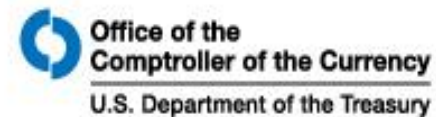


# Introduction to the Community Reinvestment Act

April 6, 2017  
Mooreville, NC



# Developing Bank Partnerships

## **Bank Motives for Partnerships:**

- Welfare of the community and the bank
- Market Share
- Income
- Risk Mitigation
- Reputation
- Community Reinvestment Act

# CRA Basics

## **The Community Reinvestment Act (CRA)**

- Federal law passed in 1977
- Encourages banks to meet the credit needs of the communities they're licensed to serve
- Including low- and moderate-income neighborhoods.
- Consistent with safety and soundness

# CRA Basics – Three Regulators

**CRA applies to financial institutions regulated by:**

- Federal Deposit Insurance Corporation
- Federal Reserve Banks
- Office of the Comptroller of the Currency

# CRA Basics – Duties of Regulators

## **CRA directs regulators ...**

to evaluate how well every bank helps to meet the credit needs of its community and to assign one of these ratings to every bank:

- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Noncompliance

# CRA Basics - Duties of Regulators

## **CRA also requires the regulators to:**

- Issue a public report containing the facts and data underlying each rating
- Take a bank's rating into account when reviewing certain applications from the bank
- Encourage banks to help meet credit needs in their communities

# Types of Banks Under CRA

- **Large Banks**
  - > \$1.226 billion\*
  - Report small business loans annually
- **Intermediate Small Banks (ISB)**
  - \$307 million - \$1.226 billion\*
- **Small Banks**
  - <\$307 million in assets\*

*\*effective 1/1/2017: thresholds updated annually.*

# Large Bank CRA Exam

## Lending Test Evaluates

- # and \$ of
  - Home mortgage
  - Small business
  - Small farm loans
  - Made in its community
- Income level areas where those loans were made
- Income levels of borrowers
- CD loans
- Flexible and innovative lending practices
- **50% of rating**

## Investment Test

- # and \$ of investments with a CD purpose
- Innovative, complex, responsive and availability otherwise
- **25% of rating**

## Service Test

- Retail services provided to people and areas of different income levels
- CD services
- **25% of rating**



# Intermediate Small Bank CRA Exam

## Lending Test

- # and \$ of
  - Home mortgage
  - Small business
  - Small farm loansMade in the bank's community
- Income level of the areas where the loans were made
- Income levels of borrowers
- Flexible and innovative lending practices

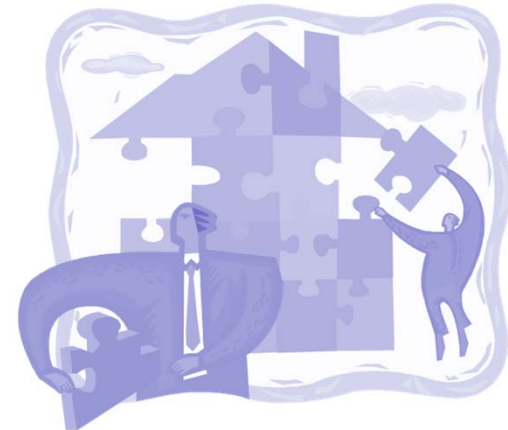
## CD Test

- Loans
- Investments
- Services
- Responsiveness an important consideration

The bank must be rated Satisfactory on both tests to be Satisfactory overall

# Small Bank CRA Exam

- Lending Test = 100% of rating
- Five evaluation criteria:
  - Loan to deposit ratio
  - In / out ratio
  - Borrower distribution
  - Geographic distribution
  - Responses to complaints



# CRA Basics – Key Terms

- **Low- and Moderate-Income**
  - < 80% of area median income
- **Community Development**
  - Affordable Housing for LMI
  - Community Services for LMI
  - Economic Development - job creation for LMI
  - Revitalize & Stabilize
    - LMI geographies
    - Distressed or Underserved geographies
    - Neighborhood Stabilization Program Activities

# Community Development

<https://www.dropbox.com/s/14tz3n4so5gfdn3/CRA%20Community%20Development%20Defined.wmv?dl=0>

# CRA Basics – Key Terms

- **Assessment Area**

Geographic area in which a bank is evaluated for CRA

- **Primary Purpose**

Either more than 50% LMI beneficiaries

Or express, bona fide intent

- **Performance Context**

Local economic conditions and credit and CD needs  
and the capacity of a bank to meet those needs

# Performance Context

Banks are evaluated for CRA based on the needs and economic conditions of their markets and their capacity to meet those needs – i.e., their **Performance Context**.

# Context – What You Can Do

- Help Banks
  - Maintain awareness of financial services needs
  - Identify opportunities to become involved
  - Target investments and services to LMI
- Help Regulators
  - Identify financial services needs
  - Understand local priorities



# Concentric Circles of Opportunity

- Actual Market Share
- Market Share Available with Extra Effort
- Deals Bankable if Enhanced
- Universe of Economic Needs





# Steps to Partnerships

- Understand CRA
- Understand the local market
- Understand local banks
- Identify your sources of influence
- Talk with bankers

# 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.

# Regulatory Resources on CRA

- Federal Reserve Bank of Atlanta, “*Community Reinvestment: Does Your Bank Measure Up?*” an excellent online introduction to CRA  
<https://www.frbatlanta.org/banking-and-payments/publications/community-reinvestment-act.aspx>
- Federal Financial Institutions Examination Council – extensive information on all aspects of CRA  
<http://www.ffiec.gov/cra/default.htm>
- Comptroller of the Currency Community Reinvestment Act webpage: <http://www.occ.gov/crainfo.htm>
- Federal Reserve System

# Regulatory Resources on CRA

The following two FDIC webpages are useful for researching banks gathering deposits doing business in your area:

- FDIC Institution Directory  
<https://www5.fdic.gov/idasp/advSearchLanding.asp>
- FDIC Summary of Deposits  
<https://www5.fdic.gov/sod/sodMarketBank.asp?barItem=2>
- Comptroller of the Currency Community Affairs (see our publications on a wide variety of community development topics): <http://www.occ.treas.gov/topics/community-affairs/index-community-affairs.html>

# Contact Information

## Contact Information:

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# QUESTIONS

