CRA and Community Development

PERSPECTIVES

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President and Founder
Community-Up

COMMUNITY DEVELOPMENT

AS SEEN THROUGH THE LENSE OF CRA

February 2019

COMMUNITY DEVELOPMENT:

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Community Development

AS SEEN THROUGH THE LENSE OF CRA

CONTENTS

EXECUTIVE SUMMARY

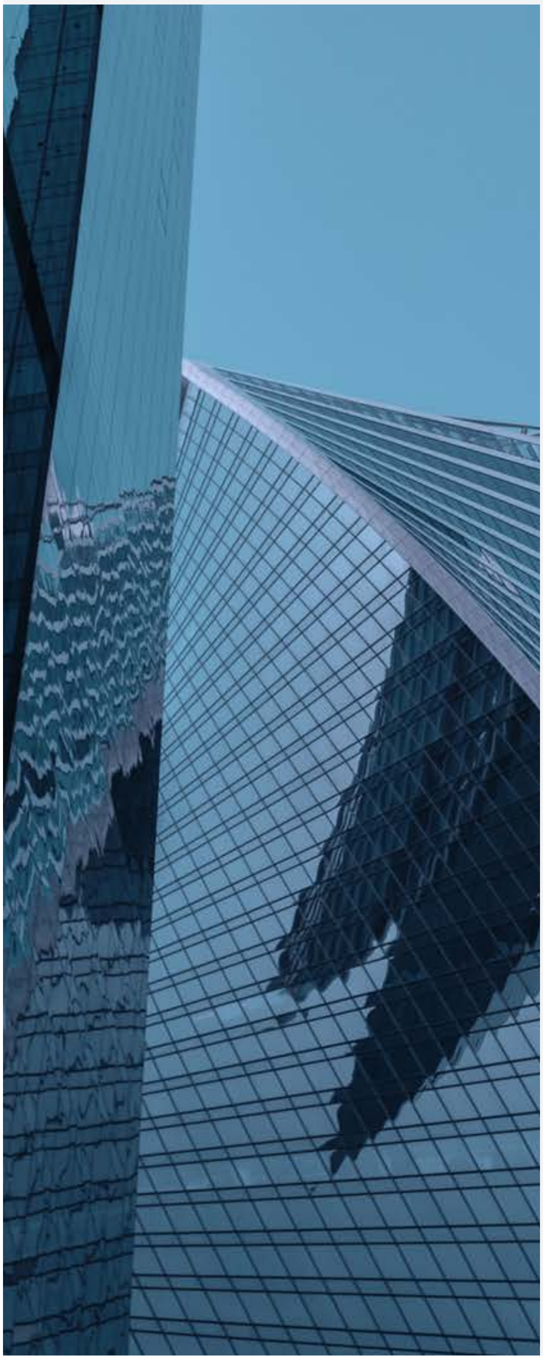
Founded in June 2017, Community-Up is a 501(c)3 social impact organization whose mission is to eradicate poverty through systemic transformation in low-to-moderate income communities, utilizing the Community Reinvestment Act (CRA) regulation. Former bank executive, Lysa Davis founded Community-Up as a result of working at financial institutions ranging from $5 Billion to $125 Billion in assets, during her 22 year career. Due to these experiences, Lysa gained a deeper understanding of the inner workings of CRA Compliance Management.

This understanding led Lysa to identify two major assumptions:
(1) All financial institutions have a Compliance Officer, Bank Secrecy Act (BSA) Officer, Community Reinvestment Act (CRA) Officer, Fair Lending Officer, Home Mortgage Disclosure Act (HMDA) manager and a Compliance Analyst. When in most cases smaller banks with assets under $10 Billion employ one Compliance Officer who is managing multiple responsibilities for meeting the regulatory requirements of each regulation.

(2) Many community groups, key stakeholders and financial institutions have experienced some form of confusion around CRA and what qualifies for CRA community development services due to the vagueness in the regulatory guidance.

Community-Up provides educational workshops, annual conferences and one-on-one consultation, in line with our guiding principles of Collaboration, Innovation and Education to help key stakeholders align their programming with CRA principles to garner support from financial institutions, which results in stronger community development initiatives to impact low-to-moderate income neighborhoods.

The Community Reinvestment Act was enacted by Congress in 1977 to encourage depository institutions to help meet the credit needs of the local communities in which they are located, including low-to-moderate income neighborhoods, consistent with safe and sound banking practices.[1] To accomplish these goals, the CRA requires federal agencies with responsibility for assessing depository institutions CRA performance to periodically conduct CRA examinations of the institutions they supervise. These federal agencies are – the **Federal Deposit Insurance Corporation (FDIC)**, the **Federal Reserve Bank (FRB)**, and the **Office of the Comptroller of the Currency (OCC)**. Examiners review depository institutions lending, service and investment performance and issue a public CRA performance evaluation, inclusive of a CRA rating.



February 2019 Community-Up held its 2nd Annual CRA Conference at the Federal Reserve Bank of Chicago, Detroit Branch, in cooperation with the Wayne County CRA Association (WCCRAA). The WCCRAA is a consortium of financial institutions whose mission is to work to identify the credit needs of the community and actively promote efforts to meet those needs.

Day two (2) of the conference Community-Up hosted a CRA Listening Session designed to allow financial institutions and a wide array of community advocates to have a fact to face conversation about community development through the lens of the CRA regulation, also present was the Interagency (FDIC, OCC, FRB) to listen and collect data, only. The discussion is very timely, given the proposed changes to the CRA, by both banks and community advocates.

The purpose of this report is to detail the findings from the listening session and to gain a better understanding of the issues challenging community-advocates, key stakeholders and financial institutions in their performance of community development initiatives for low-to-moderate income communities through the CRA regulation.

The research questions this report seeks to answer from the perspective of local stakeholders are:

1. Which of the three components (Lending, Service, Investment) of the CRA do you feel offers financial institutions the most room for improvement?

2. In what ways can community organizations collaborate with financial institutions to meet the needs of the CRA?

3. What do you believe is the biggest misconception the community has about the requirements of the CRA?

1 2019 The Federal Financial Institutions Examination Council (FFIEC) URL: https://www.ffiec.gov/cra/

METHODOLOGY

The listening session was conducted with representatives from financial institutions ranging in asset size from $800 Million to $2 Trillion, a National CDFI, a local Community Action Agency, an Affordable Housing Developer, a Housing Developer for Seniors and a Banking Consultant Three points were made very clear and repeated throughout the listening session:

1. Banks rely on community partners to gain access to the community, to create programming, and inform them of the community needs.

2. In some areas, community groups provide duplicative work, in these instances, it would benefit the community more if these organizations could find a way to collaborate.

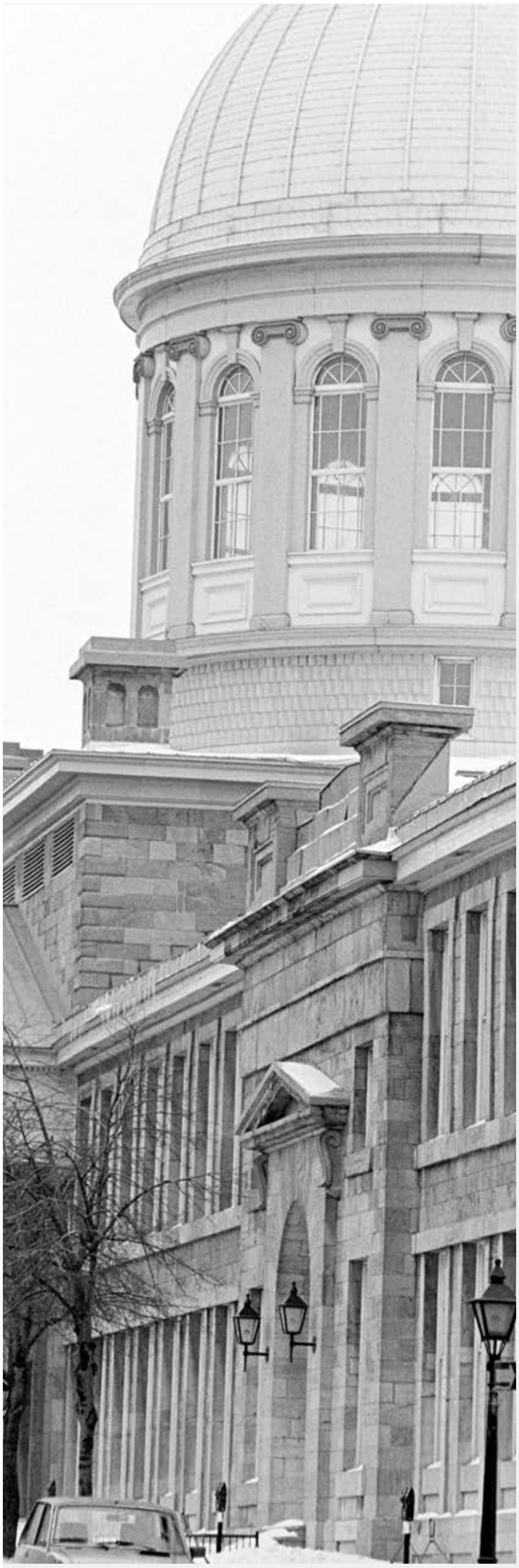
3. Key Stakeholders are not sure how the Community Reinvestment Act regulation encourages banks to meet the credit needs of low-to -moderate income and how key stakeholders can work within the regulation to deepen their partnerships with banks.

Community stakeholders are essential to assisting financial institutions understand the landscape and needs of the communities they operate in. Most often community partners have the most current information about the needs of the communities including a direct link to the residents that need community development services. Although banks do not have the capacity to provide one-on-one consultation, they are able to fund programs, provide technical assistance to help community partners build capacity within their program or assess and address additional professional needs for their community partners all with the main objective to provide community development services to low-to-moderate income individuals and geographies (LMI/LMIT).

Larger urban cities, in most cases have a larger population of LMI/LMIT, and therefore more community partner organizations that provide duplicative programing. Capital investment into multiple programs of the same nature servicing the same population and geography can be challenging for financial institutions and can exhaust needed resources. Educating community partners on the CRA regulation will encourage collaboration and inclusive community development programming creation, with financial institutions, multiple community partners and other key stakeholders to address systemic issues within CRA regulatory requirements.

BACKGROUND OF CRA

Section 1



The Community Reinvestment Act (CRA) requires that, each insured depository institution's record in helping meet the credit needs of its entire community be evaluated periodically by its regulatory agency. That evaluation is taken into account when considering an institution's application for deposit facilities, including mergers and acquisitions.

CRA performance evaluations are conducted by the federal agencies that are responsible for supervising depository institutions:
The Board of Governors of the Federal Reserve System (FRB) the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC). The FDIC is the primary regulator of banks that are chartered by the states that do not join the Federal Reserve System.

The **FDIC** preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for at least $250,000; by identifying, monitoring and addressing risks to the deposit insurance funds, and responding immediately when a bank or thrift institution fails to protect insured deposits.

The **Federal Reserve System** is the central bank of the United States and its main responsibility is to maintain the effectiveness of the US economy through setting of interest rates, promote the stability of the financial system through risk monitoring and reporting, provides services to the banking industry to facilitate US dollar transaction and payments with safe and sound practices and promotes consumer protection through supervision and regulatory examinations.

The **OCC** charters, regulates and supervises all national banks and federal savings associations as well as federal branches and agencies of foreign banks.

BACKGROUND OF CRA

Section 2

What Is A CRA Exam?

CRA performance evaluations are examinations that review the banks' ability to meet the credit needs of their entire community including low-and-moderate income neighborhoods, consistent with safe and sound operations, where the banking centers are located; these areas are called Assessment Areas. Streamlined procedures with an emphasis on lending were adopted for small institutions, while large banks are evaluated under a three-part lending, service and investment test. Wholesale and limited purpose banks are evaluated under a community development test.

Why CRA Matters to Banks

Regulators are required to consider bank CRA performance when considering applications for bank mergers, acquisitions, expansions, and charters. A strong CRA performance evaluation rating can help these transactions pass regulatory scrutiny and a weak CRA performance evaluation rating can undermine approval.

How Bank Size Affects CRA Program Strategy

Although all FDIC-insured banks are monitored by the CRA regulation (credit unions and non-deposit taking lenders like mortgage banks are not monitored), different size banks and banks with special business strategies are evaluated differently. Banks fall into one of three size categories based on assets:

BACKGROUND OF CRA

Section 3

Large Banks

Large Banks have over $1.284 Billion in assets. These banks are subject to three tests: A Lending Test, an Investment Test, and a Service Test. The tests review the banks' ability to meet the credit needs of low-to-moderate income individuals and geographies through the support of affordable housing, financial literacy, economic development, neighborhood stabilization or human services.

Intermediate Small Banks

Intermediate Small Banks have over $321 Million but under $1.284 Billion in assets. These banks are subject to the Small Bank Lending Test plus a Community Development Test. The Community Development Test looks at a bank's community development lending, investment and service activities. The Community Development Test is a lightweight version of the individual tests that apply to large banks but blended into one combined test.

Small Banks

Small Banks have assets less than $1.284 billion as of December 31 of either of the two prior calendar years. These banks are subject to an evaluation that only involves a Lending Test.

Wholesale and Limited Purpose Banks

Non-traditional banks may apply to their regulator to be designated Wholesale or Limited Purpose. A Wholesale Bank is not in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers, and a Limited Purpose Bank offers only a narrow product line (such as credit card or motor vehicle loans) to a regional or broader market. Wholesale or Limited Purpose banks are subject to a Community Development Test, which assesses the volume and effectiveness of their community development lending, investment and service.

MARKET OVERVIEW

Michigan is currently home to over 47,000 nonprofit organizations[2] and 122 FDIC insured financial institutions with 2,515 banking center locations statewide.[3]

Financial Institutions are broken out into the following chartered classes: National Banks, Federal Reserve Member and Nonmember, Savings Associations, FDIC Savings Banks, and US Branches Foreign Banks. The State of Michigan has 2,813 census tracts with a population estimate of 9,995,915 of which 14.2% are living in poverty.[4]

Low-to-Moderate income census tracts are located in a majority of Metropolitan Statistical Areas (MSA) across the State of Michigan. Metropolitan Statistical Areas (MSA) are areas with at least one urbanized area of 50,000 or more population, plus adjacent territory that has a high degree of social and economic integration with the core, as measured by commuting ties.

The MSA in Michigan with the largest amount of low-to-moderate census tracts is the Detroit-Livonia-Dearborn (19804) MSA housing 107 low income tract and 174 moderate income tracts or roughly 10% of the overall census tracts located in the State of Michigan.

Hud Definition of Low-to-Moderate Income

LOW-INCOME FAMILY: families whose [combined] income does not exceed 80 percent of the median family income for the area

MODERATE INCOME: Households whose incomes are between 81 percent and 95 percent of the median income for the area, as determined by HUD, with adjustments for smaller or larger families.

2. 2019 Michigan Nonprofit Association; Retrieved from https://www.mnaonline.org/
3. 2019 Federal Deposit Insurance Corporation (FDIC), Retrieved from https://www5.fdic.gov/sod/sodMarketRpt.asp?barItem=2
4. 2019, United States Census Bureau; Quick Facts, Michigan; Retrieved February 2019 from https://www.census.gov/quickfacts/fact/table/mi,US/PST045218

MARKET RESEARCH

Question 1

Which of the three CRA components offers financial institutions the most room for improvement?

Currently banks address systemic problems from a community perspective with the creation of products. But products are reactive in nature to an issue, banks can be more impactful if they create programs. Programs are designed to address systemic problems proactively and long term. However, banks are somewhat restricted from crafting a permanent long-term solution.

Developing a program can easily take 12 months or longer. Banks are scheduled for a CRA performance evaluation every 24 – 36 months. If banks spend 30% of their CRA exam cycle time developing programming, that is less time in the community, less resources and less impact to report to the federal examiners.

The development process of a program may jeopardize other opportunities to make new loans, build new relationships for investment purposes, or increase their service hours by teaching classes. With resources going to developing a new program which may or may not have any impact or data to show during an upcoming exam cycle, financial institutions are taking the risk of earning low CRA scores on their exam.,

However, if a financial institution works with a community partner to help develop a program the time spent working and planning with a community partner will qualify for CRA Community Development Service hours because the bank is providing technical assistance.

Further justifying why banks rely on their community partners to create and develop programs that they can support.

Question 1

Which of the three CRA components offers financial institutions the most room for improvement? (Continued)

Meeting the credit needs in low-to-moderate income communities is often challenging for financial institutions because of the small dollar amount of the loan and the credit challenges. More often than not, first time homebuyers need to attend homebuyers counseling classes to learn the homebuying process, get assistance gathering their documentation and repairing their credit, if they have experienced some challenges in the past. Who pays for the homebuying or small business counseling?

Small business is important in both urban and rural markets. We need to find a way, through the CRA regulation, to encourage financial institutions to be more engaged in small business financing. For example, if someone applies for a $12K loan to finish their basement to start a daycare, how does the bank finance this? In these types of scenarios, it is common for banks to offer a credit card, even though it's not a good structured small business lending model and it is not a sustainable. Small dollar loans are very expensive and difficult for the bank to do, but it is a necessary component for the success of small businesses.

An article written by Anil Rupasingha[5] for The United States Department of Agriculture, states that between the years 2000 – 2015, rural counties received smaller loan amounts per capita than urban counties for small business loans[6] recorded under CRA regulations. In 2000, the per capita amount for urban counties was $1,006, compared to $760 for rural counties.

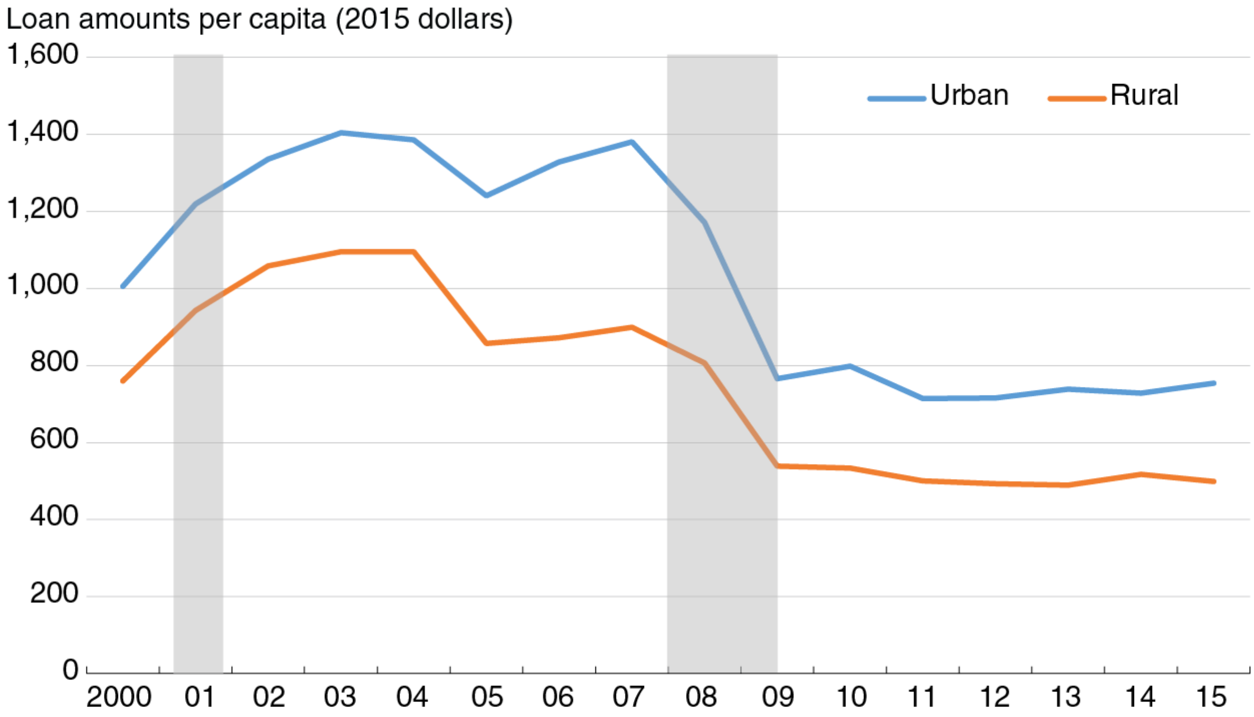
5. 2017. "Access to capital and small business growth: evidence from CRA loans data," by Anil Rupasingha & Kyungsoon Wang, The Annals of Regional Science, Springer;Western Regional Science Association, vol. 59(1), pages 15-41, July.

SMALL BUSINESS

LENDING PRACTICES

A study examined data to assess the impact of CRA lending practices on small business outcomes.[6] The study found that between 1996 and 2010, receiving higher CRA qualifying loan amounts had a statistically significant positive effect on small business startups in both rural and urban counties.

Small business loan amounts per capita in rural counties lagged behind urban counties



Note: Shaded areas indicate periods of recession. Data are expressed in constant (inflation-adjusted) 2015 dollars.
Source: USDA, Economic Research Service calculations using Community Reinvestment Act data from the Federal Financial Institutions Examination Council.

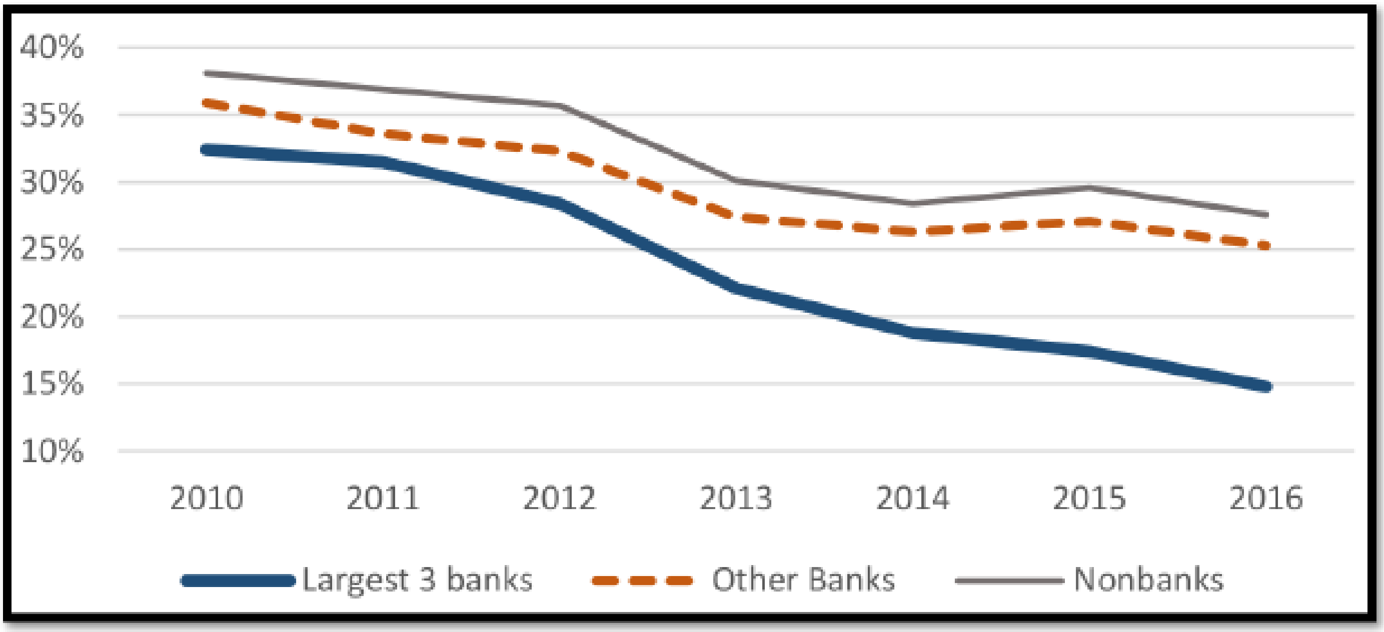
7. 2017. "Access to capital and small business growth: evidence from CRA loans data," by Anil Rupasingha & Kyungsoon Wang, The Annals of Regional Science, Springer;Western Regional Science Association, vol. 59(1), pages 15-41, July.

RESIDENTIAL

LENDING PRACTICES

LMI neighborhoods are also challenging to lend in. Data collected under the Home Mortgage Disclosure Act (HMDA) reveal that the largest banks have significantly reduced their share of mortgage lending to low-to-moderate income households in recent years.[8] The below figure shows trends over time and across lender categories in the fraction of home-purchase loans originated to LMI borrowers, defined under the Community Reinvestment Act (CRA) as those borrowers with incomes less than 80 percent of estimated current area median family income.

Share of Mortgages to LMI Borrowers



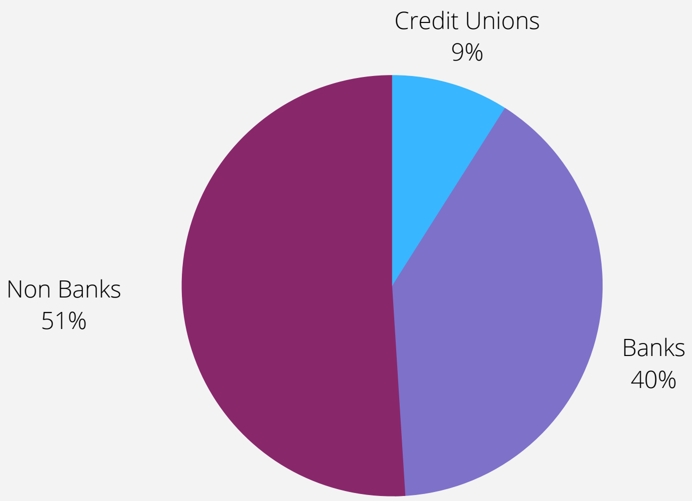
Note: The nonbank category excludes lenders identified as subsidiaries or affiliates of depository institutions. Source: Federal Financial Institutions Examination Council (U.S.).

8. (2017). "The Decline in Lending to Lower-Income Borrowers by the Biggest Banks," by Bhutta, Neil, Steven Laufer, and Daniel R. Ringo FEDS Notes. Washington: Board of Governors of the Federal Reserve System, Retrieved February 2019 from https://doi.org/10.17016/2380-7172.2077.

RECENT

LENDING TRENDS

MORTGAGE ORIGINATIONS BY INSTITUTION TYPE



In 2017 roughly 70% of all mortgages were originated online with 51% being originated by non-bank/non-depository lenders, 40% originated by banks, 9% originated by Credit Unions.[9] With home mortgage loans being originated online by non-depository lenders that have no responsibility to fulfill CRA requirements, it is becoming more challenging for low-to-moderate income buyers to get approved for a home mortgage.

While the trends among the nonbank lenders and smaller bank lenders have been similar over the past few years, the largest three bank mortgage lenders experienced a notably steeper decline in LMI lending compared to the rest of the market. These three banks – Wells Fargo, Bank of America and JP Morgan Chase- together originated about 9 percent of all mortgages reported in the 2016 HMDA data.

Financial Institutions find that LMI buyers can take 6 months to close a transaction. Nonprofit counseling agencies that teach homebuyers classes say that it takes 6-24 months of preparation to get a homebuyer through the purchase process, starting with financial education, and it's still no guarantee that the borrower will close on the mortgage loan.

In some cases, LMI borrowers might be first-time home buyers and first generation home buyers. Having no experienced relatives to help guide them through the process, provide a down payment gift, or help prepare them years before they start the homebuying process, puts them at a disadvantage.

In some cases, banks end up being counselors and working with clients for months not generating any new business, and that is not a sustainable business model for banks.

9. Kapfidze, Tendayi, (December 2018) "U.S. Mortgage Market Statistics: 2018" Retrieved (28, February 2019) https://www.magnifymoney.com/blog/mortgage/u-s-mortgage-market-statistics-2018/

Question 1

Which of the three CRA components offers financial institutions the most room for improvement? (Continued)

LMI neighborhoods are difficult to serve and online mortgage lenders do not want to play in those areas.

Therefore, collaboration and innovation will be extremely important moving forward to help service LMI areas, considering that most transactions may be difficult and complex. If federal agency examiners allowed banks to get CRA credit when they elaborate on the challenges LMI borrowers face in the performance context that would be encouraging. Furthermore, if that same bank creates innovative programming to address and alleviate those challenges that qualifies for CRA credit, bankers would be more encouraged to spend time developing programming that could provide real solutions in LMI communities.

We still need partnerships with commercial banks to provide capital to programs in LMI geographies.

Financial Institutions often face the challenge of spending large amounts of time creating products and working with community partners developing lending programs only to find that it will not qualify for CRA regulatory purposes, or it would be a special purpose product. When we are talking about the systemic issue and the access to credit there is a great opportunity to release the tension for the short term and the long term. Nonprofit organization know how long it takes to build a program. We know it is true that what gets measured is what gets counted, it seems we need to measure things differently to help our banking partners obtain CRA credit.

“The other part of the equation for banks, is not knowing if we will get CRA credit for the work.”

Question 1

Which of the three CRA components offers financial institutions the most room for improvement? (Continued)

The regulation is currently so focused on an arbitrary performance number that may or may not solve issues in the community, that when there is a true problem where banks could come to the table and dig into the problem and really work through it, there is no value for the institutions for the time spent identifying, addressing and developing a solution. Financial Institutions are laser focused on closed loans or hours spent volunteering in the community because they interpret the CRA regulation values the number of closed loans or service hours. Not the quality but the quantity. One of the predominant things that needs to change within the regulation is instead of going after the arbitrary number of loans and service hours that may or may not mean anything, banks should get CRA credit for focusing on the in-depth needs of the community and our responsiveness to that problem.

For example, there is a great program called the Detroit Home Mortgage Program that many local, regional and community banks spent 6-12 months developing. Once the program was up and running it took another 2-3 years to close 155 mortgages spending hundreds if not thousands or hours in effort. This work that took years to get off the ground, did positively change the housing market in Detroit from closing 40 bank financed mortgage, to now over 1000 bank financed mortgages in 4 years. This is a huge accomplishment. Trying to get that communicated to the examiners for CRA credit is very difficult if not impossible. Which is directly related to why it is hard to get banks to come to the table to do the hard work.

“Trying to get that communicated to the examiners for CRA credit is very difficult if not impossible”

Question 1

Which of the three CRA components offers financial institutions the most room for improvement? (Continued)

There is also the realization that some community partners have developed products and programs that are very important to helping LMI individuals build their credit, improve their credit scores and save for a down payment, but the community partner cannot scale their programming because they do not have the capacity or budget. The CRA regulation is area specific, per the bank's assessment area delineation. Some nonprofit organizations have built structures and systems to respond to helping LMI individuals stay in their home with foreclosure prevention education or prepare to purchase a new home with financial literacy education, but they cannot get it funded because of assessment area restrictions.

> "Millennials are watching market values of property increase in their communities and there is a growing concern that they will not be able to afford to live in the city in which they grew up."

Millennials are watching market values of property increase in their communities and there is a growing concern that they will not be able to afford to live in the city in which they grew up. On the other hand, we have seniors who are aging out, but do not want to be displaced. We need to look at building communities from a perspective that are intergenerational, meaning that people will want to live there for a lifetime without being displaced as they grow older. Banks have developed products and tools in the past to help people afford a home that they otherwise couldn't afford, as we move forward the only way banks can learn and understand challenges facing this upcoming generation of millennial home buyers is to attend community meetings hosted by community partners.

An article in Yahoo Finance on January 4, 2019[10] stated that the entrance of millennials into the housing market has been delayed by several factors, including student loans, limited savings and mobile lifestyles. Credit scores are another factor that can discourages millennials from buying a home. Of the 685 millennials responding to the 2018 TD Bank Buy or Rent Survey, 17 percent said they didn't think they would be approved because of their credit. Also, millennials still like the flexibility of renting, so the reality of a wave of millennial homebuyers in the coming year is no sure thing.

10. (January 4, 2019) "Will 2019 Be The Year Of The Millennial Homebuyer?" by, Maryalene LaPonsie Retrieved February 2019 from, https://finance.yahoo.com/news/2019-millennial-homebuyer-182443146.html

Question 1

Which of the three CRA components offers financial institutions the most room for improvement? (Continued)

Another area financial institutions have room for improvement is CRA qualified service. Banks work with several nonprofits. Internally, banker are encouraged to volunteer on boards, however nonprofits ask for, and have a need for additional services. For example, teaching professional development skills, like taking phone calls for customer resolution from community residents. Banks can provide this service, however, are banks really positioned to do that work, helping to build capacity to service the community at nonprofits?

Again, banks also need to consider if they will get CRA service credit for this work. Programming allows banks to bring together several nonprofit partners that have asked for the same guidance on a larger scale. Is there a CRA qualified opportunity to help nonprofit partners become more sustainable through professional development training?

> "Is there a CRA qualified opportunity for banks to help nonprofit partners become more sustainable through professional development training?"

The CRA regulation is not clear on how banks can accomplish this and receive CRA credit.Banks are constantly looking for CRA qualifying service opportunities, primarily in financial education. Financial education seems to be the easiest way to meet the need of CRA service for a financial institution. Community partners play a big role in helping their banking partners get in front of an audience to provide content.

Community partners should be intentional about inviting financial institutions to a community meeting to teach financial literacy or provide some level of access for consumers to interact with bankers. This level of interaction may lead to more conversations and relationship building between the consumer and the bank which is important for the consumers future needs.

MARKET RESEARCH

Question 2

In What Ways Can
COMMUNITY ORGANIZATIONS COLLABORATE
With Banks To Meet The Needs Of The CRA?

The financial institutions present assured the group that banks understand that financial literacy group sessions are not as impactful as one-on-one financial coaching sessions, however due to capacity, banks are not able to facilitate one-on-one sessions. Financial literacy group sessions provide bankers with an opportunity to get in front of an audience to share important information about being fiscally responsible. To begin the conversation, share some important information with the hopes that attendees will follow up with either the nonprofit organization or with the banker for additional one-on-one consultation. Some bankers expressed some concern regarding attendees in group class settings and wondered if attendees are benefitting from financial literacy classes.

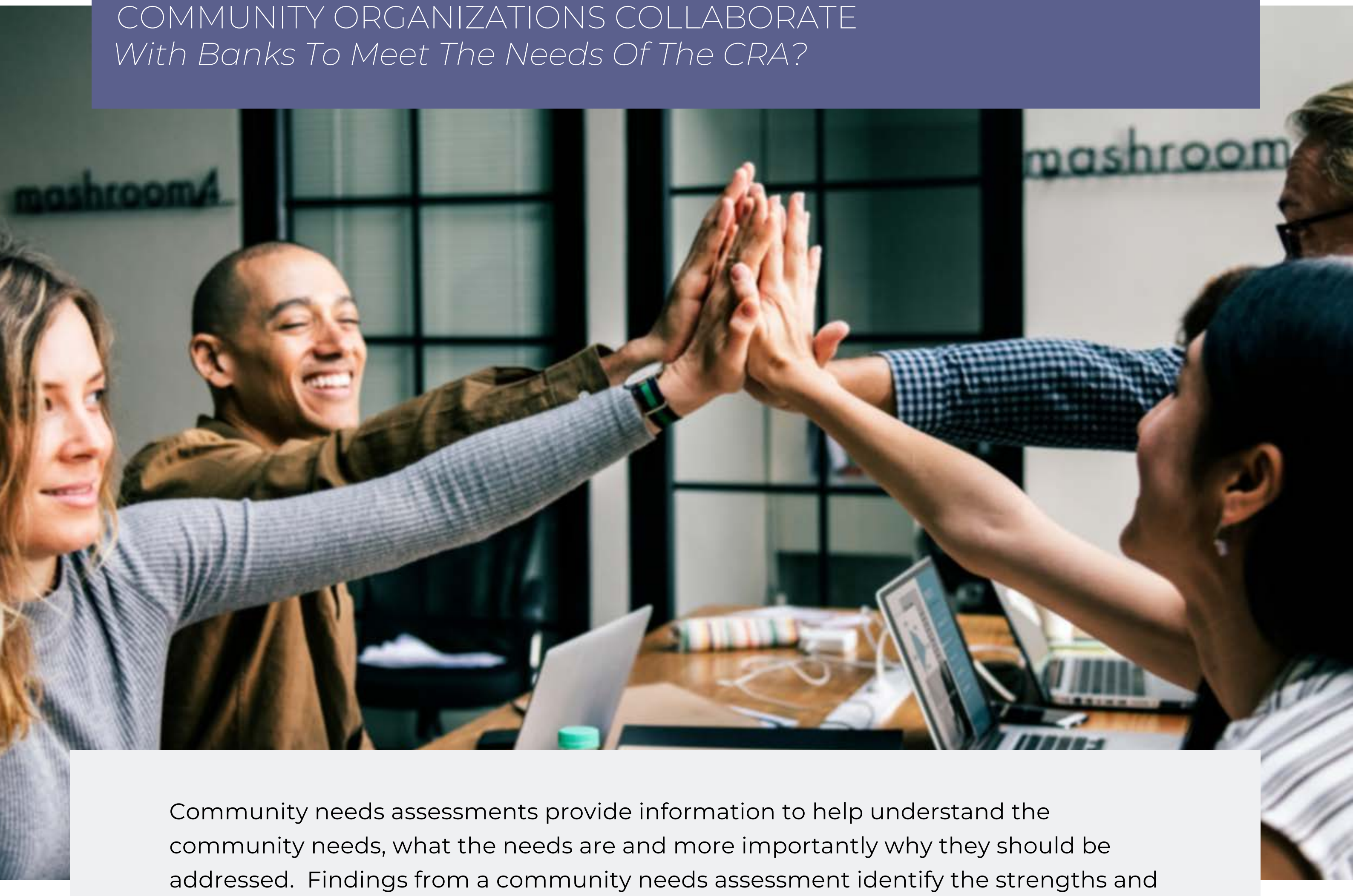
During the listening session, a Community Action Agency shared that they do a community needs assessments every three years as required by the regulation and the Office of Economic Opportunity (OEO). Out of thousands of survey responses received, none of the respondents listed financial literacy education as a need. Respondents stated that they need someone to help them with their long-term credit management or their long -term money management skills, but not one respondent stated they needed to take a financial literacy course. Additional research revealed that people think financial coaching is more important when compared to financial literacy group classes. Financial coaching is a one-on-one consultative approach to educate clients and empower them about their financial management and being fiscally responsible. Financial Literacy was seen as a great resource for the duration of the class, but the longer-term relationship with financial coaches has the most effect because people respond to the caring aspect of the coaching and the accountability.

Community Action Agencies are regulated through the Economic Opportunity Act, enacted by Congress in 1964 to provide funds for vocational training, created Job Corps, established the VISTA program (Volunteers in Service to America), the Peace Corps, and Head Start.

MARKET RESEARCH

Question 2

In What Ways Can
COMMUNITY ORGANIZATIONS COLLABORATE
With Banks To Meet The Needs Of The CRA?



Community needs assessments provide information to help understand the community needs, what the needs are and more importantly why they should be addressed. Findings from a community needs assessment identify the strengths and weaknesses and the assets available in the community to meet those needs. In some instances, community needs assessments uncover new social patterns and challenges in a community that result in a larger issue that could otherwise, go unforeseen for years. This information can help a community practitioner have in-depth understanding about a systemic problem and insight into different methodologies to find a solution.

If community partners can share their community needs assessments with banks, or invite them out to community listening sessions, this will help bankers understand the needs in the community. Community organizations at the listening session, stated that a great way to drive forth positive impact, would be if bankers met with community organizations (maybe quarterly) assisting in the development of short-term action plans, and followed up regularly (quarterly) providing guidance and technical assistance.

Question 2

In What Ways Can

COMMUNITY ORGANIZATIONS COLLABORATE

With Banks To Meet The Needs Of The CRA?

(continued)

> “The CRA regulation hasn’t evolved enough to recognize that nonprofit community partners are really the experts in the field when it comes to financial education.”

The CRA regulation hasn’t evolved enough to recognize that nonprofit community partners are really the experts in the field when it comes to financial education. Many nonprofit counseling agencies are certified to administer the HUD Housing Counseling Program as their training courses. The CRA regulation assumes bankers to be the expert, but banks are restricted by the regulation. Instead of being able to spend time taking certification courses in financial literacy, banks spend time accumulating community development service hours. Again, it goes back to quantity over quality. Banks get CRA credit for qualified CRA service hours, not for becoming the expert.

Question 2

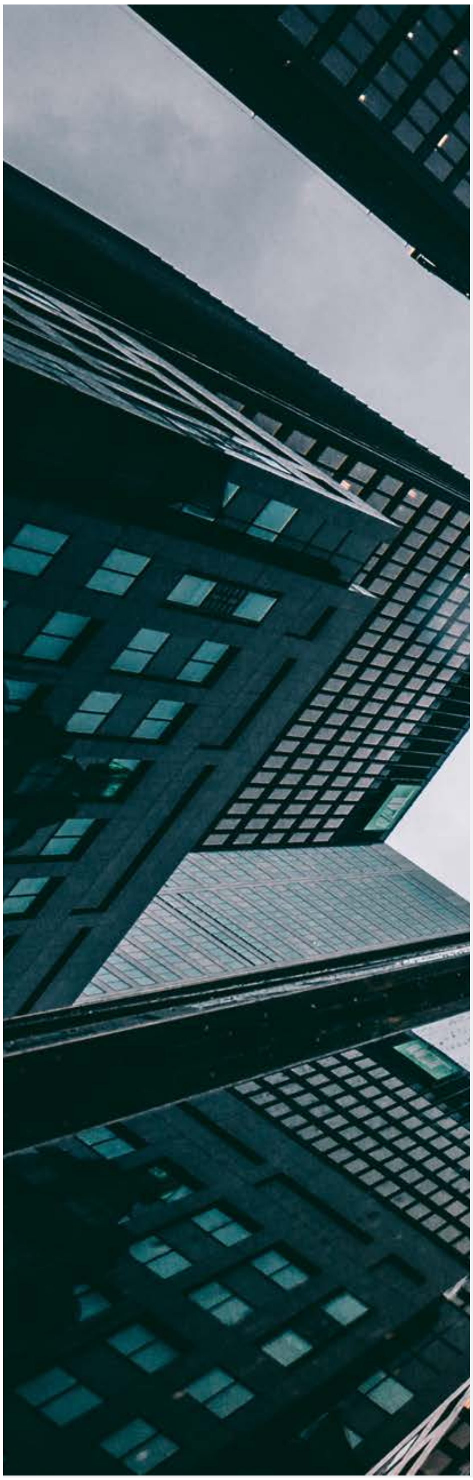
In What Ways Can
COMMUNITY ORGANIZATIONS COLLABORATE
With Banks To Meet The Needs Of The CRA? (continued)

Other challenges we face are multiple community organizations doing the same type of work. If more community organizations collaborate and work together on various community development initiatives, this would allow banks to make more of an impact. Community organizations often times have duplicative work. If banks and community organizations came together and shared the same message to collaborate, it would show a stronger support system for the community. Especially if some of the community organizations with stronger voices participate, this would send a cohesive message to the community.

Collaborative efforts also encourage more partnerships for capacity and less competition for funding. Consumers in LMI communities would know where to go to receive specific services or resources because all the partners are collaborating and communicating the same message.

Question 3

What Is The Biggest Misconception The
COMMUNITY HAS ABOUT THE REQUIREMENTS
Of The CRA?



Community organizations admit, they just do not understand the Community Reinvestment Act regulation, its intents and purposes and how to work within its guiding principles. There is also a misconception about 'Community' and 'Who' or 'What' is represented by this word in relationship to the CRA regulation. There needs to be some additional conversation about the CRA regulation so that community partners can gain a better understanding and become more strategic in addressing issues in their community while helping banks deliver on the value proposition for community work and needs. Approaching CRA in this manner with community organizations can hinder the climate of competition and send the message that we are all in this together.

There is a bigger message that needs to be discussed relative to the CRA regulation. The word CRA marks a territory and other corporations do not show up to play. It leads one to believe that a CRA qualifiable community is only represented by low-to-moderate income individuals or geographies. This negative connotation or label can adversely hurt a community. When people hear the word CRA they think about poor people, low income people, people of color and less desirable areas. Private corporations that do not have any CRA requirements easily identify CRA areas, and choose not to do business there, because it's labeled CRA and therefore someone else's responsibility. This leads to the same funders around the table being exhausted by the needs of the community when there are many other corporations in position to give or invest, but because they consider it a CRA area they don't. From a regional perspective Detroit is a qualified CRA area and that automatically identifies Detroit as CRA community putting the city at a disadvantage.

Question 3

What Is The Biggest Misconception The

COMMUNITY HAS ABOUT THE REQUIREMENTS
Of The CRA? (continued)

We need to change the narrative. CRA communities are not disadvantaged, they are communities that have been underinvested. When we think about CRA we need to think about how partners can collaborate to do good work benefiting the community through holistic intentional initiatives. When work is done to stabilize and revitalize an LMI community everything around that community benefits. Community development is directly tied to Economic Development. Community Development stimulates change and encourages growth.

"How Do I Apply for Your CRA Dollars?"

"How Do I Apply for Your CRA Dollars?" This question was the biggest misconception that community organizations disclosed about the CRA regulation. There are not any CRA dollars. Banks fund projects and programs that qualify for CRA credit through the regulatory guidance.

The second misconception was that all banks don't perform CRA regulatory requirements the same, it all depends on how the banks interpret it and work within it.

Lastly, another misconception identified was that banks only participate in community development initiatives because they are required to by the regulation.

Bankers participate because they want to give back. Most financial institutions hire people directly from the community to work in their banking centers. Bankers take pride in representing their community, serving on boards, supporting the work of local community organizations and patronizing local businesses.

CONCLUSION

KEY TAKEAWAYS

1

Key Takeaways

THE NEED FOR ADDITIONAL EDUCATION ABOUT THE CRA REGULATION

> **“During the listening session the community partners confirmed they did not have full understanding of the Community Reinvestment Act Regulation”**

During the listening session the community partners confirmed they did not have full understanding of the Community Reinvestment Act Regulation. Several questioned different aspects and restrictions of the regulation, which is frustrating, especially for the statewide organizations. In addition, learning banks do not have “CRA Dollars” to distribute to community organizations led to more questions from community partners.

Financial institutions gain CRA credit through application of the regulation. Each financial institution defines the regulation differently, based on their corporate business strategy and chartered class. Realizing that all banks perform CRA regulatory compliance activities disparately is important. Community partners that can work within regulatory guidelines creating programs that make systemic change in the communities that need it most, while helping to support banking partners meet the requirements of the CRA regulation, are valuable allies. Furthermore, if these programs can help banks generate qualifying CRA service hours they can use during their CRA performance evaluation creates a mutually beneficial relationship, ultimately strengthening support for the community.

2

Key Takeaways

COLLABORATION TO CREATE QUALIFYING CRA PROGRAMS

Collaborative partnerships for community development initiatives means the full engagement of the stakeholders, residents, financial institutions, local city government and community advocates. To achieve the goal of stabilizing and revitalizing low-to-moderate income neighborhoods and underinvested communities. Collaborative efforts attract investment dollars that can be leveraged for other critical resources to achieve the goal.

The CRA regulation encourages financial institutions to support low-to-moderate income individuals and geographies through affordable housing, economic development, financial literacy, neighborhood stabilization and human development. Although banks create internal CRA strategies that are confidential and exclusive to their institutions, most banks cannot single handedly revitalize an entire community, CRA is one of the only areas in banking where banks come together, pooling resources to support community development initiatives.

Of course, banks will still work independently on community development initiatives, they have a responsibility to their CEO and Board to ensure they are meeting the requirements of the regulation. However, to have meaningful and significant outcomes requires a systemic approach to repair any breakdowns in the community and by bringing stakeholders to the table that have aligned interests will take a collaborative effort to address unmet community needs.

“Collaboration between community partners, key stakeholders, let’s bring everyone to the table and develop a CRA qualifying program”

3

Key Takeaways

BANKS RELY ON THEIR COMMUNITY PARTNERS

The need of partnerships for successful community development has grown significantly and have become a basic business practice for success. Banks are not equipped to perform the type of community needs assessments equivalent to their community partners.

Banks are not equipped to perform the type of community needs assessments equivalent to their community partners.

It's challenging for bankers to know the residents needs in all of the communities they serve, based on their assessment areas. If you are a community organization, it is important to build a strong relationship with the bankers in the community you serve. Learn what the banks priorities are and then decide if your organization is a good fit. Do not create programs just to get funding, because the banks and their examiners review your mission statement and your programming from previous years. It does not help you, your community, or the bank, if you try to do work that is not in your toolbox. Bankers want you to do good work, significant work with impactful outcomes, this is how the communities you serve will benefit. Banks need strong community partners with strong ties to their constituents. Banks rely on community organizations to coordinate community meetings that they can attend to provide technical assistance or educational service hours. Community partners are important to banks because they have strong relationships with their community residents and the CRA regulation encourages banks to meet the credit needs of low-to moderate income individuals and communities.

“Community partners are important to banks because they have strong relationships with their community residents and the CRA regulation encourages banks to meet the credit needs of low-to moderate income individuals and communities”

ABOUT THE
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Lysa Bradford Davis
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Lysa Bradford Davis is a Regulatory Compliance and Community Reinvestment Act (CRA) Professional, with experience in administering all aspects of consumer compliance programs and Community Reinvestment Act (CRA) initiatives. With over 20 years experience, Lysa a former bank executive, has pioneered economic development and affordable housing initiatives through advocacy, analysis and collaboration. Lysa is an FDIC "Subject Matter Expert" that has led working groups and training sessions for the FDIC Alliance for Economic Inclusion (AEI) . Lysa has been a guest speaker in several Affordable Housing Policy Conferences for the Federal Reserve and won awards for her work on the Federal Reserve's Money Smart Week Initiatives.

Ms. Davis has facilitated workshops for the **Federal Home Loan Bank of Indianapolis (FHLBI)** and was invited to develop the Detroit Home Mortgage Program by the **Obama Administration's Detroit Federal Working Group and Clinton Global Initiative.**

For over 20 years, Lysa has proven her leadership and experience in strategy, development and execution by successfully utilizing a consultative approach to engage decision makers in all lines of business for results driven community initiatives. Lysa networks effectively, and creates synergistic relationships; she excels in focusing the efforts of diverse groups to work toward common goals. Lysa has a groomed her unique style of leadership as a trusted partner to her peers, colleagues, clients and consumers through her love and commitment to community and economic development.

Lysa earned her Bachelor’s Degree in Sociology from Wayne State University and resides in Detroit Michigan with her two daughters, Symone and Brittanie.

ADDITIONAL RESOURCES

GLOSSARY

Area median income: The median family income for the MSA, if a person or geography is located in an MSA; or The statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

Assessment area: one or more geographical areas within which a bank is evaluated on its record of helping to meet community credit needs, including those designated as low- and moderate-income. The assessment area will generally consist of one or more MSAs or one or more contiguous political subdivisions, such as counties, cities, or towns. The assessment area will include geographies where the bank has its main office, its branches, and deposit taking ATMs, as well as surrounding geographies in which the bank has originated or purchased a majority of its loans.

ATM: Automated Teller Machines is a machine that allows people to take out money from their bank account by using a special card.

Bank: any national bank, State bank, District bank, any Federal branch and insured branch and any former savings association that has converted from a savings association charter; and is a Savings Association Insurance Fund member.

Branch: a staffed banking facility authorized as a branch, whether shared or unshared, including, for example, a mini-branch in a grocery store or a branch operated in conjunction with any other local business or nonprofit organization. The term "branch" only includes a "domestic branch" as that term is defined in Federal Regulations

Census Tract (CTs): small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Consolidated Metropolitan Statistical Area (CMSA): a consolidated metropolitan statistical area as defined by the Director of the Office of Management and Budget.

Community Development:

- Affordable housing (including multifamily rental housing) for low- or moderate-income individuals;
- Community services targeted to low- or moderate-income individuals;
- Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs or have gross annual revenues of $1 million or less; or
- Activities that revitalize or stabilize low- or moderate-income geographies.

Community development Loan: Has as its primary purpose community development; and Except in the case of a wholesale or limited purpose bank: Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan benefits the bank's assessment area(s)

Community development Service: a service that; Has as its primary purpose community development; Is related to the provision of financial services; and has not been considered in the evaluation of the bank's retail banking services under Federal Regulations. § 345.24(d)

Depository Institution: any bank or savings association.

Family: includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

Family Income: includes the income of all members of a family that are age 15 and older.
Federal Financial Institutions Examination Council: (Council) was established on March 10, 1979. The Council is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) and to make recommendations to promote uniformity in the supervision of financial institutions.

Federal Savings Association: any Federal savings association or Federal savings bank which is chartered under section 5 of the Home Owners' Loan Act.

FFIEC: see Federal Financial Institutions Examination Council

Geography: a census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Loan Application Register (HMDA LAR): the HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

Household: includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Household Income: includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

Housing Unit: includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

HUD Adjusted Income Data: the U.S. Department of Housing and Urban Development (HUD) issue annual estimates that update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Insured Bank: any bank (including a foreign bank having an insured branch) the deposits of which are insured in accordance with the provisions of this Act; and the term "non insured bank" means any bank the deposits of which are not so insured.

Insured Depository Institution: any bank or savings association the deposits of which are insured by the Corporation pursuant to this Act. Insured Depository Institution also includes any uninsured branch or agency of a foreign bank or a commercial lending company owned or controlled by a foreign bank for purposes of section 8 of this Act.

ITM: Interactive Tellers Machines are similar to ATMs but instead of only pressing various buttons and looking at digital screens, customers also talk to a real person through video.

Large Bank: any bank not otherwise defined as a small bank, unless requested designation and received approval as wholesale or limited-purpose institutions or have been approved for evaluation under a strategic plan.

Low-Income: individuals and geographies having a median family income less than 50 percent of the area median income.
Median Income: the median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Statistical Area (MSA): one or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MSA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MSA population of at least 100,000 (75,000 in New England). An MSA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county.

Middle-Income: individuals and geographies having a median family income of at least 80 percent and less than 120 percent of the area median income.

Moderate-Income: individuals and geographies having a median family income of at least 50 percent and less than 80 percent of the area median income.

Non-Metropolitan Statistical Area: all areas outside of metropolitan statistical areas (MSA). The definition of non-metropolitan statistical area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan statistical areas.

Poverty Level: federal government bases this on income thresholds that vary by family size and composition and does not take into account non cash benefits.

Primary Metropolitan Statistical Area (PMSA): a large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area.

Public Evaluation (Performance Evaluation): an explanation of the uniform four-tiered rating system that the FDIC and other federal banking agencies use to assess the CRA performance of each regulated bank and savings institution.

Qualified Investments: a qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors:

- affordable housing; community services targeting low- and moderate-income individuals; activities that promote economic development by financing small farms and small businesses; and activities that revitalize or stabilize low- and moderate-income geographies.

Rural Area: territories, populations, and housing units that are not classified as urban.

Small bank: a bank that, as of December 31 of either of the prior two calendar years, had total assets of less than $250 million and was independent or an affiliate of a holding company that, as of December 31 of either of the prior two calendar years, had total banking and thrift assets of less than $1 billion

State bank: any bank, banking association, trust company, savings bank, industrial bank (or similar depository institution which the Board of Directors finds to be operating substantially in the same manner as an industrial bank), or other banking institution which;

- is engaged in the business of receiving deposits, other than trust funds (as defined in this section); and
- is incorporated under the laws of any State or which is operating under the Code of Law for the District of Columbia (except a national bank), including any cooperative bank or other unincorporated bank the deposits of which were insured by the Corporation on the day before the date of the enactment of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

State depository institution: any State bank, any State savings association, and any insured branch which is not a Federal branch.

Upper-Income: individuals and geographies having a median family income of 120 percent or more of the area median income.

Urban Area: all territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

Wholesale bank: a bank that is not in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers, and for which a designation as a wholesale bank is in effect, in accordance with Federal Regulations. § 345.25(b)

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