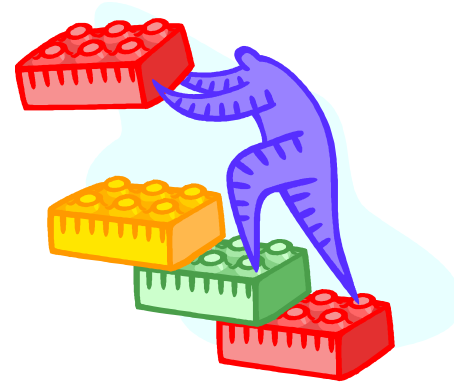


CRA Basics



Objectives

Upon completion of this session you should:

- Become more familiar with the history/purpose of CRA;
- Become more familiar with terms and definitions under the CRA regulation;
- Introduce technical requirements of the regulation; and
- Understand how CRA can be useful for your organization.

CRA History: 1960's and 1970's

- 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 – gave communities a tool to fight disinvestment in their communities;
- 1977: Congress passed the Community Reinvestment Act; and
- Federal banking regulators issued Regulation BB to implement the new law (CRA).

CRA History – 1980's

- Banking regulators became more active in enforcement of CRA and provided new guidance to banks on their CRA responsibilities; and
- 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 a mortgage *applicants* race, gender and income levels (not just loan originations).

CRA History

CRA passage did two things:

- It eliminated the illegal practice of redlining; and
- “Encourages” regulated financial institutions to meet the credit needs of all the communities it serves in particular historically underserved communities;

Purpose of CRA

- Encourage banks and thrifts to meet the credit needs of their communities:
 - Including *borrowers* of different income levels and *businesses/farms* of different sizes;
 - Including low- and moderate-income *geographies*, certain non-metropolitan middle income *geographies* or designated disaster areas; and be
 - CRA activities **MUST** be consistent with safe, sound and prudent business operations.

Definitions

- Geography
- Median Area Income
- Low- and Moderate-Income (LMI)
- Assessment Area (AA) Delineation
- Community Development
 - Primary Purpose



Community Development

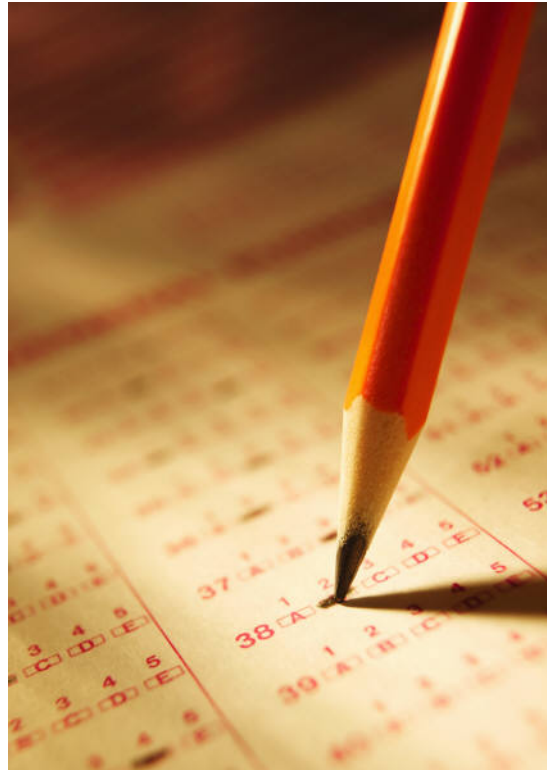
- **Affordable housing** for low- or moderate-income (**LMI**) individuals
- **Community services** for **LMI** individuals
- Activities that promote **economic development by providing financing** for small businesses or small farms
- Activities that **revitalize or stabilize** LMI geographies, distressed or underserved non-metro middle-income areas, or designated disaster areas.
- *Activities that **support, enable or facilitate projects or activities that meet “eligible uses” criteria** described in Section 2301(c) of the Housing and Economic Recovery Act of 2008 (HERA) and are conducted in designated target areas identified in plans approved by HUD in accordance with the Neighborhood Stabilization Program (NSP)*



Primary Purpose

- In order to receive Community Development consideration under CRA - loans, investments, and/or services primary purpose must be consistent with the definition of community development.

The Exam Process



Objectives

Upon completion of the CRA exam overview, you should:

- Be familiar with the different CRA exam types;
- Be familiar with the CRA ratings;
- Understand steps examiners and CRA Officers take to prepare for a CRA evaluation; and
- Understand how CRA can be useful to your organization.

Exam Types

- Small bank;
- Intermediate small bank (ISB);
- Large bank;
- Wholesale and Limited Purpose; and
- Strategic Plan



Technical Requirements

- CRA Public Notice
- Public File
- Delineation of Assessment Area



CRA Public Notices

- Must be displayed in the public lobby of each of its offices;
- Details the public's right to review the institution's file and CRA-related comments;

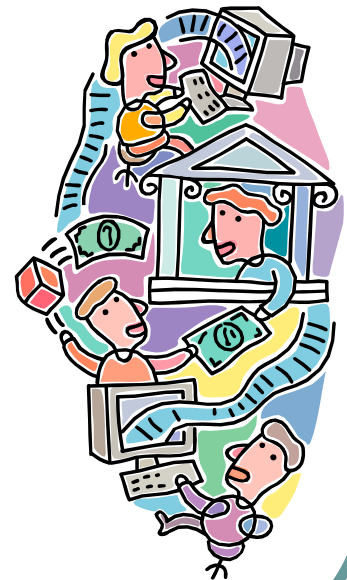


Public File

- Full file
 - At the main office;
 - At one office in each state.
- Limited file at branch locations
 - Provide all information relative to the branch's assessment area within five days of request.

Public file for all institutions

- All written CRA related comments for the current year and two previous years;
- The most recent public evaluation 🏛️;
- List of all branches - addresses and geographies;
- List of services 🏛️;
- Map of Assessment Area(s); and
- Last two years HMDA Disclosure Statements.



Public File - Additional Requirements for Small Institutions

- Loan to deposit ratio for each quarter of the prior calendar year
- Information required by other institutions if it has chosen to be evaluated under the lending, service and investment tests



Overall Ratings

- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Noncompliance

- Ratings “roll-up”



Public Evaluation

- Prepared by the agencies;
- Exit discussion with bank management;
- Exam completed and final ratings assigned and discussed with management;
- Published on regulators' & FFIEC web sites; and
- Made available to the public on request.

Why are CRA Ratings Important?

- Regulators must take into account a bank's record of helping to meet the community credit needs when considering any corporate or licensing action.
- Examples include:
 - Opening new branch offices or deposit-taking ATMs, mergers, acquisitions or consolidations



CRA Performance Context and Defining Community Development

Performance Context

What is Performance Context?



- A broad range of economic, demographic, and institution- and community-specific information that an examiner reviews to understand the context within which an institution's CRA record of performance should be evaluated.
- Performance context factors that affect a bank's CRA performance are explained in the Bank's Performance Evaluation (PE).

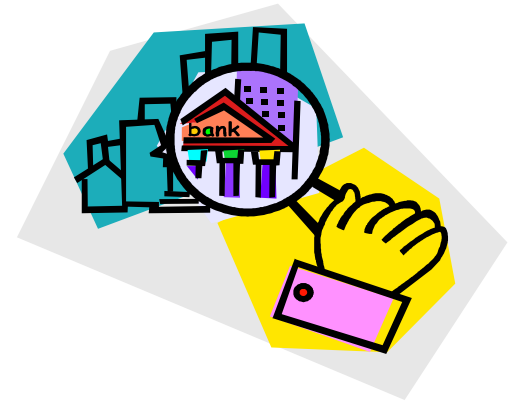
Performance Context

- Description of Institution
 - Background
 - General Business Strategy
 - Ability and Capacity
 - Financial Data
 - Lending Focus
 - Holding Company / Affiliates / Subsidiary



Performance Context

- Description of Assessment Area(s)
 - Specific Description & Demographic Data
 - Economic Data
 - Community Contacts



Performance Context

Community Contacts – Provides Insights:

- Into Area's Economic Condition
- Into Changes in Area's Description
- Into Area's Credit Needs
- Into Institutions' Response



Other Performance Context Considerations

- CRA-Related Complaints
- Discriminatory or Illegal Credit Practices



Defining Community Development

Examples of CD Loans

- Affordable housing rehabilitation and construction
- Loans to nonprofit organizations
- Loans in support of community facilities
- Loans to CDFIs or CDCs or minority – and women-owned financial institutions
- Loans to governmental entities
- Loans to finance environmental cleanup or redevelopment of industrial site

Defining Community Development

Examples of Qualified Investments:

- Investment, grants, deposits, or shares in or to:
 - Financial intermediaries
 - Minority- or women-owned banks
 - Organizations engaged in affordable housing
 - Organizations promoting economic development by financing small businesses
 - Low-Income Housing Tax Credits
 - New Markets Tax Credits

Defining Community Development

CD Service Examples:

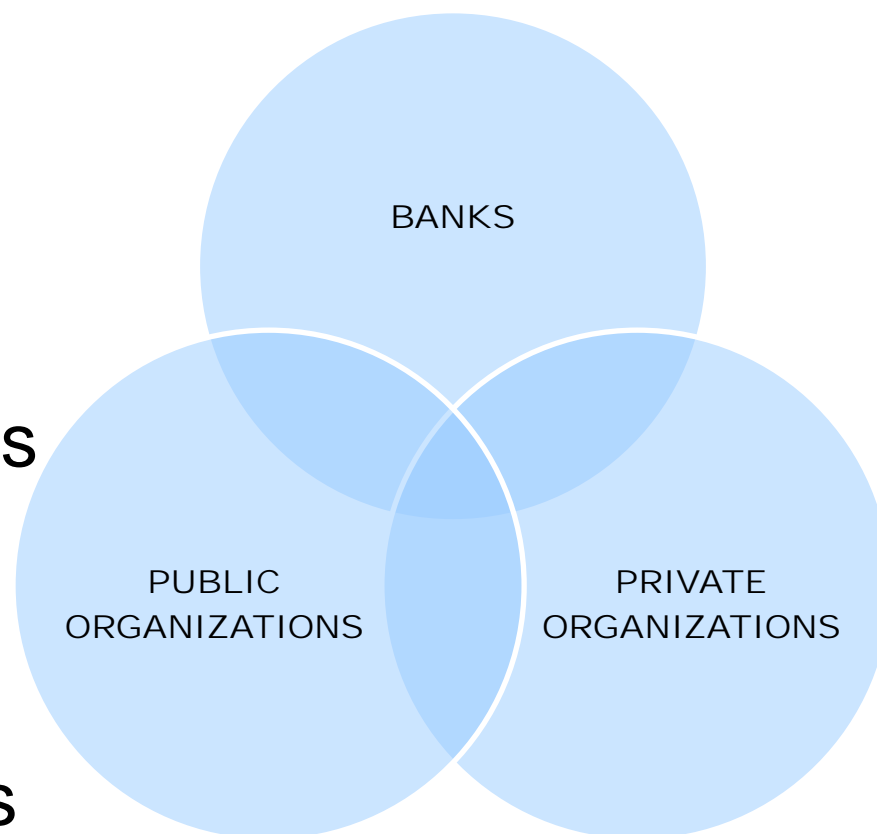
- Technical assistance to organizations serving LMI housing needs
- Loaned executive program
- Credit counseling
- Providing financial education for LMI individuals
- Financial planning to promote CD
- School savings programs



Defining Community Development

Bank Community Partners:

- Help bank to target its investments to benefit LMI
- Help bank to fulfill its CD goals and objectives
- Help bank to maintain awareness of CD needs



Defining Community Development

Summary

- Activity must have a primary purpose consistent with the definition of community development
- Banks generally have a tracking mechanism in place to capture community development activities.
- Banks have to be prepared to support why CD activity qualifies for CRA



CRA Strategy Development

Approaching the
Bank

Objectives

- **Participants should learn how to research which banks to approach**
- **Participants will learn how to develop a CRA strategy for their organization**
- **Participants will learn how to approach bankers with organizational concerns**

Steps in Developing a CRA Strategy

- Step 1.** Understand CRA Performance Evaluation Criteria (i.e. Small Bank vs. ISB vs. Large Bank criteria)
- Step 2.** Assess bank performance context
- Step 3.** Assess community credit needs
- Step 4.** Match bank products, services with community credit needs

Developing a CRA Strategy

- **Know your community**
 - Research community needs
 - Research community demographics
 - Learn about public plans and initiatives
 - Know about other local community based organizations
 - When possible, form coalitions
 - Eliminate duplications

Understanding CRA Evaluation Criteria

- **Determine Bank Evaluation Criteria**
 - Small Bank
 - Small Bank Evaluation Criteria - Lending
 - Intermediate Small Bank
 - Small Bank Evaluation Criteria – Lending
 - Community Development
 - Large Bank
 - Large Bank Evaluation Criteria – Lending Test
 - Service Test
 - Investment Test
- **Review prior CRA Performance Evaluations**

Assessing Bank Performance

Context

- **Identify and understand bank capacity, strengths and business model**
- **Catalogue CD opportunities to lend, invest or provide services in your community**
- **Competitive Analysis**
 - What are other banks doing?

Assessing Community Credit Needs

- **Review written reports and publications on credit needs and programs to serve LMI families.**
- **Become knowledgeable of reports by entities that specifically research and analyze policies affecting LMI populations and underserved areas.**
- **Explore needs of the least-served areas, where opportunities may be greatest and the competition is least.**
- **Compare and contrast products and services provided by the bank against the areas served.**

Matching Bank Products and Services with Community Credit Needs

- **Compare the bank's lending focus, its economic and performance context, and its products and services to community credit needs.**
- **Use government loan programs as resources to enhance lending opportunities and to manage and mitigate lending risk.**

A Successful CRA Strategy

- **Should communicate the role and function of CD activities**
 - CD products generate revenue.
 - CD initiatives may expand a bank's market.
 - CD initiatives may complement existing product lines.
 - CD risks may be mitigated and managed
- **Considers costs!**

CRA Strategy

- **Conclusion, a strong CRA Strategy:**
 - Is by plan and not by chance
 - Is founded on facts and research
 - Should be able to be integrated into a bank's business plan

CRA Strategy Development

Questions???