

Community Reinvestment Act: The Basics and Beyond

Joseph Ott

Senior Policy Analyst

Prepared for PCRG Community Development Summit

May 25, 2011

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)?

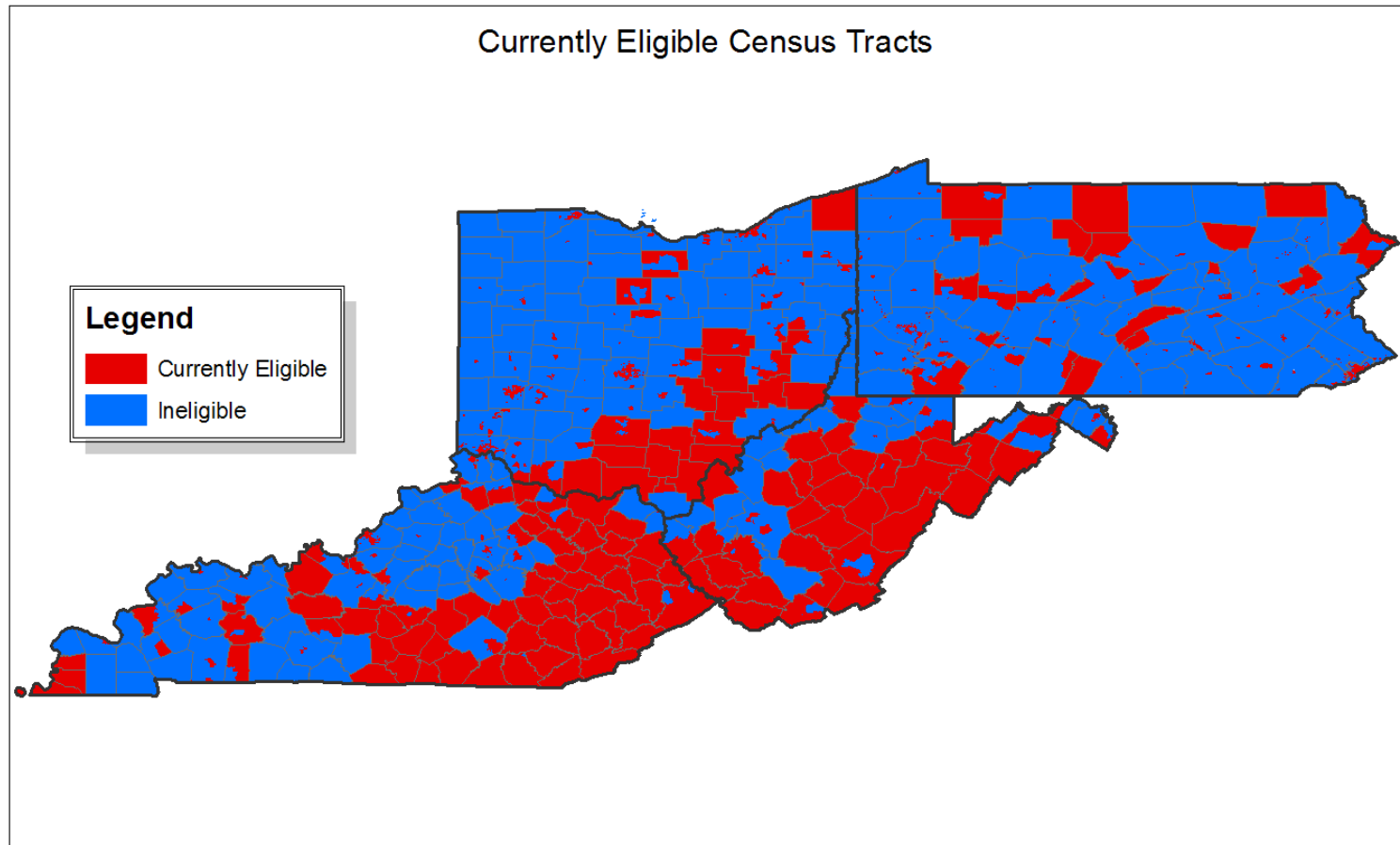
- The Community Reinvestment Act of 1977, encourages covered depository institutions to help meet the credit needs of the communities in which they are chartered, including low- and moderate-income, consistent with safe and sound banking operations.

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 (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

Barbara Belluardo
Banking Supervisor

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