

Community Investments

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Editor's **NOTEBOOK** by Fred Mendez

As you may know, the revised Community Reinvestment Act (CRA) regulation changed the way financial institutions are evaluated from twelve fairly broad-based "assessment factors" to a more bottom-line approach. Large financial institutions (those with assets over \$250 million or a subsidiary of a holding company with combined assets over \$1 billion) are evaluated on lending, investing and service activities that relate to community development. The four federal bank regulatory agencies have defined community development to mean affordable housing for low- or moderate-income individuals, community services targeted to low- or moderate-income individuals, activities that help small businesses and activities that revitalize or stabilize low- or moderate-income geographies. Small financial institutions and wholesale/limited purpose financial institutions are evaluated in a streamlined manner that takes some of the same information into account but is tailored to their limitations and environment.

The idea behind this change was to focus on the strength of financial institutions—namely, lending in the communities they are chartered to serve. The CRA's "lending test" is the most heavily weighted of the three tests mentioned above except in those cases where an institution's charter or environment make lending difficult. The other two tests, investment and service, are designed to either compliment lending activity or to set a foundation for safe and prudent lending in the future.

The investment test was designed to allow financial institutions to meet their obligations under the CRA through methods that are "innovative, creative and flexible" – adjectives that appear several times throughout the regulation. Financial institutions vary in size and specialty, and although they are federally insured, financial institutions are private enterprises. Consequently, agencies cannot and will not dictate what specific products and services they can offer as long as they are permissible by current banking laws.

By seeking creative investment opportunities, financial institutions can act as a catalyst for other private sector investment and can make a vested interest in communities in which they are chartered to serve. This special edition of *Community Investments* is designed to help financial institutions define Community Reinvestment Act qualified investments and understand related regulatory and technical issues. In addition to the regulatory guidance provided, each of the seven articles is designed to address four areas concerning the most common CRA qualified investments:

1. What they are and how they work
2. Where and how they can be obtained, including some discussion of their availability relative to other investment vehicles
3. How they are booked; and
4. How they qualify under the CRA

This publication presumes that the reader has a working knowledge of the CRA and its implementing regulation. Information about the CRA regulation is available at www.FFIEC.gov. Financial institution representatives should contact their regulatory agency liaison to discuss any specific questions you may have regarding qualified investments. We hope you find this publication useful.