

# Intermediate Small or Small Institution CRA Examination

**Monday, March 15, 2010**

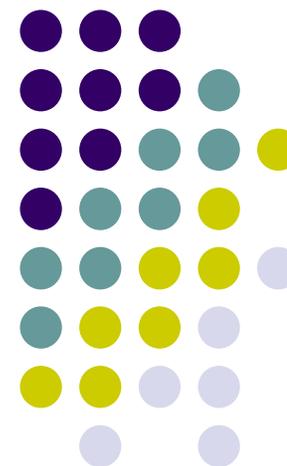
**3:30 p.m. – 5:00 p.m.**

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**Facilitator:** Craig Nolte, Federal Reserve Bank of San Francisco

**Presenters:**

- Christiane DeLay, Federal Reserve Bank of San Francisco
- Lillian J. Fanning, Office of the Comptroller of the Currency
- David L. Sharp, Federal Deposit Insurance Corporation
- Marsha E. Vaughn, Office of Thrift Supervision





# Topics

- Introduction
- Definitions
- Small Bank
  - Lending Test
- Intermediate Small Bank (“ISB”)
  - Lending Test
  - Community Development Test
- Best Practices

# Small Bank and Intermediate Small Bank Definitions



- “Small Bank” means an institution that, as of December 31 of either of the prior two calendar years, had assets of less than \$1.098 billion.
- “Intermediate small bank” means an institution with assets of at least \$274 million as of December 31 of both of the prior two calendar years, and less than \$1.098 billion as of December 31 of either of the prior two calendar years.



# Small Bank Criteria

- Loan-to-deposit ratio
- Assessment area concentration
- Borrower Distribution
- Geographic Distribution
- Resolution of consumer complaints
- Performance context is considered in the bank's overall assessment



# Performance Context

- What does bank management know about the local market and economy, relative to community development opportunities?
- Has loan demand declined or changed?
- Has the creditworthiness of the bank's customers changed?
- Is the bank facing any liquidity or other constraints?
- Has your business strategy or product offering changed as a result of current economic conditions?
- Are there any other relevant factors that may impact your capacity or ability?

# Intermediate Small Bank Criteria



In addition to the lending test an intermediate small bank's community development performance also is evaluated pursuant to the following criteria:

- Number and amount of community development loans;
- Number and amount of qualified investments;
- Extent to which the bank provides community development services; and
- Bank's responsiveness to identified community development lending, investment, and services needs.

# Community Development



- Loans
- Services
- Investments

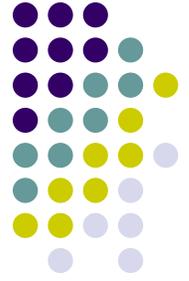
# Community Development



As described in Interagency CRA Q&A dated January 6, 2009, §.12(g) discusses the definition of Community Development, and

§.12(h)–8 answers the question: *What is meant by the term “primary purpose” as that term is used to define what constitutes a community development loan, a qualified investment or a community development service?*

# Community Development



Community development as defined in the CRA regulation:

- Affordable housing for low- or moderate-income individuals;
- Community services targeted to low- or moderate-income individuals;
- Activities that promote economic development by financing small businesses and small farms
- Activities that revitalize or stabilize low- or moderate-income areas, designated disaster areas, or underserved or distressed nonmetropolitan middle-income areas

# Community Development



Two approaches to determine primary purpose:

- First, does a majority of the dollars or beneficiaries of the activity benefit from the community development activity?
- Second if less than majority, answer the following questions:
  - (1) What is the intent of the activity,
  - (2) What is the structure or expressed community development purpose of the activity; and
  - (3) Does the activity accomplish the community development purpose?

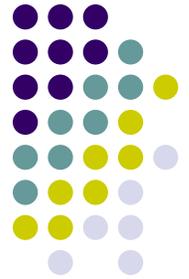
# Examples of CD Loans?



Per §.12(h)–1, includes loans to:

- Borrowers for affordable housing rehabilitation and construction, including construction and permanent financing of multifamily rental property serving low- and moderate-income persons;
- Borrowers to construct or rehabilitate community facilities that are located in low- and moderate-income areas or that serve primarily low- and moderate-income individuals; and
- Borrowers to finance environmental clean-up or redevelopment of an industrial site as part of an effort to revitalize the low- or moderate-income community in which the property is located.

# Common CD Loan Questions?



§.12(h)–3: May an intermediate small institution that is not subject to HMDA reporting have home mortgage loans considered as community development loans?

May an intermediate small institution have small business and small farm loans and consumer loans considered as community development loans?



# Response:

Yes. *At the institution's option*, provided they meet the regulatory definition of “community development.”

For example,

FNB made a business loan of \$800,000 to a manufacturing plant located in a moderate-income census tract in its AA. The loan enabled the plant to create several new, permanent jobs for moderate-income individuals. This loan would not normally be reported or considered as a CD loan because it is less than \$1MM. However, it does meet the primary purpose of revitalize or stabilize an LMI area because it created permanent jobs for LMI people. An intermediate small bank (and only an ISB) has the option of identifying this loan as either a CD loan or a small loan to a business. The ISB needs to consider where it needs the CRA consideration since it can not be used in both the lending test and the CD test.

Note: This option for ISBs does not apply if the bank opts to be examined using the large bank test.

# Community Development Service



In general, per section §.12(i)– to qualify as a CD Service, the bank needs to demonstrate that it is providing a financial service to an organization that has a CD purpose under the regulation.

Community development service means a service that:

- Has as its primary purpose community development;
- Is related to the provision of financial services; and
- Has not been considered in the evaluation of the bank's retail banking Services.

# Community Development Service



First question: Is the primary purpose of this service consistent with the community development definition?

- Affordable housing for low- or moderate-income individuals, including multi-family rental housing.
- Community Services (such as health care facilities, battered women's centers, homeless centers) targeted to low- or moderate-income individuals.
- Promote economic development (supports permanent job creation, retention, and/or improvement for persons who are currently LMI.
- Activities that revitalize or stabilize low- or moderate-income areas; designated disaster areas; or designated distressed or underserved nonmetropolitan middle-income geographies.

# Community Development Service



Second Question:

Is the CD service provided by the bank or bank employee related to the provision of financial services?

# Example of CD Services



- Providing technical assistance on financial matters to nonprofit or government organizations serving low- and moderate-income housing or economic revitalization and development needs;



## Example of CD Services

- Providing technical assistance on financial matters to small businesses or community development organizations; or
- Providing credit counseling, home-buyer and home-maintenance counseling, financial planning or other financial services education to promote community development and affordable housing.

# Examples of Providing Technical Assistance



- Serving on a loan review committee;
- Assisting in marketing financial services, including development of advertising and promotions, publications, workshops and conferences;
- Furnishing financial services training for staff and management; or
- Contributing accounting/bookkeeping services.

# Qualified Investments



*Qualified investment* means a lawful investment, deposit, membership share, or grant that has as its ***primary purpose*** community development.



# Qualified Investments

- Performance Context
- Innovativeness or complexity of the investment is not considered for ISB, as it is for a large bank.
- Responsiveness to Community Development needs.



# Qualified Investment

Examples:

- Deposits in minority- and women-owned financial institutions or low-income or community development credit unions that primarily lend or facilitate lending in low- and moderate-income areas or to low- and moderate-income individuals in order to promote community development.



# Qualified Investment

Examples:

- Facilities that promote community development by providing community services for low- and moderate-income individuals, such as youth programs, homeless centers, soup kitchens, health care facilities, battered women's centers, and alcohol and drug recovery centers.

# Qualified Investment



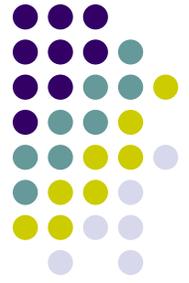
Examples:

- Investments to promote revitalization and stabilization in disaster areas.



# Best Practices

- Perform an annual self-assessment.
- Develop a standard form that can be used by bank employees to record community development activity.
- Periodically throughout the year collect and review the information to ensure the activity meets the CRA community development definition.
- Develop a centralized process to record the type of activity and the assessment area impacted.



# Best Practices

- Make a determination about which activities have a community development purpose
  - Don't provide examiners an extensive list of "possible" CD loans, services and investments to review
- Provide supporting information for donations (not just a copy of the check)
  - What information did the bank rely on to determine that the donation was a qualified community development investment? Does the non-profit serve predominantly LMI people or small businesses?
- Track the number of hours of community development service performed
  - Examiners use this to measure performance



# Best Practices

- Track the number of units supported with Community Development investments and loans
  - “This loan funded the construction of 54 units; 40 are affordable to those earning less than 80% of AMI”
  - “This LIHTC funded 260 units of affordable housing”
- Track which assessment area received benefit
  - This will also help the bank self identify weaknesses



# Best Practices

- Review the bank's donations list for potential community development. Banks often miss opportunities to maximize donations that are qualified investments.
- Discuss qualified investments definitions with investment personnel and ask for their assistance in determining which investments in the portfolio may qualify.
- Don't forget to consider the impact of disaster area declarations on the bank's investment opportunities.

# Questions

