

*Financing Community Development  
Activity Under the CRA*

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# OUTLINE

- What is the CRA?
- How the CRA defines community development?
- How banks meet their CRA obligations?
- How community-based organizations can help banks to meet their CRA obligations?
- How the CRA differs from corporate philanthropy?

# WHAT IS THE CRA?

CRA stands for: The Community  
Reinvestment Act

- Federal banking regulation required of all banks
- Established in 1977

# WHAT IS THE CRA?

*Congress determined 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.

# COMMUNITY AFFAIRS FUNCTION

- Established at each regulatory agency to facilitate compliance with the Community Reinvestment Act
  - Help banks to comply with Community Reinvestment Act
  - Facilitate partnerships that promote and support community development activities
  - Increase awareness about emerging issues and trends that affect low- and moderate-income communities
- Support the economic growth objectives of the Federal Reserve Act by promoting community development and fair and equal access to credit

# CRA ELIGIBLE ACTIVITIES

- Affordable housing (including multifamily rental housing) for low- or moderate-income (LMI) individuals
- Community services targeted to LMI individuals
- Activities that promote economic development by financing small businesses or small farms
- Activities that revitalize or stabilize LMI geographies, certain distressed or underserved rural areas and areas affected by disasters

# COMMUNITY DEVELOPMENT BENEFICIARIES

- 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
- Distressed or underserved **middle-income** geographies ([www.ffiec.gov/cra](http://www.ffiec.gov/cra))

# ASSESSMENT AREA

- Institutions define their Assessment Area
- Assessment Areas must consist of whole geographies and/or political divisions that include deposit taking facilities
- The Assessment Area is the geographic area within which the examiners will evaluate a bank's CRA performance

# BANK SIZE MATTERS

## ➤ Small Bank:

- assets of less than \$277 million

## ➤ Intermediate Small Bank:

- assets between \$277 million and \$1.1 billion

## ➤ Large Bank:

- assets of \$1.1 billion or more

# CRA PERFORMANCE MEASURES

- Banks and Thrifts 4 performance measures:
  1. Lending Test (all)
  2. Investment Test (large only)
  3. Service Test (large only)
  4. Community Development Test  
(intermediate small only)

# PERFORMANCE EVALUATION

- Full scope exam versus limited scope exam
- Fair lending failures result in CRA non-compliance rating
- CRA performance considered for mergers, acquisitions, and other corporate applications filed by the bank

# CRA PERFORMANCE RATINGS

- Banks and Thrifts have four performance standards
  1. Outstanding
  2. Satisfactory
  3. Needs to improve
  4. Substantial noncompliance

# WHOSE EVALUATING

## ➤ Federal Banking Regulators

- Federal Reserve

- <http://www.federalreserve.gov/DCCA/CRA/>

- Federal Deposit Insurance Corporation

- <http://www2.fdic.gov/crapes/>

- Office of the Comptroller of the Currency (OCC)

- <http://www.occ.treas.gov/cra/crasrch.htm>

- Office of Thrift Supervision (OTS)

- <http://www.ots.treas.gov/?p=CRAPerformanceEvaluations>

# 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, small farm, and community development lending.

# THE LENDING TEST

Small banks have 5 performance standards:

- Loan-to-deposit ratio;
- Percentage of credit activities in the bank's Assessment Area;
- Record of bank's credit activities to:
  - borrowers of different income levels,
  - businesses and farms of different sizes;
- Geographic distribution of loans; and
- Action taken in response to written complaints with respect to CRA

# THE LENDING TEST

Large banks also have 5 performance standards:

- Number and amount of mortgage, business, farm and consumer loans in the assessment area
- Distribution of loans in census tracts of varying income levels
- Distribution of loans to borrowers of different income levels
- Use of innovative and flexible lending practices
- Level of community development lending

# 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 INVESTMENT TEST

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

# 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 or tax-exempt bond financing

# THE SERVICE TEST

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

# PARTNERSHIPS

The CRA works in conjunction with other fair lending laws to create opportunities for community development professionals and financial institutions to build partnerships and strengthen relationships towards the shared goal of sustainable community development.

# DOCUMENTATION

- Describe mission and purpose of recipient organization
- Describes project, program or purpose
- Describes impact on low-mod individuals or communities
- Provides proof of who benefited
- Details amount received

# CORPORATE PHILANTHROPY

- CRA-related grants (a.k.a. investments) must have a community development mission
- Other philanthropic given emanates from the foundation arm
- Most large corporations have a foundation or another department that supports the communities where they operate

# CONTACT INFORMATION

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