CRA - Defining Community Development
FOUR COMPONENTS OF COMMUNITY DEVELOPMENT

1. **Affordable housing** for low- or moderate-income (LMI) individuals

2. **Community services** for LMI individuals

3. **Activities that promote economic development by providing financing** for small businesses or small farms

4. **Activities that revitalize or stabilize** LMI geographies, distressed or underserved non-metro middle-income areas, or designated disaster areas.
Community Development: Definition and Components

1. Affordable housing for low- or moderate-income individuals (single & multifamily)

2. Community services targeted to low- or moderate-income individuals

3. Activities that promote economic development by providing financing for small businesses or small farms that:
   - meet SBA or Small Business Investment Company (SBIC) size eligibility requirements or
   - have gross annual revenues of $1 million or less
4. Activities that **revitalize or stabilize:**
   - LMI geographies
   - designated disaster areas
   - **distressed** or **underserved** nonmetropolitan middle-income geographies*

*Lists of these geographies are updated annually and available at ffiec.gov.*
Distressed

- Unemployment at least 1.5 times the national average
- Poverty rate of 20% or more
- Population loss of 10% or more between the previous and most recent decennial census, or
- A net migration loss of 5% or more over the 5-year period preceding the most recent census
Underserved

- Must meet population size, density, and dispersion requirements
- Distant from a population center
- Likely to have difficulty in financing the costs of essential community needs
Community Development: Eligible activities

In order to receive consideration under CRA for community development (CD), a bank must engage in any or all of the following *three activities* that support CD:

a) CD loans
b) Qualified investments
c) CD services
In order to receive community development consideration under CRA for loans, investments, and/or services, their primary purpose must be consistent with the definition of community development (the five components of CD).

CRA does not specify dollar amounts or percentage requirements, since credit needs vary among communities.
Community Development: Loans

- Must have CD as their primary purpose
- Must serve LMI persons or geographies
- Can be direct or indirect, and:
  - Have not been reported or collected by the bank or an affiliate for consideration as a small business, small farm, or consumer loan, or a loan under the Home Mortgage Disclosure Act
    - Unless it is a multi-family loan (five or more units)
  - Benefits the bank’s assessment area, or a broader statewide or regional area that includes the bank’s assessment area(s)
Examples of CD Loans:

- Affordable housing rehabilitation and construction
- Loans to nonprofit organizations
- Loans in support of community facilities
- Loans to CDFIs or CDCs or minority- and women-owned financial institutions
- Loans to governmental entities
- Loans to finance environmental clean-up or redevelopment of an industrial site
Community Development: Qualified Investments

Qualified Investments

- Direct or indirect
- Serve LMI
- Have CD as primary purpose
Examples of qualified investments:

- Investments, grants, deposits, or shares in or to:
  - Financial intermediaries
  - Minority- or women-owned banks
  - Community development financial institutions (CDFIs)
  - Organizations engaged in affordable housing
  - Organizations promoting economic development by financing small businesses
  - Low-Income Housing Tax Credits
  - New Markets Tax Credits
Community Development Services

- Have CD as their primary purpose
- Can be related to service on the board of directors of an organization engaged in community development activities
- Have not been considered as retail services
Community development service examples:

- Technical assistance to organizations serving LMI housing needs
- Loaned executive program
- Serving on a loan committee for a community development financial institution
- Credit counseling
- Providing financial education to LMI individuals
Defining Community Development: Flexible Implementation

- Since credit needs vary among communities, the statute and regulations don’t specify what an institution must do to meet its community’s credit needs.

- No mixture of loans, grants, or other types of assistance is specified.
Defining Community Development:
Conclusion

Concluding points:
- Activity must have a primary purpose consistent with the definition of community development, e.g., one of the five CD hooks.
- Banks generally have a tracking mechanism in place to capture community development activities.
- Banks have to be prepared to support why CD activity qualifies for CRA.