

Community Reinvestment Act (CRA)



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What is CRA?

The Community Reinvestment Act (CRA) is a law intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income (LMI) neighborhoods, consistent with safe and sound banking operations. (CRA does not encourage the extension of unsafe or unsound credit.)



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What is CRA? (continued)

The CRA requires that each insured depository institution's record in helping meet the credit needs of its entire community be evaluated periodically by one of the federal bank regulatory agencies (agencies).



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How does CRA affect my institution?

Reputation in the Community

- A uniform four-tiered rating system is used by the federal bank regulatory agencies in assessing CRA performance.
- Since July 1, 1990, the agencies are required to make an institution's rating and written performance evaluation available to the public.
- The CRA ratings and performance evaluations are available at FDIC.gov.



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How does CRA affect my institution? (continued)

Ability to Expand

- An institution's CRA record is taken into account in considering applications for deposit facilities, including mergers and acquisitions.



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How does CRA affect my institution? (continued)

Frequency of CRA Examinations

- Maintaining a Satisfactory or better CRA rating will also result in less frequent CRA examinations at your institution.



How is my institution evaluated?

An institution will be evaluated under one of five methods provided under the CRA regulations. The evaluation methods are:

- Designed to respond to basic differences in institutions' structures and operations
- Intended to establish performance-based CRA examinations that are:
 - Complete and accurate
 - Mitigate the compliance burden for institutions, to the maximum extent possible



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How is my institution evaluated?

(continued)

5 Evaluation Methods

Small Bank Evaluation

- For institutions with less than \$290 million in total assets*

Intermediate Small Bank Evaluation

- For institutions with assets between \$290 million and \$1.16 billion*
(Regardless of holding company affiliation)

Large Bank Evaluation

- For institutions with more than \$1.16 billion in total assets*

Community Development Test

- For wholesale or limited purpose institutions

Strategic Plan

- At option of bank, with regulatory approval

* Asset thresholds are adjusted annually



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How is my institution evaluated?

(continued)

Community Development is an important concept in Intermediate Small Bank and Large Bank Evaluations. In order to receive CRA credit a bank's activities must have one of the following as its primary purpose:

- Affordable housing
- Community services targeted to low- and moderate-income individuals
- Activities that promote economic development
- Activities that revitalize or stabilize LMI geographies



Small Bank Performance Criteria

Institutions with less than \$290 million in total assets have a streamlined assessment method called the Small Bank Lending Evaluation, which include five performance criteria:

1. Loan-to deposit ratio responsive to credit needs
2. Percentage of loans/lending-related activity in an institution's assessment area
3. Geographic distribution of loans, including to LMI areas
4. Record of lending/lending related activity to:
 - Borrowers of different income levels; and/or
 - Businesses and farms of different sizes
5. Response to CRA related complaints



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Intermediate Small Bank CRA Performance Criteria

Institutions with assets between \$290 million and \$1.16 billion are evaluated under a two-part test which includes:

- The Small Bank Lending Evaluation; and
- The Community Development Test, which considers the number and amount of community development:
 - o Loans
 - o Investments
 - o Services



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Large Bank CRA Performance Criteria

Institutions with more than \$1.16 billion in assets have a 3-part evaluation:

- Lending Test
- Investment Test
- Service Test



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Large Bank CRA Performance Criteria (continued)

The **Lending Test** for Large Banks considers:

- The number and amount of loans in the institution's assessment area
- The geographic distribution of loans, including to LMI areas
- Record of lending/lending-related activity to:
 - Borrowers of different income levels; and/or
 - Businesses and farms of different sizes
- Community development loans
 - Number and amount
 - Complexity and innovativeness
- Innovative or flexible lending practices to address the needs of LMI individuals or geographies consistent with safe and sound banking.



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Large Bank CRA Performance Criteria (continued)

The **Investment Test** for Large Banks considers:

- The dollar amount of qualified community development investments
- Innovativeness and complexity of qualified investments
- Responsiveness of qualified investments to credit and community development needs.



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Large Bank CRA Performance Criteria (continued)

The **Service Test** for Large Banks considers:

- The geographic distribution of retail bank branches
- The record of opening and closing retail bank branches, particularly those that serve LMI geographies and individuals
- The availability and effectiveness of alternative systems for delivering retail banking services in LMI geographies and to LMI individuals
- Range of retail banking services in each geography classification
- Extent of community development services provided
- Innovativeness and responsiveness of community development services



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Community Development CRA Performance Criteria

In order to be evaluated under the community development test, an institution must be designated as a wholesale or limited purpose institution following submission of a written request to and approval from its primary regulator.



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Community Development CRA Performance Criteria (continued)

Wholesale or limited purpose institutions are evaluated under the following criteria:

- The number and amount of community development loans
- The use of innovative or complex qualified investments, community development loans, or community development services and the extent to which the investments are not routinely provided by private investors
- The bank's responsiveness to credit and community development needs



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Strategic Plan

All institutions, no matter their size or business strategy, may take advantage of the strategic plan option, which allows an institution to develop a plan for meeting its CRA responsibilities, subject to approval by its supervisory agency.



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Strategic Plan (continued)

An institution may be evaluated under a strategic plan only if it meets all of the following criteria:

- The plan receives FDIC approval.
- The institution solicits public comment on the plan according to proper procedures.
- The term of the plan is no longer than 5 years.
- The plan establishes measurable goals for each of the three performance tests and specifies what constitutes satisfactory or outstanding performance.
- The institution has operated under the approved plan for at least one year.



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Maintaining a Strong CRA Program

- Keep track of the lending opportunities in your community and your work with government, business, and non-profit partners
- Review your lending distribution
- Review your assessment area boundaries
 - o Conduct annual (or more frequent) review
 - o Integrate with your review of geographic loan distribution



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Maintaining a Strong CRA Program (continued)

- Establish and communicate goals for CRA performance
- Understand your assessment area and be able to communicate the competitive, economic, and other demographic landscape of your market to examiners
- Measure your bank against similarly situated banks and the market



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Maintaining a Strong CRA Program (continued)

- Ensure that your fair lending program is in order as poor fair lending exam results will affect CRA ratings
- Maintain a strong Compliance Management System as other illegal credit practices may also affect CRA ratings.
- Consider CRA implications for opening and closing offices



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Additional CRA Responsibilities

- Public File
 - Institutions must maintain and update a public file that contains specific information regarding its CRA performance. For example, the Public File must include a copy of your most recent Public Evaluation, as well as the disclosure reports regarding your CRA and HMDA data.
- Public Notice
 - Each institution must post a notice in its lobby of the availability of the Public File and providing consumers with contacts at the bank and the FDIC (and the Federal Reserve if the bank is affiliated with a holding company) in order to provide comments regarding the bank's CRA performance.
- Responding to Consumer Complaints
 - One bank director responsibility is to ensure that a system for responding to consumer complaints is in place at the institution. Any consumer complaints related to your bank's CRA performance must be maintained in the Public File. You also have the option of including your response to a complaint.



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CRA Resources

www.fdic.gov

- Financial Institution Directory
- Financial Institution Letters
- Rules and Regulations
- Federal Register
- CRA Examination Schedule
- Examination Manuals



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