FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION

The Community Reinvestment Act

Overview

- Purpose of the Community Reinvestment Act (CRA)
- Different CRA evaluation types
- How to comply with CRA
- Practical ideas to consider

Background

CRA enacted in 1977 to:

- Encourage financial institutions to meet the credit needs of their community.

Background

- **Focuses on serving the credit needs of:**
  - Low- and moderate-income (LMI) borrowers/geographies;
  - Small businesses; and
  - Small farms.

Background

- **Requires FDIC to evaluate each institution's record of meeting the credit needs of its community, <u>consistent with safe and sound operations.</u>**

Regulation Requirements

Requirements of CRA:

- Public Notice;
- Public File; and
- Data Collection and Reporting for Large Banks.

Assessment Areas

- CRA regulation requires banks to delineate one or more assessment areas within which the FDIC evaluates the bank's record of helping to meet the credit needs of its community.

Assessment Areas

Limitations to Assessment Areas:

- Must consist of whole census tracts;
- May not reflect illegal discrimination;
- May not arbitrarily exclude low- or moderate-income census tracts;
- Must include bank's main office, branches, and deposit-taking ATMs; and
- Must include areas where the bank has originated or purchased a substantial portion of its loans.

Performance Context

Performance Context is the environment in which a bank operates.

It includes a broad range of information:

- **Economic;**
- **Demographic; and**
- **Institution-specific and community-specific.**

Examination Types

- Small Bank
- Intermediate Small Bank (ISB)
- Large Bank
- Community Development Test for limited purpose/wholesale banks
- Strategic Plan

Determining Examination Types

Small Bank

- Assets less than $296 million as of December 31 in either of two prior calendar years

Intermediate Small Bank

- Assets of at least $296 million as of December 31 in both of the prior two calendar years and
- Less than $1.186 billion as of December 31 in either of the prior two calendar years

Asset thresholds effective January 1, 2013

Determining Examination Types

Large Bank

- Assets of at least $1.186 billion as of December 31 in both of the prior two years

Asset thresholds effective January 1, 2013

How are small banks different?

- Staffing and Expertise
- Product Offerings
- Financial Resources

Small Bank Performance Criteria

Lending Test

- Average Net Loan to Deposit Ratio
- Assessment Area Concentration
- Borrower Distribution (by income/revenue)
- Geographic Distribution
- Response to written CRA complaints

ISB Performance Criteria

Two Performance Tests for ISB:

- Lending Test – same five performance criteria utilized for Small Banks
- Community Development Test – flexible approach that measures your bank's responsiveness to community development needs through the combination of loans, investments, and services

ISB Performance Criteria

Must achieve at least Satisfactory on both the Lending and Community Development tests to be rated Satisfactory or better overall.

What is Community Development?

- **Affordable Housing for LMI Individuals/Families**
- **Community Services Targeted to LMI Individuals/Families**
- **Activities that Promote Economic Development**
- **Activities that Revitalize or Stabilize:**
  - Low- or Moderate-Income Census Tracts
  - Designated Disaster Areas
  - Distressed or Underserved Non-Metropolitan Middle-Income Census Tracts
- **Abandoned or Foreclosed Homes**

Large Bank Performance Criteria

Large banks face three separate comprehensive CRA tests:

- Lending Test
- Investment Test
- Service Test

Rating Comments

- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Noncompliance

Discriminatory or Other Illegal Credit Practices

- Discrimination against applicants on a prohibited basis (Equal Credit Opportunity Act / Fair Housing Act)

- Substantive violations of the Home Ownership and Equity Protection Act (HOEPA) provisions of the Truth in Lending Act (TILA)

Discriminatory or Other Illegal Credit Practices

- Violations of Section 5 of the Federal Trade Commission (FTC) Act (Unfair or Deceptive Acts or Practices)
- Violations of Section 8 of the Real Estate Settlement Procedures Act (RESPA)
- Violations of TILA provision regarding a consumer's right of rescission

Impact of Less than Satisfactory CRA Performance

CRA Ratings are considered when a bank applies for:

- Establishment of branches
- Relocation of offices and branches
- Mergers/acquisitions

Potential Consequences:

- Reputation risk – CRA rating is public

CRA Examination Frequency

Gramm-Leach-Bliley Act

Extended examination frequency for banks with total assets of $250 million or less

- CRA rating Satisfactory - at least four years
- CRA rating Outstanding - at least five years

Common Challenges

- My bank is transitioning from being a Small Bank to being an Intermediate Small Bank. What do we need to do to be prepared?

Common Challenges

- My bank purchases a large volume of loans. Are there potential CRA implications to this business strategy?

Practical Ideas

- Develop a CRA Strategy
- Perform Self-Assessments
- Utilize FDIC Resources

Practical Ideas

Develop a CRA Strategy

- Involve employee responsible for CRA compliance
- Assess community needs
- Match products and services to needs
- Consider FDIC's small dollar loan program and Safe accounts

Practical Ideas

Perform Self-Assessments

- Review adequacy of Assessment Area
- Review your bank’s data
- Review your competitor’s data
- Track progress and require Board reporting

Information to Help Banks Comply

- **CRA Regulation (Part 345)**
  http://www.fdic.gov/regulations/laws/rules/2000-6500.html#fdic2000part345

- **Interagency Questions and Answers Regarding CRA**
  http://www.fdic.gov/regulations/laws/rules/2000-6750.html#fdic2000crainter

Information to Help Banks Comply

- **A Guide to CRA Data Collection and Reporting**

  http://www.ffiec.gov/cra/guide.htm

- **FDIC Regional Community Affairs Staff**

  http://www.fdic.gov/consumers/community/offices.html

Resources

- **FDIC's National Survey of Unbanked / Underbanked Households**

  http://www.fdic.gov/householdsurvey

- **Models for small dollar loan programs and Safe deposit accounts**

  http://www.fdic.gov/smalldollarloans

  http://www.fdic.gov/consumers/template/

Resources

- Director's Resource Center
  http://www.fdic.gov/regulations/resources/director/index.html

- Questions? - Please send email to
  supervision@fdic.gov