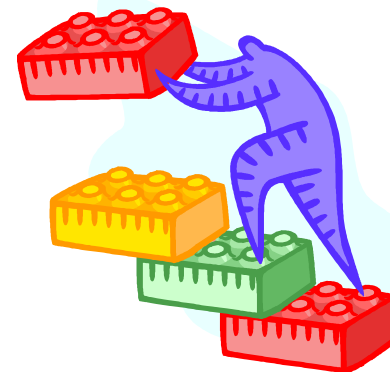


# CRA Basics and the Exam Process



# Objectives

*Upon completion of the CRA overview, you should understand:*

- Purpose of the CRA
- Terms and definitions under the CRA regulation including bank exam types
- Technical requirements of the regulation;
- CRA ratings

# Purpose of CRA

- Encourage banks and thrifts to help meet the credit needs of their entire communities, including low- and moderate-income areas and/or individuals and small businesses/farms.
- Enforcement primarily through application process. CRA contains no civil or criminal liability provisions.

# Safe and Sound Operations

- Regulators anticipate banks can meet CRA responsibilities with safe and sound loans, investments, and services on which bank's expect to make a profit.
- Banks are permitted and encouraged to develop and apply flexible underwriting standards for loans that benefit low- or moderate-income geographies or individuals, only if consistent with safe and sound operations.

# Definitions

- Geography
- Median Family Income
- Low- and Moderate-Income (LMI)
- Assessment Area (AA) Delineation
- Performance Context
- Community Development
  - Primary Purpose



# Geography

- Geography: a census tract delineated by the United States Bureau of the Census in the most recent decennial census
- MSA: metropolitan statistical area as defined by the Office of Management and Budget (OMB)
- Nonmetropolitan area: area not located in an MSA



# Median Family Income

- An annual income figure for which there are as many families with incomes below that level as there are above that level
- Area Median Income (AMI) means:
  - The median family income for the MSA, if a person or geography is located in an MSA.
  - The statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

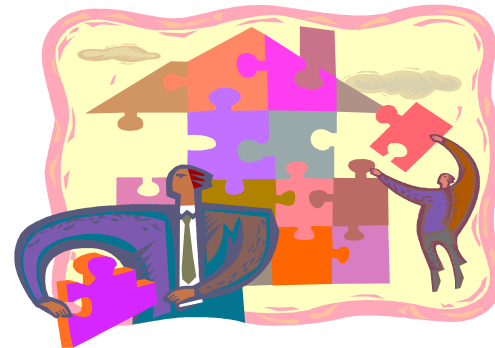
# Low- and Moderate-Income (LMI)

- *Low-income* = an individual income or tract income that is less than 50% of the AMI
- *Moderate-income* = an individual income or tract income that is at least 50% and less than 80% of the AMI
- *Middle-income* = an individual income or tract income that is at least 80% of AMI but less than 120% of AMI
- *Upper-income* = an individual income or tract income that is equal to or greater than 120% of AMI



# Assessment Area (AA) Delineation

- Must consist of MSAs or one or more contiguous political subdivisions such as counties, cities, or towns.
- Must include geographies with main office, branches, deposit taking ATMs.
- Must include surrounding geographies in which bank has originated or purchased a substantial portion of its loans.



# Assessment Area Delineation

- Limitations on Delineation
  - Must include only whole geographies
  - Must not reflect illegal discrimination
  - May not arbitrarily exclude LMI geographies
  - Generally, may not extend substantially beyond an MSA or state boundary



# Performance Context

“Performance context is a broad range of economic, demographic, and institution- and community-specific information that an examiner reviews to understand the context within which an institution’s record of performance should be evaluated.”

CRA Q&As \_\_\_\_\_.21(b)

# Community Development

- **Affordable housing** for low- or moderate-income (LMI) individuals
- **Community services** for LMI individuals
- Activities that promote **economic development by providing financing** for small businesses or small farms
- Activities that **revitalize or stabilize** LMI geographies, distressed or underserved non-metro middle-income areas, or designated disaster areas.
- Activities that **support, enable or facilitate projects or activities that meet “eligible uses” criteria** described in Section 2301(c) of the Housing and Economic Recovery Act of 2008 (HERA) and are conducted in designated target areas identified in plans approved by HUD in accordance with the Neighborhood Stabilization Program (NSP)



# Primary Purpose

- In order to receive consideration under the CRA, loans, investments, and services must have a primary purpose consistent with the definition of community development

# Exam Types

- Small Bank
- Intermediate Small Bank (ISB)
- Large Bank
- Wholesale and Limited Purpose
- Strategic Plan



# Small Bank

- Banks with assets under \$290 million
- Lending Test:
  1. Loan to deposit ratio
  2. Lending in and out of the assessment area
  3. Distribution of loans by geography
  4. Distribution of loans by borrower income
  5. Responses to complaints



# Intermediate Small Bank (ISB)

- Banks with assets of at least \$290 million and less than \$1.160 billion
- Evaluated under the traditional small bank lending test **PLUS** a community development test





# Large Bank

- Assets of \$1.160 billion or more
- Holding company not relevant
- Exam criteria:
  - Lending Test
  - Investments Test
  - Services Test

# Overall Ratings

- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Noncompliance



# Fair Lending Considerations

- **Substantive violations could impact overall CRA rating**

- Discrimination against applicant on a prohibited basis (ECOA/FH)
- Violations of section 5 of FTC Act (Unfair and Deceptive Practices)
- Violations of section 8 of RESPA (illegal kickbacks)
- Violation of TILA provision regarding a consumer's right of rescission.

# Public Evaluation

- Prepared by the Agencies
- Published on Agencies, FFIEC web site
- Made available to the public on request

# Technical Requirements

- CRA Public Notice
- Public File



# CRA 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.
- CRA Q&As \_\_.44



# Public file for all institutions

- All written CRA related comments for the current year and two previous years
- The most recent public evaluation
- List of all branches - address and geographies
- List of services
- Map of Assessment Area(s)
- Last two years HMDA Disclosure Statement



# Public File -

## Additional Requirements for Small Institutions

- 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





# Why are CRA Ratings Important?

- Regulators must take into account the banks record of helping to meet the community credit needs when considering any application.
- Examples include:
  - branching, mergers, acquisitions, consolidations

# Questions

