



# **Guide to the Community Reinvestment Act**

**History of the CRA,  
CRA Compliance Management,  
CRA Exam Basics, Changes Ahead?**



## CRA COMPLIANCE BASICS

What is the Community Reinvestment Act?

The Community Reinvestment Act, or CRA, is a U.S. law that encourages regulated insured depository institutions to meet the credit needs of the communities in which they operate, including low-to-moderate-income (LMI) communities. CRA was designed to do two things:

**1. Eliminate the illegal discrimination, now known as Redlining.**


The CRA was passed in part to address geography-based discrimination in access to loans and credit, which is understood today as Redlining.

**2. Encourage financial institutions to meet the credit needs of every community they serve.**

Both income level of the individuals and the census tracts geographies, specifically low-to-moderate-income (LMI), are considered when reviewing CRA compliance.

CRA also requires examiners to evaluate banks' performance in complying with CRA. This allows them to fulfill their obligations to the community and to consider the banks record in the evaluation of application for charters or for the approval of bank mergers, acquisitions, and branch openings.

In addition, the CRA includes incentives for banks to comply.



The Community Reinvestment Act is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound operations.

It was enacted by the Congress in 1977 (12 U.S.C. 2901) and is implemented by Regulations 12 CFR parts 25, 228, 345, and 195.

---

## Who Has to Comply with CRA?

CRA applies to federally insured depository institutions. That includes national banks, thrifts, and state-chartered commercial and savings banks. Please note that this excludes credit unions; the attempts to modernize CRA have, at different points, suggested including credit unions as regulated institutions.

## Who Regulates CRA?

The federal and state financial institutions that regulate CRA and examine institutions for compliance are the FDIC (Federal Deposit Insurance Corporation), FRB (Board of Governors of the Federal Reserve Board), and OCC (Office of the Comptroller of the Currency).

## What Doesn't CRA Require?

The regulation specifically states that CRA does not require a bank to make loans or investments, or provide services, that are inconsistent with safe and sound operations.

Regulators anticipate/expect that banks can find CRA eligible projects in their community.

Banks are permitted to develop and apply flexible underwriting standards for loans that benefit LMI geographies or individuals, only if consistent with safe and sound operations.

---

**CRA WAS INTENDED IN PART TO PREVENT THE ILLEGAL PRACTICE OF REDLINING. REDLINING IS THE ACT OF PROVIDING UNEQUAL ACCESS TO OR TERMS OF CREDIT TO RESIDENTS OF AN AREA WHERE APPLICANT RESIDES OR WILL RESIDE, OR THE AREA WHERE THE PROPERTY TO BE MORTGAGED IS LOCATED.**

Redlining is an illegal practice according to both Fair Lending and CRA regulations. For example, in a risk-focused Fair Lending exam, the regulators will evaluate the CRA Assessment Area for risk of Redlining discrimination. In addition, one of the top reasons for a CRA downgrade is Fair Lending issues. Therefore, a strong Fair Lending Compliance Management Program is recommended.



## CRA KEY TERMS

### Assessment Area

An Assessment Area, or AA, is defined by the bank and includes the geographic area that can reasonably be served by the bank. It includes its main office, any branches, and deposit-taking ATMs. It also usually includes the surrounding areas in which the bank originated or purchased a substantial portion of its loans.

### Census Tract

A census tract is a small, relatively permanent statistical subdivision of a county or equivalent entity. Census tracts are updated by local participants before each census as part of the Census Bureau's Participant Statistical Areas Program. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people.

### Metropolitan Division

A smaller group of counties or equivalent entities defined within a Metropolitan Statistical Area (MSA) that contains a single core with a population of at least 2.5 million. Not all MSAs of this size will contain metropolitan divisions. The concept was introduced in 2003.

### MSA

MSA stands for Metropolitan Statistical Area. These are defined by the Office of Management and Budget (OMB).

### Non-Metro Area

A non-metropolitan area is a region that is not included in an MSA.

### Median Family Income

An annual income figure for which there are as many families with incomes below as there are above that level; it's different than the average. The Median Family Income is calculated differently in metropolitan and non-metropolitan areas.

### Low-to-Moderate Income

Low- to Moderate-Income geographies and individuals are those that earn less than 50% (low) or 50-80% (median) of a census tract's median family income relative to either an MSA or MD median family income or a statewide non-metropolitan area median family income.

### Public Notice

The Public Notice is a sign, poster, or other notice that details the public's right to view the CRA Public File and CRA-related comments or complaints. It must be displayed in the lobby of each of the bank's offices.

### Public File

The Public File is a collection of materials that relates to CRA compliance, which is available to the public at their request. There is a long list of things that must be in the Public File. For example, here are just a few of the items that need to be included: map of the Assessment Area, all written CRA related comments for the current year and two previous years, the most recent public performance evaluation, and the last two years of HMDA Disclosure Statements.

# COMMUNITY REINVESTMENT ACT TIMELINE

**1977**

The Community Reinvestment Act, or CRA, is passed. It affirms the idea that financial institutions must serve the “convenience and needs,” including credit needs, of the communities they serve, including low-and moderate-income communities borrowers. It also prohibits the illegal act of discriminating against geographies, which we now understand as Redlining.

The CRA becomes one of the core regulations sparked by the Civil Rights movement designed to prevent discrimination in banking and housing.

The Financial Institution Reform and Recovery Act of 1989 strengthened CRA by requiring public disclosure of CRA ratings and performance evaluations, expanded data collection, and the public disclosure of some data reported under HMDA.

**1989**

**1995**

The CRA was updated, with a focus on updating the exam and reducing the burden of compliance. In particular, the three-pronged test for large institutions was introduced. It also emphasized innovation in Community Development. The regulations were also changed to require performance from the previous “process factors.”

The 2005 changes to CRA updated the definition for small banks, and added the intermediate-small exam. It also added the “distressed and underserved non-metropolitan middle-income geographies and designated disaster areas” categories.

**2005**

**2018**

In 2018, the potential for CRA modernization is again on the horizon. Large-scale changes haven't been introduced since the 90s, and updating the legislation has bipartisan and inter-agency support.

These changes may include updated Assessment Area definitions, clearer examination procedures, and possibly more straightforward performance guidelines.



## CRA EXAM BASICS

**The CRA requires that regulators examine how well financial institutions are complying with CRA guidelines. According to those examination requirements, there are a few things that every CRA-covered financial institution needs to include as part of their compliance program.**

There are five basic requirements that all institutions that comply with CRA must have. When you're being examined, these are some of the aspects that the examiner will look to evaluate:

1. Maintain a Public File
2. Post Public Notice
3. Collect and Report on CRA Data (Large Banks)
4. Respond to Consumer Complaints
5. Determine Assessment Area

## 4 STEPS OF A CRA COMPLIANCE EXAM

Every CRA compliance examination will include the following four steps:

**1. Exam Date Set & Published by Regulatory Agency.** Every regulatory agency will publish a list of the upcoming exams they will conduct. This list is published once per quarter, with a schedule for the following quarter.

**2. Examiners Prep for Review.** Examiners will review asset size to determine performance criteria and exam method, and research the performance context. They will also evaluate any changes to the market, economy, bank, and community to consider. In addition, they will contact community stakeholders to gain a better understanding of conditions on the ground.


**3. Examiners Conduct Review.** During the review, examiners will evaluate the performance criteria outlined earlier. They will also review any preliminary ratings, discuss community needs, and review the future plans of the bank.

**4. Written Performance Evaluation (PE) is Completed and Released to Public.** This performance evaluation has details about CRA performance, and is available to any consumer who asks.

## 4 POSSIBLE CRA EXAM RATINGS

1. Outstanding
2. Satisfactory
3. Needs to Improve
4. Substantial Non-Compliance

Your CRA ratings will be made public. While Satisfactory and Outstanding ratings are the most common, lower ratings are not unheard of. With additional scrutiny of CRA compliance from journalists and community groups, a positive CRA rating may not prove much protection.



Every institution is evaluated according to its performance context. This unique performance context is designed to accommodate the unique business structure and risk profile of institutions at each size. We will talk about it more next.

Please note: if you have a merger or acquisition in the future, If you have M&A activity planned in your future, take some time to evaluate the CRA (and Fair Lending) exam results of all institutions involved. In the past, M&A activity has been delayed, stalled, or called off due to CRA and other compliance-related issues.

## WHAT IS COMMUNITY DEVELOPMENT?

Community Development loans, services, or activities are those that serve distressed or under-served individuals or geographies in your Assessment Area. Loans, services, and activities each have a unique set of considerations and requirements.

CD loans, services, or activities must be consistent with the five elements of community development, as outlined next.

### 5 Characteristics of CD

1. Affordable housing for low- or moderate-income (LMI) individuals.
2. Community services for LMI individuals.
3. Activities that promote economic development by providing financing for small businesses or small farms.
4. Activities that revitalize or stabilize LMI geographies, distressed or underserved

non-metro middle-income areas, or designated disaster areas.

5. Activities that support, enable, or facilitate projects or activities that meet “eligible uses” criteria described in Section 2301(c) of the Housing and Economic Recovery Act of 2008 (HERA) and are conducted in designated target areas identified in plans approved by HUD in accordance with the Neighborhood Stabilization Program (NSP).

## ALL ABOUT PERFORMANCE CONTEXT

Your examiners may develop a performance context for you, or they may ask you to develop one for your institution. We have heard of both situations.

Note that performance context factors that affect your performance in lending, investment, and/or service tests are explained in your Performance Evaluation.

That said, every regulatory agency that conducts CRA exams (the OCC, FDIC, and Federal Reserve Board) has a slightly different approach to understanding your performance context.

In addition, each CRA examination type - Small Bank, Intermediate-Small Bank, and Large Bank - has a different definition for performance context.

This performance criteria is an important factor the examiners will consider as they evaluate your CRA performance.





**In general, your CRA performance context will likely cover the following:**

- Your institution's profile. This may include: asset size and financial information, year established, structure, business strategy, and/or product offerings.
- Historical data, including past CRA ratings.
- Community profile. This may include:
  - Community needs, local market conditions, and/or employment statistics and small business conditions.
- Assessment Area(s). This may include: Geographic data, demographic data, economic conditions.
- Community Development lending, investment, and service opportunities.
- Any CRA-related complaints received either by the institution or the regulators.

---

The performance context can be defined as the unique economic and demographic conditions, as well as the community- and institution-specific circumstances, in which your financial institution operates.

---

## THE IMPORTANCE OF ANALYSIS AND MAPPING

Every CRA examination includes some data analysis. In addition, it's an important step for all institutions who want to actively manage their risk. If you aren't analyzing your data regularly for CRA compliance, it's impossible to truly understand your risk. It's also important to remember that, if CRA modernization does happen, it will likely result in more sophisticated analysis from the examiners and clearer numerical guidelines. We anticipate that, in the future, CRA data analysis will be even more important. Here are a few important data points to consider as you conduct your CRA analysis:

- In-Out Ratio
- Loan-to-Deposit Ratio
- Loans, Investments, and Services Distribution
- Tract Income
- CRA and (if applicable) HMDA LAR Data
- Facility Locations

**Make sure that your CRA analysis includes geocoding. In CRA and Redlining presentation on March 14, 2018, the FDIC repeatedly emphasized the importance of plotting applications and originated loans on a map.**

**Contact us to learn more about our compliance management solutions and services.**  
**888.370.5552 // [info@ncontracts.com](mailto:info@ncontracts.com)**