

# Intermediate Small Bank CRA Examination

**Date: November 29, 2012**

**Time: 9:00 am – 10:30 am MST**

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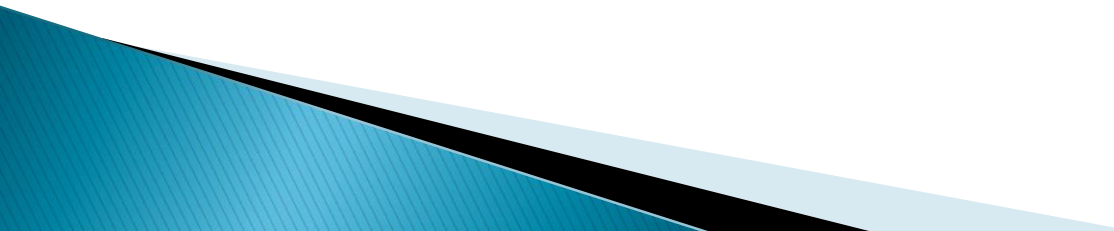
- ▶ **Federal Reserve Bank of Kansas City**
- ▶ **Office of the Comptroller of the Currency**
- ▶ **Federal Deposit Insurance Corporation**

# Agenda

- ▶ Introduction
- ▶ CRA History
- ▶ Definitions
- ▶ Intermediate Small Bank (“ISB”)
  - Lending Test
  - Community Development Test
- ▶ Best Practices
- ▶ The Exam Process – Are you ready?

# CRA History

## 1960's and 1970's

- ▶ 1960's: Civil rights movement and related efforts to eliminate housing discrimination;
  - ▶ Early 1970's: Community activists began to protest redlining practices;
  - ▶ 1975: Home Mortgage Disclosure Act (HMDA) passed by Congress – gave communities a tool to fight disinvestment in their communities;
  - ▶ 1977: Congress passed the Community Reinvestment Act; and
  - ▶ Each agency issued their own regulation. Reg BB applied only to banks whose primary regulator is the Federal Reserve.
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# CRA History

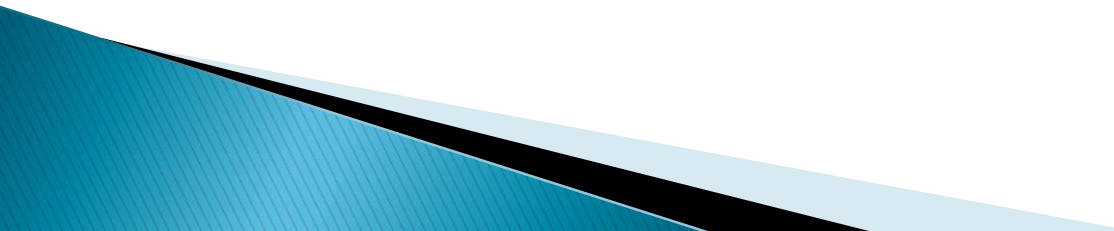
CRA passage did two things:

- ▶ Addressed the illegal practice of redlining; and
- ▶ “Encourages” regulated financial institutions to meet the credit needs of all the communities where they are chartered to do business.

CRA activities **MUST** be consistent with, safe, sound and prudent banking practices.



# CRA History – 1990's

- ▶ Bankers criticized CRA as burdensome;
  - ▶ Community activists criticized the regulators for not aggressively penalizing poor CRA performance;
  - ▶ 1993 – 1994: Nationwide hearings on CRA; proposed regulatory changes;
  - ▶ 1995: New regulations were established; and
  - ▶ 1996: New CRA reporting requirements became effective.
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# Intermediate Small Bank Definitions

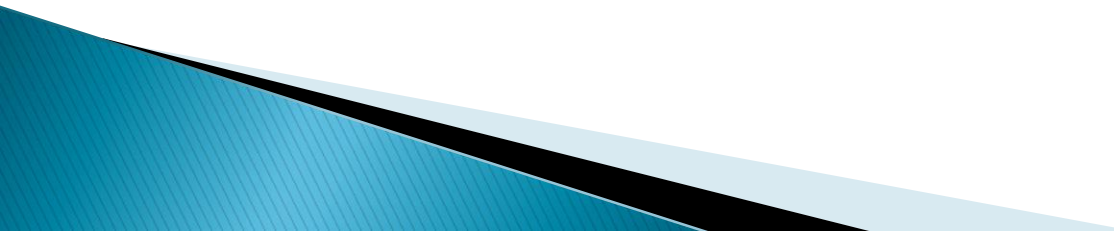
- ▶ “Intermediate small bank” means an institution with assets of at least \$290\* million as of December 31 of both of the prior two calendar years, and less than \$1.160\* billion as of December 31 of either of the prior two calendar years.

\*Thresholds are as of 12/31/11

# Performance Context

- ▶ What does bank management know about the local market and economy, relative to community development opportunities?
- ▶ Has loan demand declined or changed?
- ▶ Have bank underwriting criteria become more conservative?
- ▶ Is the bank seeing deterioration in consumer credit scores/credit histories?
- ▶ Is the bank facing any liquidity or other constraints?
- ▶ Has your business strategy or product offering changed as a result of current economic conditions?
- ▶ Are there any other relevant factors that may impact your capacity or ability?

# What Are The Performance Factors?

- ▶ Loan-to-Deposit ratio;
  - ▶ Lending in assessment area;
  - ▶ Lending to borrowers of different incomes and to businesses of different sizes;
  - ▶ Geographic distribution of loans;
  - ▶ Responses to complaints
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# Intermediate Small Bank Criteria

In addition to the lending test, an intermediate small bank's community development performance also is evaluated pursuant to the following criteria:

- ▶ Number and amount of community development loans;
- ▶ Number and amount of qualified investments;
- ▶ Extent to which the bank provides community development services; and
- ▶ Bank's responsiveness to identified community development lending, investment, and services needs.

# Community Development

- ▶ Loans
- ▶ Qualified Investments
- ▶ Services

# Community Development

Interagency CRA Q&A dated March 11, 2010, §.12(g) discusses the definition of Community Development, and

§.12(h)-8 answers the question: *What is meant by the term “primary purpose” as that term is used to define what constitutes a community development loan, a qualified investment or a community development service?*

# Community Development

Community development as defined in the CRA regulation:

- ▶ Affordable housing for low- or moderate-income individuals;
- ▶ Community services targeted to low- or moderate-income individuals;
- ▶ Activities that promote economic development by financing small businesses or small farms;
- ▶ Activities that revitalize or stabilize low- or moderate-income areas, designated disaster areas, or underserved; or, distressed nonmetropolitan middle-income areas.

# Community Development Continued

- ▶ Loans, investments, and services that support, enable, or facilitate Neighborhood Stabilization Program (NSP) eligible activities in designated target areas.

# Community Development

Two approaches to determine primary purpose:

- ▶ First, does a majority of the dollars or beneficiaries of the activity benefit from the community development activity?
- ▶ Second, if less than majority, answer the following questions:
  - (1) Is the express, bona fide intent of the activity consistent with the CRA definition of community development?
  - (2) Is the activity structured to achieve that purpose?
  - (3) Does the activity accomplish, or is reasonably certain to accomplish, that purpose?

# Examples of CD Loans?

Per §\_\_\_.12(h)-1, includes loans to:

- Borrowers for affordable housing rehabilitation and construction, including construction and permanent financing of multifamily rental property serving low- and moderate-income persons;
- Borrowers to construct or rehabilitate community facilities that are located in low- and moderate-income areas or that serve primarily low- and moderate-income individuals; and
- Borrowers to finance environmental clean-up or redevelopment of an industrial site as part of an effort to revitalize the low- or moderate-income community in which the property is located.

# Common CD Loan Questions?

§\_\_\_.12(h)-3: May an intermediate small institution that is not subject to HMDA reporting have home mortgage loans considered as community development loans?

May an intermediate small institution have small business and small farm loans and consumer loans considered as community development loans?



# Response:

Yes. *At the institution's option*, provided they meet the regulatory definition of “community development.”

For example,

FNB made a business loan of \$800,000 to a manufacturing plant located in a moderate-income census tract in its AA. The loan enabled the plant to create several new, permanent jobs for moderate-income individuals. This loan would not normally be considered as a CD loan because it is less than \$1MM. However, it does meet the primary purpose of revitalize or stabilize an LMI area because it created permanent jobs for LMI people. An intermediate small bank (and only an ISB) has the option of identifying this loan as either a CD loan or a small loan to a business. The ISB needs to consider where it needs the CRA consideration since it can not be used in both the lending test and the CD test.

Note: This option for ISBs does not apply if the bank opts to be examined using the large bank test.

# Qualified Investments

*Qualified investment* means a lawful investment, deposit, membership share, or grant that has as its ***primary purpose*** community development.

# Qualified Investments

- Performance Context
- Innovativeness or complexity of the investment is not considered for ISB, as it is for a large bank.
- Responsiveness to Community Development/Credit needs.

# Qualified Investment

## Examples:

- ▶ Deposits in minority- and women-owned financial institutions or low-income or community development credit unions that primarily lend or facilitate lending in low- and moderate-income areas or to low- and moderate-income individuals in order to promote community development.

# Qualified Investment

## Examples:

- ▶ Facilities that promote community development by providing community services for low- and moderate-income individuals, such as youth programs, homeless centers, soup kitchens, health care facilities, battered women's centers, and alcohol and drug recovery centers.

# Qualified Investment

Examples:

- ▶ Investments to promote revitalization or stabilization in designated disaster areas.

# Community Development Service

Section \_\_.12(i) defines CD service. It does not limit CD services to those provided to organizations that have a CD purpose. For ISB's, CD activities can include retail services that have a CD purpose.

Community development service means a service that:

- ▶ Has as its primary purpose community development;
- ▶ Is related to the provision of financial services; and
- ▶ Has not been considered in the evaluation of the bank's retail banking services.

# Community Development Service

First question: Is the primary purpose of this service consistent with the community development definition?

- ▶ Affordable housing for low- or moderate-income individuals, including multi-family rental housing.
- ▶ Community Services (such as health care facilities, battered women's centers, homeless centers) targeted to low- or moderate-income individuals.
- ▶ Promote economic development (supports permanent job creation, retention, and/or improvement for persons who are currently LMI).
- ▶ Activities that revitalize or stabilize low- or moderate-income areas; designated disaster areas; or designated distressed or underserved nonmetropolitan middle-income geographies.
- ▶ NSP-related activities (favorable CRA consideration will be considered for activities that benefit low-, moderate-, and middle income individuals and geographies in NSP target areas.)



# Community Development Service

Second Question:

Is the CD service provided by the bank or bank employee related to the provision of financial services?

# Example of CD Services

- ▶ Providing technical assistance on financial matters to nonprofit or government organizations serving low- and moderate-income housing or economic revitalization and development needs;

# Example of CD Services

- ▶ Providing technical assistance on financial matters to small businesses or community development organizations; or
- ▶ Providing credit counseling, home-buyer and home-maintenance counseling, financial planning or other financial services education to promote community development and affordable housing.

# Examples of Providing Technical Assistance

- ▶ Serving on a loan review committee;
- ▶ Furnishing financial services training for staff and management; or
- ▶ Contributing accounting/bookkeeping services.

# Best Practices

- ▶ Perform an annual self-assessment.
- ▶ Develop a standard form that can be used by bank employees to record community development activity.
- ▶ Periodically throughout the year collect and review the information to ensure the activity meets the CRA community development definition.
- ▶ Develop a centralized process to record the type of activity and the assessment area impacted.

# Best Practices

- ▶ Make a determination about which activities have a community development purpose
  - Don't provide examiners an extensive list of "possible" CD loans, services and investments to review.
- ▶ Provide supporting information for donations (not just a copy of the check)
  - What information did the bank rely on to determine that the donation was a qualified community development investment? Does the non-profit serve predominantly LMI people or small businesses?
- ▶ Consider tracking the number of hours of community development service performed
  - May help to demonstrate the level of services provided.

# Best Practices

- ▶ Track the number of units supported with Community Development investments and loans
  - “This loan funded the construction of 54 units; 40 will be leased to those earning less than 80% of AMI”
  - “This LIHTC funded 260 units of affordable housing”
- ▶ Track which assessment area received benefit
  - This will also help the bank self identify weaknesses

# Best Practices

- ▶ Review the bank's donations list. Banks often miss opportunities to maximize donations that are qualified investments.
- ▶ Help investment personnel understand the definition of "qualified investment".
- ▶ Don't forget to consider the impact of disaster area declarations on the bank's investment opportunities.



# The Exam Process

## Are You Ready?

Steps Examiners Go Through and  
Steps CRA Officers Should Take to be  
Ready for a CRA Evaluation



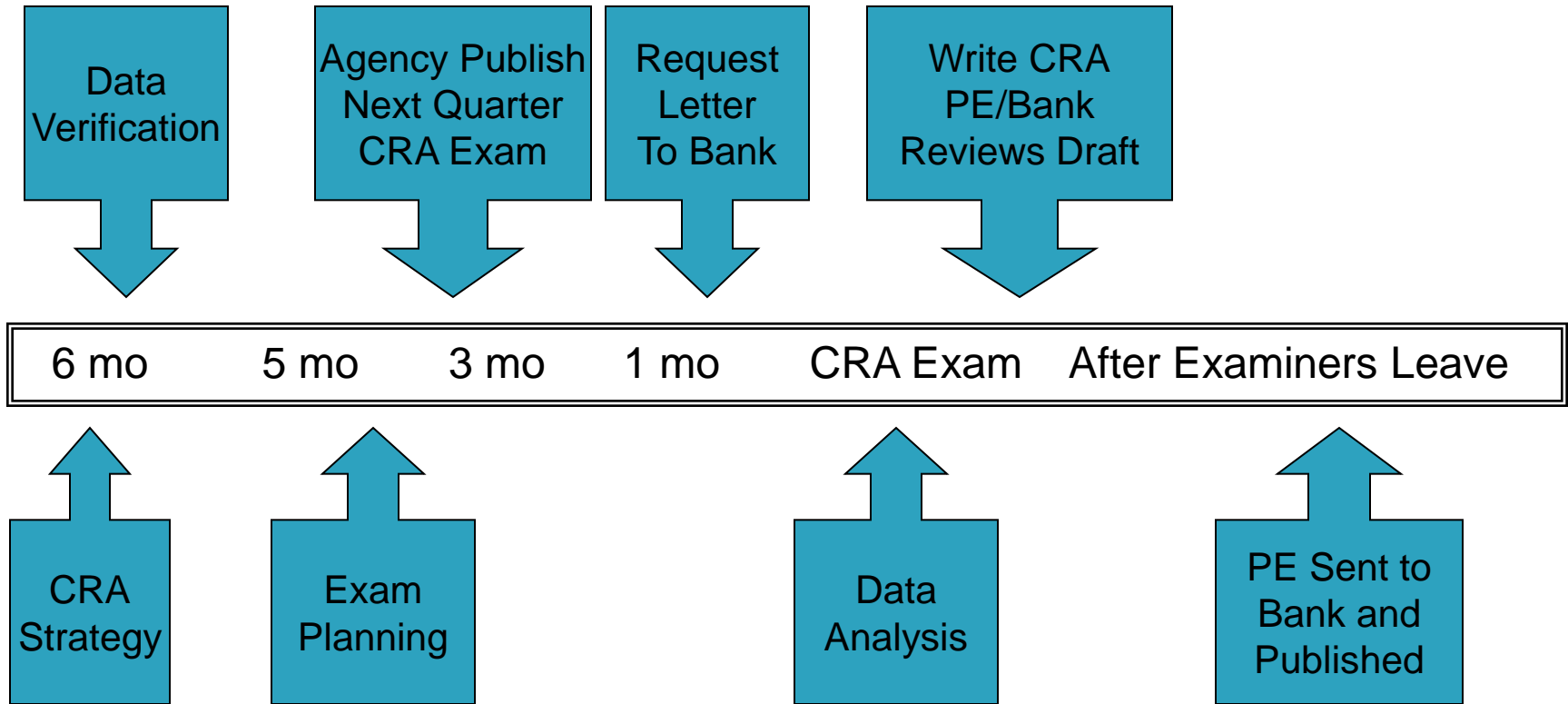
# Objectives

- ▶ Understand examination steps
- ▶ Understand what CRA Officers can do to prepare for examinations

# CRA Exam Cycle

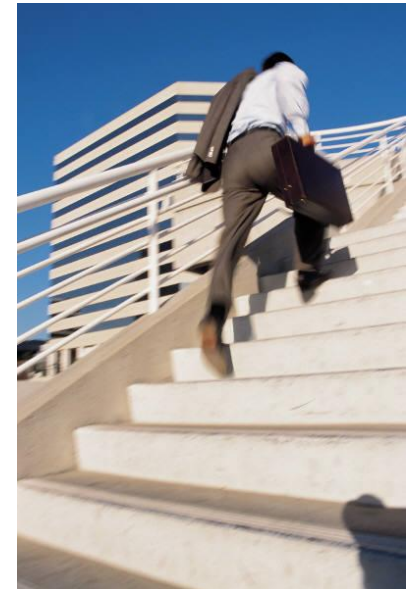


# Steps Examiners Go Through



# Steps CRA Officers Take to Be Exam Ready

- ▶ Review Request Letter
- ▶ Know your bank's AA(s)
- ▶ Check CRA public files to make sure they are up to date
- ▶ Perform a self assessment (not required)
- ▶ Document any important performance context issues – does the bank know its markets



# Steps CRA Officers Take to Be Exam Ready

- ▶ Document any items you want considered for community development
- ▶ Know your primary products
- ▶ Prepare a plan for the way you want the examiners to communicate with the bank –
  - either one bank liaison, or
  - a list of bank contacts



# Questions

