FEDERAL RESERVE BANK of KANSAS CITY

February 10, 2009

FINAL QUESTIONS AND ANSWERS ON COMMUNITY REINVESTMENT

Attention: **Chief Executive Officer of Each Tenth District State Member Bank**

Subject: Issuance of Final Interagency Questions and Answers on Community Reinvestment

In Brief: On January 6, 2009, the federal financial institution regulatory agencies announced the publication of new and revised *Interagency Questions and Answers Regarding Community Reinvestment* that, among other things, encourages financial institutions to take steps to help prevent home mortgage foreclosures. The Questions and Answers (Q&As) interpret the agencies' Community Reinvestment Act (CRA) regulations and provide guidance to financial institutions and the public. The agencies proposed the Q&As on July 11, 2007. After considering the comments, the agencies adopted the majority of the Q&As as they were proposed or with revisions in response to the comments. In this release, 9 new Q&As were published and 14 existing Q&As were revised.

Highlights: Following is a summary of some key changes to the new Q&As:

- Loans and investments made to minority- or women-owned financial institutions and low-income credit unions (MWLI) qualify as community development. Moreover, the new Q&A allows for a broader geographic allowance outside the institution's assessment area (AA) as long as the activity helps meet the needs of the local communities in which MWLIs are chartered.

- Intermediate Small Banks (ISBs) that do not report Home Mortgage Disclosure Act (HMDA) and CRA data will be allowed to select certain home mortgage, small business, and small farm loans that would otherwise be considered under the lending test, to be considered, at an ISB's option, under the community development test. ISBs that continue to report either HMDA or CRA loans may not receive consideration for these loans under the community development test.

- Investments in nationwide community development funds are considered important sources of investments for low-to-moderate income (LMI) and underserved communities throughout the country; as a result, a bank's CRA CD investment activity will be considered if it can reasonably demonstrate that the fund's function serves the geographies or individuals within the bank's AA.

- Activities that provide foreclosure mitigation and prevention have been added to qualified community development service examples. These include credit counseling, homebuyer and home maintenance counseling, financial planning, or other financial services education to promote community development and affordable housing to assist LMI borrowers in avoiding foreclosures on their homes. Furthermore, providing foreclosure prevention programs to LMI homeowners who are facing foreclosure with the objective of providing affordable, sustainable, long-term loan modifications and restructurings will be considered a community development service.

- Lending activities that may warrant favorable consideration as loan activities that are responsive have been added and do not need to be targeted to LMI individuals. Examples include:
  - Loan programs that include financial education components about how to avoid abusive or unsuitable lending activities.
  - Loan programs that provide small, unsecured consumer loans.
  - Lending programs that report to credit agencies information from borrowers transitioning to lower-cost loans that will provide them the opportunity to improve their credit histories.
  - Loan programs to homeowners facing foreclosure that provide affordable, sustainable, long-term relief through loan modifications, refinancing, and restructurings.

- When a small institution has met the ISB asset threshold for two consecutive calendar year-ends, the institution will be examined under the ISB examination procedures. There is no lag period between becoming an ISB and being examined as an ISB.

- Banks that report small business loans secured by one-to-four family residences under HMDA and/or CRA should report these loans as follows:
  - If a small business or small farm loan is refinanced and the one-to-four family residence is taken only as an abundance of caution, the bank should report the loan under both HMDA and CRA.
  - If the one-to-four family residence was not taken as an abundance of caution during the refinancing, the loan should be reported under HMDA only.

Effective Dates: These Q&As consolidate and supersede all previously published Interagency Questions and Answers and are effective immediately.

Further Information: Questions regarding the final Q&As or requests for copies may be directed to the Consumer Affairs Department at one of the numbers below:

Kansas City Office	Denver Office
(800) 333-1010, ext. 12488	(800) 333-1020, ext. 22605

Internet: A copy of the final rules is available on the Federal Reserve Board's Web site at: http://www.federalreserve.gov/newsevents/press/bcreg/20090106a.htm