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Community Reinvestment Act

Connecting the Dots...

Facets of Affordable Housing Workshop

Anne Kolb Nature Center - Mangrove Hall

751 Sheridan Street

Hollywood, FL 33019

Thursday, November 7, 2019

Objectives

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- Understand the purpose of the CRA and coverage area
- Understand how banks are evaluated under CRA
- Learn how community organizations can work with banks and thrifts to meet community credit and banking needs
- Discuss Dallas's community development needs, opportunities, and challenges

Understanding CRA

Purpose & Coverage

Institutions Subject to CRA

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- Banks and thrifts supervised by:
 - ▣ Office of the Comptroller of the Currency (OCC)
 - ▣ Federal Deposit Insurance Corporation (FDIC)
 - ▣ Federal Reserve Banks
- Excludes credit unions and non-bank financial providers
- How to determine a financial institution's regulator:
<https://www.ffiec.gov/consumercenter/>

Financial Institutions

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- ❑ Must demonstrate that deposit facilities serve the convenience and needs of the communities in which they are chartered to do business.
- ❑ Includes credit services as well as deposit services.
- ❑ Continuing and affirmative obligation to help meet credit needs of their communities.

Supervisory Agencies (OCC, FDIC, FRB)

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- Encourage institutions to help meet the credit needs of the local communities in which they are chartered.
- Performance must be consistent with the safe and sound operation of the institution.
- Must take this record into account in the agency's evaluation of an application for a deposit facility by the institution.



Understanding CRA

How Banks are Evaluated

Key Elements

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- Assessment area (AA)
 - ▣ Geography
- Community development activities are responsive to community needs
- Low- and moderate-Income (LMI) persons or geographies
- Performance Context
 - ▣ Community Contacts



Evaluating Performance

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- Five types of examinations
 - Small bank (SB)
 - Intermediate-small bank (ISB)
 - Large bank (LB)
 - Wholesale or limited purpose bank
 - Banks operating under a strategic plan

Bank Type by Asset Size

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Small Bank

- $< \$1.284$ Billion

Intermediate Small Bank

- $\Rightarrow \$321$ Million and $< \$1.284$ Billion

Large Bank

- $\Rightarrow \$1.284$ Billion

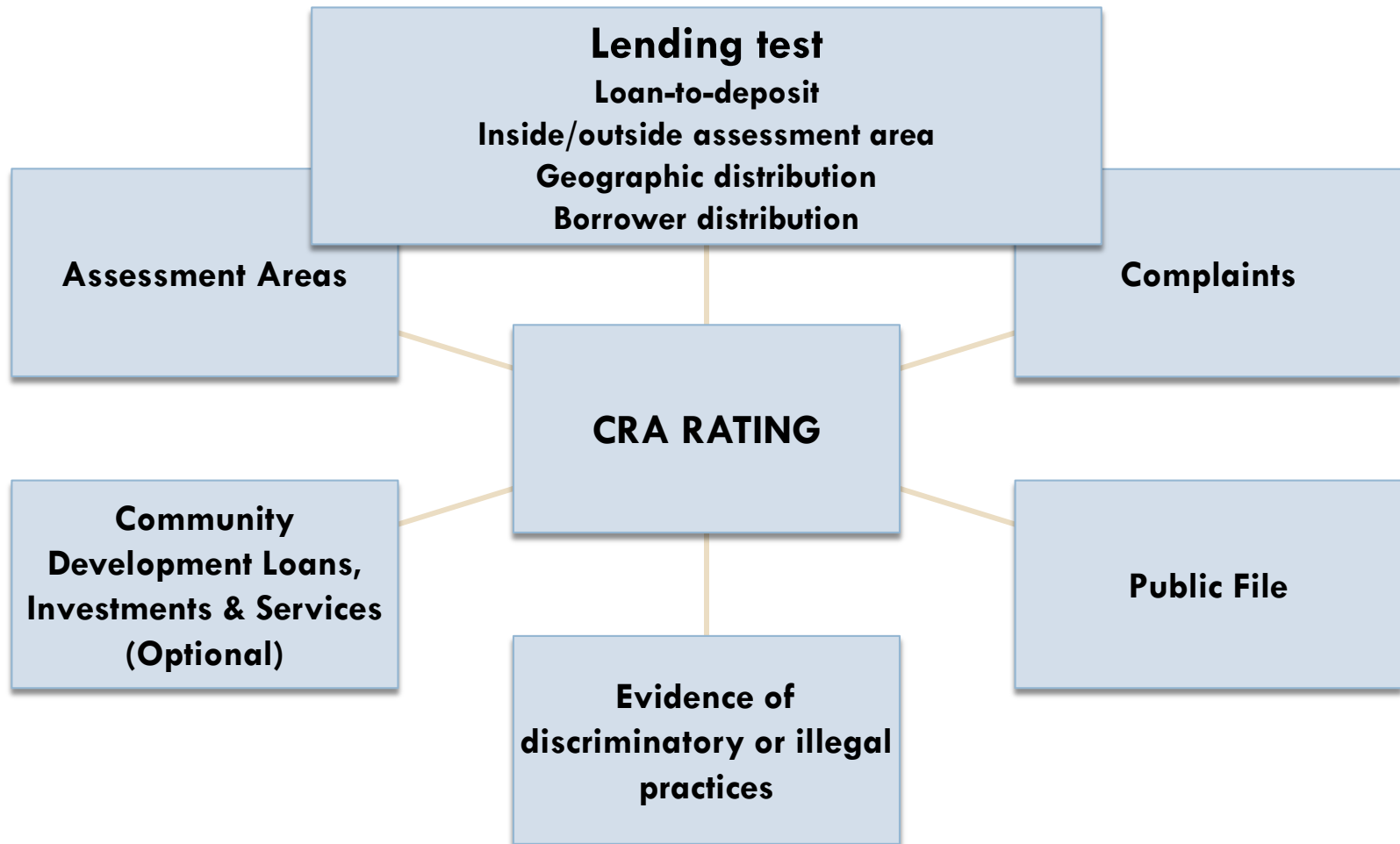
Frequency of CRA Exam

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- Banks with total assets <\$250 million
 - ▣ Based on CRA rating
 - Outstanding – Not before 60 months
 - Satisfactory – Not before 48 months
 - Needs to Improve or Substantial Noncompliance – Within 12 months
- Banks with total assets \geq \$250 million
 - Outstanding or Satisfactory – Not before 36 months
 - Needs to Improve or Substantial Noncompliance – Within 12 months

Small Banks

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Intermediate Small Banks

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- Small bank procedures PLUS
- Community development test
 - ▣ Loans
 - ▣ Services
 - ▣ Investments
 - ▣ Responsiveness to community needs

Large Banks

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- Lending test
 - ▣ Lending activity
 - ▣ In/Out
 - ▣ Borrower distribution
 - ▣ Geographic distribution
 - ▣ CD loans
 - ▣ Innovative, complex, flexible lending practices
- Service test
 - ▣ Retail
 - ▣ CD services
 - ▣ Innovative, complex
- Investment test
 - ▣ Innovative, complex

Wholesale or Limited Purpose

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- Designation
 - Must file a written request
- Community development test
 - CD loans
 - CD services
 - Qualified investments
 - Innovativeness or complexity
 - Responsiveness



Strategic Plan

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- Alternative election to small, intermediate-small, or large bank examination processes
- **Must:**
 - ▣ Include public participation in plan development
 - ▣ Be submitted to, and approved by, the supervisory agency
 - ▣ Include measurable goals

Exam Process

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- Exam date set and published by supervisory agency
 - ▣ Opportunity for public to comment on community needs and bank performance
- Examiners conduct review
 - ▣ Full-scope versus limited-scope
- Performance Evaluation (PE) is completed and made available to the public

Assessing Performance

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Conclude on performance factor in each assessment area



Rate performance under each “test” at the state or multi-state level

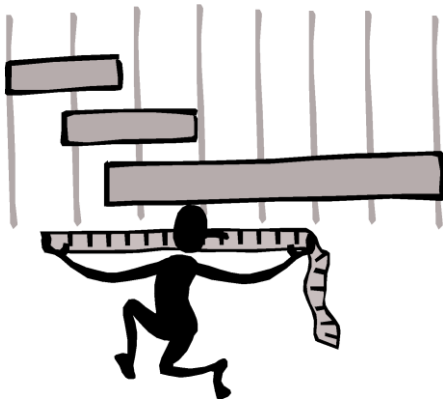


Overall Bank Rating

Ratings

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- Outstanding
 - Satisfactory
 - Needs to Improve
 - Substantial Noncompliance
- Record of meeting community needs is considered during applications for:
 - ▣ New branch office
 - ▣ Relocating main office
 - ▣ Merger or acquisition
 - ▣ Charter conversion



Community Development

Definition of Community Development

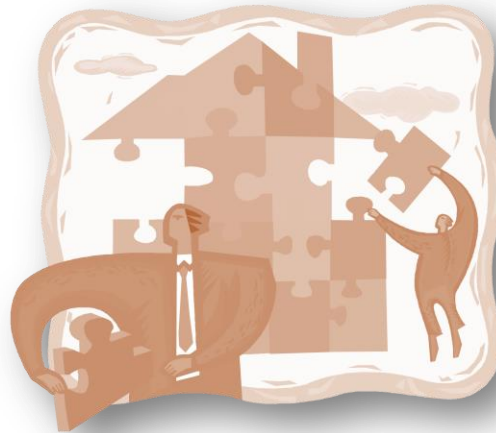
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- Affordable housing for LMI individuals
- Community services for LMI individuals
- Promoting economic development by providing financing for small business or farms
- Revitalize or stabilize LMI geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas

Community Development

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- CD regulation concepts
 - ▣ CD Loans
 - ▣ Qualified Investments
 - ▣ CD Services
- Benefits the bank's assessment area
- Responsive to community needs
- May be innovative or complex (large banks)



Community Development Activities

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- Must have a primary purpose of community development
- Benefits the bank's AA(s) or a broader regional or statewide area that includes the bank's AA(s)
- May be direct or indirect
- May be innovative or complex
 - ▣ Large banks only



Community Development Loans

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- To finance construction of a new health facility in an underserved nonmetropolitan middle-income area
- For an anchor business, such as a grocery store, that employs or serves residents of an LMI area
- To expand a day-care facility that serves LMI families
- To finance water and sewer facilities in a distress nonmetropolitan middle-income area

Qualified Investments

- Donation to an organization that provides emergency housing and services for the homeless.
- Investment in a Community Development Financial Institution (CDFI) that offers small loans to micro-businesses
- Donation of foreclosed property to an organization that develops affordable housing for LMI
- Deposit in a minority- or women-owned financial institution



Community Development Services

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- Bank employee teaches classes at a local junior high school to LMI students and their parents on how to budget and use credit wisely
- Bank contracts with a local organization to provide credit counseling to LMI families at risk of losing their homes to foreclosure
- Lender volunteers time with the local small business development center to provide technical assistance on financial services to small businesses
- Bank HR employee works with nonprofit to create a HR manual

Bank Partnerships

Bank Partnership Opportunities

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- Deposit and other Services
 - ▣ Affordable checking accounts
 - ▣ Credit-builder loans
 - ▣ IDA accounts
- Organizational Capacity-Building
 - ▣ Executives on loan as CD staff
 - ▣ Board and loan committee membership
 - ▣ Training for homebuyers/small business owners



Developing Effective Partnerships

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- Pinpoint community development needs
- Know where the bank needs to improve
- Understand the CD organizations in your assessment area(s)
 - ▣ Mission, service area, clientele, programs, systems
 - ▣ Personnel, board, business plan, action steps
 - ▣ Funding sources, needs, opportunities
- Discuss the need for documentation showing how an activity fits the CRA definition of community development
- Be honest and open in your communications

Resources

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- ❑ OCC Publications and Guidance: www.occ.gov
- ❑ Interagency Questions & Answers on Community Reinvestment
http://www.ffiec.gov/cra/pdf/2016_QA_Federal_Register_Notice.pdf
- ❑ Supervisory Agency Community Affairs Departments

Resources

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- FFIEC - CRA resources, links to CRA Performance Evaluations: <http://www.ffiec.gov>
- FDIC - Deposit market share data, list of branches, Bank Call Reports: <http://www.fdic.gov>
- FDIC 2018 Money Smart: <https://www.fdic.gov/consumers>
- FRB of Dallas Publications and Guidance: www.dallasfed.org/CD
<https://www.federalreserve.gov/consumerscommunities.htm>

Questions

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