results from an acquisition described in section 5(a)(8) of the International Banking Act of 1978 (12 U.S.C. § 3103(a)(8)).

§§ _____.12(u) & 563e.12(t) *Small Business Loan*

§§ _____.12(u) & 563e.12(t)-1: *Are loans to nonprofit organizations considered small business loans or are they considered community development loans?*

A1. To be considered a small business loan, a loan must meet the definition of "loan to small business" in the instructions in the "Consolidated

Reports of Conditions and Income" (Call Report) and "Thrift Financial Reports" (TFR). In general, a loan to a nonprofit organization, for business or farm purposes, where the loan is secured by nonfarm nonresidential property and the original amount of the loan is \$1 million or less, if a business loan, or \$500,000 or less, if a farm loan, would be reported in the Call Report and TFR as a small business or small farm loan. If a loan to a nonprofit organization is reportable as a small business or small farm loan, it cannot also be considered as a community development loan, except by a wholesale or limited purpose institution. Loans to nonprofit organizations that are not small business or small farm loans for Call Report and TFR purposes may be considered as community development loans if they meet the regulatory definition.

§§ _____.12(u) & 563e.12(t)-2: *Are loans secured by commercial real estate considered small business loans?*

A2. Yes, depending on their principal amount. Small business loans include loans secured by "nonfarm nonresidential properties," as defined in the Call Report and TFR, in amounts less than \$1 million.

§§ _____.12(u) & 563e.12(t)-3: *Are loans secured by nonfarm residential real estate to finance small businesses "small business loans"?*

A3. No. Loans secured by nonfarm residential real estate that are used to finance small businesses are not included as "small business" loans for Call Report and TFR purposes. The agencies recognize that many small businesses are financed by loans secured by residential real estate. If these loans promote community development, as defined in the regulation, they may be considered as community development loans. Otherwise, at an institution's option, the institution may collect and maintain data separately concerning these loans and request that the data be considered in its CRA evaluation as "Other Secured Lines/Loans for Purposes of Small Business."

§§ _____.12(u) & 563e.12(t)-4: *Are credit cards issued to small businesses considered "small business loans"?*

A4. Credit cards issued to a small business or to individuals to be used, with the institution's knowledge, as business accounts are small business loans if they meet the definitional requirements in the Call Report or TFR instructions.

§§ _____.12(w) & 563e.12(v) *Wholesale Institution*

§§ _____.12(w) & 563e.12(v)-1: *What factors will the agencies consider in*

determining whether an institution is in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers?

A1. The agencies will consider whether:

- The institution holds itself out to the retail public as providing such loans; and
- The institution's revenues from extending such loans are significant when compared to its overall operations.

A wholesale institution may make some retail loans without losing its wholesale designation as described above in §§ _____.12(o) & 563e.12(n)-2.

§ _____.21—Performance Tests, Standards, and Ratings, in General

§ _____.21(a) Performance Tests and Standards

§ _____.21(a)-1: *Are all community development activities weighted equally by examiners?*

A1. No. Examiners will consider the responsiveness to credit and community development needs, as well as the innovativeness and complexity of an institution's community development lending, qualified investments, and community development services. These criteria include consideration of the degree to which they serve as a catalyst for other community development activities. The criteria are designed to add a qualitative element to the evaluation of an institution's performance.

§ _____.21(b) Performance Context

§ _____.21(b)-1: *Is the performance context essentially the same as the former regulation's needs assessment?*

A1. No. The performance context is a broad range of economic, demographic, and institution-and community-specific information that an examiner reviews to understand the context in which an institution's record of performance should be evaluated. The agencies will provide examiners with much of this information prior to the examination. The performance context is not a formal or written assessment of community credit needs.

§ _____.21(b)(2) *Information maintained by the institution or obtained from community contacts.*

§ _____.21(b)(2)-1: *Will examiners consider performance context information provided by institutions?*

A1. Yes. An institution may provide examiners with any information it deems relevant, including information on the lending, investment, and service opportunities in its assessment area(s). This information may include data on

the business opportunities addressed by lenders not subject to the CRA.

Institutions are not required, however, to prepare a needs assessment. If an institution provides information to examiners, the agencies will not expect information other than what the institution normally would develop to prepare a business plan or to identify potential markets and customers, including low-and moderate-income persons and geographies in its assessment area(s). The agencies will not evaluate an institution's efforts to ascertain community credit needs or rate an institution on the quality of any information it provides.

§ _____.21(b)(2)-2: *Will examiners conduct community contact interviews as part of the examination process?*

A2. Yes. Examiners will consider information obtained from interviews with local community, civic, and government leaders. These interviews provide examiners with knowledge regarding the local community, its economic base, and community development initiatives. To ensure that information from local leaders is considered—particularly in areas where the number of potential contacts may be limited—examiners may use information obtained through an interview with a single community contact for examinations of more than one institution in a given market. In addition, the agencies will consider information obtained from interviews conducted by other agency staff and by the other agencies. In order to augment contacts previously used by the agencies and foster a wider array of contacts, the agencies will share community contact information.

§ _____.21(b)(4) *Institutional capacity and constraints.*

§ _____.21(b)(4)-1: *Will examiners consider factors outside of an institution's control that prevent it from engaging in certain activities?*

A1. Yes. Examiners will take into account statutory and supervisory limitations on an institution's ability to engage in any lending, investment, and service activities. For example, a savings association that has made few or no qualified investments due to its limited investment authority may still receive a low satisfactory rating under the investment test if it has a strong lending record.

§ _____.21(b)(5) *Institution's past performance and the performance of similarly situated lenders.*

§ _____.21(b)(5)-1: *Can an institution's assigned rating be adversely affected by poor past performance?*

A1. Yes. The agencies will consider an institution's past performance in its

overall evaluation. For example, an institution's past performance may support a rating of "substantial noncompliance" if the institution has not improved performance rated as "needs to improve."

§ _____.21(b)(5)-2: *How will examiners consider the performance of similarly situated lenders?*

A2. The performance context section of the regulation permits the performance of similarly situated lenders to be considered, for example, as one of a number of considerations in evaluating the geographic distribution of an institution's loans to low-, moderate-, middle-, and upper-income geographies. This analysis, as well as other analyses, may be used, for example, where groups of contiguous geographies within an institution's assessment area(s) exhibit abnormally low penetration. In this regard, the performance of similarly situated lenders may be analyzed if such an analysis would provide accurate insight into the institution's lack of performance in those areas. The regulation does not require the use of a specific type of analysis under these circumstances. Moreover, no ratio developed from any type of analysis is linked to any lending test rating.

§ _____.22—Lending Test

§ _____.22(a) Scope of Test

§ _____.22(a)(1) *Types of loans considered.*

§ _____.22(a)(1)-1: *If a large retail institution is not required to collect and report home mortgage data under the HMDA, will the agencies still evaluate the institution's home mortgage lending performance?*

A1. Yes. The agencies will sample the institution's home mortgage loan files in order to assess its performance under the lending test criteria.

§ _____.22(a)(1)-2: *When will examiners consider consumer loans as part of an institution's CRA evaluation?*

A2. Consumer loans will be evaluated if the institution so elects; and an institution that elects not to have its consumer loans evaluated will not be viewed less favorably by examiners than one that does. However, if consumer loans constitute a substantial majority of the institution's business, the agencies will evaluate them even if the institution does not so elect. The agencies interpret "substantial majority" to be so significant a portion of the institution's lending activity by number or dollar volume of loans that the lending test evaluation would not meaningfully reflect its lending

performance if consumer loans were excluded.

§ _____.22(a)(2) *Loan originations and purchases/other loan data.*

§ _____.22(a)(2)-1: *How are lending commitments (such as letters of credit) evaluated under the regulation?*

A1. The agencies consider lending commitments (such as letters of credit) only at the option of the institution. Commitments must be legally binding between an institution and a borrower in order to be considered. Information about lending commitments will be used by examiners to enhance their understanding of an institution's performance.

§ _____.22(a)(2)-2: *Will examiners review application data as part of the lending test?*

A2. Application activity is not a performance criterion of the lending test. However, examiners may consider this information in the performance context analysis because this information may give examiners insight on, for example, the demand for loans.

§ _____.22(a)(2)-3: *May a financial institution receive consideration under CRA for modification, extension, and consolidation agreements (MECAs), in which it obtains loans from other institutions without actually purchasing or refinancing the loans, as those terms have been interpreted under CRA?*

A3. Yes. In some states, MECAs, which are not considered loan refinancings because the existing loan obligations are not satisfied and replaced, are common. Although these transactions are not considered to be purchases or refinancings, as those terms have been interpreted under CRA, they do achieve the same results. An institution may present information about its MECA activities to examiners for consideration under the lending test as "other loan data."

§ _____.22(a)(2)-4: *Do institutions receive consideration for originating or purchasing loans that are fully guaranteed?*

A4: Yes. The lending test evaluates an institution's record of helping to meet the credit needs of its assessment area(s) through the origination or purchase of specified types of loans. The test does not take into account whether or not such loans are guaranteed.

§ _____.22(b) *Performance Criteria*

§ _____.22(b)-1: *How will examiners apply the performance criteria in the lending test?*

A1. Examiners will apply the performance criteria reasonably and fairly, in accord with the regulations, the examination procedures, and this Guidance. In doing so, examiners will

disregard efforts by an institution to manipulate business operations or present information in an artificial light that does not accurately reflect an institution's overall record of lending performance.

§ _____.22(b)(1) *Lending activity.*

§ _____.22(b)(1)-1: *How will the agencies apply the lending activity criterion to discourage an institution from originating loans that are viewed favorably under CRA in the institution itself and referring other loans, which are not viewed as favorably, for origination by an affiliate?*

A1. Examiners will review closely institutions with (1) a small number and amount of home mortgage loans with an unusually good distribution among low- and moderate-income areas and low- and moderate-income borrowers and (2) a policy of referring most, but not all, of their home mortgage loans to affiliated institutions. If an institution is making loans mostly to low- and moderate-income individuals and areas and referring the rest of the loan applicants to an affiliate for the purpose of receiving a favorable CRA rating, examiners may conclude that the institution's lending activity is not satisfactory because it has inappropriately attempted to influence the rating. In evaluating an institution's lending, examiners will consider legitimate business reasons for the allocation of the lending activity.

§ _____.22(b)(2) & (3) *Geographic distribution and borrower characteristics.*

§ _____.22(b)(2) & (3)-1: *How do the geographic distribution of loans and the distribution of lending by borrower characteristics interact in the lending test?*

A1. Examiners generally will consider both the distribution of an institution's loans among geographies of different income levels and among borrowers of different income levels and businesses of different sizes. The importance of the borrower distribution criterion, particularly in relation to the geographic distribution criterion, will depend on the performance context. For example, distribution among borrowers with different income levels may be more important in areas without identifiable geographies of different income categories. On the other hand, geographic distribution may be more important in areas with the full range of geographies of different income categories.

§ _____.22(b)(2) & (3)-2: *Must an institution lend to all portions of its assessment area?*

A2. The term "assessment area" describes the geographic area within

which the agencies assess how well an institution has met the specific performance tests and standards in the rule. The agencies do not expect that simply because a census tract or block numbering area is within an institution's assessment area(s) the institution must lend to that census tract or block numbering area. Rather the agencies will be concerned with conspicuous gaps in loan distribution that are not explained by the performance context. Similarly, if an institution delineated the entire county in which it is located as its assessment area, but could have delineated its assessment area as only a portion of the county, it will not be penalized for lending only in that portion of the county, so long as that portion does not reflect illegal discrimination or arbitrarily exclude low- or moderate-income geographies. The capacity and constraints of an institution, its business decisions about how it can best help to meet the needs of its assessment area(s), including those of low- and moderate-income neighborhoods, and other aspects of the performance context, are all relevant to explain why the institution is serving or not serving portions of its assessment area(s).

§ _____.22(b)(2) & (3)-3: *Will examiners take into account loans made by affiliates when evaluating the proportion of an institution's lending in its assessment area(s)?*

A3. Examiners will not take into account loans made by affiliates when determining the proportion of an institution's lending in its assessment area(s), even if the institution elects to have its affiliate lending considered in the remainder of the lending test evaluation. However, examiners may consider an institution's business strategy of conducting lending through an affiliate in order to determine whether a low proportion of lending in the assessment area(s) should adversely affect the institution's lending test rating.

§ _____.22(b)(2) & (3)-4: *When will examiners consider loans (other than community development loans) made outside an institution's assessment area(s)?*

A4. Consideration will be given for loans to low- and moderate-income persons and small business and farm loans outside of an institution's assessment area(s), provided the institution has adequately addressed the needs of borrowers within its assessment area(s). The agencies will apply this consideration not only to loans made by large retail institutions being evaluated under the lending test, but also to loans made by small

institutions being evaluated under the small institution performance standards. Loans to low- and moderate-income persons and small businesses and farms outside of an institution's assessment area(s), however, will not compensate for poor lending performance within the institution's assessment area(s).

§ _____.22(b)(2) & (3)–5: *Under the lending test, how will examiners evaluate home mortgage loans to middle- or upper-income individuals in a low- or moderate-income geography?*

A5. Examiners will consider these home mortgage loans under the performance criteria of the lending test, i.e., by number and amount of home mortgage loans, whether they are inside or outside the financial institution's assessment area(s), their geographic distribution, and the income levels of the borrowers. Examiners will use information regarding the financial institution's performance context to determine how to evaluate the loans under these performance criteria. Depending on the performance context, examiners could view home mortgage loans to middle-income individuals in a low-income geography very differently. For example, if the loans are for homes or multifamily housing located in an area for which the local, state, tribal, or Federal government or a community-based development organization has developed a revitalization or stabilization plan (such as a Federal enterprise community or empowerment zone) that includes attracting mixed-income residents to establish a stabilized, economically diverse neighborhood, examiners may give more consideration to such loans, which may be viewed as serving the low- or moderate-income community's needs as well as serving those of the middle- or upper-income borrowers. If, on the other hand, no such plan exists and there is no other evidence of governmental support for a revitalization or stabilization project in the area and the loans to middle- or upper-income borrowers significantly disadvantage or primarily have the effect of displacing low- or moderate-income residents, examiners may view these loans simply as home mortgage loans to middle- or upper-income borrowers who happen to reside in a low- or moderate-income geography and weigh them accordingly in their evaluation of the institution.

§ _____.22(b)(4) *Community development lending.*

§ _____.22(b)(4)–1: *When evaluating an institution's record of community development lending, may an examiner distinguish among community development loans on the basis of the*

actual amount of the loan that advances the community development purpose?

A1. Yes. When evaluating the institution's record of community development lending under § _____.22(b)(4), it is appropriate to give greater weight to the amount of the loan that is targeted to the intended community development purpose. For example, consider two \$10 million projects (with a total of 100 units each) that have as their express primary purpose affordable housing and are located in the same community. One of these projects sets aside 40 percent of its units for low-income residents and the other project allocates 65 percent of its units for low-income residents. An institution would report both loans as \$10 million community development loans under the § _____.42(b)(2) aggregate reporting obligation. However, transaction complexity, innovation and all other relevant considerations being equal, an examiner should also take into account that the 65 percent project provides more affordable housing for more people per dollar expended.

Under § _____.22(b)(4), the extent of CRA consideration an institution receives for its community development loans should bear a direct relation to the benefits received by the community and the innovation or complexity of the loans required to accomplish the activity, not simply to the dollar amount expended on a particular transaction. By applying all lending test performance criteria, a community development loan of a lower dollar amount could meet the credit needs of the institution's community to a greater extent than a community development loan with a higher dollar amount, but with less innovation, complexity, or impact on the community.

§ _____.22(b)(5) *Innovative or flexible lending practices.*

§ _____.22(b)(5)–1: *What is the range of practices that examiners may consider in evaluating the innovativeness or flexibility of an institution's lending?*

A1. In evaluating the innovativeness or flexibility of an institution's lending practices (and the complexity and innovativeness of its community development lending), examiners will not be limited to reviewing the overall variety and specific terms and conditions of the credit products themselves. In connection with the evaluation of an institution's lending, examiners also may give consideration to related innovations when they augment the success and effectiveness of the institution's lending under its community development loan programs or, more generally, its lending under its loan programs that address the credit

needs of low- and moderate-income geographies or individuals. For example:

- In connection with a community development loan program, a bank may establish a technical assistance program under which the bank, directly or through third parties, provides affordable housing developers and other loan recipients with financial consulting services. Such a technical assistance program may, by itself, constitute a community development service eligible for consideration under the service test of the CRA regulations. In addition, the technical assistance may be favorably considered as an innovation that augments the success and effectiveness of the related community development loan program.

- In connection with a small business lending program in a low- or moderate-income area and consistent with safe and sound lending practices, a bank may implement a program under which, in addition to providing financing, the bank also contracts with the small business borrowers. Such a contracting arrangement would not, standing alone, qualify for CRA consideration. However, it may be favorably considered as an innovation that augments the loan program's success and effectiveness, and improves the program's ability to serve community development purposes by helping to promote economic development through support of small business activities and revitalization or stabilization of low- or moderate-income geographies.

§ _____.22(c) *Affiliate Lending.*

§ _____.22(c)(1) *In general.*

§ _____.22(c)(1)–1: *If an institution elects to have loans by its affiliate(s) considered, may it elect to have only certain categories of loans considered?*

A1. Yes. An institution may elect to have only a particular category of its affiliate's lending considered. The basic categories of loans are home mortgage loans, small business loans, small farm loans, community development loans, and the five categories of consumer loans (motor vehicle loans, credit card loans, home equity loans, other secured loans, and other unsecured loans).

§ _____.22(c)(2) *Constraints on affiliate lending.*

§ _____.22(c)(2)(i) *No affiliate may claim a loan origination or loan purchase if another institution claims the same loan origination or purchase.*

§ _____.22(c)(2)(i)–1: *How is this constraint on affiliate lending applied?*

A1. This constraint prohibits one affiliate from claiming a loan origination or purchase claimed by another affiliate. However, an institution can count as a

purchase a loan originated by an affiliate that the institution subsequently purchases, or count as an origination a loan later sold to an affiliate, provided the same loans are not sold several times to inflate their value for CRA purposes.

§ _____.22(c)(2)(ii) *If an institution elects to have its supervisory agency consider loans within a particular lending category made by one or more of the institution's affiliates in a particular assessment area, the institution shall elect to have the agency consider all loans within that lending category in that particular assessment area made by all of the institution's affiliates.*

§ _____.22(c)(2)(ii)-1: *How is this constraint on affiliate lending applied?*

A1. This constraint prohibits "cherry-picking" affiliate loans within any one category of loans. The constraint requires an institution that elects to have a particular category of affiliate lending in a particular assessment area considered to include all loans of that type made by all of its affiliates in that particular assessment area. For example, assume that an institution has one or more affiliates, such as a mortgage bank that makes loans in the institution's assessment area. If the institution elects to include the mortgage bank's home mortgage loans, it must include all of mortgage bank's home mortgage loans made in its assessment area. The institution cannot elect to include only those low- and moderate-income home mortgage loans made by the mortgage bank affiliate and not home mortgage loans to middle- and upper-income individuals or areas.

§ _____.22(c)(2)(ii)-2: *How is this constraint applied if an institution's affiliates are also insured depository institutions subject to the CRA?*

A2. Strict application of this constraint against "cherry-picking" to loans of an affiliate that is also an insured depository institution covered by the CRA would produce the anomalous result that the other institution would, without its consent, not be able to count its own loans. Because the agencies did not intend to deprive an institution subject to the CRA of receiving consideration for its own lending, the agencies read this constraint slightly differently in cases involving a group of affiliated institutions, some of which are subject to the CRA and share the same assessment area(s). In those circumstances, an institution that elects to include all of its mortgage affiliate's home mortgage loans in its assessment area would not automatically be required to include all home mortgage loans in its assessment area of another

affiliate institution subject to the CRA. However, all loans of a particular type made by any affiliate in the institution's assessment area(s) must either be counted by the lending institution or by another affiliate institution that is subject to the CRA. This reading reflects the fact that a holding company may, for business reasons, choose to transact different aspects of its business in different subsidiary institutions. However, the method by which loans are allocated among the institutions for CRA purposes must reflect actual business decisions about the allocation of banking activities among the institutions and should not be designed solely to enhance their CRA evaluations.

§ _____.22(d) *Lending by a Consortium or a Third Party*

§ _____.22(d)-1: *Will equity and equity-type investments in a third party receive consideration under the lending test?*

A1. If an institution has made an equity or equity-type investment in a third party, community development loans made by the third party may be considered under the lending test. On the other hand, asset-backed and debt securities that do not represent an equity-type interest in a third party will not be considered under the lending test unless the securities are booked by the purchasing institution as a loan. For example, if an institution purchases stock in a community development corporation ("CDC") that primarily lends in low- and moderate-income areas or to low- and moderate-income individuals in order to promote community development, the institution may claim a pro rata share of the CDC's loans as community development loans. The institution's pro rata share is based on its percentage of equity ownership in the CDC. § _____.23(b)-1 provides information concerning consideration of an equity or equity-type investment under the investment test and both the lending and investment tests.

§ _____.22(d)-2: *How will examiners evaluate loans made by consortia or third parties under the lending test?*

A2. Loans originated or purchased by consortia in which an institution participates or by third parties in which an institution invests will only be considered if they qualify as community development loans and will only be considered under the community development criterion of the lending test. However, loans originated directly on the books of an institution or purchased by the institution are considered to have been made or purchased directly by the institution, even if the institution originated or purchased the loans as a result of its participation in a loan consortium.

These loans would be considered under all the lending test criteria appropriate to them depending on the type of loan.

§ _____.22(d)-3: *In some circumstances, an institution may invest in a third party, such as a community development bank, that is also an insured depository institution and is thus subject to CRA requirements. If the investing institution requests its supervisory agency to consider its pro rata share of community development loans made by the third party, as allowed under 12 CFR § _____.22(d), may the third party also receive consideration for these loans?*

A3. Yes, as long as the financial institution and the third party are not affiliates. The regulations state, at 12 CFR § _____.22(c)(2)(i), that two affiliates may not both claim the same loan origination or loan purchase. However, if the financial institution and the third party are not affiliates, the third party may receive consideration for the community development loans it originates, and the financial institution that invested in the third party may also receive consideration for its pro rata share of the same community development loans under 12 CFR § _____.22(d).

§ _____.23—Investment Test

§ _____.23(a) *Scope of Test*

§ _____.23(a)-1: *May an institution receive consideration under the CRA regulations if it invests indirectly through a fund, the purpose of which is community development, as that is defined in the CRA regulations?*

A1: Yes, the direct or indirect nature of the qualified investment does not affect whether an institution will receive consideration under the CRA regulations because the regulations do not distinguish between "direct" and "indirect" investments. Thus, an institution's investment in an equity fund that, in turn, invests in projects that, for example, provide affordable housing to low- and moderate-income individuals, would receive consideration as a qualified investment under the CRA regulations, provided the investment benefits one or more of the institution's assessment area(s) or a broader statewide or regional area(s) that includes one or more of the institution's assessment area(s). Similarly, an institution may receive consideration for a direct qualified investment in a nonprofit organization that, for example, supports affordable housing for low- and moderate-income individuals in the institution's assessment area(s) or a broader

statewide or regional area(s) that includes the institution's assessment area(s).

§ ____ .23(b) Exclusion

§ ____ .23(b)-1: *Even though the regulations state that an activity that is considered under the lending or service tests cannot also be considered under the investment test, may parts of an activity be considered under one test and other parts be considered under another test?*

A1. Yes, in some instances the nature of an activity may make it eligible for consideration under more than one of the performance tests. For example, certain investments and related support provided by a large retail institution to a CDC may be evaluated under the lending, investment, and service tests. Under the service test, the institution may receive consideration for any community development services that it provides to the CDC, such as service by an executive of the institution on the CDC's board of directors. If the institution makes an investment in the CDC that the CDC uses to make community development loans, the institution may receive consideration under the lending test for its pro-rata share of community development loans made by the CDC. Alternatively, the institution's investment may be considered under the investment test, assuming it is a qualified investment. In addition, an institution may elect to have a part of its investment considered under the lending test and the remaining part considered under the investment test. If the investing institution opts to have a portion of its investment evaluated under the lending test by claiming a share of the CDC's community development loans, the amount of investment considered under the investment test will be offset by that portion. Thus, the institution would only receive consideration under the investment test for the amount of its investment multiplied by the percentage of the CDC's assets that meet the definition of a qualified investment.

§ ____ .23(b)-2: *If home mortgage loans to low- and moderate-income borrowers have been considered under an institution's lending test, may the institution that originated or purchased them also receive consideration under the investment test if it subsequently purchases mortgage-backed securities that are primarily or exclusively backed by such loans?*

A2. No. Because the institution received lending test consideration for the loans that underlie the securities, the institution may not also receive consideration under the investment test for its purchase of the securities. Of

course, an institution may receive investment test consideration for purchases of mortgage-backed securities that are backed by loans to low- and moderate-income individuals as long as the securities are not backed primarily or exclusively by loans that the same institution originated or purchased.

§ ____ .23(e) Performance criteria
§ ____ .23(e)-1: *When applying the performance criteria of § ____ .23(e), may an examiner distinguish among qualified investments based on how much of the investment actually supports the underlying community development purpose?*

A1. Yes. Although § ____ .23(e)(1) speaks in terms of the dollar amount of qualified investments, the criterion permits an examiner to weight certain investments differently or to make other appropriate distinctions when evaluating an institution's record of making qualified investments. For instance, an examiner should take into account that a targeted mortgage-backed security that qualifies as an affordable housing issue that has only 60 percent of its face value supported by loans to low- or moderate-income borrowers would not provide as much affordable housing for low- and moderate-income individuals as a targeted mortgage-backed security with 100 percent of its face value supported by affordable housing loans to low- and moderate-income borrowers. The examiner should describe any differential weighting (or other adjustment), and its basis in the Public Evaluation. However, no matter how a qualified investment is handled for purposes of § ____ .23(e)(1), it will also be evaluated with respect to the qualitative performance criteria set forth in § ____ .23(e)(2), (3) and (4). By applying all criteria, a qualified investment of a lower dollar amount may be weighed more heavily under the Investment Test than a qualified investment with a higher dollar amount, but with fewer qualitative enhancements.

§ ____ .23(e)-2: *How do examiners evaluate an institution's qualified investment in a fund, the primary purpose of which is community development, as that is defined in the CRA regulations?*

A2: When evaluating qualified investments that benefit an institution's assessment area(s) or a broader statewide or regional area that includes its assessment area(s), examiners will look at the following four performance criteria:

- (1) The dollar amount of qualified investments;
- (2) The innovativeness or complexity of qualified investments;

(3) The responsiveness of qualified investments to credit and community development needs; and

(4) The degree to which the qualified investments are not routinely provided by private investors.

With respect to the first criterion, examiners will determine the dollar amount of qualified investments by relying on the figures recorded by the institution according to generally accepted accounting principles (GAAP). Although institutions may exercise a range of investment strategies, including short-term investments, long-term investments, investments that are immediately funded, and investments with a binding, up-front commitment that are funded over a period of time, institutions making the same dollar amount of investments over the same number of years, all other performance criteria being equal, would receive the same level of consideration. Examiners will include both new and outstanding investments in this determination. The dollar amount of qualified investments also will include the dollar amount of legally binding commitments recorded by the institution according to GAAP.

The extent to which qualified investments receive consideration, however, depends on how examiners evaluate the investments under the remaining three performance criteria—innovativeness and complexity, responsiveness, and degree to which the investment is not routinely provided by private investors. Examiners also will consider factors relevant to the institution's CRA performance context, such as the effect of outstanding long-term qualified investments, the pay-in schedule, and the amount of any cash call, on the capacity of the institution to make new investments.

§ ____ .24—Service Test

§ ____ .24(d) Performance Criteria—Retail Banking Services

§ ____ .24(d)-1: *How do examiners evaluate the availability and effectiveness of an institution's systems for delivering retail banking services?*

A1. Convenient access to full service branches within a community is an important factor in determining the availability of credit and non-credit services. Therefore, the service test performance standards place primary emphasis on full service branches while still considering alternative systems, such as automated teller machines ("ATMs"). The principal focus is on an institution's current distribution of branches; therefore, an institution is not required to expand its branch network or operate unprofitable branches. Under

the service test, alternative systems for delivering retail banking services, such as ATMs, are considered only to the extent that they are effective alternatives in providing needed services to low- and moderate-income areas and individuals.

§ _____.24(d)-2: *How do examiners evaluate an institution's activities in connection with Individual Development Accounts (IDAs)?*

A2: Although there is no standard IDA program, IDAs typically are deposit accounts targeted to low- and moderate-income families that are designed to help them accumulate savings for education or job-training, down-payment and closing costs on a new home, or start-up capital for a small business. Once participants have successfully funded an IDA, their personal IDA savings are matched by a public or private entity. Financial institution participation in IDA programs comes in a variety of forms, including providing retail banking services to IDA account holders, providing matching dollars or operating funds to an IDA program, designing or implementing IDA programs, providing consumer financial education to IDA account holders or prospective account holders, or other means. The extent of financial institutions' involvement in IDAs and the products and services they offer in connection with the accounts will vary. Thus, subject to § _____.23(b), examiners evaluate the actual services and products provided by an institution in connection with IDA programs as one or more of the following: community development services, retail banking services, qualified investments, home mortgage loans, small business loans, consumer loans, or community development loans.

§ _____.24(d)(3) *Availability and effectiveness of alternative systems for delivering retail banking services.*

§ _____.24(d)(3)-1: *How will examiners evaluate alternative systems for delivering retail banking services?*

A1. The regulation recognizes the multitude of ways in which an institution can provide services, for example, ATMs, banking by telephone or computer, and bank-by-mail programs. Delivery systems other than branches will be considered under the regulation to the extent that they are effective alternatives to branches in providing needed services to low- and moderate-income areas and individuals. The list of systems in the regulation is not intended to be inclusive.

§ _____.24(d)(3)-2: *Are debit cards considered under the service test as an alternative delivery system?*

A2. By themselves, no. However, if debit cards are a part of a larger combination of products, such as a comprehensive electronic banking service, that allows an institution to deliver needed services to low- and moderate-income areas and individuals in its community, the overall delivery system that includes the debit card feature would be considered an alternative delivery system.

§ _____.25 Community Development Test for Wholesale or Limited Purpose Institutions

§ _____.25(d) *Indirect Activities*

§ _____.25(d)-1: *How are investments in third party community development organizations considered under the community development test?*

A1. Similar to the lending test for retail institutions, investments in third party community development organizations may be considered as qualified investments or as community development loans or both (provided there is no double counting), at the institution's option, as described above in the discussion regarding §§ _____.22(d) and _____.23(b).

§ _____.25(e) *Benefit to Assessment Area(s)*

§ _____.25(e)-1: *How do examiners evaluate a wholesale or limited purpose institution's qualified investment in a fund that invests in projects nationwide and which has a primary purpose of community development, as that is defined in the regulations?*

A1: If examiners find that a wholesale or limited purpose institution has adequately addressed the needs of its assessment area(s), they will give consideration to qualified investments, as well as community development loans and community development services, by that institution nationwide. In determining whether an institution has adequately addressed the needs of its assessment area(s), examiners will consider qualified investments that benefit a broader statewide or regional area that includes the institution's assessment area(s).

§ _____.25(f) *Community Development Performance Rating*

§ _____.25(f)-1: *Must a wholesale or limited purpose institution engage in all three categories of community development activities (lending, investment and service) to perform well under the community development test?*

A1. No, a wholesale or limited purpose institution may perform well under the community development test by engaging in one or more of these activities.

§ _____.26—Small Institution Performance Standards

§ _____.26(a) *Performance Criteria*

§ _____.26(a)-1: *May examiners consider, under one or more of the performance criteria of the small institution performance standards, lending-related activities, such as community development loans and lending-related qualified investments, when evaluating a small institution?*

A1. Yes. Examiners can consider "lending-related activities," including community development loans and lending-related qualified investments, when evaluating the first four performance criteria of the small institution performance test. Although lending-related activities are specifically mentioned in the regulation in connection with only the first three criteria (i.e., loan-to-deposit ratio, percentage of loans in the institution's assessment area, and lending to borrowers of different incomes and businesses of different sizes), examiners can also consider these activities when they evaluate the fourth criteria—geographic distribution of the institution's loans.

§ _____.26(a)-2: *What is meant by "as appropriate" when referring to the fact that lending-related activities will be considered, "as appropriate," under the various small institution performance criteria?*

A2. "As appropriate" means that lending-related activities will be considered when it is necessary to determine whether an institution meets or exceeds the standards for a satisfactory rating. Examiners will also consider other lending-related activities at an institution's request.

§ _____.26(a)-3: *When evaluating a small institution's lending performance, will examiners consider, at the institution's request, community development loans originated or purchased by a consortium in which the institution participates or by a third party in which the institution has invested?*

A3. Yes. However, a small institution that elects to have examiners consider community development loans originated or purchased by a consortium or third party must maintain sufficient information on its share of the community development loans so that the examiners may evaluate these loans under the small institution performance criteria.

§ _____.26(a)-4: *Under the small institution performance standards, will examiners consider both loan originations and purchases?*

A4. Yes, consistent with the other assessment methods in the regulation, examiners will consider both loans originated and purchased by the institution. Likewise, examiners may consider any other loan data the small institution chooses to provide, including data on loans outstanding, commitments and letters of credit.

§ ____.26(a)–5: *Under the small institution performance standards, how will qualified investments be considered for purposes of determining whether a small institution receives a satisfactory CRA rating?*

A5. The small institution performance standards focus on lending and other lending-related activities. Therefore, examiners will consider only lending-related qualified investments for the purposes of determining whether the small institution receives a satisfactory CRA rating.

§ ____.26(a)(1) *Loan-to-deposit ratio.*

§ ____.26(a)(1)–1: *How is the loan-to-deposit ratio calculated?*

A1. A small institution's loan-to-deposit ratio is calculated in the same manner that the Uniform Bank Performance Report/Uniform Thrift Performance Report (UBPR/UTPR) determines the ratio. It is calculated by dividing the institution's net loans and leases by its total deposits. The ratio is found in the Liquidity and Investment Portfolio section of the UBPR and UTPR. Examiners will use this ratio to calculate an average since the last examination by adding the quarterly loan-to-deposit ratios and dividing the total by the number of quarters.

§ ____.26(a)(1)–2: *How is the "reasonableness" of a loan-to-deposit ratio evaluated?*

A2. No specific ratio is reasonable in every circumstance, and each small institution's ratio is evaluated in light of information from the performance context, including the institution's capacity to lend, demographic and economic factors present in the assessment area, and the lending opportunities available in the assessment area(s). If a small institution's loan-to-deposit ratio appears unreasonable after considering this information, lending performance may still be satisfactory under this criterion taking into consideration the number and the dollar volume of loans sold to the secondary market or the number and amount and innovativeness or complexity of community development loans and lending-related qualified investments.

§ ____.26(a)(1)–3: *If an institution makes a large number of loans off-shore, will examiners segregate the domestic*

loan-to-deposit ratio from the foreign loan-to-deposit ratio?

A3. No. Examiners will look at the institution's net loan-to-deposit ratio for the whole institution, without any adjustments.

§ ____.26(a)(2) *Percentage of lending within assessment area(s).*

§ ____.26(a)(2)–1: *Must a small institution have a majority of its lending in its assessment area(s) to receive a satisfactory performance rating?*

A1. No. The percentage of loans and, as appropriate, other lending-related activities located in the bank's assessment area(s) is but one of the performance criteria upon which small institutions are evaluated. If the percentage of loans and other lending related activities in an institution's assessment area(s) is less than a majority, then the institution does not meet the standards for satisfactory performance only under this criterion. The effect on the overall performance rating of the institution, however, is considered in light of the performance context, including information regarding economic conditions, loan demand, the institution's size, financial condition and business strategies, and branching network and other aspects of the institution's lending record.

§ ____.26(a)(3) & (4) *Distribution of lending within assessment area(s) by borrower income and geographic location.*

§ ____.26(a)(3) & (4)–1: *How will a small institution's performance be assessed under these lending distribution criteria?*

A1. Distribution of loans, like other small institution performance criteria, is considered in light of the performance context. For example, a small institution is not required to lend evenly throughout its assessment area(s) or in any particular geography. However, in order to meet the standards for satisfactory performance under this criterion, conspicuous gaps in a small institution's loan distribution must be adequately explained by performance context factors such as lending opportunities in the institution's assessment area(s), the institution's product offerings and business strategy, and institutional capacity and constraints. In addition, it may be impracticable to review the geographic distribution of the lending of an institution with few demographically distinct geographies within an assessment area. If sufficient information on the income levels of individual borrowers or the revenues or sizes of business borrowers is not available, examiners may use proxies such as loan size for estimating

borrower characteristics, where appropriate.

§ ____.26(b) *Performance Rating*

§ ____.26(b)–1: *How can a small institution achieve an "outstanding" performance rating?*

A1. A small institution that meets each of the standards for a "satisfactory" rating and exceeds some or all of those standards may warrant an "outstanding" performance rating. In assessing performance at the "outstanding" level, the agencies consider the extent to which the institution exceeds each of the performance standards and, at the institution's option, its performance in making qualified investments and providing services that enhance credit availability in its assessment area(s). In some cases, a small institution may qualify for an "outstanding" performance rating solely on the basis of its lending activities, but only if its performance materially exceeds the standards for a "satisfactory" rating, particularly with respect to the penetration of borrowers at all income levels and the dispersion of loans throughout the geographies in its assessment area(s) that display income variation. An institution with a high loan-to-deposit ratio and a high percentage of loans in its assessment area(s), but with only a reasonable penetration of borrowers at all income levels or a reasonable dispersion of loans throughout geographies of differing income levels in its assessment area(s), generally will not be rated "outstanding" based only on its lending performance. However, the institution's performance in making qualified investments and its performance in providing branches and other services and delivery systems that enhance credit availability in its assessment area(s) may augment the institution's satisfactory rating to the extent that it may be rated "outstanding."

§ ____.26(b)–2: *Will a small institution's qualified investments, community development loans, and community development services be considered if they do not directly benefit its assessment area(s)?*

A2. Yes. These activities are eligible for consideration if they benefit a broader statewide or regional area that includes a small institution's assessment area(s), as discussed more fully in §§ ____.12(i) & 563e.12(h)–6.

§ ____.27–Strategic Plan

§ ____.27(c) *Plans in General*

§ ____.27(c)–1: *To what extent will the agencies provide guidance to an*

institution during the development of its strategic plan?

A1. An institution will have an opportunity to consult with and provide information to the agencies on a proposed strategic plan. Through this process, an institution is provided guidance on procedures and on the information necessary to ensure a complete submission. For example, the agencies will provide guidance on whether the level of detail as set out in the proposed plan would be sufficient to permit agency evaluation of the plan. However, the agencies' guidance during plan development and, particularly, prior to the public comment period, will not include commenting on the merits of a proposed strategic plan or on the adequacy of measurable goals.

§ _____.27(c)-2: *How will a joint strategic plan be reviewed if the affiliates have different primary Federal supervisors?*

A2. The agencies will coordinate review of and action on the joint plan. Each agency will evaluate the measurable goals for those affiliates for which it is the primary regulator.

§ _____.27(f) *Plan Content*

§ _____.27(f)(1) *Measurable goals.*

§ _____.27(f)(1)-1: *How should "measurable goals" be specified in a strategic plan?*

A1. Measurable goals (e.g., number of loans, dollar amount, geographic location of activity, and benefit to low- and moderate-income areas or individuals) must be stated with sufficient specificity to permit the public and the agencies to quantify what performance will be expected. However, institutions are provided flexibility in specifying goals. For example, an institution may provide ranges of lending amounts in different categories of loans. Measurable goals may also be linked to funding requirements of certain public programs or indexed to other external factors as long as these mechanisms provide a quantifiable standard.

§ _____.27(g) *Plan Approval*

§ _____.27(g)(2) *Public participation.*

§ _____.27(g)(2)-1: *How will the public receive notice of a proposed strategic plan?*

A1. An institution submitting a strategic plan for approval by the agencies is required to solicit public comment on the plan for a period of thirty (30) days after publishing notice of the plan at least once in a newspaper of general circulation. The notice should be sufficiently prominent to attract public attention and should make clear that public comment is desired. An

institution may, in addition, provide notice to the public in any other manner it chooses.

§ _____.28—Assigned Ratings

§ _____.28-1: *Are innovative lending practices, innovative or complex qualified investments, and innovative community development services required for a "satisfactory" or "outstanding" CRA rating?*

A1: No. Moreover, the lack of innovative lending practices, innovative or complex qualified investments, or innovative community development services alone will not result in a "needs to improve" CRA rating. However, the use of innovative lending practices, innovative or complex qualified investments, and innovative community development services may augment the consideration given to an institution's performance under the quantitative criteria of the regulations, resulting in a higher level of performance rating.

§ _____.28-2: *How is performance under the quantitative and qualitative performance criteria weighed when examiners assign a CRA rating?*

A2: The lending, investment, and service tests each contain a number of performance criteria designed to measure whether an institution is effectively helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, in a safe and sound manner. Some of these performance criteria are quantitative, such as number and amount, and others, such as the use of innovative or flexible lending practices, the innovativeness or complexity of qualified investments, and the innovativeness and responsiveness of community development services, are qualitative. The performance criteria that deal with these qualitative aspects of performance recognize that these loans, qualified investments, and community development services sometimes require special expertise and effort on the part of the institution and provide a benefit to the community that would not otherwise be possible. As such, the agencies consider the qualitative aspects of an institution's activities when measuring the benefits received by a community. An institution's performance under these qualitative criteria may augment the consideration given to an institution's performance under the quantitative criteria of the regulations, resulting in a higher level of performance and rating.

§ _____.28(a) *Ratings in General*

§ _____.28(a)-1: *How are institutions with domestic branches in more than one state assigned a rating?*

A1. The evaluation of an institution that maintains domestic branches in more than one state ("multistate institution") will include a written evaluation and rating of its CRA record of performance as a whole and in each state in which it has a domestic branch. The written evaluation will contain a separate presentation on a multistate institution's performance for each metropolitan statistical area and the nonmetropolitan area within each state, if it maintains one or more domestic branch offices in these areas. This separate presentation will contain conclusions, supported by facts and data, on performance under the performance tests and standards in the regulation. The evaluation of a multistate institution that maintains a domestic branch in two or more states in a multistate metropolitan area will include a written evaluation (containing the same information described above) and rating of its CRA record of performance in the multistate metropolitan area. In such cases, the statewide evaluation and rating will be adjusted to reflect performance in the portion of the state not within the multistate metropolitan statistical area.

§ _____.28(a)-2: *How are institutions that operate within only a single state assigned a rating?*

A2. An institution that operates within only a single state ("single-state institution") will be assigned a rating of its CRA record based on its performance within that state. In assigning this rating, the agencies will separately present a single-state institution's performance for each metropolitan area in which the institution maintains one or more domestic branch offices. This separate presentation will contain conclusions, supported by facts and data, on the single-state institution's performance under the performance tests and standards in the regulation.

§ _____.28(a)-3: *How do the agencies weight performance under the lending, investment and service test for large retail institutions?*

A3. A rating of "outstanding," "high satisfactory," "low satisfactory," "needs to improve," or "substantial noncompliance," based on a judgment supported by facts and data, will be assigned under each performance test. Points will then be assigned to each rating as described in the first matrix set forth below. A large retail institution's overall rating under the lending, investment and service tests will then

be calculated in accordance with the second matrix set forth below, which incorporates the rating principles in the regulation.

POINTS ASSIGNED FOR PERFORMANCE UNDER LENDING, INVESTMENT AND SERVICE TESTS

	Lending	Service	Investment
Outstanding	12	6	6
High Satisfactory	9	4	4
Low Satisfactory	6	3	3
Needs to Improve	3	1	1
Substantial Noncompliance	0	0	0

COMPOSITE RATING POINT REQUIREMENTS

[Add points for three tests]

Rating	Total points
Outstanding	20 or over.
Satisfactory	11 through 19.
Needs to Improve	5 through 10.
Substantial Noncompliance	0 through 4.

Note: There is one exception to the Composite Rating matrix. An institution may not receive a rating of "satisfactory" unless it receives at least "low satisfactory" on the lending test. Therefore, the total points are capped at three times the lending test score.

§ __.29—Effect of CRA Performance on Applications

§ __.29(a) CRA Performance

§ __.29(a)–1: *What weight is given to an institution's CRA performance examination in reviewing an application?*

A1. In cases in which CRA performance is a relevant factor, information from a CRA performance examination of the institution is a particularly important consideration in the applications process because it represents a detailed evaluation of the institution's CRA performance by its Federal supervisory agency. In this light, an examination is an important, and often controlling, factor in the consideration of an institution's record. In some cases, however, the examination may not be recent or a specific issue raised in the application process, such as progress in addressing weaknesses noted by examiners, progress in implementing commitments previously made to the reviewing agency, or a supported allegation from a commenter, is relevant to CRA performance under the regulation and was not addressed in the examination. In these circumstances, the applicant should present sufficient information to supplement its record of performance and to respond to the substantive issues raised in the application proceeding.

§ __.29(a)–2: *What consideration is given to an institution's commitments for future action in reviewing an*

application by those agencies that consider such commitments?

A2. Commitments for future action are not viewed as part of the CRA record of performance. In general, institutions cannot use commitments made in the applications process to overcome a seriously deficient record of CRA performance. However, commitments for improvements in an institution's performance may be appropriate to address specific weaknesses in an otherwise satisfactory record or to address CRA performance when a financially troubled institution is being acquired.

§ __.29(b) Interested Parties

§ __.29(b)–1: *What consideration is given to comments from interested parties in reviewing an application?*

A1. Materials relating to CRA performance received during the applications process can provide valuable information. Written comments, which may express either support for or opposition to the application, are made a part of the record in accordance with the agencies' procedures, and are carefully considered in making the agencies' decision. Comments should be supported by facts about the applicant's performance and should be as specific as possible in explaining the basis for supporting or opposing the application. These comments must be submitted within the time limits provided under the agencies' procedures.

§ __.29(b)–2: *Is an institution required to enter into agreements with private parties?*

A2. No. Although communications between an institution and members of its community may provide a valuable

method for the institution to assess how best to address the credit needs of the community, the CRA does not require an institution to enter into agreements with private parties. These agreements are not monitored or enforced by the agencies.

§ __.41—Assessment Area Delineation

§ __.41(a) In General

§ __.41(a)–1: *How do the agencies evaluate "assessment areas" under the revised CRA regulations compared to how they evaluated "local communities" that institutions delineated under the original CRA regulations?*

A1. The revised rule focuses on the distribution and level of an institution's lending, investments, and services rather than on how and why an institution delineated its "local community" or assessment area(s) in a particular manner. Therefore, the agencies will not evaluate an institution's delineation of its assessment area(s) as a separate performance criterion as they did under the original regulation. Rather, the agencies will only review whether the assessment area delineated by the institution complies with the limitations set forth in the regulations at § __.41(e).

§ __.41(a)–2: *If an institution elects to have the agencies consider affiliate lending, will this decision affect the institution's assessment area(s)?*

A2. If an institution elects to have the lending activities of its affiliates considered in the evaluation of the institution's lending, the geographies in which the affiliate lends do not affect the institution's delineation of assessment area(s).

§ ____.41(a)-3: *Can a financial institution identify a specific ethnic group rather than a geographic area as its assessment area?*

A3. No, assessment areas must be based on geography.

§ ____.41(c) *Geographic Area(s) for Institutions Other Than Wholesale or Limited Purpose Institutions*

§ ____.41(c)(1) *Generally consist of one or more MSAs or one or more contiguous political subdivisions.*

§ ____.41(c)(1)-1: *Besides cities, towns, and counties, what other units of local government are political subdivisions for CRA purposes?*

A1. Townships and Indian reservations are political subdivisions for CRA purposes. Institutions should be aware that the boundaries of townships and Indian reservations may not be consistent with the boundaries of the census tracts or block numbering areas ("geographies") in the area. In these cases, institutions must ensure that their assessment area(s) consists only of whole geographies by adding any portions of the geographies that lie outside the political subdivision to the delineated assessment area(s).

§ ____.41(c)(1)-2: *Are wards, school districts, voting districts, and water districts political subdivisions for CRA purposes?*

A2. No. However, an institution that determines that it predominantly serves an area that is smaller than a city, town or other political subdivision may delineate as its assessment area the larger political subdivision and then, in accordance with § ____.41(d), adjust the boundaries of the assessment area to include only the portion of the political subdivision that it reasonably can be expected to serve. The smaller area that the institution delineates must consist of entire geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

§ ____.41(d) *Adjustments to Geographic Area(s)*

§ ____.41(d)-1: *When may an institution adjust the boundaries of an assessment area to include only a portion of a political subdivision?*

A1. Institutions must include whole geographies (i.e., census tracts or block numbering areas) in their assessment areas and generally should include entire political subdivisions. Because census tracts and block numbering areas are the common geographic areas used consistently nationwide for data collection, the agencies require that assessment areas be made up of whole geographies. If including an entire

political subdivision would create an area that is larger than the area the institution can reasonably be expected to serve, an institution may, but is not required to, adjust the boundaries of its assessment area to include only portions of the political subdivision. For example, this adjustment is appropriate if the assessment area would otherwise be extremely large, of unusual configuration, or divided by significant geographic barriers (such as a river, mountain, or major highway system). When adjusting the boundaries of their assessment areas, institutions must not arbitrarily exclude low- or moderate-income geographies or set boundaries that reflect illegal discrimination.

§ ____.41(e) *Limitations on Delineation of an Assessment Area*

§ ____.41(e)(3) *May not arbitrarily exclude low- or moderate-income geographies.*

§ ____.41(e)(3)-1: *How will examiners determine whether an institution has arbitrarily excluded low- or moderate-income geographies?*

A1. Examiners will make this determination on a case-by-case basis after considering the facts relevant to the institution's assessment area delineation. Information that examiners will consider may include:

- Income levels in the institution's assessment area(s) and surrounding geographies;
- Locations of branches and deposit-taking ATMs;
- Loan distribution in the institution's assessment area(s) and surrounding geographies;
- The institution's size;
- The institution's financial condition; and
- The business strategy, corporate structure and product offerings of the institution.

§ ____.41(e)(4) *May not extend substantially beyond a CMSA boundary or beyond a state boundary unless located in a multistate MSA.*

§ ____.41(e)(4)-1: *What are the maximum limits on the size of an assessment area?*

A1. An institution shall not delineate an assessment area extending substantially across the boundaries of a consolidated metropolitan statistical area (CMSA) or the boundaries of an MSA, if the MSA is not located in a CMSA. Similarly, an assessment area may not extend substantially across state boundaries unless the assessment area is located in a multistate MSA. An institution may not delineate a whole state as its assessment area unless the entire state is contained within a CMSA. These limitations apply to wholesale

and limited purpose institutions as well as other institutions.

An institution shall delineate separate assessment areas for the areas inside and outside a CMSA (or MSA if the MSA is not located in a CMSA) if the area served by the institution's branches outside the CMSA (or MSA) extends substantially beyond the CMSA (or MSA) boundary. Similarly, the institution shall delineate separate assessment areas for the areas inside and outside of a state if the institution's branches extend substantially beyond the boundary of one state (unless the assessment area is located in a multistate MSA). In addition, the institution should also delineate separate assessment areas if it has branches in areas within the same state that are widely separate and not at all contiguous. For example, an institution that has its main office in New York City and a branch in Buffalo, New York, and each office serves only the immediate areas around it, should delineate two separate assessment areas.

§ ____.41(e)(4)-2: *Can an institution delineate one assessment area that consists of an MSA and two large counties that abut the MSA but are not adjacent to each other?*

A2. As a general rule, an institution's assessment area should not extend substantially beyond the boundary of an MSA if the MSA is not located in a CMSA. Therefore, the MSA would be a separate assessment area, and because the two abutting counties are not adjacent to each other and, in this example, extend substantially beyond the boundary of the MSA, the institution would delineate each county as a separate assessment area (so, in this example, there would be three assessment areas). However, if the MSA and the two counties were in the same CMSA, then the institution could delineate only one assessment area including them all.

§ ____.42—Data Collection, Reporting, and Disclosure

§ ____.42-1: *When must an institution collect and report data under the CRA regulations?*

A1. All institutions except small institutions are subject to data collection and reporting requirements. A small institution is a bank or thrift that, as of December 31 of either of the prior two calendar years, had total assets of less than \$250 million and was independent or an affiliate of a holding company that, as of December 31 of either of the prior two calendar years, had total banking and thrift assets of less than \$1 billion.

For example:

Date	Institution's asset size (in millions)	Data collection required for following calendar year?
12/31/94	\$240	No.
12/31/95	260	No.
12/31/96	230	No.
12/31/97	280	No.
12/31/98	260	Yes, beginning 1/01/99.

All institutions that are subject to the data collection and reporting requirements must report the data for a calendar year by March 1 of the subsequent year. In the example, above, the institution would report the data collected for calendar year 1999 by March 1, 2000.

The Board of Governors of the Federal Reserve System is handling the processing of the reports for all of the primary regulators. The reports should be submitted in a prescribed electronic format on a timely basis. The mailing address for submitting these reports is: Attention: CRA Processing, Board of Governors of the Federal Reserve System, 1709 New York Avenue, N.W., 5th Floor, Washington, DC 20006.

§ _____.42-2: *Should an institution develop its own program for data collection, or will the regulators require a certain format?*

A2. An institution may use the free software that is provided by the FFIEC to reporting institutions for data collection and reporting or develop its own program. Those institutions that develop their own programs must follow the precise format for the new CRA data collection and reporting rules. This format may be obtained by contacting the CRA Assistance Line at (202) 872-7584.

§ _____.42-3: *How should an institution report data on lines of credit?*

A3. Institutions must collect and report data on lines of credit in the same way that they provide data on loan originations. Lines of credit are considered originated at the time the line is approved or increased; and an increase is considered a new origination. Generally, the full amount of the credit line is the amount that is considered originated. In the case of an increase to an existing line, the amount of the increase is the amount that is considered originated and that amount should be reported.

§ _____.42-4: *Should renewals of lines of credit be collected and/or reported?*

A4. *Applicable to data collected in 2000 and reported in 2001:* No. Similar to loan renewals, renewals of lines of credit are not considered loan originations and should not be collected or reported.

A4. *Applicable to data collected in 2001 and subsequent years:* Renewals of lines of credit for small business, small farm or consumer purposes should be collected and reported, if applicable, in the same manner as renewals of small business or small farm loans. See § _____.42(a)-5. Institutions that are HMDA reporters continue to collect and report home equity lines of credit at their option in accordance with the requirements of 12 CFR part 203.

§ _____.42-5: *When merging institutions collect data?*

A5. Three scenarios of data collection responsibilities for the calendar year of a merger and subsequent data reporting responsibilities are described below.

- Two institutions are exempt from CRA collection and reporting requirements because of asset size. The institutions merge. No data collection is required for the year in which the merger takes place, regardless of the resulting asset size. Data collection would begin after two consecutive years in which the combined institution had year-end assets of at least \$250 million or was part of a holding company that had year-end banking and thrift assets of at least \$1 billion.

- Institution A, an institution required to collect and report the data, and Institution B, an exempt institution, merge. Institution A is the surviving institution. For the year of the merger, data collection is required for Institution A's transactions. Data collection is optional for the transactions of the previously exempt institution. For the following year, all transactions of the surviving institution must be collected and reported.

- Two institutions that each are required to collect and report the data merge. Data collection is required for the entire year of the merger and for subsequent years so long as the surviving institution is not exempt. The surviving institution may file either a consolidated submission or separate submissions for the year of the merger but must file a consolidated report for subsequent years.

§ _____.42-6: *Can small institutions get a copy of the data collection software even though they are not required to collect or report data?*

A6. Yes. Any institution that is interested in receiving a copy of the software may send a written request to: Attn.: CRA Processing, Board of Governors of the Federal Reserve System, 1709 New York Ave, N.W., 5th Floor, Washington, DC 20006.

They may also call the CRA Assistance Line at (202) 872-7584 or send Internet e-mail to CRAHELP@FRB.GOV.

§ _____.42-7: *If a small institution is designated a wholesale or limited purpose institution, must it collect data that it would not otherwise be required to collect because it is a small institution?*

A7. No. However, small institutions must be prepared to identify those loans, investments and services to be evaluated under the community development test.

§ _____.42(a) *Loan Information Required To Be Collected and Maintained*

§ _____.42(a)-1: *Must institutions collect and report data on all commercial loans under \$1 million at origination?*

A1. No. Institutions that are not exempt from data collection and reporting are required to collect and report only those commercial loans that they capture in the Call Report, Schedule RC-C, Part II, and in the TFR, Schedule SB. Small business loans are defined as those whose original amounts are \$1 million or less *and* that were reported as either "Loans secured by nonfarm or nonresidential real estate" or "Commercial and Industrial loans" in Part I of the Call Report or TFR.

§ _____.42(a)-2: *For loans defined as small business loans, what information should be collected and maintained?*

A2. Institutions that are not exempt from data collection and reporting are required to collect and maintain in a standardized, machine readable format information on each small business loan originated or purchased for each calendar year:

- A unique number or alpha-numeric symbol that can be used to identify the relevant loan file;
- The loan amount at origination;
- The loan location; and

• An indicator whether the loan was to a business with gross annual revenues of \$1 million or less.

The location of the loan must be maintained by census tract or block numbering area. In addition, supplemental information contained in the file specifications includes a date associated with the origination or purchase and whether a loan was originated or purchased by an affiliate. The same requirements apply to small farm loans.

§ ____ .42(a)-3: *Will farm loans need to be segregated from business loans?*

A3. Yes.

§ ____ .42(a)-4: *Should institutions collect and report data on all agricultural loans under \$500,000 at origination?*

A4. Institutions are to report those farm loans that they capture in the Call Report, Schedule RC-C, Part II and Schedule SB of the TFR. Small farm loans are defined as those whose original amounts are \$500,000 or less and were reported as either "Loans to finance agricultural production and other loans to farmers" or "Loans secured by farmland" in Part I of the Call Report and TFR.

§ ____ .42(a)-5: *Should institutions collect and report data about small business and small farm loans that are refinanced or renewed?*

A5. *Applicable to data collected in 2000 and reported in 2001:* An institution collects and reports information about refinancings but does not collect and report information about renewals. A *refinancing* typically involves the satisfaction of an existing obligation that is replaced by a new obligation undertaken by the same borrower. When an institution refinances a loan, it is considered a new origination, and loan data should be collected and reported, if otherwise required. Consistent with HMDA, however, if under the original loan agreement, the institution is unconditionally obligated to refinance the loan subject to conditions within the borrower's control, the institution should not report these events as originations.

For purposes of CRA data collection and reporting requirements, the extension of the maturity of an existing loan is a *renewal*, and is not considered a loan origination. Therefore, institutions should not collect and report data on loan renewals.

A5. *Applicable to data collected in 2001 and subsequent years:* An institution should collect information about small business and small farm loans that it refinances or renews as loan originations. (A *refinancing*

generally occurs when the existing loan obligation or note is satisfied and a new note is written, while a *renewal* refers to an extension of the term of a loan. However, for purposes of small business and small farm CRA data collection and reporting, it is no longer necessary to distinguish between the two.) When reporting small business and small farm data, however, an institution may only report one origination (including a renewal or refinancing treated as an origination) per loan per year, unless an increase in the loan amount is granted.

If an institution increases the amount of a small business or small farm loan when it extends the term of the loan, it should always report the amount of the increase as a small business or small farm loan origination. The institution should report only the amount of the increase if the original or remaining amount of the loan has already been reported one time that year. For example, a financial institution makes a term loan for \$25,000; principal payments have resulted in a present outstanding balance of \$15,000. In the next year, the customer requests an additional \$5,000, which is approved, and a new note is written for \$20,000. In this example, the institution should report both the \$5,000 increase and the renewal or refinancing of the \$15,000 as originations for that year.

§ ____ .42(a)-6: *Does a loan to the "fishing industry" come under the definition of a small farm loan?*

A6. Yes. Instructions for Part I of the Call Report and Schedule SB of the TFR include loans "made for the purpose of financing fisheries and forestries, including loans to commercial fishermen" as a component of the definition for "Loans to finance agricultural production and other loans to farmers." Part II of Schedule RC-C of the Call Report and Schedule SB of the TFR, which serve as the basis of the definition for small business and small farm loans in the revised regulation, capture both "Loans to finance agricultural production and other loans to farmers" and "Loans secured by farmland."

§ ____ .42(a)-7: *How should an institution report a home equity line of credit, part of which is for home improvement purposes, but the predominant part of which is for small business purposes?*

A7. The institution has the option of reporting the portion of the home equity line that is for home improvement purposes under HMDA. That portion of the loan would then be considered when examiners evaluate home mortgage lending. If the line meets the regulatory definition of a "community

development loan," the institution should collect and report information on the entire line as a community development loan. If the line does not qualify as a community development loan, the institution has the option of collecting and maintaining (but not reporting) the entire line of credit as "Other Secured Lines/Loans for Purposes of Small Business."

§ ____ .42(a)-8: *When collecting small business and small farm data for CRA purposes, may an institution collect and report information about loans to small businesses and small farms located outside the United States?*

A8. At an institution's option, it may collect data about small business and small farm loans located outside the United States; however, it cannot report this data because the CRA data collection software will not accept data concerning loan locations outside the United States.

§ ____ .42(a)-9: *Is an institution that has no small farm or small business loans required to report under CRA?*

A9. Each institution subject to data reporting requirements must, at a minimum, submit a transmittal sheet, definition of its assessment area(s), and a record of its community development loans. If the institution does not have community development loans to report, the record should be sent with "0" in the community development loan composite data fields. An institution that has not purchased or originated any small business or small farm loans during the reporting period would not submit the composite loan records for small business or small farm loans.

§ ____ .42(a)-10: *How should an institution collect and report the location of a loan made to a small business or farm if the borrower provides an address that consists of a post office box number or a rural route and box number?*

A10. Prudent banking practices dictate that an institution know the location of its customers and loan collateral. Therefore, institutions typically will know the actual location of their borrowers or loan collateral beyond an address consisting only of a post office box.

Many borrowers have street addresses in addition to post office box numbers or rural route and box numbers. Institutions should ask their borrowers to provide the street address of the main business facility or farm or the location where the loan proceeds otherwise will be applied. Moreover, in many cases in which the borrower's address consists only of a rural route number or post office box, the institution knows the

location (i.e., the census tract or block numbering area) of the borrower or loan collateral. Once the institution has this information available, it should assign a census tract or block numbering area to that location (geocode) and report that information as required under the regulation.

For loans originated or purchased in 1998 or later, if the institution cannot determine the borrower's street address, and does not know the census tract or block numbering area, the institution should report the borrower's state, county, MSA, if applicable, and "NA," for "not available," in lieu of a census tract or block numbering area code.

§ _____.42(a)(2) *Loan amount at origination.*

§ _____.42(a)(2)-1: *When an institution purchases a small business or small farm loan, which amount should the institution collect and report—the original amount of the loan or the amount at purchase?*

A1. When collecting and reporting information on purchased small business and small farm loans, an institution collects and reports the amount of the loan at origination, not at the time of purchase. This is consistent with the Call Report's and TFR's use of the "original amount of the loan" to determine whether a loan should be reported as a "loan to a small business" or a "loan to a small farm" and in which loan size category a loan should be reported. When assessing the volume of small business and small farm loan purchases for purposes of evaluating lending test performance under CRA, however, examiners will evaluate an institution's activity based on the amounts at purchase.

§ _____.42(a)(2)-2: *How should an institution collect data about multiple loan originations to the same business?*

A2. If an institution makes multiple originations to the same business, the loans should be collected and reported as separate originations rather than combined and reported as they are on the Call Report or TFR, which reflect loans outstanding, rather than originations. However, if institutions make multiple originations to the same business solely to inflate artificially the number or volume of loans evaluated for CRA lending performance, the agencies may combine these loans for purposes of evaluation under the CRA.

§ _____.42(a)(2)-3: *How should an institution collect data pertaining to credit cards issued to small businesses?*

A3. If an institution agrees to issue credit cards to a business' employees, all of the credit card lines opened on a particular date for that single business should be reported as one small

business loan origination rather than reporting each individual credit card line, assuming the criteria in the "small business loan" definition in the regulation are met. The credit card program's "amount at origination" is the sum of all of the employee/business credit cards' credit limits opened on a particular date. If subsequently issued credit cards increase the small business credit line, the added amount is reported as a new origination.

§ _____.42(a)(3) *The loan location.*

§ _____.42(a)(3)-1: *Which location should an institution record if a small business loan's proceeds are used in a variety of locations?*

A1. The institution should record the loan location by either the location of the business headquarters or the location where the greatest portion of the proceeds are applied, as indicated by the borrower.

§ _____.42(a)(4) *Indicator of gross annual revenue.*

§ _____.42(a)(4)-1: *When indicating whether a small business borrower had gross annual revenues of \$1 million or less, upon what revenues should an institution rely?*

A1. Generally, an institution should rely on the revenues that it considered in making its credit decision. For example, in the case of affiliated businesses, such as a parent corporation and its subsidiary, if the institution considered the revenues of the entity's parent or a subsidiary corporation of the parent as well, then the institution would aggregate the revenues of both corporations to determine whether the revenues are \$1 million or less. Alternatively, if the institution considered the revenues of only the entity to which the loan is actually extended, the institution should rely solely upon whether gross annual revenues are above or below \$1 million for that entity. However, if the institution considered and relied on revenues or income of a cosigner or guarantor that is not an affiliate of the borrower, such as a sole proprietor, the institution should not adjust the borrower's revenues for reporting purposes.

§ _____.42(a)(4)-2: *If an institution that is not exempt from data collection and reporting does not request or consider revenue information to make the credit decision regarding a small business or small farm loan, must the institution collect revenue information in connection with that loan?*

A2. No. In those instances, the institution should enter the code indicating "revenues not known" on the individual loan portion of the data collection software or on an internally

developed system. Loans for which the institution did not collect revenue information may not be included in the loans to businesses and farms with gross annual revenues of \$1 million or less when reporting this data.

§ _____.42(a)(4)-3: *What gross revenue should an institution use in determining the gross annual revenue of a start-up business?*

A3. The institution should use the actual gross annual revenue to date (including \$0 if the new business has had no revenue to date). Although a start-up business will provide the institution with pro forma projected revenue figures, these figures may not accurately reflect actual gross revenue.

§ _____.42(a)(4)-4: *When collecting and reporting the gross annual revenue of small business or farm borrowers, do institutions collect and report the gross annual revenue or the adjusted gross annual revenue of its borrowers?*

A4. Institutions collect and report the gross annual revenue, rather than the adjusted gross annual revenue, of their small business or farm borrowers. The purpose of this data collection is to enable examiners and the public to judge whether the institution is lending to small businesses and farms or whether it is only making small loans to larger businesses and farms.

The regulation does not require institutions to request or consider revenue information when making a loan; however, if institutions do gather this information from their borrowers, the agencies expect them to collect and report the borrowers' gross annual revenue for purposes of CRA. The CRA regulations similarly do not require institutions to verify revenue amounts; thus, institutions may rely on the gross annual revenue amount provided by borrowers in the ordinary course of business. If an institution does not collect gross annual revenue information for its small business and small farm borrowers, the institution would not indicate on the CRA data collection software that the gross annual revenues of the borrower are \$1 million or less. (See § _____.42(a)(4)-2.)

§ _____.42(b) *Loan Information Required To Be Reported*

§ _____.42(b)(1) *Small business and small farm loan data.*

§ _____.42(b)(1)-1: *For small business and small farm loan information that is collected and maintained, what data should be reported?*

A1. Each institution that is not exempt from data collection and reporting is required to report in machine-readable form annually by March 1 the following information,

aggregated for each census tract or block numbering area in which the institution originated or purchased at least one small business or small farm loan during the prior year:

- The number and amount of loans originated or purchased with original amounts of \$100,000 or less;
- The number and amount of loans originated or purchased with original amounts of more than \$100,000 but less than or equal to \$250,000;
- The number and amount of loans originated or purchased with original amounts of more than \$250,000 but not more than \$1 million, as to small business loans, or \$500,000, as to small farm loans; and
- To the extent that information is available, the number and amount of loans to businesses and farms with gross annual revenues of \$1 million or less (using the revenues the institution considered in making its credit decision).

§ ____ .42(b)(2) *Community development loan data.*

§ ____ .42(b)(2)-1: *What information about community development loans must institutions report?*

A1. Institutions subject to data reporting requirements must report the aggregate number and amount of community development loans originated and purchased during the prior calendar year.

§ ____ .42(b)(2)-2: *If a loan meets the definition of a home mortgage, small business, or small farm loan AND qualifies as a community development loan, where should it be reported? Can FHA, VA and SBA loans be reported as community development loans?*

A2. Except for multifamily affordable housing loans, which may be reported by retail institutions both under HMDA as home mortgage loans and as community development loans, in order to avoid double counting, retail institutions must report loans that meet the definitions of home mortgage, small business, or small farm loans only in those respective categories even if they also meet the definition of community development loans. As a practical matter, this is not a disadvantage for retail institutions because any affordable housing mortgage, small business, small farm or consumer loan that would otherwise meet the definition of a community development loan will be considered elsewhere in the lending test. Any of these types of loans that occur outside the institution's assessment area can receive consideration under the borrower characteristic criteria of the lending test. See § ____ .22(b)(2) & (3)-4.

Limited purpose and wholesale institutions also must report loans that meet the definitions of home mortgage, small business, or small farm loans in those respective categories; however, they must also report any loans from those categories that meet the regulatory definition of "community development loans" as community development loans. There is no double counting because wholesale and limited purpose institutions are not subject to the lending test and, therefore, are not evaluated on their level and distribution of home mortgage, small business, small farm and consumer loans.

§ ____ .42(b)(2)-3: *When the primary purpose of a loan is to finance an affordable housing project for low- or moderate-income individuals, but, for example, only 40 percent of the units in question will actually be occupied by individuals or families with low or moderate incomes, should the entire loan amount be reported as a community development loan?*

A3. Yes. As long as the primary purpose of the loan is a community development purpose, the full amount of the institution's loan should be included in its reporting of aggregate amounts of community development lending. However, as noted in § ____ .22(b)(4)-1, examiners may make qualitative distinctions among community development loans on the basis of the extent to which the loan advances the community development purpose.

§ ____ .42(b)(3) *Home mortgage loans.*

§ ____ .42(b)(3)-1: *Must institutions that are not required to collect home mortgage loan data by the HMDA collect home mortgage loan data for purposes of the CRA?*

A1. No. If an institution is not required to collect home mortgage loan data by the HMDA, the institution need not collect home mortgage loan data under the CRA. Examiners will sample these loans to evaluate the institution's home mortgage lending. If an institution wants to ensure that examiners consider all of its home mortgage loans, the institution may collect and maintain data on these loans.

§ ____ .42(c) *Optional Data Collection and Maintenance*

§ ____ .42(c)(1) *Consumer loans.*

§ ____ .42(c)(1)-1: *What are the data requirements regarding consumer loans?*

A1. There are no data reporting requirements for consumer loans. Institutions may, however, opt to collect and maintain data on consumer loans. If an institution chooses to collect information on consumer loans, it may collect data for one or more of the

following categories of consumer loans: motor vehicle, credit card, home equity, other secured, and other unsecured. If an institution collects data for loans in a certain category, it must collect data for all loans originated or purchased within that category. The institution must maintain these data separately for each category for which it chooses to collect data. The data collected and maintained should include for each loan:

- A unique number or alpha-numeric symbol that can be used to identify the relevant loan file;
- The loan amount at origination or purchase;
- The loan location; and
- The gross annual income of the borrower that the institution considered in making its credit decision.

Generally, guidance given with respect to data collection of small business and small farm loans, including, for example, guidance regarding collecting loan location data, and whether to collect data in connection with refinanced or renewed loans, will also apply to consumer loans.

§ ____ .42(c)(1)(iv) *Income of borrower.*

§ ____ .42(c)(1)(iv)-1: *If an institution does not consider income when making an underwriting decision in connection with a consumer loan, must it collect income information?*

A1. No. Further, if the institution routinely collects, but does not verify, a borrower's income when making a credit decision, it need not verify the income for purposes of data maintenance.

§ ____ .42(c)(1)(iv)-2: *May an institution list "0" in the income field on consumer loans made to employees when collecting data for CRA purposes as the institution would be permitted to do under HMDA?*

A2. Yes.

§ ____ .42(c)(1)(iv)-3: *When collecting the gross annual income of consumer borrowers, do institutions collect the gross annual income or the adjusted gross annual income of the borrowers?*

A3. Institutions collect the gross annual income, rather than the adjusted gross annual income, of consumer borrowers. The purpose of income data collection in connection with consumer loans is to enable examiners to determine the distribution, particularly in the institution's assessment area(s), of the institution's consumer loans, based on borrower characteristics, including the number and amount of consumer loans to low-, moderate-, middle-, and upper-income borrowers, as determined on the basis of gross annual income.

The regulation does not require institutions to request or consider income information when making a loan; however, if institutions do gather this information from their borrowers, the agencies expect them to collect the borrowers' gross annual income for purposes of CRA. The CRA regulations similarly do not require institutions to verify income amounts; thus, institutions may rely on the gross annual income amount provided by borrowers in the ordinary course of business.

§§ _____.42(c)(1)(iv)–4: *Whose income does an institution collect when a consumer loan is made to more than one borrower?*

A4. An institution that chooses to collect and maintain information on consumer loans collects the gross annual income of all primary obligors for consumer loans, to the extent that the institution considered the income of the obligors when making the decision to extend credit. Primary obligors include co-applicants and co-borrowers, including co-signers. An institution does not, however, collect the income of guarantors on consumer loans, because guarantors are only secondarily liable for the debt.

§ _____.42(c)(2) *Other loan data.*

§ _____.42(c)(2)–1: *Schedule RC–C, Part II of the Call Report and schedule SB of the TFR do not allow financial institutions to report loans for commercial and industrial purposes that are secured by residential real estate. Loans extended to small businesses with gross annual revenues of \$1 million or less may, however, be secured by residential real estate. Is there a way to collect this information on the software to supplement an institution's small business lending data at the time of examination?*

A1. Yes. If these loans promote community development, as defined in the regulation, the institution should collect and report information about these loans as community development loans. Otherwise, *at an institution's option*, it may collect and maintain data concerning loans, purchases, and lines of credit extended to small businesses and secured by residential real estate for consideration in the CRA evaluation of its small business lending. To facilitate this optional data collection, the software distributed free-of-charge by the FFIEC provides that an institution may collect this information to supplement its small business lending data by choosing loan type, "Other Secured Lines/Loans for Purposes of Small Business," in the individual loan data. (The title of the loan type, "Other Secured Lines of Credit for Purposes of Small Business," which was found in

the instructions accompanying the 1996 data collection software, is being changed to "Other Secured Lines/Loans for Purposes of Small Business" in order to accurately reflect that lines of credit *and* loans may be reported under this loan type.) This information should be maintained at the institution but should *not* be submitted for central reporting purposes.

§ _____.42(c)(2)–2: *Must an institution collect data on loan commitments and letters of credit?*

A2. No. Institutions are not required to collect data on loan commitments and letters of credit. Institutions may, however, provide for examiner consideration information on letters of credit and commitments.

§ _____.42(c)(2)–3: *Are commercial and consumer leases considered loans for purposes of CRA data collection?*

A3. Commercial and consumer leases are not considered small business or small farm loans or consumer loans for purposes of the data collection requirements in 12 CFR § _____.42(a) & (c)(1). However, if an institution wishes to collect and maintain data about leases, the institution may provide this data to examiners as "other loan data" under 12 CFR § _____.42(c)(2) for consideration under the lending test.

§ _____.42(d) *Data on Affiliate Lending*

§ _____.42(d)–1: *If an institution elects to have an affiliate's home mortgage lending considered in its CRA evaluation, what data must the institution make available to examiners?*

A1. If the affiliate is a HMDA reporter, the institution must identify those loans reported by its affiliate under 12 CFR part 203 (Regulation C, implementing HMDA). At its option, the institution may either provide examiners with the affiliate's entire HMDA Disclosure Statement or just those portions covering the loans in its assessment area(s) that it is electing to consider. If the affiliate is not required by HMDA to report home mortgage loans, the institution must provide sufficient data concerning the affiliate's home mortgage loans for the examiners to apply the performance tests.

§ _____.43—Content and Availability of Public File

§ _____.43(a) *Information Available to the Public*

§ _____.43(a)(1) *Public Comments.*

§ _____.43(a)(1)–1: *What happens to comments received by the agencies?*

A1. Comments received by a Federal financial supervisory agency will be on file at the agency for use by examiners. Those comments are also available to the public unless they are exempt from

disclosure under the Freedom of Information Act.

§ _____.43(a)(1)–2: *Is an institution required to respond to public comments?*

A2. No. All institutions should review comments and complaints carefully to determine whether any response or other action is warranted. A small institution subject to the small institution performance standards is specifically evaluated on its record of taking action, if warranted, in response to written complaints about its performance in helping to meet the credit needs in its assessment area(s) (§ _____.26(a)(5)). For all institutions, responding to comments may help to foster a dialogue with members of the community or to present relevant information to an institution's Federal financial supervisory agency. If an institution responds in writing to a letter in the public file, the response must also be placed in that file, unless the response reflects adversely on any person or placing it in the public file violates a law.

§ _____.43(a)(1)–3: *May an institution include a response to its CRA Performance Evaluation in its public file?*

A3. Yes. However, the format and content of the evaluation, as transmitted by the supervisory agency, may not be altered or abridged in any manner. In addition, an institution that received a less than satisfactory rating during its most recent examination must include in its public file a description of its current efforts to improve its performance in helping to meet the credit needs of its entire community. The institution must update the description on a quarterly basis.

§ _____.43(b) *Additional Information Available to the Public*

§ _____.43(b)(1) *Institutions other than small institutions.*

§ _____.43(b)(1)–1: *Must an institution that elects to have affiliate lending considered include data on this lending in its public file?*

A1. Yes. The lending data to be contained in an institution's public file covers the lending of the institution's affiliates, as well as of the institution itself, considered in the assessment of the institution's CRA performance. An institution that has elected to have mortgage loans of an affiliate considered must include either the affiliate's HMDA Disclosure Statements for the two prior years or the parts of the Disclosure Statements that relate to the institution's assessment area(s), at the institution's option.

§ ____ .43(b)(1)-2: *May an institution retain the compact disc provided by the Federal Financial Institution Examination Council that contains its CRA Disclosure Statement in its public file, rather than printing a hard copy of the CRA Disclosure Statement for retention in its public file?*

A2. Yes, if the institution can readily print out from the compact disc (or a duplicate of the compact disc) its CRA Disclosure Statement for a consumer when the public file is requested. If the request is at a branch other than the main office or the one designated branch in each state that holds the complete public file, the bank should provide the CRA Disclosure Statement in a paper copy, or in another format acceptable to the requestor, within 5 calendar days, as required by § ____ .43(c)(2)(ii).

§ ____ .43(c) *Location of Public Information*

§ ____ .43(c)-1: *What is an institution's "main office"?*

A1. An institution's main office is the main, home, or principal office as designated in its charter.

§ ____ .44—Public Notice by Institutions

§ ____ .44-1: *Are there any placement or size requirements for an institution's public notice?* A1. The notice must be placed in the institution's public lobby, but the size and placement may vary. The notice should be placed in a location and be of a sufficient size that customers can easily see and read it.

§ ____ .45—Publication of Planned Examination Schedule

§ ____ .45-1: *Where will the agencies publish the planned examination schedule for the upcoming calendar quarter?*

A1. The agencies may use the **Federal Register**, a press release, the Internet, or other existing agency publications for disseminating the list of the institutions scheduled to for CRA examinations during the upcoming calendar quarter. Interested parties should contact the appropriate Federal financial supervisory agency for information on how the agency is publishing the planned examination schedule.

§ ____ .45-2: *Is inclusion on the list of institutions that are scheduled to*

undergo CRA examinations in the next calendar quarter determinative of whether an institution will be examined in that quarter?

A2. No. The agencies attempt to determine as accurately as possible which institutions will be examined during the upcoming calendar quarter. However, whether an institution's name appears on the published list does not conclusively determine whether the institution will be examined during that quarter. The agencies may need to defer a planned examination or conduct an unforeseen examination because of scheduling difficulties or other circumstances.

Appendix A to Part ____ —Ratings

Appendix A to Part ____ -1: *Must an institution's performance fit each aspect of a particular rating profile in order to receive that rating?*

A1. No. Exceptionally strong performance in some aspects of a particular rating profile may compensate for weak performance in others. For example, a retail institution that uses non-branch delivery systems to obtain deposits and to deliver loans may have almost all of its loans outside the institution's assessment area. Assume that an examiner, after consideration of performance context and other applicable regulatory criteria, concludes that the institution has weak performance under the lending test criteria applicable to lending activity, geographic distribution, and borrower characteristics within the assessment area. The institution may compensate for such weak performance by exceptionally strong performance in community development lending in its assessment area or a broader statewide or regional area that includes its assessment area.

Appendix B to Part ____ —CRA Notice

Appendix B to Part ____ -1: *What agency information should be added to the CRA notice form?*

A1. The following information should be added to the form:

OCC-supervised institutions only: The address of the deputy comptroller of the district in which the institution is located should be inserted in the appropriate blank. These addresses can be found at 12 CFR § 4.5(a).

OCC-, FDIC-, and Board-supervised institutions: "Officer in Charge of Supervision" is the title of the responsible official at the appropriate Federal Reserve Bank.

Appendix A

Regional Offices of the Bureau of the Census

To obtain median family income levels of census tracts, MSAs, block numbering areas and statewide nonmetropolitan areas, contact the appropriate regional office of the Bureau of the Census as indicated below. The list shows the states covered by each regional office.

Atlanta

(404) 730-3833
Alabama, Florida, Georgia

Boston

(617) 424-0510
Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

Charlotte

(704) 344-6144
District of Columbia, Kentucky, North Carolina, South Carolina, Tennessee, Virginia

Chicago

(708) 562-1740
Illinois, Indiana, Wisconsin

Dallas

(214) 640-4470 or (800) 835-9752
Louisiana, Mississippi, Texas

Denver

(303) 969-7750
Arizona, Colorado, Nebraska, New Mexico, North Dakota, South Dakota, Utah, Wyoming

Detroit

(313) 259-1875
Michigan, Ohio, West Virginia

Kansas City

(913) 551-6711
Arkansas, Iowa, Kansas, Minnesota, Missouri, Oklahoma

Los Angeles

(818) 904-6339
California

New York

(212) 264-4730
New York, Puerto Rico

Philadelphia

(215) 597-8313 or (215) 597-8312
Delaware, Maryland, New Jersey, Pennsylvania

Seattle

(206) 728-5314
Alaska, Hawaii, Idaho, Montana, Nevada, Oregon, Washington

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Keyword	Q & A
Affiliate lending	§ ____ .22(b)(1)-1. § ____ .22(b)(2) & (3)-3. § ____ .22(c)(1)-1. § ____ .22(c)(2)(i)-1. § ____ .22(c)(2)(ii)-1.

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	§ .22(c)(2)(ii)–2.
	§ .41(a)–2.
	§ .42(d)–1.
Affiliates	§ .43(b)(1)–1.
	§ .12(a)–1.
Affordable housing	§ .27(c)–2.
	§§ .12(h) & 563e.12(g)–1.
	§§ .12(h) & 563e.12(g)–2.
	§§ .12(h)(1) & 563e.12(g)(1)–1.
Alternative delivery systems	§ .42(b)(2)–3.
	§ .24(d)–1.
	§ .24(d)(3)–1.
Applications, corporate	§ .24(d)(3)–2.
	§ .29(a)–1.
	§ .29(a)–2.
Assessment area	§ .29(b)–1.
	§ b)(2) & (3)–2.
	§ .22(b)(2) & (3)–3.
	§ .22(b)(2) & (3)–4.
	§ .26(a)(2)–1.
	§ .41(a)–1.
	§ .41(a)–2.
	§ .41(a)–3.
	§ .41(c)(1)–1.
	§ .41(c)(1)–2.
	§ .41(d)–1.
	§ .41(e)(3)–1.
	§ .41(e)(4)–1.
	§ .41(e)(4)–2.
Assessment area, benefit to	§§ .12(i) & 563e.12(h)–5.
	§§ .12(i) & 563e.12(h)–6.
	§ .25(e)–1.
	§ .26(b)–2.
Assets	§§ .12(t) & 563e.12(s)–1.
	§§ .12(t) & 563e.12(s)–2.
ATMs	§§ .12(f) & 563e.12(e)–1.
	§ .24(d)–1.
	§ .24(d)(3)–1.
	§ .41(e)(3)–1.
Borrower characteristics	§ .22(b)(2) & (3)–1.
	§ .22(b)(2) & (3)–5.
	§ .26(a)(3) & (4)–1.
	§ .42(c)(1)(iv)–3.
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End of text of the Interagency Questions and Answers.

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