



Small and Intermediate Small Bank CRA Best Practices

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Intermediate Small Bank

Definition:

Effective January 1, 2012, an **intermediate small bank** is a **small bank with assets of at least \$290 million as of December 31 of both of the prior two calendar years and less than \$1.160 billion as of December 31 of either of the prior two calendar years.**

- Annual adjustment of asset thresholds (based on changes in the Consumer Price Index for urban wage earners and clerical workers) will be reported in the Federal Register and announced jointly by regulators
 - <http://www.gpo.gov/fdsys/pkg/FR-2011-12-22/pdf/2011-32727.pdf>

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Lending Test

- Loan-to-Deposit ratio
- Comparison of credit extended inside and outside of the assessment area[s]
- Distribution of credit within the assessment area[s]
- Lending distribution
 - Geographic distribution by income level of geography
 - Borrower distribution by income and annual revenues
- Resolution of written CRA complaints

Community Development

- (1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals;
- (2) Community services targeted to low- or moderate-income individuals;
- (3) Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less;
- (4) Activities that revitalize or stabilize
 - (i) low- or moderate-income geographies
 - (ii) designated disaster areas; or
 - (iii) distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency
- (5) Loans, investments, and services that
 - (i) support, enable or facilitate projects or activities that meet the "eligible uses" criteria described in Section 2301(c) of the Housing and Economic Recovery Act of 2008 (HERA), Public Law 110-289, 122 Stat. 2654, as amended, and are conducted in designated target areas identified in plans approved by the United States Department of Housing and Urban Development in accordance with the Neighborhood Stabilization Program (NSP);
 - (ii) are provided no later than two years after the last date funds appropriated for the NSP are required to be spent by grantees; and
 - (iii) benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or areas outside the bank's assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Primary purpose

According to the March 11, 2010 edition of the Interagency Questions and Answers:

- A8. A loan, investment, or service has as its primary purpose community development when it is designed for the express purpose of revitalizing or stabilizing low- or moderate-income areas, designated disaster areas, or underserved or distressed nonmetropolitan middle-income areas, providing affordable housing for, or community services targeted to, low- or moderate-income persons, or promoting economic development by financing small businesses and farms that meet the requirements set forth in 12 CFR 12(g).
- To determine whether an activity is designed for an express community development purpose, the agencies apply one of two approaches:
 - Majority of dollars or beneficiaries are in line with one or more of the enumerated community development purposes
 - Or:
 - Expressed purpose (e.g., in a prospectus, loan proposal, or community action plan) is primarily one or more of the enumerated community development purposes; and
 - Structured to achieve the expressed community development purpose; and
 - Accomplishes, or is reasonably certain to accomplish, the community development purpose involved

Community Development Test

- Community development loans
 - Number
 - Amount
- Qualified investments
 - Number
 - Amount
- Community development services
 - Extent provided
- Responsiveness of loans, investments, services

Community Development Loan

The bank has extended two community development loans totaling approximately \$2.9 million within this assessment area since the previous evaluation. The proceeds from these loans were used to finance a homeless shelter and to provide renovations for two local schools where a majority of the children attending are of low-income families.

Community Development Service

30 seminars on financial literacy at the bank and various locations throughout the assessment area.

- Community contacts stated that there was a great need for financial literacy training. Financial literacy remains a great concern in the assessment area as management noted that many residents continue to utilize currency exchanges and payday loan services that have infiltrated the community. A community contact interviewed during this current examination also recognized financial literacy as a great need in regards to the escalating foreclosures in the community.

Qualified Investment

Community Development Credit Union

Throughout the evaluation period, the bank made five \$100M deposits in a low-income designated federal credit union. The credit union primarily lends in low- and moderate-income areas and to low- and moderate-income persons.

Donations

Cash donations of over \$106M were made to various organizations during this evaluation period, of which \$67M was to United Way. This organization targets low- and moderate-income people in [state].

Derivation of CRA Rating

For intermediate small banks, composite ratings are derived based on the ratings assigned to the lending test and the community development test.

- A satisfactory rating will be needed for both the lending test and the community development test in order to receive an overall Satisfactory CRA rating.

Evidence of discriminatory or other illegal credit practices adversely affects the evaluation of a bank's CRA performance. The extent of the effect depends on:

- The nature and extent of the evidence.
- The policies and procedures that the institution has in place to prevent discriminatory or other illegal credit practices.
- Any corrective action the institution took or committed to take, particularly voluntary corrective action resulting from a self assessment conducted prior to the examination.
- Other relevant information, such as the institution's past fair lending performance.

Performance Context

Bank

Assessment Area[s]

- Business strategy
- Capacity
- Constraints
- Past performance
- Financial industry
 - Peers
 - Competition

- Demographic data
 - Income levels and geographies
 - Small business formation
 - Small farm formation
 - Housing
- Community contacts
 - "Main Street"
 - Local government
 - Non-profits and community advocates
- CRA comments
- State of local economy
- Financial industry
