

An introduction to the Community Reinvestment Act

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What is the CRA?

CRA stands for:

The Community Reinvestment
Act of 1977

The regulations implementing
the CRA were revised in 1989,
1995, and 2005.

What is the purpose of the CRA?

Congress found that:

- 1) regulated financial institutions are required by law to demonstrate that their deposit facilities serve the convenience and needs of the communities in which they are chartered to do business;
- 2) the convenience and needs of communities include the need for credit services as well as deposit services; and
- 3) regulated financial institutions have a continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered.

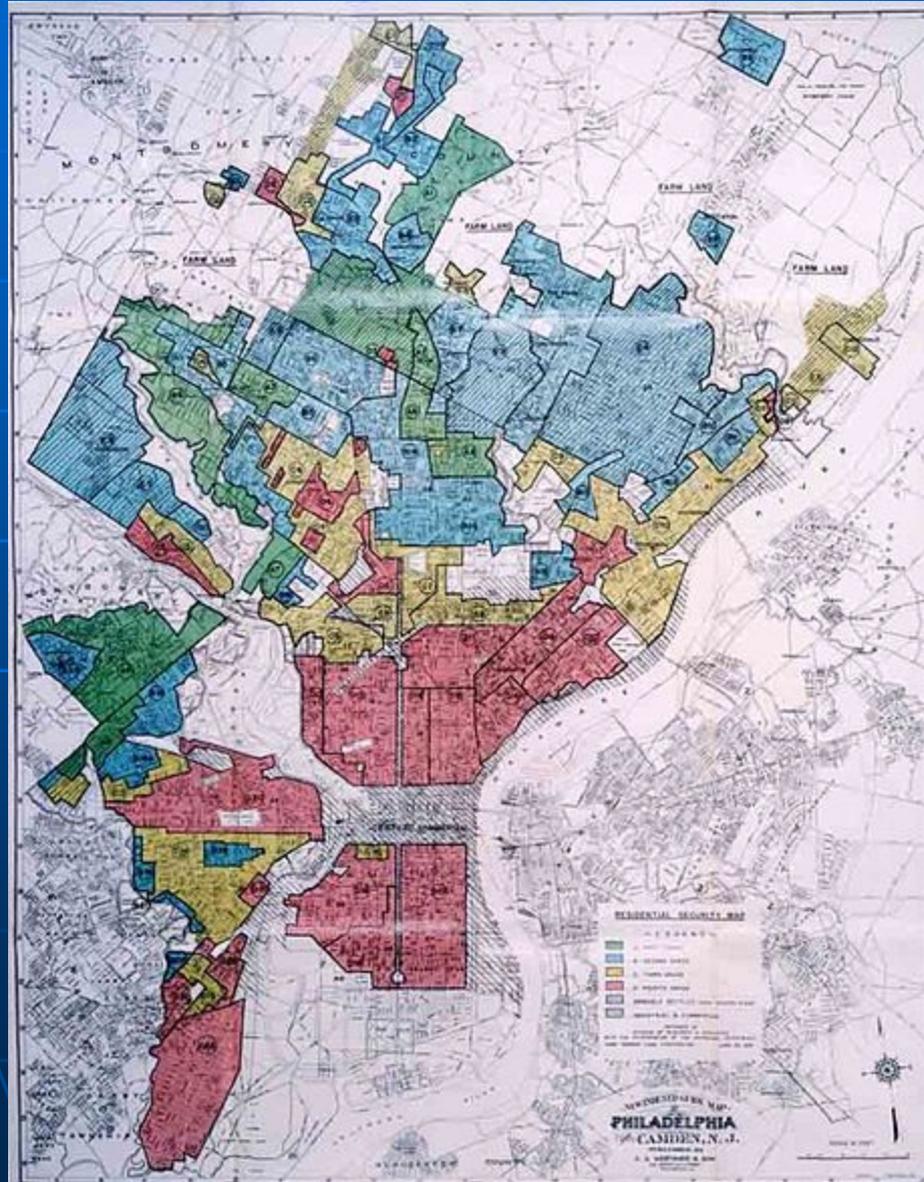
Said Another Way

Banks take deposits from everyone in their community and must also make loans available to everyone in their community.

Redlining practices were a substantial reason CRA was enacted.

1937 Lending Security Map Philadelphia

For Home Owners Loan Corp program



Who are the Regulators?

Federal Reserve Bank (FRB)

- Regulates all bank holding companies, financial holding companies and state chartered member banks.

Office of the Comptroller of the Currency (OCC)

- Regulates banks with a national charter.

Who are the Regulators?

Federal Deposit Insurance Corporation (FDIC)

- Regulates non-Federal Reserve member state chartered banks.

Regulators...but not for CRA

- National Credit Union Association (NCUA) regulates Credit Unions – not subject to CRA.
- Consumer Financial Protection Bureau (CFPB) regulates banks larger than \$10B for many consumer protection regulations but not CRA.

Where the CRA Regulation is Found

- OCC: 12 CFR Part 25
- FDIC: 12 CFR Part 345
- FRB: 12 CFR Parts 228 & 203

The regulation is consistent between the Regulators.

If you aren't a bank your interest in CRA generally involves seeking to obtain Community Development (CD) loans, services or investments that are CRA qualified – they count in a bank's CRA examination.

What constitutes a "CRA qualified" CD activity is very specifically defined. There are lots of wonderful things a bank can support that do not qualify for CRA credit.

“Community Development” Defined for CRA Purposes

Community development means:

1. **Affordable housing** (including multifamily rental housing) for low- or moderate-income (LMI) individuals
2. **Community services** targeted to LMI individuals
3. Activities that promote economic development by **financing small businesses or small farms** (size standard meeting SBA SBDC or SBIC programs or gross annual revenues of \$1M or less).

Community Development Defined

4. Activities that **revitalize or stabilize**:
 - **LMI geographies**
 - Designated **disaster areas**
 - **distressed or underserved rural middle-income geographies**, based on rates of poverty, unemployment and population loss or population size, density and dispersion, where the activity helps meet essential community needs, including LMI populations.

Community Development Defined

5. Loans, investments and services that:
- Support, enable or facilitate projects or activities in target areas under the HUD administered **Neighborhood Stabilization Program (NSP)**.
 - Are provided no later than 2 years after the last date NSP appropriated funds are required to be spent by grantees and
 - Benefit low-, moderate- and middle-income individuals and geographies.

(activities include: establish financing mechanisms, purchase/rehab/demolish vacant or foreclosed properties, establish land banks et. al.)

To find NSP Target Areas Google: NSP Target Areas

Community Development Defined

Designated disaster areas: major disaster area designated by FEMA for 36 months following designation.

Distressed rural middle-income geographies: designed by regulators if it is in a county that has an unemployment rate of at least 1.5 times the national average; a poverty rate of 20% or more; population loss between censuses of 10% or more; net migration rate of 5%.

Underserved rural middle-income geographies: if population size, density, and dispersion indicate the tract is likely to have difficulty financing fixed costs to meet basic community needs.

FFIEC (Federal Financial Institutions Examination Council) website under CRA has full list of distressed and underserved geographies.

FEMA website lists designated disaster areas.

Community Development

What determines low- and moderate-income?

- Low-income means an individual income that is less than 50 % of the area median income.
- Moderate-income means an individual income that is between 50 - 80% of the area median income.

Community Development Loan

- ✓ Has a primary purpose of community development and benefits the bank's assessment area or broader state-wide or regional area that includes the assessment area and
- ✓ Has not been reported or collected by the bank as a home mortgage, small business/farm, or consumer loan – except a multi-family home loan that has a CD purpose.

Community Development Service

- ✓ Has a primary purpose of community development;
- ✓ Is related to the provision of financial services;
- ✓ Has not been considered in the bank's retail banking services.

Community Development Investment

- ✓ Has a primary purpose of community development;
- ✓ Is a lawful investment, deposit, membership share, or grant.

Examination Categories

- **Small Bank:**
 - assets of less than \$290 million
- **Intermediate Small Bank:**
 - assets between \$290 million and less than \$1.16 billion
- **Large Bank:**
 - assets of \$1.16 billion or more

Examination Categories

- Limited purpose:
 - banks that offer only a narrow product line such as a credit card bank.
- Wholesale Bank:
 - does not generally offer bank products to retail customers
- Strategic Plan Option:
 - alternative assessment method voluntarily chosen by any bank that includes a written plan approved by the regulators. The bank's performance is measured against this plan.

Examination Cycles

- Small Bank*
 - Outstanding – 5 to 6 years
 - Satisfactory – 4 to 5 years
 - Needs to Improve - 1 to 2 years
 - Substantial Noncompliance – 1 year
- * Compliance exams between 1 and 3 years
- Intermediate Small and Large Banks
 - Outstanding – 2 to 3 years
 - Satisfactory – 2 to 3 years
 - Needs to Improve – 1 to 2 years
 - Substantial Noncompliance – 1 year

CRA Performance is Measured in a Bank's Assessment Area

- Institutions define their Assessment Area (AA) and is the area in which their CRA performance is evaluated.
- The AA must include:
 - geographies where the bank has its main office,
 - its branches, and deposit taking ATMs,
 - as well as surrounding geographies in which the bank has originated or purchased a majority of its loans.

Assessment Area

- AAs must consist of whole geographies and/or political divisions.
 - "Geography" is generally a census tract.
- There should be no unexplained, conspicuous gaps.
- Larger banks can have 2 or many more separate AAs.

The Performance Context

- The performance context is information about the institution, its community and its competitors and is included in the examination report.
- The information establishes base-line data from which to judge a bank's performance.

The Performance Context

- The performance context information establishes what CRA opportunities exist, what community needs are, how other peer banks have performed.
- Includes demographic, geographic, market, and community needs information as well as bank capacity. Community contacts are a valuable source of information.

Performance Standards

It is important to remember that:

The regulation specifically states that the CRA does not require a bank to make loans or investments, or provide a service that are **inconsistent with safe and sound operations.**

Performance Standards Small Bank

5 performance standards:

- Loan-to-deposit ratio
- Percentage of loans in the bank's AA
- Record of bank's lending activities to:
 - borrowers of different income levels
 - businesses and farms of different sizes
- Geographic distribution of loans
- Action taken in response to written complaints

Performance Standards Small Bank

Loans reviewed are those that are the major business line(s) of the bank. Home lending almost always reviewed.

Qualified community development loans, investments and services are not considered, but at bank's request may be reviewed to enhance a satisfactory rating to an outstanding.

Performance Standards Intermediate Small Bank

- Two-part exam: Lending Test and Community Development Test
- Streamlined Lending Test is the same as in small bank examination

Performance Standards Intermediate Small Bank

- Community Development Test includes number and amount of community development loans and investments and level of community development services.
- The responsiveness of CD activities to community needs.
- There is no review of degree of innovativeness, complexity or flexibility of CD activities as with Large Bank test.

Performance Standards Large Bank

3 performance standards:

1. Lending Test – CD and
Non-CD
2. Investment Test - CD
3. Service Test – CD and
Non-CD

The Lending Test

- The lending test evaluates a bank's record of helping to meet the credit needs of its AA through its lending activities by considering:
 - a bank's home mortgage,
 - small business, (including farms)
 - and community development lending
 - plus any other consumer loan type if a substantial part of loan portfolio.

The Lending Test

Lending activity evaluated on:

- Proportion of total loans within AA.
- Distribution within low-, moderate-, middle- and upper-income census tracts.
- Distribution of home mortgage loans to low-, moderate-, middle- and upper income individuals.

The Lending Test

Lending activity evaluated on:

- Proportion of small businesses with gross annual revenues of $< \$1\text{M}$
- Distribution of small business loans by loan amount.

The Lending Test

Definition of reportable small business loan

Small business loans are really small loans to businesses.

Loan amount of \$1M or less and reported on CALL report as:

Loans secured by non-residential, non-farm property – commercial real estate loans

Commercial and Industrial (C&I) loans – may be secured (but not by real estate) or unsecured; inventory, equipment, operating expenses

The Lending Test

Lending activity evaluated on:

- Community Development lending by number of loans and complexity and innovativeness of loans.
- Use of innovative or flexible lending practices in a safe and sound manner to address credit needs of low- or moderate-income individuals or geographies.

Examples of community development loans

- Loans to borrowers for affordable housing rehabilitation and construction.
- Loans to not-for-profit organizations serving primarily LMI housing or other community development needs.
- Loans to financial intermediaries including CDFIs, CDCs, and community loan funds or pools.
- Loans to local, state, and tribal governments for community development activities.

Data Collection

Small Bank (including ISB) – HMDA (Home Mortgage Disclosure Act) home loan data if bank has assets of \$40M or more and has main office or branch in an MSA.

Large Bank – HMDA data, CRA data (small business) and CD loan data.

Data Collection

For CRA purposes a bank cannot double count a loan, for example report a loan as a small business loan and a community development loan. Only exception is multifamily dwelling loans can be double counted – as a HMDA loan and as a CD loan.

The Investment Test

- The investment test evaluates a bank's record of helping to meet the credit needs of its AA through qualified investments and grants that benefit its AA or a broader statewide or regional area that includes the bank's AA.

Examples of qualified investments



The Service Test

- The service test evaluates a bank's record of helping to meet the credit needs of its AA by analyzing:
 - the availability and effectiveness of a bank's systems for delivering retail banking services and:
 - the extent and innovativeness of its community development services.

Examples of community development services

- Providing technical assistance on financial matters to nonprofit, tribal or government organizations serving LMI housing or economic revitalization and development needs.
- Serving on a board of organizations facilitating affordable housing construction and rehabilitation or development of affordable housing.
- Developing and teaching financial education curricula for LMI individuals.

Performance Ratings

- Outstanding (A)
- Satisfactory (B-C)
-
- Needs to Improve (D)
- Substantial Non-compliance (F)

Performance Ratings Components Small Bank

Each rating criteria assigned at rating of **Outstanding, Satisfactory, Needs to Improve or Substantial Noncompliance.**

Outstanding if Satisfactory for all criteria and some or all materially exceed the Satisfactory standard.

Performance Ratings Components Intermediate Small Bank

The same as for a Small Bank but also includes Community Development as a rated performance category.

Not separately rated for CD Lending, Service and Investment – just a single overall rating for this category.

Performance Ratings Components

Large Bank

Component Ratings	Lending	Investment	Service
Outstanding	12	6	6
High Satisfactory	9	4	4
Low Satisfactory	6	3	3
Needs to Improve	3	1	1
Substantial Noncompliance	0	0	0

- **Points Composite Assigned Rating**
- 20 + Outstanding
- 11 – 19 Satisfactory
- 5 – 10 Needs to Improve
- 0 – 4 Substantial Noncompliance

Performance Ratings Components Large Bank

An exception to the scoring grid - an overall Satisfactory cannot be attained unless Lending is at least a Low Satisfactory.

An Outstanding cannot be attained unless Lending is at least a High Satisfactory

CRA Performance Adversely Affected by Evidence of Discriminatory Credit Practices

- **Equal Credit Opportunity Act or Fair Housing Act** (discrimination on prohibited basis)
- **Section 5 Federal Trade Commission Act** (unfair or deceptive acts)
- **Section 8 of Real Estate Settlement Procedures Act** (kickback, fee splitting, unearned fees in settlement services)
- **Truth in Lending Act's consumer right of rescission** – Reg Z Truth in Lending (security interest in consumer's principal dwelling)
- **Home Ownership and Equity Protection Act** - Reg Z Truth in Lending (high APR and fees)

Public Access

- Public Notice:
 - Notice that the public is entitled to certain information about the bank's operations and performance under the CRA must be posted in each of the bank's branches.

- Public File:
 - Contains information about the institution's CRA performance. Must be made available for viewing by members of the community.
 - Ensures public access to timely and accurate CRA information about the institution.

Public Access

Public Comments:

- The public has the right to comment on a bank's performance under the CRA, and to comment on any application submitted to the federal bank regulatory changes.

For exam schedules, CRA data, HMDA data, and application information, see the agencies' websites:

www.ffiec.gov (for CRA and HMDA data)

www.federalreserve.gov

www.occ.treas.gov

www.fdic.gov

Resources

CRA Interagency Q&As

The regulation

CRA Loan Data Collection Grid (9/2006) FRB
Dallas

A Banker's Quick Reference Guide to CRA
(9/2005) FRB Dallas

Some CRA Qualified Activities from Q&As

(all must fit into CD definition - LMI individuals/geographies, economic development, distressed/underserved, disaster areas, NSP)

- ✓ Community or tribal-based child care, educational, health, social services.
- ✓ Creating, retaining, improving jobs
- ✓ Affordable housing
- ✓ Minority and woman-owned financial institutions, CD credit unions

- ✓ Foreclosure prevention
- ✓ Attract new or retain existing businesses
- ✓ Community facilities
- ✓ Environmental clean-up
- ✓ Mortgage backed securities
- ✓ Municipal bonds

- ✓ Financial intermediaries - CDCs, CDFI, low-income/CD credit unions, NMTC CDE
- ✓ Youth programs, homeless centers, soup kitchens, health care facilities, battered women's centers, drug rehab centers, day care

- ✓ SBA – SBDC, SBIC, RBIC
- ✓ New Markets Venture Capital Company and New Markets Tax Credit-eligible CDE
- ✓ Enterprise Community or Empowerment Zones
- ✓ LIHTC

- ✓ Job training, credit counseling, financial education
- ✓ Homeownership, home repair
- ✓ Lead paint abatement
- ✓ Local, state, tribal community development activities

Questions?

Thanks for attending!