

An introduction to the Community Reinvestment Act

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What is the CRA?

CRA stands for:

The Community Reinvestment
Act of 1977

revised in 1989, 1995, and 2005.

What is the purpose of the CRA?

To assure banks serve the convenience and needs of the communities in which they are doing business including providing credit and deposit services.

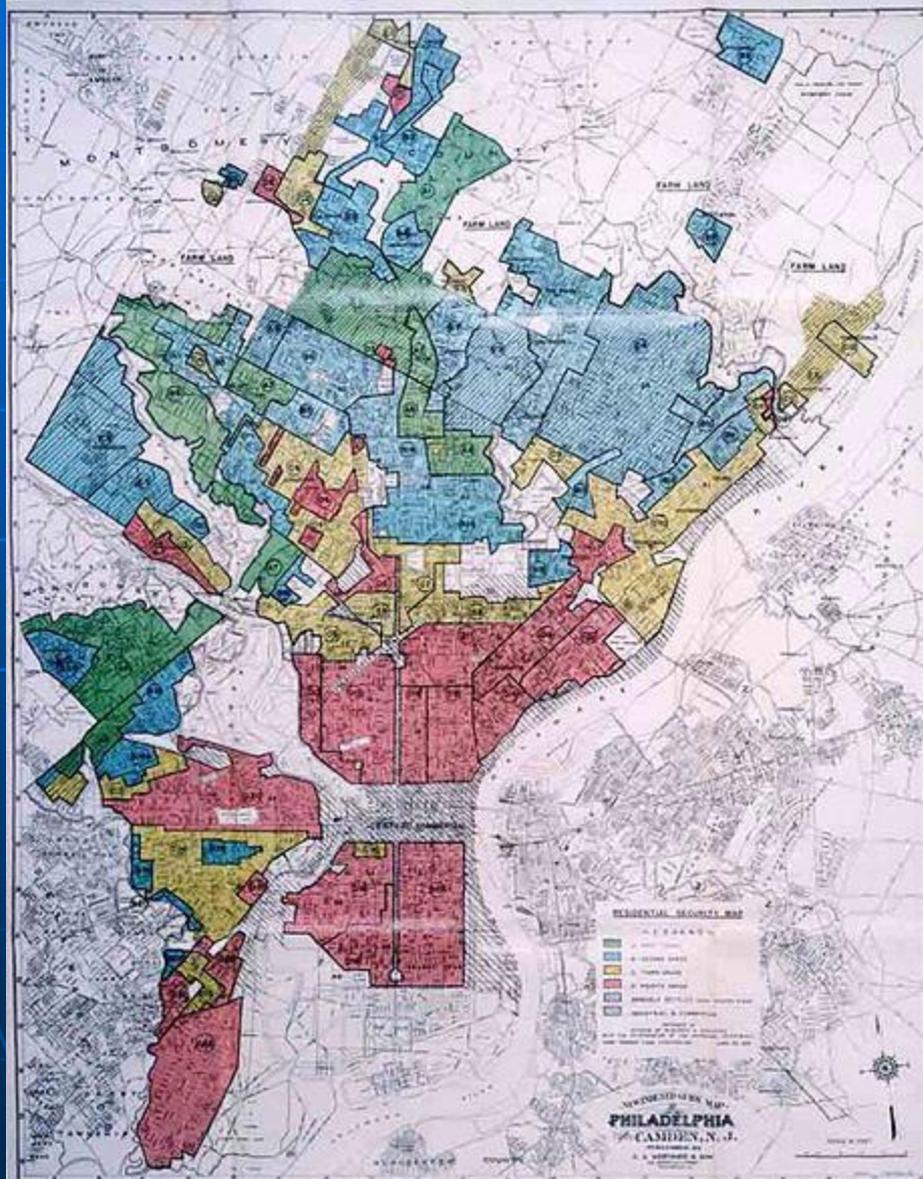
Said Another Way

Banks take deposits from everyone in their community and must also make loans and other services 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



The CRA Regulators

Federal Reserve Bank (FRB)

- state chartered member banks.

Office of the Comptroller of the Currency (OCC)

- banks with a national charter.

Federal Deposit Insurance Corporation (FDIC)

- 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.

Community Development

What constitutes a “CRA qualified” community development (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).

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.

Definitions under number 4:

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

Distressed rural middle-income geographies:

a county that has an unemployment rate of 1.5 times the national average; a poverty rate of 20% or more; population loss between censuses of 10% or more.

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.

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.)

LMI definition

- Low-income = individual income less than 50 % of the area median income.
- Moderate-income = individual income between 50 - 80% of the area median income.
- Middle-income = individual income between 80 - 120% of the area median income.

Community Development Loan

- ✓ Primary purpose is community development;
- ✓ 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

- ✓ Primary purpose is community development;
- ✓ Related to the provision of financial services;
- ✓ Has not been considered in the bank's retail banking services.

Community Development Investment

- ✓ Primary purpose is community development.
- ✓ Is a lawful investment, deposit, membership share, or grant.

Assessment Area

CRA Performance is Measured in a Bank's Assessment Area

- Banks define their assessment area.
- It is the area in which their CRA performance is evaluated.
- The assessment area must include:
 - geographies where the bank has its main office, branches, ATMs and
 - surrounding geographies in which the bank has originated or purchased a majority of its loans.

- Geography = census tract (usually)
- There should be no unexplained, conspicuous gaps. No (unexplained) donut holes.
- Larger banks can have 2 or many more separate assessment areas.

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 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.

The CRA Examination

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.**

Examination Categories

- **Small Bank:**
 - assets of less than \$296 million
- **Intermediate Small Bank:**
 - assets between \$290 million and less than \$1.186 billion
- **Large Bank:**
 - assets of \$1.186 billion or more

Lending, Investment and Service Tests

The CRA examination rates the bank's performance in:

- lending – most heavily weighted
- investments and
- services.

The small banks are only rated on non-community development lending performance. The rest are rated under all three tests.

Loans and services can either be

- community development or
- non-community development

Both types are reviewed.

Only community development investments are reviewed.

The Lending Test

- The lending test evaluates a bank's record of helping to meet the credit needs of its assessment area 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.

Lending activity evaluated on:

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

Small business lending activity also evaluated on:

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

Small Business Loans

Small business loans are really small loans to businesses. Loans are considered small business loans if:

- Loan amount of \$1M or less and
- Secured by non-residential, non-farm property (commercial real estate loans) or
- Commercial and Industrial (C&I) loans – may be secured (inventory, equipment, operating expenses but not by real estate) or unsecured.

Community Development Lending

CD lending activity evaluated on:

- Number and dollar amount 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.

The Service Test

- The service test evaluates a bank's record of helping to meet the credit needs of its assessment area 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 an organization facilitating affordable housing construction and rehabilitation or development of affordable housing.
- Developing and/or teaching financial education curricula for LMI individuals.

The Investment Test

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

Examples of qualified investments

Investments in or grants to:

- financial intermediaries that lend in LMI areas or to LMI individuals in order to promote community development
- organizations that promote economic development by financing small business
- facilities that promote community development in LMI areas for LMI individuals
- projects eligible for low-income housing tax credits.

Small Bank

Lending Test Only

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

Small Bank

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.

Intermediate Small Bank

- Two-part exam:
 - Lending Test -same as with small bank.
 - Community Development Test – a single rating.

Intermediate Small Bank

Community Development Test

- number and amount of community development **loans and investments.**
- 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.

Large Bank

3 performance standards:

1. Lending Test – CD and Non-CD

2. Investment Test – CD

3. Service Test – CD and non-CD

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

Performance Ratings

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

Performance Ratings Components Small Bank

Each rating criteria assigned a 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)

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
- ✓ Low Income Housing Tax Credits, New Market Tax Credits, New Markets Venture Capital Company and New Markets Tax Credit-eligible CDE
- ✓ Enterprise Community or Empowerment Zones

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

Public File

Contains information about the institution's CRA performance. Must be made available for viewing by members of the community.

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

Questions?

Thanks for attending!