

CRA

2016 Compliance School

May 1-6, 2016

The UGA Hotel and Conference Center

Athens, Georgia

Blank Sheet of Paper

- Put Another Compliance Officers Name at the Top
 - Pretend you are them!
 - Compliance Officer Name & Bank Name
- Define CRA – What is it?
 - Acronym stand for?
 - What it is about?
- How Does CEO Define it?
 - Three or four adjectives
- Biggest Issue/Concern regarding CRA?
 - Again from the mindset of the Compliance Officer



C Canada

R Revenue

A Agency

CRA CRA

CRA CRA

“Date?”

CRA CRA

“Date?”

“CRBT. Date was CRA CRA!”

CRA CRA

“Date?”

“CRBT. Date was CRA CRA!”

“DARFC...d’boy is CRA CRA!”

CRA CRA

“Date?”

“CRBT. Date was CRA CRA!”

“DARFC...d’boy CRA CRA!”

How way last night’s date?

A: I am Crying Real Big Tears. He was not what I had hoped. The entire night was nuts. I believe he may be crazy.

*Duck and Run for Cover. I have heard that he is crazy.
 (“sorry but I knew he was a nut” is implied)*



Can't
Remember
Anything

Can't Remember Anything

Red = Senility Induced
Blue = Alcohol Induced

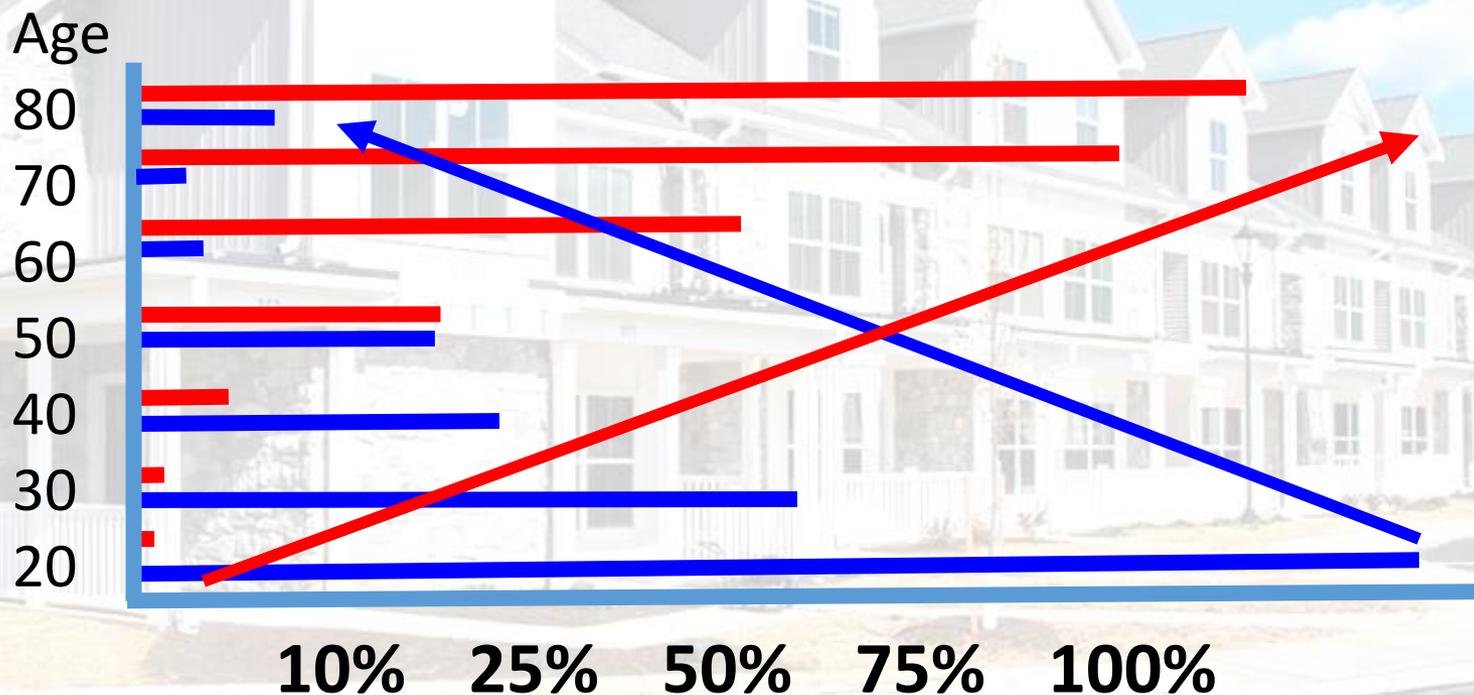


Can't Remember Anything

Red = Senility Induced Memory Issue

Blue = Alcohol Induced Memory Issue

** Unofficial non-scientific study based on casual observation and has no real meaning.*





Community Reinvestment Act

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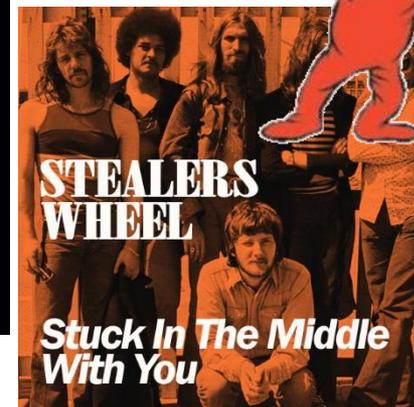
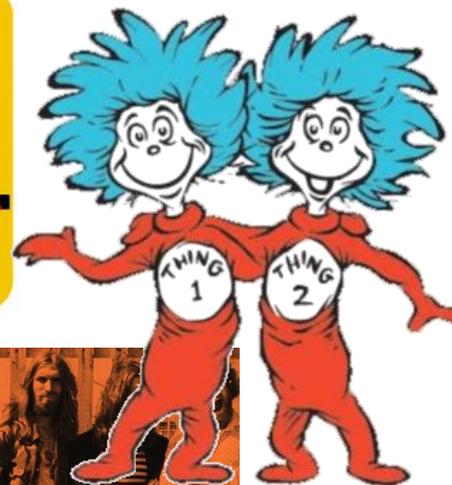
CRA Presentation Outline

- Purpose and Background of CRA
- Your CRA Responsibilities
 - Public File, Public Notice, Data Collection, Assessment Area
- CRA Examination Types
 - Small vs. Intermediate Small vs. Large
 - Performance Criteria
 - CRA Ratings
- CRA Regulatory Exam Basics
- Key Terms
 - Performance Context
 - Assessment Area
 - Community Development: Loans, Services and Investments
 - LMI
 - Redlining
- Hot Button – The Return of Redlining - Thing 1 and Thing 2
 - Redlining Trip Wires
- How to Comply with CRA
 - Practical Ideas to Consider
 - Common CRA Trip Wires
 - Future of CRA?
- Appendix
 - CRA Tools
 - CD Deep Dive

CRA Outline

What we really are going to learn:

- Why you should avoid breakfast foods like Doughnuts & Croissants
- Why you have to be like Paul Harvey
- Why you need to be aware of both Thing 1 and Thing 2
- Why bigger is better!
- How to Avoid the Common Tripwires:
 - Redlining & CRA
- The Benefits of Being A Good Spy...
- Stealers Wheel Hit Song



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Background

Community Reinvestment Act

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.**
- CRA was designed to do two things:
 - ***Eliminate illegal practice of redlining***
 - Encourages regulated depository financial institutions to ***meet the credit needs of all the communities*** it serves (Including Different ***Individual Income Levels and Different Census Tract Geographies*** – Focus on Low- and Moderate-Income Geographies); Small Businesses; Small Farms
- CRA compliance **closely monitored by regulators** and examiners.
- **Does not apply to credit unions** (insured by the National Credit Union Share Insurance Fund or NCUSIF) or nonbank entities supervised by the Consumer Financial Protection Bureau (CFPB). *The CFPB does not supervise CRA.*
- The CRA is implemented by **Regulation BB**.
 - It was intentionally designed to be broad.
- CRA does not encourage the extension of unsafe or unsound credit.
 - CRA activities **MUST** be consistent with safe, sound and prudent business operations.

Background

- CRA was **part of the heightened civil rights activity of the 1960s and 1970s**. Followed on the heels of:
 - Fair Housing Act of 1968
 - Equal Credit Opportunity Act of 1974
 - Home Mortgage Disclosure Act of 1975
 - In addition...public and congressional concerns about the deteriorating condition of America's cities, particularly low-income and minority neighborhoods. This included concerns regarding **redlining** – designating certain lower-income or minority neighborhoods as ineligible for credit.
- CRA **enacted in 1977**
 - Requires regulators to evaluate each institution's record in helping meet the credit needs of its entire community and evaluated periodically by one of the federal bank regulatory agencies.
- 1989 – Written evaluations required (one confidential for institution and one **public**). **Rating system introduced** and the reasoning behind the rating to support the conclusions.
- 1995 – The CRA regulations were substantially revised to put greater emphasis on performance outcomes (**established different evaluations tests** for different kinds of institutions: large, small, wholesale and limited purpose). CRA ratings were made available on web.
- 2005 – Additional revisions were made to the CRA regulations (streamlined **intermediate small bank category was added**). The new test continues to focus on lending and adopts a new **community development services** component that considers a combination of community development loans, investments and services tailored to community needs and the capacity of the bank.

“Regulator Disclosure” regarding CRA

- It is important to remember that the regulation specifically states that CRA ***does not require*** a bank to make loans or investments, or provide a service that are ***inconsistent with safe and sound operations.***

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Your CRA Responsibilities

Community Reinvestment Act

CRA Responsibilities

- Regulation Requirements
 - **Maintain 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.
 - **Post 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 regulator in order to provide comments regarding the bank's CRA performance.
 - **Data Collection and Data Reporting (large banks only)**
 - Each large bank is required to report data on small business, small farm and community development activities.
- Responding to **Consumer Complaints**
 - 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.
- **Delineation of Assessment Area**
 - One or more assessment areas within which the regulator will evaluate the bank's record of helping to meet the credit needs of its community. See key terms on how to delineate assessment area (e.g., include whole census tracts, include all geographies where branches are located, etc.). Evaluate on a regular basis.

Public File Checklist

- Accurate public notice in the lobbies
- Complete public file in main office (and one in each state):
 - ✓ All **written comments from public** relating to CRA performance and responses from prior two years.
 - ✓ Most recent **CRA Performance Evaluation**
 - ✓ **Map of each assessment area** showing boundaries
 - ✓ **List of branches**, branches opened and closed during the current and each of the prior two years
 - ✓ **List of services** (loan and deposit products and transaction fees)
 - ✓ If applicable:
 - If CRA score was less than satisfactory: **Quarterly report** on efforts to improve
 - **HMDA disclosure statements** for prior two calendar years

Lobby Poster – Public Notice

- **CRA Notice (lobby poster):**

The **CRA notice must be displayed in each office** of the institution other than off-premises electronic deposit facilities. The CRA notice must state the prescribed language as set forth in the regulation [Regulation BB (Federal Reserve), Part 345 (FDIC) or 12 CFR 25 (OCC)]. The language of the CRA notice varies depending on whether branches are located in the same or separate delineated community as the main institution.

Example Notice

Community Reinvestment Act Notice

Under the Federal Community Reinvestment Act (CRA), the Federal Deposit Insurance Corporation (FDIC) evaluates our record of helping to meet the credit needs of this community consistent with safe and sound operations. The FDIC also takes this record into operations account when deciding on certain applications submitted by us. Your involvement is encouraged.

You are entitled to certain information about our operations and our performance under the CRA, including, for example, information about our branches, such as their location and services provided at them; the public section of our most recent CRA Performance Evaluation, prepared by the FDIC; and comments received from the public relating to our performance in helping to meet community credit needs, as well as our responses to those comments. You may review this information today.

At least 30 days before the beginning of each quarter, the FDIC publishes a nationwide list of the banks that are scheduled for CRA examination in that quarter. This list is available from the Regional Manager, Division of Compliance and Consumer Affairs, Federal Deposit Insurance Corporation, 10 Tenth Street, North East, Suite 800, Atlanta, GA 30309.

You may send written comments about our performance in helping to meet community needs to:

Ronnie Shaw

**PINNACLE BANK
1811 SECOND AVENUE JASPER, AL 35501
AND TO THE
FDIC REGIONAL MANAGER**

Your letter, together with any response by us, will be considered by the FDIC in evaluating our CRA performance and may be made public. You may ask to look at any comments received by the FDIC Regional Manager. You also may request from the FDIC Regional Manager an announcement of our applications covered by the CRA filed with the FDIC.

We are an affiliate of Pinnacle Bancshares, Inc., a bank holding company. You may request from Assistant Vice President, Applications, Federal Reserve Bank of Atlanta, 1000 Peachtree Street, N.E., Atlanta, GA 30309, an announcement of applications covered by the CRA filed by bank holding companies.

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CRA Examination Types & Performance Criteria

Community Reinvestment Act

3 Types of Common Regulatory Exams

Getting Grounded: 50,000 Foot View

1. Safety & Soundness

- Other: Specialty Examinations (e.g., Trust and Information Technology)
- Usually concurrent with Safety & Soundness

2. Compliance

- Blends risk-focused and process-oriented approaches
- CMS: Policies and Procedures, Training, Monitoring, Consumer Compliance Response, Compliance Audit, Board and Management Oversight

3. Community Reinvestment Act

- Bank will receive a written, publicly-available Performance Evaluation
- Uses a separate rating system

How is an institution evaluated for CRA?

- The federal banking agencies enforce CRA by examining the CRA record of a bank, issuing a written report with a rating, and taking the bank's CRA record into account when considering the bank's application to expand its business.
- An institution will be evaluated under one of five methods under the CRA regulations. The evaluation methods are:
 - Designed to respond to basic differences in institutions' structures and operations
 - Intend to establish performance-based CRA examinations that are:
 - Complete and Accurate
 - Mitigate the compliance burden for institutions (to the extent possible)
- **5 Evaluation Types:**
 - **Small Bank**
 - **Intermediate Small Bank (ISB)**
 - **Large Bank**
 - Community Development Test for limited purpose/wholesale banks
 - Strategic Plan
 - Special Purpose Banks (e.g., Bankers Bank) are excluded.

Overall Ratings

- Ratings Assigned by FDIC, Federal Reserve, or OCC
- **Overall Ratings**
 - **Outstanding**
 - **Satisfactory**
 - **Needs to Improve**
 - **Substantial Noncompliance**
- Regulators Acknowledge - Small banks are considered different (less stringent review):
 - Staffing and Expertise
 - Breadth and Volume Product Offering
 - Financial Resources

2016 - Determining Examination Types

- **Small Bank**
 - Assets less than \$304 million as of December 31st in either of two prior calendar years.
- **Intermediate Small Bank**
 - Assets of at least \$304 million as of December 31st in both of the prior two calendar years and
 - Less than \$1.216 billion as of December 31st in either of the prior two calendar years
- **Large Bank**
 - Assets of at least \$1.216 billion as of December 31st in both of the prior two calendar years
- Annual adjustment of asset thresholds based on changes in the Consumer Price Index will be reported in the Federal Register
- Thresholds effective January 1st, 2016

Small Banks - Performance Criteria

- **Lending Test**

- **Average Net Loan-to-Deposit Ratio**

- Measures Overall Lending Levels
- Net Loans and Leases / Total Deposits (Uniform Bank Performance Report)
- Calculated for each quarter since last CRA evaluation
- Compare to other banks (similarly situated institutions: size, market, services)

- **Assessment Area Concentration**

- Measures level of lending within all of your assessment areas (must Geocode loans)
- Uses Loan Originations (primary products, entire portfolio of lending, HMDA loans)
- Percentage of Loans Within Assessment Area by # and by \$
- Compare to 50% or higher inside the assessment area

- **Borrower Distribution (by income/revenue)**

- Measures how well you have met credit needs inside assessment area(s)
- Borrowers of different income levels (Low- and Moderate Income); and/or
- Businesses and farms of different sizes (annual gross revenue of \$1 million or less = small biz/farm)
- Compare to US Census (Families, Households, % AA Businesses with Revenues of \$1m or less), Dunn and Bradstreet (% of AA biz with revenues of \$1 million or less). Compare to aggregate HMDA and CRA data if required to report.

- **Geographic Distribution of Loans**

- Measures how well loans are distributed throughout your assessment area(s) and among tracts of varying income levels (geocode and determine income levels for each tract)
- Compare to US Census (% Owner-Occupied, % Households, % Business, % Farms). Compare to aggregate HMDA and CRA data if required to report. Focus is on LMI tracts.
- If more than one assessment area, analyze each separately

- **Examples:** <https://www.chicagofed.org/~media/others/events/2011/cra-interagency-workshop-chicago/module-4-assessing-lending-1-11-11-pdf.pdf>

Small Banks

Lending Test

1. Average Net Loan to Deposit Ratio
2. Assessment Area Concentration (Inside/Outside AA Loans – 50%+ Target Inside)
3. Geographic Distribution (proportion of lending in *census tracts*)
4. Borrower Distribution (lending to *individual borrowers* inside Assessment Areas)

Focused on Low- and Moderate-Income Tracts and Individuals, Small Business and Small Farms

Assessment Areas

Complaints & Responses

CRA
Rating

Investment & Services

(Optional- May be Considered at Bank's Request to enhance Satisfactory Rating)

Public File

Evidence of Discriminatory Practices
(Fair Lending)

Performance Ratings Components

Small Bank

- Each performance criteria assigned a rating of Outstanding, Satisfactory, Needs to Improve or Substantial Noncompliance.
- Outstanding Overall Rating if Satisfactory for all criteria and some or all materially exceed the Satisfactory standard.

Intermediate Small Bank Performance Criteria

- Two Performance Tests for ISB:
 1. **Lending Test** – same Performance Factors utilized for Small Banks
 2. **Community Development Test** – demonstrate flexible approach that measures your bank’s responsiveness to community development needs through the combination of:
 - loans,
 - investments and
 - services
- Must achieve at least a “Satisfactory” on both the lending and Community Development tests to be rated Satisfactory or better overall.

Intermediate Small Banks

1. Lending Test

1. Average Net Loan to Deposit Ratio
2. Assessment Area Concentration (Inside/Outside AA Loans – 50%+ Target Inside)
3. Geographic Distribution (proportion of lending in census tracts)
4. Borrower Distribution (lending to individual borrowers inside Assessment Areas)

Assessment Areas

Complaints & Responses

CRA
Rating

Public File

2. Community Development Test

- Loans (# and \$ Amount)
- Investments (# and \$ Amount)
- Services
- Responsiveness of CD Activities

Evidence of Discriminatory
Practices
(Fair Lending)

Performance Ratings Components

Intermediate Small Bank

- The same as for a Small Bank but also includes Community Development as a rated performance category.
- Not separately rated for CD Lending, Service and Investment – just a single overall rating for this category (one rating for the Community Development Test).
- Must achieve at least Satisfactory on **both** the Lending and Community Development tests to be rated Satisfactory or better overall.

Large Bank Performance Criteria

- Large banks face three separate comprehensive CRA tests:
 - **Lending Test**
 - Number and amount of loans in the institution's assessment area
 - The geographic distribution of loans, including in 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
 - **Investment Test**
 - The dollar amount of qualified community development investments
 - Innovativeness and complexity of qualified investments
 - Responsiveness of qualified investments of credit and community development needs
 - **Service Test**
 - 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
 - Extent of community development services provided
 - Innovativeness and responsiveness of community development services

Large Banks

1. Lending Test
- Inside/Outside AA
 - Geographic Distribution
 - Borrower Distribution
 - Innovative or Flexible lending practices to address needs of LMI individuals or geographies
- CD Loans
 - Number and \$ Amount
 - Complexity and Innovativeness

Assessment Areas

CRA Rating

Complaints & Responses

Public File

2. Investment Test
- \$ Amount of Qualified Investments
 - Innovativeness and Complexity of Qualified Investments
 - Responsiveness of Qualified Investments to Credit and Community Development Needs

Evidence of Discriminatory Practices
(Fair Lending)

3. Service Test
- Review Both:
 - Retail Services (branch distribution, record of opening/closing, alternative systems, range of services)
 - CD Services
 - Innovativeness and Responsiveness

Performance Ratings Components

Large Bank

• Component Ratings	<u>Lending</u>	<u>Investment</u>	<u>Service</u>
• Outstanding	12	6	6
• High Satisfactory	9	4	4
• Low Satisfactory	6	3	3
• Needs to Improve	3	1	1
• Substantial Noncompliance	0	0	0
• Points Composite Assigned Rating			
• 20 + Outstanding			
• 11 – 19 Satisfactory			
• 5 – 10 Needs to Improve			
• 0 – 4 Substantial Noncompliance			

All Financial Institutions: CRA Performance will be Adversely Affected by Evidence of Discriminatory Credit Practices

- **Equal Credit Opportunity Act or Fair Housing Act (discrimination on prohibited basis)**
- Section 5 Federal Trade Commission Act (unfair or deceptive acts)
- Section 8 of Real Estate Settlement Procedures Act (kickback, fee splitting, unearned fees in settlement services)
- Truth in Lending Act's consumer right of rescission – Reg Z Truth in Lending (security interest in consumer's principal dwelling)
- Home Ownership and Equity Protection Act - Reg Z Truth in Lending (high APR and fees)

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Regulatory Exam

Community Reinvestment Act

Supervisory Agencies for CRA

- **Must assess an institution's record of helping to meet the credit needs of the local communities** in which the institution is chartered.
- Performance must be consistent with safe and sound operation of the institution.
- Banks and thrifts are supervised by:
 - Office of the Comptroller of the Currency (OCC)
 - Federal Reserve System
 - Federal Deposit Insurance Corporation
 - **NOT CFPB (not responsible for CRA) and NOT NCUA (not subject to CRA)**
- Find a financial institution's regulator:
<http://www.ffiec.gov/consumercenter/default.aspx>



4 Step CRA Exam Process

1. Exam Date Set and Published by Supervisory Agency

- Opportunity for public to comment on community needs and bank performance

2. Examiners Prep for Review

- Review Asset Size to Determine Performance Criteria and Examination Method (Small, Intermediate, Large)
- Research Performance Context (Bank and Market)
 - Demographics of Markets, Economic Conditions, Credit Needs, Community Development Needs
 - Bank specific characteristics
- Since Last CRA Exam: Review Economic Changes to Assessment Area (Unemployment Rates, Industry Growth, Housing Markets, Rental Market, Affordable Housing, Local Poverty Rate)
- Contact Community Stakeholders: Describe the “on the ground” market conditions they see on a daily basis

3. Examiners Conduct Review

- Work to understand Loans, Investments, Services that Qualify for CRA Consideration by identifying those Activities that Benefitted Low- and Moderate-Income Areas or Distressed or Underserved Areas
- Review Comments and Complaints on perceived CRA Performance
- Review Preliminary Ratings, Discuss Community Needs, Review Go-Forward plans

4. **Written Performance Evaluation (PE) is completed** and made available to the public after completion.

- Community groups and nonprofits can download these written evaluations to identify areas to partner with the financial institutions

Impact of Less than Satisfactory CRA Performance – “Corporate Leverage”

- An institution’s CRA record is taken into account in considering applications for deposit facilities, including M&A. CRA Ratings are considered (may deny or condition applications) when a bank applies for:
 - Establishment of branches
 - Relocation of offices and branches
 - Mergers/acquisitions
- Potential Consequences
 - Reputation Risk – CRA rating is public
- Maintaining a Satisfactory or better CRA rating will also result in less frequent CRA examinations at your institution.

Examination Frequency

- GLBA established the examination frequency for banks (minimum frequency interval)
 - CRA rating of Outstanding? Review every five years
 - CRA rating of Satisfactory? Review every four years
- Individual Regulators have established their own frequency usually based on both Compliance Rating and CRA Rating. See Federal Reserve example below.

FREQUENCY FOR BANKS WITH ASSETS ≥ \$350 MILLION and < \$ 1 BILLION			
Compliance Rating	CRA Rating	Next Compliance Examination	Next CRA Examination
1 or 2	Outstanding or Satisfactory	36 months	36 months
1 or 2	Needs to Improve or Substantial Noncompliance	36 months	12 months
3, 4, or 5	Outstanding or Satisfactory	12 months	36 months
3, 4, or 5	Needs to Improve or Substantial Noncompliance	12 months	12 months

Performance Evaluation Access

- Federal Financial Institutions Examination Council - FFIEC Interagency **CRA Rating and Performance Evaluation Search**

The screenshot displays the FFIEC website interface for CRA ratings. On the left, a sidebar menu lists various resources, with 'CRA Ratings and Performance Evaluation' selected. The main content area features a search form with the following fields: 'CRA Rating' (dropdown menu), 'Exam Method' (dropdown menu), 'US State' (dropdown menu), 'Asset Size' (dropdown menu), 'Bank Name or ID' (text input), and 'City' (text input). A red arrow originates from the search form and points towards the public disclosure document on the right.

PUBLIC DISCLOSURE

April 13, 2015

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

New Dominion Bank
Certificate Number: 57888

1111 Metropolitan Avenue, Suite 100
Charlotte, North Carolina 28204

Federal Deposit Insurance Corporation
10 Tenth Street, NE, Suite 800
Atlanta, Georgia 30309

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

A red arrow points from the search form in the screenshot to the public disclosure document.

Example Performance Evaluation (PE) Outline

- Common PE Elements:
 - Overall Rating
 - Scope of Exam (Assessment Area's Weighting)
 - Description of Institution
 - Performance Context
 - Description of Assessment Area(s)
 - Performance Test Ratings
 - Lending Test (In/Out of Assessment Areas - # Loans and \$ Loans)
 - Mortgage, Small Business, Small Farm
 - Distribution of Credit Inside the Assessment Area (Assessment Area Concentrations)
 - Borrower Profile
 - Response to Complaints
 - Community Development Test
 - Investment Test
 - Service Test
 - Fair Lending Review
 - Overall Conclusions
 - Lending Test: Mortgage Loans, Small Business Loans, Small Farm Loans
 - Community Development Lending
 - Investment Test
 - Service Test
- Individual Market/Assessment Reviews

Summary

- Description of the Institution
- Demographic data and other performance context information
- **Data used to determine performance**
- Comments and conclusions about performance

Public Performance Evaluation

- **Provides Transparency:** The performance of every bank in this country is easily accessed. The availability with the bank's CRA PE is now combined with the regulation's open solicitation to the community to comment on the institution's performance.
- **Require Mandatory Inclusion:** **Mandatory inclusion in the CRA PE of a negative finding by examiners,** resulting in a downgrade in the CRA rating, brings greater visibility to the fair lending record.

GBA

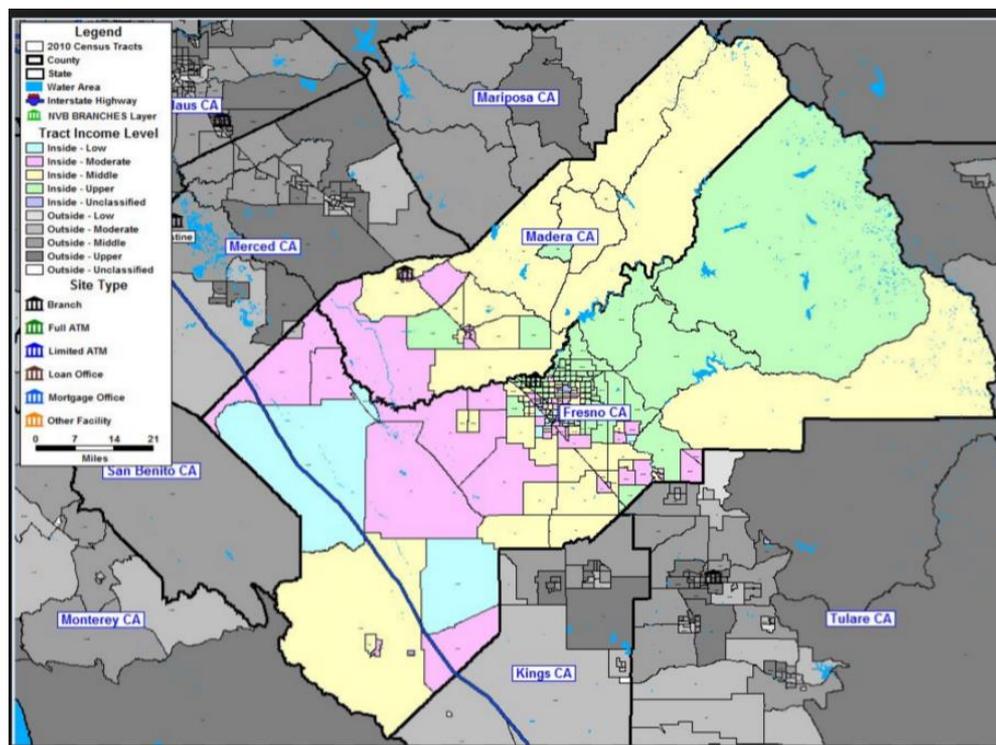
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Key Terms

Community Reinvestment Act

5 Key CRA Terms

1. Performance Context
2. Assessment Area
3. Community Development
4. Low- and Moderate-Income (LMI)
5. Redlining



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Key Term: Performance Context

Community Reinvestment Act

Paul Harvey – A great story teller!



Paul Harvey

“And
now...the
rest of the
story...”



Performance Context

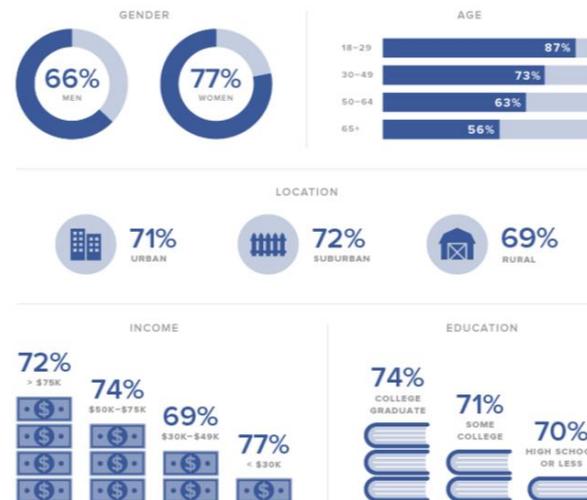
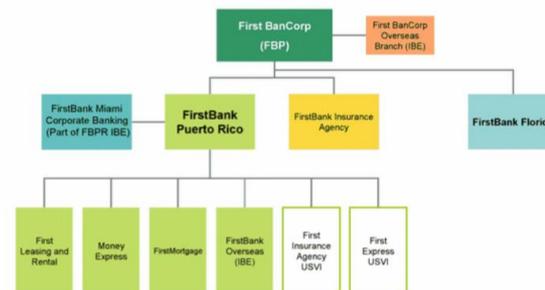
- **Performance Context is the environment in which a bank operates.**
 - A broad range of information that examiners review to understand the context in which to review a Bank's CRA performance.
 - It is the information about the institution, its community and its competitors and is included in the examination report.
- Performance Context factors that affect the bank's lending, investment and/or service tests performance are explained in the Bank's Performance Evaluation
- Performance Context information establishes **base-line data from which to judge** a bank's performance.

Performance Context

- Description of the Financial Institution

- Background
- General Business Strategy
- Ability and Capacity
 - Financial Data
 - Lending Focus
- Holding Company / Affiliates / Subsidiary
- Demographic, geographic, market and community needs
- Community Contacts
 - Insight into Area's Economic Condition
 - Insight into the Changes in Area
 - Insight into Area's Credit Needs
 - Insight into Institutions' Response
- Other Performance Context:
 - CRA-Related Complaints, Discriminatory
 - Illegal Credit Practices (Fair Lending)

Organized within a Bank Holding Company structure



CRA Performance Context

- Be Proactive in Understanding and Telling Your Story (stumbling blocks things we see)
 - Call Center
 - Serves Beyond Retail Footprint
 - M&A Activity
 - Legacy Footprint
 - Special Products or Services
 - Things out of the ordinary
 - Non-Traditional Products, Services, Distribution
 - Indirect Manufactured Housing
 - Changing or Evolving Business Strategy



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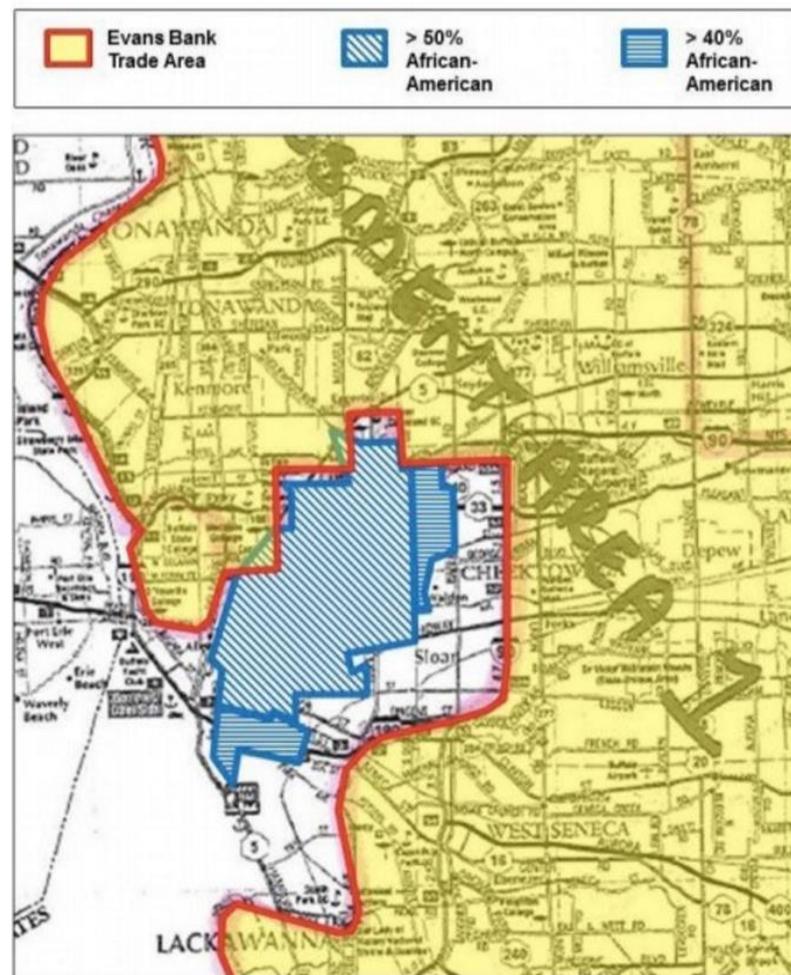
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Key Term: Assessment Areas

Community Reinvestment Act

Assessment Areas

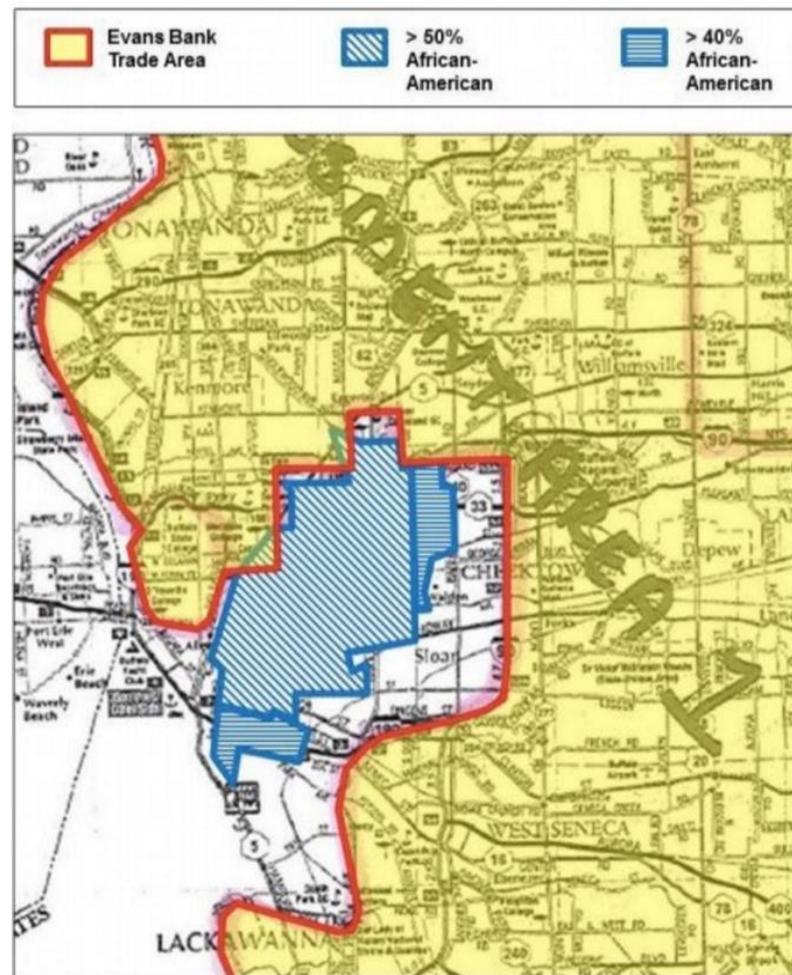
- **Banks define their assessment area. It is the area in which the CRA performance is evaluated.**
- CRA regulation requires banks to delineate one or more assessment areas within which the regulator evaluates the bank's record of helping to meet the credit needs of its community.
- **Assessment areas must include:**
 - Geographies where the bank has its main office, branches, ATMS and
 - Surrounding geographies in which the bank has originated or purchased a majority of its loans.
- **Limitations to Assessment Areas:**
 - Must consist of whole census tracts;
 - May not reflect illegal discrimination;
 - May not arbitrarily exclude low- or moderate-income census tracts;
 - Must include bank's main office, branches, and deposit-taking ATMs; and
 - Must include areas where the bank has originated or purchased a substantial portion of its loans



(New York Attorney General Office)

Assessment Areas

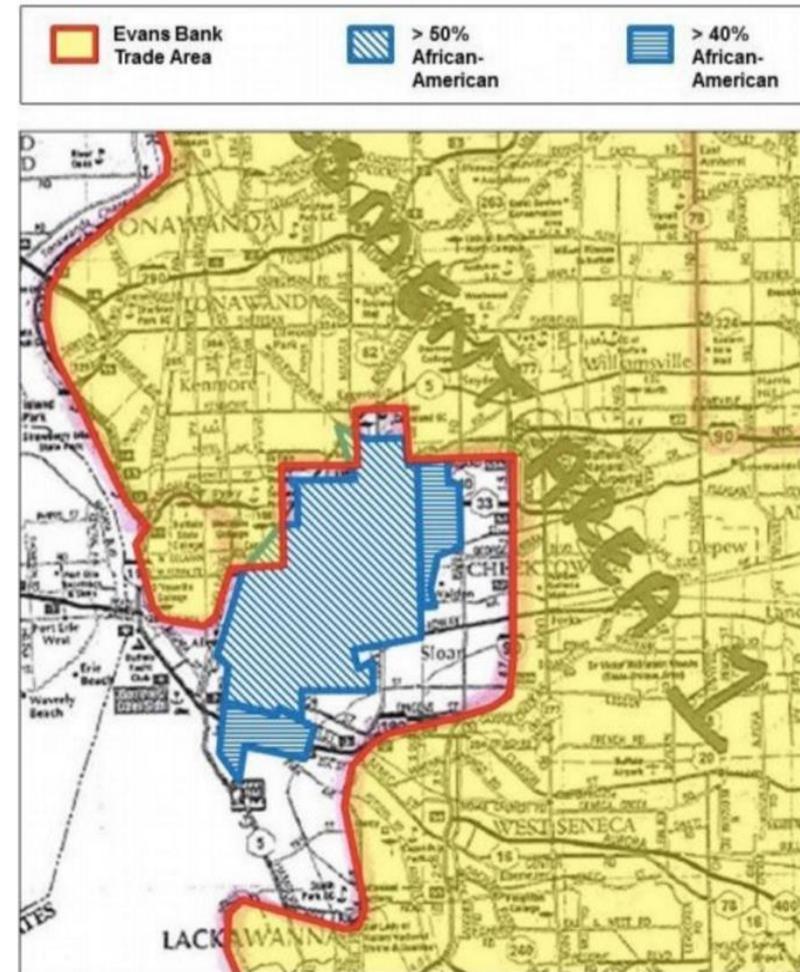
- Reg BB sets forth technical criteria for delineating assessment areas.
 - First, the geographic location of assessment areas must consist generally of one or more metropolitan statistical areas (MSAs); metropolitan divisions; or one or more contiguous political subdivisions, such as counties, cities, or towns. A political subdivision includes townships and Indian reservations, but it does not include wards, school districts, voting districts, and water districts.
 - Assessment areas must include the institution's main office, its branches, and its deposit taking ATMs, as well as surrounding geographies in which the institution has originated or purchased a substantial portion of its loans.
 - However, if an institution asks its regulator to consider affiliate lending in the CRA examination, the geographies within which the affiliates loans have been made do not affect the institution's delineation of its assessment area
 - If an institution predominately serves an area smaller than a political subdivision, it may adjust the boundaries of its assessment area to include only the portion of a political subdivision that it can reasonably be expected to serve. Adjusting the boundaries of an assessment area may also be appropriate if the assessment area would otherwise be extremely large, of unusual configuration, or divided by significant geographic barriers such as a body of water or a mountain



(New York Attorney General Office)

Assessment Areas

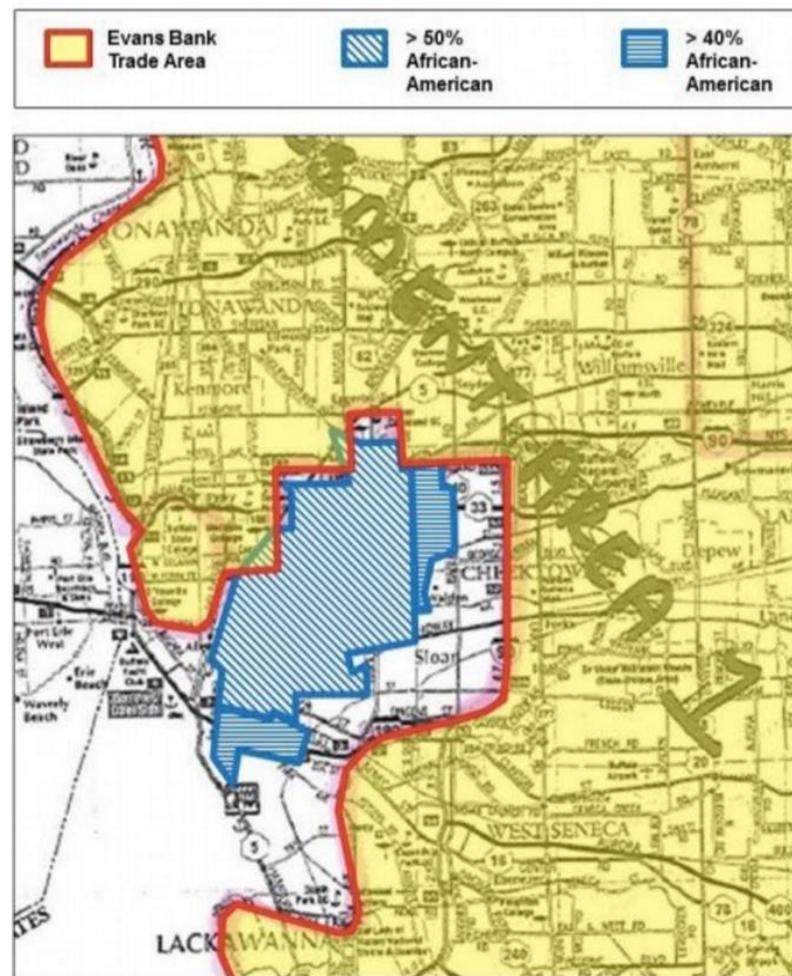
- Second, **assessment areas must not reflect illegal discrimination.** For purposes of defining CRA assessment areas, this refers to the practice of excluding geographies from assessment areas **on a prohibited basis** under the federal fair lending laws.



(New York Attorney General Office)

Assessment Areas

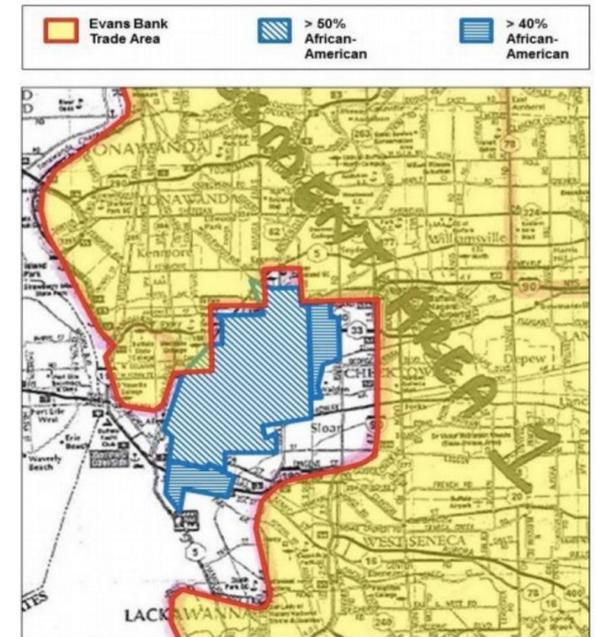
- Third, assessment areas cannot arbitrarily exclude low- or moderate-income geographies. Examiners may consider the following factors to determine if this has occurred:
 - Income levels in the institution's assessment area(s) and surrounding geographies
 - Locations of branches and deposit taking ATMs
 - Loan distribution in the institution's assessment area(s) and surrounding geographies
 - The institution's size
 - The institution's financial condition
 - The business strategy, corporate structure, and product offerings of the institution



(New York Attorney General Office)

Assessment Areas

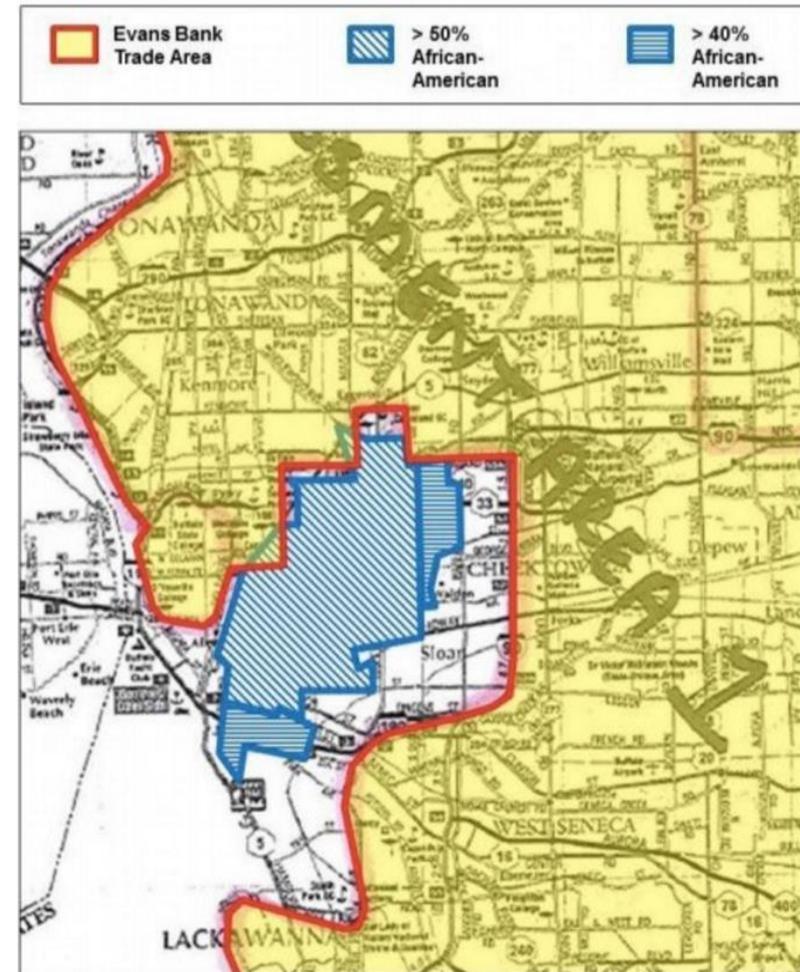
- Finally, assessment areas must consist of whole geographies and may not extend substantially beyond an MSA boundary or beyond a state boundary unless they are located in a multistate MSA.
 - When more than one MSA is combined with another in a combined statistical area (CSA), performance is measured using data at the MSA level — not the CSA level.
 - If an institution serves areas in a state that are separate and not contiguous, each area should be delineated as a separate assessment area
 - Similarly, if an institution serves an MSA with counties that abut the MSA but are not adjacent to one other (i.e., they extend substantially beyond the MSA), each county would be a separate assessment area.
 - However, if the MSA and counties are in the same CSA, they could all be included in the same assessment area, except the data used in measuring CRA performance would not be based on the CSA-level data but on the MSA-level data for the MSA, and at the state, non-MSA levels for the counties.



(New York Attorney General Office)

Assessment Areas

- General Rule: Bigger is Better
- May adjust Assessment Area boundary to include portion of a political subdivision that it can reasonably expect to serve
 - Resource:
<https://consumercomplianceoutlook.org/2014/first-quarter/understanding-cras-assessment-area-requirements/>



(New York Attorney General Office)

Quick Survey.....



versus

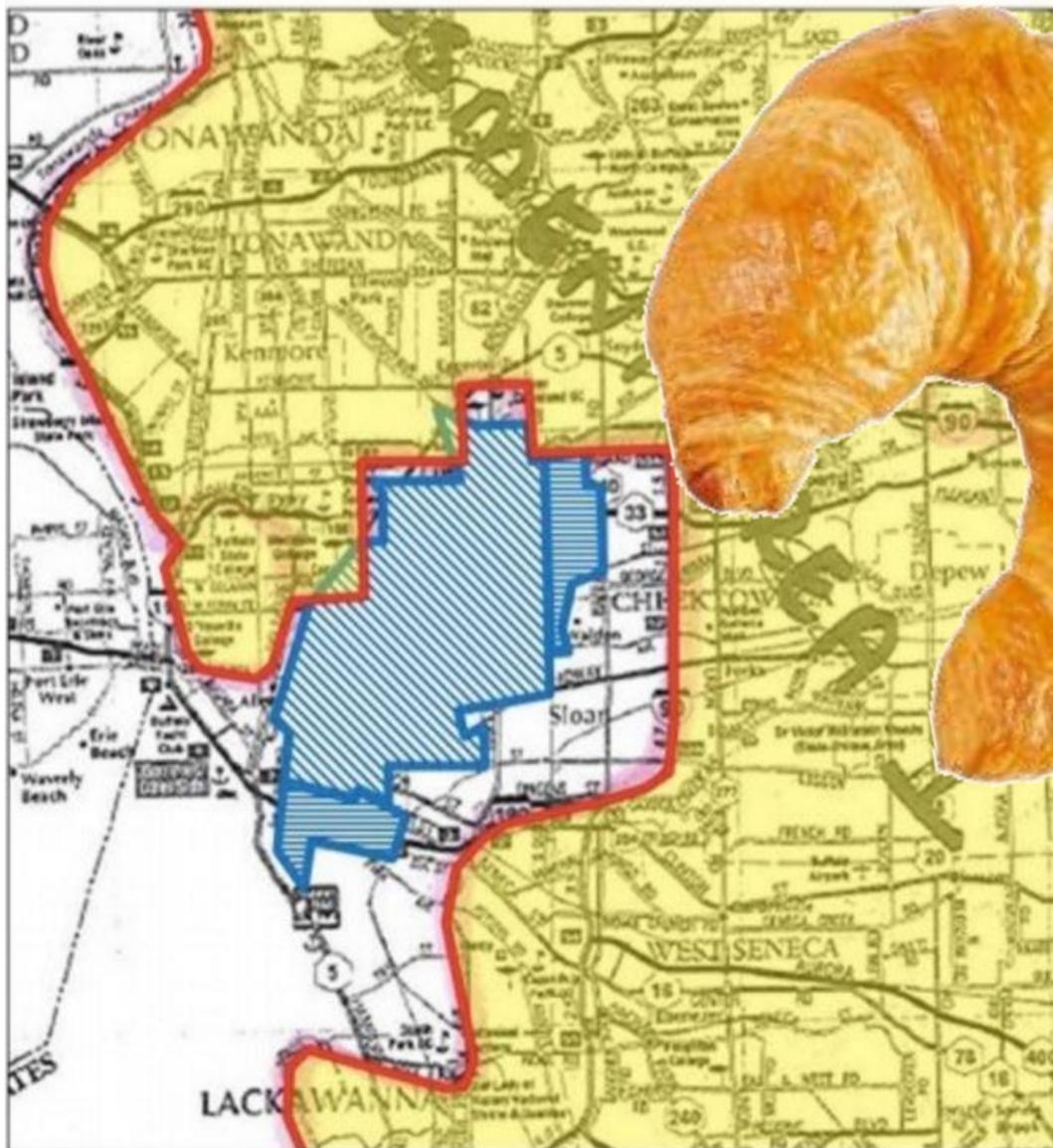


Rule of Thumb for Assessment Areas

- Avoid Breakfast Foods
 - Doughnuts
 - Bagels
 - Croissants
 - Doughnut Holes
- There should be no unexplained, conspicuous gaps.



Classic Croissant: Evans Bank



Classic Donut: Hudson City Savings Bank

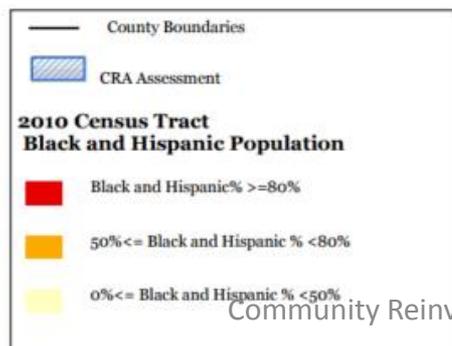
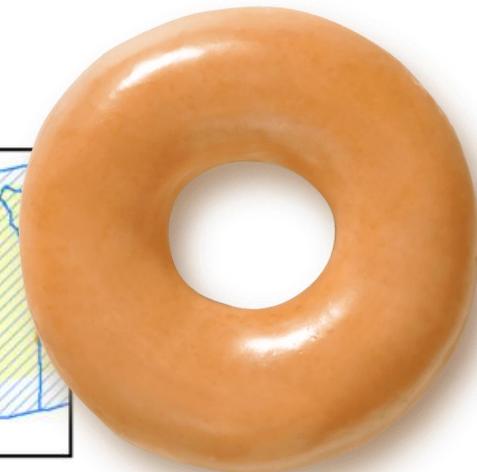
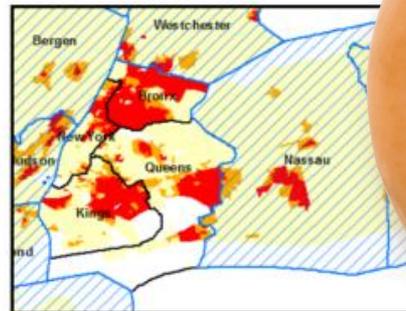
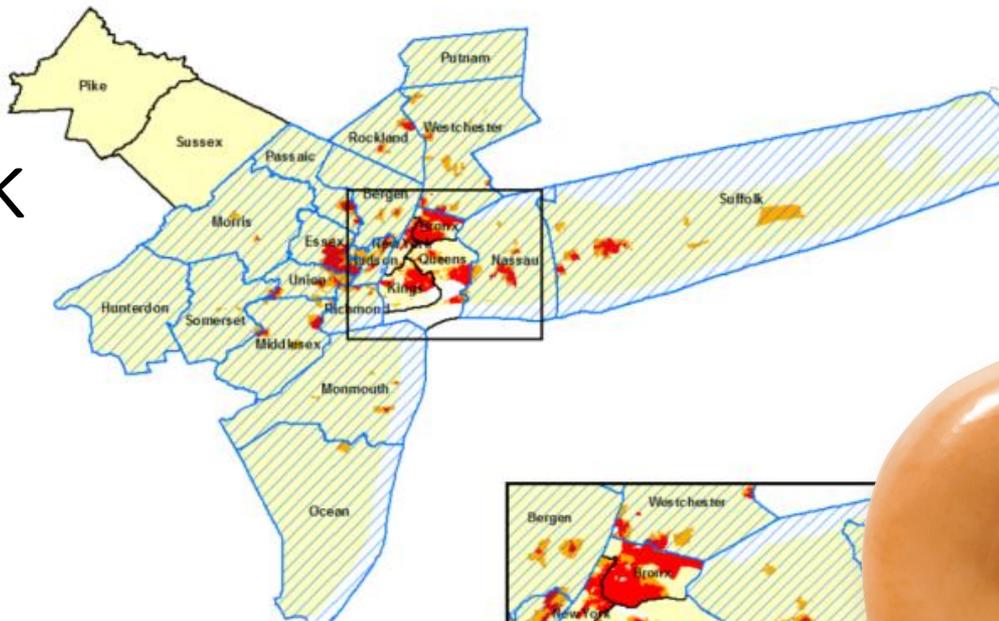
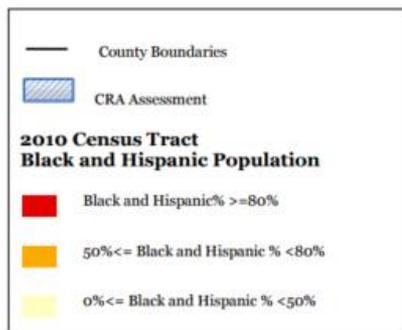
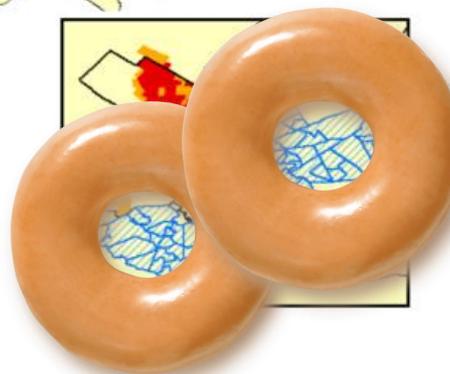
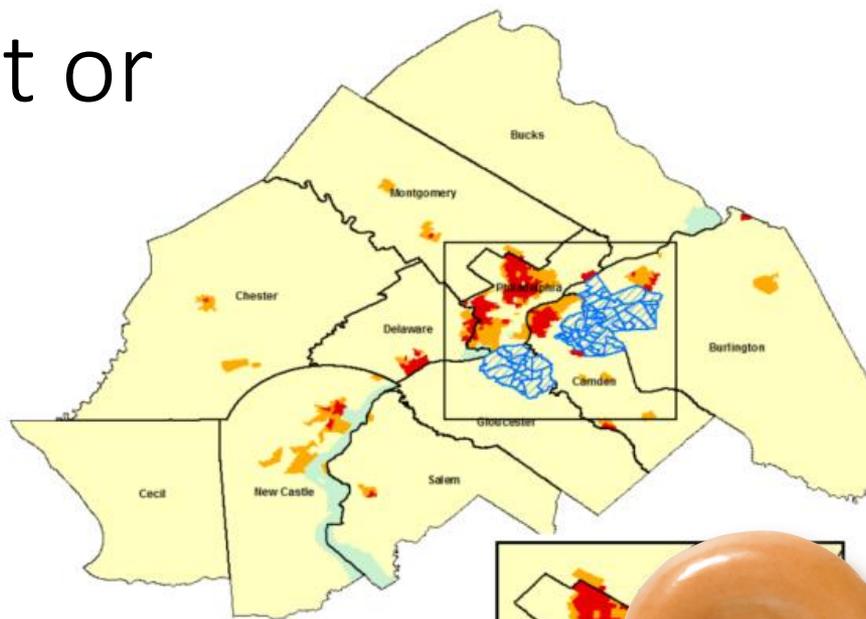


Exhibit D

Hudson City Camden MSA CRA Assessment Area

Reverse Donut or “Donut Hole” Hudson City Savings Bank



cfpb Consumer Financial Protection Bureau



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Key Term: Community Development

Community Reinvestment Act

Community Development Concepts

1. Community Development **Loans**
 2. Qualified **Investments**
 3. Community Development **Services**
- In order to receive Community Development consideration under CRA – loans', investments', and/or services' **primary purpose must be consistent with the definition of community development.**



CRA Evaluation Procedures that Include CD

- **Large Institution** – Assets of \$1.216 billion as of 12/31 for two years and at least 12 months of data collected
- **Intermediate Small Institution (ISB)** – Assets over \$304 million and below \$1.216 billion for past two years (2016 CRA Asset-Size Threshold). Unlike large banks, no time lag since there is no CRA loan data requirement
- **Wholesale/Limited Purpose** – Requires designation from regulator
- **CRA Strategic Plans** – Requires approval from regulator
- **Small Institution** – *If* the institution chooses, to the extent it enhances credit availability within bank's assessment area (OPTIONAL)

5 CRA Qualified - Community Development Components

1. **Affordable housing** for low- or moderate-income individuals;
2. **Community services** targeted to low- or moderate-income individuals;
3. **Promoting economic development by financing small businesses or small farms** (size standard meeting SBA SBDC or SBIC programs or gross annual revenues of \$1m or less);
4. **Activities that revitalize or stabilize low- or moderate-income areas**; designated disaster areas; or underserved or distressed nonmetropolitan middle-income areas (based on rates of poverty, unemployment and population loss); and
5. **Loans, investments, and services that support, enable, or facilitate Neighborhood Stabilization Program (NSP)** eligible activities in designated target areas.

Community Development Lending

- CD lending activity evaluated on:
 - Number and dollar amount of loans and complexity and innovativeness of loans.
 - Use of innovative or flexible lending practices in a safe and sound manner to address credit needs of low- or moderate-income individuals or geographies.



Community Development Loans

- Loans to borrowers for affordable housing rehabilitation and construction.
- Loans to not-for-profit organizations serving primarily LMI housing or other community development needs.
- Loans to financial intermediaries including CDFIs (Community Development Financial Institutions), CDCs (Community Development Corporation), and community loan funds or pools.
- Loans to local, state, and tribal governments for community development activities.

The Investment Test

- The investment test evaluates a bank's record of helping to meet the credit needs of its AA through qualified community development investments and grants that benefit its AA or a broader statewide or regional area that includes the bank's AA.



Examples of Qualified Investments

- Lawful investments, deposits, grants or shares in or to:
 - Financial intermediaries
 - Organizations engaged in affordable housing
 - Organizations that promote economic development by financing small businesses
 - Facilities that provide community services for low- and moderate-income individuals
 - Projects eligible for low-income housing tax credits (LIHTCs)
 - Organizations supporting activities essential to the capacity of LMI populations to utilize credit or sustain economic development
 - Charitable contributions including cash and in-kind donations



The Service Test

- The service test evaluates a bank's record of helping to meet the credit needs of its assessment area by analyzing:
 - the availability and effectiveness of a bank's systems for delivering retail banking services and:
 - the extent and innovativeness of its community development services.



Examples of Community Development Services

- Lending employees to provide financial services
- For organizations facilitating affordable housing construction, rehabilitation, or development
- Financial counseling to promote CD and affordable housing
 - Credit
 - Homebuyer and home maintenance
 - Financial planning or other financial services education
- Foreclosure prevention programs for low- or moderate-income homeowners
 - Help low- or moderate-income borrowers avoid foreclosure on their homes
 - Objective of affordable, sustainable, long-term modifications or restructurings



Examples of Community Development Services

- School savings programs, financial education or literacy for low- or moderate-income individuals
- Improving access to financial services for low- or moderate-income individuals
 - Electronic benefits transfers
 - Point of sale (POS) systems
 - International remittance services
- Low-cost savings or checking accounts
- Individual development accounts (IDAs)
- Free or low-cost government, payroll, or other check-cashing services



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Key Term: LMI

Community Reinvestment Act

Low- and Moderate-Income (LMI)

- Median Family Income (MFI) – Is used to classify a census tract. This corresponds to tract classifications as defined by the HMDA and CRA regulations. [Based on the Tract Median Family Income %:](#)
 - If the Median Family Income is <50% and >0 then the Income Level is Low
 - If the Median Family Income % is $\geq 50\%$ and $< 80\%$ then the Income Level is Moderate.
 - If the Median Family Income % is $\geq 80\%$ and $< 120\%$ then the Income Level is Middle.
 - If the Median Family Income % is $\geq 120\%$ then the Income Level is Upper.
 - If the Median Family Income % is 0% then the Income Level is Not Known.
- Income Level – Geography
 - Low-Income — Median family income less than 50 percent of the area median income
 - Moderate-Income — Median family income at least 50 percent and less than 80 percent of the area median income
 - Middle-Income — Median family income at least 80 percent and less than 120 percent of the area median income
 - Upper-Income — Median family income at least 120 percent of the area median income
- Income Level – Individual
 - Low-Income — Less than 50 percent of the area median income
 - Moderate-Income — At least 50 percent and less than 80 percent of the area median income
 - Middle-Income — At least 80 percent and less than 120 percent of the area median income
 - Upper-Income — At least 120 percent of area median income

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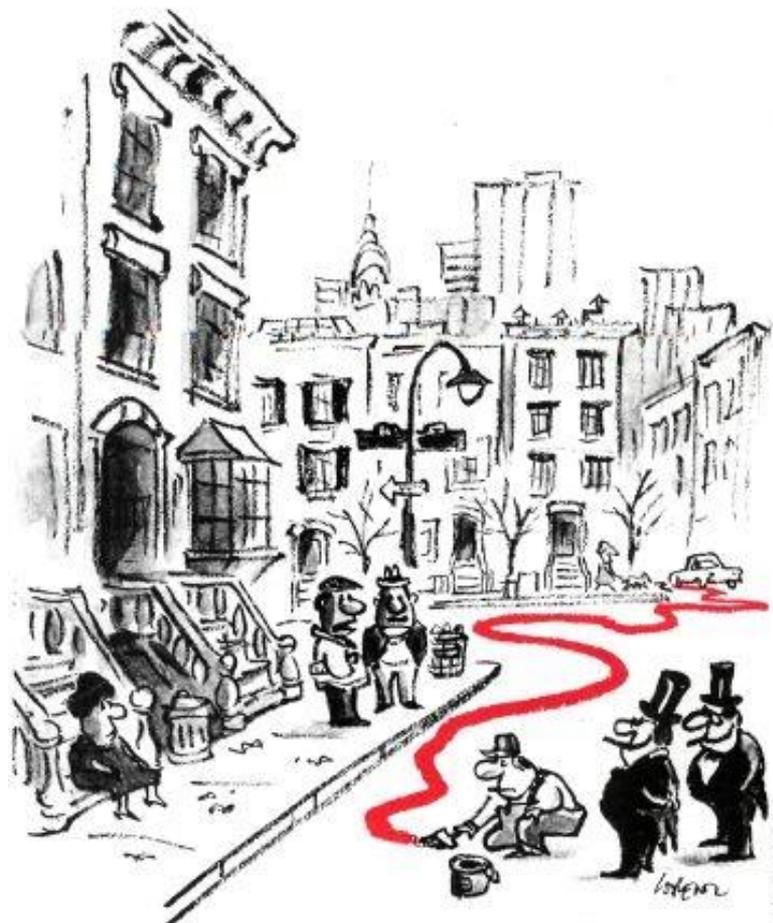
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Key Term: Redlining

Community Reinvestment Act

Redlining

- CRA seeks to address discrimination in loans made to individuals and businesses from low- and moderate-income neighborhoods.
- CRA mandates that all banking institutions that receive FDIC insurance be evaluated by Federal banking agencies to determine if the bank offers credit in all communities in which they operate.
- Redlining practices were a substantial reason CRA was enacted

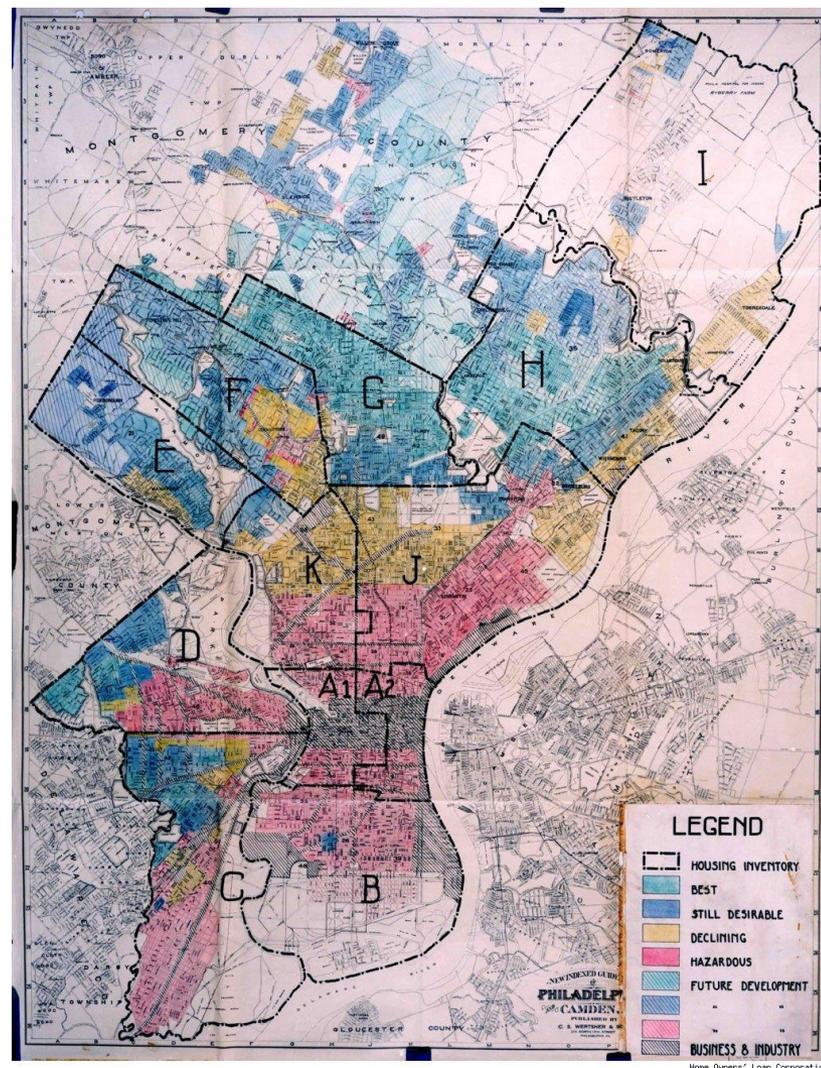


"Call me paranoid, but that sure looks like redlining from here."

© Engle Steer Report

Reverse Redlining

- The deliberate targeting of those once-excluded or underserved neighborhoods and borrowers with subprime and other high-risk loans.



Redlining Trip Wires



- **Redlining Compliance Management System:** Do you have a robust redlining Compliance Management Program for Redlining?
 - *Explore: Your policies, procedures, training, monitoring, risk assessments, disparity analysis within data, and management reporting/oversight.*
- **Marketing Risk (Demand Side of Redlining Risk):** Do you have geographic areas with elevated minority populations that are being ignored or excluded?
 - *Explore: Applications in minority census tracts, distribution of applications inside market areas, and application market share within the unique market areas. Review quantitative (stats) and qualitative (mapping) perspectives. Be sure to review how your bank compares to peer and/or benchmark data.*
- **Origination or Underwriting Risk (Supply Side of Redlining Risk):** Do you have geographic areas with elevated minority populations that are being ignored or excluded?
 - *Explore: Originations in minority census tracts, distribution of originations inside market areas, and origination market share within the unique market areas. Review quantitative (stats) and qualitative (mapping) perspectives. Be sure to review how your bank compares to peer and/or benchmark data.*
- **Reverse Redlining Risk (Targeting):** Do you have higher-priced products that are concentrated in high-minority or LMI tracts?
 - *Explore: Applications and originations in majority-minority census tracts and compare market share within the unique market areas. Again, review quantitative (stats) and qualitative (mapping) perspectives. Be sure to review how your bank compares to peer and/or benchmark data.*
- **Assessment Area Risk (CRA):** Do your designated assessment areas intentionally exclude adjacent minority census tracts? Where are your points of distribution (e.g., branches and brokers)?
 - *Explore: Annually review your assessment areas in comparison to the underlying Low- and Moderate-Income Census Tracts and Majority-Minority Census Tracts. Be sure to layer-in your geocoded branches, ATMs, broker locations and your lending patterns.*

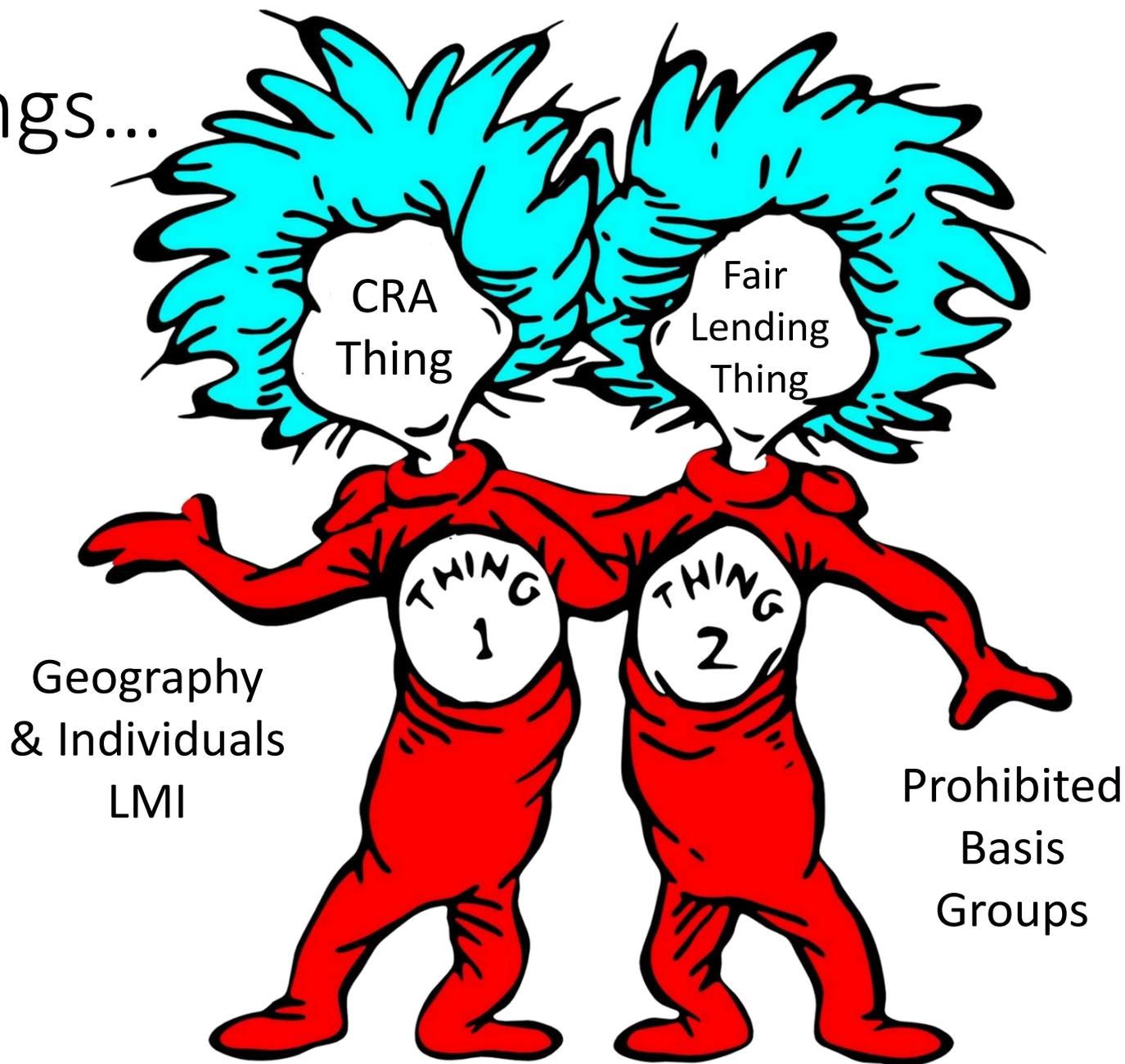
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CRA & Fair Lending

Community Reinvestment Act

2 Things...



CRA and Fair Lending – Work Together

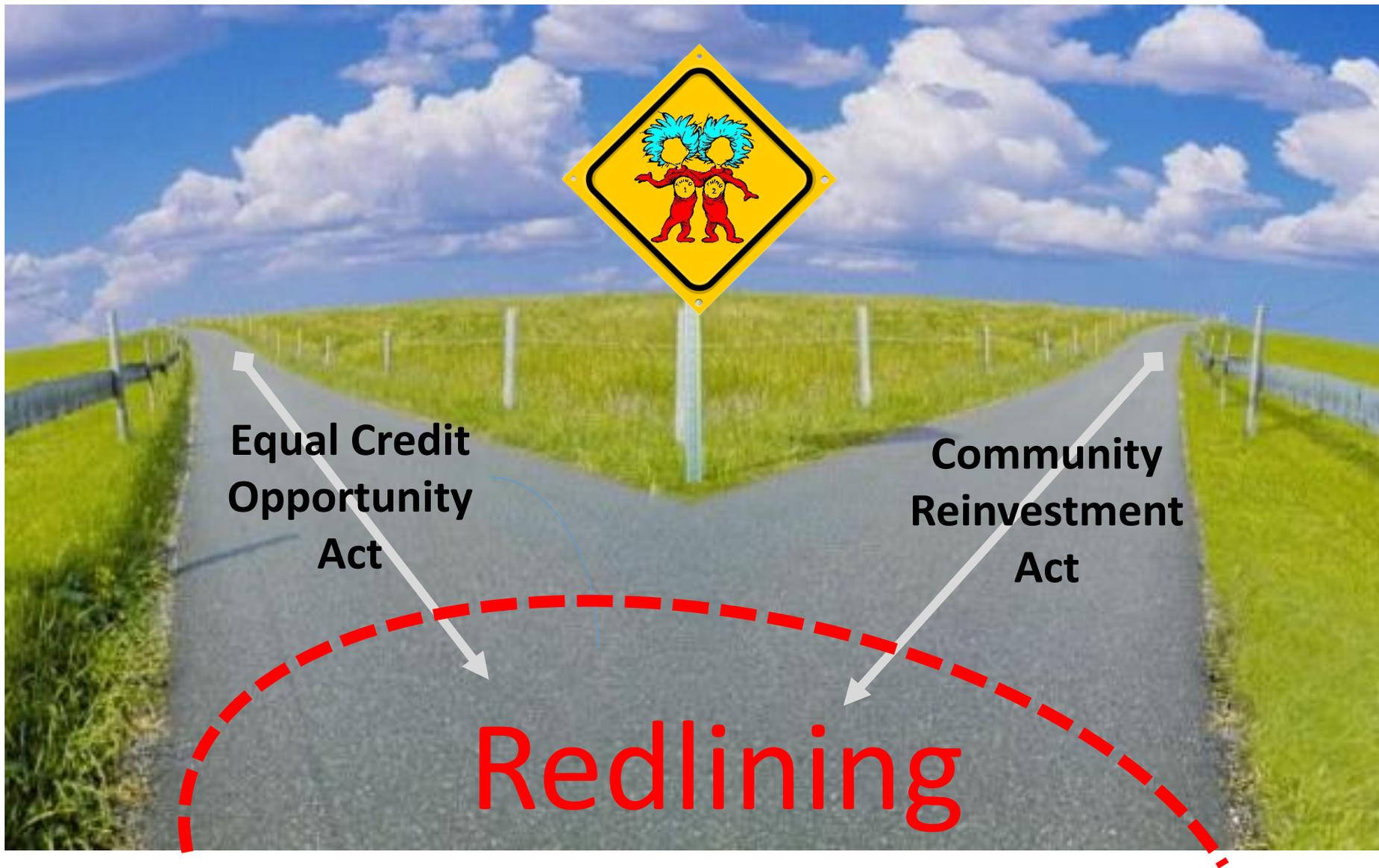
- Community Reinvestment Act: Banks have a continuing obligation to serve all communities in their service area – including low- and moderate-income areas. Dimensions:
 - Income
 - Geography
 - Example Fair Lending Tie: ***“Review the results of the fair lending component of the compliance examination and determine whether the findings should lower the bank’s preliminary overall CRA rating or the preliminary CRA rating for a state or multistate metropolitan area. If evidence of discrimination was uncovered, consider the following: a. The nature and extent of the evidence. b. The bank’s policies and procedures for preventing discriminatory or other illegal credit practices. c. Any corrective action the bank took or committed to take, particularly voluntary corrective action resulting from a self-assessment conducted before the examination. Other relevant information, such as the bank’s past fair lending performance.”***



CRA and Fair Lending – Work Together

- Fair Lending: It is unlawful to refuse credit or impose restrictive conditions to credit on the basis of:
 - Race, Gender, Ethnicity, Other (e.g., disability, religion, sex, marital status, age, income derived from any public assistance program)
 - Example CRA Tie - Fair Lending Interagency Fair Lending Examination Procedures:
 - *“Other patterns of lending identified during the most recent **CRA examination** that differ by the concentration of minority residents.”*
 - *“Difference in services available or hours of operation at branch offices located in areas with concentrations of minority residents when compared to branch offices located in areas with concentrations of non-minority residents.”*
 - *“Explicit demarcation of credit product markets that excludes MSAs, political subdivisions, census tracts, or other geographic areas within the institution’s lending market or **CRA assessment areas** and having relatively high concentrations of minority residents.”*
 - *“The institution’s **CRA assessment area** appears to have been drawn to exclude areas with relatively high concentrations of minority residents.”*
 - *“Complaints or other allegations by consumers or community representatives that the institution excludes or restricts access to credit for areas with relatively high concentrations of minority residents. Examiners should review complaints against the institution filed either with their agency or the institution; the **CRA public comment file**; community contact forms; and the responses to questions about redlining, discrimination, and discouragement of applications, and about meeting the needs of racial or national origin minorities, asked as part of obtaining local perspectives on the performance of financial institutions **during prior CRA examinations**.”*
 - *“An institution that has most of its branches in predominantly non-minority neighborhoods at the same time that the institution’s subprime mortgage subsidiary has branches which are located primarily in predominantly minority neighborhoods.”*





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CRA Management

Community Reinvestment Act

CRA Common Trip Wires



- CRA Officers know that successful CRA compliance requires an understanding of the underlying economic and demographic profile of the market (performance context) along with regular monitoring of their financial institution's lending patterns. Based on our recent market analysis, we have identified the five most prominent tripwires that can lead to a "Needs Improvement" or "Substantial Noncompliance" CRA performance evaluation in 2012:
 - **Poor Geographic Distribution, particularly to low- and moderate-income areas (LMI) and majority minority areas** - The focus of the first CRA regulation in 1978 was on serving the credit needs of the LMI throughout the census tracts within the financial institution's assessment area(s). Financial institutions should geocode loans within the assessment area(s) and compare the mapping to the income-levels for each census tract. It is important to examine the entire assessment area to ensure their geographic distribution of loans are not excluding specific LMI income tracts and majority minority census tracts.
 - **Low Borrower Distribution, particularly to low- and moderate-income individuals** - In 1995, CRA was expanded to focus on low- and moderate income people, in addition to geographically defined areas (noted in #1 above). Therefore, it makes sense to compare demographic and peer data in your unique assessment area(s) against your unique assessment area demographic and economic information. Similar to geographic distribution review, if you have more than one assessment area, you will want to review this in aggregate and within each assessment area. As a HMDA or CRA reporter, you will also want to explore comparative data.
 - **Assessment Area Concentration** - The regulators will measure the bank's efforts to meet the credit needs by looking at the level of lending within your assessment area(s). You will want 50% or higher within the assessment area. In other words, the majority of loans by number and dollar amount should be inside the assessment area.
 - **Fair Lending Compliance Issues** (Reg B violations) - Examiners must consider whether loans are safe and sound. In addition, they will review whether any part of the credit transaction involves any unfair, illegal, abusive, and discriminatory practices that reduces the positive impact of the financial institution's CRA initiatives.
 - **Poor Community Development Lending/Investment** (a large bank rating factor) - In the current economic environment, Examiners are paying attention to the institution's responsiveness to community needs. Can your bank demonstrate that it is being responsive to the community needs through loans, qualified investments and community development services?

Practical Ideas

- Develop a CRA Strategy
 - Identify an employee responsible for CRA compliance – CRA Officer
 - Assess community needs
 - Match products and services to needs
 - Consider fostering with local officials/community groups
- Perform Regular Self-Assessments
 - Review adequacy of Assessment Area
 - Review underlying demographic information
 - Review your bank's lending data
 - Review HMDA, Small Business, Small Farm Lending Activity (as applicable)
 - Look at In/Out Ratios
 - Look at Lending: Geography (LMI Census Tract) and Individual Lending (LMI)
 - Review your bank's peer or benchmark data for market areas
 - Track progress and require Board reporting
- Utilize Industry Resources
- Beyond Compliance - Spy on Your Competition (Performance Evaluations) and Share Findings



5 CRA Best Practices

Outlook Live – February 2016

1. **Defining Your Performance Context**
 - Are you prepared to discuss community characteristics and demographics?
 - Are you prepared to articulate the lending, investment and service opportunities?
 - Are you prepared to discuss bank characteristics (strategy, products, capacity, constraints, size and financial condition)
2. **Understanding Assessment Area and Performance Context**
 - Community Development may differ based on the characteristics of the communities you serve.
 - To gain an understanding of the credit and CD needs and opportunities in an institution's community, examiners obtain information from community, government, and civic organizations, and sources such as local housing authorities and small business development agencies. Financial institutions can benefit from collaborating with the same organizations
3. **Goal Setting**
 - Work with Management. Consider risk appetite and resources.
 - Objectives: Number/Dollar of Loans and Investments, Types of Services, Qualified Employee Service Hours, Number of Seminars or Outreach Events, Consider Impact (number and types of beneficiaries: LMI, Small Business, Organizations)
4. **Training and Tracking (Document and Analyze)**
 - Train: Loan Officers, CFO, Marketing Staff
 - Document: Collect and Organize; Maintain Supporting Document; Develop a Centralized Process to Record (type of activity, how it meets CD purpose, AA impacted)
 - Track: CD Loans, CD Investments (Equity Type and Charitable Contributions), CD Services
5. **Monitoring Performance**
 - Review Performance: Review Spreadsheets, Competitors CRA Public Evaluations, Maintain Contact with Government and Community Groups
 - Conduct CRA Self-Assessments (Using Performance Criteria for Small, Intermediate and Large Size Bank)

The Future of CRA???

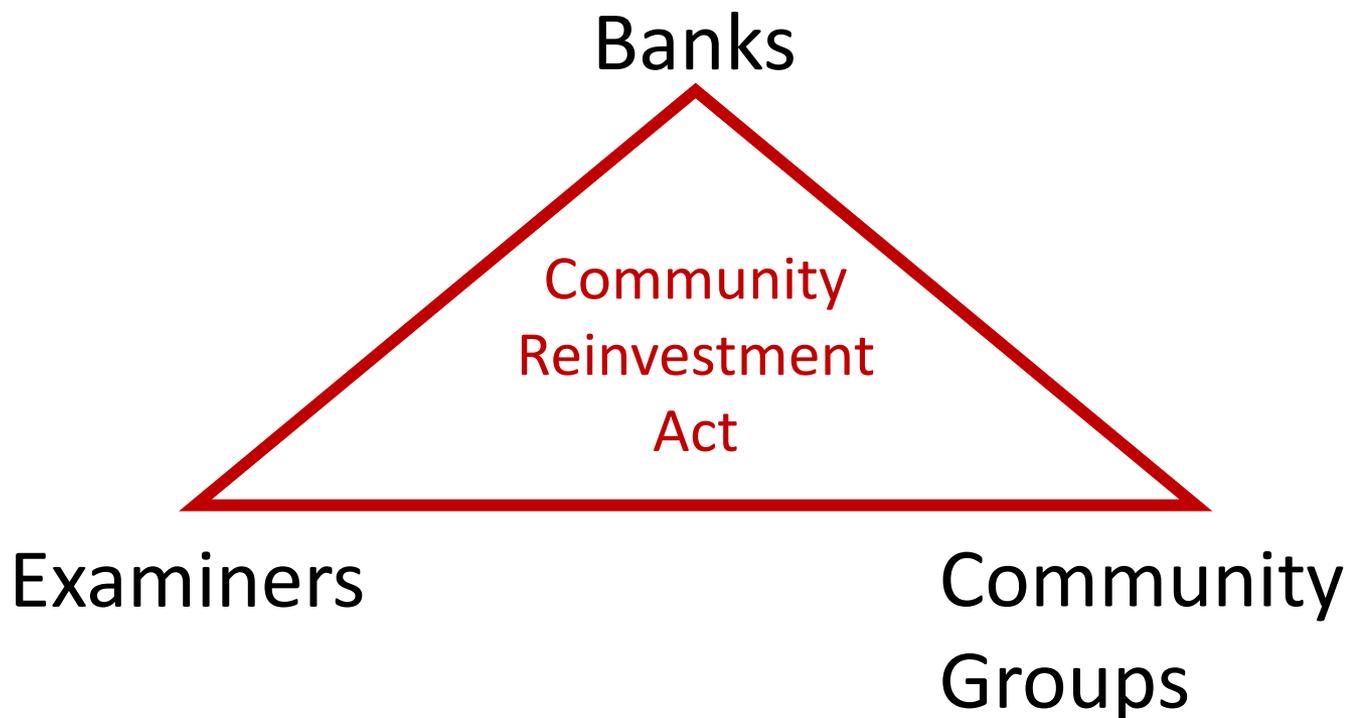
- Congress could not have foreseen the extensive changes in financial markets
- Local Community
 - The concept of local community is no longer as clear as it was when CRA was originally enacted. Some institutions are regional or national. Trends are showing that defining a “local community” is becoming increasingly difficult.
- Non-Deposit Lenders
 - We are seeing more “non-deposit based” firms make their way into the marketplace. These firms are not covered by the CRA (e.g., FinTech, Payday, Check Cashers, Remittance Agents, etc., etc.).
- Easier Access to Credit
 - Access to credit in low-income communities is much greater today versus when the CRA was enacted. This has both good and bad.
- Current State of CRA Exams: Puts pressure on Performance Context and Individual Interpretations.
 - Best Approach is a Solid CRA Compliance Management System

OCC – Thomas Curry

- *“Today, ATMs are everywhere and you can deposit a check by snapping a photo of it with your phone. Virtually anywhere in the world an individual can pay with a credit, debit, or prepaid card. Homebuyers can apply for a mortgage on the phone or online; when they choose to apply in person they have the option of sitting down with a loan officer in the office of a mortgage banking affiliate or with a nonbank mortgage broker. Although bank branches remain concentrated in urban and suburban cities and towns, many banks offer services far beyond their branch network. With the plethora of options and new products, consumers and businesses are no longer solely dependent on local financial institutions for deposit services and credit for their personal use or in their business and commercial enterprises.”*
 - March 20, 2013 – Thomas Curry – Before the National Community Reinvestment Coalition
- *Comptroller of the Currency Thomas Curry said Friday that policymakers will eventually have to re-evaluate the Community Reinvestment Act's approach to assigning assessment areas based on bank branches in light of the explosive growth of mobile banking. Speaking before the annual conference of the National Community Reinvestment Coalition, Curry noted that the current assessment system, in which geographic boundaries determine whether a bank has a presence in a community or not, is essentially unchanged since the law was passed in 1977.*
 - March 19th, 2016 – Presented to the National Community Reinvestment Coalition as reported by the American Banker



Stuck in the Middle with You

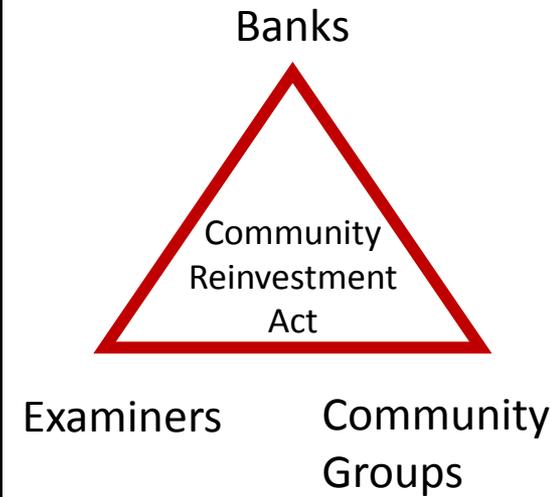
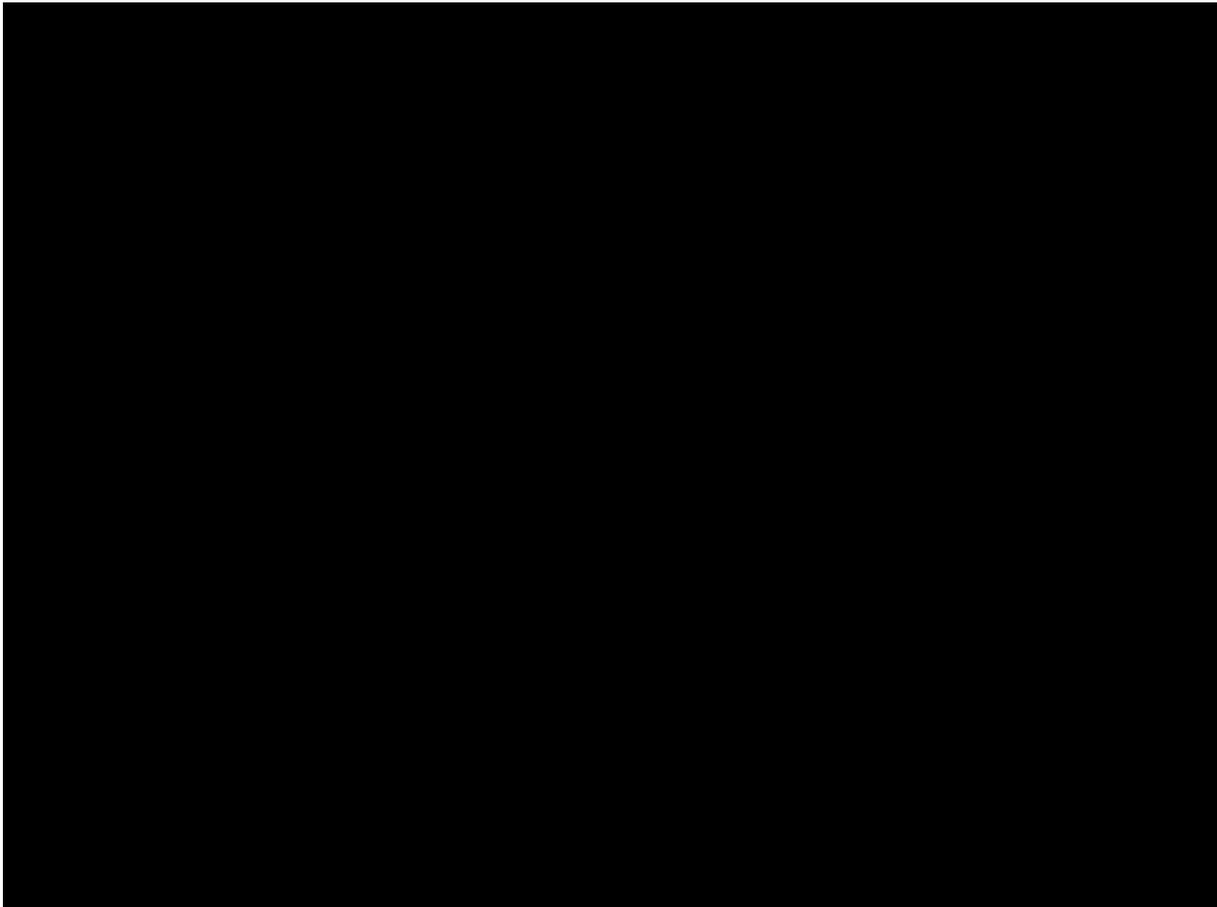


“Yes, I'm stuck in the middle with you,
And I'm wondering what it is I should do
It's so hard to keep this smile from my face,
Losing control, and I'm all over the place”

- “Stuck in the Middle with You”
- by Stealers Wheel © 1972



Stuck in the Middle with You



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CRA Appendices

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Appendix 1

CRA Reference Tools

Reference Tools

- Video
 - Federal Reserve Training Video from the FDIC (7 min video): <https://www.youtube.com/watch?v=rdOpsTLvbeY>
 - FDIC Training Video for Bank Directors (30 min video): <https://www.youtube.com/watch?v=KnZNV666rrY#t=74.307>
- Community Reinvestment Act: <https://www.fdic.gov/regulations/laws/rules/2000-6500.html#fdic2000part345>
- FFIEC - A Guide to CRA Data Collection and Reporting: <https://www.ffiec.gov/cra/guide.htm>
- Federal Reserve - CRA Loan Data Collection Grid: <http://www.dallasfed.org/assets/documents/cd/pubs/craloan.pdf?>
- Federal Reserve - A Banker's Quick Reference Guide to CRA: <https://www.dallasfed.org/assets/documents/cd/pubs/quickref.pdf>
- Federal Reserve - CRA Overview: <https://www.frbatlanta.org/banking/publications/community-reinvestment-act.aspx>
- FDIC Compliance Risk Assessments: https://www.fdic.gov/news/conferences/sf_region/2013-10-02.pdf
- FFIEC - Interagency CRA New and Revised Q&A: <https://www.ffiec.gov/cra/pdf/2010-4903.pdf>
- Federal Reserve – Lending Tests: <https://www.chicagofed.org/~/media/others/events/2011/cra-interagency-workshop-chicago/module-4-assessing-lending-1-11-11-pdf.pdf>
- Federal Reserve - CRA History: <http://www.federalreserve.gov/newsevents/speech/bernanke20070330a.htm>
- CRA Community Development – Examiner Insights (February 2016): <https://www.consumercomplianceoutlook.org/outlook-live/2016/cra-community-development-examiner-insights>
- Interagency Q&A on Community Reinvestment (July 2014): <https://consumercomplianceoutlook.org/outlook-live/2014/interagency-questions-answers-regarding-community-reinvestment/assets/f3db4da87deb463f9e058b3639de30b2.ashx>
- CRA Loan Data Collection Grid: <https://www.dallasfed.org/assets/documents/cd/pubs/craloan.pdf>
- Exam Procedures:
 - Small Institutions: https://www.ffiec.gov/cra/pdf/cra_exsmall.pdf
 - Intermediate Small Institutions: <https://www.ffiec.gov/cra/pdf/isbank.pdf>
 - Large Institutions: https://www.ffiec.gov/cra/pdf/cra_exlarge.pdf

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Appendix 2

Example Qualified Activities

Some CRA Qualified Activities from Q&As

(all must fit into CD definition - LMI individuals/geographies, economic development, distressed/underserved, disaster areas, NSP)

- Community or tribal-based child care, educational, health, social services.
- Creating, retaining, improving jobs
- Affordable housing
- Minority and woman-owned financial institutions, CD credit unions
- Foreclosure prevention
- Attract new or retain existing businesses
- Community facilities
- Environmental clean-up
- Mortgage backed securities

Some CRA Qualified Activities from Q&As

(all must fit into CD definition - LMI individuals/geographies, economic development, distressed/underserved, disaster areas, NSP)

- Municipal bonds
- Financial intermediaries - CDCs, CDFI, low-income/CD credit unions, NMTC CDE
- Youth programs, homeless centers, soup kitchens, health care facilities, battered women's centers, drug rehab centers, day care
- SBA – SBDC, SBIC, RBIC
- Low Income Housing Tax Credits, New Market Tax Credits, New Markets Venture Capital Company and New Markets Tax Credit-eligible CDE
- Enterprise Community or Empowerment Zones
- Job training, credit counseling, financial education
- Homeownership, home repair
- Lead paint abatement
- Local, state, tribal community development activities

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Appendix 3

Community Development - 5 Areas Defined

CD Overview: Affordable Housing

- Affordable Housing HUD Definition – 30% of income for housing is affordable
 - Calculation:
 - 1. Area Median Income x 50% = low income Area Median Income x 80% = moderate income
 - 2. Divide by 12 = monthly income
 - 3. Multiply by 30% = affordable housing costs per month
 - 4. If purchase money, use internet mortgage calculator to determine monthly housing cost
 - 5. Compare what you calculate to be affordable to rent or purchase price, which are usually included in credit writeups or investment prospectuses
 - For LMI Individuals

CD Overview: Services to LMI

- Community Services targeted to LMI individuals, see CRA Q&A §__.12(g)(2)-1 for examples
- Possible sources:
 - Mission statement of organization
 - Location of organization from FFEIC geocoder
 - Description of service likely to benefit LMI
 - Service is provided to recipients of government assistance

CD Overview: Economic Development

- Two part test:
 - 1. Size Test – by Small Business Administration (SBA) standards or have gross annual revenues of \$1 million or less
 - Eligible for SBA's Small Business Investment Company (SBIC) or Small Business Development Company (SBDC) programs
 - SBA size table by North American Industry Codes (NAICS) system codes
 - Table uses revenue or number of employees
 - Codes are used by lenders on credit approval memos
 - 2. Purpose Test – Permanent job creation, retention or improvement
 - For LMI individuals – Bureau of Labor Statistics (BLS) has wage and employment data by area/occupation (credit documents include Experian or Dunn and Bradstreet reports with borrower employment data),
 - In LMI census tracts (need not be LMI jobs), or
 - Areas designated for redevelopment (need not be LMI jobs or in LMI areas)
- *Can presume qualified: SBIC, SBDC, Rural Business Investment Company (BIC), New Markets Venture Capital Company, eligible for New Markets tax credits

CD Overview: Revitalize and Stabilize

- Attract or retain businesses or residents in certain geographies, see § __.12(g)(4)
 - LMI Census tracts
 - Disaster area
 - Distressed area
 - Underserved area

CD Overview: Neighborhood Stabilization Programs

- Generally programs approved by HUD and funded by the US Government
- Set up to address areas with high rates of foreclosure

Geographic Requirements for CD

- Benefits the Assessment Area (AA), see Q&A §__.12(h)-6 and §__.12(h)-7
 - Benefits a broader statewide or regional area that includes the AA
 - Regional Area within a state, such as a tri-county area, the east bay in California, etc.
 - Regional Area that crosses state lines, such as the midAtlantic states, Pacific Northwest, etc.
- Does not benefit the AA, can still be considered if
 - Purpose, mandate, or function of the organization or the activity includes serving geographies located in AA, and
 - If institution has been responsive to needs and opportunities within its AA

Geographic Requirements for CD (continued)

- Nationwide Investments, see Q&A § __.23(a)-2 – Purpose, mandate, or function of fund serves AA, or broader statewide or regional area that includes the AA
 - Look to fund prospectus for geographic area
 - Investments typically cover multiple years and provide periodic reports on location of projects or businesses funded

Exceptions to Geographic Requirement

- Minority or Women-owned Financial Institutions (MWFI) and Low-income Credit Unions, see Q&A §__.21(f)-1
 - Geographic requirement does not apply provided the MWFI or low-income credit union meets the needs of its own AA
 - Examples: Certificates of deposit, loan participations, technical expertise, financial support for CD activities, free or discounted data processing systems or office facilities that benefit these types of institutions

Qualifying CD Activities

- Step 1 – Determine the Purpose
- Step 2 – Two Simple Questions
- Step 3 – Situations to Always Consider
- Step 4 – Documentation
- Step 5 – Qualitative Considerations

Step 1 – Determine the Purpose

1. Affordable Housing for LMI
2. Community Services Targeted to LMI
3. Economic Development by Financing Small Businesses or Small Farms
4. Revitalization or Stabilization of Designated Areas
5. Support Areas Designated under the Neighborhood Stabilization Program

Primary Purpose Q&A § __.12(h)-8

- Two approaches:
 - 1. If the majority of dollars or beneficiaries of the activity are identifiable to one or more of the enumerated CD purposes, then the activity will be considered to possess the requisite primary purpose
 - 2. Alternatively, where the measurable portion of any benefit bestowed or dollars applied to the CD purpose is less than a majority of the entire activity's benefits or dollar value, the activity may still be considered to possess the requisite primary purpose and the institution may receive CRA consideration for the entire activity if:
 - The express, bona fide intent of the activity, as stated, for example, in a prospectus, loan proposal, or community action plan, is primarily one or more of the enumerated CD purposes;
 - The activity is specifically structured (given any relevant market or legal constraints or performance context factors) to achieve the expressed CD purpose; and
 - The activity reasonably accomplishes, or is reasonably certain to accomplish, the CD purpose involved

Step 2 – Two Simple Questions

- Was this activity considered under the retail lending or service tests?
- Does this activity benefit or have the potential to benefit individuals or areas inside the AA?

Some LMI Proxies Q&A

§ __.12(g)(2)-1

- Service is conducted in an LMI area and targeted to the residents of that area
- Service is offered at workplace to workers who are LMI
- Service provided to students or their families from a school at which the majority of students qualify for free or reduced-price meals
- Service is targeted to individuals who receive Medicaid
- Service is provided to recipients of government assistance programs that have income qualifications equivalent to, or stricter than, the definitions of LMI as defined by CRA Regulations

Step 3 – Situations to Always Consider Affordable Housing

- Affordable housing for LMI individuals hinges on whether LMI individuals benefit, or are likely to benefit, from the housing, see Q&A § __.12(g)(1)-1
- Institution may receive pro rata consideration for portion of such activities that helps to provide affordable housing to LMI individuals. In other words, the pro rata dollar amount of the total activity will be based on the percentage of units set-aside for affordable housing for LMI individuals, see Q&A § __.12(h)-8

Step 3 – Situations to Always Consider Affordable Housing (continued)

- Example: – An institution makes a \$10 million loan to finance a mixed-income housing development in which ten percent of the units will be set aside as affordable housing for LMI individuals. The institution may elect to treat \$1 million of such loan as a CD loan

Step 3 – Situations to Always Consider CD Services (continued)

- Q&As § __.12(i)-2 and § __.12(i)-3 provide more guidance and examples: – Services must be provided as a representative of the institution, see Q&A § __.12(i)-2 – Q&A § __.12(i)-3 includes many examples of community development services

Step 3 – Situations to Always Consider CD Services (continued)

- Q&A § __.12(i)-3 also provides examples of technical assistance activities that are related to providing financial services that might be provided to CD organizations, including:
 - Serving on the board of directors;
 - Serving on a loan review committee;
 - Developing a loan application and underwriting standards;
 - Developing loan-processing systems;
 - Developing secondary market vehicles or programs;
 - Assisting in marketing financial services, including development of advertising and promotions, publications, workshops and conferences;
 - Furnishing financial services training for staff and management;
 - Contributing accounting/bookkeeping services;
 - Assisting in fundraising, including soliciting or arranging investments; and
 - Providing services reflecting financial institution employees' area of expertise at the institution, such as HR, IT, and legal services

Step 3 – Situations to Always Consider CD Services (continued)

- Activities that do not take advantage of an employee's financial expertise, such as neighborhood cleanups, do not qualify as providing financial services, see Q&A §__.12(i)-1

Step 3 – Situations to Always Consider Economic Development

- Size Test and Purpose Test, see Q&A § __.12(g)(3)-1
 - Size Test
 - Activity meets this test if it finances, either directly or through an intermediary, entities that either meet the size eligibility standards of the SBA's SBDC or SBIC programs, or have gross annual revenues of \$1 million or less
 - Purpose Test
 - Support permanent job creation, retention, and/or improvement for persons who are LMI or in LMI geographies or in areas targeted for redevelopment by Federal, state, local, or tribal governments

Step 3 – Situations to Always Consider Revitalization or Stabilization

- Activities that revitalize or stabilize a LMI geography are activities that help to attract new, or retain existing businesses or residents, see Q&A §__.12(g)(4)(i)-1
- Some loans may only provide indirect or short-term benefits to LMI individuals in a LMI geography. These loans are not considered to have a CD purpose, see Q&A §__.12(h)-5

Step 4 – Documentation

- CD Lending, Qualified Investments, and CD Services
 - Date of loan/renewal, investment or service
 - Name and address of the borrower or organization benefiting
 - Dollar amount of the loan or investment
 - Description of the activity and CD purpose
 - Supporting documents (e.g., note, credit approval memo, loan agreement, investment prospectus, side letters, investment partnership agreement, etc.)

Step 5 – Qualitative Considerations

- Qualitative criteria include the complexity and innovativeness of CD loans, the innovativeness or complexity of qualified investments, and the innovativeness and responsiveness of CD services
- An institution's performance under qualitative criteria may augment the consideration given to an institution's performance under the quantitative criteria of the regulations, resulting in a higher level of performance and rating, see Q&A § __.28(b)-1

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Appendix - 6

Exam Scope: Which Assessment Areas?

CRA Exam Manual

- Exam Scope: *For institutions (interstate and intrastate) with more than one assessment area, identify assessment areas for a full-scope review. A full-scope review is accomplished when examiners complete all of the procedures for an assessment area. For interstate institutions, **a minimum of one assessment area from each state**, and a minimum of one assessment area from each multistate metropolitan statistical area/metropolitan division (MSA/MD), must be reviewed using the full-scope examination procedures.*

CRA Exam Manual

- Select Assessment Areas: *Select assessment areas for full-scope review by considering the factors below.*
 - **The lending, investment, and service opportunities in the different assessment areas, particularly areas where the need for bank credit, investments and services is significant;**
 - **The level of the institution's lending, investment, and service activity** in the different assessment areas, including in low- and moderate-income areas, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies designated by the Agencies based on (a) rates of poverty, unemployment, and population loss or (b) population size, density, and dispersion;
 - The number of other institutions in the different assessment areas and **the importance of the institution under examination in serving the different areas**, particularly any areas with relatively few other providers of financial services;
 - **Comments and feedback** received from community groups and the public regarding the institution's CRA performance;
 - The **size of the population**;
 - The existence of **apparent anomalies in the reported CRA or HMDA** data for any particular assessment area(s);
 - The length of time since the assessment area(s) was **last examined** using a full-scope review;
 - **The institution's prior CRA performance** in different assessment areas;
 - **Examiners' knowledge of the same or similar assessment areas**; and
 - **Issues raised in CRA performance evaluations of other institutions** and prior community contacts in the institution's assessment areas or similar assessment areas.

CRA Exam Manual

- ***If an institution's assessment area(s) does not coincide with the boundaries of an MSA/MD or political subdivision(s), assess whether the adjustments to the boundaries were made because the assessment area would otherwise be too large for the institution to reasonably serve, have an unusual configuration, or include significant geographic barriers.***

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Appendix - 7

About TRUPOINT Partners
& Andy Barksdale

About TRUPOINT Partners

- TRUPOINT Partners is committed to financial institution success through efficient insight.
- TRUPOINT provides compliance solutions to more than 500 financial institutions through an innovative blend of data analytics, business intelligence, and compliance expertise.
- Specialties include Fair Lending, HMDA, CRA, and UDAP compliance, including analysis, regression, consulting and more.
- Headquartered in Charlotte, NC

Andy Barksdale, CRCM

- Andy Barksdale is a Managing Director at TRUPOINT Partners. Since starting his banking career more than 20 years ago, Mr. Barksdale has held positions that demonstrate his commitment to, and knowledge of, community banking. He has consulted with over a hundred financial institutions by analyzing their lending data; identifying the areas of risk; advising on the focal points for ongoing fair lending analysis; conducting CRA self-assessments and providing assessment-area reviews; implementing risk assessments and best-practice reviews for fair lending; delivering training; and providing confidence in preparing for upcoming examinations.
- Andy's career started with SunTrust Banks in Atlanta after earning a bachelor's degree in finance from the University of Georgia. At SunTrust, he spent time as a commercial lender, internal loan review, and coordinated the affiliate bank relations. He also worked with Georgia National Bank in Athens, Georgia serving various roles including internal audit, compliance and loan review. Before joining TRUPOINT Partners, Andy held a variety of roles serving community banks including ten years with UVEST Financial Services in Charlotte, N.C. where he supported financial institutions by providing consulting and broker-dealer services. Today, Mr. Barksdale leads and manages TRUPOINT Partners' Professional Services Organization where the team delivers valued regulatory compliance consulting and analytic services. TRUPOINT Partners specializes in providing Fair Lending, CRA, HMDA and related compliance services to more than 500 financial institutions across the country.
- Other
 - 1989 BBA – University of Georgia
 - 1993 MBA – University of Georgia
 - Certified Regulatory Compliance Manager (CRCM)
 - Die Hard Georgia Bulldog Fan
 - Bourbon Tasting Expert



We Can Help!



GEORGIA BANKERS ASSOCIATION

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- ✓ HMDA Data Interpretation
- ✓ Redlining Analysis
- ✓ Fair Lending Risk Mitigation
- ✓ HMDA Scrubs
- ✓ Consumer Lending Analysis
- ✓ Risk Assessments
- ✓ CRA Geocoding and Analysis