

Understanding the Basics of CRA



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Objectives

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CRA Basics

- ❑ Understand the purpose of the CRA;
- ❑ Be familiar with some of the technical requirements of the regulation;
- ❑ Understand how your activities may help banks meet their CRA requirements and what type of support they may offer your organization and initiatives;
- ❑ How you can work with banks to meet community credit and banking needs.



What Is CRA?

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CRA Statute --12 USC 2901 et al

- ❑ Enacted to encourage depository institutions to help meet the credit needs of communities in which they operate, including low- and moderate-income (LMI) neighborhoods
 - ❖ Including low- and moderate-income individuals and tracts.
 - ❖ Including businesses/farms of different sizes and borrowers of different income levels.
 - ❖ Consistent with safe and sound operations.

What is CRA?

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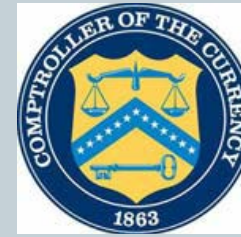
- ❑ The CRA requires regulators of insured depository institutions to assess the record of each bank and thrift in helping to fulfill their obligations to the community and to consider that record in evaluating applications for charters or for the approval of bank mergers, acquisitions, and branch openings
- ❑ Enforced under implementing regulations

What is CRA?

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- ❑ CRA applies to federally insured depository institutions, national banks, thrifts, and state-chartered commercial and savings banks

- ❑ The federal financial institution regulators are:
 - ❖ [Board of Governors of the Federal Reserve System](#) (FRB)
 - ❖ [Federal Deposit Insurance Corporation](#) (FDIC); and
 - ❖ [Office of the Comptroller of the Currency](#) (OCC)



CRA History

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- ❑ 1960's: Civil rights movement and related efforts to eliminate housing discrimination.
- ❑ Early 1970's: Community activists began to protest redlining practices.
- ❑ 1975: Home Mortgage Disclosure Act (HMDA) passed by Congress – tracked lending in all communities.
- ❑ 1977: Congress passed the Community Reinvestment Act – Federal banking regulatory agencies issued Regulation BB to implement law.
- ❑ Banking regulators became more active in enforcement of CRA and provided new guidance to banks on their CRA responsibilities.

CRA History

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- ❑ 1989: Passage of the Federal Institutions Reform, Recovery and Enforcement ACT (FIRREA) – required public CRA disclosure of banks’ CRA ratings. HMDA was expanded to include mortgage applications (not just loan originations), race, gender and income levels of borrowers.
- ❑ 1993–1994: Nationwide hearings on CRA– proposed regulatory changes to respond to bank and community concerns.
- ❑ 1995: **New Regulation BB established, effective July 1995, solely focused on performance.**

CRA History

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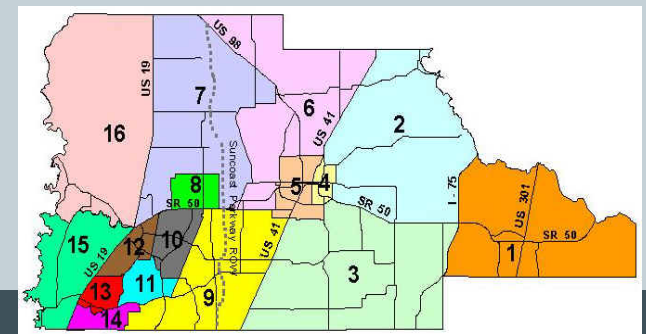
- Another amendment to the regulations took effect in September 2005:
 - ❖ Community development definition expanded – activities that revitalize or stabilize
 - Distressed or Underserved non metropolitan middle-income geographies
 - Designated disaster areas, as designated by FEMA
 - ❖ Large bank threshold raised to \$1 billion
 - ❖ New category of bank established - intermediate small bank
 - ❖ Relationship of fair lending violations to CRA rating clarified

Key Definitions

Assessment Area

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- ❑ Each bank is evaluated on how well it serves its “assessment area(s)”
- ❑ Assessment area(s):
 - ❖ Geographies in which bank has its main office, branches, and deposit taking ATMs
 - ❖ Surrounding areas where bank has originated or purchased a substantial portion of its loans
 - ❖ Must consist of “whole geographies”



Key Definitions

Performance Context

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- ❑ A bank's performance is judged in the context of information about the bank and its Assessment Area(s), including
 - ❖ Demographic data on median income levels, distribution of household income, nature of housing stock, housing costs and other relevant data
 - ❖ Lending, investment and service opportunities
 - ❖ The bank's product offerings and business strategy, capacity and constraints, past performance and the performance of similarly situated lenders
 - ❖ The bank's public file and any written comments about the bank's CRA performance
 - ❖ Any other relevant information



Key Definitions

LMI

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- ❑ Low- and Moderate-Income (LMI) is based on the median family income (MFI) of a geography, based on census data
 - ❖ Low-income: < 50% of median income
 - ❖ Moderate-income: 50% - < 80% of median income
 - ❖ Middle-income: 80% - < 120% of the median income
 - ❖ Upper-income: 120% or more of the median income
- ❑ MFI - annual income figure for which there are as many families with incomes below that level as there are above that level
 - ❖ For metro areas use the MSA's Median Family Income
 - ❖ For rural areas use the Statewide Non-metropolitan Median Family Income

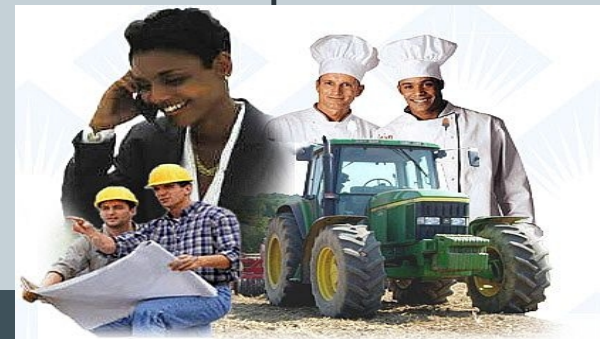


Key Definitions

Small Business/Farm

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- ❑ Small business - *business* with gross annual revenues of \$1 million or less
- ❑ Small business loan - loan included in “loans to small businesses” as defined in the Instructions for Preparation of the Consolidated Report of Condition and Income (Call Report) with an original amount of \$1 million or less
- ❑ Small farm – farm with gross annual revenues of \$1 million or less
- ❑ Small farm loan – loan included in “loans to small farms” as defined in the instructions for preparation of the Call Report with an original amount of \$500 thousand or less



Key Definitions

Community Development

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- ❑ Affordable Housing for LMI individuals;
- ❑ Community services targeted to LMI individuals;
- ❑ Activities that promote economic development by financing small business/farms.
- ❑ Revitalize and Stabilize targeted geographies;
 - ❖ Low- or moderate-income geographies;
 - ❖ Designated disaster areas; or
 - ❖ Distressed non-metropolitan middle-income geographies
 - ❖ Underserved non-metropolitan middle-income geographies



Key Definitions

Community Development

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- ❑ Definition of community development was expanded to include support for Neighborhood Stabilization Program (NSP) activities
- ❑ Loans, investments & services
 - ❖ Projects or activities that meet “eligible uses” criteria & relate to approved NSP plans
 - ❖ Must be in target areas
- ❑ Not limited to activities actually receiving NSP funds



Types of CRA Examinations

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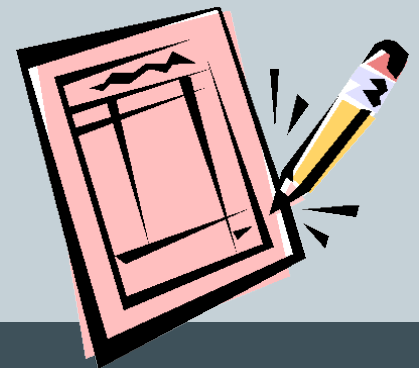
- ❑ Banks are examined based on asset size using specific criteria for either:
 - ❖ Small Banks (under \$300 million)*
 - ❖ Intermediate Small Bank (ISB) (\$300 million to \$1.202 billion)*
 - ❖ Large Bank (assets over \$1.202 billion)*
 - ❖ Wholesale and Limited Purpose Banks
 - ❖ Banks with approved CRA Strategic Plans

*Thresholds are updated annually by FFIEC

CRA Ratings

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- ❑ A bank's record of meeting community needs is considered during an application review for a merger, acquisition, or branching
 - ❖ Outstanding
 - ❖ Satisfactory (High Sat/Low Sat)
 - ❖ Needs to Improve
 - ❖ Substantial Noncompliance



Public File for All Institutions

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- ❑ Full Public file at the main office and at one office in each state
- ❑ Limited file at branch locations
- ❑ All written comments for the current year and two previous years
- ❑ Most recent Public Evaluation
- ❑ List of all branches - address and geographies
- ❑ List of services
- ❑ Map of Assessment Areas
- ❑ Last two years HMDA Disclosure Statement



CRA in the Community

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- ☑ How your community activities may help banks meet their CRA obligations.

Bank Decision Factors

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- Assessment Area
- Risk
- Cost
- Response to assessed need
- Business/skill alignment (Capacity)
- Leverage
- Value to overall CRA strategy/portfolio
- Business development potential



Bank Decision Factors - Partners

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- Capacity
- Proven Performance
- Sustainability
- Assessment and Responsiveness
- Innovation
- Target Market Penetration
- Recordkeeping and Accountability



Bank Decision Factors - Challenges

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- ❑ Documentation of eligibility and impact.
- ❑ Capturing income data related to activities.
- ❑ Ensuring activities fulfill intended outcome.
- ❑ Training and technical expertise in development programs.
- ❑ Adequate documentation for underwriting.
- ❑ Outreach to underserved and unbanked markets and populations.
- ❑ Identification of banking and development needs.



CRA Strategy

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- ❑ Community organizations should develop a CRA strategy. **RESEARCH** is the key to success.
 - ❖ Understand your community's needs and demographics
 - Identify public plans and initiatives
 - Be aware of other local community-based organizations
 - When possible, form coalitions or collaboratives – eliminate duplications
 - Track community trends in employment housing, demographics, etc.

CRA Strategy

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- ❖ Community Organizations should research banks' focus and business models
 - Understand CRA Public Evaluation criteria (size of institution, assessment area(s), products)
 - Assess banks' performance context
 - Perform a competitive analysis of comparable banks in the area(s) using Public Evaluations

CRA Strategy

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□ Develop a strategy

- ❖ Should match bank products and services to community needs
- ❖ Should identify with and build upon bank capacity, strengths, and business model
- ❖ Should suggest community development products and services that will generate revenue, expand markets, complement existing product lines, and mitigate risk.

REMEMBER

A solid CRA strategy is by plan and not by chance. It is founded on facts and research and may be integrated into a bank's business plan.

Resources

- ❑ FFIEC Community Reinvestment Act Page
<http://www.ffiec.gov/cra/>
- ❑ FFIEC CRA Q & As 2010
<http://www.ffiec.gov/cra/pdf/2010-4903.pdf>
- ❑ FFIEC Guide to CRA Data Collection and Reporting
<http://www.ffiec.gov/cra/guide.htm>
- ❑ FFIEC Guide to HMDA Reporting
<http://www.ffiec.gov/hmda/guide.htm>

Regulator Contacts

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Questions

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