Community Reinvestment Act (CRA) for Community Organizations

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Objectives

- Understand the purpose of the Community Reinvestment Act and key definitions
- Learn how community organizations can work with financial institutions

Outline

- CRA Basics: Purpose and Key Definitions
- Community Development Examples for CRA
- Performance Context
- Bank Partnerships

CRA Basics: Purpose and Key Definitions

The Community Reinvestment Act

CRA was enacted in 1977 to encourage regulated financial institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking operations.

Understanding CRA

Banks engage in a variety of lending, investment, and service activities in their communities to respond to credit and community development needs.

Banks provide their CRA activities to regulators to demonstrate responsiveness in meeting those needs.

Who Enforces CRA?

Type	Regulator
State-chartered banks and savings associations that are not members of the Federal Reserve System	Federal Deposit Insurance Corporation
State-chartered banks that are members of the Federal Reserve System	Federal Reserve System – a Federal Reserve Bank
National banks and federal savings associations	Office of the Comptroller of the Currency
Credit unions	N/A. A state law similar to CRA may apply.

Key Terms & Definitions

- Median Family Income (MFI)
- Low- and Moderate-Income (LMI)
- Assessment Area (AA)

Exam Process

- Exam date is set and published by the regulatory agency
    - Opportunity for public to comment on community needs and bank performance
- Examiners conduct the review
- Public Evaluation (PE) is completed and made available to the public

Evaluating CRA Performance, #1a

Bank Lending Test Activities – Small and Intermediate Small Banks

- Loan-to-Deposit Ratio
- Assessment Area Concentration
- Geographic Distribution of Loans
- Borrower's Profile
- Response to Substantiated Complaints

Evaluating CRA Performance, #1b

Bank Lending Test Activities – Large Banks

- **Lending Test**
  - ❑ Lending Activity
  - ❑ Geographic Distribution
  - ❑ Borrower Characteristics
  - ❑ Community Development Lending
  - ❑ Use of Innovative or Flexible Lending Practices

- **Investment Test**
  - ❑ # and $ of Qualified Investments
  - ❑ Innovative and Complex
  - ❑ Response to Available Opportunities

- **Service Test**
  - ❑ Retail Banking Services
  - ❑ Community Development Services

Evaluating CRA Performance, #2

Bank Community Development Activities

- Loans
- Investments, including grants and in-kind donations
- Services

How Banks are Rated for CRA

Rating	Description
Outstanding	An outstanding record…
Satisfactory	A satisfactory record…
Needs to Improve	Needs to improve its overall record…
Substantial Noncompliance	Substantially deficient record…

….of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Bank Community Development Activities in CRA

Loans, Investments, and Services for:

- Affordable **housing** for LMI individuals
- Community **services** for LMI individuals
- Promoting **economic development** by providing financing for small businesses or farms
- **Revitalizing** or **stabilizing**:
    - LMI geographies,
    - Distressed or underserved nonmetropolitan middle-income geographies, or
    - Designated disaster areas

Community Development Examples for CRA

Examples: Community Development Loans

- Borrowers that rehabilitate or construct affordable housing LMI people
- Borrowers that construct or rehabilitate community facilities that are located in LMI geographies or that primarily serve LMI individuals
- Nonprofit organizations primarily serving LMI populations or meeting community development needs
- Local, state, and tribal governments for community development activities

Examples: Qualified Investments

Investments, grants, deposits, or shares in/to:

- Financial Intermediaries including:
    - Community Development Financial Institutions (CDFIs)
    - Community Development Entities (CDEs)
    - Community Development Corporations (CDCs)
    - Minority- and Women-Owned Financial Institutions
    - Community Loan Funds
    - Low-Income or Community Development Credit Unions
- Low-Income Housing Tax Credits
- New Market Tax Credits

More Examples of Qualified Investments

Investments, grants, deposits, or shares in/to:

- Organizations engaged in affordable housing rehabilitation and construction, including multi-family rental housing
- Organizations serving LMI housing or other community development needs, such as counseling for credit, homeownership, home maintenance, and other financial literacy programs
- Facilities that promote community development by providing community services for LMI individuals, such as youth programs, homeless centers, soup kitchens, healthcare facilities, battered women's centers, and alcohol and drug recovery centers (if they promote community development by providing community services for LMI individuals)
- Organizations supporting activities essential to helping LMI individuals or geographies to sustain economic development, such as daycare facilities and job training programs that enable LMI individuals to work

Examples: Community Development Services

- Serving on the board of directors of an affordable housing-related organization

- Technical assistance to community development organizations

- Technical assistance to nonprofits, tribal, or government organizations serving LMI or economic revitalization and community development needs

More Examples of Community Development Services

“**Technical Assistance**” includes:

- Serving on a loan review committee
- Developing loan application and underwriting standards
- Developing loan-processing systems
- Developing secondary market vehicles or programs
- Assisting in marketing financial services, including development of advertisements, promotions, publications, workshops, and conferences
- Furnishing financial services training for staff and management
- Contributing accounting/bookkeeping services

Performance Context

Performance Context and CRA

CRA performance context evaluates information about the institution and its AA, including:

- Demographic data on household income levels
- Housing stock, housing costs, and other relevant data
- Lending, investment, and service opportunities
- The bank’s product offerings and business strategy, capacity/constraints, past performance and the performance of similarly-situated institutions
- The bank’s public file and any written comments about the bank’s CRA performance
- Any other relevant information, such as that obtained through community contacts

Bank Partnerships

Bank Partnerships: Bank Perspective

Factors banks consider in CRA partners:

- Capacity
- Proven Performance
- Sustainability
- Assessment and Responsiveness
- Innovation
- Target Market Penetration
- Recordkeeping and Accountability
- Reputation

Bank Partnerships: Regulatory Impact

- Legal and Reputational Risks

- Impact Bank's Long-Term Strategy by:
  - Preventing bank from opening new branches,
  - Merging with another bank, or
  - Acquiring another bank

Bank Partnerships: How to Get Started

- Go to the FDIC.gov (Resources > Data Tools > BankFind Suite) to identify the banks that operate in your area.
- Introduce yourself to bankers at outreach events or call the bank to identify a contact in your area or reach out to whom your organization banks with.
- Develop relationships with area banks to understand and assess whether there is mutual alignment between your goals and priorities.
- Consider why the bank would want to partner with you, and how you can help the bank achieve its goals.
- Grant funding is oversubscribed and very competitive. However, banks have substantial capital available to lend and invest.
- If you do partner with a bank, follow-up on impact and outcomes created.

Resource Summary

FFIEC | www.ffiec.gov/cra

- One-stop for CRA ratings, exam schedules, and data

FDIC | www.fdic.gov

- Deposit Insurance, BankFind, Industry Analysis, Deposit Market Share Report
- Banker Resource Center: Community Reinvestment Act (CRA)
- Economic Inclusion

OCC | www.occ.gov

- OCC CRA
- Community Affairs Publications

Federal Reserve Bank of San Francisco | www.atlantafed.org/

- www.fedcommunities.org – FRB system research publications