



## 38<sup>th</sup> Annual Consumer Compliance Conference

# CRA Basics

Erbi Blanco-True  
Community Relations Director/CRA Advisor  
Banesco USA



**The Community Reinvestment Act (CRA)**, enacted by Congress in 1977, is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income areas and persons, as well as small businesses.



## CRA Regulatory Examination

### Bank Size Thresholds:

- **Small** - less than **\$1.609B** in assets through 12/31/25
- **Intermediate Small** - assets between **\$402MM** and **\$1.609MM**
- **Large** - assets of at least **\$1.609B** as of 12/31 of both prior two calendar years.

*\*asset size thresholds are adjusted annually*



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## CRA Regulatory Examination

### LARGE BANKS:

- *This training will be focused on Large Banks.*
- *It will NOT focus on Wholesale, Limited Purpose or Strategic Plans.*

**Large Bank** Performance is measured by **3 tests**:

- Lending
- Investment
- Service



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## CRA Examination – Lending Test

- **Lending within the Assessment Area and Loan-To-Deposit Ratio**
- **Residential Home Mortgage Loans**  
Lending to low/moderate income **borrowers** (*income distribution*) and/or in low/moderate income **census tracts** (*geographic distribution*)
- **Small Business Loans (Loans  $\leq$  \$1MM)**  
Lending to businesses with gross annual **revenues of \$1MM or less** and/or businesses located in low/moderate income **census tracts**
- **Community Development Loans**



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## Lending Test – Small Business Loans

- **All Large banks must collect, maintain and report information on small business (\$1MM or less)/small farm (\$500K or less) loans originated or purchased by the bank.**



*Submission must be completed by **March 1<sup>st</sup>** of every year.*



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## Lending Test – Home Mortgage Loans

Key Requirements of the HMDA



- **The Home Mortgage Disclosure Act (HMDA)** requires banks and credit unions to report data on closed-end mortgage loans if they originate at least 25 loans in each of the two previous calendar years. *Submission must be completed by **March 1<sup>st</sup> of every year.***
- During the CRA Examination, positive consideration is given for **Home Mortgage Loans to LMI borrowers and in LMI census tracts.**

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## CRA Regulatory Reporting

- **Small/Intermediate Small Banks:**
- Small and Intermediate Small institutions are ***not*** required to collect and report CRA loan data for small business, small farm, and community development loans.
- Nevertheless, the CRA regulations continue to allow small institutions, including intermediate small institutions, to opt for an evaluation under the (large bank) lending, investment, and service tests, provided the data is collected and reported.



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## Lending Test – Community Development Loans



- **Affordable housing** for low- or moderate-income residents
- **Community services** targeted to low- and moderate-income individuals (youth center, community center, clinic, etc.).
- **Loans to small businesses (SBA 504 or 7(a) Loans)**, or loans to businesses that have gross annual revenues of \$1 million or less.
- Activities that **revitalize** or **stabilize** low- and moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.
- Activities that promote **economic development** by creating or retaining jobs for low- and moderate-income residents or neighborhoods.

*Examiners will look for **number # and amount \$**, as well as **complexity and innovativeness** of the bank's community development loans.*



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## INVESTMENT Test

### CRA Investments – What the regulators look for:



- The **dollar** amount of the investment;
- The **innovativeness** or **complexity** of qualified investments;
- The **responsiveness** of qualified investments to credit and community development needs; and
- Will measure as a percentage of **average securities** and **average assets**

### Community Development Sponsorships & Donations

- Donations & Sponsorships for organizations that have a community development purpose



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## SERVICE Test

Evaluates a bank's record of helping to **meet the credit needs of its assessment areas** by analyzing:



- The availability & effectiveness of a bank's systems for delivering **retail banking services**
- The extent & innovativeness of its **community development services**

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## SERVICE Test

Examples of availability & effectiveness of a bank's systems for delivering **RETAIL BANKING** services:



- 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 (ATMs, Online Banking, Drive Thru's)
- **Range of retail banking services** in each geography classification
- **Special programs for unbanked or underbanked** (*Bank On*)
- **Individual Development Accounts** (*possibly with Temporary Assistance for Needy Families (TANF) or other matching funds*)

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## SERVICE Test

### Examples of Community Development Services:



- **Board or Committee position** on a non-profit, community organization or government agency that provides community development services
- **Community Service Hours** to a community development entity (*must be financially related*)
- **Community Development Activity** such as hosting a financial workshop, financial literacy class, seminar, or conference for LMI students, adults, or small businesses)

*Regulators will evaluate the **innovativeness** and **responsiveness** of the community development service*

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## Other CRA Responsibilities:

- **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. Updated by 4/1.
- **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 FDIC (and the Federal Reserve if the bank is affiliated with a holding company) in order to provide comments regarding the bank's CRA performance.
- **Responding to Consumer Complaints:** One bank director responsibility is to 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.

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## CRA Performance Evaluation – General Ratings

- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Non-compliance

*(A bank's CRA performance is adversely affected by evidence of **discriminatory** or other **illegal** credit practices)*



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## Effects of a **negative** CRA Performance Rating

May negatively affect the bank's ability to:

- Open a new branch;
- Relocate the bank's main office or branch;
- Consider a merger, consolidation, acquisition of assets, or assumption of liabilities;
- Obtain deposit insurance for a newly chartered financial institution

**ALSO:**

- More scrutiny – more frequent evaluations
- **Public Perception, Reputational Risk, Negative Press**



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## Tips for a successful CRA Performance Evaluation:

- Have a **CRA Plan** or Strategy; Set and track **Goals**
- Have an Active and Engaged **CRA Committee**
- **Keep Track** of your CRA Performance on a monthly (*or quarterly*) basis
- If there are deficiencies: **Take Action Early!**
- Provide regular **Training**, keep track of attendees
- Have updated **Policies & Procedures**
- Conduct a **CRA Self-Assessment** and **Peer Analysis** of similarly situated banks
- Make sure to **highlight** all the positive things the bank is doing to help meet the credit needs of LMI residents and Small Businesses
- **Be engaged**; know your community partners and always seek loan opportunities to help LMI and small business borrowers
- **Understand your assessment area**; be able to communicate the competitive, economic, and other demographic landscape of your market
- **DOCUMENT, DOCUMENT, DOCUMENT!**



*Please note that this presentation is based on general knowledge of CRA, any specific questions should be directed to your examiner.*

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CRA is Good for the Community,  
which is Good for Your Bank!

**THANK YOU!**

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