Community Reinvestment Act for Community-Based Organizations
Objectives

- Understand the purpose of the CRA and key definitions
- Understand how banks are evaluated under CRA
- Learn how community organizations can work with banks and thrifts to meet community credit and banking needs
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.
CRA: Part of the Civil Rights Legislative Umbrella

- Part of the heightened civil rights activity of the 1960s and 70s
- A response to decades of discriminatory housing and lending policies and practices
- Followed on the heels of:
  - Fair Housing Act of 1968
  - Equal Credit Opportunity Act of 1974
  - Home Mortgage Disclosure Act of 1975
Supervisory Agencies

- Must assess an institution’s record of helping to meet the credit needs of the local communities in which the institution is chartered.
- Performance must be consistent with the safe and sound operation of the institution.
- Must take this record into account in the agency’s evaluation of an application for a deposit facility by the institution.
Coverage

- Banks and thrifts supervised by:
  - Office of the Comptroller of the Currency
  - Federal Reserve System
  - Federal Deposit Insurance Corporation

- How to determine a financial institution’s regulator: www.ffiec.gov/consumercenter/default.aspx
Key Terms & Definitions

- Median Family Income (MFI)
- Low- and Moderate-Income (LMI)
- Assessment Area (AA)
- Community Development
Definition of Community Development

- Affordable housing for LMI individuals
- Community services for LMI individuals
- Promoting economic development by providing financing for small business or farms
- Revitalize or stabilize certain geographies
- Activities that support “eligible uses” under the Neighborhood Stabilization Program (NSP)
Community Development Activities

- Must have a primary purpose of community development
- Benefits the bank’s AA(s) or a broader regional or statewide area that includes the bank’s AA(s)
- May be direct or indirect
- May be innovative or complex
  - Large banks only
Community Development

- Community Development Concepts
  - Community Development Loans
  - Qualified Investments
  - Community Development Services
Examples - Community Development Loans

- Affordable housing rehabilitation and construction
- Loans to nonprofit organizations serving primarily LMI housing or other community development needs
- Loans in support of community facilities in LMI areas or to facilities that support LMI persons
- Loans to CDFIs, CDCs, or minority and women-owned financial institutions
- Loans to governmental entities for community development purposes
Examples – Qualified Investments

- Lawful investments, deposits, grants or shares in or to:
  - Financial intermediaries
  - Organizations engaged in affordable housing
  - Organizations that promote economic development by financing small businesses
  - Facilities that provide community services for low- and moderate-income individuals
  - Projects eligible for low-income housing tax credits (LIHTCs)
  - Organizations supporting activities essential to the capacity of LMI populations to utilize credit or sustain economic development

- Charitable contributions including cash and in-kind donations
Examples – CD Services

- Lending employees to provide financial services
  - For organizations facilitating affordable housing construction, rehabilitation, or development

- Financial counseling to promote CD and affordable housing
  - Credit
  - Homebuyer and home maintenance
  - Financial planning or other financial services education

- Foreclosure prevention programs for low- or moderate-income homeowners
  - Help low- or moderate-income borrowers avoid foreclosure on their homes
  - Objective of affordable, sustainable, long-term modifications or restructurings
Examples – CD Services

- School savings programs, financial education or literacy for low- or moderate-income individuals
- Improving access to financial services for low- or moderate-income individuals
  - Electronic benefits transfers
  - Point of sale (POS) systems
  - International remittance services
- Low-cost savings or checking accounts
- Individual development accounts (IDAs)
- Free or low-cost government, payroll, or other check-cashing services
Examples of Technical Assistance
Community Development Organizations

- Serving on a loan review committee;
- Developing loan application and underwriting standards;
- Developing loan processing systems;
- Developing secondary market vehicles or programs;
- Assisting in marketing financial services, including development of advertising and promotions, publications, workshops and conferences;
- Furnishing financial services training for staff and management;
- Contributing accounting/bookkeeping services; and
- Assisting in fund raising, including soliciting or arranging investments.
How Banks are Evaluated
Evaluating Performance

Five types of examinations
- Small bank (SB)
- Intermediate-small bank (ISB)
- Large bank (LB)
- Wholesale or limited purpose bank
- Banks operating under a strategic plan
Bank Type by Asset Size

- **Small Bank**
  - < $305 Million

- **Intermediate Small Bank**
  - $305 Million and < $1.221 Billion

- **Large Bank**
  - >= $1.221 Billion
Small Banks

Assessment Areas

Lending test
- Loan-to-deposit Ratio
- Inside/outside assessment area
- Geographic distribution
- Borrower distribution

Investments & Services (Optional)

Evidence of discriminatory or illegal practices

Complaints

Public File

CRA RATING
Intermediate Small Bank

- Small bank procedures PLUS
- Community development test
  - Loans
  - Services
  - Investments
  - Responsiveness to community needs
Large Bank Performance Factors

- Lending test
  - Lending activity
  - In/Out
  - Borrower distribution
  - Geographic distribution
  - CD loans
  - Innovative, complex, flexible lending practices

- Service test
  - Retail
  - CD services
  - Innovative, complex

- Investment test
  - Innovative, complex
Exam Process

- Exam date set and published by supervisory agency
  - Opportunity for public to comment on community needs and bank performance
- Examiners conduct review
- Performance Evaluation (PE) is completed and made available to the public
Ratings

- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Noncompliance

Record of meeting community needs is considered during applications for:
- New branch office
- Relocating main office
- Merger or acquisition
- Charter conversion
What’s in the Public Evaluation?

- In general...
  - Description of the institution
  - Demographic data and other performance context information
  - Data used to determine performance
  - Comments and conclusions about performance
Performance Context
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
Other Performance Context Considerations

- CRA-Related Complaints
- Discriminatory or Illegal Credit Practices
Key Elements to Consider in Developing Effective Partnerships with Banks
Determine Which Banks Operate in your Community

FDIC Deposit Market Share Reports

The Deposit Market Share Report provides a summary of all FDIC-insured institutions, the number of branches, the amount of deposits and the percentage of their market share for any specified geographic area (state, county, city, zip code).

Identify Bank CRA Performance Ratings

The Federal Financial Institutions Examination Council (FFIEC) website has a search engine that allows you to find the latest CRA ratings of financial institutions supervised by the Federal Reserve, Office of the Comptroller of the Currency and Federal Deposit Insurance Corporation

- [http://www.ffiec.gov/craratings/default.aspx](http://www.ffiec.gov/craratings/default.aspx)
Locate CRA Performance Evaluations

OCC Regulated Institutions

FDIC Regulated Institutions
- [http://www2.fdic.gov/crapes](http://www2.fdic.gov/crapes)

Federal Reserve Regulated Institutions
Who Do You Contact?

Who you contact will vary depending on the size and structure of the institution. Potential contacts include:

- Account Relationship Manager
- Branch Manager
- Business Development Officer
- CRA Officer
- Bank Foundation
- Bank President
Understand Bank Decision Factors

- **Organization**
  - Capacity & expertise
  - Sustainability
    - Success Measures

- **Project**
  - Location
  - Beneficiaries
  - Responsive to community needs
  - Innovative or complex

- **Bank**
  - Risks and costs
  - Aligned with business strategy and expertise
  - Business development potential
  - Value to overall CRA program
What Banks Need in a Partner

- Understand the bank’s financial capacity and legal constraints.
- Provide documentation that demonstrates how an activity qualifies under the definition of community development.
- Be proactive rather than reactive.
- Keep bank partners informed.
Resources

- Interagency Questions & Answers on Community Reinvestment March 11, 2010
- Supervisory Agency Community Affairs Departments
  http://www.ffciec.gov: HMDA data, CRA data, geocoding/mapping system, rate spread calculator, links to CRA Performance Evaluations
- http://www.fdic.gov: Deposit market share data, list of branches, Bank Call Reports