

FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET, SAN FRANCISCO, CALIFORNIA 94105

May 30, 2003

**BANKING SUPERVISION AND REGULATION:
REGULATION C: FINAL RULE,
AMENDMENT TO REGULATION CC, AND
HOST STATE LOAN-TO-DEPOSIT RATIOS**

To State Member Banks, Bank
Holding Companies, U.S. Branches
and Agencies of Foreign Banks,
and Others Concerned,
in the Twelfth Federal Reserve District

Final Rule to Regulation C, Official Staff Commentary (R-1145)

The Federal Reserve Board has published transition rules to provide lenders with guidance on collecting and reporting information when an application for a home mortgage loan is received before—and final action is taken after—January 1, 2004. The rules were published as an amendment to the official staff commentary that applies and interprets the requirements of Regulation C (Home Mortgage Disclosure Act).

In 2002, the Board substantially revised Regulation C, effective January 1, 2004. The revisions require lenders to report new data items, including information about loan pricing. To minimize the reporting burden, the transition rules generally will not require lenders to collect pre-January 1, 2004 information that typically is obtained when an application is submitted. More specifically, the transition rules provide the following:

- Lenders will not have to indicate whether an application or loan involved a request for preapproval or were related to a manufactured home.
- Lenders may at their option continue to apply the current instead of the revised definitions for a home improvement loan and for refinancings.
- Lenders need not report the rate spread for loans in which the rate lock occurs before January 1, 2004, given that their data collection systems may not be fully operational until the revisions take effect in January 2004.

The transition rules require lenders to report information available at the time of final action: such as purchaser type; whether a loan is subject to the Home Ownership and Equity Protection Act; and the lien status of applications and originated loans. The Board has also provided rules to convert information about applicants' race and ethnicity (collected under the current categories in 2003 and reported under the new categories in 2004). You may view and print docket R-1145 at <http://www.federalreserve.gov/boarddocs/press/bcreg/2003/20030523/attachment.pdf>.

Amendments to Regulation CC (Docket R-1150)

The Federal Reserve Board has announced a series of amendments to Appendix A of Regulation CC that the Board will make later in 2003 through the end of 2004 to reflect the restructuring of the Federal Reserve's check processing operations. Appendix A provides a routing number guide that helps depository institutions determine the maximum permissible hold periods for most deposited checks.

Collectively, the amendments will reduce the number of check processing regions listed in Appendix A from a total of 44 to 32, resulting in some non-local checks in the affected regions becoming local checks that are subject to faster availability schedules. The Board will publish each amendment in the Federal Register at least 60 days before the effective date to allow ample time for depository institutions to make necessary changes.

The Board also approved a final rule that deletes obsolete numbers from and adds new numbers to the list of routing numbers in Appendix A for checks drawn on Federal Reserve Banks and Federal Home Loan Banks. You may view and print Docket R-1150 at <http://www.federalreserve.gov/boarddocs/press/bcreg/2003/20030520/attachment.pdf>.

Banking Agencies Issue Host State Loan-to-Deposit Ratios

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency has issued the host state loan-to-deposit ratios that the banking agencies will use to determine compliance with section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. These ratios update data released on June 24, 2002.

In general, section 109 prohibits a bank from establishing or acquiring a branch or branches outside of its home state primarily for the purpose of deposit production. Section 109 also prohibits branches of banks controlled by out-of-state bank holding companies from operating primarily for the purpose of deposit production.

Section 109 provides a process to test compliance with the statutory requirements. The first step in the process involves a loan-to-deposit ratio screen that compares a bank's statewide loan-to-deposit ratio to the host state loan-to-deposit ratio for banks in a particular state.

A second step is conducted if a bank's statewide loan-to-deposit ratio is less than one-half of the published ratio for that state or if data are not available at the bank to conduct the first step. The second step requires the appropriate banking agency to determine whether the bank is reasonably helping to meet the credit needs of the communities served by the bank's interstate branches.

A bank that fails both steps is in violation of section 109 and is subject to sanctions by the appropriate banking agency. You may view and print the document at <http://www.federalreserve.gov/boarddocs/press/bcreg/2003/20030522/attachment.pdf>.

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Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's Internet site, at <http://www.frbsf.org/banking/letters>. Paper copies of the Board's notices (**Docket R-1145, 1150, and Section 109 Host State Loan-to-Deposit Ratios**) are available from our Corporate Services Department. To request copies to be sent by mail, please call (415) 974-2060.

For additional information about the above notices, please contact our Banking Supervision and Regulation Department at (415) 974-3329.