



FEDERAL DEPOSIT INSURANCE CORPORATION

# **The Community Reinvestment Act**

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# 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, consistent with safe and sound operations.**

# 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**

# Small Banks

## 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](mailto:supervision@fdic.gov)