

CRA Performance Context and Defining Community Development

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Performance Context

What is Performance Context?

- Broad range of information that examiners review to understand the context in which to review a Bank's CRA performance.
- Performance context factors that affect the bank's lending, investment and/or service tests performance are explained in the Bank's Performance Evaluation.

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

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

Other Performance Context Considerations

- CRA-Related Complaints
- Discriminatory or Illegal Credit Practices

Defining Community Development

- Credit needs vary among communities
- CRA does not specify specific dollar amounts or percentage requirements
- Community Development (CD) activities encompass:
 - CD Loans
 - CD Investments
 - CD Services

Defining Community Development

- **Affordable Housing** for Low- or moderate-income individuals (single & multifamily)
- **Community Services** targeted to Low- or moderate-income individuals
- Activities that promote **Economic Development** by providing financing for small businesses or small farms that meet SBA or Small Business Investment Company (SBIC) eligibility requirements or have gross annual revenues of \$1 million or less

Defining Community Development

- Activities that **revitalize or stabilize** LMI geographies
 - Low- or moderate-income geographies
 - Designated disaster areas
 - Distressed or underserved nonmetropolitan middle-income geographies*
- Consideration is given to innovativeness, complexity and responsiveness of the community development activity

* Updated annually & available at ffiec.gov

Defining Community Development

- **CRA expanded to encourage support for Neighborhood Stabilization Program Activities**
 - It encourages banks to support :
 - Eligible development activities in areas designated under the HUD's Neighborhood Stabilization Program (NSP).
 - To make loans and investments, and provide services to support NSP activities in areas with HUD-approved plans.
 - CRA consideration is not limited to activities actually receiving NSP funds and may include other eligible activities in NSP plan areas.

Defining Community Development

Community Development Loans

- Have CD as their primary purpose
- Must serve LMI persons or geographies
- Can be Direct or Indirect
 - Have not been reported or collected by the bank or an affiliated for consideration in the banks HMDA, Small Business, Small Farm or Consumer loans
 - Unless it is a multi-family loan (five or more units)
 - Benefits the bank assessment area or broader regional area that includes the banks assessment area(s)

Loans Made to Nonprofit Entities (continued)

Type of loan		Small business	HMDA	Community development	Not collected
Residential real estate secured	Permanent loan to a nonprofit entity secured by and made for the purpose of purchasing a 1–4 family dwelling, including manufactured housing.		X		
	Permanent loan to a nonprofit entity secured by and made for the purpose of purchasing a multifamily dwelling with a primary purpose consistent with the definition of community development.		X	X	
	Permanent loan to a nonprofit entity secured by and made for the purpose of purchasing a multifamily dwelling without a primary purpose consistent with the definition of community development.		X		
	Construction and other temporary financing to a nonprofit entity secured by residential real estate with a primary purpose consistent with the definition of community development.			X	
	Construction and other temporary financing to a nonprofit entity secured by residential real estate without a primary purpose consistent with the definition of community development.				X
	Refinance of a loan to a nonprofit entity where a residence is taken as collateral as an abundance of caution. The new loan must satisfy and replace an existing loan, and both the existing and new loans must be secured by a lien on a dwelling.* (Beginning 1/1/04)	X	X		
	Refinance of a loan to a nonprofit entity where a residence is taken central to the extension of credit. The new loan must satisfy and replace an existing loan, and both the existing and new loans must be secured by a lien on a dwelling. (Beginning 1/1/04)			X	

* Small farm loan data are collected on loans of \$500,000 or less if (1) the loan is secured by farmland (including farm residential and other improvements) or (2) the loan is used to finance agricultural production and other loans to farmers.

Defining Community Development

Loan Examples:

- \$224,000 loan to refinance 10 duplexes located in a moderate-income census tract
- \$160,000 loan to revitalize a historic downtown building for commercial use

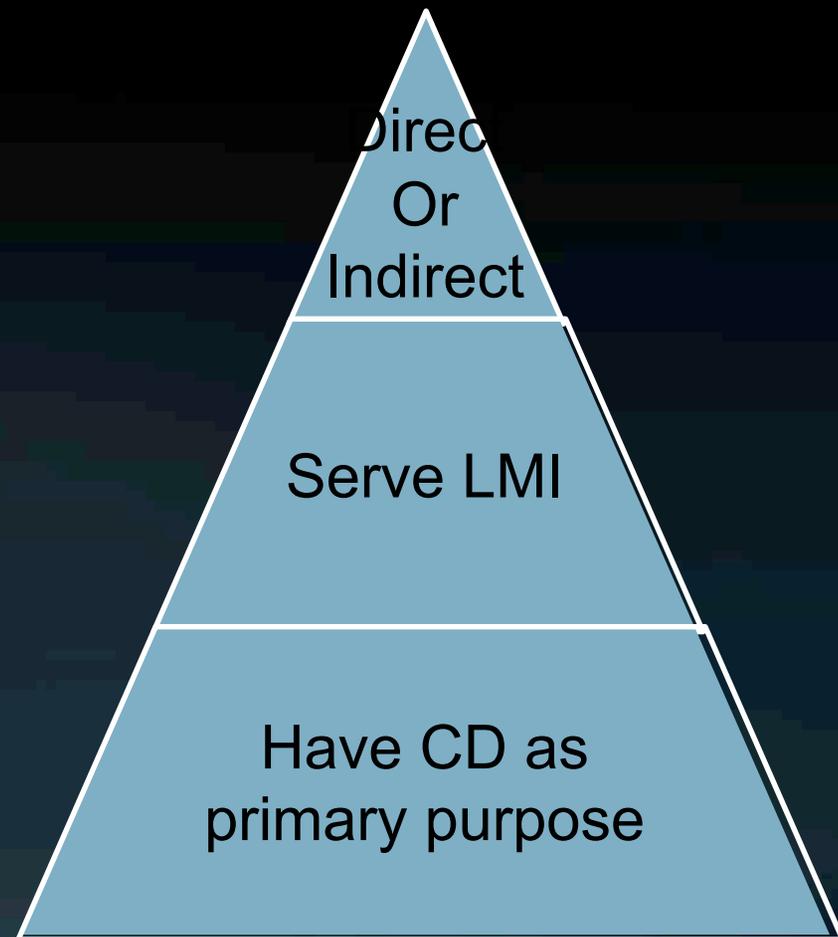
Defining Community Development

Loan Examples:

- \$670,000 loan for a multi-family housing complex located in a low-income census tract
- \$4,000,000 loan to construct commercial buildings in a low-income area

Defining Community Development

**Community
Development
Investments**



Defining Community Development

Examples of CD Investments

- Grants to or Deposits or Shares in:
 - Financial intermediaries
 - Organizations engaged in affordable housing
 - Organizations promoting economic development
 - Organizations supporting economic empowerment
 - Low-Income Housing Tax Credits

Defining Community Development

Investments/Donations

Would These Qualify?

- \$3,000 donation to the American Legion
- \$1,000,000 investment in a Development fund that operates affordable rental housing development projects for low-income families
- \$75,000 investment in a community credit union program
- \$25,000 donation to Habitat for Humanity

Defining Community Development

Community Development Services

- Provision and availability of services to low- and moderate-income people, including through branches and other facilities in low- and moderate-income areas
 - Types - Low-cost checking and remittance services, CD services, etc.
 - Availability - Branching network, ATMs, alternative delivery systems

Defining Community Development

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

Defining Community Development

Services

Would These Qualify?

- Bank employees help build a house with Habitat for Humanity
- Bank President serves as a Board member for a Scholarship Program
- Bank Cashier organizes and runs a food drive for a Food Pantry

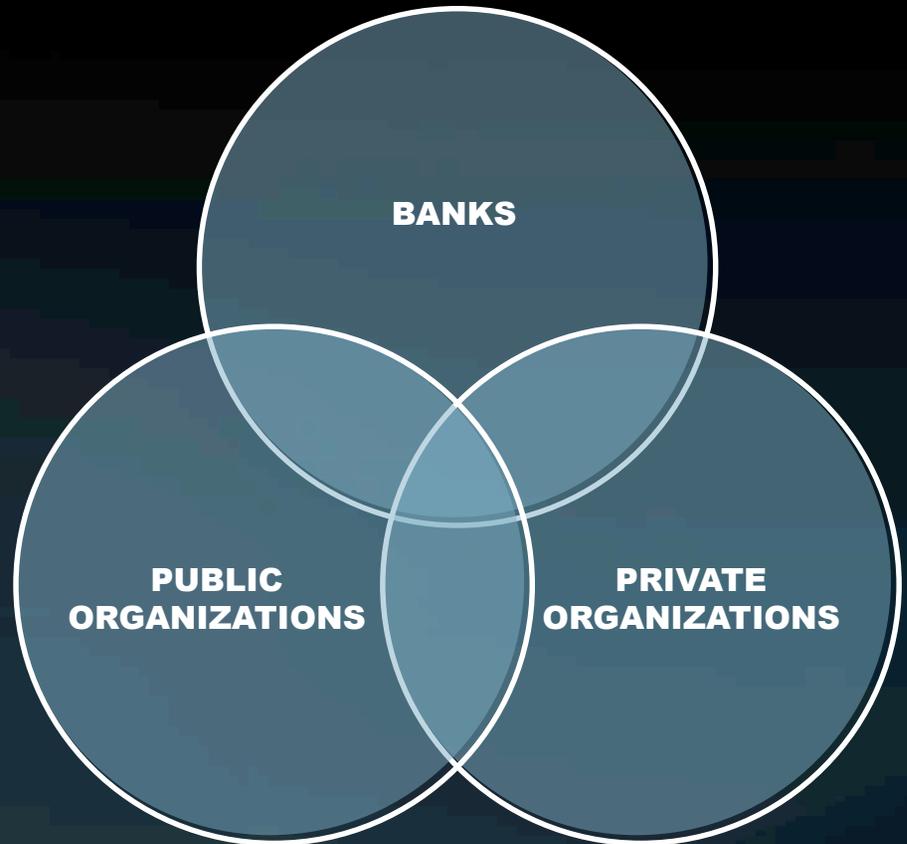
Defining Community Development

- **TRUE or FALSE?**
 - Creation of a consumer small loan program is an eligible CD service.
 - A loan to support the construction of a community facility in a LMI area is a qualified CD loan.
 - A large volume of SBA 504 loans should qualify as CD loans.
 - Investments in community development credit unions outside your AA are not qualified CD investments.
 - A \$700,000 working capital loan to a commercial developer to remove gas storage tanks in an LMI area is a qualified CD loan.

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

Bank Community Partner Examples:

- For profit and nonprofit housing developers
- Community Housing Development Organization (CHDOs)
- Community Development Financial Institutions (CDFIs)
- CD Credit Unions
- Nonprofit neighborhood based organizations
- Small Business Development Centers (SBDCs)
- Governmental agencies
- Foundations
- Secondary mortgage market



Defining Community Development

Summary

- CD activity must have one of the five community development hooks
- Banks generally have a tracking mechanism in place to capture community development activities.
- They do have be prepared to support why CD activity qualifies for CRA

QUESTIONS