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 Investment
- 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 ≤ $1 million
- Small business loan
  - original amount ≤ $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 ≤ $1 million
- Small farm loan
  - Reported on Call Report in “loans to small farms”
    - original amounts ≤ $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.

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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 years
  - The most recent public evaluation
  - List of all branches – address and geographies
  - List of services
  - Map of Assessment Areas
  - Last two years HMDA Disclosure Statements
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

<table>
<thead>
<tr>
<th>Type</th>
<th>See CRA Examinations (ffiec.gov) for annually adjusted CRA asset thresholds</th>
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</thead>
<tbody>
<tr>
<td>Small bank</td>
<td></td>
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<tr>
<td>Intermediate small bank (a subset of small banks)</td>
<td></td>
</tr>
<tr>
<td>Large bank</td>
<td></td>
</tr>
</tbody>
</table>
Small bank

- See [CRA Examinations (ffiec.gov)](https://ffiec.gov) for annually adjusted CRA asset thresholds

- 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)

- See [CRA Examinations (ffiec.gov)](https://ffiec.gov) for annually adjusted CRA asset thresholds

- 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

- See [CRA Examinations (ffiec.gov)](ffiec.gov) for annually adjusted CRA asset thresholds

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 or 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

<table>
<thead>
<tr>
<th>Component Test Rating</th>
<th>Lending</th>
<th>Investment</th>
<th>Service</th>
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<tr>
<td>Outstanding</td>
<td>12</td>
<td>6</td>
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<tr>
<td>High Satisfactory</td>
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<td>4</td>
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<tr>
<td>Low Satisfactory</td>
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<tr>
<td>Needs to Improve</td>
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<tr>
<td>Substantial Noncompliance</td>
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Large bank ratings

<table>
<thead>
<tr>
<th>Points</th>
<th>Composite Assigned Rating</th>
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<tbody>
<tr>
<td>20+</td>
<td>Outstanding</td>
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<tr>
<td>11 - 19</td>
<td>Satisfactory</td>
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<tr>
<td>5 - 10</td>
<td>Needs to Improve</td>
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<tr>
<td>0 - 4</td>
<td>Substantial Noncompliance</td>
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</tbody>
</table>
All banks

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

- Regulation BB
- FFIEC
- CRA Q&As