

San Francisco Region Bankers' Forum: *Community Reinvestment Act (CRA) Transitions*

June 18, 2015

Agenda

- Transition to Intermediate Small Bank (ISB)
 - Definitions
 - Tests
 - Steps for Transitioning
- Transition to Large Bank
 - Definitions
 - Tests
 - Best Practice Tips
- Questions and Answers

CRA Transitions:

Small Bank

to

Intermediate Small Bank



CRA History

- July 19, 2005 - Revision to CRA
 - Introduction of Intermediate Small Bank Examination Procedures
 - Provided relief to community banks between \$250 million to \$1 billion

Regulatory Relief

- Not required to report CRA Data
- Flexible Community Development Test
 - Bank determines allocation of resources among community development loans, investments, and services
- Small business/farm loans that meet the definition of community development may be considered under the Community Development Test

ISB Definition

- As of January 1, 2015, a bank 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
- Subject to the ISB examination procedures, regardless of timing of the next CRA examination

Performance Context Definition

- Includes economic, demographic, and institution- and community-specific information.
- Examiners use performance context to understand the needs and opportunities of the assessment area and capacities and constraints of the institution.

Discrimination & Other Illegal Credit Practices

- Discrimination on a prohibited basis in violation of ECOA or the FHA
- Violations of HOEPA provisions of TILA
- Violations of Section 5 of the FTC Act
- Violations of Section 8 RESPA
- Violations of Consumer's Right of Rescission (TILA)

ISB Examination

- Lending Test
- Community Development Test
- A bank must receive at least a “Satisfactory” rating on both tests to receive an overall “Satisfactory” rating

Lending Test

- Small Bank Lending Test:
 - Loan to Deposit Ratio
 - Assessment Area Concentration
 - Borrower's Profile
 - Geographic Distribution
 - Response to Complaints

Community Development Test

- Responsiveness to CD needs of its assessment area through:
 - CD loans,
 - Qualified investments
 - CD services

Community Development Definitions

- Affordable Housing
- Community Services
- Economic Development
- Revitalize or Stabilize
- Neighborhood Stabilization

Community Development

- Primary purpose must be community development:
 - The majority of the dollars or beneficiaries are related to community development or
 - The expressed intent, structure, or result accomplishes community development

Community Development Loan Examples

- Loans for affordable housing
- Loans for community facilities that are located in LMI areas or that serve primarily LMI individuals

Community Development Loan Examples

- Loan promoting economic development, which meet the size and purpose tests:
 - **Size** - Meets the size standards of the SBA's Development Company or Small Business Investment Company programs, or have gross annual revenues of \$1 million or less
 - **Purpose** - Promotes "economic development"

Qualified Investment Examples

- A bond which redevelops a low-income neighborhood
- An affordable housing-related bond
- A deposit in minority- or women-owned financial institutions
- A donation to an organization that provides services to LMI individuals

Community Development Services

- Service that:
 - Meets the definition of community development
 - Provides technical assistance

CD Services Examples

- Teaching financial education to LMI individuals
- Providing technical assistance on financial matters to a nonprofit organization serving LMI housing needs

Examples of Technical Assistance

- Serving on the board of directors
- Assisting in marketing financial services
- Contributing accounting services
- Providing services in an employee's areas of expertise at the institution
 - Human resources, information technology, legal services, etc.

Steps for Transitioning

1. Conduct outreach activities to better determine the needs of community
2. Create procedures for documenting activities
 - Qualification as Community Development
 - Impact

Steps for Transitioning

3. Provide community development activity training
4. Monitor and report activity levels
5. Review loans, investments, donations, and services for omitted activities
6. Provide examiners a list of all community development loans, investments, and services

CRA Transitions:

**Intermediate Small Bank
to
Large Bank**

Large Bank Definition

- As of January 1, 2015, a bank with assets of:
 - At least \$1.221 billion as of December 31 of both of the prior two calendar years
- Subject to Large Bank examination procedures after one year of CRA Data has been reported

Examples of Threshold Changes

Examples of how to apply the new thresholds on 1/1/15				
Institution	Total Assets 12/31/14	Total Assets 12/31/13	CRA Examination Procedures as of 1/1/15	Explanation
Institution A	\$310 million	\$290 million	Small institution	Institution did not have assets of at least \$305 million as of December 31 of <u>both</u> of the prior two calendar years.
Institution B	\$1.025 billion	\$900 million	Intermediate small institution	Institution had assets of at least \$305 million as of December 31 of <u>both</u> of the prior two calendar years, and less than \$1.221 billion as of December 31 of <u>either</u> of the prior two calendar years.
Institution C	\$1.300 billion	\$1.025 billion	Intermediate small institution	Institution had assets of at least \$305 million as of December 31 of <u>both</u> of the prior two calendar years, and less than \$1.221 billion as of December 31 of <u>either</u> of the prior two calendar years.
Institution D	\$1.500 billion	\$1.300 billion	Large institution	Institution had total assets of at least \$1.221 billion as of December 31 of <u>both</u> of the prior two years.

Large Bank Examination

- Lending Test
- Investment Test
- Service Test

Largest emphasis is placed on the Lending Test and a bank must receive at least a “Satisfactory” rating on the Lending Test to receive an overall “Satisfactory” rating

ISB vs. Large Bank

- Community Development definition does not change
- Flexibility between Lending and CD Tests for ISBs
- CD is an element of all three tests for Large Banks rather than evaluated together for ISBs

Required Data Collection

- Small Business
- Small Farm
- Community Development Loans

www.ffiec.gov The FFIEC has resources, including instructional guides and free data entry software to assist banks with data collection.



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Welcome to the Federal Financial Institutions Examination Council's (FFIEC) Web Site.

FFIEC Council

The Council is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System ([FRB](#)), the Federal Deposit Insurance Corporation ([FDIC](#)), the National Credit Union Administration ([NCUA](#)), the Office of the Comptroller of the Currency ([OCC](#)), and the Consumer Financial Protection Bureau ([CFPB](#)), and to make recommendations to promote uniformity in the supervision of financial institutions. In 2006, the State Liaison Committee (SLC) was added to the Council as a voting member. The SLC includes representatives from the Conference of State Bank Supervisors ([CSBS](#)), the American Council of State Savings Supervisors ([ACSSS](#)), and the National Association of State Credit Union Supervisors ([NASCUS](#)).

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 - [Institution Repository](#)
 - [Fin Inst Data \(FIND\)](#)

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Community Reinvestment Act



- CRA Main
- Distressed and Underserved Tracts
- CRA Ratings
- Interagency Q&A
- Geocoding System
- Aggregate Report
- Disclosure Report
- National Aggregate Rpt
- PDF Help
- HMDA

CRA

The Community Reinvestment Act (CRA), enacted by Congress in 1977 (12 U.S.C. 2901) and implemented by Regulations 12 CFR parts 25, 228, 345, and 195, is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate. In this section of the web site, you can find out more about the regulation and its interpretation and information on CRA examinations.



About CRA

- [Background & Purpose](#)
- [CRA Examinations](#)
- [Interagency Q&A](#)
- [Regulation](#)
- [Who Reports Data?](#)

How to File

- [A Guide to CRA Data Collection and Reporting](#)
- [CRA/HMDA Newsletter](#)
- [Data Entry Software](#)
- [Edits](#)
- [File Formats](#)
- [Submitting Data](#)

What's New

- 4/30/15 – The [2015 Guide to CRA Data Collection and Reporting](#) is now available.
- 2/18/15 – The [2015 CRA/HMDA Newsletter](#) is now available.
- 2/9/15 – The [2015 Geocoding System](#) has been updated with the 2015 Census boundary definitions.
- 12/1/14 – The [2015 CRA Data Entry Software](#) is now available.
- [View More](#)



Click here to sign up for e-mail notices of website updates.



CRA Data

Call Report-Driven Definitions

- Small Business Loans
 - Original loan amount of \leq \$1 million
 - Reported as “loans secured by nonfarm nonresidential real estate” or “commercial/industrial” loans
- Small Farm Loans
 - Original loan amount of \leq \$500,000
 - Reported “loans to finance agricultural production and other loans to farmers” or loans “secured by farmland”

What is Collected?

- Data to be collected and maintained includes:
 1. Unique number or alphanumeric symbol to identify the loan
 2. Loan amount at origination
 3. Loan location
 4. Indicator whether business or farm has gross annual revenues of \leq \$1 million

What is Reported?

- Aggregate number and amount of small business/farm loans for each geography by origination amounts of:
 - \$100,000 or less
 - \$100,000 but less than or equal to \$250,000
 - More than \$250,000
- Loans to businesses or farms that had gross annual revenues of \$1 million or less

What is Reported?

- Community Development Loans
 - Aggregate number and amount of CDLs originated or purchased
- Consortium or Third-Party Loans
 - Report data as if originated or purchased by the bank

Additional Requirement for Large Bank HMDA Reporters

- Location of each home mortgage loan application, origination, or purchase outside the MSAs in which the bank has a home or branch office

Optional Data Collection

- Consumer Loans: optional to collect and maintain (but not report) consumer loan data for consumer loans originated or purchased during a calendar year
 - Motor Vehicle
 - Credit Card
 - Home Equity (if not reported under HMDA)
 - Other Secured/Unsecured

Optional Data Collection

- Affiliate Lending: following types of loans may be considered
 - Home mortgage loans
 - Small business loans
 - Small farm loans
 - Community development loans
 - Consumer loans

Large Bank Lending Test

- Assessment area concentration
- Geographic distribution of loans
- Borrower's profile
- Lending activity
- Responsiveness to credit needs of highly economically disadvantaged geographies, low-income persons, and very small businesses
- Product innovation
- Community development lending activities

Lending Test Best Practices

- Involve loan officers and loan administration personnel
- Train staff on community development
- Maintain CDL documentation/checklists:
 - CD purpose
 - Qualitative impact – responsiveness
 - Innovative/flexible lending practices

Investment Test

- Factors considered:
 - Dollar amount of CD investments, including grants/donations
 - Complexity and innovativeness of qualified investments
 - Responsiveness of qualified investments to area needs
 - Degree to which qualified investments are not routinely provided by private investors

Investment Test Best Practices

- Involve the CFO or principle investment officer to identify investments that qualify
- Maintain Documentation:
 - Purpose of the investment
 - Area benefitted by the investment
 - Any other particularly responsive elements involved (performance context)

Service Test

- Retail Services
 - Changes in branch locations
 - Accessibility of Delivery Systems
 - Reasonableness of business hours and services in meeting area needs
- Community Development Services

Service Test Best Practices

- Implement bank-wide effort to identify qualified CD services
- Use of standard internal forms or staff surveys
- Maintain documentation:
 - Nature of service provided
 - Partner organizations involved
 - Group benefitted
 - Dates completed and/or hours of service provided

Preparing for a CRA Evaluation Best Practices

- Review Pre-Exam Request Letter
- CRA Public File
- Perform a self assessment (optional)
- Performance context for assessment area(s)
- Prepare a plan for the way you want the examiners to communicate with the bank (one bank liaison, or a list of bank contacts)

Resources

FFIEC CRA Webpage

- <http://www.ffiec.gov/cra/default.htm>

CRA Q&As (FDIC Manual)

- <https://fdic.gov/regulations/compliance/manual/pdf/XI-10.1.pdf>

FDIC CRA Webpage

- <https://www.fdic.gov/regulations/cra/>

FDIC CRA Ratings and Performance Evaluations

- <https://www2.fdic.gov/crapes/>

FDIC Rules and Regulations, Part 345

- <https://www.fdic.gov/regulations/laws/rules/2000-6500.html>



Questions and Answers

Press *1

or email

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