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## Reducing the Burden: New CRA and Compliance Examination Frequency for Small Banks

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The Gramm-Leach-Bliley Act (the “Act”) changed the frequency of Community Reinvestment Act (CRA) examinations for banks with assets of less than \$250 million that have either a Satisfactory or Outstanding CRA rating by placing the frequency at four and five years, respectively. In the past, examiners conducted CRA examinations simultaneously with compliance examinations, and the Federal Reserve frequency guidelines mandated an interval between compliance examinations of no more than three years. Consequently, the Board of Governors (the “Board”) needed to reevaluate the System’s existing examination frequency schedule.

On July 28, 2000, the Board adopted a revised CRA and Consumer Compliance Examination Frequency Policy for banks with assets of less than \$250 million,

placing both examinations on the same frequency schedule for most banks. Also included as part of the revised policy are new “Small Bank Monitoring Procedures.” Examiners will use these procedures during monitoring activities at the midpoint of the interval between combined full risk-focused compliance and CRA examinations. The new policy is effective immediately.

### Examination Frequency for Small Banks

The new frequency guidelines are based on three factors—the size of the bank, the bank’s CRA rating, and the bank’s compliance rating. Consumer compliance and CRA examinations for a bank with less than \$250 million in assets, with a *Satisfactory* CRA rating, and with a compliance rating of either 1 or 2 will be conducted every 48 months. The consumer compliance and CRA examina-

Examination Frequency for Banks < \$250 million in Assets

| CRA Rating                | Compliance Rating   |                                    |
|---------------------------|---------------------|------------------------------------|
|                           | 1 or 2              | 3, 4, or 5                         |
| Outstanding               | 60 month joint exam | 60 month CRA / 12 month Compliance |
| Satisfactory              | 48 month joint exam | 48 month CRA / 12 month Compliance |
| Needs to Improve          | 12 month joint exam |                                    |
| Substantial Noncompliance | 12 month joint exam |                                    |

tions for a bank with less than \$250 million in assets, with an *Outstanding* CRA rating, and with a compliance rating of either 1 or 2 will be conducted every 60 months.

If a small bank has a Satisfactory or Outstanding CRA rating, but has a compliance rating of 3, 4, or 5, the frequency of the consumer compliance examination will not be extended. Consumer compliance examinations for these institutions will continue to be conducted at a 12-month interval, in accordance with present Board policy. However, the frequency of the CRA examination will be extended, to 48 months for a small bank with a *Satisfactory* CRA rating and to 60 months for a small bank with an *Outstanding* CRA rating.

The table on page 1 summarizes the provisions of the Act and the new examination frequency guidelines. It also clarifies the examination frequency for those small banks that are not eligible for the extended CRA examination frequency due to a less-than-satisfactory CRA rating.

### **When Does a Small Bank Become a Large Bank?**

Examiners will continue to conduct CRA and compliance examinations of banks with assets of \$250 million or more according to present Board policy, every 24 months. Consequently, a small bank will understandably be concerned with when it will be deemed a large bank.

State member banks with assets of less than \$250 million on December 31, 1999, and new state member banks whose assets are less than \$250 million on the date of membership are subject to the new CRA examination frequency provisions. A small bank will be deemed to be a large bank and no longer subject to the extended examination frequency once its total assets exceed \$250 million for two consecutive years. Asset size will be based on data reported on the bank's December 31 Report of Condition and Income (Call Report).

### **Small Bank Monitoring Procedures**

The Federal Reserve System has developed a formal monitoring process to supplement the new examination frequency schedule for small banks. Examiners will perform formal monitoring activities at the midpoint of the examination cycle (24 months for banks with *Satisfactory* CRA ratings and 30 months for banks with *Out-*

*standing* CRA ratings). These monitoring activities will focus on the regulations that examiners normally review during a consumer compliance examination, including those related to fair lending. The objective of the monitoring program is twofold:

- to evaluate the operational, structural, and environmental changes between examinations that could affect a bank's overall compliance risk assessment or compliance rating; and
- to determine whether at least a satisfactory compliance rating can continue to be justified at the time of the monitoring event, or whether a more in-depth review or a full risk-focused consumer compliance examination should be conducted.

Information available at the Reserve Bank will support the basic monitoring activity. This information may be supplemented by telephone interviews, and perhaps the use of a customized questionnaire developed specifically for the institution under review. If sufficient information cannot be obtained through these methods, examiners will conduct an onsite visitation to make an accurate assessment of the bank's compliance posture.

If at the conclusion of the monitoring event the examiner determines that the institution has maintained a satisfactory compliance posture, the Reserve Bank will send a letter to senior management of the bank indicating the same. If the Reserve Bank determines that the monitoring activities, including the on-site visitation, cannot support a conclusion that the bank's compliance posture remains consistent with at least a satisfactory compliance rating, examiners will complete a full risk-focused consumer compliance examination, and a new compliance rating will be assigned.

### **Questions?**

If you have any questions about the new examination frequency schedule for small banks, or would like additional information on this program, please contact Reed Raymond, Assistant Vice President, Consumer Compliance/CRA Examinations Unit at (215) 574-6483 (reed.raymond@phil.frb.org), or Connie Wallgren, Team Manager at (215) 574-6217 (connie.wallgren@phil.frb.org). ■