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CORPORATE & FINANCIAL WEEKLY DIGEST

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Banking Agencies Expand Scope of Community Reinvestment Act Regulations

On December 15, the federal bank and thrift regulatory agencies announced changes to Community Reinvestment Act (CRA) regulations to support stabilization of communities affected by high foreclosure levels. The CRA requires the federal banking and thrift regulatory agencies to assess the record of each insured depository institution in helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution, and to take that record into account when the agency evaluates an application by the institution for a deposit facility.

The final rule is substantially the same as the proposal published for comment on June 24. It encourages depository institutions to support eligible development activities in areas designated under the Neighborhood Stabilization Program (NSP) administered by the U.S. Department of Housing and Urban Development (HUD). Under the NSP, HUD has provided funds to state and local governments and nonprofit organizations for the purchase and redevelopment of abandoned and foreclosed properties. The new rule encourages depository institutions to make loans and investments, and provide services to support NSP activities in areas with HUD-approved plans. In this respect, the agencies are revising the term “community development” to include loans, investments and services by financial institutions that support, enable or facilitate projects or activities that meet the “eligible uses” criteria described in Section 2301(c) of the Housing and Economic Recovery Act of 2008, as amended, and are conducted in designated target areas identified in plans approved by the HUD under the NSP. The final rule provides favorable CRA consideration of such activities that, pursuant to the requirements of the program, benefit low-, moderate- and middle-income individuals and geographies in NSP target areas designated as “areas of greatest need.” Covered activities are considered both within an institution’s assessment area(s) and outside of its assessment area(s), as long as the institution has adequately addressed the community development needs of its assessment area(s). Favorable consideration under the revised rule will be available until no later than two years after the last date appropriated funds for the program are required to be spent by the grantees. The agencies believe that allowing banking institutions to receive CRA consideration for NSP-eligible activities in additional NSP-targeted areas serves the purposes of the CRA and creates an opportunity to build upon government programs in areas with high rates of foreclosure and vacancy. CRA consideration is not limited to activities actually receiving NSP funds, and may include other eligible activities in NSP plan areas.

The final rule will be effective 30 days from the date of its publication in the *Federal Register*, which is expected shortly.

Read more.

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