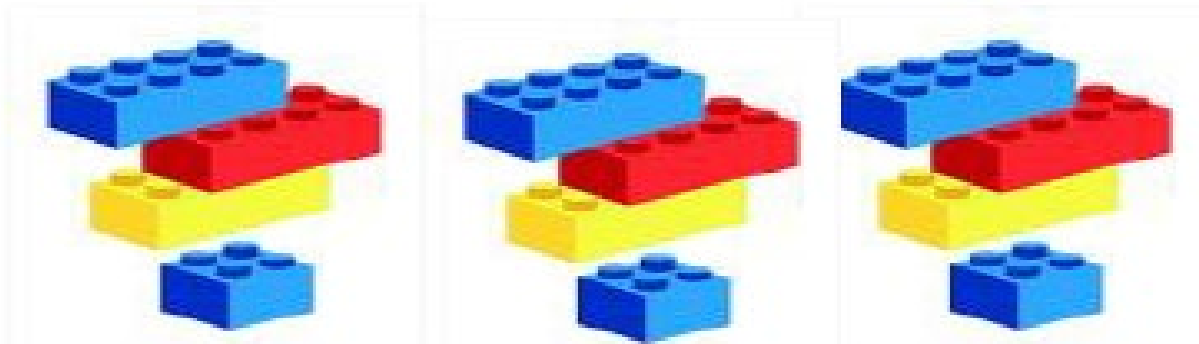


CRA Basics



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

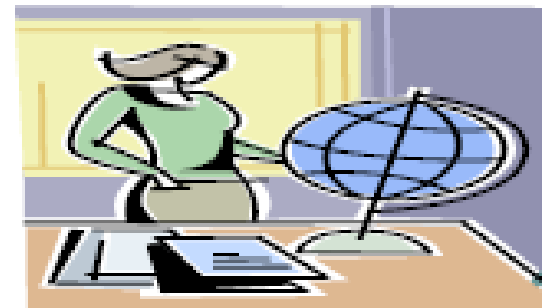


Assessment area

- 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 \leq \$1 million
- Small business loan
 - original amount \leq \$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 \leq \$1 million
- Small farm loan
 - Reported on Call Report in “loans to small farms”
 - original amounts \leq \$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.
- §__.44

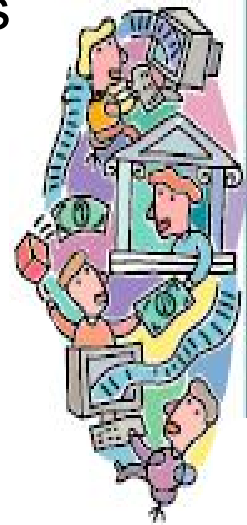


Public file

- 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



Public file

- **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

Small bank

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

Intermediate small bank (a subset of small banks)

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

Large bank

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

Small bank

- See [CRA Examinations \(ffiec.gov\)](http://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 \(ffiec.gov\)](http://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 \(ffiec.gov\)](http://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

Component Test Rating	Lending	Investment	Service
Outstanding	12	6	6
High Satisfactory	9	4	4
Low Satisfactory	6	3	3
Needs to Improve	3	1	1
Substantial Noncompliance	0	0	0

Large bank ratings

Points	Composite Assigned Rating
20+	Outstanding
11 - 19	Satisfactory
5 - 10	Needs to Improve
0 - 4	Substantial Noncompliance

All banks

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

References

- Regulation BB
- FFIEC
- CRA Q&As