

Introduction to the Community Reinvestment Act

Housing Action Illinois
2015 *Housing Matters!* Conference
November 5, 2015

Developing Bank Partnerships

Bank Motives for Partnerships:

- Welfare of the community and the bank
- Market Share
- Income
- Risk Mitigation
- Reputation
- Community Reinvestment Act

CRA Basics

The Community Reinvestment Act (CRA)

- Federal law passed in 1977
- Encourages banks to meet the credit needs of the communities they're licensed to serve
- Including low- and moderate-income neighborhoods.
- Consistent with safety and soundness

CRA Basics – Three Regulators

CRA applies to financial institutions regulated by:

- Federal Deposit Insurance Corporation
- Federal Reserve Banks
- Office of the Comptroller of the Currency

CRA Basics – Duties of Regulators

CRA directs regulators ...

to evaluate how well every bank helps to meet the credit needs of its community and to assign one of these ratings to every bank:

- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Noncompliance

CRA Basics - Duties of Regulators

CRA also requires the regulators to:

- Issue a public report containing the facts and data underlying each rating
- Take a bank's rating into account when reviewing certain applications from the bank
- Encourage banks to help meet credit needs in their communities

Types of Banks Under CRA

- **Large Banks**

- > \$1.221 billion*
- Report small business loans annually
- 5% - 10% of banks

- **Intermediate Small Banks (ISB)**

- \$305 million - \$1.221 billion*
- 20% - 25% of banks

- **Small Banks**

- <\$305 million in assets*
- About 70% of federally regulated financial institutions

**effective 1/1/2015: thresholds updated annually.*

Large Bank CRA Exam

Lending Test Evaluates

- # and \$ of
 - Home mortgage
 - Small business
 - Small farm loans
 - Made in its community
- Income level areas where those loans were made
- Income levels of borrowers
- CD loans
- Flexible and innovative lending practices
- *50% of rating*

Investment Test

- # and \$ of investments with a CD purpose
- Innovative, complex, responsive and availability otherwise
- *25% of rating*

Service Test

- Retail services provided to people and areas of different income levels
- CD services
- *25% of rating*

Intermediate Small Bank CRA Exam

Lending Test

- # and \$ of
 - Home mortgage
 - Small business
 - Small farm loansMade in the bank's community
- Income level of the areas where the loans were made
- Income levels of borrowers
- Community development loans
- Flexible and innovative lending practices

CD Test

- Loans
- Investments
- Services
- Responsiveness an important consideration

The bank must be rated Satisfactory on both tests to be Satisfactory overall

Small Bank CRA Exam

- Lending Test = 100% of rating
- Five evaluation criteria:
 - Loan to deposit ratio
 - In / out ratio
 - Borrower distribution
 - Geographic distribution
 - Responses to complaints



CRA Basics – Key Terms

- **Low- and Moderate-Income**
 - < 80% of area median income
- **Community Development**
 - Affordable Housing for LMI
 - Community Services for LMI
 - Economic Development - job creation for LMI
 - Revitalize & Stabilize
 - LMI geographies
 - Distressed or Underserved geographies
 - Neighborhood Stabilization Program Activities

CRA Basics – Key Terms

- **Assessment Area**

Geographic area in which a bank is evaluated for CRA

- **Primary Purpose**

Either more than 50% LMI beneficiaries

Or express, bona fide intent

- **Performance Context**

Local economic conditions and credit and CD needs and the capacity of a bank to meet those needs

Performance Context

Banks are evaluated for CRA based on the needs and economic conditions of their markets and their capacity to meet those needs – their **Performance Context**.

Context – What You Can Do

- Help Banks
 - Maintain awareness of CD needs
 - Identify opportunities to become involved
 - Target investments and services to LMI
- Help Regulators
 - Identify credit needs
 - Understand local priorities



Concentric Circles of Opportunity

- Actual Market Share
- Market Share Available with Extra Effort
- Deals Bankable if Enhanced
- Universe of Economic Needs



Steps to Partnerships

- Understand CRA
- Understand the local market
- Understand local banks
- Identify your sources of influence
- Talk with bankers

QUESTIONS



Questions or Comments

Contact Information:

Paul Ginger, District Community Affairs Officer
Office of the Comptroller of the Currency

paul.ginger@occ.treas.gov

312-360-8876

Regulatory Resources on CRA

- Federal Reserve Bank of Atlanta, “*Community Reinvestment: Does Your Bank Measure Up?*” an excellent online introduction to CRA

<https://www.frbatlanta.org/banking/publications/community-reinvestment-act.aspx>

- Federal Financial Institutions Examination Council Extensive information on all aspects of CRA

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

- Comptroller of the Currency Community Reinvestment Act webpage:

<http://www.occ.treas.gov/topics/compliance-bsa/cra/index-cra.html>

Regulatory Resources on CRA

The following two FDIC web sites are useful for researching the banks gathering deposits and otherwise doing business in your area:

- FDIC Institution Directory <http://www2.fdic.gov/idasp/>
- FDIC Summary of Deposits <http://www2.fdic.gov/sod/>

- Comptroller of the Currency Community Affairs (see our publications on a wide variety of community development topics):
<http://www.occ.treas.gov/topics/community-affairs/index-community-affairs.html>

Other CRA Resources

Both of the following publications were issued before the changes to CRA that were made in 2005 and that created the Intermediate Small Bank category, but both still contain useful overall approaches to developing relationships with banks.

- Housing Assistance Council, *“A Guide to the Community Reinvestment Act for Housing in Rural America”*
<http://www.ruralhome.org/storage/documents/craguide.pdf>
- The Finance Project, *“Using the Community Reinvestment Act to Help Finance Initiatives for Children, Families and Communities”*
(no longer online)