

Intermediate Small Bank CRA: Maximizing Your Bank's Success

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Agenda

- ▶ Introduction
- ▶ Intermediate Small Bank CRA (ISB CRA)
 - Definitions
 - Lending Test
 - Community Development Test (CD)
- ▶ Best Practices
- ▶ Examination Process – Are you ready?
Send questions to chiconferencecall@fdic.gov

Intermediate Small Bank Definition

- ▶ “Intermediate small bank (ISB)” means an institution with assets of at least \$305* million as of December 31 of both of the prior two calendar years, and less than \$1.221* billion as of December 31 of either of the prior two calendar years.

*Thresholds are as of 1/1/15

Performance Context Overview

- ▶ What does management know about the local economy, relative to community development opportunities?
- ▶ Has loan demand changed, declined, increased, or remained stable?
- ▶ Has underwriting criteria become more or less conservative?
- ▶ Is there deterioration in consumer credit scores/credit histories?
- ▶ Does the bank operate with any liquidity or other constraints?
- ▶ Has your business strategy or product offering changed as a result of current economic conditions?
- ▶ What is the capacity or ability to lend?

ISB Examination Test

- ▶ Intermediate Small Bank two-prong test:
 - Small Bank Lending Test, and
 - Community Development Test
- ▶ Both tests must be fulfilled for a “satisfactory” rating

Lending Test

Performance Factors:

- ▶ Loan-to-Deposit ratio
- ▶ Lending in assessment area (“AA”)
- ▶ Lending to borrowers of different income levels and to businesses/farms of different sizes
- ▶ Geographic distribution of loans
- ▶ Response to CRA-related complaints

Community Development Test

Performance factors:

- ▶ Community Development Loans
- ▶ Qualified Investments
- ▶ Community Development Services

Community Development

Definition:

1. Affordable housing for low- or moderate-income individuals
2. Community services targeted to low- or moderate-income individuals
3. Activities that promote economic development by financing small businesses or small farms that meet the size eligibility standards of the SBA's Development Company or Small Business Investment Company programs or businesses with gross annual revenues of \$1 million or less or farms with \$500,000 or less

Community Development

4. Activities that revitalize or stabilize low- or moderate-income areas, designated disaster areas, or underserved or distressed nonmetropolitan middle-income areas
5. Loans, investments, and services that support, enable, or facilitate Neighborhood Stabilization Program (NSP) eligible activities in designated target areas

Community Development

What is meant by the term “primary purpose” as that term is used to define what constitutes a community development loan, a qualified investment, or a community development service?

Community Development

Two approaches to determine primary purpose:

- ▶ A majority of the dollars or beneficiaries of an activity must meet one of the five definitions of CD
- ▶ If less than a majority, three conditions must be met:
 - The express, bona fide intent of the activity is consistent with the CRA definition of community development
 - The activity structured to achieve the CD purpose
 - The activity accomplishes, or is reasonably certain to accomplish, the CD purpose

The Performance Factors

Community Development Test:

- ▶ Number and amount of CD loans
- ▶ Number and amount of qualified investments
- ▶ Extent to which the bank provides community development services
- ▶ Bank's responsiveness to identified community development lending, investment, and services needs

Examples of CD Loans

- ▶ Loans for affordable housing rehabilitation and construction, including construction and permanent financing of multifamily rental property serving low- and moderate-income persons
- ▶ Loans to construct or rehabilitate community facilities that are located in low- and moderate-income areas or that serve primarily low- and moderate-income individuals
- ▶ Loans to finance environmental clean-up or redevelopment of an industrial site as part of an effort to revitalize the low- or moderate-income community in which the property is located

Q&A §11.12(h)-1

Qualified Investments

- ▶ *Qualified investment* means a lawful investment, deposit, membership share, or grant that has as its *primary purpose* community development.

Qualified Investments Examples

- ▶ Deposits in:
 - minority- or women-owned financial institutions
 - credit unions that primarily lend or facilitate lending in low- and moderate-income areas
- ▶ Deposits in Community Development Financial Institutions (CDFIs)

Qualified Investments Examples

- ▶ Investments in, or donations to:
 - Financial Intermediaries
 - Organizations promoting economic development
 - Municipal obligations supporting affordable housing
 - Not-for-profit organizations serving LMI Housing
 - Organizations supporting activities essential to LMI Individuals
- ▶ Prior period qualified investments

Designated Disaster Areas

- ▶ Investments (including donations) receive credit that promote revitalization or stabilization in designated disaster areas.
 - Major Disaster Declaration as designated by the federal government.
 - Receive credit for 36 months following date of designation
 - Reference www.fema.gov

Q&A §II.12(g)(4)(ii)

Community Development Service

- ▶ Determining if a service qualifies:
 - Is the primary purpose of this service consistent with the CD definition?
 - Is the community development service related to the provision of financial services?

Community Development Services

Examples include:

- ▶ Financial education provided to students or their families from a school at which the majority of students qualify for free or reduced lunch meals under the USDA National School Lunch Program
- ▶ Credit counseling targeted to individuals who receive or are eligible to receive Medicaid
- ▶ Housing assistance provided to recipients of government assistance programs that have income qualifications equivalent to, or stricter than, the CRA definitions of LMI
- ▶ Providing financial services to low- and moderate-income individuals through branches and other facilities located in low- and moderate-income areas.

Community Development Services

Examples of services to qualified Community Development Organizations:

- ▶ Serving on the board of directors
- ▶ Serving on a loan review committee
- ▶ Furnishing financial services training for staff and management
- ▶ Assisting in grant writing or financial development
- ▶ Providing administrative services such as human resources, information technology, or legal services

Best Practices

- ▶ Help all personnel understand the definition of community development
- ▶ Suggest a method for bank employees to record community development activity;
- ▶ Periodically, collect and review the information to ensure the activity meets the CRA community development definition;
- ▶ Perform an annual self-assessment and consider activity in each Assessment Area

Best Practices

- ▶ Make a determination about which activities have a community development purpose under each performance factor
- ▶ Provide supporting information for the loan, investment or service
 - What information did the bank rely on to determine that the activity met the definition of community development? Does the non-profit serve predominantly LMI people, small farms, or small businesses?
- ▶ Consider tracking the number of hours of community development service performed

Best Practices

Affordable housing is the only “definition” where you can receive partial credit. So it is beneficial to track the number of units supported with community development investments or loans and retain adequate documentation.

Best Practices

Example:

- ▶ A \$1,000,000 loan funded the construction of 60 units; documentation shows 25 units have been set-aside for those earning less than 30% of Area Median Family Income through Low Income Housing Tax Credit. Is this documentation sufficient? How much credit, if any, will the bank receive?
 - What if the loan set aside 51 units, how much credit would the bank receive?

Best Practices

Community Development loan categories :

- ▶ Commercial loans exceeding \$1 Million
- ▶ Commercial and multi-family construction loans and land development loans
- ▶ Multi-family loans that meet the definition of affordable housing
- ▶ Loans to Municipalities

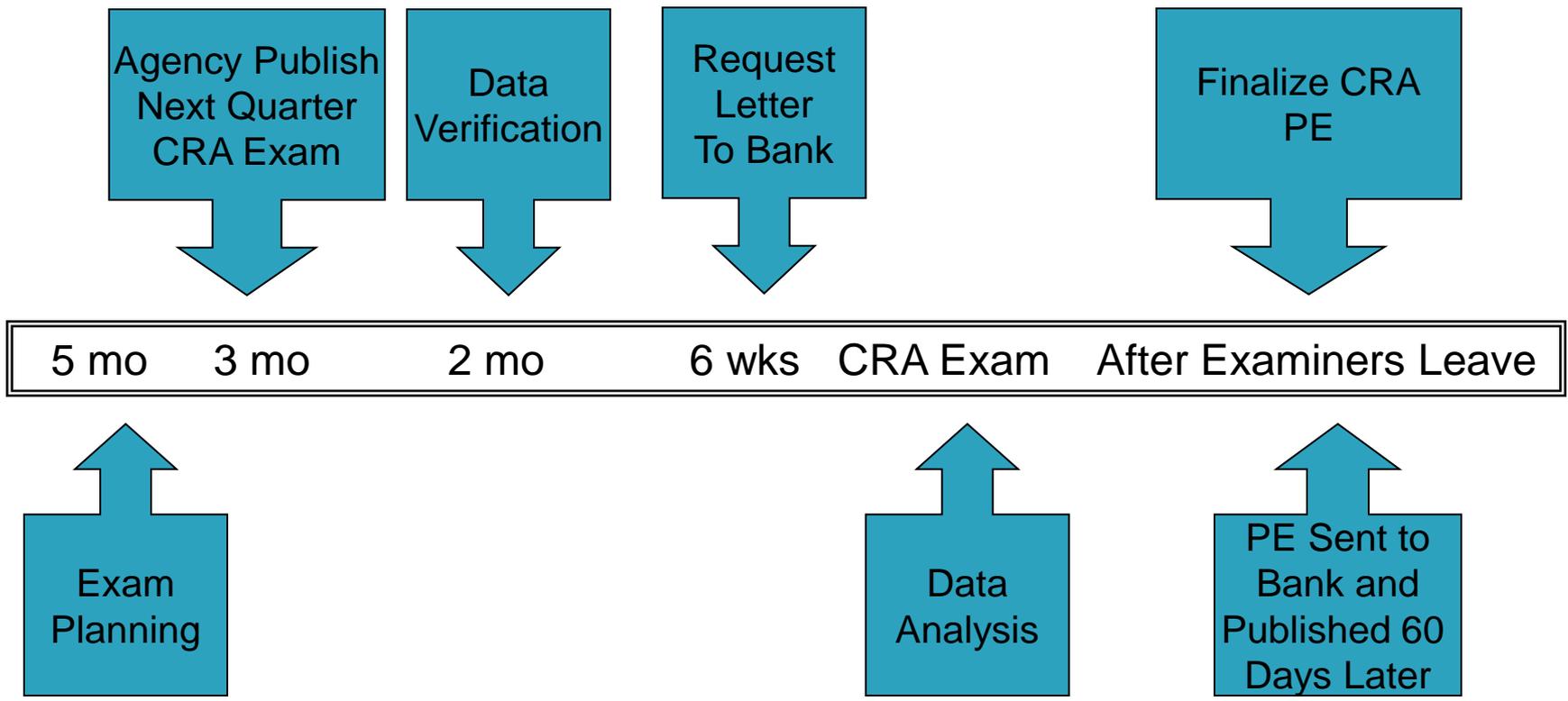
Best Practices

- ▶ Review your donation/investment list. Banks often miss opportunities to maximize donations that are qualified investments.
- ▶ Develop a centralized process to record the type of activity, how it qualifies, and the assessment area impacted.

Best Practices

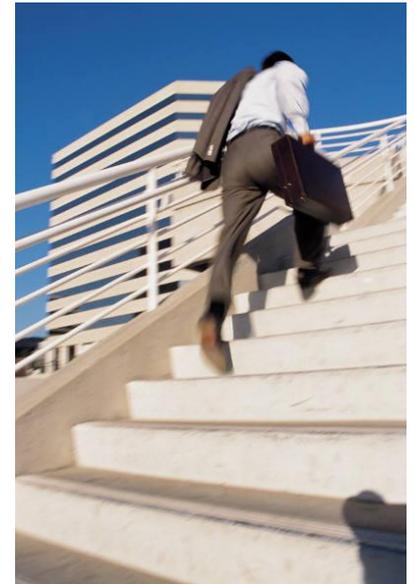
- ▶ Remember to consider the impact of disaster area declarations on the bank's investment opportunities
- ▶ Remember to include in services, the organizations where your Board members are actively representing the institution
- ▶ Perform outreach within the community to determine what the specific needs are for your area
- ▶ Consider what other banks are doing in your area by reviewing their Public Evaluations (PE)

The Examination Process



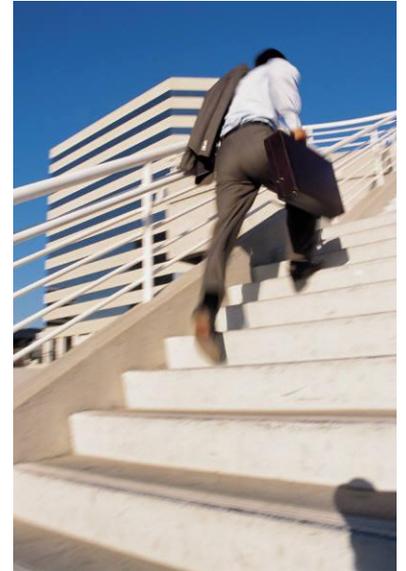
Steps to be Examination Ready

- ▶ Review Examination Request Letter
- ▶ Know your bank's Assessment Area(s)
- ▶ Check CRA public files to ensure they are updated and accurate, review Performance Evaluations
- ▶ Provide any important performance context issues
- ▶ Document loans, investments, and services you want considered for community development



Steps to Be Examination Ready

- ▶ Know your primary products
- ▶ Consider performing a self-assessment
- ▶ Have your CRA information organized and ready



Questions



Resources

- ▶ FDIC CRA webpage
- ▶ <https://www.fdic.gov/regulations/cra/>
- ▶ FFIEC CRA Q&As (November 2013)
- ▶ <http://www.gpo.gov/fdsys/pkg/FR-2013-11-20/pdf/2013-27738.pdf>
- ▶ FFIEC CRA Q&As (March 2010)
- ▶ <http://www.gpo.gov/fdsys/pkg/FR-2010-03-11/pdf/2010-4903.pdf>
- ▶ FDIC CRA Examination Schedule
- ▶ <https://www.fdic.gov/regulations/community/exam/index.html>
- ▶ FDIC CRA Ratings and Performance Evaluations
- ▶ <https://www2.fdic.gov/crapes/>
- ▶ FDIC Community Affairs
- ▶ <https://www.fdic.gov/consumers/community/>
- ▶ FDIC Rules and Regulations, Part 345
- ▶ <https://www.fdic.gov/regulations/laws/rules/2000-6500.html>
- ▶ FFIEC CRA webpage
- ▶ <http://www.ffiec.gov/cra/default.htm>