

# How Banks Comply with CRA

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Arizona Housing Alliance  
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# What is CRA ?

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- **Community Reinvestment Act (CRA) passed in 1977 to ensure the continuing obligation of federally insured depository institutions to help meet the credit needs of their entire communities, including low and moderate income areas and individuals**
- **The CRA Regulation was updated in 1995 and in 2005**
- **All federally insured banks examined by one of four regulators and given a CRA rating that is public**

# What is Required of Banks under CRA? Have to Pass Three Tests

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- **Lending to low-and moderate- income borrowers and in low-and moderate-income areas (less than 50% and less than 80% of area median income) consistent with safety and soundness (The Lending Test)**
- **Investing and making grants for products, funds and projects that help to meet the community development needs of low- and moderate-income (LMI) areas (The Investment Test)**
- **Providing banking services and community development services to LMI areas (The Service Test)**

# Enforcement of CRA

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- **Each large bank (\$1B and more in assets) examined and rated every 24-36 months by its bank regulator (Federal Reserve, Office of the Comptroller of the Currency, Office of Thrift Supervision or Federal Deposit Insurance Corporation), provided the previous exam resulted in at least a “satisfactory” rating.**
- **Intermediate small banks (ISBs) (\$250-\$1B in assets) rated every 24-36 months as well**
- **Small banks (under \$250mm) rated every 3-5 years**
- **Bank given one of four ratings: outstanding, satisfactory, needs to improve or substantial non-compliance**

# Enforcement of CRA - continued

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- **A bank with a less than “satisfactory” CRA rating generally cannot:**
  - **Acquire or merge with another bank**
  - **Open new branches or new ATM’s**
  - **Engage in interstate banking**
  - **Expand its business to include investment banking, merchant banking and insurance**

# CRA Ratings of the Major Banks

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- **Citibank (NY) – Outstanding**
- **Bank of America - Outstanding**
- **JP Morgan Chase – Satisfactory**
- **Wells Fargo -Outstanding**
- **HSBC USA-Outstanding**
- **Capital One – Outstanding**
- **Goldman Sachs Bank – Outstanding**
- **Morgan Stanley Bank – Outstanding**

# The Lending Test for Large Banks

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- **Examines home mortgage, small business and community development loans**
- **Compares bank results to MSA demographics (e.g., does the percentage of small business loans made by the bank in LMI areas compare favorably with the percentage of all small businesses located in LMI areas)**
- **Compares bank results to peers and competitors in each MSA**
- **Innovative and creative lending gets extra credit**
- **Rates the bank's lending as excellent, good, fair or poor**
- **Constitutes 50% of the overall CRA rating**

# Lending Test: Examples

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- **Home mortgages – for LMI individuals and for homes in LMI tracts**
- **Small business loans – to companies located in LMI tracts**
- **Innovative products –affordable mortgages, with flexible underwriting terms**
- **Community Development loans – financing affordable housing, commercial projects in LMI areas, nonprofit facilities**



# The Investment Test for Large Banks

- Examines “qualified” investments, i.e., investments, deposits, membership shares or grants that have community development as primary purpose, specifically those that support:
  - Affordable housing
  - Community services for LMI individuals
  - Activities that revitalize or stabilize LMI areas
  - Activities that promote economic development by financing small businesses (\$1mm or less in sales)
  - Any grant that benefits LMI communities or individuals, including social services, economic development, housing, education, health, etc.

# Investment Test -continued

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- **Results evaluated on :**
  - **Total dollar amount compared to capacity or capital of the bank**
  - **Innovativeness or complexity**
  - **Responsiveness of investments to credit and community development needs**
  - **Degree to which investments not routinely provided by private market**
- **Bank rated excellent, good, fair or poor**
- **Constitutes 25% of overall CRA rating**

# Investment Test examples

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- **Low Income Housing Tax Credits**
- **New Markets Tax Credits**
- **Mortgage Backed Securities – if all the loans are to LMI individuals**
- **Small business Investment Corporations (SBICs)**
- **CDFIs**
- **Grants that benefits LMI individuals**

# The Service Test for Large Banks

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- **Evaluates effectiveness of bank in delivering retail banking services and extent and innovativeness of its community development services**
- **Percentage of branches in LMI areas, including record of opening and closing branches**
- **Availability and effectiveness of alternative delivery systems, e.g., ATMs, bank by phone or computer in LMI areas**
- **Range of services provided in LMI areas and extent to which they are tailored to meet local needs**
- **Constitutes 25% of Overall CRA rating**

# Community Development Services

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- **Defined as having as primary purpose “community development” and is related to the provision of financial services**
- **Evaluation based on extent of services, and**
- **Innovativeness and responsiveness of services**
- **Services constitute 25 % of overall CRA rating**

# Service Test: Examples

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- **Having a significant number of bank employees serving on boards of directors of non-profits that are involved in financial services to LMI areas or individuals, e.g., CDFIs, Neighborhood Reinvestment Corp.**
- **Training community loan fund staff in credit underwriting and financial management**
- **Funding and/or providing credit counseling for individuals and small businesses**
- **Teaching financial literacy courses in the public schools**

# Intermediate Small Banks (ISBs)- \$250mm to under \$1 B- have a Different Test

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- **As with small banks, the following are examined:**
  - **% of loans made inside the assessment area**
  - **% of deposits loaned out**
  - **Distribution of loans in LMI areas and to LMI individuals**
- **PLUS a community development test that measures**
  - **CD loans, investments and services**
- **Must achieve at least a satisfactory on both lending and community development test to get overall satisfactory**

# Changes in Definition of Qualified Community Development Loans, Investments and Services

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- **Includes all rural areas (regardless of whether they had LMI census tracts) as qualified for CRA loans, investments and services**
- **Selected disaster areas were also added to the definition of covered areas, without regard to the bank's assessment area: e.g., Katrina ; these will change over time**
- **NSP: to encourage banks to partner with the NSP program, loans, investments and services that support, enable or facilitate NSP-eligible activities in designated areas identified HUD approved plans under NSP, are now considered under the CRA definition of community development**
  - **Donation of REO to non-profit in eligible middle income, as well as LMI geographies now counts for CRA**



# Changes in Definition of Qualified Community Development Loans, Investments and Services (cont.)

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- **Foreclosure prevention**
  - **CD services now include credit counseling to assist borrowers in avoiding foreclosure on their homes.**
  - **CRA also covers qualified investments include investing in or donating to a fund providing foreclosure relief to low- and moderate-income homeowners.**