

# Community Investing: Understanding CRA and Community Development



Comptroller of the Currency  
Administrator of National Banks

US Department of the Treasury



This presentation was last revised in February 2017. It has previously been utilized as part of a standard CRA Training event specifically crafted for Community Based Organizations. The presentation has been utilized by the FDIC, OCC, and the Federal Reserve Bank of New York.



# Objectives

---

- Understand the purpose of the Community Reinvestment Act (CRA) and key definitions
- Understand how financial institutions are evaluated under CRA
- Learn how community organizations can work with banks to meet community credit and banking needs



# CRA Basics: Purpose & Key Definitions

# Purpose of CRA

---

- Encourages financial institutions to meet the credit needs of all segments of the community
- Focuses on serving the credit needs of:
  - ▣ Low- and moderate-income borrowers and geographies
  - ▣ Small businesses and small farms



# Supervisory Agencies

---

- Assess each institution's record in helping to meet the communities' credit needs.
- Performance must be consistent with the safe and sound operation of the institution.
- Consider record in evaluating applications/other approval requests.





# Regulators

---

- Banks and thrifts supervised by:
  - Federal Deposit Insurance Corporation
  - Office of the Comptroller of the Currency
  - Federal Reserve Banks
- How to determine a financial institution's regulator:  
[www.ffiec.gov](http://www.ffiec.gov)



# Key Terms & Definitions

---

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





# How Banks are Evaluated





# Evaluating Performance

- Five types of examinations
  - Small bank (SB)
  - Intermediate-small bank (ISB)
  - Large bank (LB)
  - Wholesale or limited purpose
  - Strategic plan



# Bank Type by Asset Size

## Small Bank

- $< \$307$  Million

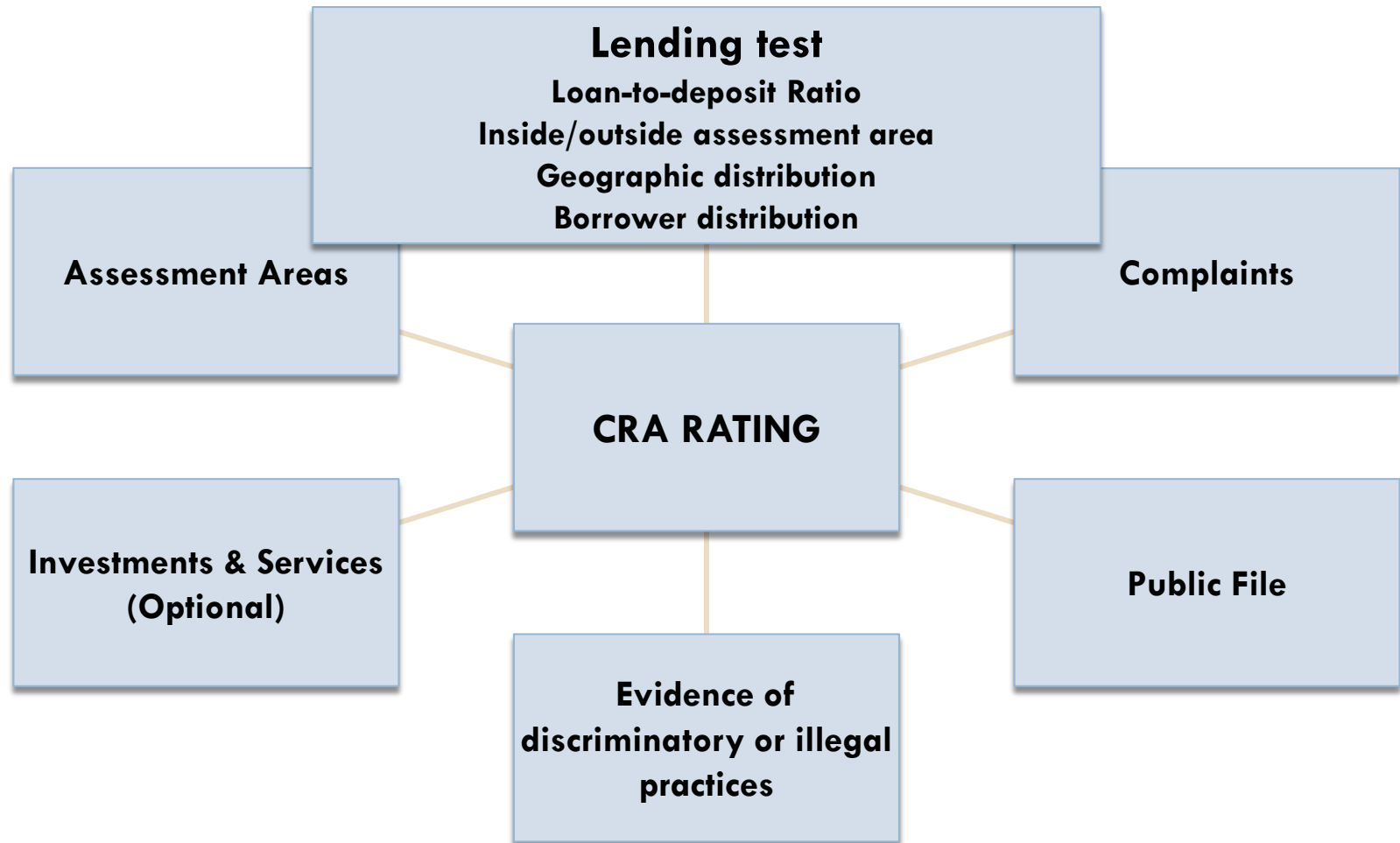
## Intermediate Small Bank

- $\Rightarrow \$307$  Million and  $< \$1.226$  Billion

## Large Bank

- $\Rightarrow \$1.226$  Billion

# Small Banks





# 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 of AA
- ▣ Borrower and geographic distribution
- ▣ Community development loans
- ▣ Innovative, complex, flexible lending

## □ Service test

- ▣ Retail
- ▣ Community development services
- ▣ Innovative, complex

## □ Investment test

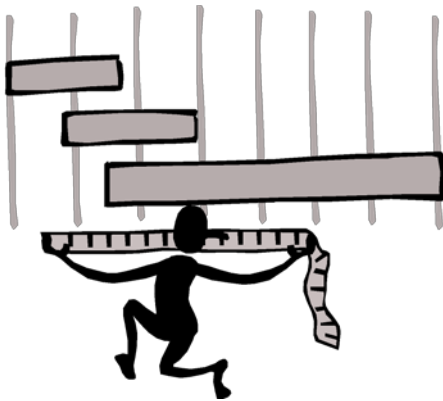
- ▣ Innovative, complex

# Exam Process

- Exam date set and published by supervisory agency
  - ▣ Opportunity for public comment
- Examiners conduct review
- Community contacts
- Public file
- Performance evaluation 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



A decorative horizontal bar at the top of the slide, consisting of an orange rectangular block on the left and a larger blue rectangular block on the right.

# 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).

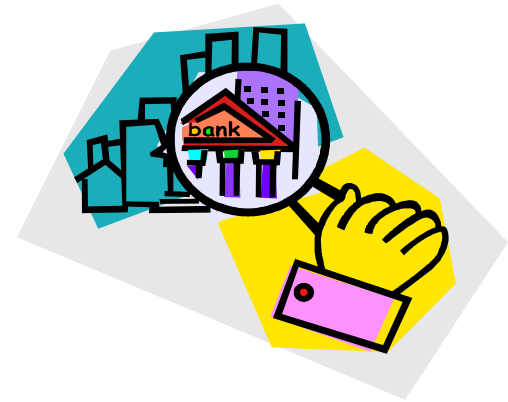
# Performance Context

- Description of Institution
  - Background
  - General Business Strategy
  - Ability and Capacity
  - 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





# □ **Community Development**



# Definition of Community Development

- Affordable housing for LMI individuals
- Community services targeted to LMI individuals
- Promoting economic development by providing financing for small business or farms
- Revitalize or stabilize LMI geographies, certain non-metropolitan middle income geographies or designated disaster areas
- Activities that support “eligible uses” under the Neighborhood Stabilization Program (NSP)

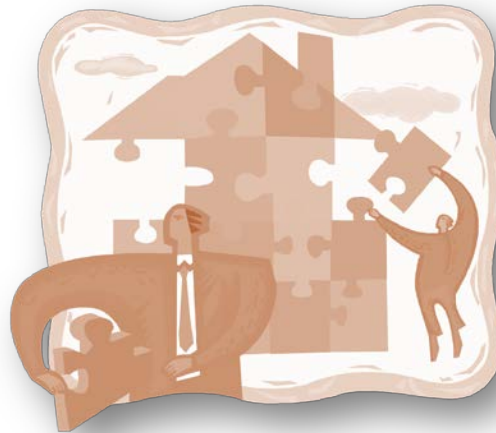


# Community Development Activities

- 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 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 LMI individuals
  - Projects eligible for low-income housing tax credits (LIHTCs)
  
- Charitable contributions including cash and in-kind donations



# Examples – Community Development Services

- Lending employees to provide financial services
  - ▣ For organizations facilitating affordable housing construction, rehabilitation, or development
  
- Financial counseling to promote community development 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 LMI borrowers avoid foreclosure on their homes



# Examples – Community Development Services

---

- School savings programs or financial education
- Improving LMI access to financial services
- Low-cost savings or checking accounts
- Individual development accounts (IDAs)
- Free or low-cost government, payroll, or other check-cashing services



# Examples - Technical Assistance to Community Development Organizations

- Serving on a loan review committee;
- Assisting in marketing financial services;
- Furnishing financial services training for staff and management;
- Contributing accounting/ bookkeeping services; and
- Assisting in fund raising, including soliciting or arranging investments.



# Public Evaluation Overview



# PE Contents

---

- Front page and table of contents
- Institution rating
- Scope of evaluation
- Description of institution
- Description of assessment area
- Conclusions
- Community development test
- Fair lending or other illegal credit practices



# PE Questions

- What is the evaluation date?
- What is the community development test rating?
- As of 06/30/14, how large was the bank?
- What is the bank's assessment area?
- Is the overall geographic distribution less than reasonable?





# PE Questions

---

- How many qualified loans did the bank extend?
- What percent of the bank's total investment portfolio did the bank's qualified investments represent? Did that compare unfavorably to the other bank in the assessment area?
- Of the five categories of community development, how many did the bank's services cover?

The slide features a decorative header with a solid orange rectangle on the left and a blue rectangle on the right. The text 'Bank Partnerships' is centered within the blue rectangle in a light yellow font.

# Bank Partnerships

*Key Elements to Consider in Developing Effective Partnerships with Banks*

# Determine Which Banks Operate in your Community

## FDIC Deposit Market Share Reports

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).

<http://www2.fdic.gov/sod/sodMarketBank.asp?barItem=2>

# Identify Bank CRA Performance Ratings

---

Find the latest CRA rating from the Federal Financial Institutions Examination Council (FFIEC) website

□ <http://www.ffiec.gov/craratings/default.aspx>

# Locate CRA Performance Evaluations

## FDIC Regulated Institutions

- <http://www2.fdic.gov/crapes>

## OCC Regulated Institutions

- <http://www.occ.treas.gov/tools-forms/tools/compliance-bsa/cra-perf-eval-search.html>

## Federal Reserve Regulated Institutions

- <http://www.federalreserve.gov/apps/crape/BankRating.aspx>



# Who Do You Contact?

Potential contacts include:

- Account Relationship Manager
- Branch Manager
- Community Development Officer
- CRA Officer
- Bank President
- Bank Foundation



# Understand Bank Decision Factors

---

## □ Organization

- Capacity & expertise
- Sustainability

## □ Project

- Location
- Beneficiaries
- Responsiveness
- Innovative or complex

## □ Bank

- Risks and costs
- Aligned with business strategy/expertise
- Business development potential
- Value to CRA program

# What Banks Need in a Partner

- Understand the bank's financial capacity and legal constraints.
- Demonstrate/document how an activity qualifies under the community development definition.
- Be proactive rather than reactive.
- Keep bank partners informed.



# Resources

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

# Contacts

---

Felix Bustelo, Federal Reserve Bank of New York

[Felix.Bustelo@ny.frb.org](mailto:Felix.Bustelo@ny.frb.org)

Bonita Irving, Office of the Comptroller of the Currency

[Bonita.Irving@occ.treas.gov](mailto:Bonita.Irving@occ.treas.gov)

Robert Francis, Federal Deposit Insurance Corporation

[RoFrancis@FDIC.gov](mailto:RoFrancis@FDIC.gov)