

Serving and Investing in Your Community

- Technical Elements (*What qualifies?*)
- Performance Context
- Community Development Services
- Community Development Investments

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;

Community Development (continued)

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; or

Community Development (continued)

- Activities that revitalize/stabilize
 - Low- or moderate-income geographies
 - Designated disaster areas
 - Distressed or underserved, non-metropolitan middle-income geographies

Community Development Service

CRA regulation defines **community development service** as 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.

Consideration of Services

In the consideration of services for CRA, there are two categories.

1. Retail banking services
2. Community development services

Retail Banking Services

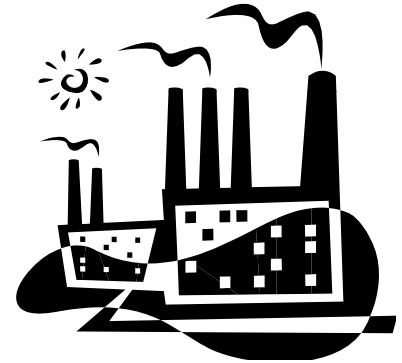
1. Accessibility of the bank's delivery systems
 - a. Distribution of bank branches
 - b. Alternative delivery systems (considered only to the extent that they are effective alternatives in providing needed services to low- and moderate-income areas and individuals)
2. Changes in branch locations: Have any changes improved or adversely affected the accessibility of delivery systems to low- and moderate-income areas or individuals?
3. Reasonableness of business hours and services in meeting assessment area needs.

Qualified Investments

- Permissible (within investment limitations)
- Community development as primary purpose
- Benefit assessment areas or broader statewide or regional areas
- Investment, grant, donation, deposit, or membership share
- Affiliate investments

Performance Context

- Assessment area characteristics



- Financial institution characteristics



Performance Context-Assessment Area Characteristics

1. Demographic data on median income levels, distribution of household income, nature of housing stock, housing costs, and other relevant data pertaining to a bank's assessment area
2. Any information about lending, investment, and service opportunities in the bank's assessment area maintained by the bank or obtained from community organizations, state, local, and tribal governments, economic development agencies, or other sources

Performance Context-Financial Institution Characteristics

1. The bank's product offerings and business strategy as determined from data provided by the bank
2. Institutional capacity and constraints, including the size and financial condition of the bank, the economic climate (national, regional, and local), safety and soundness limitations, and any other factors that significantly affect the bank's ability to provide lending, investments, or services in its assessment area
3. The bank's past performance and the performance of similarly situated lenders

Performance Context-Assessment Area Characteristics

How have your assessment area's characteristics changed since the last CRA evaluation?



National Data

National Data				
	2009	2008	2007	2006
Unemployment (Annual Average)	9.3%	5.8%	4.6%	4.6%
Gross Domestic Product	(1.3%)	2.6%	5.1%	6.0%
New Home Sales	374,000	485,000	776,000	1,052,000
Existing Home Sales	5,156,000	4,913,000	5,652,000	7,067,000

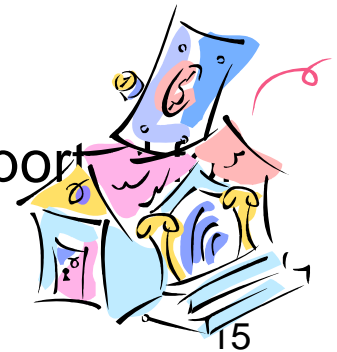
Home Mortgage Disclosure Act Data

- 8,388 institutions reported 2008 data
 - Number down nearly 3% from 2007
- 14.2 million applications reported for 2008
 - Number down 34% from 2007



CRA Data

- 965 institutions reported small loans to businesses and farms for 2008
 - Number down slightly more than 3% from 2007
 - 10.6 million originations reported for 2008
 - Number down slightly more than 22%
-
- 41,173 community development loans reported for 2008
 - 31,785 loans reported for 2007
 - \$75.5 million in community development loans reported for 2008
 - \$63.8 million in community development loans reported for 2007



Performance Context-Assessment Area Characteristics


**Have the needs or opportunities
changed within the assessment area?**



How? When? Why?

- Opportunities to purchase qualified investment securities
- Donation and grant needs
- Service needs
- Community infrastructure
- Competition

Performance Context-Assessment Area Characteristics

- Tips 
 - Know the characteristics of your assessment area that relate to opportunities and needs for qualified investments and community development services
 - Talk with bank staff (investment officer, for example)
 - Talk with community leaders and partners
 - Analyze data
 - Understand how these characteristics changed during the evaluation period
 - Analyze performance in light of these characteristics
 - Provide the information to the examiner

Performance Context-Financial Institution Characteristics

How has your financial institution's characteristics changed since the last CRA evaluation?



Problem Insured Institution Data

- As of December 31, 2009-?
- As of December 31, 2008-252
- As of December 31, 2007-77
- As of December 31, 2006-51

Performance Context-Financial Institution Characteristics


Have the characteristics of the financial institution changed?



How? Why? When?

- Qualified investments
 - Financial constraints (earnings, liquidity, and quality)
 - Investment strategy
 - Expertise
- Community development services
 - Resources
 - Expertise

Performance Context-Financial Institution Characteristics

- Tips 
 - Know capacity and strategy to make qualified investments
 - Know capacity of the staff to engage in community development services
 - Provide the information to the examiner

Performance Context



- Tips

- Don't wait until the evaluation nears before developing and analyzing performance context information
- Assess qualified investment and community development service activity levels based on relevant performance context
- Assess **responsiveness** of activities based on relevant performance context
- Allocated resources strategically
- Keep good records between evaluations

Current Environment

- Performance context has likely changed significantly during the period between evaluations
- Performance at historical levels might not result in the financial institution receiving same rating given performance context changes

Performance Context

Have the CRA performance levels changed as a result of performance context changes recently?



CRA Less than Satisfactory Ratings

	2009 Substantial Noncompliance/ Needs to Improve Ratings	2008 Substantial Noncompliance/ Needs to Improve Ratings	2007 Substantial Noncompliance/ Needs to Improve Ratings	2006 Substantial Noncompliance/ Needs to Improve Ratings
FRB	0/1	0/1	0/3	1/1
FDI C	4/23	3/20	3/28	5/15
OC C	0/0	0/1	0/0	0/1
OTS	1/6	1/9	1/5	0/5

Performance Context Conclusion

Community Development Services

Examples of CD Services

- Serving on the Board of an affordable housing organization
- Providing homebuyer seminars for low- or moderate-income people
- Providing loan related technical assistance to small business owners
- Offering free or low-cost checking accounts and cashing government checks free of charge.

Evaluate IDAs

Evaluate bank's services/products as one or more:

- Community development services,
- Retail banking services,
- Qualified investments,
- Home mortgage loans.
- Small business loans,
- Consumer loans, or
- Community development loans.

Other CD Service Examples

- Technical assistance to organizations serving LMI housing needs
- Executive loan program
- Credit counseling
- Financial planning to promote CD
- School savings programs

CD Service – Yes or No?

1. The bank's chief financial officer serves on the loan committee of the local Habitat for Humanity.
2. Some of the bank's employees help build a Habitat home.
3. A bank loan officer provides monthly home buyer education seminars in conjunction with a local housing agency.

CD Service – Yes or No?

4. The bank president serves on the finance committee for a nonprofit agency that provides temporary shelter for the homeless.
5. The bank president serves on the fundraising committee of the local chapter of the Boy Scouts.
6. A Spanish-speaking employee teaches English to new immigrants at a night school program sponsored by the county unemployment commission.

Money Smart

- A financial education program designed by the FDIC
- Offered free of charge to any interested party
- Contact your community affairs staff for more details
- Consider Money Smart or any other financial literacy program in the evaluation of a bank's community development services

CRA Investment Test

Qualified Investments and Examples

Qualified Investments

- Permissible (within investment limitations)
- Community development as primary purpose
- Benefit assessment areas or broader statewide or regional areas
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Performance Criteria for Investment Test

- Level of qualified investments
- Innovation and Complexity
- Responsiveness to credit and community development needs
- Degree to which qualified investments are not routinely provided by private investors

Examples of Qualified Investments

- Financial intermediaries (including CDFIs, CDCs, minority- and women-owned financial institutions, and community loan funds)
- Organizations engaged in affordable housing rehabilitation and construction
- Organizations, including SBICs, that promote economic development by financing small businesses

Examples of Qualified Investments

(continued)

- Facilities that promote community development in low- and moderate-income (LMI) areas for LMI individuals, such as youth programs and homeless centers
- Projects eligible for low-income housing tax credits
- State and municipal obligations, such as revenue bonds, that support affordable housing

Examples of Qualified Investments

(continued)

- Not-for-profit organizations serving LMI housing or other community development needs, such as counseling for homeownership
- Organizations supporting activities essential to the capacity of LMI individuals or geographies to utilize credit or to sustain economic development, such as job training programs

Common Challenges

- What are the investment limitations?
- Does the institution have resources?
- Where to invest? (Opportunities)
- What qualifies?
- How to track?
(Documentation/Recordkeeping)
- How to get “Outstanding”?

Best Practices

Now, let me share with you a few good qualified investments from CRA Performance Evaluations in recent years.

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Closing Comments and Questions