



Community Reinvestment Act (CRA) Fact Sheet

Overview

This fact sheet provides a general overview of the Community Reinvestment Act (CRA). Included is information pertaining to the CRA's implementation, requirements for financial institutions and federal regulatory agencies, the existing guidelines for evaluating financial institutions, the purpose and availability of CRA records, as well as information pertaining to 1995 reforms.

The information provided below is intended to assist economic development practitioners and community bankers in better understanding the federal regulations governing the financial service industry. Through the information provided in this fact sheet, readers will gain a better understanding of CRA requirements, how they developed, and how they affect financial institutions today.

Implementation

The Community Reinvestment Act of 1977 primarily addressed redlining – the practice by financial institutions of denying or increasing the cost of banking or insurance services to residents of certain areas.ⁱ The concept of redlining was introduced in 1973 when community groups based in Chicago denounced local banks' discriminatory lending practices.

Pressure from community groups prompted Illinois to pass the first anti-redlining regulation.ⁱⁱ The Illinois legislation identified redlining as "the practice of arbitrarily varying the terms of application procedures or refusing to grant a... loan within a specific geographic area on the ground that the specific parcel of real-estate proposed as collateral for the loan is located within said geographical area." Following Illinois' enactment of its anti-redlining legislation, victims of redlined communities throughout the United States demanded state, and eventually, national regulation.

Congress' first step in addressing redlining was the enactment of the Home Mortgage Disclosure Act (HMDA). HMDA was passed in 1975 and signed into law on 3 January 1976; it required lending institutions to report public loan data and create aggregate and disclosure reports for each metropolitan area. The first HMDA report concluded, "It was clear that redlining was a problem throughout the nation's cities and that something needed to be done."ⁱⁱⁱ

This realization led to the enactment of CRA in 1977. Whereas HMDA proved that redlining was a reality, CRA made it illegal.

Legislative Overview

The CRA statute is recorded in the Housing and Community Development Act of 1977 as Title VIII – Community Reinvestment. CRA is currently codified to Title 12, Chapter 13: Community Reinvestment. CRA is implemented by Regulations 12 CFR part 25,^{iv} 228,^v 345,^{vi} and 563e.^{vii}

§ 2901, states that Title VIII may be cited as "Community Reinvestment Act of 1977."

Federal Requirements

According to § 2901, regulated financial institutions 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. The convenience and needs of communities include the need for credit in addition to deposit services. Regulated financial institutions include all insured depository institutions as defined by the Federal Depository Insurance Act.^{viii} In addition, institutions subject to CRA are required to act “consistent with the safe and sound operation of such institutions.”

Regulated Financial Institutions. All institutions regulated by Federal financial supervisory agencies that meet the size threshold are subject to CRA evaluation, data collection and reporting requirements. The following types of financial institutions are subject to CRA regulation:

Federally insured depository institutions are legally allowed to accept monetary deposits. Federal depository institutions are chartered by OTS and regulated by FDIC.

National banks are financial institutions chartered by the OCC pursuant to the National Bank Act.^{ix} National banks are not required to operate nationwide; some national banks only have operations in one state.

Thrifts, or *savings and loans institutions*, specialize in accepting savings deposits and making mortgage loans. Thrifts are often mutually held, meaning that depositors are members with voting rights and have the ability to direct the financial and managerial goals of the organization.

State-chartered commercial and savings banks

Federal Regulatory Institutions. § 2901 states that “it is the purpose of [CRA] to require each appropriate Federal financial supervisory agency to use its authority when examining financial institutions.” The following Federal supervisory agencies regulate institutions’ implementation of CRA:

Federal Deposit Insurance Corporation (FDIC) guarantees checking and savings deposits in member banks up to \$100,000 per depositor. FDIC mainly supervises state-chartered banks that are not members of the Federal Reserve System

Board of Governors of the Federal Reserve System (FRB) supervises and regulates financial institutions. FRB mainly supervises institutions that are members of the Federal Reserve System.

Office of Thrift Supervision (OTS) is the primary regulator of federal savings associations and some state-chartered institutions. OTS mainly supervises limited purpose or wholesale institutions’ CRA performance.^x

Office of the Comptroller of the Currency (OCC) charters, regulates, and supervises all national banks and the federal branches and agencies of foreign banks in the United States. OCC mainly supervises national banks’ CRA performance.

Federal Financial Institutions Examination Council (FFIEC) makes interagency CRA information and records available.

In addition to regulating an institution’s implementation of CRA, the above Federal supervisory agencies work to educate regulated institutions on successful methods of implementing CRA programs and also make suggestions on strategies for helping in the development of their communities.

CRA Evaluation

§ 2903 requires Federal supervisory agencies to “assess the institution’s record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods.”

In 1995, the four supervisory agencies approved examination procedures in line with the revised CRA regulations published by the Federal Register on May 4. The revised procedures “reflect the intent of the regulation to establish performance-based CRA examinations that are complete and accurate but, to the maximum extent possible, mitigate the compliance burden for institutions.”^{xi}

Federal regulators first analyze the make-up of a financial institution's community and how they fit into it:

- Makeup of the community
- The local and regional economic conditions
- Opportunities that exist for serving the community through lending and investments
- Strategy and products provided
- Institution's financial conditions
- Past CRA ratings of financial institution
- CRA ratings of local institutions
- Institution's considerations of their community's credit needs
- Individuals', communities', and civic organizations', and businesses' evaluation of institution's efforts toward meeting the community's credit needs

Regulated institutions are divided into the following categories: small institutions, intermediate small bank, large retail institutions, limited purpose and wholesale institutions, and institutions with strategic plans.^{xii} The OCC, FRS, and FDIC evaluate intermediate small bank institutions.

Institutions are evaluated according to the size of their assets. The two more common categories of regulated financial institutions are large and small.

Standards for large institutions with assets of \$250 million or more, or that are affiliated with holding companies with assets of \$1 billion or more, are evaluated in three areas: lending, investment, and service.

Lending. Analysis of loans for home mortgages, small businesses, small farms, and community development, and in some cases consumer loans. Examiners consider:

- Total number and total dollar amount of loans
- Geographic distribution of loans: proportion of institutions' loans made within its assessment area
- Characteristics of borrowers: how loans are distributed to people at the various income levels, and to small businesses and small farms
- Institution's activities in community development
- Whether institution uses flexible lending practices to address credit needs of low- and moderate-income individuals and neighborhoods

Investment. Analysis of the institution's local, state and regional assessment areas. Examiners consider:

- Size of institution's investment portfolio
- Innovation and complexity of investments
- Investments' response to credit and community development needs
- Difference between institution's investments and those of other institutions

Service. Examiners focus on success of institution's retail and community development services in meeting the credit needs of the institution's community. Examiners consider:

- Distribution of branches throughout community
- History of opening and closing branches, specifically those serving low- or moderate-income geographic areas

- Alternate systems – i.e.: ATMs, telephone, computer, and by-mail banking services – provided for delivering services to low- and moderate-income areas
- Whether the range of services provided meets the needs of various neighborhoods at all income levels

Regulatory agencies will also consider the responsiveness and creativeness by a large institution in providing and helping other institutions provide financial services that address the credit needs of their community or region.

Standards for small institutions with assets of less than \$250 million, either independent or an affiliate of a holding company with total assets of less than \$1 billion, are evaluated by more streamline standards than those applied to larger institutions. At small institutions, examiners consider:

- Share of the institution’s deposits used to provide loans
- Percentage of loans made within an institution’s assessment area
- Record of lending to borrowers of different income levels as well as businesses and farms of different sizes
- Geographic distributions of its loans
- Record of taking action in response to written complaints about its performance in helping to meet the community’s credit needs

All regulated institutions, large or small, are required to maintain a public file to be updated on April 1 of every year. Public files consist of the following information:

- All written comments from the public regarding institution’s efforts to meet community credit needs for the current and previous two years
- Copy of public section of institution’s most recent CRA performance evaluation.
- List of institution’s existing branches including the geographic areas that they serve
- List of services offered at institution’s branches
- Map of institution’s assessment area showing its boundaries and identifying the various geographic areas
- Information on loans included in institution’s review
- Copy of institution’s strategic plans if it is evaluated by one
- For a large bank, a CRA disclosure statement prepared by its regulator, containing information about small businesses and small farm loans and the population’s income levels for each country in which the institution operates

In addition, regulated institutions can choose to develop their own plan for evaluation in place of the defined standards. Such plans must be open to public comment and must be approved by the institution’s federal regulatory agency before it is implemented.

Written Evaluation

§ 2906 states that “the appropriate Federal financial supervisory agency shall prepare a written evaluation of the institution’s record of meeting the credit need of its entire community, including low- and moderate-income neighborhoods.” Written evaluations are required to consist of public and confidential sections.

Public section

- States appropriate supervisory agency’s conclusions for each assessment factor identified in the regulations prescribed
- Discusses the facts and data supporting such conclusions
- Provides the institution’s rating and statement describing basis for the rating^{xiii}

Confidential section

- Assures the privacy of named individuals
- Topic which evaluating supervisory agency deems too sensitive or speculative in nature to disclose to institution or the public
- Confidential section may be disclosed, in whole or in part, to the institution being evaluated, if the supervisory agency determined this would promote the objectives of CRA
- Identity of person or organization that has provided information in confidence to a Federal or State supervisory agency

In the case of regulated institutions operating in two or more states, supervisory agencies prepare written evaluations of the entire institution's record of performance and a separate written evaluation of the institution's record within a specific state.

Use of CRA Records

§ 2903 requires Federal supervisory agencies to consider CRA records when evaluating applications for depository facilities. Depository agencies consist of:

- Charters for national banks or federal savings and loan associations
- Deposit insurance for a newly chartered State bank, savings bank, savings and loan association or similar institution
- Establishment of a domestic branch or other facility with the ability to accept deposits
- Relocation of a home office or a branch office
- Merger or consolidation with, or the acquisition of the assets, or the assumption of the liabilities of a regulated financial institution
- Acquisition of shares in, or assets of, a regulated financial institution

Availability of Institution's CRA Record

A regulated financial institution's CRA file must be made available at its main office. If the institution operates on more than one state it must maintain a CRA file at a branch office in each of these states. The public can review CRA files at any time during the institutions hours of operations.

Branch offices are required to keep a CRA file consisting of the public section of the institution's most recent CRA performance evaluation and a list of services provided by the branch.

In addition, you may request for the institution to provide you with a copy of its CRA file for a charge that covers the cost of copying and mailing.

CRA Reform

CRA was revised in 1995. The revised regulations are found in the 4 May 1995 Federal Register (60) FR 22156).

Under the revision lenders subject to CRA could claim community development loan credits for loans made to help finance the environmental cleanup or redevelopment of an industrial site when it is part of an effort to revitalize the low- and moderate-income community in which the site is located.

This provision was designed to encourage economic activity in urban areas. It makes the financing of industrial property redevelopment more attractive to large lenders by providing CRA credit while aiding the communities in which they operate.

Links

http://www4.law.cornell.edu/uscode/html/uscode12/usc_sup_01_12_10_30.html

<http://www.epa.gov/brownfields/html-doc/cra.htm>

<http://www.fdic.gov/regulations/community/community/index.html>

<http://www.federalreserve.gov/dcca/cra/>

<http://www.ffiec.gov/cra/>

<http://www.occ.treas.gov/crainfo.htm>

<http://www.ots.treas.gov/pagehtml.cfm?catNumber=22>

<http://www.policylink.org/EDTK/CRA/>

ⁱ The actual term, redlining, originates from banks' practice of color shading maps to differentiate between optimal and undesirable lending regions on a map. See <http://cml.upenn.edu/redlining/images/HOLC_1936-800.jpg>

ⁱⁱ In August 1975, Governor Dan Walker signed two Illinois bills written to prevent redlining by financial institutions. The second bill, HB 2350 prohibits banks and savings and loan institutions from discriminating on the basis of the geographic location of the property in their lending practices.

ⁱⁱⁱ See, <<http://www.ntic-us.org/issues/cra/cra-history.htm>>

^{iv} 12 CFR Part 25 establishes the framework and criteria by which OCC assesses an institution's record of meeting its CRA obligations, and requires that OCC takes that record into account in considering applications for depository facilities. See <<http://www.washingtonwatchdog.org/documents/cfr/title12/part25.html>>

^v 12 CFR Part 228 establishes the framework and criteria by which FRS assesses an institution's record of meeting its CRA obligations, and requires that FRS takes that record into account in considering applications for depository facilities. See, <<http://www.washingtonwatchdog.org/documents/cfr/title12/part228.html>>

^{vi} 12 CFR Part 345 establishes the framework and criteria by which FDIC assesses an institution's record of meeting its CRA obligations, and requires that FDIC takes that record into account in considering applications for depository facilities. See, <<http://www.washingtonwatchdog.org/documents/cfr/title12/part345.html>>

^{vii} 12 CFR Part 563e establishes the framework and criteria by which OTS assesses an institution's record of meeting its CRA obligations, and requires that OTS takes that record into account in considering applications for depository facilities. See, <<http://www.washingtonwatchdog.org/documents/cfr/title12/part563e.html>>

^{viii} See, <<http://www.fdic.gov/regulations/laws/rules/2000-1900.html#2000part308.3>>

^{ix} The National Bank Act of 1864 replaced the defective National Currency Act of 1863, which developed a national currency based on bank holdings of US Treasury securities and established OCC as part of the Department of the Treasury. The National Bank Act authorized the OCC to examine and regulate nationally chartered banks.

^x Limited purpose institutions offer a narrow product line such as credit cards or motor vehicle loans, to a regional or broader market. Wholesale institutions do not extend home mortgage, small business, small farm, or consumer loans to retail customers.

^{xi} See, <<http://www.ffiec.gov/cra/history.htm>>

^{xii} For specific guidelines for evaluating different types of institutions, see, <<http://www.ffiec.gov/cra/examinations.htm>>

^{xiii} Institutions are awarded the following ratings: 1. Outstanding record of meeting community credit needs, 2. Satisfactory record of meeting community credit needs, 3. Needs to improve record of meeting community credit needs, or 4. Substantial noncompliance in meeting community credit needs.