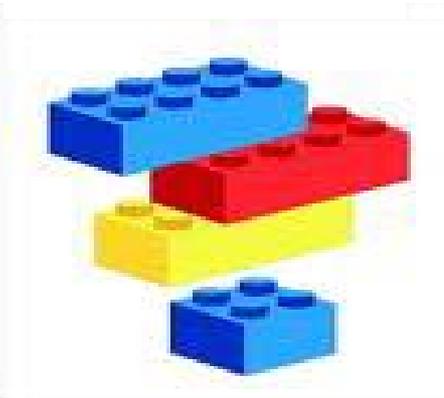
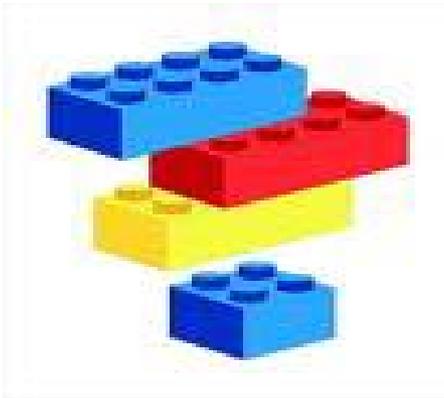


# CRA Basics



# Objectives

- Purpose of CRA
- Enforcement
- Terms and definitions
- Types of CRA exams
- Technical requirements
- Ratings

# Purpose of CRA

- Encourage banks and thrifts to help meet the credit needs of their entire communities, including:
  - low- and moderate-income neighborhoods and tracts
  - businesses/farms of different sizes and borrowers of different income levels
- Consistent with safe and sound operations
- Implemented by Regulation BB

# Enforcement

- “Corporate leverage”
  - Rating considered when evaluating:
    - applications for branches
    - office relocations
    - mergers
    - consolidations
    - purchase and assumption transactions
  - May deny or condition applications based on CRA rating

# Definitions

- Assessment area
- Geography
- Community Development
- Qualified investments
- Median Family Income
- LMI
- Small Business/Small Farm
- Primary Purpose



# Assessment area

- Area in which CRA performance is assessed
  - Not necessarily the same as the market, trade or service areas

# Assessment area

- One or more MSAs or other contiguous political subdivisions
  - Counties
  - Cities
  - Towns

# Assessment area

- Must include geographies that include:
  - main office
  - branches
  - deposit taking ATMs
  - surrounding areas in which a substantial portion of loans have been originated or purchased
- Bigger is better

# Assessment area

- May adjust AA boundary to include portion of a political subdivision that it can reasonably expect to serve



# Assessment area

- Limitations
  - Must consist of whole geographies (census tracts)
  - May not reflect illegal discrimination
  - May not arbitrarily exclude LMI areas
  - May not extend substantially beyond MSA or state boundary, except for multi-state MSA
    - If it does, need to establish multiple AAs

# Geography

- Census tract delineated by the U.S. Bureau of the Census



# Community development

- Affordable housing for LMI individuals
- Community services for LMI individuals
- Activities that promote economic development by financing small businesses/farms

# Community development

- Activities that revitalize or stabilize
  - LMI geographies
  - Designated disaster areas
  - Distressed or underserved non-metro middle income areas designated by regulators, based on
    - poverty rates
    - population size, density and dispersion

# Community development

- Area revitalization and stabilization
- Low- or moderate-income geographies;
- Designated disaster areas; or
- Distressed non-metropolitan middle-income geographies
- Underserved non-metropolitan middle-income geographies

# Community development

- CD activity must benefit:
  - The assessment area
  - A broader or statewide regional area that includes the assessment area

# Community development loan

- Primary purpose = CD
  - except in the case of a wholesale or limited purpose bank
- Not also claimed by bank or affiliate for CRA consideration as a home mortgage, small business, small farm, or consumer loan
  - Exception for multifamily dwelling loan
  - Exceptions for certain banks subject to the intermediate small bank test
- Included in CD Test for ISB evaluations, but Lending Test for LB evaluations

# Community development service

- Has as its primary purpose community development;
- Related to the provision of financial services; and
- Has not been considered in the evaluation of the financial institution's retail banking services

# Qualified investments

- Lawful investments, deposits, membership shares or grants
- Primary purpose = community development

# Median family income (MFI)

- An annual income figure for which there are as many families with incomes below that level as there are above that level
  - For metro areas use the MSA's Median Family Income
  - For rural areas use the Statewide Non-metropolitan Median Family Income
- For borrower income analysis use HUD's annually adjusted Median Family Income

# Low- and moderate-income (LMI)

- Low-income
  - individual income or tract income that is less than 50% of the area median income
- Moderate-income
  - individual income or tract income that is at least 50% and less than 80% of the area median income

# Small business

- Gross annual revenues  $\leq$  \$1 million
- Small business loan
  - original amount  $\leq$  \$1 million
  - reported on Call Report in “Loans secured by nonfarm nonresidential properties” or “Commercial and industrial loans.”

# Small farm

- Farm with gross annual revenues  $\leq$  \$1 million
- Small farm loan
  - Reported on Call Report in “loans to small farms”
    - original amounts  $\leq$  \$500 thousand, and
    - either secured by farmland, or classified as loans to finance agricultural production and other loans to farmers

# Primary purpose

- A majority of the dollars of the activity are tied to one or more of the four CD purposes; **or**
- The expressed, bona fide intent of the activity is CD; **and**
- The activity is structured to achieve the CD purpose; **and**
- The activity accomplishes, or is reasonably certain to accomplish, the CD purpose

# Technical requirements

- CRA Public Notice
- Public File
- Delineation of Assessment Area



# CRA public notices

- Must be displayed in the public lobby of each of its offices
- Details the public's right to review the institution's file and CRA-related comments.
- § \_\_\_\_.44



# Public file

- Full file
  - At the main office
  - At one office in each state
- Limited file at branch locations
  - Provide all information relative to the branch's assessment area within five days of request

# Public file

- All institutions:
  - All written comments for the current year and two previous year
  - The most recent public evaluation
  - List of all branches - address and geographic
  - List of services
  - Map of Assessment Areas
  - Last two years HMDA Disclosure Statement



# Public file

- Small Institutions - additional requirements
  - Loan to deposit ratio for each quarter of the prior calendar year
  - Information required by other institutions if it has chosen to be evaluated under the lending, service and investment tests



# Exam types

- Small bank
- Intermediate small bank (ISB)
- Large bank
- Wholesale and Limited Purpose
- Strategic Plan



# Exam types

- Small bank  
 $<$  \$274 million in assets as of 12-31 of EITHER of the prior 2 years
- Intermediate small bank (a subset of small banks)  
 $\geq$  \$274 million as of Dec 31 of BOTH of the prior 2 years, but  $<$  \$1.098 billion as of Dec 31 of EITHER of the prior 2 years
- Large bank  
 $\geq$  \$1.098 billion as of Dec 31 of BOTH of the prior 2 years

Note: Size of a bank's holding company no longer matters.  
Thresholds are adjusted annually based on the CPI

# Small bank

- Banks with assets under \$274 million
- Lending Test:
  - Loan to deposit ratio
  - Lending inside and outside of the assessment area
  - Distribution of loans by geography
  - Distribution of loans by borrower income and revenue size
  - Response to written complaints

# Small bank

- Investments and services considered at bank's option

# Intermediate small bank (ISB)

- Banks with assets  $\geq$  \$274 million, but  $<$  \$1.098 billion
- Evaluated under
  - Small bank lending test, AND
  - Community development test
    - # & \$ of:
      - community development loans
      - Qualified investments
      - Community development services
    - Responsiveness to CD needs



# ISB

- Must be rated at least Satisfactory on lending and CD tests to qualify for overall Satisfactory rating
- Small or ISB may elect evaluation under large bank test

# Large bank

- Assets  $\geq$  \$1.098 billion
- Exam criteria:
  - Lending
    - Does not consider loan-to-deposit
    - Data collected
  - Investments
  - Services
    - Includes retail service delivery

# Ratings

- Outstanding
- Satisfactory
- Needs to Improve
- Substantial noncompliance



# Small bank ratings

- Satisfactory
  - Bank meets the standards for satisfactory rating
  - Exceptionally strong performance with respect to some of the standards can compensate for weak performance in others.

# Small bank ratings

- Satisfactory
  - Reasonable loan-to-deposit ratio
  - Majority of loans in assessment area
  - Reasonable loan distribution to borrowers of different income levels and businesses/farms of different sizes
  - Reasonable geographic distribution
  - Appropriate record of response to complaints

# Small bank ratings

- Outstanding
  - Bank meets the standards for Satisfactory and materially exceeds those standards in some or all of the criteria, or
  - Bank meets the standards for Satisfactory and its CD activities supplement its performance sufficiently

# Small bank ratings

- Needs to Improve or Substantial Noncompliance
  - Rating depends on the degree to which the bank's performance has failed to meet the standards for a Satisfactory rating
    - Generally driven by low lending levels, low penetration, or fair lending violations

# ISB ratings

- Satisfactory
  - Bank receives at least a Satisfactory rating on **both** the lending and CD tests

# ISB ratings

- Outstanding
  - Bank is rated Outstanding on both the lending and CD tests, or
  - Bank is rated Outstanding on one test and at least Satisfactory on the other test

# ISB ratings

- Needs to Improve or Substantial Noncompliance
  - Rating depends on the degree to which the bank's performance has failed to meet the standards for a Satisfactory rating on a test

# Large bank ratings

- Lending, Investment, and Services tests are assigned a numerical value
- Composite rating = sum component ratings
- Lending must be at least Low-Satisfactory to qualify for an overall rating of Satisfactory or better

# Large bank ratings

<b>Component Test Rating</b>	<b>Lending</b>	<b>Investment</b>	<b>Service</b>
Outstanding	12	6	6
High Satisfactory	9	4	4
Low Satisfactory	6	3	3
Needs to Improve	3	1	1
Substantial Noncompliance	0	0	0

# Large bank ratings

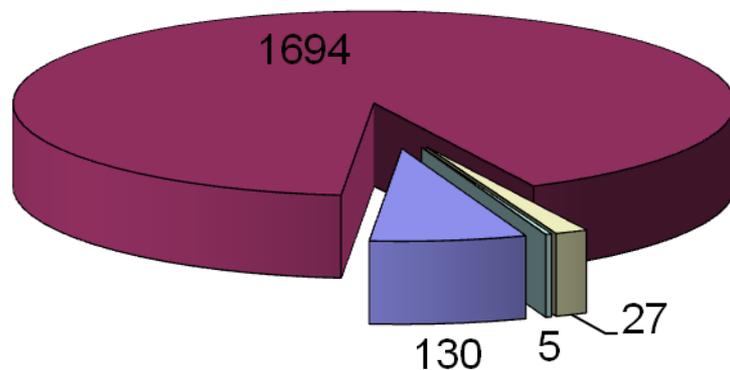
<b>Points</b>	<b>Composite Assigned Rating</b>
20+	Outstanding
11 – 19	Satisfactory
5 – 10	Needs to Improve
0 – 4	Substantial Noncompliance

# All banks

- Effect of discriminatory or other illegal credit practices
  - Adversely affects CRA rating

# 2009 CRA ratings

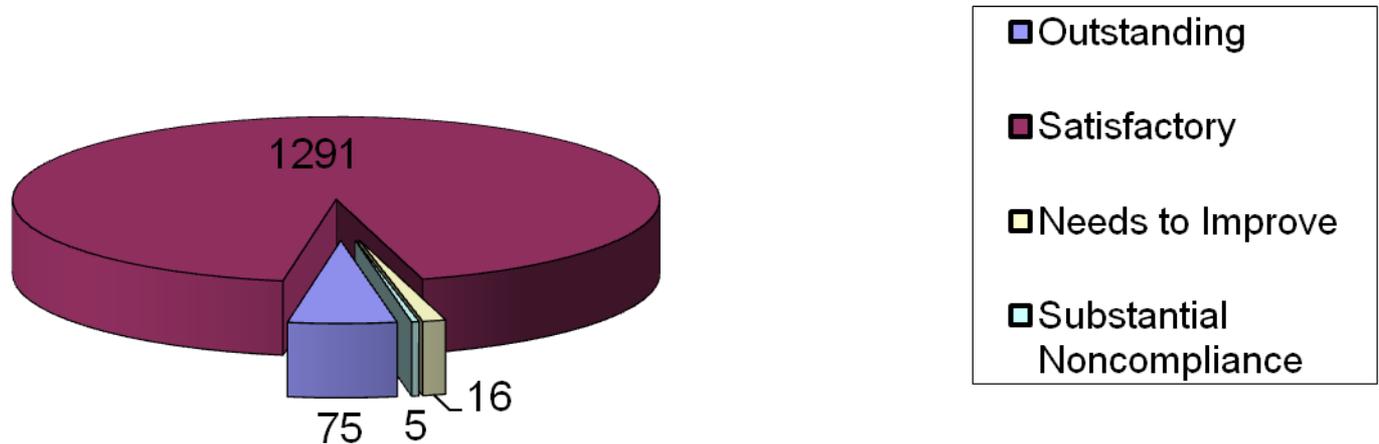
## All Banks



- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Noncompliance

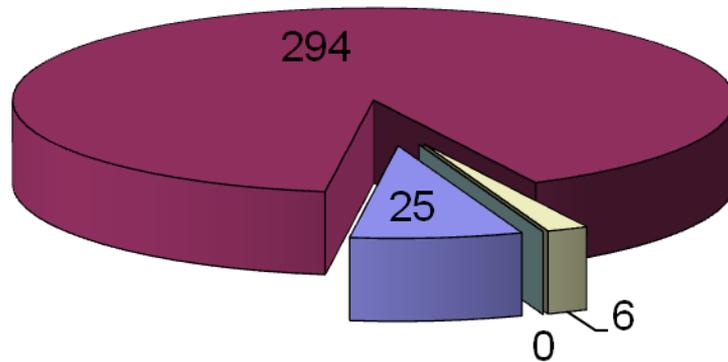
# 2009 CRA ratings

## Small Banks



# 2009 CRA ratings

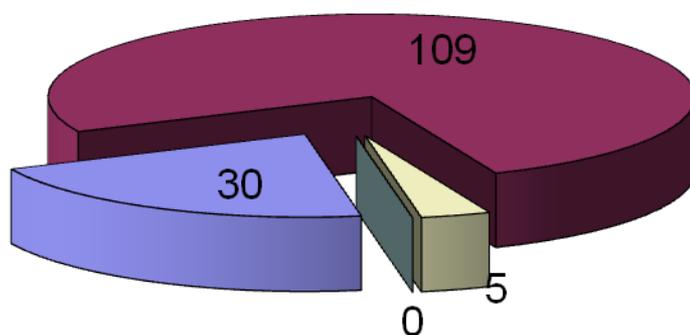
## ISBs



- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Noncompliance

# 2009 CRA ratings

## Large Banks



- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Noncompliance

# References

- Regulation BB
- FFIEC
- CRA Q&As