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M E M O R A N D U M

August 3, 2005

To Our Clients and Friends

Re: Amended Community Reinvestment Act Regulations

The Office of the Comptroller of the Currency, the Federal Reserve Board and the Federal Deposit Insurance Corporation (the “Agencies”) have amended certain provisions of their Community Reinvestment Act (“CRA”) rules to provide additional flexibility to smaller depository institutions. The amendments raise the asset size threshold for small banks to less than \$1 billion, create a new community development test for intermediate small banks, revise the definition of “community development” and state that a bank’s CRA rating will be adversely affected by evidence of discrimination or other illegal credit practices. The amendments are effective September 1, 2005.

SMALL BANK THRESHOLD

The amendments increase the asset size threshold for small banks from \$250 million to less than \$1 billion, without regard to holding company affiliation. This amount will be adjusted annually based upon changes in the Consumer Price Index. Banks with between \$250 million and less than \$1 billion in assets will be regarded as “intermediate small banks” (“ISBs”). The Agencies indicate that these changes will reduce the data collection burden imposed on small banks.

COMMUNITY DEVELOPMENT TEST FOR INTERMEDIATE SMALL BANKS

The amendments add a new community development test that evaluates an ISB based upon its community development loans, qualified investments and community development services. This will result in a single rating for the institution’s community development performance. An institution’s overall CRA rating will be based upon its ratings for community development performance and a

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streamlined small bank lending test rather than separate lending, investment and service tests.

DEFINITION OF “COMMUNITY DEVELOPMENT”

The amendments revise the definition of “community development” to include areas designated as disaster areas by state and federal governments and to increase the number and kinds of rural tracts for which bank activities will be eligible for community development consideration. Eligible rural tracts will include middle-income, nonmetropolitan tracts designated by the Agencies as distressed or underserved. Activities that revitalize or stabilize these areas will qualify as community development activities. The Agencies will publish a list of distressed or underserved nonmetropolitan middle-income geographies on the Federal Financial Institutions Examination Council website.

EFFECT OF CERTAIN PRACTICES ON CRA EVALUATIONS

The Agencies amended their rules to provide that a bank’s CRA performance will be adversely affected by evidence of discrimination or credit practices that violate applicable law or regulation. Examples of such laws include the Equal Credit Opportunity Act, the Fair Housing Act and the Truth in Lending Act.

A copy of the Agencies’ amendments can be found on our web site at http://www.schwartzandballen.com/whats_new.html.

If you have any questions, please call Gilbert Schwartz, Robert Ballen or Tom Fox at (202) 776-0700.