Community Reinvestment Act

And the use of Community Development activities
DISCLAIMER

• The views expressed in this presentation are my own and do not reflect the view of the Federal Reserve Bank of New York or the Federal Reserve System
Objectives

I. Provide general overview of the Community Reinvestment Act ("CRA") and its origin

II. Understand the responsibilities of the Federal Reserve System and its role in the CRA

III. Understand how the CRA is evaluated

IV. Define what "Community Development" is under CRA

V. How you can use CRA to better partner with banks
The Community Reinvestment Act - Overview

• The Community Reinvestment Act encourages depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income (“LMI”) neighborhoods.

• The CRA requires that each depository institution’s record of helping meet the credit needs of its communities be evaluated by bank regulators and made public through a published Performance Evaluation.
The Community Reinvestment Act- Overview (continued)

• History of discrimination against minority communities

• As a result of Civil Rights movement minority communities drove key pieces of legislation:
  • Fair Housing Act- 1968
  • Equal Credit Opportunity Act- 1974
  • Community Reinvestment Act- 1977
Federal Reserve- Overview and Responsibilities

• Federal Reserve does:
  • Conducts US monetary policy
  • Supervise Banks for financial condition (safety and soundness) and consumer protection laws, including CRA
  • Maintain stability of financial system
  • Provide services to US government, US financial institutions, and foreign official institutions, such as domestic and foreign wire transfers
  • Perform outreach to help facilitate relationship development between community organizations and banks

• Federal Reserve does **not**:
  • Make loans or provide banking services to the general public
  • Require a bank to make a particular loan, investment, donation
Community Reinvestment Act Performance Evaluations

Routine mandated CRA performance evaluations consider a bank’s loan, investment, and service activities in areas such as volume and impact

• Lending products considered
  • Home Mortgages
  • Small Business
  • Consumer Loans
  • Commercial Loans

• Investment types
  • Mortgage-backed securities
  • Municipal bonds
  • Equities
  • Grants and Donations

• Services:
  • Branch locations and hours
  • Providing financial services or expertise to LMI individuals or community organizations serving LMI individuals
  • Product channels (online applications, mobile deposits)
  • Products such as low or no-fee checking and savings accounts
Community Development Activities- Loans, Investments, and Services

1. Primary Purpose

• Majority of dollars of beneficiaries

• Express intent of activity is Community Development;

2. Community Development

• Affordable housing for low- or moderate-income individuals

• Community services targeted to low- or moderate-income individuals

• Activities that promote economic development by financing small businesses or small farms

• Activities that revitalize or stabilize low- or moderate-income census tracts, distressed or underserved nonmetropolitan middle-income census tracts, or designated disaster areas
Community Development- Lending

• Lawful Loan
• Primary purpose of Community Development

Examples:
• An housing organization needs a loan of $500,000 to construct a multifamily building for low-income individuals
• A nonprofit that provides child care services to low- or moderate-income children needs a line of credit for general operations
• A community organization is refinancing a recreation facility in a low-income community that also houses an early education center, a job training program, and a senior health-care facility
• An economic development organization requests a revolving loan fund to promote economic development by financing small businesses
• A business owner requests funding for a manufacturing plant for economic development, which creates new jobs in a moderate income census tract
Community Development - Investments/Donations

- Lawful investment, deposit, membership share, or grant/donation
- Primary Purpose of Community Development

Examples:

- A community development organization providing credit counseling and job training for LMI individuals requests a donation
- A community group focused on providing services to LMI individuals requests a grant
- Debt Securities- A city is issuing a municipal bond to support building infrastructure in a low-income neighborhood
- An equity investment Community Development Financial Institution ("CDFI") which provides microcredit to small businesses.
Community Development- Services

• Primary Purpose of Community Development
• Related to the provision of financial services

Examples of CD Services:
• A school with a majority of LMI students partners with a bank to have bank employees teach personal finance courses
• A community organization providing services to LMI individuals partners with a bank to have a bank officer to serve as treasurer on the board of directors
• A community organization serving LMI individuals partners with a bank to have a bank employee provide accounting/bookkeeping services
Obtaining Loans and Partnering with Banks

• Who to talk to at the bank:
  • Branch Manager
  • Community Development Officer
  • CRA Officer
  • Bank President
  • Bank Foundation

• Check the bank’s website for resources
Obtaining Community Development Loans and Partnering with Banks

Bank’s typically want to know:

• What type of activity are you interested in discussing:
  o Loan
  o Investment
  o Service

• Organization mission and history

• The purpose of the funds

• How much money are you requesting

• Budget of project

• If requesting a loan, how will the bank be repaid
  o CRA is not “free money”

• Who will benefit
## Exercise – Qualifying CRA Activities

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Activity Type (Loan, Investment, Grant, Service)</th>
<th>Does it qualify for Community Development under CRA?</th>
<th>Why?</th>
</tr>
</thead>
<tbody>
<tr>
<td>An organization providing child care services requests $50k line of credit in middle and upper income neighborhoods</td>
<td>Loan</td>
<td>No</td>
<td>The census identified that the majority of people in the neighborhood are middle and upper income.</td>
</tr>
<tr>
<td>An non-profit organization that builds affordable housing for LMI individuals or families approaches a bank with a proposal to get permanent financing for a newly constructed building</td>
<td>Loan</td>
<td>Yes</td>
<td>The units are restricted to LMI individuals and families.</td>
</tr>
</tbody>
</table>
## Exercise Continued

<table>
<thead>
<tr>
<th>Municipality of Ponce issues bond to fund infrastructure improvements</th>
<th>Investment</th>
<th>Yes</th>
<th>Per the Interagency Guidance, Puerto Rico has been designated an area targeting revitalization due to the impact of Hurricane Maria</th>
</tr>
</thead>
<tbody>
<tr>
<td>A non-profit community organization receives assistance from a bank partner to provide volunteers to help build a house for a low-income family</td>
<td>Service</td>
<td>No</td>
<td>The employees are building the house and not utilizing financial expertise</td>
</tr>
<tr>
<td>A food bank requests a $1,000 donation from a partner bank to support operations</td>
<td>Investment (Donation)</td>
<td>Yes</td>
<td>The organization targets its services to LMI individuals</td>
</tr>
</tbody>
</table>
Exercise Continued

| A soup kitchen’s treasurer is the president of a local bank | Service | Yes | The bank president is providing financial expertise |
| Shares of a Community Development Financial Institution (“CDFI”) are owned by a local financial institution | Investment | Yes | CDFI’s are formed with the specific purpose of community development |
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