

Interagency Questions and Answers Regarding Community Reinvestment: Issued on July 25, 2016

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Agenda

- Overview
- Revised and new Questions and Answers (Q&As) regarding:
 - Community Development
 - Services
 - Responsiveness and Innovativeness
 - Innovative or Flexible Lending Practices
- Questions

Overview

- Proposed revisions to Interagency Questions and Answers Regarding Community Reinvestment (Q&As) issued September 10, 2014
- 126 Unique comments received from industry, community, and governmental entities
 - Plus over 900 form letter submissions
- Final Q&As published July 25, 2016
 - Revised 9 existing Q&As
 - Added 7 new Q&As
 - Reissued Q&As in their entirety
 - Addressed needed technical corrections

Community Development Defined

- Affordable housing for low- or moderate-income (LMI) individuals
- Community services targeted to LMI individuals
- Activities that promote economic development by financing small businesses or small farms
- Activities that revitalize or stabilize LMI areas; designated disaster areas; or underserved or distressed nonmetropolitan middle-income areas
- Loans, investments, and services that support, enable, or facilitate Neighborhood Stabilization Program (NSP) eligible activities in designated target areas

Community Development

- § __.12(g)(3)-1 (Revised) Economic Development
 - § __.12(g)-1 (Revised - added workforce development/job training to examples)
 - § __.12(t)-4 (Revised - added workforce development/job training to examples)
- § __.12(g)(4)(iii)-4 (Revised) Revitalize or Stabilize Underserved Nonmetropolitan Middle-Income Geographies (broadband)
- § __.12(g)-4 (New) Examples of CD Activities Apply to Q&As with Similar Purpose
- § __.12(h)-1 (Revised) Examples of Community Development Loans (energy efficiency/renewable energy)

Economic Development

- §___.12(g)(3)-1 (Revised)
- Explains the phrase “promote economic development”
 - Describes two tests: “size” and “purpose”

Economic Development Size Test

- Beneficiaries must meet size eligibility standards of the Small Business Administration's Development Company (SBDC) or Small Business Investment Company (SBIC), or
- Have gross annual revenues of \$1 million or less
- NEW – Term “financing” includes technical assistance that readies a business to obtain financing

Economic Development Purpose Test

- Intended to ensure activities are consistent with CRA regulations
- Preamble clarifies that activities that promote economic development under the CRA regulations do not include all loans to business and farms

Economic Development Purpose Test

- Revisions
 - Bulleted list to clarify activities are independent one from another
 - Expanded list of activities that promote economic development
 - Expanded the list of activities presumed to promote economic development to include loans or services to, or investments in, Community Development Financial Institutions (CDFIs) that finance small businesses or small farms

Economic Development Purpose Test

- Activities that support permanent job creation, retention, and/or improvement:
 - For LMI persons
 - In LMI geographies
 - In areas targeted for redevelopment by Federal, state, local, or tribal governments
 - By financing intermediaries that lend to, invest in, or provide technical assistance to start-ups or recently formed small businesses or small farms
 - Through technical assistance or supportive services for small businesses or farms, such as shared space, technology, or administrative assistance
- Federal, state, local, or tribal economic development initiatives that include provisions for creating or improving access by LMI persons to jobs or to job training or workforce development programs

Demonstrating a Primary Purpose of Economic Development

- Examiners will employ appropriate flexibility in reviewing any information provided by a financial institution that reasonably demonstrates that the purpose, mandate, or function of an activity meets the purpose test

Size Test Examples

- Does the loan, investment or service relate directly, or indirectly, to a business or farm that meets the size requirements?
 - Examples include:
 - A direct loan to a for-profit business opening a new location and creating 50 new jobs in a low-income geography
 - An investment in a nonprofit intermediary that provides financing to businesses that meet the size requirements

Purpose Test Examples

- As a result of the loan, investment, or service:
 - What is the estimated number of new jobs created?
 - A copy of a written agreement related to a project utilizing tax incentives that require job creation
- As a result of the loan, investment, or service:
 - How are jobs improved?
 - A business hires graduates from a workforce development program that retrain employees in low-wage jobs for higher-wage positions

Purpose Test Examples *(continued)*

- As a result of the loan, investment, or service:
 - How were jobs at risk of loss and retained? A loan to a business:
 - To rebuild and retain existing employees following a natural disaster, such as a flood
 - That allows a business to renovate and stay in a current location in an area targeted for redevelopment rather than move to a new facility outside the area

Economic Development

- §__.12(g)-1 (Revised) – Are CD activities limited to those that promote economic development
 - Added workforce development/job training to examples
- §__.12(t)-4 (Revised) – Examples of qualified investments
 - Added workforce development/job training to examples

Revitalize or Stabilize Underserved Nonmetropolitan Middle-Income Geographies

- § __.12(g)(4)(iii)-4 (Revised) Activities must help meet essential community needs
 - Added broadband technology to examples of activities that may be considered as an important mechanism for accessing banking and other services
 - Added flood control subsequent to comments

Q&A Examples to Illustrate Community Development

- § __.12(g)-4 (New) Examples of CD Activities Apply to Q&As with Similar Purpose
- Lists of examples are not exhaustive
- Activities considered under one provision (i.e. investment) may receive similar consideration under another (i.e. loan) if community development purpose is similar

Community Development Loans

- §__.12(h)-1 (Revised) Examples
- Financing of renewable energy, energy efficient, or water conservation related projects added as example of a community development purpose
 - To encourage developers to incorporate sustainable energy technologies when building or rehabbing affordable housing and community facilities
 - Consideration available even when benefits to LMI from these improvements are indirect

Large Bank Service Test

- Retail & CD Services
 - §__.24(a)-1 (New) Evaluating Retail Banking and Community Development Services
 - §__.12(i)-3 (Revised) Examples of CD Services
 - §__.26(c)(3)-1 (Revised) Community Development Services by an ISB
- Retail Services
 - §__.24(d)-1 (Revised) Availability and Effectiveness of Retail Banking Services
 - §__.24(d)(3)-1 (Revised) Alternative Systems for Delivering Retail Banking Services
 - §__.24(d)(4)-1 (New) Range of Services
- Community Development Services
 - §__.24(e)-2 (New) Quantitative and Qualitative Measures of Community Development Services

Service Test

Retail & CD Services

- § __.24(a)-1 (New) Evaluating Retail Banking and Community Development Services
- § __.12(i)-3 (Revised) Examples of CD Services
- § __.26(c)(3)-1 (Revised) CD Services by an ISB

Large Bank Service Test

Retail and CD Services

- §__.24(a)-1 (New) Evaluating Retail Banking and Community Development (CD) Services
 - Clarifies how to evaluate retail and CD services
 - Differentiates retail services from CD services
 - Provides examples of responsive retail services

Evaluating Retail & CD Services

- Retail Services:
 - Availability and effectiveness of an institution's systems for delivering banking services, particularly for LMI geographies and individuals
 - The range of services provided in low-, moderate-, middle-and upper-income geographies
 - Degree to which the services are tailored to meet the needs of those geographies
- CD services:
 - The extent to which the institution provides such services; and
 - Their innovativeness and responsiveness to community needs

Large Bank Service Test

Retail Services

- §__.24(a)-1 (New) Evaluating Retail Banking and Community Development Services
- Lists examples of retail banking services that improve access to financial services, or decrease costs, for LMI individuals including:
 - Low-cost deposit accounts
 - Electronic benefit transfer accounts and point of sale terminal systems
 - Individual development accounts
 - Free or low-cost government, payroll, or other check cashing services
 - Reasonably priced international remittance services

Large Bank Service Test Community Development Services

- § __.12(i)-3 (Revised) Examples of CD Services
- Removed references related to branch delivery systems and retail products or services

Large Bank Service Test Community Development Services

- §__.26(c)(3)-1 (Revised) Community Development Services by an Intermediate Small Bank (ISB)
- Conforming revisions to mirror new Q&A §__.24(a)-1 and changes to §__.12(i)-3

Large Bank Service Test

Retail Services

- § __.24(d)-1 (Revised) Availability and Effectiveness of Retail Banking Services
- § __.24(d)(3)-1 (Revised) Alternative Systems for Delivering Retail Banking Services
- § __.24(d)(4)-1 (New) Services Tailored to Meet the Needs of LMI geographies

Large Bank Service Test

Retail Services *(continued)*

- §__.24(d)-1 (Revised) Availability and Effectiveness of Retail Banking Services
- Proposal to change the primary emphasis on branches was not adopted
- Removed the reference to ATMs

Large Bank Service Test

Retail Services *(continued)*

- §__.24(d)(3)-1 (Revised) Alternative Systems for Delivering Retail Banking Services
- Lists factors to consider in evaluating the availability and effectiveness of alternative systems for delivering retail banking services
 - Ease of access, physical or virtual
 - Cost to consumers compared to bank's other systems
 - Range of services
 - Ease of use
 - Rate of adoption and use
 - Reliability of the system

Large Bank Service Test

Retail Services *(continued)*

- §__.24(d)(4)-1 (New) Range of Services
- Review relevant information provided by the institution, such as:
 - Data regarding the costs and features of loan and deposit products
 - Account usage and retention
 - Geographic location of accountholders
 - Availability of information in languages other than English
 - Any other relevant information demonstrating that services are tailored to meet customer needs in various assessment area geographies

Large Bank Service Test

Community Development Services

- §__.24(e)-2 (New) Quantitative and Qualitative Measures of Community Development Services
- Consider any relevant information to review quantitative and qualitative factors
 - Underscores review is not limited to a single quantitative factor
 - Also assesses degree to which CD services are responsive to community needs
 - Adds more detail to the discussion of performance criteria for qualitative factors
 - Cross references §__.28(b)-1, which discusses how quantitative and qualitative performance criteria are considered in assigning CRA ratings

Large Bank Service Test - Quantitative & Qualitative Measures of CD Services

- Quantitative factors may include the number of:
 - LMI individuals participating in activity
 - Organizations served by activity
 - Sessions sponsored
 - Financial institution staff hours devoted
- Qualitative factors assess degree to which services are:
 - Innovative
 - Responsive

Responsiveness

- §__.21(a)-3 (New) Responsiveness
- Clarifies meaning of “responsiveness”
- Three important factors:
 - Quantity
 - Quality
 - Does it require special effort or meet a defined need
 - Performance context
 - Demographic information
 - Public comments
 - Relevant information from institution

Innovativeness

- §__.21(a)-4 (New) Innovativeness
- Clarifies “innovative” qualitative factor as applied in performance criteria within lending, community development services, and qualified investments tests
- Encourages introduction and provision of innovative services, lending products and investments that serve LMI consumers, distressed and underserved middle-income geographies, or populations and markets not previously served by institutions

Innovative or Flexible Lending Practices

- §__.22(b)(5)-1 (Revised) Innovative or Flexible Lending Practices
- Reiterates that innovative or flexible lending practices are not required to achieve a specific rating
- Adds new examples of innovative and flexible practices that augment the success of lending programs:
 - Small dollar loan programs offered in conjunction with outreach initiatives and financial literacy and
 - Mortgage or consumer lending programs targeted at LMI individuals or geographies that establish underwriting standards that utilize alternative credit histories

References

- July 25, 2016 [Federal Register Notice](#) Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment
- [FDIC CRA Resources](#)
- [FRB CRA Resources](#)
- [OCC CRA Resources](#)
- [FFIEC Website](#)



Questions?