

## **CRA – The Community Reinvestment Act (A Brief Description)**

The Community Reinvestment Act (frequently referred to as CRA) was enacted by Congress in 1977 (12 U.S.C. 2901) and implemented by Regulations 12 CFR parts 25, 228, 345, and 563e.

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 banking operations.

The Community Reinvestment Act states that “regulated financial institutions have continuing and affirmative obligations to help meet the credit needs of the local communities in which they are chartered.” The act then establishes a regulatory regime for monitoring the level of lending, investments, and services in low- and moderate-income neighborhoods traditionally underserved by lending institutions. Examiners from four federal financial regulatory agencies assess and “grade” a lending institution’s activities in low- and moderate-income neighborhoods. The federal agencies conducting CRA examinations are: the Office of the Comptroller of the Currency that examines nationally chartered banks; the Office of Thrift Supervision that examines savings and loan institutions; and the Federal Deposit Insurance Corporation and the Federal Reserve Board, both of whom examine state chartered banks.

CRA regulations establish various tests for lending institutions of different sizes. Under each test, examiners rate banks according to their lending records and responsiveness to community needs. Banks receive a score based on their evaluations of “outstanding”, “satisfactory”, “needs to improve”, or “substantial non-compliance.” The last two scores can result in delays or denials of mergers, acquisitions, or expansions of services.

Lending institutions with assets greater than \$1 billion are subjected to the most rigorous exams. They are evaluated under a lending test that considers the number and percentages of loans made to low- and moderate-income individuals and communities. Likewise, they are evaluated under an investment test and a service test that consider, respectively, the number and types of investments and services (branches and bank accounts) in low- and moderate-income communities. When conducting the evaluations, examiners are to consider the “performance context” of the lending institutions. In other words, examiners are advised to consider factors such as the business opportunities available to a lending institution and the size and financial condition of the lending institution.

In 2005, the federal agencies established a streamlined exam for “intermediate small banks” defined as institutions with assets of \$250 million to \$1 billion (the asset range is adjusted annually to take inflation into account). These intermediate small banks or mid-size banks undergo a lending test and a community development test. The community development test incorporates elements of the large bank’s investment and service test. The community development test scrutinizes the amount and responsiveness of a mid-size bank’s community development lending, investing, and services. The mid-size banks are no longer required to report small business or community development lending data.

Small banks, as defined as institutions with less than \$250 million in assets, are not subjected to an investment and service test. Their lending test consists of the following five criteria: a “reasonable” loan-to-deposit ratio, the percentage of loans in the bank’s assessment area, the bank’s distribution of loans to individuals of different

income levels and businesses and farms of different sizes, the geographic distribution of loans, and the bank's record of responding to written complaints about its lending performance in its assessment area.

Wholesale and limited purpose banks are assessed under a test tailored to their capabilities. These banks provide services such as offering credit cards or specialize in large commercial deposits. Lending tests cannot adequately assess wholesale and limited purpose banks because many of them do not accept consumer deposits or make home loans. Instead examiners focus their evaluation of these banks on the number of community development loans and investments (such as affordable housing rehabilitation loans, low-income housing tax credits, or investments in organizations that finance small businesses). The tests for mid-size and large banks also consider community development loans and investments.

Any lending institution can opt for developing a strategic plan in lieu of a regulator evaluation. Developed in conjunction with neighborhood organizations, a strategic plan seeks to satisfy the credit needs of a bank's assessment area and must address the lending, investment, and service criteria that would have been part of the usual evaluation. Federal regulators must approve the strategic plan and rate it at least "satisfactory." If a bank receives a lower rating on its plan, it has the option of submitting to the applicable tests for large, small, or limited purpose banks.

A CRA rating can be downgraded if a federal agency uncovers evidence of illegal, abusive or discriminatory lending on fair lending exams that occur at about the same time as CRA exams.