



Connecting BAEI Activities with Community Reinvestment Act Recognition

A cornerstone of the FDIC's national Alliance for Economic Inclusion¹ is that unbanked and underserved consumers are a valuable emerging-markets opportunity for banks and credit unions. Each year, these consumers spend an estimated \$11 billion on hundreds of millions of transactions with non-bank service providers, rather than mainstream institutions.²

The *business case* for banks and credit unions to claim their share of this market has been frequently stated. Like other businesses, they must utilize *all* available tools. For banks and state-chartered credit unions in Massachusetts, that includes opportunities for recognition under the Community Reinvestment Act (CRA).³

The purpose of this resource is to highlight some common AEI-related activities within the context of existing regulatory guidance. It is not intended to be all-inclusive or definitive commentary.

The framework for local activities that may align with CRA is provided by the BAEI's *Mission*:

to enhance the economic well-being of the unbanked and underserved in metropolitan Boston by improving their access to the US banking system, developing and marketing more responsive and affordable financial products and services, promoting financial education, and addressing technical or regulatory issues surrounding these developments.

I. Community Development Services

CRA defines *community development* significantly in terms of activities that principally benefit low- and moderate-income (LMI) individuals. A *community development service* 1) has as its primary purpose community development; 2) is related to the provision of financial services; and 3) has not been considered in the evaluation of the financial institution's retail banking services.⁴

The March 11, 2010 edition of the Interagency CRA Question and Answers⁵ ("CRA Q&A") provides helpful guidance. Question .12(i)(3)

asks "***What are examples of community development services?***" The following examples from the *Answer* are consistent with many of the activities the BAEI has been encouraging its financial institution members to explore in support of the Mission, and include, but are not limited to:

- Providing financial services to LMI individuals through branches and other facilities located in LMI areas.
- Providing technical assistance on financial matters to small businesses and community development organizations.
- Providing credit counseling, home buyer and home maintenance counseling, financial planning or other financial services education, including credit counseling to assist LMI borrowers in avoiding foreclosure on their homes.
- Establishing school savings programs or developing or teaching financial education curricula for LMI individuals.
- Providing electronic benefits transfer and point of sale terminal systems to improve access to financial services.
- Providing international remittance services that increase access to financial services by LMI individuals.
- Assisting in marketing financial services, including development of advertising and promotions, publications, workshops and conferences.
- Assisting in fund raising, including soliciting or arranging investments.
- Providing foreclosure prevention programs to LMI homeowners who are facing foreclosure on their primary residence, with the objective of providing affordable, sustainable, long-term loan modifications and restructurings.
- Providing other financial services such as low cost savings or checking accounts, including "Electronic Transfer Accounts", individual development accounts (IDA), or check

cashing services that increase access to financial services for LMI individuals.

Note: while participation in the IRS VITA/EITC program is not expressly included in the Q&A, it is recognized as CRA-eligible in FDIC Financial Institutions Letter 97-2007.⁶

II. Lending

The CRA Q&A also provides for recognition of certain lending activities which also are consistent with the BAEI's mission. *Question 22(a)-(1)* asks **“Are there any types of lending activities that help meet the credit needs of an institution’s assessment area(s) and that may warrant favorable consideration as activities that are responsive to the needs of the institution’s assessment area(s)?”**

The *Answer* states that *“Credit needs vary from community to community. However, there are some lending activities that are likely to be responsive in helping to meet the credit needs of many communities. These activities include:”*

- Providing loan programs that include a financial education component about how to avoid lending activities that may be abusive or otherwise unsuitable.
- Establishing loan programs that provide small, unsecured consumer loans in a safe and sound manner (i.e., based on the

borrower’s ability to repay) and with reasonable terms.

- Offering lending programs, which feature reporting to consumer reporting agencies, that transition borrowers from loans with higher interest rates and fees (based on credit risk) to lower-cost loans, consistent with safe and sound lending practices. Reporting to consumer reporting agencies allows borrowers accessing these programs the opportunity to improve their credit histories and thereby improve their access to competitive credit products.
- Establishing loan programs with the objective of providing affordable, sustainable, long-term relief, for example, through loan refinancing, restructures, or modifications, to homeowners who are facing foreclosure on their primary residences.⁷

Financial institutions *may* receive positive CRA consideration from their respective regulator(s) in recognition of meaningful participation in various activities that support the BAEI mission.

As with many aspects of CRA performance, institutions should inform examiners about the scope and impact of their efforts by reasonably documenting what they have achieved.

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¹ **FDIC AEI Home Page:** <http://www.fdic.gov/consumers/community/AEI/index.html>

² **Center for Financial Services Innovation:** http://cfsinnovation.com/system/files/imported/managed_documents/highlights_underbanked_forum.pdf

³ **Community Reinvestment Act of 1977:** (<http://www.fdic.gov/regulations/community/community/index.html>).

The Congress finds that:

- (1) regulated financial institutions are required by law to demonstrate that their deposit facilities serve the convenience and needs of the communities in which they are chartered to do business;
- (2) the convenience and needs of communities include the need for credit services as well as deposit services; and
- (3) regulated financial institutions have continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered

⁴ **CRA Regulation**, Sections .12(g) & (i)

⁵ **Interagency CRA Questions & Answers:** <http://www.ffiec.gov/cra/qnadoc.htm>

⁶ **Voluntary Income Tax Assistance** - related activities can also qualify for under the Section .24(d), the CRA Service Test (see: **FDIC FIL 97-2007** at <http://www.fdic.gov/news/news/financial/2007/fil07097.pdf>)

⁷ **FDIC encourages financial institutions to work constructively with residential borrowers** - (see: **FDIC FIL-35-2007** <http://www.fdic.gov/news/news/financial/2007/fil07035.html>)