

# **Are You at Risk for Redlining? Understanding Your Reasonably Expected Market Area (REMA) and CRA Assessment Area**

San Francisco Region Bankers' Forum  
March 14, 2018

# Agenda

- CRA Assessment Area
  - Delineation of an appropriate and compliant CRA assessment area
- Reasonably Expected Market Area (REMA)
  - Definition
  - Factors used to determine a REMA
  - Use in the redlining analysis

# CRA Assessment Areas

- Section 345.41 of FDIC regulations
- Banks determine their own assessment areas
- The FDIC reviews assessment areas for technical compliance
- Assessment area delineation is not a performance factor

# CRA Assessment Areas

## Section 345.41(c) – General Assessment Area Requirements

- Consist generally of:
  - One or more metropolitan statistical areas (MSAs) or metropolitan divisions (MDs)
  - One or more contiguous political subdivisions (counties, cities, towns, townships, or Indian reservations)
- Include the geographies in which the bank has:
  - Its main office,
  - Its branches,
  - Its deposit-taking remote-service facilities, as well as
  - The surrounding geographies in which the bank has originated or purchased a substantial portion of its loans

# CRA Assessment Areas

## Interagency Q&As Regarding Community Reinvestment

### **Q&A §345.22(b)(2) & (3)–2: Must an institution lend to all portions of its assessment area?**

If an institution delineated the entire county in which it is located as its assessment area, but could have delineated its assessment area as only a portion of the county, it will not be penalized for lending only in that portion of the county, so long as that portion does not reflect illegal discrimination or arbitrarily exclude low- or moderate-income geographies.

# CRA Assessment Areas

## Section 345.41(e) – Limitations on the Delineation of an Assessment Area

- Each bank's assessment area(s):
  - Must consist of whole geographies
  - May not reflect illegal discrimination
  - May not arbitrarily exclude low- or moderate-income geographies, taking into account the bank's size and financial condition
  - May not extend substantially beyond an MSA boundary or beyond a state boundary unless the assessment area is located in a multistate MSA

# CRA Assessment Areas

## Interagency Q&As Regarding Community Reinvestment

### **Q&A §345.41(e)(3)–1: How will examiners determine whether an institution has arbitrarily excluded low- or moderate-income geographies?**

A1. Examiners will make this determination on a case-by-case basis after considering the facts relevant to the institution's assessment area delineation. Information that examiners will consider may include

- income levels in the institution's assessment area(s) and surrounding geographies;
- locations of branches and deposit-taking ATMs;
- loan distribution in the institution's assessment area(s) and surrounding geographies;
- the institution's size;
- the institution's financial condition; and
- the business strategy and product offerings of the institution.

# CRA Assessment Areas

## Example – ABC Bank Profile

- \$1 billion in assets, mostly in residential loans
- 10 full-service locations in an MSA
  - Comprised of two counties: X and Y
  - 7 branches in County X
  - 3 branches in County Y
- Online and mobile banking
- Online residential loan applications



# CRA Assessment Areas

## ABC Bank Example – Demographics

Should ABC Bank's AA include all of County Y?

### County X

- No low- or moderate-income geographies
- 7 ABC Bank branches
- Significant portion of ABC Bank loans

### County Y

- Many low- or moderate-income geographies
- 3 ABC Bank branches
- Fair portion of ABC Bank loans

# CRA Assessment Areas

## ABC Bank Example – Revised Demographics

Effect if no low- or moderate-income tracts in County Y

### County X

- **Many** low- or moderate-income geographies
- 7 ABC Bank branches
- Significant portion of ABC Bank loans

### County Y

- **No** low- or moderate-income geographies
- 3 ABC Bank branches
- Fair portion of ABC Bank loans



# CRA Assessment Areas

## Considerations to avoid arbitrarily excluding low- or moderate-income geographies

- Analyze distribution of census tracts by income level
- Assess your ability to serve low- and moderate-income tracts within the MSA
- Understand risks associated with assessment area adjustments

# CRA Assessment Areas

## Periodic Assessment Area Reviews

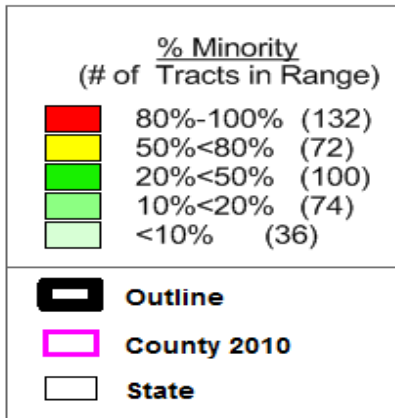
- Monitor and adjust assessment area to reflect institutional changes and growth
- Consider a CRA Policy that requires periodic assessment area reviews

# Redlining Risk

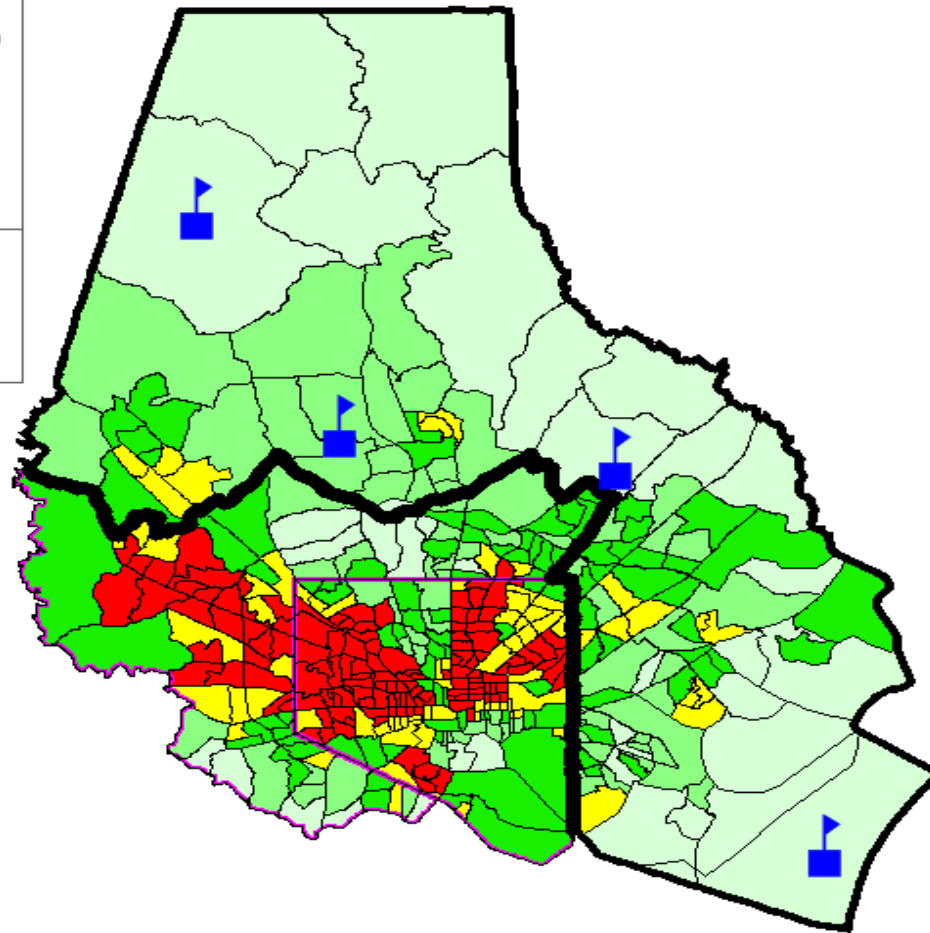
- **Risk-Focused Fair Lending Evaluation**
  - Evaluate the CRA assessment area
- **Interagency Fair Lending Examination Procedures: Risk Factors R6 and R9**
  - **R6:** Institution explicitly identifies credit product markets that exclude specific areas of its lending market or CRA assessment area that have a high concentration of minority residents.
  - **R9:** Institution's CRA assessment area appears to have been drawn to exclude areas with relatively high concentrations of minority residents.

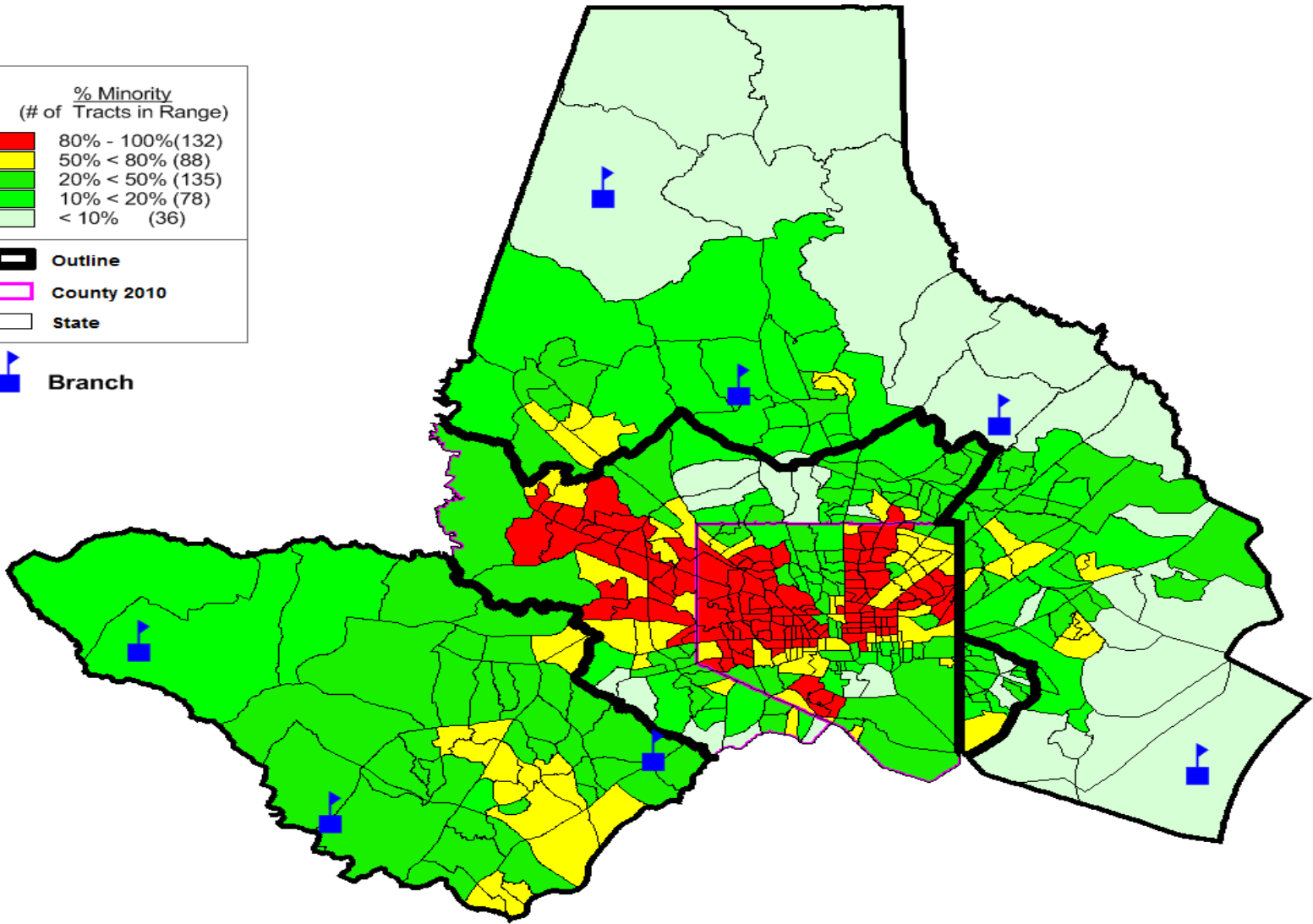
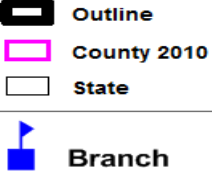
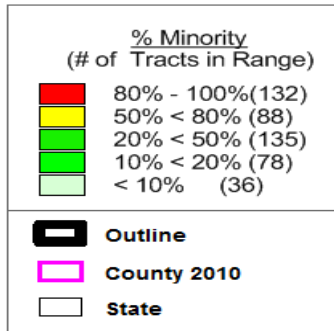
# Overview of Redlining

- Redlining: Unequal access to (or unequal terms of) credit because of prohibited characteristics(s) of the residents of the area:
  - in which the applicant resides, or will reside
  - in which the residential property to be mortgaged is located



 Branch







# Majority Minority

- Majority Minority Census Tract
  - Minority population at least 50 percent
- Majority Black Census Tract
  - Black population at least 50 percent
- Majority Hispanic Census Tract
  - Hispanic population at least 50 percent

# What is a REMA?

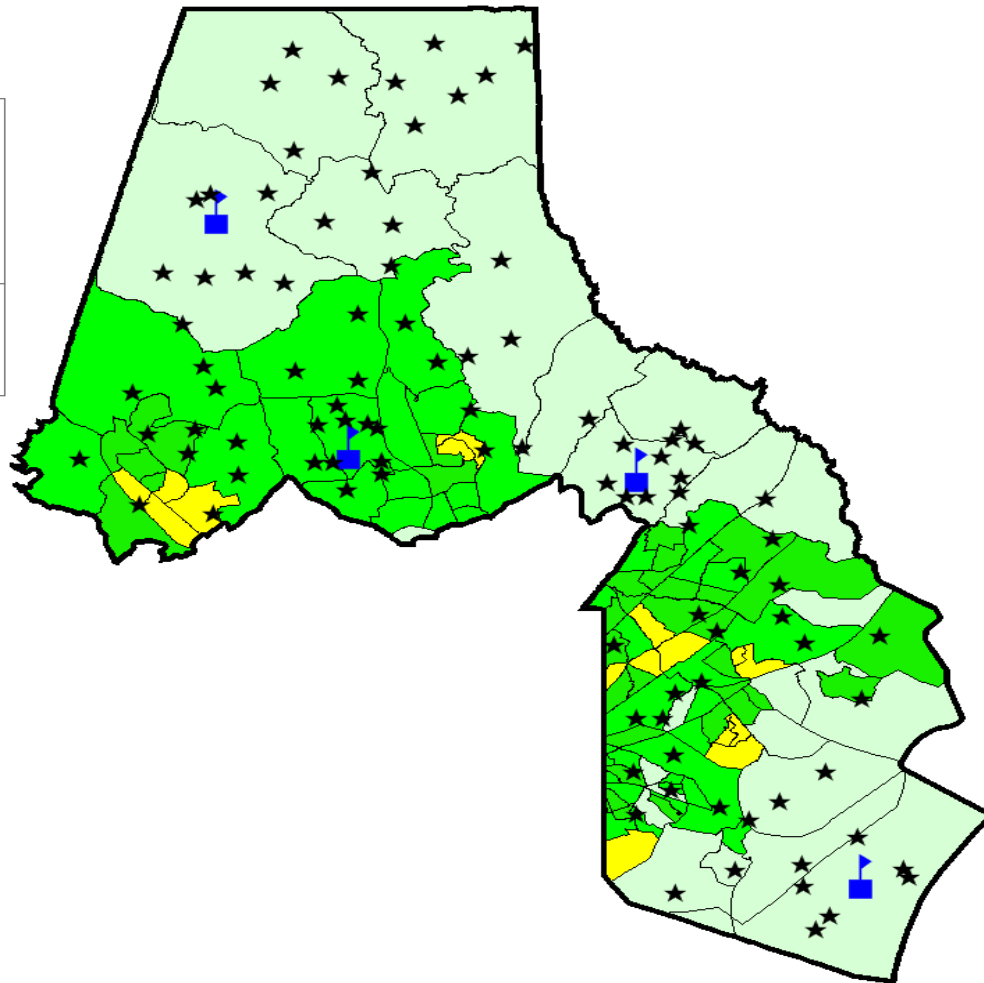
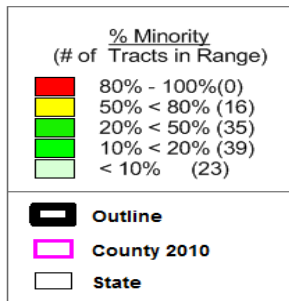
- REMA: Reasonably Expected Market Area
- FFIEC Interagency Fair Lending Examination Procedures state:
  - REMA - where the institution actually marketed and provided credit and where it could reasonably be expected to have marketed and provided credit
  - Some REMAs might be beyond or otherwise different from a bank's CRA assessment area

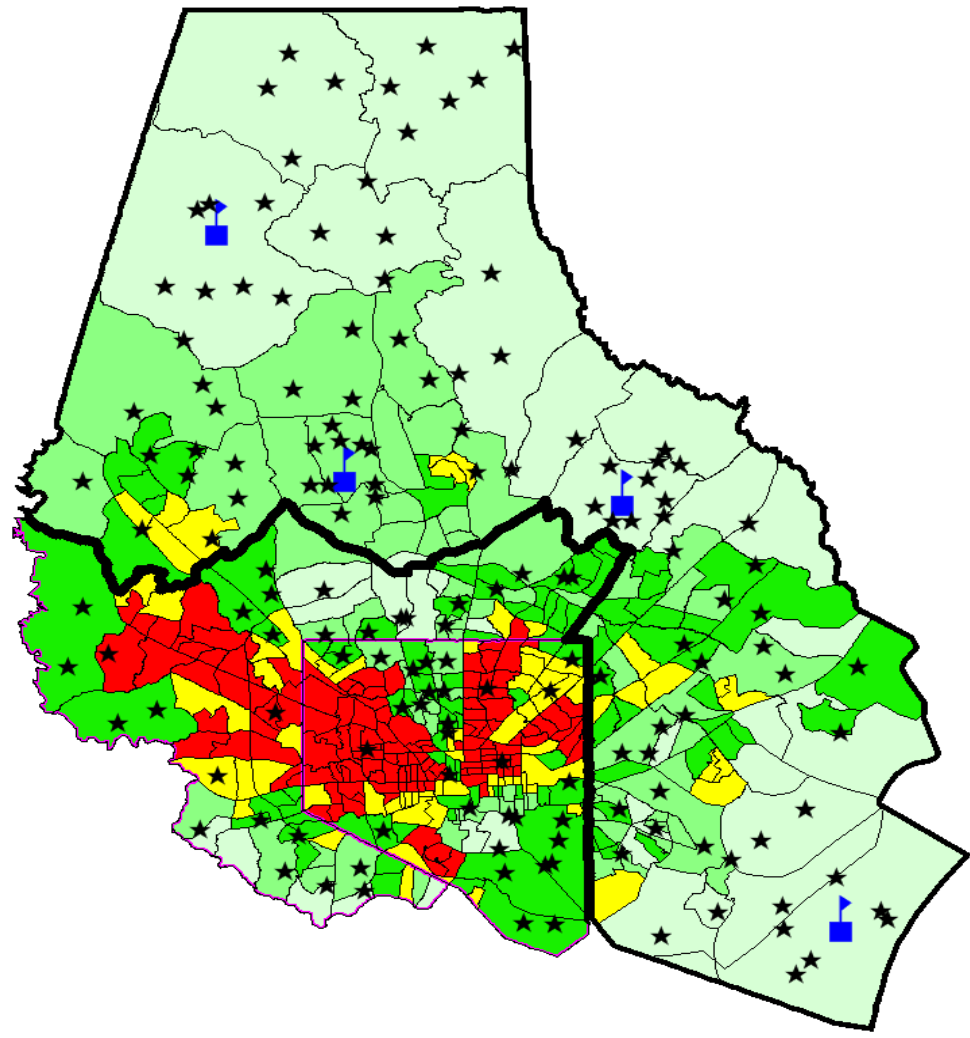
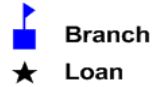
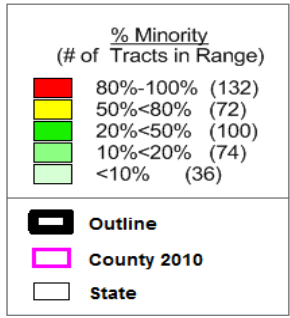
# Why is the REMA important?

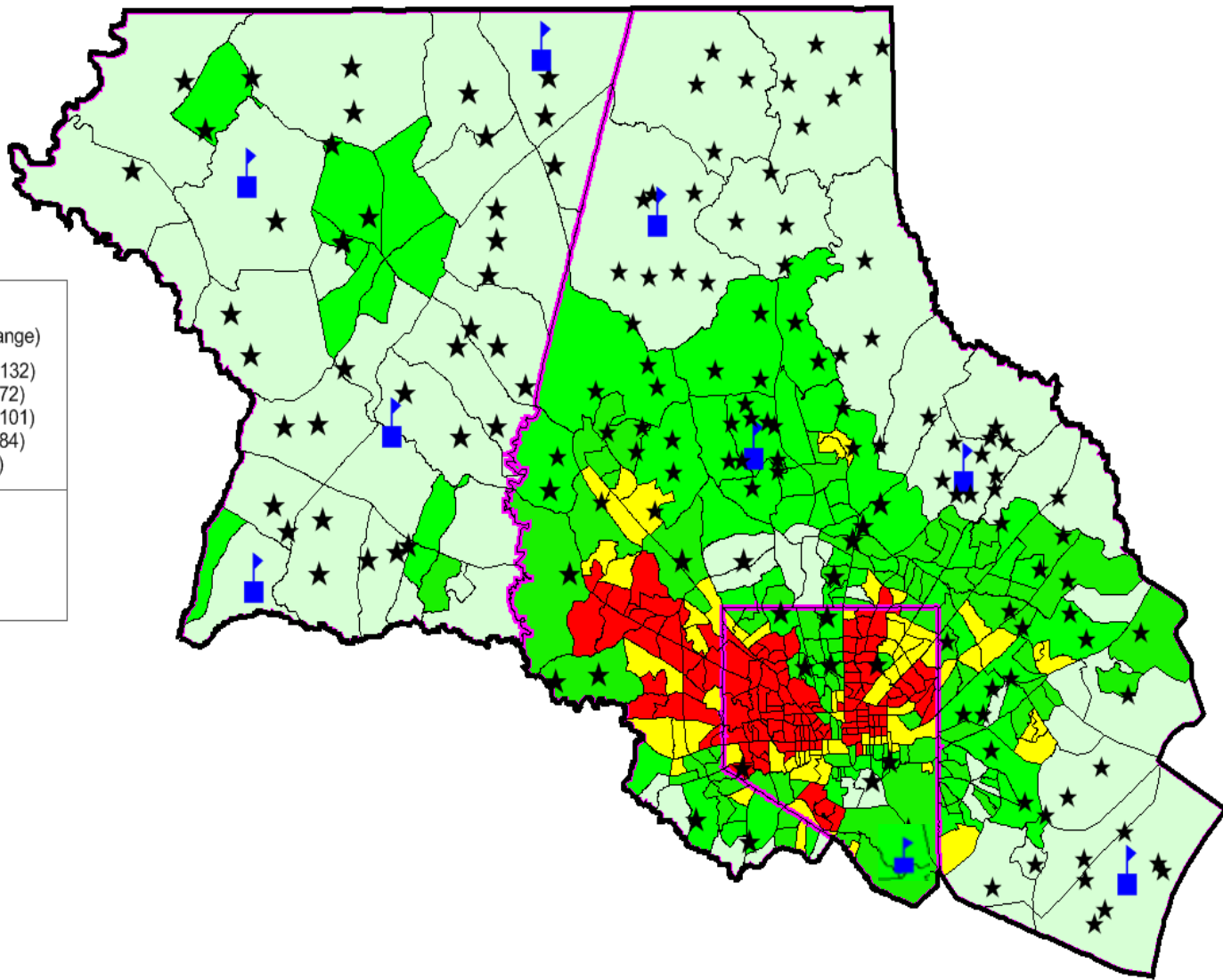
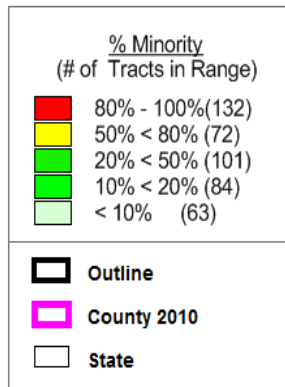
- The REMA is used to evaluate redlining risk
- The analysis will determine whether a bank is providing equal access to credit in its REMA. This will involve looking at whether the bank is:
  - Not extending credit in certain areas
  - Targeting certain areas with less advantageous products or loan terms
  - Offering different loans to different areas
  - Not marketing residential loans in certain areas

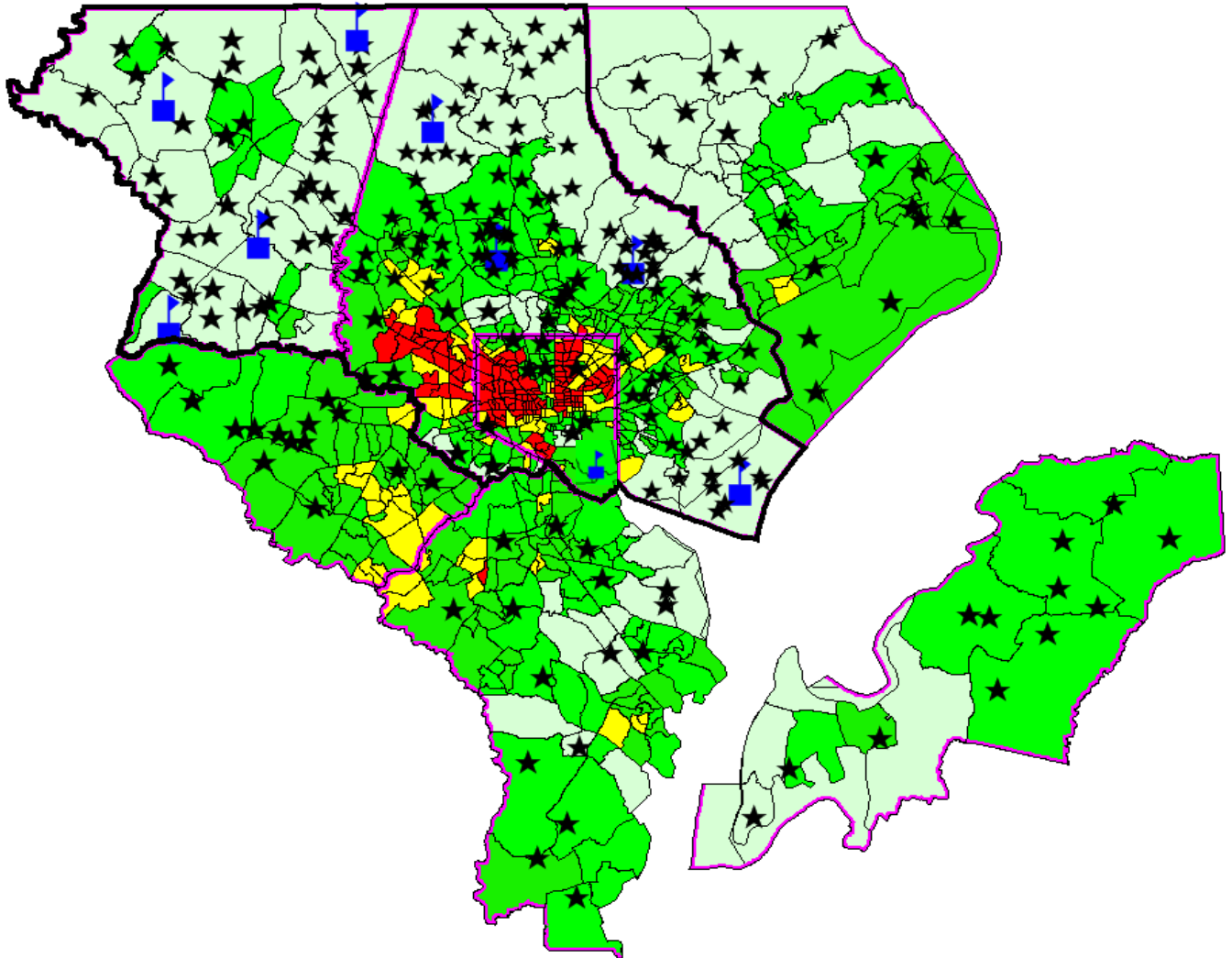
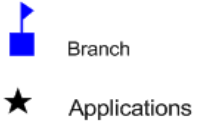
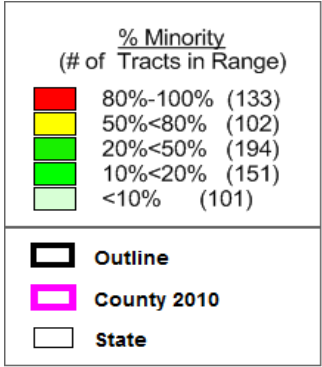
# Determining the REMA

- Discussion with bank
- Application process
- Branching/loan production office strategy
- Marketing efforts
- Broker and realtor relationships
- Map and plot the bank's applications and originations











# REMA Takeaways

- Conduct redlining risk assessment on REMA
- Review lending and marketing
- Plot loans on a map

# Resources

- FDIC Part 345  
<https://www.fdic.gov/regulations/laws/rules/2000-6500.html>
- Interagency Questions and Answers Regarding Community Reinvestment  
<https://www.fdic.gov/regulations/compliance/manual/11/xi-12.1.pdf>
- FFIEC Interagency Fair Lending Examination Procedures & Appendix  
<https://www.ffiec.gov/pdf/fairlend.pdf>  
<https://www.ffiec.gov/pdf/fairappx.pdf>
- Policy Statement on Discrimination in Lending  
<http://www.fdic.gov/regulations/laws/rules/5000-3860.html>
- FDIC Compliance Examination Manual—Fair Lending Laws and Regulations  
<https://www.fdic.gov/regulations/compliance/manual/4/iv-1.1.pdf>
- Fair Lending Scope and Conclusions Memorandum  
<https://www.fdic.gov/regulations/compliance/manual/4/iv-3.1.pdf>
- Fair Lending Technical Assistance Videos  
<https://www.fdic.gov/regulations/resources/director/technical/fair-lending.html>

# Regional Office Contacts

<p><b>Dana Crutchfield</b> Fair Lending Examination Specialist <a href="mailto:dcrutchfield@fdic.gov">dcrutchfield@fdic.gov</a> (415) 808-8084</p>		
<p><b>Won Asfaw</b> Review Examiner <a href="mailto:wafaw@fdic.gov">wafaw@fdic.gov</a> (206) 284-1112 x4868 <i>Hawaii, Nevada, Northern California, and Pacific Islands</i></p>	<p><b>Tamarra Barnes</b> Review Examiner <a href="mailto:tabarnes@fdic.gov">tabarnes@fdic.gov</a> (415) 808-8268 <i>Montana, Oregon, and Wyoming</i></p>	<p><b>Heather Gilliams</b> Senior Review Examiner <a href="mailto:hgilliams@fdic.gov">hgilliams@fdic.gov</a> (415) 808-8110</p>
<p><b>Mike Lapinsky</b> Review Examiner <a href="mailto:mlapinsky@fdic.gov">mlapinsky@fdic.gov</a> (415) 808-8047 <i>Utah</i></p>	<p><b>Matt Sheeren</b> Review Examiner <a href="mailto:mshereen@fdic.gov">mshereen@fdic.gov</a> (415) 808-8234 <i>Alaska, Idaho, and Washington</i></p>	<p><b>Rolin Thomas</b> Review Examiner <a href="mailto:rothomas@fdic.gov">rothomas@fdic.gov</a> (415) 808-8095 <i>Arizona, Southern California</i></p>

# Questions and Answers

Please submit questions to:

[SFConsumerProtection@fdic.gov](mailto:SFConsumerProtection@fdic.gov)