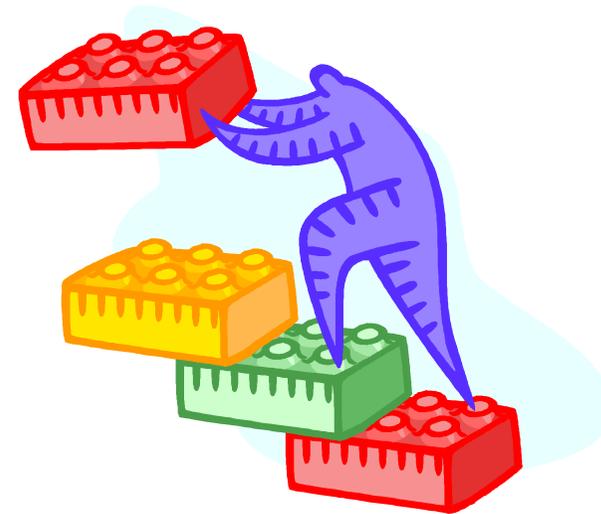


CRA Basics



Objectives

Upon completion of this session you should be more familiar with:

- The purpose of the CRA
- Terms and definitions under the CRA regulation
- Technical requirements of the regulation

Purpose of CRA

Encourage banks and thrifts to help meet the credit needs of their *entire* communities, in particular, historically underserved people and places

- Low- and moderate-income people
- Low- and moderate-income geographies
- Certain non-metropolitan middle-income *geographies*, or designated *disaster areas*
- Must be consistent with prudent, safe, and sound business operations

Purpose of CRA *(continued)*

CRA Statute

- Enacted to prevent redlining and to encourage financial institutions to help meet the credit needs of all segments of their communities, including low- and moderate-income (LMI) neighborhoods.

What is CRA?

The CRA requires regulators of insured depository institutions to assess the record of each bank and thrift in helping to fulfill their obligations to the community and to consider that record in evaluating applications for charters or for the approval of bank mergers, acquisitions, and branch openings.

- An affirmative obligation
- Enforced under implementing regulations
- Enforcement primarily through application process - CRA contains no civil or criminal liability provisions

What is CRA? *(continued)*

- CRA applies to federally insured depository institutions: national banks, thrifts, and state-chartered commercial and savings banks
- The federal and state financial institution regulators are:
 - Board of Governors of the Federal Reserve System (FRB)
 - Office of the Comptroller of the Currency (OCC)
 - Federal Deposit Insurance Corporation (FDIC)

What is CRA? *(continued)*

Banks are evaluated based on asset size using specific criteria* for:

- Small Bank: An institution that, as of December 31 of either of the prior two calendar years, had assets of less than \$1.216 billion
- Intermediate Small Bank (ISB): A small institution with assets of at least \$304 million as of December 31 of both of the prior two calendar years and less than \$1.216 billion as of December 31 of either of the prior two calendar years
- Large Bank: An institution with assets of at least \$1.216 billion
- Wholesale & limited purpose banks
- Banks with approved CRA strategic plans

**As of January 1, 2016. These thresholds are updated annually.*

Safe and Sound Operations

- Regulators mandate that banks can meet CRA responsibilities with safe and sound loans, investments, and services.
- Regulators anticipate/expect that banks can find CRA eligible projects in their community.
- Banks are permitted to develop and apply flexible underwriting standards for loans that benefit low- or moderate-income geographies or individuals, only if consistent with safe and sound operations.

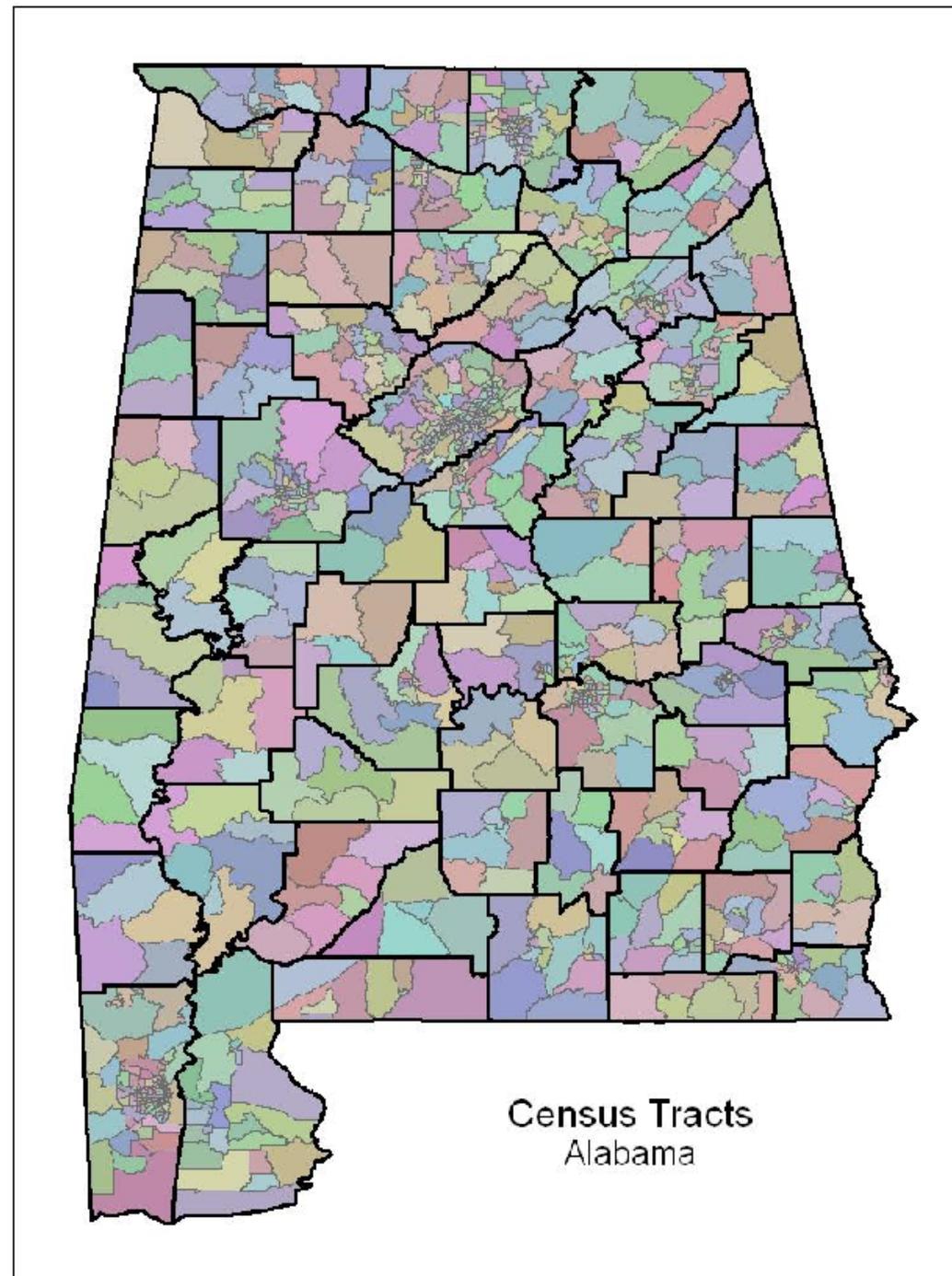
Definitions

- Census Tract
- Geography
- Area Median Family Income (AMI)
- Low- and Moderate-Income (LMI)
- Assessment Area (AA) delineation

Census Tract

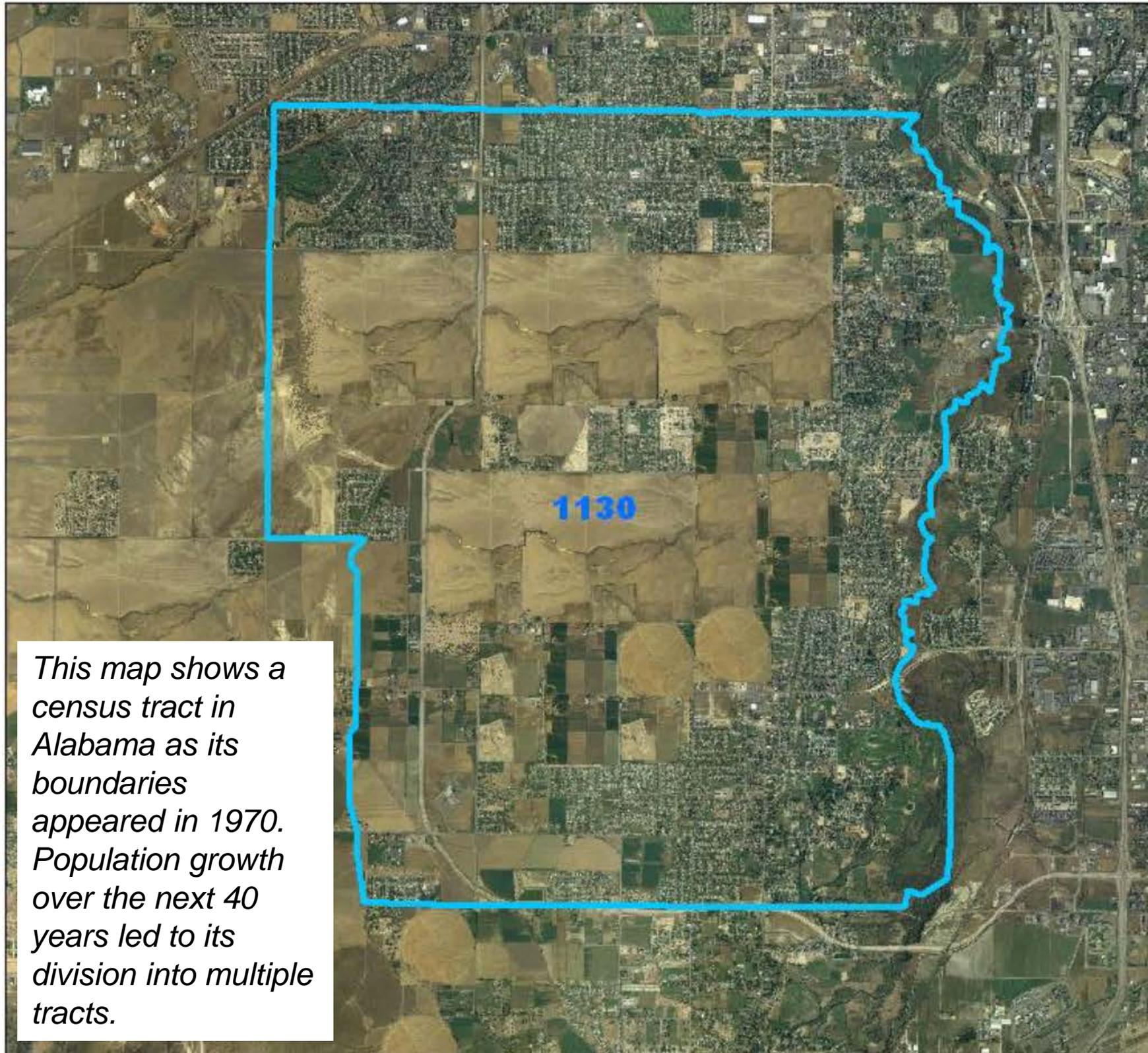
- Census tracts are small, relatively permanent statistical subdivisions of a county
- Uniquely numbered in each county with a numeric code
- Census tracts average about 4,000 inhabitants
- Minimum Population—1,200
- Maximum Population—8,000

Map of census tracts



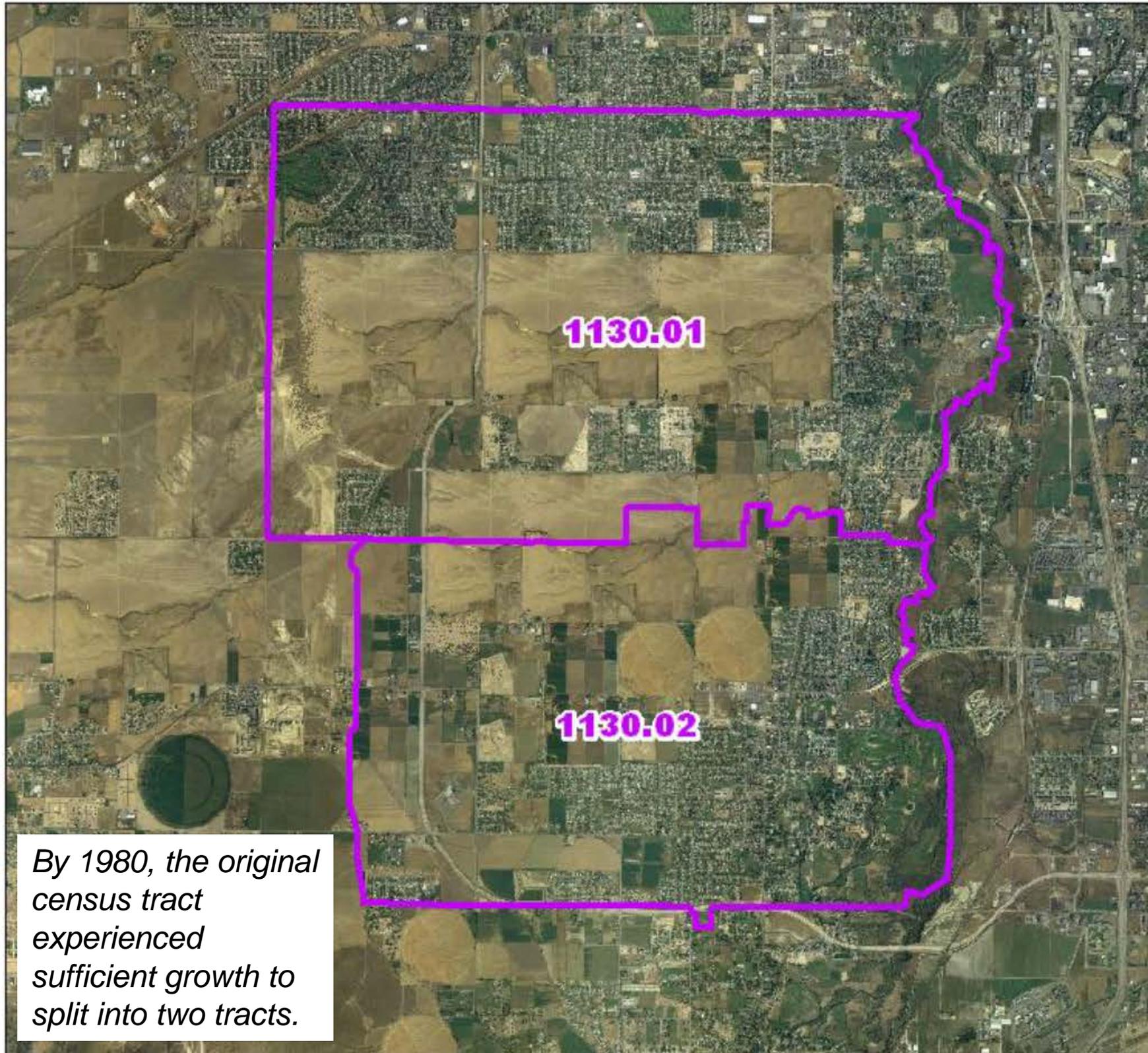
This map shows the state of Alabama, with each of its counties outlined in black. The multicolored areas within the county boundaries indicate the census tracts located inside that county.

1970 Census Tracts



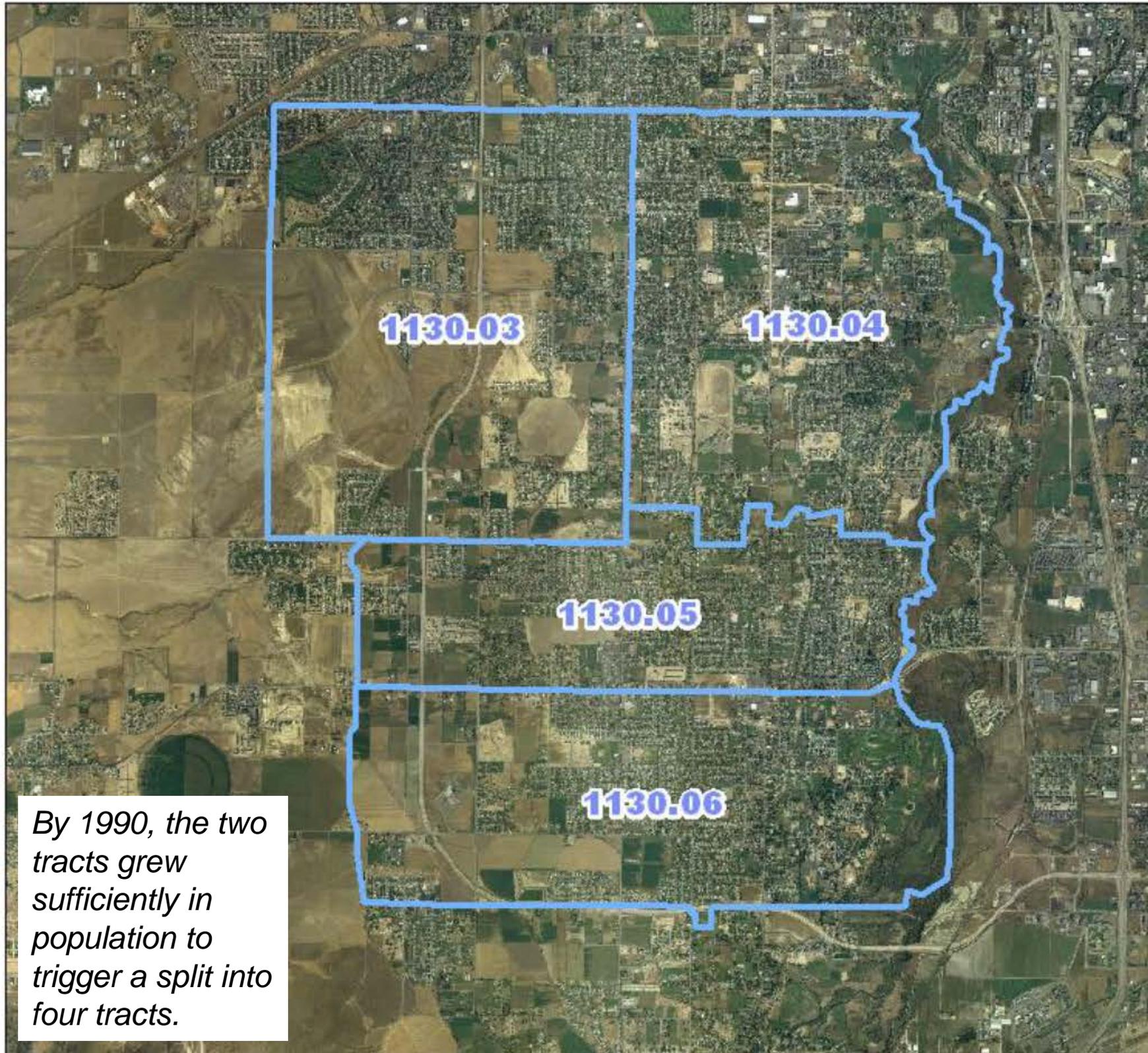
This map shows a census tract in Alabama as its boundaries appeared in 1970. Population growth over the next 40 years led to its division into multiple tracts.

1980 Census Tracts



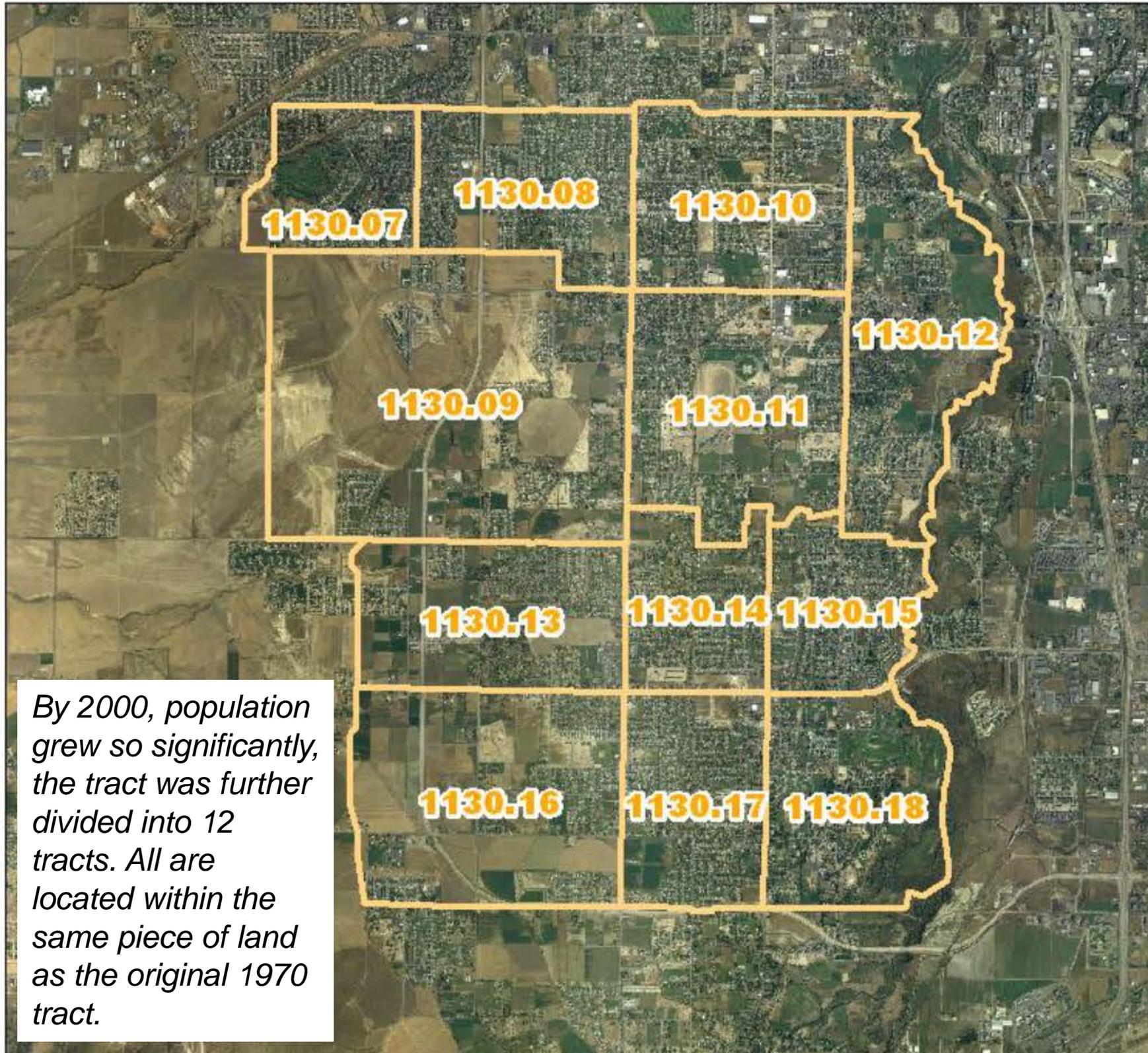
By 1980, the original census tract experienced sufficient growth to split into two tracts.

1990 Census Tracts



By 1990, the two tracts grew sufficiently in population to trigger a split into four tracts.

2000 Census Tracts



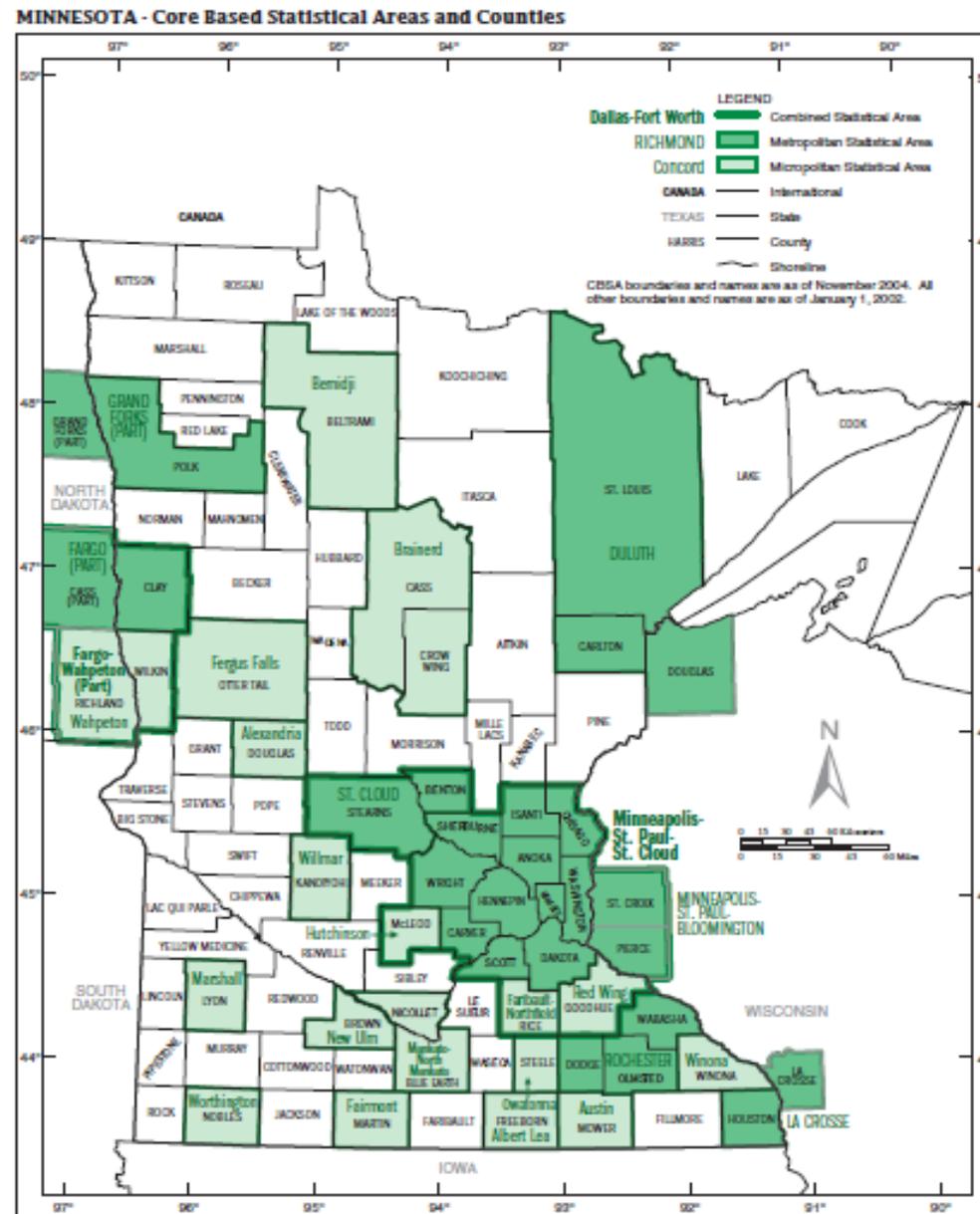
By 2000, population grew so significantly, the tract was further divided into 12 tracts. All are located within the same piece of land as the original 1970 tract.

Geography

- **Geography:** a census tract delineated by the United States Census Bureau in the most recent decennial census
- **MSA:** metropolitan statistical area as defined by the Office of Management and Budget (OMB)
- **Nonmetropolitan areas:** areas not located in an MSA



Minnesota State Map by County MSAs



U.S. DEPARTMENT OF COMMERCE Economics and Statistics Administration U.S. Census Bureau

Area Median Family Income (AMI)

- An annual income figure for which there are as many families with incomes below that level as there are above that level
- The median family income *for an MSA*, if a person or geography is located in an MSA
- The statewide *nonmetropolitan* median family income, if a person or geography is located outside an MSA.

Area Median Family Income (AMI)

(continued)

- Area Median Family Income (AMI) is used to:
 - Evaluate if an MSA or non-MSA *geography* is considered low-/moderate-/middle-/upper-income (American Community Survey, or ACS)
 - Evaluate if *borrowers* in an MSA or non-MSA are considered low-/moderate-/middle-/upper-income (Federal Financial Institutions Examination Council, or FFIEC)

Low- and Moderate-Income (LMI)

- *Low-income* = a geography (census tract) or borrower whose income is less than 50% of the AMI;
- *Moderate-income* = a census tract or borrower whose income is at least 50%, but less than 80%, of the AMI;
- *Middle-income* = a census tract or borrower whose income is at least 80%, but less than 120%, of AMI;
- *Upper-income* = a census tract or borrower whose income is equal to, or 120% of, AMI.

MN: MSA & Non-MSA Comparison

Hennepin County: MSA \$82,300 (AMI)**

- Low <\$41,150
- Moderate \$41,150- <\$65,840
- Middle \$65,840 - <\$98,760
- Upper= or >\$98,760

Beltrami County: Non-MSA \$61,700 (AMI)

- Low <\$30,850
- Moderate \$30,850- <\$49,360
- Middle \$49,360 - <\$74,040
- Upper= or >\$74,040

**2013 FFIEC Census Report

Assessment Area Definition

An assessment area is:

- An area that a bank defines as its service area, e.g., where it concentrates its distribution of lending, investments, and services
- The service area must be based on geography (except in the case of primarily serving military personnel)

Assessment Area Delineation

Banks are required to delineate their assessment areas based on the following:

- Must include geographies where an institution has its main office and its branches that take deposits, or has deposit-taking ATMs...
- As well as surrounding areas in which it has originated or purchased a substantial portion of its loans
- Institutions must include whole geographies (i.e., census tracts) in their assessment areas and generally should include entire political subdivisions
- A political subdivision includes:
 - One or more MSAs
 - One or more contiguous counties, cities, or towns

Townships and Indian Reservations

- Townships and Indian reservations are political subdivisions for CRA purposes
- If the boundaries of townships or Indian reservations are not consistent with the boundaries of census tracts (geographies) in the area, the bank must add the portion of the reservation or township that lies outside of the banks' delineated assessment area(s) in order to maintain whole geographies

Assessment Area Delineation

(continued)

Limitations on Delineation:

- Must include only whole geographies
- Must not reflect illegal discrimination
- May not arbitrarily exclude LMI geographies
- Generally, may not extend substantially beyond an MSA or state boundary

