Community Reinvestment Act: The Basics and Beyond

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What We Do

The Community Development Department supports community reinvestment, fair lending, and economic development activities throughout the Fourth District by:

- Conducting quantitative and qualitative research
- Convening and facilitating partnerships
- Providing training and technical assistance through outreach and public programs

We work with community-based organizations, financial institutions, government agencies, elected/public officials, and others to help inform the public policy discussion on community development issues.
What is the Community Reinvestment Act (CRA)?

- The Community Reinvestment Act of 1977, encourages covered depository institutions to help meet the credit needs of the communities in which they are chartered, including low- and moderate-income, consistent with safe and sound banking operations.
Who Is Covered By CRA?

- Depository Institutions – FDIC insured deposits
- Not covered: entities such as mortgage or finance companies, credit unions*, etc.

*NCUA Insured deposits
Community Reinvestment Act (CRA) eligible geographies, within Fourth District States
Bank Regulators and the CRA

- Bank regulatory agencies determine a financial institution’s compliance with CRA through periodic examinations.

- The results of the CRA examination are considered when a financial institution applies to open a branch, merge with another institution, or become a Financial Holding Company.
Who are the Bank CRA Regulators?

Federal Reserve Bank (FRB) * Retains rule writing authority for CRA

Regulates all bank holding companies, financial holding companies and state chartered member banks.

Office of the Comptroller of the Currency (OCC)

Regulates banks with a national charter.

Federal Deposit Insurance Corporation (FDIC)

Regulates non-Federal Reserve member state chartered banks.

Office of Thrift Supervision (OTS) - function in process of being transferred to OCC*

Regulates all federal and many state-chartered thrift institutions, which includes savings banks and savings and loan associations.

*Target date of July 21, 2011
Bank Examination Categories

- **Small Bank**: assets of less than $1.122 billion
- **Intermediate Small Bank**: assets between $280 million and $1.122 billion
- **Large Bank**: assets of $1.122 billion or more
- **Limited purpose**: offers only a narrow product line (i.e. credit cards or motor vehicle loans)
- **Wholesale Bank**: does not generally offer bank products to retail customers
- **Strategic Plan Option**: alternative assessment method voluntarily chosen by any bank that includes a written plan approved by the regulators. The bank’s performance is measured against this plan
Performance Ratings

- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Non-compliance
Where To Find Additional Resources

- For exam schedules, CRA data, HMDA data, and application information, visit [www.ffiec.gov](http://www.ffiec.gov) (for CRA and HMDA data) or see the agencies’ websites:

  - www.federalreserve.gov
  - www.clevelandfed.org
  - www.occ.treas.gov
  - www.fdic.gov
  - www.ots.treas.gov
Basics of a CRA Evaluation

May 25, 2011

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Agenda

- Why CRA?
- Evaluation Method
- What examiners do to prepare for CRA
- Scope of Evaluation
- Data Verification
- Performance Context
- Post Evaluation
- Impact on Applications
Why CRA?

• The Community Reinvestment Act (CRA) is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income communities.

• The communities in which a bank “operates” means where it has its branches.
Why CRA?

- CRA addresses the issue of *red lining* which, according to Webster’s Dictionary, is “to withhold home loan funds or insurance from neighborhoods considered poor economic risks. To discriminate against in housing or insurance.”
Examination Method

- The purpose of a streamlined evaluation method for small and intermediate small banks was to create less regulatory burden on banks that:

  - Do not possess the resources or expertise that banks with assets over $1.122 billion have to be active in community development investment activities
Examination Method

- **Small Bank** evaluation method focuses on the lending test
  - Loan-to-deposit ratio
  - Assessment area concentration
  - Penetration of lending to borrowers of different income levels and businesses of different revenue sizes
  - Geographic dispersion of loans throughout the assessment area, especially in low- and moderate-income geographies
  - Resolution of CRA related complaints
Examination Method

- **Intermediate Small Bank** evaluation method has a two-prong test
  
  - Small bank lending test
  - Community development test
    - Under the community development test, CD loans, qualified investments and services are evaluated together, and result in a single community development rating
Examination Method

- Large Bank evaluation method has a three-pronged test:
  - Lending Test (50% of test)
  - Investment Test (25% of test)
  - Service Test (25% of test)
Examination Method

- Other considerations for all banks when evaluating performance include:
  - Compliance with Fair Lending Laws
  - Other Illegal Credit Practices
What Examiners Do To Prepare

- Send pre-exam questionnaire:
  - Includes questions about
    - Assessment area
    - Products
    - Self Assessments
    - Changes in Market Strategy
    - Changes in Economic Factors
    - Special programs to LMI
    - Community Development Activity
    - Competition
Data Verification

- Approximately 10 weeks prior to on-site
- HMDA data (if applicable)
- CRA data
- Community Development Activity (if applicable)
Scope of Evaluation

- Time period of evaluation
- What assessment areas to evaluate
- What products to evaluate
- Conduct community contacts
- Review public file
Performance Context

- Review information provided by Financial Institution
- Review economics of bank’s assessment area
- Economic conditions of community
- Demographics; e.g., neighborhoods made up of predominantly elderly may not have as a great a need for home purchase loans but may have a greater need for home improvement loans
Performance Context

- Unique characteristics such as college campuses, prisons, etc.
- Age of housing stock
- Areas heavily reliant on one or two forms of employment; e.g., areas heavily reliant on tourism, the automotive industry, agriculture
- Information gathered from community contacts
Post Evaluation

- Discuss results with bank management
- Discuss any discrepancies
- Write Public Evaluation (PE)
The Effect of CRA Performance on Applications

- The CRA states that an institution’s record in meeting the credit needs of its community will be taken into account in the evaluation of an application for a deposit facility by such institution.
  - No expansion, including mergers, acquisitions and branching

- CRA performance invites protests by community groups which can slow the application process, even if the bank has a satisfactory rating (ratings case v.s. protested cases)
QUESTIONS