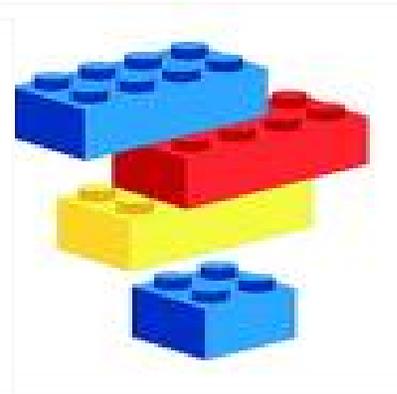
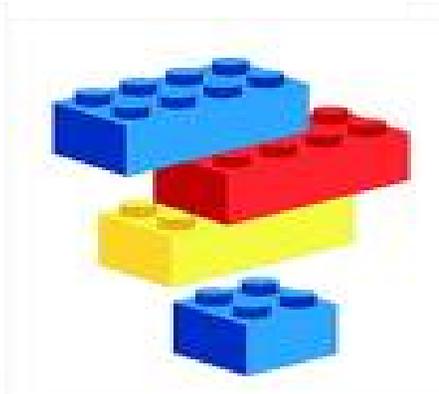


# CRA Basics



# 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 investments
- 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 year
- The most recent public evaluation
- List of all branches - address and geographic
- List of services
- Map of Assessment Areas
- Last two years HMDA Disclosure Statement





# Exam types

- Small bank
- Intermediate small bank (ISB)
- Large bank
- Wholesale and Limited Purpose
- Strategic Plan



# am types

Small bank

< \$277 million in assets as of  
12-31 of EITHER of the  
prior 2 years

Intermediate small  
bank (a subset of  
small banks)

$\geq$  \$277 million as of Dec 31  
of BOTH of the prior 2  
years, but < \$1.098 billion  
as of Dec 31 of EITHER  
of the prior 2 years

Large bank

$\geq$  \$1.098 billion as of Dec 31  
of BOTH of the prior 2  
years

# Small bank

Banks with assets under \$277 million

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)

Banks with assets  $\geq$  \$274 million, but  
< \$1.098 billion

Evaluated under

- Small bank lending test, AND
- Community development test
  - # & \$ of:
    - community development loans
    - Qualified investments
    - Community development services
  - Responsiveness to CD needs



3

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

- Assets  $\geq$  \$1.098 billion
- Exam criteria:
  - Lending
    - Does not consider loan-to-deposit
    - Data collected
  - Investments
  - Services
    - Includes retail service delivery

# Findings

Outstanding

Satisfactory

Needs to Improve

Substantial noncompliance



# Small bank ratings

## Satisfactory

- Bank meets the standards for 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

# B ratings

## Satisfactory

- Bank receives at least a Satisfactory rating on **both** the lending and CD tests

# B 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

# B 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

<b>Component Test Rating</b>	<b>Lending</b>	<b>Investment</b>	<b>Service</b>
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

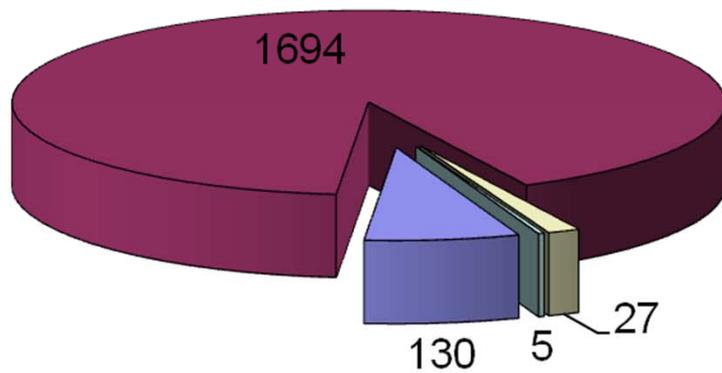
<b>Points</b>	<b>Composite Assigned Rating</b>
20+	Outstanding
11 – 19	Satisfactory
5 – 10	Needs to Improve
0 – 4	Substantial Noncompliance

# l banks

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

# 09 CRA ratings

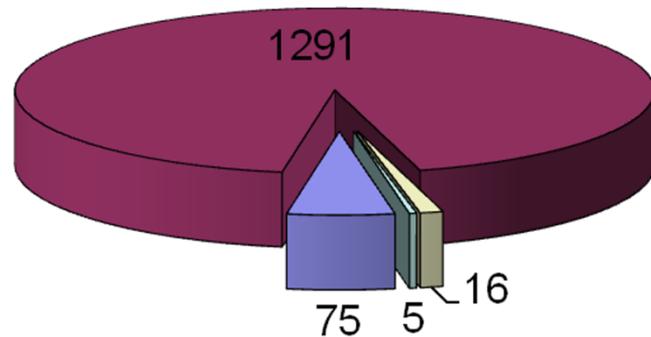
## All Banks



- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Noncompliance

# 09 CRA ratings

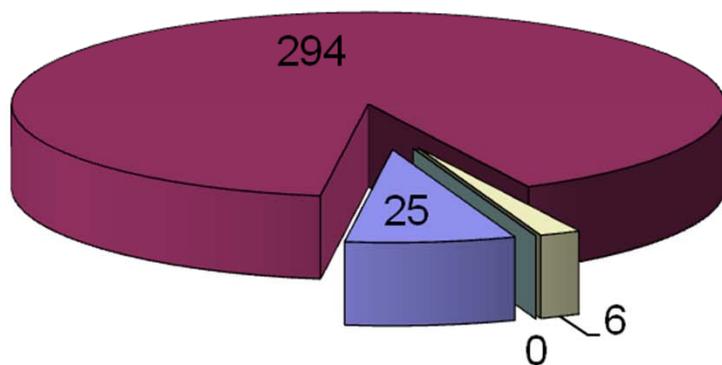
## Small Banks



- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Noncompliance

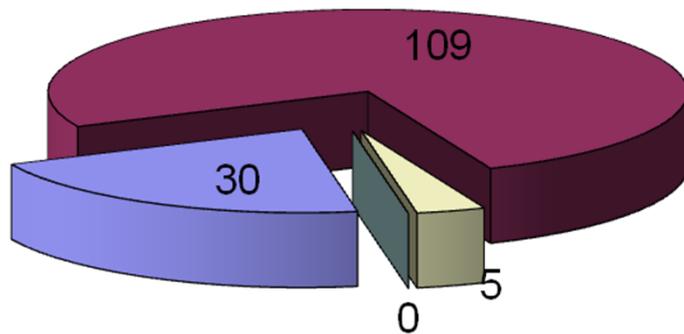
# 09 CRA ratings

## ISBs



# 09 CRA ratings

## Large Banks



- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Noncompliance

# References

- Regulation BB
- FFIEC
- CRA Q&As