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Community Reinvestment Act and Consumer Compliance Considerations in Applications

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The spring 2015 *Bank Owner* column by Federal Reserve staff discussed how the Federal Reserve assesses competition when we review applications for approval to engage in expansionary activities including mergers, acquisitions, and branching. In this column, we discuss factors we consider when we review the Community Reinvestment Act (CRA) and consumer compliance records of the acquiring organization as part of our assessment of organization management and the obligation to meet community banking needs. We also identify the circumstances under which we may approve an application by an organization with CRA or compliance weaknesses. Next, we discuss addressing weaknesses at the target organization. We conclude by discussing the impact of substantive public comments.

Community Reinvestment Act and consumer compliance considerations: The CRA requires the Federal Reserve to consider an organization's record of helping to meet the credit needs of its local communities in evaluating applications for mergers, acquisitions and branches. We also must consider the strength of institution management and whether the proposal will have a positive effect on meeting the banking needs of the community. Applications involving a bank or a holding company with a depository subsidiary that has a less-than-satisfactory CRA or consumer compliance rating raise significant concerns, face barriers to approval and have generally been discouraged. These ratings generally reflect unfavorably on organization management and/or the ability of the entity to serve community needs effectively.

Mitigating factors that may facilitate approval: The Federal Reserve may consider approving applications involving applicants with a less-than-satisfactory CRA or consumer compliance rating in some cases. For example, we may consider a branch opening for an applicant with a less-than-satisfactory CRA rating if it addresses CRA weaknesses or the branch is in a low- or moderate-income or minority census tract. The applicant must demonstrate, however, that the branch opening addresses an unmet need for banking services, including credit, and does not detract from efforts to address non-branch related CRA deficiencies. Likewise, the Federal Reserve may act favorably on applications where the applicant or its subsidiary has a less-than-satisfactory compliance rating if:

- The issues that led to the rating or weaknesses in the consumer compliance program are not severe;
- This is the first less-than-satisfactory rating and the weaknesses are not repeat in nature;
- The institution has taken appropriate corrective action in the view of the primary regulator;
- The problem institution is a small part of the organization's consolidated total assets; and
- The proposal would not pose a material distraction to management in its efforts to achieve corrective action and maintain a satisfactory compliance program going forward.

Target organization weaknesses: We also consider the CRA and consumer compliance performance of the target organization. The applicant should outline specific steps it will take to address identified CRA or compliance weaknesses at the target. The applicant's consumer compliance program and policies and procedures should be adequate to ensure successful integration of the target organization. Organization management and the compliance program should ensure that the combined organization would continue to maintain satisfactory CRA and consumer compliance programs after consummation.

Public comments: Substantiated public comments alleging CRA or fair lending concerns may also inhibit application approval. Applicants must publish notice of proposals to merge or acquire another organization to inform the public of the opportunity to submit written comment on any proposal. Public comments provide the Federal Reserve with a broader perspective on an organization's CRA or consumer compliance performance beyond examination ratings. Adverse comments require additional processing time to allow the Federal Reserve to evaluate the comment and to give the applicant the opportunity to respond. The majority of public comments the Federal Reserve reviews are related to CRA or fair lending. We encourage applicants to respond in detail to adverse public comments; however, the best way to address these concerns is to avoid them by developing and maintaining strong relationships with local communities before filing an application.

A strong CRA and consumer compliance record can facilitate the applications review process. At the same time, unaddressed weaknesses in CRA and/or consumer compliance or adverse public comments can cause significant delays in the review process and can potentially inhibit approval. If you have questions regarding consumer compliance or CRA factors in the application process, please contact Reserve Bank applications or consumer affairs staff.

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