

CRA – Understanding Community Development

FDIC New York Region Regulatory Teleconference



Community Development Definition

- } Affordable housing for low- or moderate-income (LMI) individuals or families
- } Community services targeted to LMI individuals
- } Activities that promote economic development by financing small businesses and farms

Community Development Definition

- } Activities that revitalize or stabilize:
 - Ø Low- or Moderate-Income Geographies
 - Ø Distressed or Underserved Non-Metropolitan Middle-Income Geographies
 - Ø Designated Disaster Areas
- } Loans, investments, and services that support, enable, or facilitate Neighborhood Stabilization Program (NSP) eligible activities in designated target areas.

Affordable Housing

- } Must be affordable mortgage or rent payment for a low- or moderate-income family or individual (LMIFI)
- } To determine if affordable, use demographic, economic, and market data
- } Does not have to be located in low- or moderate-income geography

Community Services

- } Targeted to low- or moderate-income individuals or families and include:
 - child care,
 - educational,
 - health, or
 - social services

Economic Development

- } Activities that promote economic development by financing small businesses and farms
- } Activity must meet both a size and purpose test

Economic Development

Size Test

- } Activity must finance entities that:
 - meet the size eligibility requirements of the SBA, or
 - have gross annual revenues of \$1 million or less.

Purpose Test

- } An activity that promotes permanent job creation, retention, and or improvement for:
 - low- or moderate-income people or areas, or
 - redevelopment by federal, state, local, or tribal governments.

Revitalization or Stabilization

3 Distinct Areas for Revitalization or Stabilization

1. Low- or Moderate-Income Geographies
2. Distressed or Underserved Non-Metropolitan Middle-Income Areas
3. Designated Disaster Areas

Revitalization or Stabilization

Qualifies if the activity has been approved by:

- A federal, state, local, or tribal government plan

- The governing board of an Enterprise Community or Empowerment Zone.

- Enterprise Communities and Empowerment Zones are distressed areas specifically targeted for redevelopment by the federal government.

Revitalization or Stabilization

- } Activities that help attract new, or retain existing, businesses or residents
- } Not all activities in LMI areas, distressed or underserved non-metropolitan middle-income areas, or designated disaster areas qualify

Revitalize or Stabilize Distressed Non-Metropolitan Middle-Income Geographies

Activity must:

- } explicitly help to attract new, or retain existing, businesses or residents.
- } qualify if consistent with a bona fide government plan to revitalize/stabilize the area.
- } receive greater weight if most responsive to community needs, including LMI individuals or neighborhoods.

Revitalize or Stabilize Underserved Non-Metropolitan Middle-Income Geographies

Qualifies if:

- } Benefits the entire community, including LMI individuals, and
- } Facilitates construction, expansion, improvement, maintenance or operation of **essential infrastructure** for:
 - health services
 - education,
 - public safety,
 - industrial parks, or
 - affordable housing.

Revitalize or Stabilize Designated Disaster Areas

- } Consider bank activities in designated disaster areas for a period of 36 months following the date of designation
- } Can extend for exceptional situations, such as those areas affected by Hurricane Katrina
- } All activities related to disaster recovery that revitalize or stabilize
- } Greater weight for activities most responsive to community needs, including LMI individuals or geographies

Neighborhood Stabilization Program

- } The community development definition was revised in 2010 to include loans, investments, and services by financial institutions that support, enable, or facilitate projects or activities that meet the “eligible uses” criteria described in Section 2301(c) of the Housing and Economic Recovery Act of 2008 and are conducted in designated target areas identified in plans approved by HUD under the Neighborhood Stabilization Program.

Neighborhood Stabilization Program

- } Section 2301(c) of the Housing and Economic Recovery Act establishes five activities that are “eligible uses” of NSP funds. These are:
 - } (1) establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft-second, loan loss reserves, and shared equity loans for low- and moderate-income homebuyers;
 - } (2) purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties;

Neighborhood Stabilization Program

- } (3) establish and operate land banks for homes and residential properties that have been foreclosed upon;
- } (4) demolish blighted structures; and
- } (5) redevelop demolished or vacant properties.

Other Conditions

- } The primary purpose of the activity must be community development

and

- } The activity must benefit an assessment area or a broader statewide or regional area.

Primary Purpose

- } Majority of the \$ or beneficiaries are consistent with one of the five categories of community development.

OR

(see next slide)

Primary Purpose

The activity meets three tests:

- ∅ The express, bona fide intent is community development
- ∅ The activity is structured to achieve the purpose
- ∅ The activity accomplishes, or is reasonably certain to accomplish, the community development purpose

Primary Purpose

- } Affordable Housing allows for pro rata share in mixed-income housing situations
- } Interagency Q&A__12(h)-8
- } Interagency Q&A__42(b)(2)-3

Area Benefited

- } The activity must benefit assessment area or broader statewide or regional area
 - A regional area can be as small as a city or county or as large as a multi-state area
- } The assessment area need not receive an immediate or direct benefit provided the activity includes serving census tracts, businesses or individuals within the assessment area.

Area Benefited – CD Activities

Always considered

Direct benefit to
AA(s)

OR

Purpose, mandate,
or function to serve
the AA(s)

May be
Considered

Activities that do not serve
and will not benefit the
AA(s) -

If the bank has been
responsive to the needs
and opportunities in its
AA(s)

Area Benefited – Exceptions

- } Activities in cooperation with minority- or women-owned financial institutions and low-income credit unions.

Community Development Activities

- } There are three types of community development activities
 - Loans
 - Investments
 - Services

Community Development Loans

- } Loan is:
 - extension of credit
 - proceeds used for a community development purpose
- } Do not double count with:
 - HMDA, small business, and small farm loans already evaluated under the Lending Test criteria
- } Exceptions:
 - Intermediate small banks
 - consider affordable housing multifamily loans as community development and HMDA loans

Community Development Loan Examples

- } Loans to borrowers for affordable housing rehabilitation and construction, including construction and permanent financing of multifamily rental property serving low- and moderate-income persons
- } Loans to:
 - Nonprofit organizations
 - Construction or rehab of community facilities
 - Financial intermediaries
 - Local, State or Tribal governments

Community Development Investments

- } A lawful investment, deposit, membership share, or grant that has as its primary purpose community development

Common Investment Vehicles

- } Equity investment in a small business venture capital company
- } Investment or grant to a CDC
- } Investment in a mortgage backed security targeted to low- or moderate-income borrowers
- } Investment in bonds with a primary purpose consistent with community development
- } Deposit or membership share in a community development financial institution (CDFI)
- } Investment in a CRA mutual fund that has targeted investments within the fund to the bank's AA.
- } Grants or donations

Community Development Services

CRA regulation defines community development service as a service that:

- } Has as its primary purpose community development;
- } Is related to the provision of financial services; and
- } Has not been considered in the evaluation of the bank's retail banking services.

Community Development Service Examples

- } Serving on the Board of an affordable housing organization
- } Providing homebuyer seminars for low- or moderate-income people
- } Providing loan-related technical assistance to small business owners
- } Establishing school savings programs for low- or moderate-income individuals

Financial Education

- } Financial education would be considered when:
 - It is delivered in a school where the majority of students are low- and moderate-income.
 - It is delivered under the auspices of an organization and through a program primarily targeted to LMI individuals

Financial Education (Continued)

- It is delivered in a location that serves predominantly an LMI area and is marketed to those with access to that location
- It is part of an initiative to revitalize or stabilize a middle-income distressed or underserved area (e.g. through workforce development) or to promote recovery in a disaster area by providing financial support

Quantitative Considerations

- } CRA regulation does not provide any specific quantitative evaluation benchmarks
- } Compare CD activities as a percentage of the bank's assets, loans, investments, or other financial data

Qualitative Considerations

- Bank leadership role
- Responsiveness to community development needs
- Impact
- Complexity of the activity
- Innovativeness

Objectives

- } Introduce the FDIC's Community Affairs Branch
- } Suggest a framework for identifying and engaging with qualifying CD opportunities
- } Explain the importance of CD activities
- } Discuss other available resources

Community Affairs Program

Supports the FDIC's mission to promote stability and public confidence in the nation's financial system by

- } Stimulating the expansion of economic inclusion in the mainstream banking system
- } Assisting financial institutions in developing responsive strategies
- } Promoting community development partnerships and access to financial services in historically underserved markets

Program Description Continued

- } Developing tools such as the FDIC Money Smart product suite to promote financial capability
- } Working with financial institutions, community-based organizations, and local governments to address financial service access gaps and community development needs/opportunities
- } Increasing knowledge of the CRA and fair lending laws

Importance of CD Activities

- } Promotes the economic health of customers and communities
- } Presents expanded business opportunities for lending and investment strategies and vehicles
- } Potentially results in recognition for strong performance under the Community Reinvestment Act

Opportunities for Community Development

- } Defining Opportunities: Circumstances that offer the possibility for action.

From Opportunity to Action

- } Understand what is going on and organize information from federal, state and local sources
- } Network with the “quarterbacks” at the local and state levels
- } Assess how to connect, considering the bank’s capabilities and goals, and involve senior officers and board members

From Opportunity to Action

- } Connect to “promising practices” and involve the local network in learning
- } Implement responsive initiatives and assess results

The FDIC's Money Smart Suite of Products

- } A range of financial capability tools to engage with consumers, schools, community development organizations and small businesses
- } Includes curricula and other resources targeted to adults, young adults, elementary school children, young people, older adults, and small businesses

FDIC Resources

- } Released CDFI Resource Guide (May 2014) and held related webinar (July 2014)
- } Download Guide
<http://www.fdic.gov/consumers/community/cdfi/index.html>
- } FDIC Product Catalog for hard copies
<https://vcart.velocitypayment.com/fdic>
- } Webinar slides
<https://www.fdic.gov/consumers/community/Webinar/ModelApproach.html>

FDIC Resources

} *Finding Community Development Opportunities* Webinar

} Webinar Slides

<https://www.fdic.gov/consumers/community/Webinar/FindCommDevelopment.html>

} All FDIC Community Development and Economic Inclusion Webinars

[https://www.fdic.gov/consumers/community/Webinar.](https://www.fdic.gov/consumers/community/Webinar)

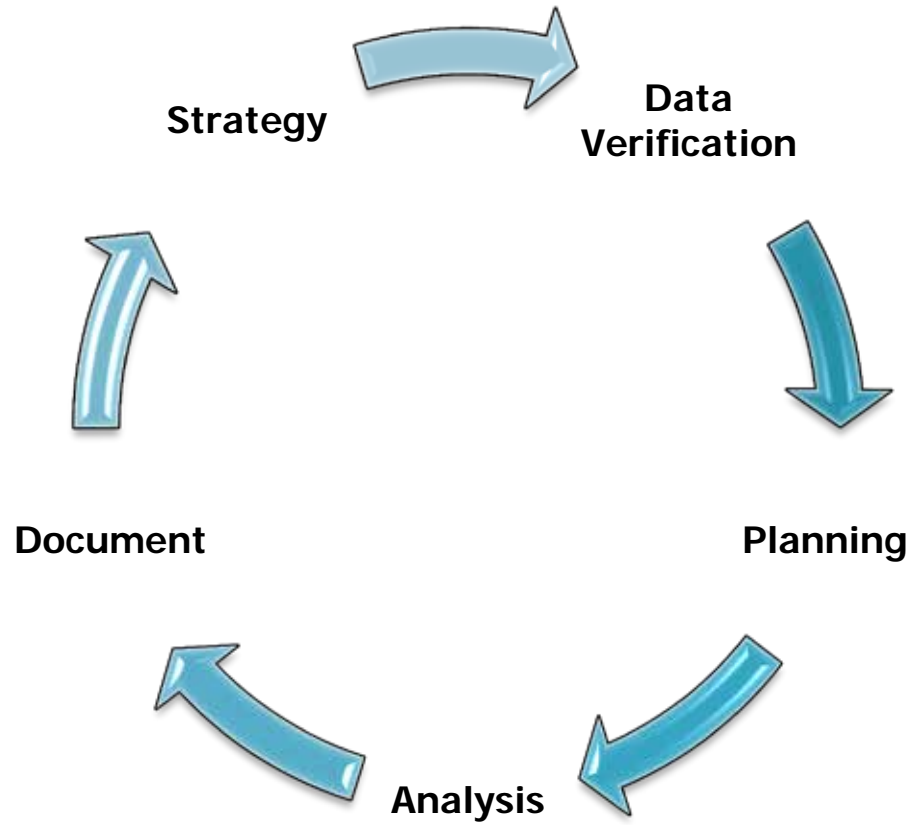
Resources

- } FDIC Division of Depositor and Consumer Protection New York Region Newsletters
- } Conduct community contacts
- } State departments of community development

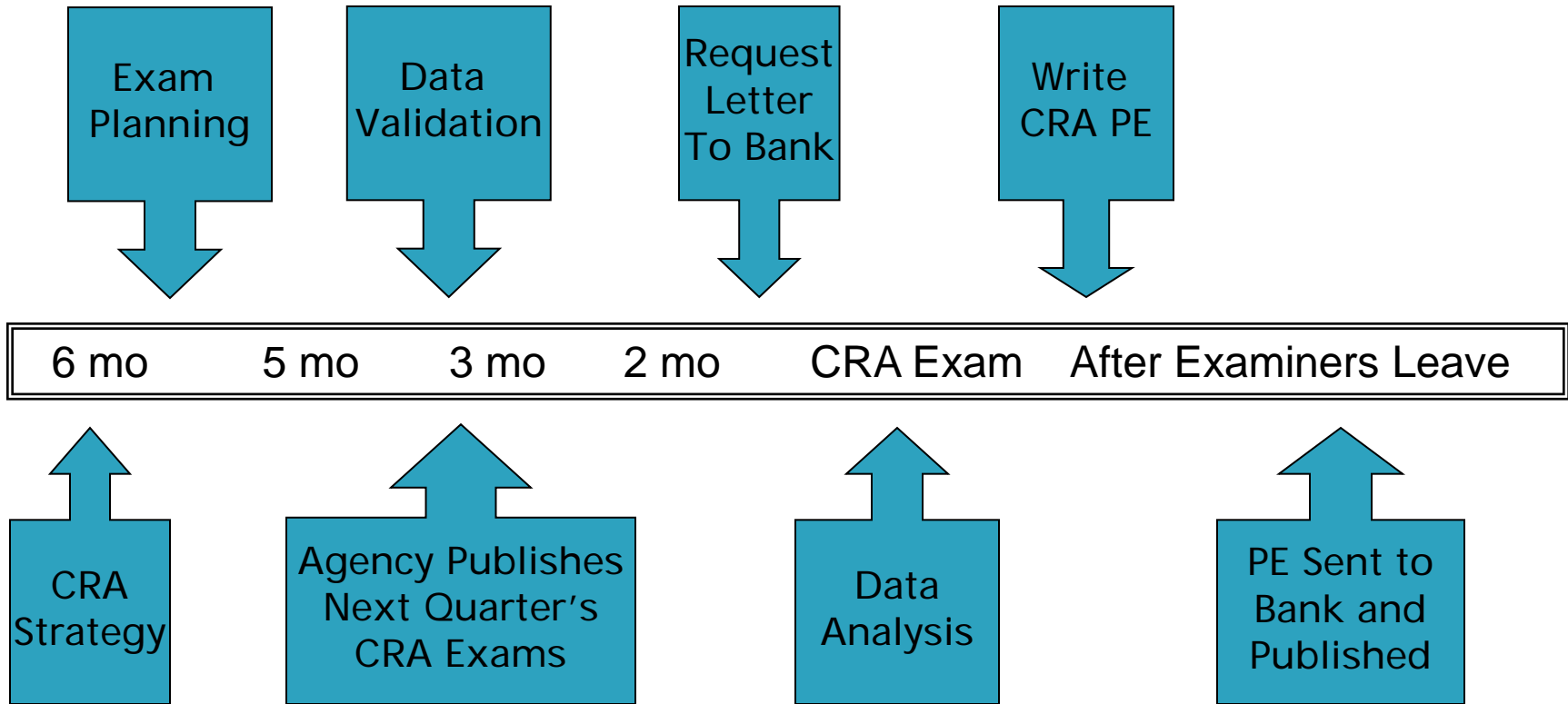
New York Region Community Affairs Management

- } Valerie J. Williams - Regional Manager, Community Affairs Branch, vwilliams@fdic.gov (DC, DE, MD, NJ, NY, PA, PR, USVI and CT, MA, ME, NH, RI, VT)
- } Timothy W. DeLessio - Area Manager, Community Affairs Branch, tdelessio@fdic.gov (CT, MA, ME, NH, RI, VT)

CRA Exam Cycle



Steps Examiners Go Through



Exam Preparation Best Practices

- } Understand how community development impacts your performance evaluation
- } Consider performing a self-assessment
- } Provide CRA training
 - Bank's CRA program
 - Definition of Community Development
 - Interagency Q&As
 - Impact of consumer protection compliance

Exam Preparation Best Practices

- } Review your AA delineation
 - Meets technical requirements
 - Reflects branch openings/closings

- } Check CRA public files

- } HMDA and CRA data review
 - ISB – small business/farm vs. community development

Exam Preparation Best Practices

- } Develop a tracking system
 - Activity type: loan, investment/donation, service
 - Community development category
 - Dates
 - Number and/or dollar amount

- } Maintain supporting documentation
 - Beneficiary
 - Prospectus/official plan
 - Area(s) benefitting from activity

Exam Preparation Best Practices

- } Review request letter
- } Prepare an examination communication plan
 - Either one bank liaison, or
 - A list of bank contacts

Questions

Contact Information

- } Jim Keller – jkeller@fdic.gov
- } Janice Rosenberg – jrosenberg@fdic.gov
- } Valerie Williams – vwilliams@fdic.gov

CRA Resources

Resources to use in developing and implementing a CRA strategy for your bank

References & Resources

- } Supervisory agency & other regulatory resources
- } Assessment area and geographic data resources
- } Performance context resources

Supervisory Agency & Other Regulatory Resources

Federal Financial Institutions Examination Council (FFIEC)

} Home page - www.ffiec.gov

} Home Mortgage Disclosure Act (HMDA)

- Link: <http://www.ffiec.gov/hmda/default.htm>
- Also access links to FAQs, the FFIEC geocoding system, information on how to file your HMDA data, census reports, public data and other reporting resources

} Community Reinvestment Act (CRA)

- Link: <http://www.ffiec.gov/cra/default.htm>
- Also access links to the Interagency Q&As, CRA ratings, exam schedules, interpretive letters, information on how to file your CRA data, and other public data and CRA related resources

Exam Schedules, Procedures & Guidance

- } FFIEC link to agency evaluation schedules, annual asset threshold adjustments, list of distressed and underserved nonmetropolitan middle-income geographies, evaluation procedures, and public evaluations

<http://www.ffiec.gov/cra/examinations.htm>

- o FDIC link to evaluation procedures and other resources and information on CRA

<http://www.fdic.gov/regulations/community/community/index.htm>

- o Federal Reserve link to the the Consumer Compliance handbook

<http://www.federalreserve.gov/boarddocs/supmanual/cch/cch.pdf>

- o OCC link to evaluation procedures and other resources and information on CRA

<http://www.occ.gov/topics/compliance-bsa/cra/index-cra.html>

NOTE: Public Evaluation Templates and Instructions for Completing them can be useful for conducting self-evaluations

Interagency Q & A's on CRA

- } Link to current Interagency Questions & Answers Regarding Community Reinvestment (Q&As) , March 11, 2010
<http://www.ffiec.gov/cra/qnado.c.htm>
- } Link to supplementary Q&As issued November 20, 2013
<http://www.ffiec.gov/cra/pdf/bcreg20131115a2.pdf>

Locating Public Evaluations

- } FFIEC <http://www.ffiec.gov/craratings/default.aspx>
- } FDIC <http://www2.fdic.gov/crapes/>
- } FRB <http://www.federalreserve.gov/apps/crape/BankRating.aspx>
- } OCC <http://www.occ.treas.gov/cra/crasrch.htm>

Other Supervisory Agency Resources

- } A Banker's Quick Reference Guide to CRA (Dallas Fed)

<http://www.dallasfed.org/assets/documents/cd/pubs/quickref.pdf>

Note: This publication was created in 2005 and has not been updated to reflect changes in annual asset size thresholds

- } CRA Loan Data Collection Grid (Dallas Fed):

<http://www.dallasfed.org/assets/documents/cd/pubs/craloan.pdf>

Other Supervisory Agency Resources

- } FDIC Technical Assistance Video Program
<http://www.fdic.gov/regulations/resources/director/video.html>
- } Community Development Data Guidebook by The Federal Reserve Bank of San Francisco
<http://www.frbsf.org/community-development/files/Community-Development-Data-Guidebook.pdf>

Assessment Area & Geographic Data Resources

Information on Metropolitan & Micropolitan Statistical Areas

- } Lists of Metropolitan and Micropolitan Statistical Areas and definitions
 - <http://www.census.gov/population/metro/>

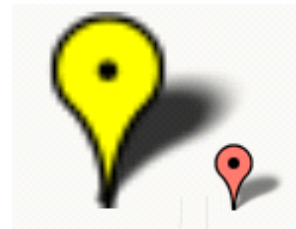
- } Maps of metropolitan and micropolitan statistical areas
 - <http://www.census.gov/population/metro/data/maps.html>

Geocoding Tool

- } Enter a street address to find the MSA/MD, state, county, and census tract codes.

<http://www.ffiec.gov/Geocode/default.aspx>

- } Click on the “Get Census Demographic” button for tract income level data



Distressed/Underserved Non-metro Middle-Income Areas Designated Disaster Areas

- } Distressed and Underserved Nonmetropolitan Middle-Income Geographies
 - Scroll down to access the list for a specific year.
<http://www.ffiec.gov/cra/examinations.htm>

- } Designated Disaster Areas
 - Major Disaster Declarations administered by the Federal Emergency Management Agency (FEMA).
Search for disaster areas by state and year.
<http://www.fema.gov/news/disasters.fema>

 - *Note: “Designated Disaster Areas” under CRA does not include counties designated to receive only FEMA Public Assistance Emergency Work Category A (Debris Removal) and/or Category B (Emergency Protective Measures).*

Performance Context Resources

FFIEC Estimated Median Family Income

<http://www.ffiec.gov/censusproducts.htm>

- HUD estimate for the fiscal year that corresponds to the year for which the loan application data are reported
 - Applies to calendar years including and prior to 2011
- FFIEC estimate for the fiscal year that corresponds to the year for which the loan application data are reported
 - Applies to calendar years 2012 forward
 - Based on 2006-2010 5-year estimate American Community Survey (ACS) data
 - Borrower median family income estimates are updated annually
 - Tract median family income estimates will be updated as ACS 5 year estimates are updated

Economic Data

- } Bureau of Labor Statistics
 - Local area unemployment estimates
<http://www.bls.gov/lau/#tables>

- } Federal Bureau of Economic Analysis (BEA) Regional Facts (BEARFACTS)
 - Describes an area's personal income, its sources and growth rates.
<http://www.bea.gov/regional/bearfacts/>

Industry Analysis

} Deposit Market Share Report

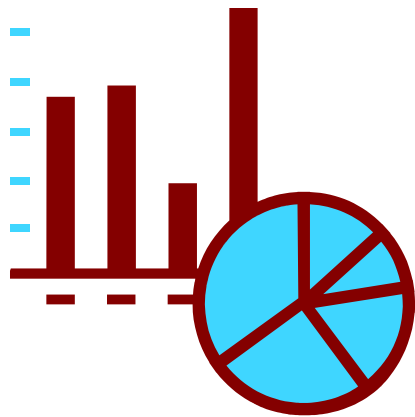
- Provides deposit and branch data on FDIC insured institutions by MSA or by state, county, and zip code

<http://www2.fdic.gov/sod/sodMarketBank.asp?barItem=2>

} Institution Directory

- Provides financial data and branch locations for FDIC insured institutions and their holding companies <http://www2.fdic.gov/idasp/>

Small Business Data



- } Bureau of Labor Statistics
 - National and regional resources for employment and business data
<http://www.bls.gov/>
 - Business Employment Dynamics is a quarterly data series that help to provide a picture of the state of the labor market.
<http://www.bls.gov/bdm/home.htm>

- } Dun & Bradstreet
 - Source of information and ratios regarding industry and small businesses (by subscription)
<http://www.dnb.com/us/>

HUD Consolidated Plans

} Three-to-Five-Year Plans

- Analyses of the local housing market, and housing needs of low-income, homeless persons, and special needs populations.

<http://www.hud.gov/offices/cpd/about/conplan/local/index.cfm>

HUD Economic Development Programs

- } Information on eight Department of Housing & Urban Development Economic Development programs.

<http://www.hud.gov/offices/cpd/economicdevelopment/programs/>

Other Useful HUD Links

} American Housing Survey

<http://www.huduser.org/portal/datasets/ahs.html>

} Low Income Housing Tax Credits

<http://www.huduser.org/portal/datasets/lihtc.html>

Community Development Entities

} Community Development Financial Institutions (CDFIs)

- Search for a CDFI near you

http://www.cdfifund.gov/what_we_do/need_a_loan.asp

} Directory of non-profits

- Search for a list of non-profits by organization name, EIN, city, or state.

<http://www2.guidestar.org/>

Community Development Entities

} Minority-owned banks

- Investments in Minority Banks may qualify for CRA. Listing of minority institutions may be found at <https://www.fdic.gov/regulations/resources/minority/MDI.html/>

} Low-income & community development credit unions

- Search for Low-Income Credit Unions by charter, city, state, or other criteria. <http://cuonline.ncua.gov/CreditUnionOnline/CU/FindCreditUnions.aspx>
- Statute allowing investment by banks: NCUA Rule and Regulation #701.32 allows credit unions to receive shares (which are deposits for credit unions), from non-members so long as they don't exceed 20% of total shares in the credit union or \$1.5MM, whichever is the larger.

Public School Data

- } The National Center for Education Statistics (NCES) is the primary federal entity for collecting and analyzing data related to education in the U.S. NCES is located within the U.S. Department of Education and the Institute of Education Sciences. NCES fulfills a Congressional mandate to collect, collate, analyze, and report complete statistics on the condition of American education.
- } <http://nces.ed.gov/globallocator/>