

# CRA - Defining Community Development

# Community Development: Definition

## **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

# Community Development: Definition and Components *(continued)*

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](http://ffiec.gov).*

# Community Development: Definition and Components *(continued)*

## **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

# Community Development: Definition and Components *(continued)*

## **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**

# CD: Primary Purpose

- 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)



# Community Development: Loans

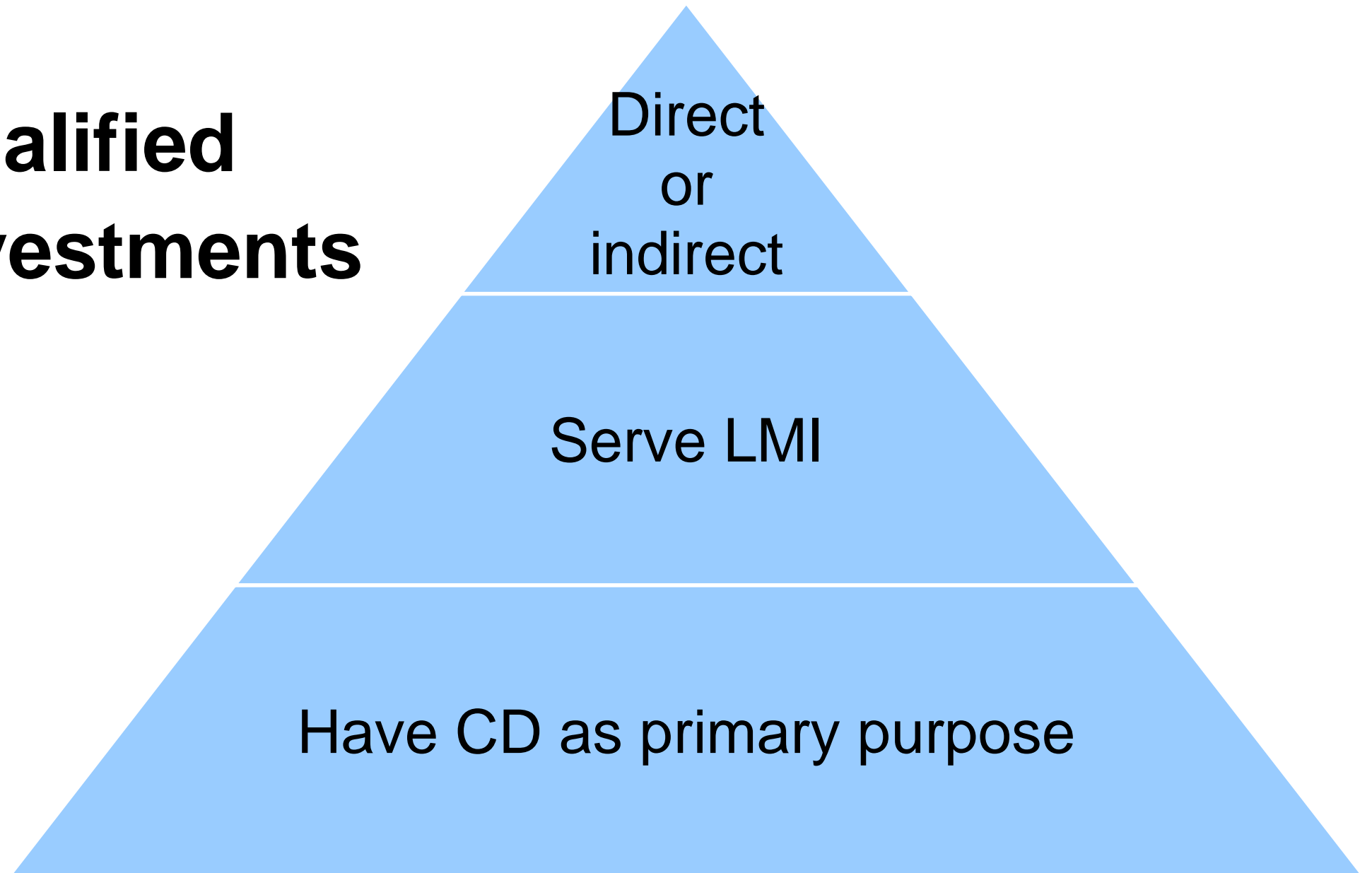
*(continued)*

## **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



# Community Development: Qualified Investments *(continued)*

## **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 Services: *(continued)*

## **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.