

**Evidence Based Review of
Community Reinvestment Act (CRA)
Trends in the Changing CRA Compliance Landscape**

Compliance Officials of Sioux Falls, South Dakota

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CRA – Make Credit Available to All Income Categories and All Geographies, without Harming Safety and Soundness of the Bank

- CRA regulations do not give a precise dollar figure for achieving a Satisfactory Rating.
- Documented Lending, Investment and Service above 7% of Tier One Capital tends to bring High Satisfactory and Outstanding ratings.
- Regulators evaluate by each Borrower Income Level and Geographic Location.
- The new geographic boundary is “Reasonably Expected Assessment Area,” which is broader than Low and Moderate Income (LMI) Census Tract.

The 3 Year Cycle is Followed by a Performance Evaluation www.ffiec.gov

- Banks are evaluated by how well they fulfill their bank mission and product focus.
- Banks are compared to other banks in the region in each loan, service and investment category.
- Banks are compared to themselves over time. Annual improvement is expected.
- A bank, doing significantly less than peers in any loan category, must explain why.
- New: Regulators call community contacts to find out the bank's performance relative to the opportunity and the level/type of customer need.

CRA Evaluation Categories – Mission Oriented - Top Down Commitment - Consistent over Time – Fair to All Geographies/Incomes

- 50% Lending: Small Business, Home Mortgage, Small Farm
 - Community Development Loans
- 25% Investment
 - Equity
 - Bonds
 - Grants
- 25% Service
 - Board Service, Seminars, Branch Service Hours/Location
 - Services that target low and moderate income individuals
 - New: Alternative Delivery of Banking Services Online

CRA Evaluations - Quantitative and Qualitative

- Large Banks: Mortgage and small business loans must be equivalent to bank market share in the assessment area to earn a satisfactory rating from OCC.
- Small and Medium Sized Banks: Evaluated for Lending Test and Community Development Test.
- FDIC and Fed regulators don't compare competitor market share.
- Community Development lending can bring performance scores up, if the bank has good HMDA and SB scores in its AA.
- Regulators from HUD to Justice Dept. to OCC, FDIC and FR work together to evaluate each bank's performance.
- The bank must show more lending in their AA than outside of it.

Review of Legislation - Community Reinvestment Act

- Primary Laws
 - Bank Holding -1936
 - Fair Housing - 1968
 - Equal Credit Opportunity -1974
 - Home Mortgage Disclosure - 1975
 - Community Reinvestment - 1987
 - Consumer Federal Protection Bureau -2010
- Federal Enforcement Agencies
 - Consumer Federal Protection Bureau
 - Office of Comptroller and Currency
 - Federal Reserve
 - Federal Deposit Insurance Corporation

CRA Compliance Management – Key Categories for Action

- Key Areas of Risk
 - Marketing and Advertising
 - Commercial Lending
 - Delivery of Mortgages
 - Type of Branch Services
 - Customer Driven Feedback
 - New: Data Intelligence
- Compliance Management
 - Governance
 - Controls
 - Risk Analysis
 - Training
 - Responsiveness to Change
 - Monitoring/Audit

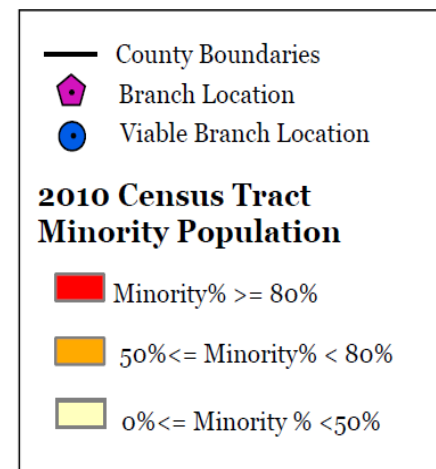
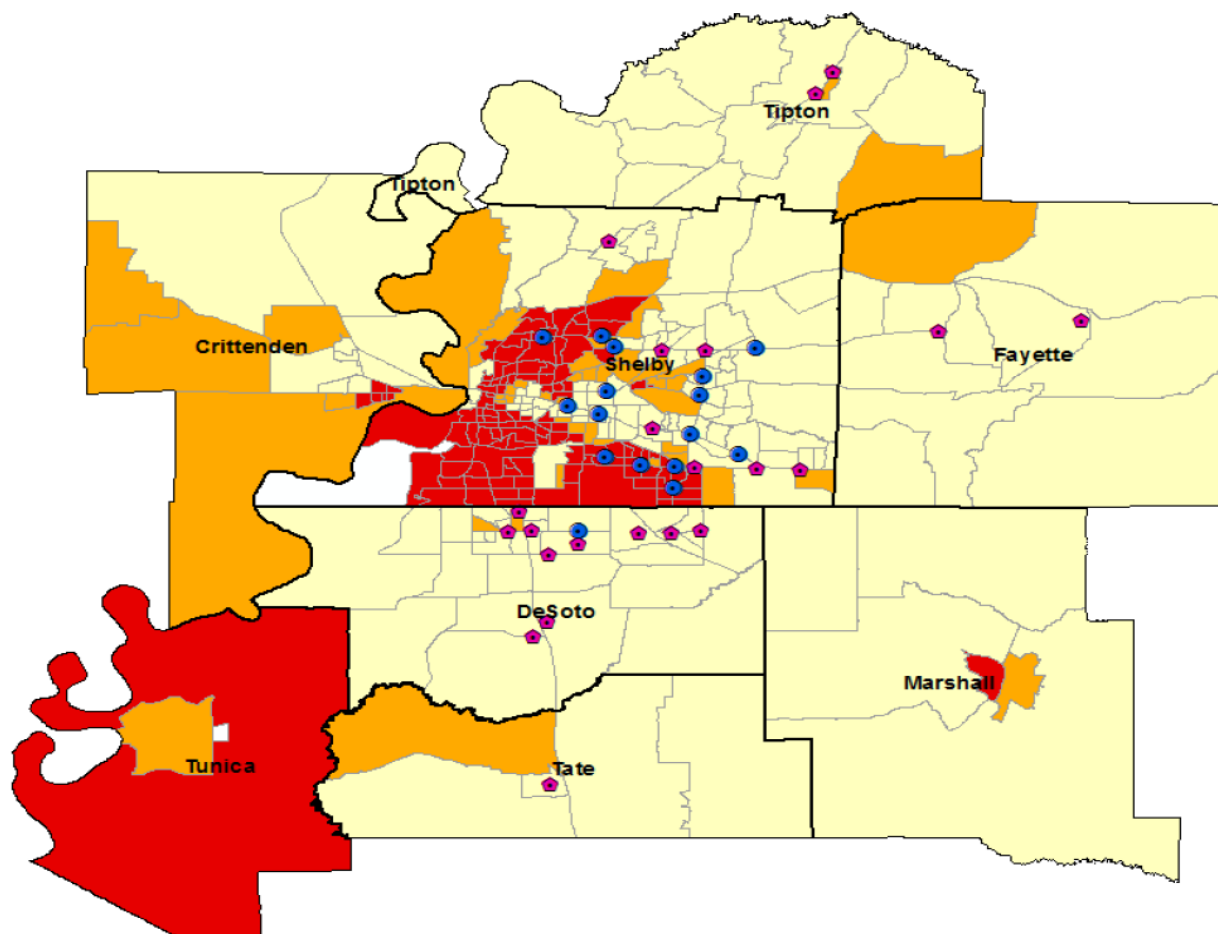
Role in CRA Performance Bank Board, Executives and Staff

- Active Leadership of Managers in the Process
- Continuous Flow of Information
- Consistent Reporting and Documentation
- Policies and Procedures
- Periodic Assessment of Employee Knowledge
- Employee Input and Stakeholder Communication
- New: Cross Departmental Awareness and Coordination

Preparing for the CRA Plan and Performance Evaluation Report

- Collect information daily that will help with the Performance Evaluation
 - Studies
 - Newspaper Articles
 - Competitive Performance Data
 - Community Forums
 - New: Sophisticated Mapping
- Train
 - Board/Senior Management
 - Origination Staff
- Prepare for Mergers and Acquisitions
 - Marketing and Advertising
 - Self-Testing

Redlining – BancorpSouth Example



Lending, Investment and Service: Goal Setting and Monitoring

- **CRA**
 - Goal Setting
 - Strategic Plan
 - Action Plan
 - Channels for connecting over time, considering the bank's capacity and mission.
 - New: Higher standards for emerging markets.
- Examine LMI Census Tract Detail
- Drive the Census Tracts annually.
- Add partnerships in housing; monitor changes in HMDA Borrower and Geographic Numbers
- Provide Sales Training

What Regulators Look For in CRA Performance

- A bank-led framework for identifying and engaging in qualifying opportunities.
- Documented process to develop responsive strategies.
- Bank involvement in stimulating the expansion of economic inclusion into mainstream banking system.
- Bank-led community development partnerships.
- Active provision of financial services that create access to underserved markets.
- Bank sponsored tools and assistance for small businesses.

Hundreds of Performance Evaluations Suggest

- Identifying Community Development Loans from all commercial loans will become more crucial
- Commercial Lending for job creation is important.
- New: Philanthropy, CRA and CDFI Lenders are Collaborating and Merging frequently.
- Small Business Lending is a priority, especially in rural areas
- Fair Lending and CRA Lending initiatives and regulations are becoming more blended.
- Financing Healthcare Facilities, including a housing component is essential.

What Qualifies as a CD Loan is Expanding

- Affordable Housing, CLTs, CDFIs
- Economic Development (including loans for Rural Areas)
- Small Business Investment Corporations
- Critical Access Hospitals, FQCHCs, HUD Homeless Facilities
- Commercial Loans for a CD Purpose over \$1 million – Jobs
- Loans to Nonprofits – Over 50% of customers are LMI.
- New: More Mixed Use/Mixed Income Structures in Revitalization Zones

Lending Test: Community Development Loans

Promote Economic Development Plan Objectives

Promotes permanent job creation and/ or retention

Creates job for LMI people
Workforce Investment

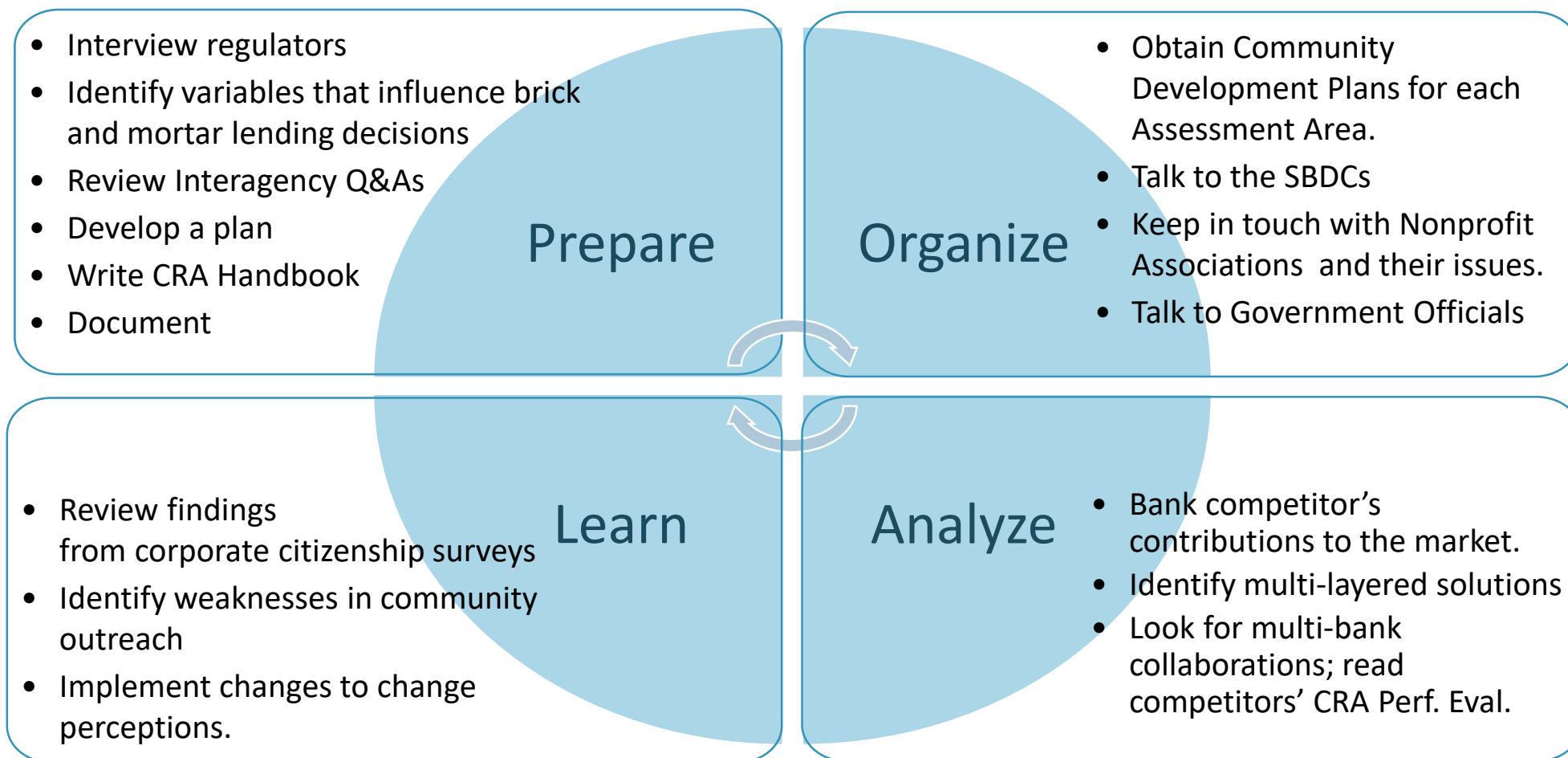
Improve conditions for LMI people, including education, health or social services, community facilities

Provides facility for financing for Medicaid patients

Areas of redevelopment by federal, state, local or tribal governments

Revitalize/Stabilize Distressed and Underserved Non-MSA geographies

Loan, Investment and Service Test: Developing the CD System



Lending and Investment Test - Revitalization Qualifies If:

- The activity has been approved by a government plan.
- The Area is an Enterprise Community or Empowerment Zone
- It revitalizes an underserved non metropolitan middle income geography.
- Facilitates construction, expansion or operation of essential infrastructure for health, education, public safety, industrial parks or affordable housing.
- Revitalize disaster areas within 36 months of the designation.
- New: Refinance after fires, tornados, bankruptcies, major disruptions.

Lending and Investment Test: Neighborhood Stabilization Programs

- Establish and operate land banks for foreclosed properties
- Demolish blighted structures
- Redevelop demolished or vacant properties
- Start a Business Incubator in the NSP Area
- Finance Commercial Loans for Large Employers in NSP Area
- Enter Neighborhood, bank and government memorandums of understanding to meet goals in distressed areas.

Investment Test

- Equity Investment in Community Development Financial Institutions
- Small Business Investment Corporation
- Tax Credits
- New: Opportunity Zones
- Deposit or Membership Share in a Corporation or Industrial Park serving a distressed community.
- School Bonds serving Low and Moderate Income Census Tracts
- Mortgage Backed Securities
- Grants
- 501c3
- Over 50% of the individuals served must earn less than 60 to 80% of Area Median Income or qualify for Free or Reduced Lunches.

Service Test - Boards, Seminars and Branch Hours

- Board and/or Committee Service, Any Qualifying Hours by Any Employee
- Financial Education Seminars in LMI Settings
- Bank services during convenient hours.
- Having branches and/or ATMs in LMI Areas
- Marketing of services must be delivered to LMI people.
- Providing Financial Services to the Unbanked continues to be an issue.
- New: Achieving Access to Credit for all income levels in the computer based society is a priority.

Service Test: Report Qualitative Impacts

- Responsiveness to Community Development Needs
- Bank's Leadership Role
- Board position and significance
- Role in founding an initiative
- Complexity of the activity
- Innovativeness

Recommended Best Practices

- Seek to understand community needs through community forums
- Create bank product solutions for LMI income categories and geographies
- Review customer complaints
- Develop a tracking system by activity type
- Dates, Numbers, Dollar Amounts, Addresses
- Maintain supporting documentation
- Describe the beneficiary of the activity
- Report impact to regulators and to stakeholders
- New: Tell the story in a Corporate Social Responsibility Report about any loan, investment or service.

Multi-dimensional, System-wide CRA Management

- Use holistic approach to compliance
- Lenders cannot underserve neighborhoods or other geographic areas
- Monitor Performance
- Map Loans to Identify Gaps
- Observe Competitors
- Find Potential Marketing Allies
- Respond to Identified Risk
- Use prompt corrective action
- Commensurate with the identified financial risk
- Observe the Community Groups
- Be Eyes and Ears in Key Neighborhoods
- Listen to Community



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Questions

Thank you