CRA Strategy Development

Developing A Bank CRA Strategy
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Training Topics:

- 1. Developing a Bank CRA Strategy
- 2. Monitoring and Tracking Progress
1. Developing a CRA Strategy
Why Develop a CRA Strategy?

- Treat CRA as a line of business:
- Help bank management and staff:
  - When you fail to plan you are planning to fail

  e.g. Interagency Q&A product strategy
Why Develop a CRA Strategy?

- Board Approval of CRA Plan
- Implications on CRA performance
Steps in Developing a CRA Strategy

**Step 1.** Understand CRA Performance Evaluation Criteria (i.e. Small Bank v. ISB criteria)

**Step 2.** Assess bank performance context

**Step 3.** Assess community credit needs

**Step 4.** Match bank products, services with community credit needs

**Step 5.** Develop performance and rating goals, objectives
Step 1. Understanding Bank CRA Performance Criteria
Understand CRA Evaluation Criteria

- Determine Bank Evaluation Criteria
  - Small Bank
    - Streamline Small Bank Evaluation Criteria
  - Intermediate Small Bank
    - Lending
    - Community Development

- Review prior CRA Performance Evaluation
Step 2. Assess your CRA Performance Context
Assess Bank Performance Context

- Identify and build on bank capacity, strengths and business model

- Analyze your bank’s loan to deposit ratio and HMDA and Small business data to determine in/out ratio and loans to borrowers of different incomes.

- Track economic and demographic trends in your community housing stock, costs and income levels.
Assess Bank Performance Context

- Read local revitalization plans, such as HUD consolidated plans and those reports prepared by the Federal Home Loan Banks and others to help determine community credit needs.

- Develop a peer analysis of similarly situated institutions.

- Catalogue CD opportunities to lend, invest or provide services.
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Step 3. Assessing Community Credit Needs
Assessing Community Credit Needs

- Review written reports and publications on credit needs and programs to serve LMI families.
- Become knowledgeable of reports by entities that specifically research and analyze policies affecting underserved areas.
- Explore needs of the least-served areas, where opportunities may be greatest and the competition is least.
- Compare and contrast products and services provided to best served areas.
Assessing Community Credit Needs

- **Community Contacts**
  - Make contact and develop relationships with community groups, CD practitioners
  - Develop relationships with local and state government officials.
  - Make contact with small business advocates
  - Make use of bank regulatory resources

- **Competitive Analysis**
  - What are other banks doing?
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Step 4. Matching Bank Products, Services and Community Credit Needs
Matching Bank Products, Services with Community Credit Needs

- Compare performance context, products and services to community credit needs.
- Identify gaps in lending and service by borrower income, geography or product
- Evaluate products and service offerings
Matching Bank Products, Services with Community Credit Needs

- Develop an internal strategy for delivering CD loan products or CD services to fill gaps:
  - Staff expertise in CD finance and knowledge of bank risk tolerance
  - Responsibility, Resources, Reporting
- Develop and maintain a relationship with bank business units and branch network managers
- Train staff to be aware of CRA objectives and CD lending, investment and service opportunities
Matching Bank Products, Services with Community Credit Needs

- Consider developing new loan products to meet needs
- Explore option for CD product delivery by establishing a bank-owned CDC or investment in a multi-bank CDC, loan fund or loan pool
- Use government loan programs as resources to manage and mitigate risk.
- Match contributions and grants with CRA objectives
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Step 5. Develop CRA Performance Goals and Objective
Develop CRA Performance Goals and Objectives

Performance Benchmarks:

- **Lending**
  - Mortgage Lending (Consumer-optional)
  - Commercial / Small Business Lending
  - Community Development Lending

- **Investments**
  - Qualified Community Development Investments

- **Services**
  - Qualified Community Development Services
Develop CRA Performance Goals and Objectives

- Consider establishing goals for business units and staff within each unit
  - Review and adjust incentive and compensation plans
  - Devote sufficient resources to CD activity
  - Allow time for products marketing and delivery mechanisms
  - Be patient and allow time for relationships to mature.

- Look at process for internal inefficiencies and obstacles!
Developing product considerations

- Determine needs
- Determine costs of development and implementation
- Ensure management buy-in of timeline expected and total costs
- Develop strong marketing program
- Implement and initiate periodic progress report
- Measure impact
- Report to Management and Board
CRA Goals and objectives

- Understand and communicate the role and function of CD activities
  - CD products generate revenue
  - CD initiatives can expand your bank’s market
  - CD initiatives complement existing product lines
  - CD initiatives may involve specialized knowledge
  - CD risks can be mitigated and managed
Develop a CRA Strategy

- Integrate CRA strategy into bank business plan
  - How will CRA strategy impact bank business plan?
  - How will CRA strategy support bank growth plan?
  - How will CRA strategy affect decision of the bank?
  - How will strategy impact marketing activity of bank?
Steps to Successful CRA Performance

Module 3. Monitoring and Tracking Progress
Monitoring and Tracking Progress

- Board approval of amendments to CRA plan
- Formal CRA committee
- Board Reporting - How does your bank compare?
Monitoring and Tracking Progress

- Monitoring and Tracking Systems
  - Loan approval sheet
  - Loan application register
  - Loan origination system or software

- Self Evaluation
  - Impact and effectiveness of marketing efforts
  - Periodically review and document performance
  - Understand performance strengths and weaknesses
  - Don’t try to paper over performance issues
Monitoring and Tracking Progress

- **Internal Reporting**
  - Identify and report performance weaknesses
  - Develop plan to address weaknesses
  - Identify end users

- **Exam Preparation**
  - Penetration rates in LMI census tracts
  - Be thorough

- **Mapped Data Systems**
  - Data management systems i.e. CRA Wiz, Tactician, others
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Conclusion, a strong CRA Strategy:

- Is by plan and not by chance,
- Is integrated into bank business plan,
- Has Board and management commitment,
- Is founded on Facts and Research,
- Is the responsibility of all staff.