

# PREPARING FOR YOUR SMALL INSTITUTION OR INTERMEDIATE SMALL INSTITUTION CRA EXAMINATION

Monday, March 31, 2008

3:30 p.m. - 5:00 p.m.

Presenters: Lois Baxter, FDIC; Lisa DeClark Federal Reserve Bank of Minneapolis; Neil Kwatinetz, OTS; Tim O'Donnell, OTS;

Facilitator: Craig Nolte, Federal Reserve Bank of San Francisco



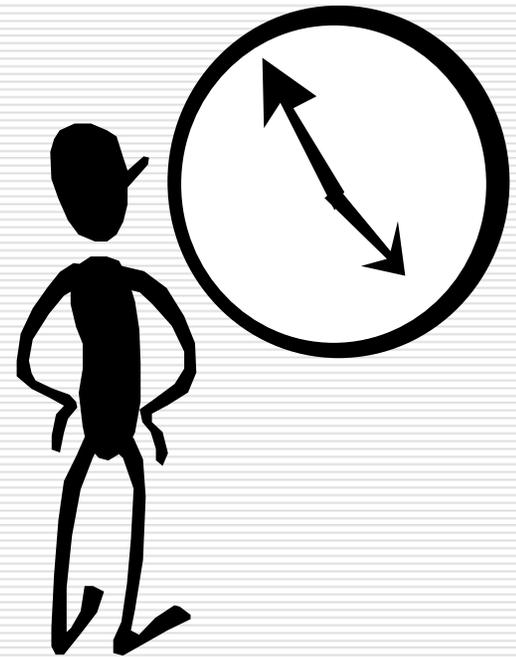
# Topics

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- Preparing for your next CRA examination
  - Know the regulation
  - Understand the examination procedures
  - Collect and analyze performance context information
  - Assess institution performance
- Tips for managing the examination process

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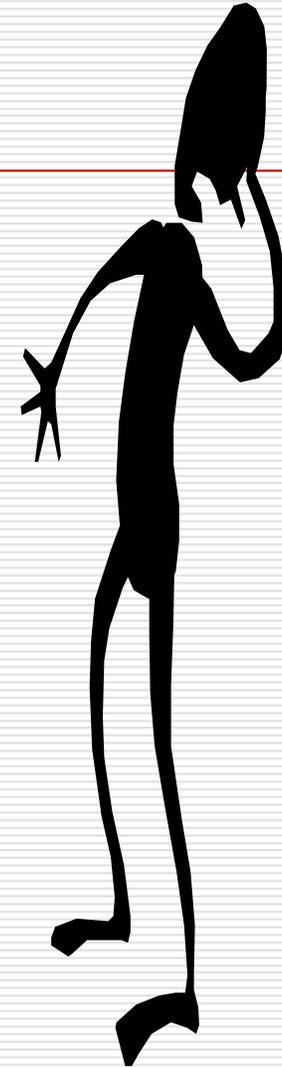
# PREPARING FOR YOUR NEXT CRA EXAMINATION



# CRA Regulations

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- Regulation BB 12 CFR 228
  - Applies to state member banks
- 2000 - FDIC Rules and Regulations Part 345—Community Reinvestment
  - Applies to state nonmember banks
- 12 CFR Part 25
  - Applies to national banks
- Title 12: Banks and Banking Part 563e—Community Reinvestment
  - Applies to savings associations



# CRA Regulations

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- ❑ Valuable information is in the Interagency Questions and Answers (Qs & As)
  - Currently, the Qs and As are in two parts
    - ❑ 2001
    - ❑ 2005
  - [www.ffiec.gov](http://www.ffiec.gov)
  - Agencies working to combine the two parts
    - ❑ Federal Register July 11, 2007
      - Comment period closed



# Examination Methods

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- Small Institution
- Intermediate Small Institution
- Large Institution
- Wholesale / Limited Purpose Institution
- Strategic Plan Institution

# Definitions- Small Institution and Intermediate Small Institution

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- Small Institution- Assets of less than \$1 billion as of December 31<sup>st</sup> of either of the prior two calendar years
- Intermediate Small Institution- Small Institution with assets of at least \$250 million as of December 31<sup>st</sup> of both of the prior two calendar years, and less than \$1 billion as of December 31<sup>st</sup> of either of the prior two calendar years
- Annual adjustment of asset thresholds based on changes in the Consumer Price Index will be reported in the Federal Register

# Definitions- Small Institution and Intermediate Small Institution

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- Transition rules for institutions moving to different classifications
- What if an institution had assets as follows:
  - 2005 - \$249 million
  - 2006 - \$259 million
  - 2007- \$266 million
- Institution is intermediate small institution as of January 1, 2008
- If the institution is examined in 2008, what procedures followed?



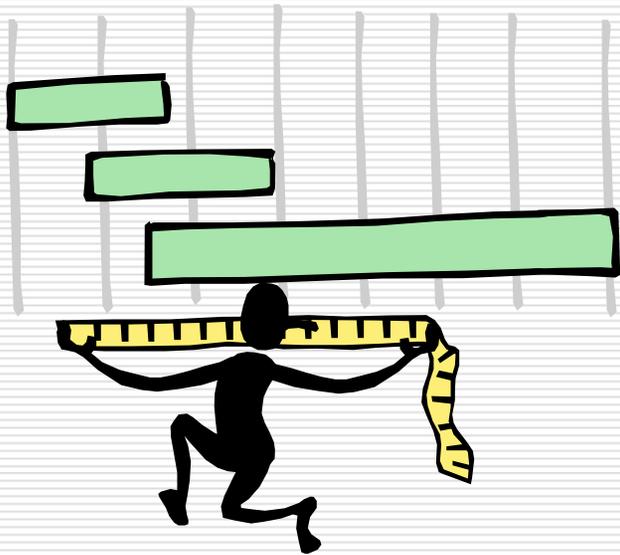
# Definitions- Small Bank and Intermediate Small Bank

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- ❑ Agencies do not require small institutions or intermediate small institutions to collect or report CRA loan data (small business, small farm, and community development loans)
- ❑ Small institutions and intermediate small institutions no longer required to report geographic data for HMDA loans outside the MSAs/MDs where the institution has its main office or branches

# Small Institution Examination Method

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- Loan-to-deposit ratio
- Assessment area concentration
- Borrower distribution
- Geographic distribution
- Resolution of consumer complaints

# Lending Activity Tip

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- Consider collecting relevant loan data
  - Useful for doing self analysis
    - To be discussed later
  - Limits number of files that examiners will ask you to pull for review



# Lending Activity Tip

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- ❑ Examiners will look at the institution's major loan products to review borrower and geographic distribution
  - Institution might want to collect data
    - ❑ Loan amount
    - ❑ Loan date
    - ❑ Address
    - ❑ Borrower income
  - Consider discussing with regulator

# Small Institution Examination Method

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- All performance criteria reviewed within the institution's performance context
  - Bank characteristics
  - Assessment area characteristics

# Small Institution Examination Method

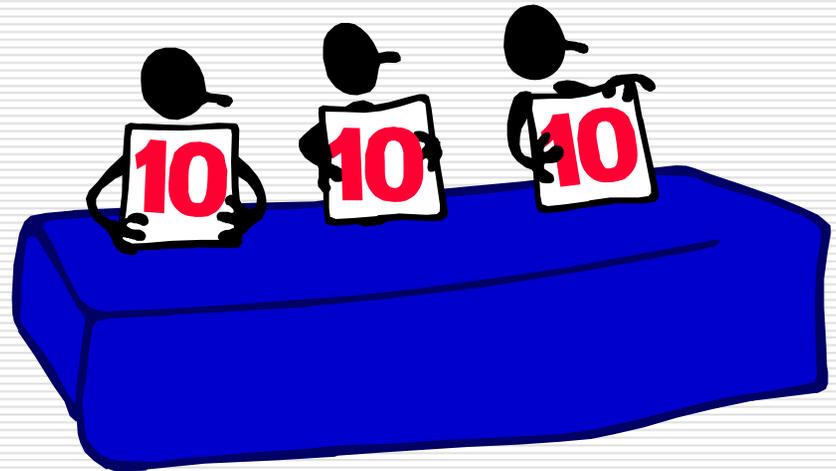
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- ❑ Community development activities are not evaluated for small institutions UNLESS the institution requests consideration of these activities
- ❑ Community development activities used only to enhance a small institution's rating
  - Never used to lower a small institution's rating

# Small Institution-Overall CRA Ratings

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- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Noncompliance



# Small Institution-Overall CRA Ratings

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- Performance criteria weighted based on performance context
- Conclusions about performance criteria based on whether bank meets, exceeds, or does not meet the standards for satisfactory performance
- Discrimination and other illegal credit practices might result in rating downgrade
  - To be discussed later

# Intermediate Small Institution Examination Method

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- ❑ Interagency examination procedures released on August 1, 2005 by the OCC, FDIC, and Federal Reserve
- ❑ Examination procedures released by OTS on July 18, 2007

Available at:

[www.ffiec.gov/cra/examinations.htm](http://www.ffiec.gov/cra/examinations.htm)

# Intermediate Small Institution Examination Method

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## Lending Test

- Loan-to-deposit ratio
- Assessment area concentration
- Borrower distribution
- Geographic distribution
- Resolution of consumer complaints
- ✓ Reviewed within the institution's performance context

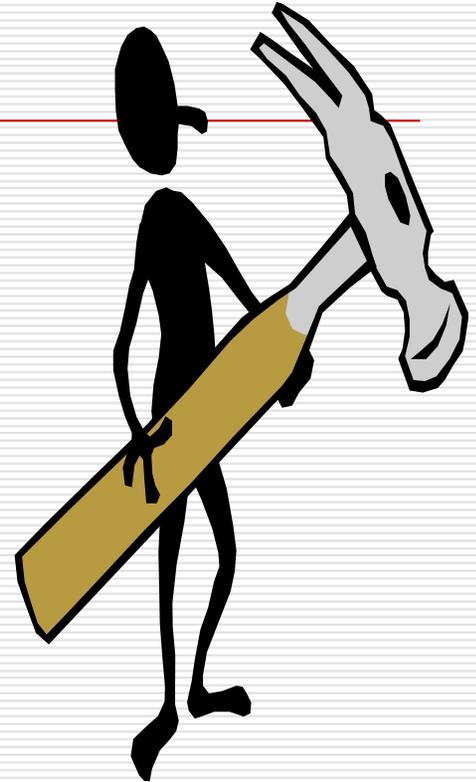
# Intermediate Small Bank Examination Method

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## Community Development Test

- ❑ Number and amount of CD loans
- ❑ Number and amount of qualified investments
- ❑ Extent to which the bank provides CD services
- ❑ Responsiveness to identified community development lending, investment and service needs

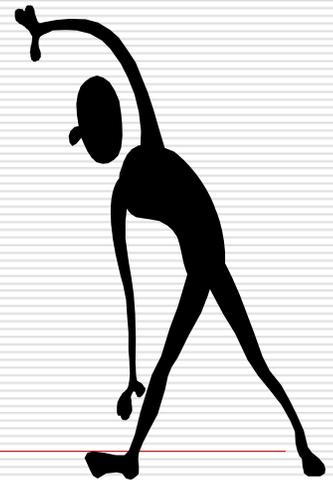
CD loans, qualified investments and CD services are evaluated together and result in a single CD rating



# Intermediate Small Bank Examination Method

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- ❑ Innovativeness and complexity are not performance criteria for community development activities
- ❑ CD activities will be evaluated in the context of bank capacity, business strategy, and the community development needs and opportunities in the area
- ❑ CD Test will be applied ***FLEXIBLY-*** allocate resources where they are most responsive to community needs



# Intermediate Small Institution Examination Method

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- CD Test considers both the types of services that benefit LMI individuals AND the availability of services to LMI individuals
  - Types of products- Low-cost checking and remittance services, CD services, etc.
  - Availability- Branching network, ATMs, alternative delivery systems

# Community Development Test Tips

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- ❑ Gather information about community development activities between examinations
  - Get the details-so they are not lost
    - ❑ Dollar amounts
    - ❑ Dates
    - ❑ Location of activity
    - ❑ Names of organizations benefiting from activity
    - ❑ Service hours
  - Organize information
    - ❑ Legal documents
    - ❑ Descriptive information

# Intermediate Small Institution- Overall CRA Ratings

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- Eligibility for Overall “Outstanding”  
Intermediate small institution must receive an “outstanding” rating on one test and at least a “satisfactory” on the other test
- Eligibility for Overall “Satisfactory”  
Intermediate small institution must receive “satisfactory” ratings on both tests

# Intermediate Small Institution- Overall CRA Ratings

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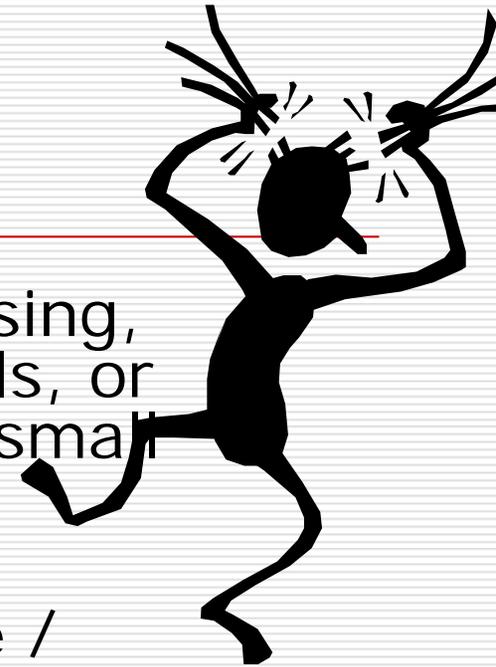
- Overall “Needs to Improve” or “Substantial Noncompliance”

Intermediate small institution will receive either rating depending on the degree to which performance has failed to meet the standards for a “Satisfactory” rating

# Community Development Definition

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- No recent changes to affordable housing, community services to LMI individuals, or economic development by financing small businesses or small farms prongs of community development definition
- Relatively recent change to revitalize / stabilize prong of community development definition:
  - LMI Geographies
  - Distressed or Underserved Nonmetropolitan Middle-Income Geographies
  - Designated Disaster areas



# Distressed and Underserved Nonmetropolitan Middle-Income Geographies

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- Distressed-located in counties that meet one or more CDFI triggers:
  - ❑ Unemployment rate of at least 1.5 times the national average
  - ❑ Poverty rate of 20% or more
  - ❑ Population loss of 10% or more between the previous and most recent census
  - ❑ OR
  - ❑ Net migration loss of 5% or more over the five-year period before most recent census
  
- Underserved areas-must meet criteria to indicate that the population is so small, thin and distant from a population center that it has difficulty financing essential community needs
  - ❑ Underserved geographies are those that have “urban influence codes” numbered 7, 10, 11 and 12\*

\*Maintained by the Economic Research Service of the United States Department of Agriculture

([www.ers.usda.gov/Briefing/Rurality/urbaninf/](http://www.ers.usda.gov/Briefing/Rurality/urbaninf/))

# Distressed and Underserved Nonmetropolitan Middle-Income Geographies

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- ❑ List of distressed and underserved geographies available on FFIEC website ([www.ffiec.gov/cra](http://www.ffiec.gov/cra))
- ❑ List will be updated annually
- ❑ One-year lag period will be in effect for the calendar year following the date of removal from the list
- ❑ Activities that were undertaken during the lag period will still count

# Standards

## Revitalize or Stabilize

## Distressed Nonmetropolitan

## Middle-Income Geographies

- ❑ Must help to retain residents and businesses or be part of bona fide plan
- ❑ Long-term direct benefit to entire community, including LMI

# Standards

## Revitalize or Stabilize -

## Underserved Nonmetropolitan

## Middle-Income Geographies

- ❑ Must facilitate the construction, expansion, improvement, maintenance, or operation of essential infrastructure
- ❑ Essential infrastructure means: facilities for health services, education, public safety, industrial parks, or affordable housing
- ❑ Long-term direct benefit to entire community, including LMI

# Designated Disaster Areas

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- ❑ Designated by federal government-FEMA
- ❑ List of federally declared disaster areas (by state) available on FEMA's website ([www.fema.gov](http://www.fema.gov))



# Designated Disaster Areas

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- ❑ Disaster area designations will expire for CRA purposes when they expire according to the law under which they were declared
- ❑ Greater weight given to activities that benefit low- and moderate-income individuals or geographies

# Tips for Getting Credit for Community Development Activities

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- Train appropriate institution staff about the definition of community development
  - CRA officer
  - Lenders
  - Investment staff
  - Executives
  - Board of directors

# Tips for Getting Credit for Community Development Activities

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- Develop a worksheet for staff to use when deciding whether an activity has a community development purpose
  - Require regular and routine submission of worksheets to CRA officer
- Track status of middle-income, nonmetropolitan census tracts in assessment area and share information with staff
  - Underserved
  - Distressed

# Tips for Getting Credit for Community Development Activities

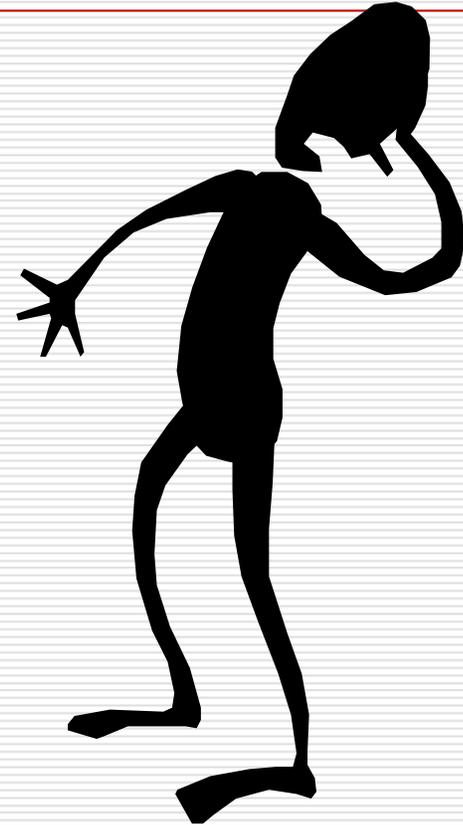
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- Periodically check to see if institution helping to revitalize or stabilize disaster areas
  - Check FEMA site periodically

# Illegal Credit Practices

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- ❑ Discrimination or illegal credit practices may adversely affect CRA evaluation



# Examples of Illegal Credit Practices\*

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- ❑ Discrimination on a prohibited basis (ECOA, FHA)
- ❑ Violations of HOEPA
- ❑ Violations of Section 5 of Federal Trade Commission Act
- ❑ Violations of Section 8 of RESPA
- ❑ Violations of Right of Rescission in TILA

\* Illegal credit practices are not limited to these examples

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# Other Illegal Credit Practices- Treatment of Banks vs. Affiliates

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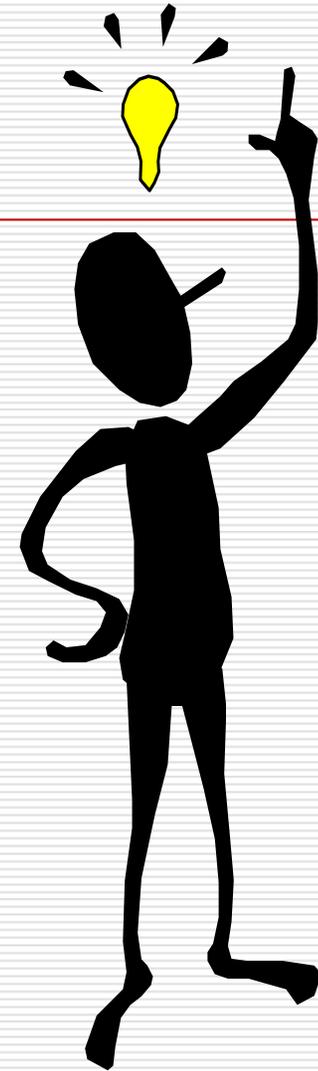
Entity Type

Location Affected

- ❑ Bank                      Loans in assessment area  
   -OR- in any other geography
- ❑ Affiliate                      Loans in assessment area

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# TIPS FOR MANAGING THE CRA EVALUATION PROCESS



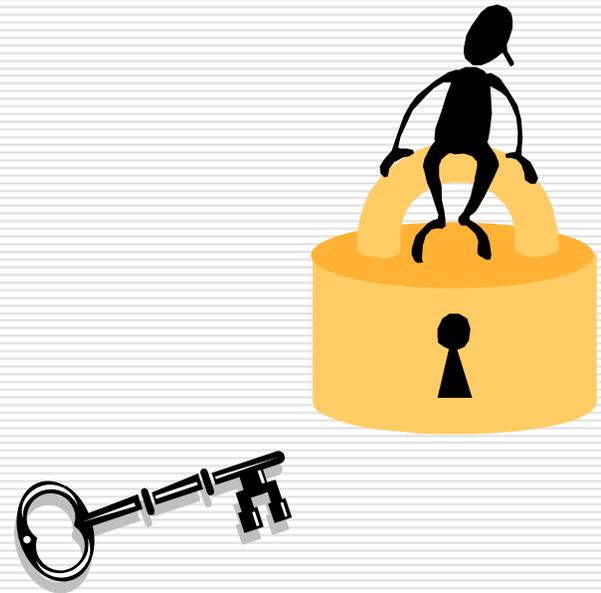
# Collect and Analyze Performance Context Information

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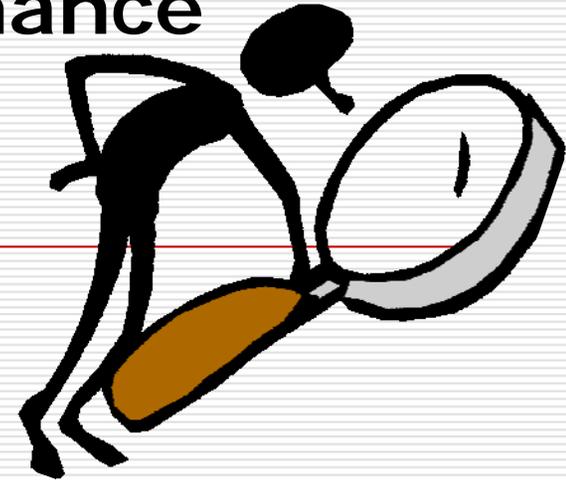
- Performance context
  - Institution characteristics
  - Assessment area characteristics
- Ask yourself: what factors about the institution affect its abilities to lend or engage in community development activities?
- Ask yourself: what factors about the assessment area(s) affect the institution's ability to lend or engage in community development activities?

# Collect and Analyze Performance Context Information

- Think about these key institution characteristics:
  - History of institution
    - Recent de novo
    - Established
  - Products
  - Services
  - Resources and expertise
  - Activities
    - Loan sales
    - Public deposits



# Collect and Analyze Performance Context Information

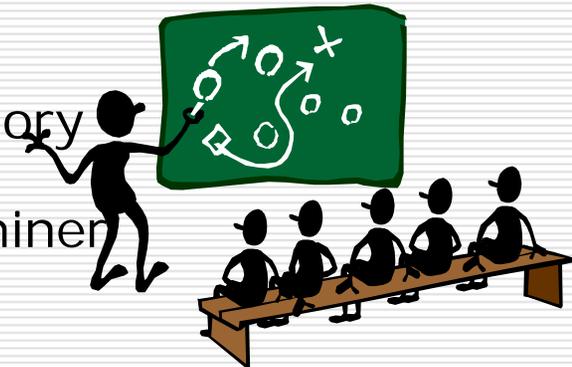


- Think about these assessment area characteristics:
  - Niche in market
  - Competition in market
  - Changes to assessment area since 2000
    - Examiners use the 2000 census data as a baseline but know the data is stale for some areas
  - Demand for credit and community development activities
  - Housing-sales, prices, age, and type
  - Opportunities to extend loans or engage in community development activities

# Gather Community Development Activity Information

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- Gather pertinent information about institution's community development activity
  - Loans, investments, and services
    - To count, activity must meet regulatory definitions
    - Institution has burden to show examiner that activity should count
  - Establish process to get information routinely from institution staff
  - Contact organizations to supplement staff information to prove the activity should count as community development



# Assess Institution Performance

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- Complete a self assessment of institution's CRA performance between examinations
  - Use last public evaluation as starting point
  - Review HMDA or sample of residential real estate, small business, small farm, and consumer loans as appropriate for institution
    - Borrower distribution
    - Geographic distribution
  - Analyze community development activities
    - Dollar amount, number or level, and responsiveness of activities

# Manage the Examination Process

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- Banker input is important!
  - Know information about the bank and assessment area(s) that affect how the bank meets its CRA obligation
    - Communicate information to examiner
  - Provide list of community development activities to examiners, include documentation proving the activity should count

# Manage the Examination Process

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- Pre-examination request
- Ensure appropriate staff available
- Track examiner requests for completion

# Questions???

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