



Bankers & Community Reinvestment Act (CRA): Drivers of Opportunity for Thriving Communities

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3 Fun Facts About Me

1.  I HAVE BEEN AN AMERICAN CITIZEN FOR 3 YEARS


And love to chat about the civics questions covered in the naturalization test



2.  I HAVE BEEN TALKING ABOUT COMMUNITY DEVELOPMENT FOR 15 YEARS

The last 10 years exclusively in the banking industry, prior experience with economic development focus



3.  PESCATARIAN
In my spare time, I LOVE going to new local restaurants and food festivals to enjoy new and trusted dishes with family and friends



Disclaimer

Today's session is intended for educational purposes and is not intended to qualify as legal advice. All information, material, and content provided in this session is offered as general information and not tailored to or specific to any particular bank or regulator. These views are my own, and do not represent my employer, Atlantic Union Bank.

What we will cover today

- ▲ High-level overview of the Community Reinvestment Act
- ▲ Banks' role in community development
- ▲ Your role bringing CRA to life in a meaningful way
- ▲ What is next: challenges & opportunities for your FI and you

The Community Reinvestment Act (CRA)

- The Community Reinvestment Act of 1977 was enacted to encourage banks to help meet the credit needs of the communities that they serve, including LMI neighborhoods, consistent with the banks' safe and sound operations. In passing the CRA, Congress established that
 1. Banks are required by law to demonstrate that their deposit facilities serve the convenience and needs of the communities in which they are chartered to do business;
 2. The convenience and needs of communities include the need for credit services as well as deposit services; and
 3. Banks have a continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered

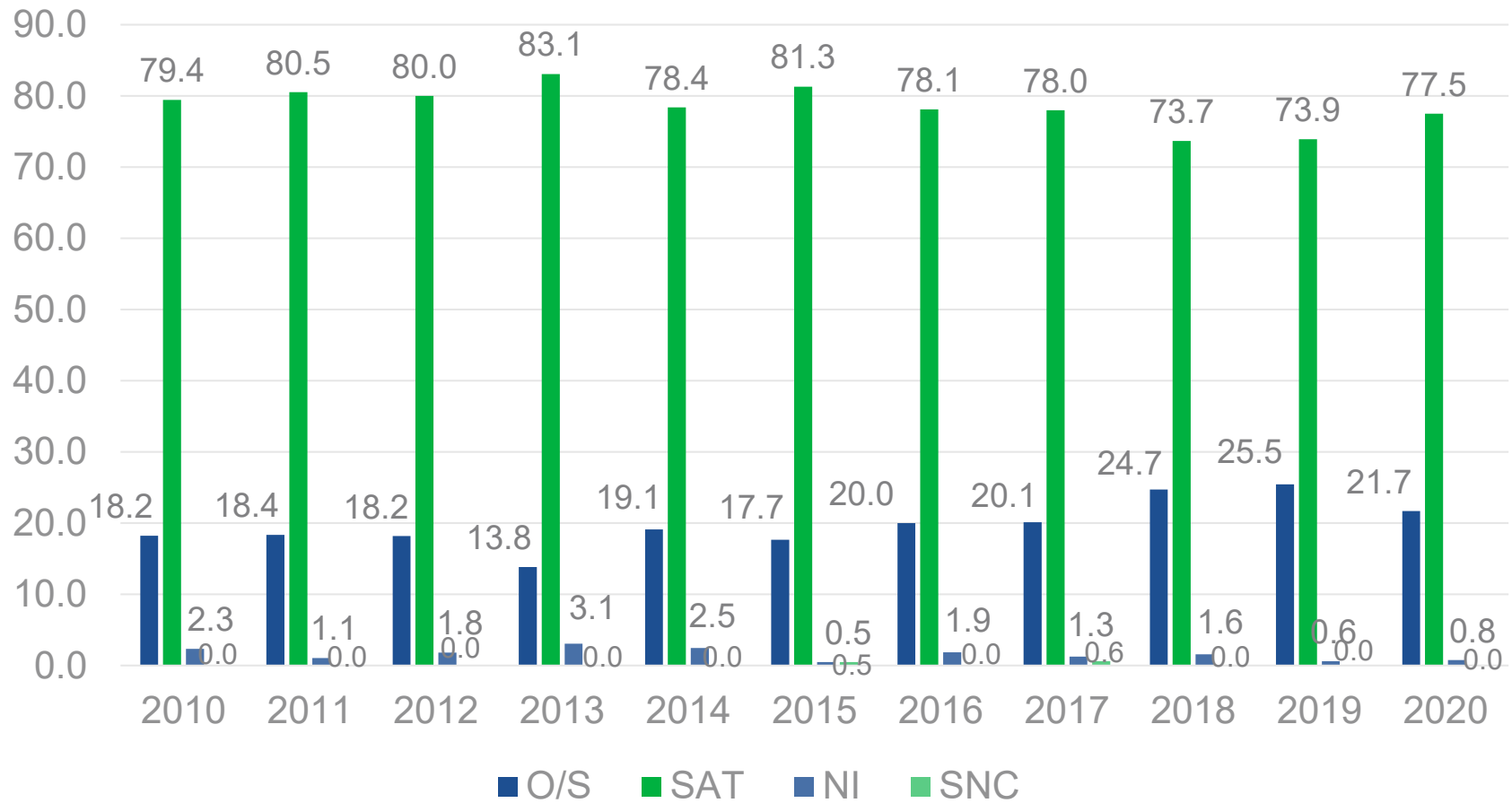
The CRA rating system is the same for all regulators

A four-tiered rating system is used by the federal bank regulatory agencies in assessing CRA performance.

Overall Bank Rating	Composite Bank Assigned Rating
	Outstanding
	Satisfactory
	Needs to Improve
	Substantial Noncompliance

- The CRA ratings and performance evaluations are available at the regulators' websites.
- Since July 1, 1990, the agencies are required to make an institution's rating and written performance evaluation available to the public.

How are Large Banks Faring? ...Majority are Rated Satisfactory



The CRA impact in three key risks:

Reputation in the Community

- Since July 1, 1990, the agencies are required to make an institution's rating and written performance evaluation available to the public.
- The CRA ratings and performance evaluations are available at the regulators' websites.

Ability to Expand

- An institution's CRA record is taken into account in considering applications for deposit facilities, including mergers and acquisitions.

Frequency of CRA Examinations

- Maintaining a Satisfactory or better CRA rating will also result in less frequent CRA examinations.

Banks are analyzed based on their asset size

- Banks are analyzed based on their type as follows:
 - Small Bank (\$600 million or less)
 - Intermediate Small Bank (\$600 million to \$2.5 billion)
 - Large Bank (assets greater than \$2.5 billion)

- Most banks have to follow three tests:

Service (25%)

Investments (25%), and

Lending (50%)

The Service Test: where the branch network and volunteering are reviewed

- Designed to hold banks accountable for making **basic banking services readily available to all**, not just to those in communities of wealth
- Banking “services” relates primarily to the location of physical bank branches and ATMs, but also incorporates community development services such as conducting home buyer seminars, small business advising, and financial education
- **Volunteering by bank employees is considered a community development service and is a component of the rating on this test**
 - An organization is CRA-qualified when 51% of the clients it serves are LMI and/or the nonprofit exclusively operates in an LMI community

The Investment Test:

- Designed to hold banks accountable for financial investment in neighborhoods that are deemed LMI according to census data
- “Investment” related to grants, affordable housing, small businesses, and mortgage backed securities, provided they are not complex
- Grants to nonprofit organizations are one component of a bank’s investments, and are factored into the rating on this test

The Lending Test: carries the majority of the weight and work

- Designed to ensure that banks are responsive to the **credit needs of low-to-moderate income (LMI) communities**, and are safely lending to borrowers across the income spectrum
- Lending assessment include mortgages, small businesses, affordable housing construction, and lending policies and products that are specifically designed to help the lower income customers be successful
- Neither grants nor volunteering are considered in this test. It is strictly a review of the Bank's lending practices

The Lending Test: 3 Main Buckets

**HMDA
Reportable
Loans**



**Small Business
/ Small Farm**



**Community
Development
Loans**



HMDA Reportable Loans

- Collection and reporting of certain **mortgage lending activity** to ensure local housing needs are being served, to assist in attracting private investments to needed areas, and to identify potentially discriminatory lending patterns in order to enforce anti-discrimination laws.
- **Commercial purpose loans and lines of credit secured by a dwelling or mixed-use property** for the purpose of purchasing, refinancing, or improving the dwelling regardless of the borrowing entity (can be an individual, LLC, corporation, etc.).



Small Business/Small Farm Loans

- Loans reported on the CRA LAR
- Small Business Loans that are \leq \$1MM **and** defined on the Call Report as either “Loans secured by nonfarm or nonresidential real estate” or “Commercial and Industrial loans”
- Small Farm Loans that are \leq \$500K and were reported as either “Loans to finance agricultural production, and other loans to farmers” or “Loans secured by farmland”



Community Development Loans

- Loan that has a primary purpose of community development
- Has not been reported as a home mortgage, small business/farm or consumer loan
- Benefits the bank's assessment area or a broader statewide or regional area that includes the bank's assessment area



All three tests have 4 Basic Pillars:

What Qualifies as CRA?

- Start with 4 Basic Pillars:
 - Affordable Housing
 - Community Services (Financial Literacy!)
 - Economic Development
 - Revitalization and Stabilization

CRA and You: bankers fosters strong community and economic development.

1st: Pride: The Bank's CRA success and its program is You!

2nd: Opportunity to support your own community: CRA presents opportunity for you to partner with your Bank to serve your community.

3rd: Create relationships and "vest" in supporting the Bank's CRA program goals and objectives



How Can You Support the Bank's CRA Performance?



Three Key Ways

- Provide a CD service on behalf of the Bank, e.g. teach financial literacy, other
- Recommend CD organizations for Bank donations, e.g., Habitat for Humanity, other
- Document & report your CD Activities for inclusion in the Bank's CRA Performance

And...Data integrity 😊

Questions to Consider: Community Impact

- How can your area continue to innovate in your area while responding to the credit needs of your local community?
- How can your team continue to promote community growth and stability through partnerships with nonprofits and governmental agencies that benefits your bank's CRA exam and rating?
- How can you leverage your unique community based bank strategy to the greater good?

CRA Modernization is coming up!

- Strengthen regulations in alignment with CRA statute
- Provide greater certainty, tailor regulations, and minimize burden
- Provide a foundation for the agencies to converge on a consistent approach that has broad support among stakeholders

THANK YOU!!!

Question and Comments?

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and

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Resources:

- What is the Community Reinvestment Act?
- The Small Bank and Intermediate Small Bank CRA Examination
- Leading Practices for Effective CRA Programs
- CRA Community Development Defined