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
One or more MSAs or other contiguous political subdivisions

- Counties
- Cities
- Towns
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
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
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
- 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 \( \leq \$1 \text{ million} \)
- Small business loan
  - original amount \( \leq \$1 \text{ million} \)
  - 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
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
RA 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
- 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 geographic
- List of services
- Map of Assessment Areas
- Last two years HMDA Disclosure Statement
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
am types

<table>
<thead>
<tr>
<th>Type</th>
<th>Assets Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small bank</td>
<td>&lt; $277 million in assets as of 12-31 of EITHER of the prior 2 years</td>
</tr>
<tr>
<td>Intermediate small bank</td>
<td>&gt; $277 million as of Dec 31 of BOTH of the prior 2 years, but &lt; $1.098 billion as of Dec 31 of EITHER of the prior 2 years</td>
</tr>
<tr>
<td>Large bank</td>
<td>&gt; $1.098 billion as of Dec 31 of BOTH of the prior 2 years</td>
</tr>
</tbody>
</table>
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
Investments and services considered at bank’s option
Intermediate small bank (ISB)

- Banks with assets ≥ $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
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 > $1.098 billion
- Exam criteria:
  - Lending
    - Does not consider loan-to-deposit
    - Data collected
  - Investments
  - Services
    - Includes retail service delivery
- 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.
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
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.
<table>
<thead>
<tr>
<th>Component Test Rating</th>
<th>Lending</th>
<th>Investment</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding</td>
<td>12</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>High Satisfactory</td>
<td>9</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Low Satisfactory</td>
<td>6</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Needs to Improve</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Substantial Noncompliance</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Large bank ratings

<table>
<thead>
<tr>
<th>Points</th>
<th>Composite Assigned Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>20+</td>
<td>Outstanding</td>
</tr>
<tr>
<td>11 – 19</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>5 – 10</td>
<td>Needs to Improve</td>
</tr>
<tr>
<td>0 – 4</td>
<td>Substantial Noncompliance</td>
</tr>
</tbody>
</table>
• Effect of discriminatory or other illegal credit practices
  • Adversely affects CRA rating
09 CRA ratings

All Banks

- Outstanding: 1694
- Satisfactory: 130
- Needs to Improve: 5
- Substantial Noncompliance: 27
09 CRA ratings

Small Banks

- Outstanding: 1291
- Satisfactory: 75
- Needs to Improve: 5
- Substantial Noncompliance: 16
09 CRA ratings

ISBs

- Outstanding: 294
- Satisfactory: 25
- Needs to Improve: 6
- Substantial Noncompliance: 0
09 CRA ratings

Large Banks

- Outstanding: 30
- Satisfactory: 109
- Needs to Improve: 5
- Substantial Noncompliance: 0
References

- Regulation BB
- FFIEC
- CRA Q&As