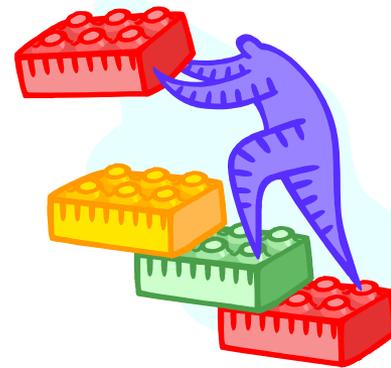


# CRA Basics



# Objectives

*Upon completion of the CRA overview, you should:*

- Understand the purpose of the CRA;
- Understand terms and definitions under the CRA regulation including bank exam types
- Be generally familiar with the technical requirements of the regulation;
- Understand the CRA ratings

# Purpose of CRA

- Encourage banks and thrifts to help meet the credit needs of their entire communities
  - Including borrowers of different income levels and businesses/farms of different sizes
  - Including low- and moderate-income neighborhoods, certain non-metropolitan middle income geographies or designated disaster areas
  - Consistent with safe and sound operations

# Definitions

- Geography
- Median Family Income
- Low- and Moderate-Income (LMI)
- Assessment Area (AA) Delineation
- Performance Context
- Community Development
  - Primary Purpose



# Geography

- Geography: a census tract delineated by the United States Bureau of the Census in the most recent decennial census
- MSA: metropolitan statistical area as defined by the Office of Management and Budget (OMB)
- MD: metropolitan division as defined by OMB
- Nonmetropolitan area: area not located in an MSA



# Median Family Income

- An annual income figure for which there are as many families with incomes below that level as there are above that level
- Area Median Income (AMI) means:
  - The median family income for the MSA or MD, if a person or geography is located in an MSA or MD
  - The statewide nonmetropolitan median family income, if a person or geography is located outside an MSA or MD

# Low- and Moderate-Income (LMI)

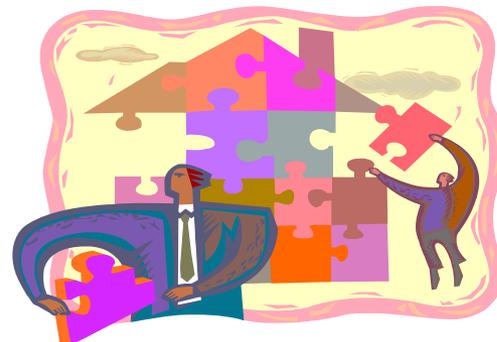
- *Low-income* = an individual income or tract income that is less than 50% of the AMI
- *Moderate-income* = an individual income or tract income that is at least 50% and less than 80% of the AMI
- *Middle-income* = an individual income or tract income that is at least 80% of AMI but less than 120% of AMI
- *Upper-income* = an individual income or tract income that is equal to or greater than 120% of AMI

# True or False

- Median family income includes all households.
- False

# Assessment Area (AA) Delineation

- Must consist generally of one or more MSAs or MDs, or one or more contiguous political subdivisions such as counties, cities, or towns, and
- Must include geographies where an institution has its main office, branches, deposit taking ATMs as well as surrounding areas in which it has originated or purchased a substantial portion of its loans



# Assessment Area Delineation

- Adjustments to AA(s)
  - May adjust the boundaries to include only that portion of a political subdivision that the institution can reasonably be expected to serve



# Assessment Area Delineation

- Limitations on Delineation
  - Must include only whole geographies
  - Must not reflect illegal discrimination
  - May not arbitrarily exclude LMI geographies
  - Generally, may not extend substantially beyond an MSA or state boundary



# Performance Context

- A broad range of economic, demographic, and institution- and community-specific information that an examiner reviews to understand the context within which an institution's record of performance should be evaluated.

# Community Development

- **Affordable housing** for low- or moderate-income (**LMI**) individuals
- **Community services** for **LMI** individuals
- Activities that promote **economic development by providing financing** for small businesses or small farms
- Activities that **revitalize or stabilize** LMI geographies, distressed or underserved non-metro middle-income areas, or designated disaster areas.
- *Activities that **support, enable or facilitate projects or activities that meet “eligible uses” criteria** described in Section 2301(c) of the Housing and Economic Recovery Act of 2008 (HERA) and are conducted in designated target areas identified in plans approved by HUD in accordance with the Neighborhood Stabilization Program (NSP)*



# Primary Purpose

- In order to receive consideration under the CRA, loans, investments, and services must have a primary purpose consistent with the definition of community development

# Exam Types

- Small bank
- Intermediate small bank (ISB)
- Large bank
- Wholesale and Limited Purpose
- Strategic Plan



# Small Bank

- Banks with assets under \$280 million
- Lending Test:
  1. Loan to deposit ratio
  2. Lending in and out of the assessment area
  3. Distribution of loans by geography
  4. Distribution of loans by borrower income
  5. Responses to complaints



# Intermediate Small Bank (ISB)

- Banks with assets of at least \$280 million and \$1.122 billion
- Evaluated under the traditional small bank lending test **PLUS** a community development test
  - CD activities should be responsive to community needs



# Large Bank

- Assets of \$1.122 billion or more
- Holding company not relevant
- Exam criteria:
  - Lending
  - Investments
  - Services

# Evaluations

- An ISB bank must be rated Satisfactory on BOTH the traditional small bank lending test AND the CD test in order to achieve an overall Satisfactory rating
- Any small bank (including an intermediate small bank) may opt to be evaluated under the large bank test

# Technical Requirements

- CRA Public Notice
- Public File
- Delineation of Assessment Area



# CRA Public Notices

- Must be displayed in the public lobby of each of its offices
- Details the public's right to review the institution's file and CRA-related comments.
- § \_\_\_\_.44



# True or False

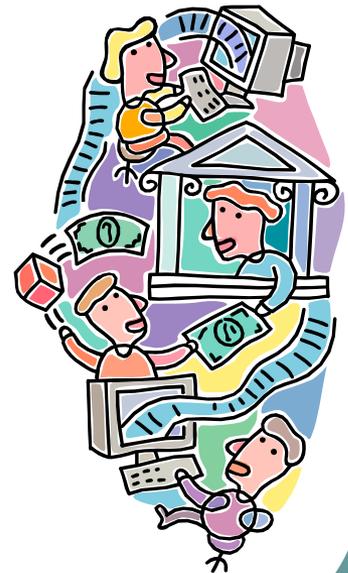
- The public notice is the same for the main office and each branch.
- False

# Public File

- Full file
  - At the main office
  - At one office in each state
- Limited file at branch locations
  - Provide all information relative to the branch's assessment area within five days of request

# Public file for all institutions

- All written CRA related comments for the current year and two previous years
- The most recent public evaluation 🏛️
- List of all branches - address and geographies
- List of services 🏛️
- Map of Assessment Area(s)
- Last two years HMDA Disclosure Statement



# Public File - Additional Requirements for Small Institutions

- Loan to deposit ratio for each quarter of the prior calendar year
- Information required by other institutions if it has chosen to be evaluated under the lending, service and investment tests



# True or False

- The public file varies depending upon the size and other characteristics of the financial institution.
- True

# Overall Ratings

- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Noncompliance
  
- Ratings “roll-up”



# Overall Ratings – Large Bank

- Component ratings assigned a numerical value
- Composite rating is the sum of the numerical value of the component ratings
- Must receive at least a Low Satisfactory on the lending test to get an overall rating of Satisfactory or better

# Public Evaluation

- Prepared by the agencies
- Exit discussion with Mgmt
- Exam completed and final ratings assigned and discussed with Mgmt
- Published on Agencies, FFIEC web site.
- Made available to the public on request

# Why are CRA Ratings Important?

- Regulators must take into account the banks record of helping to meet the community credit needs when considering any corporate or licensing action.
  - Examples include:
    - branching, mergers, acquisitions, consolidations

# True or False

- To receive an overall Satisfactory rating the bank can receive a Needs to Improve on the lending test if it receives an outstanding on the investment and service tests.
- False

# True or False

- Evidence of discriminatory or other illegal credit practices adversely affects the evaluation of a bank's CRA performance.
- True

# Resources

- Interagency Questions & Answers on Community Reinvestment March 11, 2010 <http://www.ffiec.gov/cra/pdf/2010-4903.pdf>
- Supervisory Agency Community Reinvestment Act Examination Handbooks
- Supplemental Interagency Procedures  
[http://www.ffiec.gov/cra/examinations.htm#EX\\_PROCEDURES](http://www.ffiec.gov/cra/examinations.htm#EX_PROCEDURES)
  - Intermediate Small Bank issued in 2005
  - Small Bank, Large Bank, Limited Purpose, and Strategic Plan issued in 2006
- OCC Large Bank Examiner Guidance, December 2000
- OCC Bulletin 97-26 Performance Context
- Supervisory Agency Community Affairs Departments
- <http://www.ffiec.gov>: HMDA data, CRA data, geocoding/mapping system, rate spread calculator, links to CRA Performance Evaluations
- <http://www.fdic.gov>: Deposit market share data, list of branches, Bank Call Reports
- <http://www.bls.gov>: Employment/unemployment data

# Questions

