

## Community Investments

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# Editor's NOTEBOOK by Joy Hoffmann Molloy

The last month has seen a flurry of editorial activity and op-ed pieces written about the newly enacted Financial Services Modernization Act of 1999. Clearly, the debate isn't over relative to its potential impact and long-term value. Time and experience will likely serve as the ultimate arbiters.

Debate and conjecture notwithstanding, the Federal Reserve Board is headlong into its own flurry of activity to meet the March 2000 deadline for completion of the legislation's implementing language. We expect this will include the new CRA provisions as well. Although time is short, there are a few proactive steps that financial institutions can take to ensure readiness for implementation of the new law:

► **Develop a mechanism to internally assess and monitor the CRA activities of financial subsidiaries and affiliates.** This is an area where CRA actually got some additional "teeth," since the new law mandates that all financial institution subsidiaries of a bank holding company have at least a satisfactory CRA rating in order to engage in any of the new activities granted under the bill. If even one subsidiary is rated below satisfactory, the expansion application will be denied.

► **Review current CRA agreements and create a more formal tracking system for activities within these agreements.** Under the new sunshine requirements, both banks and their non profit partners will be obliged to report (on an annual basis) CRA-related payments, fees, loans, investments, and services and their terms and conditions. Non-profits must also report on the use of said funds, including compensation, administrative expenses, travel, entertainment and consulting/professional fees. Current thresholds mandate reporting of cash payments and grants (individual or aggregate) in excess of \$10,000 and loans (individual or aggregate) in excess of \$50,000.

► **Consider formalizing a CRA self-assessment process and establish close ties with your compliance examiners to make sure you're on the right track.** This will be especially important for small banks with satisfactory or outstanding ratings because they will now be examined for CRA compliance every 4-5 years. (Don't forget that this only applies to CRA, and not other compliance examinations!)

Over the next several months, Congress has charged the financial services industry and its regulators with the task of developing meaningful and workable implementation strategies. We look forward to working with you to achieve this important goal.

Best wishes to you and your family for a wonderful holiday season.

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