A GUIDE TO THE COMMUNITY REINVESTMENT ACT FOR HOUSING IN RURAL AMERICA
$8.00
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HAC, founded in 1971, is a nonprofit corporation that supports the development of rural low-income housing nationwide. HAC provides technical housing services, loans from a revolving fund, housing program and policy assistance, research and demonstration projects, and training and information services. HAC is an equal opportunity lender.

This Guide may be updated periodically as necessary or appropriate. HAC appreciates any comments, corrections, or suggestions connected with any readers' experience with the Community Reinvestment Act.
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INTRODUCTION

The Community Reinvestment Act of 1977 (CRA) is a central tool in the effort to increase access to credit for low- and moderate-income borrowers. From the law's passage through 2001, community organizations and lending institutions have negotiated agreements totaling more than $1.5 trillion in loans and investments for traditionally underserved communities. Many rural practitioners and potential borrowers, however, are not aware of the origins of CRA or how to use this law to improve credit opportunities in their own communities. This publication is written to provide some history on CRA and guidance on using CRA in rural areas.

Some of the terms in this guide may be unfamiliar to the reader. For this reason, a glossary of general lending terms is included in Appendix F. Words and phrases defined in the CRA regulations are discussed in the text of the guide.

CRA’s History and Evolution

The Community Reinvestment Act was adopted in 1977 in an attempt to discourage the practice of “redlining.” This practice robs a community of its ability to build and retain wealth, as financial institutions draw a “red line” around low-income neighborhoods perceived as bad credit risks and refuse to extend credit in these redlined areas regardless of objective criteria. Community activists from across the country charged that financial institutions had been engaging in redlining and consequently contributing to community decline. CRA, which was passed as a result of the pressure brought to bear on Congress by community groups, is one effort to stop discriminatory credit practices by lending institutions.

The Community Reinvestment Act states that federally insured financial institutions have a continuing and affirmative obligation to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods, consistent with safe and sound operation. Most of the phrases in this summary sentence require some explanation.

Federally insured financial institutions include approximately 9,916 lending institutions nationally. CRA applies to federally insured commercial banks, savings banks, and savings and loan associations regardless of whether they are chartered by state or federal government. It does not apply to credit unions, mortgage banks, or state-chartered institutions without federal deposit insurance.

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2 The text of CRA is in Appendix A to this guide.

3 2001 Federal Deposit Insurance Corporation (FDIC) data for federally insured commercial and savings institutions.
Continuing and affirmative obligation means financial institutions must not be passive. However, to help meet community credit needs does not mean an institution must ensure that all the credit needs of its community are met. CRA was enacted originally as an anti-redlining statute; it was intended simply to prevent financial institutions’ avoidance of extending credit in their communities.

Community credit needs refers to a variety of areas, not to housing alone. Home mortgage, small business, small farm, and community development loans (including affordable housing) are the types of credit specifically mentioned in CRA regulations. Because credit needs vary among communities, the statute and regulations do not specify what an institution must do to meet its community’s credit needs. No mixture of loans, grants, or other types of assistance is prescribed, and no dollar figure or percentage is specified. Additionally, credit for home mortgages and affordable housing includes a wide variety of needs, including single-family mortgages, multifamily mortgages, rehabilitation, construction, short- or long-term funding, home equity loans, etc.

An institution’s entire community, including low- and moderate-income neighborhoods, means the community the institution tells regulators it intends to serve, or its “assessment area.” The regulators do not evaluate the lender’s delineation of its assessment area(s) as a performance criterion, but they do review the delineation for compliance with CRA requirements. An institution is not required to reach out to serve low- and moderate-income areas outside geographical boundaries that appear logical for the institution.

Consistent with safe and sound operation is a crucial concept for housing advocates seeking to understand why an institution may be reluctant to make a certain loan (or perhaps to make any low-income housing loans at all), and to understand how to prepare loan applications that institutions will be willing to fund. CRA does not require financial institutions to make unusually risky loans, or to waive or modify their underwriting standards (the standards they apply to decide whether to make a specific loan). In effect, CRA does encourage institutions to be more flexible in applying their underwriting standards, but would-be borrowers must also be willing to work with individual institutions to determine what they consider to be “consistent with safe and sound operation.”

There have been a number of revisions to CRA in the last 20 years. Table 1 provides a brief outline of the major amendments to CRA.

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4 A detailed description of the revisions is provided in Appendix B.
### Table 1
Amendments to CRA

<table>
<thead>
<tr>
<th>Year</th>
<th>Amendments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>CRA passed as Title VIII of the Housing and Community Development Act of 1977.</td>
</tr>
<tr>
<td>1989</td>
<td>Amended by the Financial Institution Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to require that the CRA examination rating and a written evaluation of each assessment factor be made publicly available. FIRREA also established a four-part qualitative rating scale.</td>
</tr>
<tr>
<td>1991</td>
<td>Amended by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) to require public discussion of data underlying the regulator's assessment of an institution’s CRA performance in the public portion of the CRA evaluation.</td>
</tr>
<tr>
<td>1992</td>
<td>Amended by the Housing and Community Development Act of 1992 to provide that the regulators consider activities and investments involving minority- and women-owned financial institutions to meet local community credit needs.</td>
</tr>
<tr>
<td>1994</td>
<td>Amended by the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 to require that institutions with interstate branching structures receive a separate rating and evaluation of their performance within a multi-state metropolitan area where they have branches in two or more states within the area.</td>
</tr>
<tr>
<td>1999</td>
<td>Amended by the Financial Modernization Act to change the exam schedule for small banks with assets under $250 million to once every four years for banks with Satisfactory ratings and once every five years for banks with Outstanding ratings.</td>
</tr>
<tr>
<td>2000</td>
<td>Amended by the Sunshine Provisions of the Gramm-Leach Bliley Act to require that all CRA communications be made available to the public and the appropriate regulatory agency.</td>
</tr>
</tbody>
</table>

Sources: General Accounting Office Reports and National Community Reinvestment Coalition
PERFORMANCE EVALUATIONS AND RATINGS

Every financial institution covered by CRA receives a CRA rating as part of its normal periodic regulatory review. Four different federal banking supervisory agencies regulate the four different types of covered institutions, but they use the same standards for CRA reviews. Evaluations are performed periodically, based on timetables that vary depending on the regulatory agency, the size of the institution, and the CRA rating given to the institution in its last evaluation. The time between reviews varies from six months to five years.

Regulatory Agencies

The four regulatory agencies, and the types of institutions they regulate, are:

- the Office of the Comptroller of the Currency (OCC), which regulates national (N.A.) banks;
- the Board of Governors of the Federal Reserve System (Fed or FRB), which regulates state-chartered banks that are members of the Federal Reserve System, and bank holding companies;
- the Federal Deposit Insurance Corporation (FDIC), which regulates state-chartered banks insured by FDIC but not members of the Federal Reserve System, state-chartered savings banks insured by FDIC, and FDIC-insured state branches of foreign lenders; and
- the Office of Thrift Supervision (OTS), which regulates federal and state savings and loans.

Large Lender Evaluation

Large lenders (those with assets over $250 million) are evaluated based on their overall lending, service, and investment activities. These regulations establish a test for examiners to use in each of these three categories.

The **lending test** evaluates a lender’s record of helping to meet the credit needs of its assessment area(s) through its lending activities by considering the institution’s home mortgage, small business, small farm, and community development lending. Examiners review the number and amounts of loans made in each of these areas. They look at the geographic distribution of loans to determine the proportion of loans made within the lender’s assessment area and the number of loans in low-, moderate-, middle-, and upper-income areas. Examiners are also required to consider borrower characteristics, including income levels for individual borrowers and annual revenue levels for businesses and farms. In

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5 This term is discussed in detail on page 9 of the manual.
addition, examiners evaluate a lender’s use of innovative or flexible lending practices. Finally, a lender’s community development lending\(^6\) is evaluated.

The **service test** evaluates the availability and effectiveness of a lender’s systems for delivering retail lending services and the extent and innovativeness of its community development services. To assess this, examiners are required to look at the distribution of a lender’s branches in areas with different income levels, its record of opening and closing branches in low- and moderate-income areas, the range of services (e.g., ATMs, banking by telephone, etc.) provided in low- and moderate-income communities, the range of services provided in these communities, and the degree to which the services are tailored to meet the needs of each specific community.

The **investment test** looks at a lender’s record of qualified investments, deposits, membership shares, or grants for community development purposes in its assessment area(s) or larger statewide or regional area that includes the lender’s assessment area(s).

After the examiner has completed the **lending, service, and investment tests**, a weighted scoring process is used to rate the lender. The rating process is somewhat confusing for large lenders because of the five-tiered rating system for each test, in addition to the four-tiered system for the overall ratings. In order to mesh these two systems, the examiner first gives each institution a rating (outstanding, high satisfactory, low satisfactory, needs to improve, or substantial noncompliance) for each of the three tests. Each rating is then assigned a number. (See Table 2 below.) The examiner then adds up the score for each test and the lender is awarded an overall rating. Lenders can score anywhere from 0 to 24 points. A score of 20 or more is assigned a composite rating of outstanding; 11-19, satisfactory; 5-10, needs to improve; and 0-4, noncompliance. Table 2 shows the points distribution for each of the tests.

### Table 2
**CRA Exam Points Distribution**

<table>
<thead>
<tr>
<th>Ratings on Tests</th>
<th>Lending</th>
<th>Service</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding</td>
<td>12</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>High Satisfactory</td>
<td>9</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Low Satisfactory</td>
<td>6</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Needs to Improve</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Noncompliance</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

\(^6\) This term is discussed in detail on pages 8-9 of the manual.
After the composite score is tabulated, the examiner considers any evidence of discriminatory or other illegal credit practices. Based on these findings the final CRA rating is assigned. Under the weighted scoring system, a lender must receive at least a rating of low satisfactory on the lending test in order to receive an overall rating of satisfactory. A lender that receives an outstanding rating on the lending test will automatically receive an overall rating of at least satisfactory. A lender that receives an outstanding rating on both the service and investment tests and at least a high satisfactory on the lending test will receive an overall outstanding rating.

**Small Lender Streamlined Evaluation**

Small lenders (those with assets of less than $250 million) are evaluated using a streamlined CRA test. CRA examiners evaluate the record of a small lender using the following criteria.

- The lender has a reasonable loan-to-deposit ratio (considering seasonal variations) given the lender’s size, financial condition, the credit needs of its assessment areas, and taking into account, as appropriate, lending-related activities such as loan originations for sale to the secondary markets and community development loans and investments.

- A majority of its loans and other lending-related activities are in its assessment area.

- The lender has a reasonable distribution of loans and other lending-related activities for individuals of different income levels and businesses and farms of different sizes given the demographics of the assessment area.

- The lender has a reasonable geographic distribution of loans made in the lender’s assessment area.

- The lender has a record of taking appropriate action in response to written complaints about the lender’s performance in meeting the credit needs of its assessment area.

The small lender evaluation process uses the term “reasonable” in four of the five criteria. This word gives individual examiners the latitude to interpret what constitutes “reasonable” activity, potentially allowing subjective and variable interpretations. If the lender meets these five standards, it is awarded a provisional rating of satisfactory. If it exceeds the standards, the lender is assigned a provisional rating of outstanding. If a lender does not meet the five standards, it is awarded a provisional needs to improve or substantial noncompliance rating. Before assigning a final rating, the examiner considers any evidence of discriminatory or other illegal credit practices. A final CRA rating is assigned based on the findings.

**Wholesale and Limited Purpose Evaluation**

A wholesale bank is one that does not extend home mortgage, small business, small farm, or consumer loans to retail customers. Limited purpose banks only offer narrow product lines, such as credit cards or car loans, to a regional or broader market. These banks must apply to the regulatory agencies requesting a designation as a wholesale bank or limited purpose bank.
in order to be examined under the wholesale and limited purpose evaluation. Evaluators examine these banks using three criteria:

- the number and amount of community development loans, qualified investments, or community development services;

- the use of innovative or complex qualified investments, community development loans, or community development services and the extent to which the investments are not routinely provided by private investors; and

- the lender’s responsiveness to credit and community development needs.

**Strategic Plan Option**

All lenders have the option of developing a strategic plan rather than being evaluated under the large, small, or wholesale or limited purpose lender tests. The plan must include measurable goals for meeting the lending, service, and investment needs of the community. The plan must detail goals that would at least achieve a satisfactory rating and, at the lender’s choice, goals that would qualify for an outstanding CRA rating. The plan may cover a period of as long as five years, but must have measurable goals for each year. In developing the plan, the lender must seek informal input from the public by seeking suggestions from citizens and community organizations. Once the plan is developed, the lender must make copies of it available to the public and allow for public comment for at least 30 days.

The lender must submit its plan for approval to the regulatory agency at least three months prior to the proposed effective date of the plan. When evaluating a plan, the agency considers the public’s involvement in developing the plan, written comments on the plan, and any response by the lender to public comment on the plan. The regulatory agency also evaluates the plan’s measurable goals, taking into account such things as the institution’s lending activities, the distribution of loans among different “geographies,” the use of innovative lending practices, etc. The agency typically approves the plan within 60 days after receipt. The regulatory agency then periodically examines the lender to determine if the goals have been met. If the lender fails to substantially meet its goals, it may choose to be evaluated under the test appropriate for its size and status.

**Overall Rating System**

After the tests are completed, an examiner assigns an institution an overall rating of outstanding, satisfactory, needs to improve, or substantial noncompliance. According to the National Community Reinvestment Coalition, 98 percent of the lenders examined under CRA in 1999 and 2000 received the top two ratings, and in 2001 these ratings were awarded to 96.8 percent of lenders examined. In contrast, 90 percent of the lenders received these two ratings
in 1992. The majority of institutions reviewed received satisfactory ratings. Each rating is accompanied by a descriptive “performance evaluation” summarizing the examiner’s findings. A description of these performance evaluations is provided later in the section entitled “The Regulatory Agency’s Role.”

**Current CRA Regulations**

The current CRA regulations introduced some important requirements that were either completely new or substantially modified the previous procedures. These changes were intended to address the concerns raised about performance evaluations in the past.

**Data to Be Disclosed**

The regulations require large lenders to disclose certain information. For example, large lenders are required to report Home Mortgage Disclosure Act (HMDA) data for applications for mortgages on properties located outside of metropolitan areas. HMDA applies only to lenders that have a home or branch office in a metropolitan statistical area (MSA) and have more than a specific amount of assets (the figure changes with inflation every year and was $31 million in 2001), so many rural lenders are exempt. For lenders that are covered, data collected under HMDA include applications, denials, and approvals of home purchase and home improvement loans by race, ethnicity, sex, and income of borrowers, and by location of the housing involved.

Large lenders are now also required to provide minimal data on community development loans made, including the total number and aggregate dollar amount of these loans that they originated or purchased. Another new component in the regulations requires a large lender to disclose the number and dollar amount of loans to small businesses and small farms that the institution originated or purchased.

**Community Input**

The regulations provide two additional ways for community groups and concerned individuals to become involved in the CRA examination process. First, regulators must announce their exam schedule for each quarter. This allows community groups to provide input to regulators prior to an institution’s exam. Additionally, the regulations require that each lender be evaluated based on, among other things, the needs and conditions of the local community. This requirement establishes a means for community groups to provide information about the institution’s lending, service, and investment activities to the regulators. While this provision gives local groups an opportunity to communicate with regulators, it also places a greater burden on the community to collect pertinent local data. Therefore, if there are no local organizations willing or able to collect such data, the regulator will not know if a problem exists.

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Community Development Loans

One concept in the regulations is that of community development loans. These are defined as loans that have community development as their primary purpose. Community development is defined as affordable housing for low- and moderate-income people; community services targeted to low- and moderate-income people; activities that promote economic development by financing small businesses or farms; or activities that revitalize or stabilize low- or moderate-income areas. A concern about community development loans is the geographic area in which they are made. Recognizing that some of these loans are made through state-wide loan consortia, the regulations say a lender can count them if the loans are located in the lender’s assessment area(s) or in a larger state-wide or regional area that encompasses the lender’s assessment area(s). This means that lenders can get credit for loans that do not serve their local communities. The burden is on community groups to monitor the extent to which these state-wide or regional bodies are serving their local communities, and to bring this information to the attention of examiners.

Indirect Lending

Another concept included in the regulation is that of indirect lending, that is, loans not made directly by the lender, but rather by an affiliate or loan consortium, or community development financial institution, or other third party in which the lender has invested. The regulations state that lenders may take credit for loans made through affiliates as long as no other affiliate has claimed the same loan.

Distinction Between People and Places and Low- and Moderate-Income

The regulations make the distinction between low- and moderate-income neighborhoods and low- and moderate-income people. Lenders get credit for loans made in communities where the income level is at or below 80 percent of area median income. In addition, they also get credit for loans made to individuals who are low- and moderate-income, regardless of the communities in which those individuals live. The regulations also make a distinction between low-income and moderate-income, another departure from the original regulations. This recognizes that serving the credit needs of low-income people can be more difficult than serving those of moderate-income people.

Assessment Area(s)

This term replaces the “service area” of the original CRA regulations. Lenders can define one or more assessment areas. They are encouraged to use census tracts or political boundaries to define their assessment areas, which should include the areas in which they have their main office, branches, and deposit-taking Automatic Teller Machines (ATMs), as well as the surrounding areas where they make most of their loans. The boundaries may be adjusted to exclude portions of a political subdivision the lender may not be reasonably expected to serve. Assessment areas may not arbitrarily exclude low- and moderate-income areas, may not reflect discrimination, and may not generally extend across state lines. Examiners will review
the delineation of the lender's assessment area(s) for compliance, but they will not otherwise factor it into the lender's CRA evaluation.

“Sunshine rule”

In late December 2000, the federal banking agencies released the final regulations implementing the CRA “sunshine rule.” This rule requires the disclosure of CRA agreements, contracts, and written understandings among banks, community groups, and other non-governmental entities. CRA agreements and written understandings commit banks to make a specified number of loans to and investments in low-and moderate-income communities.8

Other Credit Programs of Financial Institutions

A number of programs administered by local financial institutions or the federal regulatory agencies may be confused with CRA but are not directly connected to it. These include the Affordable Housing Program and Community Investment Program of institutions that are members of the regional Federal Home Loan Banks; and the Community Development Corporation and Investment program of the Office of the Comptroller of the Currency. A lender undertaking activities under any of these programs could list them in its CRA files as activities meeting community credit needs.

State legislation may supplement CRA as well. In 1997 the National Conference of State Legislatures (NCSL) listed legislation existing in 35 states and the District of Columbia. NCSL's address and phone number are included in Appendix D.

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8 This rule is discussed in more detail in Appendix B.
HOW THE CRA PROCESS WORKS

Under CRA, lending institutions must demonstrate that they are meeting the credit needs of the communities in which they are chartered. Four regulatory agencies, the FRB, OCC, OTS, and FDIC, are charged with the responsibility of evaluating banks' CRA performance. CRA regulations provide an opportunity for formal public input in the CRA rating process, as well as when lenders make applications. In order to play an effective role in CRA activities, community groups and interested residents must be aware of the requirements of the legislation and the resources available.

The CRA movement is an information driven movement. The important organizing that is conducted by community groups around the county is aided by the documentation that CRA requires from lenders and regulatory agencies. Community groups that are interested in improving lending in their communities using CRA should know what information is available, from whom, and how to access it.

The Institution’s Role

The financial institution itself prepares a great deal of the background information for its CRA evaluation. First, the institution must delineate its assessment area(s). In designating its assessment areas, it determines whether it serves a single town, a single county, or several. The evaluator examines the reasonableness of the delineated community(ies), so the institution cannot unreasonably exclude low- or moderate-income areas. Beyond this examination the regulator is not required to examine the institution’s choice of service area.

Every lender covered by the legislation must post a CRA Notice in the lobby of the institution’s main office and every one of its branches. The CRA Notice explains the purpose of CRA, how the public can comment on the institution’s performance, and how the public can obtain the institution’s Performance Evaluation. It also must state which of the four regulators oversees the institution.

Prior to regulatory changes in 1995, lenders were also required to write an annual CRA Statement, which included a community delineation map, a list of types of credit offered, and a copy of the CRA Notice. However, institutions are no longer required to prepare a CRA statement. Most of this information is now maintained in the public file.

Each institution is required to maintain a public comment file containing information formerly required in the CRA Statement; any written comments from the public about its CRA performance for the current year and each of the past two years; its most recent public CRA Performance Evaluation, if any; a list of its branches, including addresses and geographies; a list of branches opened or closed by the lender during the current year and the past two years; a list of services, including hours of operation, available loan and deposit products, and transaction fees, offered at the lender’s branches; a map of each assessment area; and any other information the lender chooses to include.
Large lenders required to report under HMDA must also include their HMDA data for the prior two calendar years in their public file. Large lenders are also required to include information about their small business/small farm lending data and their community development lending data. Finally, a large lender that has elected to have one or more of its consumer loans considered under the lending test must include additional information in the public comment file, including the number and amount of loans made to low-, moderate-, middle-, and upper-income individuals and located in low-, moderate-, middle-, and upper-income census tracts, and the number of loans made inside and outside of the lender’s assessment area(s).

A small lender is required to place its loan-to-deposit ratio for each quarter of the prior calendar year in the public file. A lender evaluated under the strategic plan option is required to keep a copy of the plan in the public file. Finally, a lender that received a less than satisfactory rating during its most recent examination is required to keep a description of its current efforts to improve its performance.

The public comment file should be available for review upon request. The entire public comment file is located in the institution’s main office. The institution is not required to keep copies of the entire file in branch offices; the regulators apparently believed that maintaining numerous copies of the same file would be too cumbersome. Only one branch in each community served by a lender must have copies of the file material relating to that community.

Finally, although CRA does not specifically require an annual report, that document is useful to learn how the institution wishes itself to be seen, and it includes financial information.

The Regulatory Agency’s Role

The regulator prepares the institution’s Performance Evaluation, based on a “CRA examination” performed as part of the regulator’s overall evaluation of the institution’s finances, management, and compliance with other laws such as consumer credit requirements.

In the CRA part of the examination, the regulator’s examiner is responsible for reviewing the institution’s performance using one of the methods described above. S/he reviews loan transactions and internal records such as board minutes, advertisements, policies, and procedural manuals, as well as the public comment file and any letters received by the regulatory agency. The examiner usually also consults “outside sources” and interviews employees, officers, and board members. Small lenders are not required to have any of this information compiled prior to the evaluation. Lender examiners will go through the institution’s files and find the appropriate data. The examiner drafts the Performance Evaluation, which is then reviewed within the agency before it is released.

The Performance Evaluation contains four sections. The first section provides a general description of the institution’s overall rating and an explanation of the rating. The second section provides a detailed discussion of the institution and its internal operations. The third section describes the lender’s assessment area(s). For a lender with multiple assessment areas, this section can be quite lengthy because it is required to describe each of the assessment areas.
The fourth and final section provides a detailed discussion of the institution’s performance. For large lenders this section includes a narrative on the examiner’s findings during the lending, investment, and service tests. The fourth section is different for small lenders, as it primarily focuses on lending performance.

The institution puts its Performance Evaluation in its public comment file at its head office, and in at least one office in each delineated community. In addition, regulations encourage each institution to include its response to its evaluation.

**Information Available to the Public**

As a first step in making sure that a local bank is in compliance with CRA, make sure the lender is in technical compliance. Make sure that all of the information that should be available to the public is readily available and accessible. Visit local bank branches to ensure that the CRA Notice is posted in plain view and that it contains all of the information described above. Ask to see the CRA public file. Note the information that is included and request copies. Be advised that the lender can charge you only for copying and mailing the file contents.

Any additional information must be requested from either the lender or its regulator. The public has a right under CRA to certain information from the regulatory agencies, such as upcoming CRA exam schedules, a specific institution’s CRA rating, actual CRA evaluations, strategic plans, etc. Much of this information is available on the Federal Financial Institution Examination Council’s web site (www.ffiec.gov). There is also a list of regulatory agencies and contact information in Appendix E.
CRA AND RURAL HOUSING FINANCE

CRA has been an important component of community and housing development. From the law's passage in 1977 through 2001, lending institutions and community organizations have negotiated CRA agreements totaling over $1.5 trillion in lending and investment in low-income communities. Rural areas, however, have not benefitted from this law to the same extent as cities. Because of the way in which the statute is written and because of some of the barriers to lending that are indigenous to rural areas, rural community organizations have had some difficulty using the law to improve mortgage and small business lending in their communities.

Rural housing development and home purchases by individual borrowers are in many ways limited by the rural banking environment. Rural residents and housing developers simply do not have access to the same number and level of financial resources as urban borrowers. According to FDIC reports, while 56 percent of the nation's banks are headquartered in nonmetro areas, rural counties have an average of 4.33 banking firms compared to 10.90 for urban counties. These nonmetro lending institutions also have fewer resources to lend, as nonmetro headquartered banks hold only 14 percent of the nation's total bank assets. There has also been some anecdotal evidence which suggests that smaller, rural lending institutions are much more conservative in their lending than larger institutions as they are much more sensitive to losses.

Despite these barriers, some evidence suggests that CRA has had a positive impact on some rural areas. Several lending institutions are involved in lower-income communities in ways they were not before, and lower-income people are gaining access to conventional mortgages as a result. This portion of this guide discusses some of the forms that involvement has taken, and also includes some practical examples of how to use CRA.

Using CRA to Work With a Lender

Experience indicates that those organizations that are most successful in using CRA to work with financial institutions are those who prepare carefully, understand financiers' concerns, and work to address them creatively. These groups also are willing to start small and build on early successes, and are willing to be patient. Although some housing advocates would like it otherwise, CRA simply does not require financial institutions to approve any loan application that would help produce housing for lower-income persons (or help meet other community needs). Nor does CRA mean that lenders or regulators will take the place of local developers in finding projects, fitting funding sources together, and ensuring that a project is financially sound. CRA may provide you with an entree, a calling card, that can get you through the door. The rest is up to you.

In the past a number of developers reported that they were more successful if they did not refer to CRA because many financial institutions appeared to view CRA as a burden and “CRA loans” as potential problems. This no longer appears to be the case. Over time this resistance

9 National Community Reinvestment Coalition, CRA Sunshine, 3.
has been replaced with the recognition that CRA is a fact of life. More importantly, many lenders realize that CRA activities can be prosperous business deals rather than risky “CRA loans.”

Assume that financial institutions want to comply with CRA, and would prefer that members of their communities work with them in advance rather than register complaints later. In other words, approach lenders whenever you are ready to, not just when a CRA-related application or exam is pending (see Merger Application section below). Also, remember that examiners rely upon the input of community contacts in determining whether the institution has taken the needs of the local community into consideration. It is up to you to provide the regulators with grassroots level information, which is invaluable when completing a lender’s evaluation.

Do your homework: learn about CRA and about the individual lender or lenders serving your community. Learn about community organizing and about negotiation strategies. Contact state or regional CRA-related organizations for advice and to learn about their experience with institutions in your area. To find such organizations, contact the national groups listed in Appendix D. Request copies of CRA public files and Performance Evaluations from your local lenders, and learn all you can from other sources about the individual institutions, their processes, their concerns, their reputations, their underwriting standards, and the like. Each lender reacts differently to CRA and housing concerns.

The action strategy you choose will depend on your particular situation. You may wish to work with a number of lenders together, or you may wish to avoid the possibility of the lenders closing ranks against you by targeting one or two to start. You may find it helpful to build a coalition of community leaders, businesses, churches, and governments before approaching lenders. You may emphasize one or two types of credit programs to begin with, or you may wish to develop an overall redevelopment strategy involving many types of activities. You may work very successfully with lenders without ever negotiating a formal agreement, or you may find it is essential to come to an explicit understanding. You may start the process with very specific goals in mind, or you may start with general discussions and move to specifics as you and the lender(s) evaluate your community together.

There are a number of specific, practical CRA activities that community groups can engage in to promote community reinvestment.

Help the Institution Meet Its CRA Requirements

One way to use CRA to establish initial contact is to determine how you can help the institution meet its overall CRA requirements. That is, before you ask your local bank or Savings and Loan (S&L) to make a loan, ask what you can do for them.

△ Establish communication.

You need not have specific statistical information in order to request a meeting. The more specific you can be, of course, the more specific the lender’s response can be.
Communicate with others in the community as well. For example, you may not usually work with local small businesses who may have approached an institution for a loan recently, but if you can find out their experiences with a particular lender, you may save yourself some grief.

It may be useful to write a follow-up letter after a meeting, in positive, as opposed to confrontational, terms, summarizing your understanding of the discussion and what everyone agreed would happen next. Include in the letter a request that it be placed in the lender’s public comment file.

Provide information on community credit needs.

The regulations state clearly that examiners will seek information about an institution’s lending, investment, and service activities from community organizations and other sources. This allows members of the community to provide relevant grassroots information directly to examiners. Also, remember to utilize the more formal methods for community input. Keep track of exam schedules and provide examiners with your views about an institution’s performance. Each of the federal banking regulatory agencies publishes quarterly lists of banks and thrifts scheduled for CRA examinations. All of the agencies maintain regular mailing lists to notify interested parties of upcoming exam schedules (see Appendix F for contact information).

Even if an institution has met with members of the community and collected their ideas regarding credit needs, actual data is particularly useful and makes it easier for all concerned — the institution, the regulator, and you — to determine whether community needs have been met. Institutions, particularly in rural areas, cannot always easily find appropriate local information on community needs. While the regulations require large institutions to report HMDA data for properties located outside of metro areas, smaller lenders are not required to do so. An institution with a service area that covers both metropolitan and nonmetropolitan areas may be inclined to focus on the metro area’s needs simply because it can find out more easily what they are.

If you have collected local data, or performed a housing needs assessment, an institution should be happy to receive a copy. A financial institution may also be interested in working with a local community-based organization to perform such an assessment, and thus establish a foundation for cooperating to meet community needs.

One regulator’s staff has suggested that “community credit needs” sounds more personal and less threatening to the bankers listening to your presentation if you relate it to their own lives, or at least personalize it in some way. Point out that their children’s teachers cannot afford housing close to the schools. Describe old Mrs. Smith’s decrepit house and her inability to haul water, and use her as an example of someone who would benefit from provision of subsidized housing for the elderly. Take bankers on a tour of your neighborhood or bring them photographs to illustrate your points. None of this anecdotal information substitutes for hard data, but it can be an excellent supplement to your statistics.
Be creative and specific in highlighting community needs that can easily be translated into community credit needs. Of course everyone could use loans at lower interest rates, but substantially lowering rates may be what lenders are least willing to do. Think of other possibilities. Is the primary need for loans for individuals purchasing single-family homes, or loans for developers (for-profit or nonprofit) of multifamily housing? Would a number of people borrow to rehabilitate their homes and be able to afford a higher interest rate if the loan term were longer than a standard rehab loan term? Is a particular type of economic development or change anticipated for your community (a new road, a plant closing) that is likely to increase or decrease the need for certain types of loans? Does the community contain persons for whom English is not a first language and who avoid applying for credit simply because they cannot communicate with lender employees? Could home purchasers afford loan payments but not down payments? Community credit needs may be met by longer loan terms, hiring minority staff, changing loan types, or finding down payment assistance rather than by reducing the interest rate on existing loan types.

While you may believe you already know what types of credit your community needs, it can be risky to make this assumption. Some community groups have persuaded lenders to offer credit programs they believed were needed, only to find that community residents could not actually afford the terms offered or were not interested. The organization that proposed these programs then faces an uphill battle to regain its credibility with the lender and with the community.

Think Like a Banker

CRA activities should be part of a bank’s normal activities. Any activities undertaken by lenders must conform to safety and soundness requirements; this includes CRA activities. One way your organization can help to achieve this is by putting yourself in the banker’s place before you approach the lender to discuss lending in low-income communities.

△ Minimize risk.

Financial institutions are not nonprofit organizations, and cannot be expected to act as if they are. Lenders are interested in making a profit, and to that end, they are concerned about minimizing their risks. They view their activities, even low-income housing loans and donations, as business transactions, and are not likely to think in terms of socially responsible activities. CRA does not alter these facts.

Persons working with lenders report that the lenders’ single biggest concern about CRA activities is increased risk. Lenders who react negatively to any mention of “CRA” seem to equate the statute with risky loans. It is important to understand the factors that lenders weigh in deciding to make loans or investments, and to help the lender distinguish between real risk and perceived risk. Remember – and show the lender that you understand – that CRA activities are to be undertaken “consistent with safe and sound banking practice.” Of course that does not mean compliance with CRA is easy, risk-free, or cost-free for lending institutions, and you should not try to convince lenders that it is.
Consider working with a number of lenders rather than just one. This approach may help a skeptical financial institution commit to fund a project. To help reduce the risk for a project, solicit help from several area lenders to fund the project. Rather than asking a lender to make a loan for the entire project, the loans can be divided among several lenders, thus reducing the risk. Also, lenders are now given CRA credit for loans made through consortia.

Remember that lending receives more weight under the regulations for large lenders.

As stated before in this guide, the regulations use a weighted scoring system. When an examiner calculates a preliminary CRA rating for a large lender, the institution receives more weight for its lending activities than for its service and investment activities. With this in mind, try to develop proposals that will help the lender receive a satisfactory lending rating and at the same time will help increase the number of loans being made in your community. Remember that lending is based on home mortgage, small business, small farm, and community development loans made by the institution. Are any or all of these needed in your community? If so, let the institution know that your project will help them as well as the community. Also, find out if the lender has chosen to have its consumer loan making evaluated during its performance evaluation. If so, this may also be an area that your organization can use to develop programs to meet the credit needs of your community.

Educate the lender.

Recognize what the lender does not understand, and educate them. If the lender needs education about you as a borrower, amass facts and figures about the financial soundness of your past projects; for example, if you are asking for a construction loan, prove that you have always put together the permanent financing to take out the construction loan and that you have obtained commitments to do the same for this project. If the lender misunderstands CRA and believes the only way to meet CRA’s requirements is to make wildly risky loans, collect information about CRA from the lender’s perspective. The regulatory agencies and industry-related institutions like the American Bankers Association have a variety of publications that can be used to educate the lender about CRA programs that have been developed across the country. Encourage the lender to ask its regulator whether the non-risky loan or the grant you are requesting will “count” for CRA purposes.

You may discover that lenders need to be educated about the nuances of operating a nonprofit. For example, community organizations’ funds are restricted in various ways by the government agencies that provide those funds; a nonprofit developer cannot use its grant or loan funds in any way that seems useful. Second, lenders need to know that CRA compliance is not free. You may have to hone lenders’ understanding of the law to include the concept that, while compliance need not be extraordinarily risky, it does involve some risk or some dollar cost that lenders would not incur otherwise.

One area in which lender misunderstandings may arise is the underwriting criteria of the secondary mortgage purchasers. Your local lender may say it cannot be flexible about its underwriting criteria because nonconforming loans cannot be sold in the secondary market. Fannie Mae and Freddie Mac say this is not true. The agencies acknowledge that they probably
will not buy a substantially nonconforming loan. However, they will consider purchasing a loan to a borrower with a single credit history problem due to unexpected uninsured medical bills, or to a borrower who would be paying 35 percent of income for the mortgage rather than the usual 33 percent limit, if other factors look favorable. A lender will be most likely to approve your application if the proposed loan meets the secondary market underwriting criteria.

Some lenders are not concerned with secondary market criteria because they are “portfolio lenders” who hold and service all the loans they make rather than selling loans in the secondary market. A small lender in a rural area is more likely than a large urban-based lender to be a portfolio lender. It may be useful to find out, as part of your background research on local lenders, which ones sell loans to Fannie Mae and Freddie Mac.

Lenders also may not think about ways in which they can improve the performance of individual borrowers such as lower income homeowners. Suggest the lender fund a housing counseling program, perhaps administered by a community organization, that can teach borrowers how to manage credit and maintain their property. Remind the lender that individuals who encounter credit problems and cannot pay all their bills are likely to keep paying bills to someone with whom they have some sort of relationship; activists report that borrowers are more willing to default on loans to impersonal institutions than to institutions where they feel a personal connection. Therefore, establishing personal relationships between lender staff and borrowers may well help reduce defaults.

△ Accept less than the ideal solution.

Another way to avoid problems is to ask the lender for something reasonably close to what they are used to doing. Ask them to expand or stretch their current loan products rather than to provide entirely new ones. For example, do not ask for permanent financing from a construction lender. That lender may well be more comfortable considering a construction loan with a term slightly longer than usual, or contributing to a lending consortium that makes permanent loans.

If a lender balks at long-term affordability restrictions imposed by arrangements like a limited equity cooperative or a community land trust, make sure they understand the concept and are not nervous merely because they are unfamiliar with these types of programs. If education cannot overcome the reluctance, put provisions in the loan documents allowing the lender to assume the property free of those restrictions if the borrower defaults and the lender takes over.

A financial institution unwilling to make loans may be willing to increase its charitable donations or make grants to local nonprofits for general operating funds, to sell a repossessed property for less than its appraised value, or to make other relatively inexpensive gestures that nevertheless provide some help.
Prove you are a good borrower.

If you are asking for a loan to your organization, or for an arrangement in which your organization would serve in an intermediary role, a lender unfamiliar with your organization will want to examine your financial situation. If you are a nonprofit and the lender is used to dealing with for-profits, be prepared to help the lender examine aspects of your business that do not appear on the balance sheet. What is your past fundraising experience? What is the financial situation of other entities, including government agencies, that will be involved in the project(s) for which you are seeking funding? Will a strong commitment for take-out financing substitute for a perfect balance sheet in qualifying you for a construction loan?

Be ready to help the lender do what you ask them to do. The Woodstock Institute advises, for example, that if your staff has lending or development experience, your organization could undertake loan packaging and might even receive a fee from the lender for doing so. You could place ads or distribute brochures to inform the public about lender products, arrange space for lender personnel to meet with potential clients or take loan applications, provide sensitivity training or translation services for lender staff.

Combine Funding Sources and Reduce Risk

Rural housing developers generally already know how to patch together funding from a variety of sources in order to make a project feasible. This technique can be used to reduce a lender’s risk, as well, but a lender unused to complex deals may be overwhelmed by the very idea. If possible, develop a good working relationship with a lender gradually, beginning with smaller, easier projects, before asking the institution to get involved in something intricate. In any event, be prepared to spend time explaining the arrangement, more than once, perhaps to the lender’s attorney as well as its staff. Take responsibility for keeping track of all the pieces and making sure all gaps are covered.

Some lenders will be most comfortable if they are involved in structuring the transaction from its early stages. Others want to know that all the other pieces are in place before they will commit. These attitudes are not necessarily incompatible, of course; a lender who is informed about a project when it is first conceived may be able to spell out factors essential to the lender’s participation, sit back while you put the rest of the deal together, and bind itself only after other commitments are obtained.

Another way to combine funding sources is through a consortium of lenders. As mentioned above, lenders are given credit for loans made through consortia. However, it is not clear how favorably examiners will evaluate loans made by a consortium or if this provides a disincentive for lenders to make the loans individually.

Obtaining insurance from outside sources such as the Rural Housing Service (RHS) guaranteed Section 502 or Section 538 loan programs may be useful as well.
Reduce Lending Costs

If a financial institution is reluctant to offer affordable loans on the grounds that lower interest rates and longer terms will cost too much in lost revenue, propose ways to save costs in related areas. The savings are not likely to equal the cost but, as noted above, CRA compliance is not free. For example, you may be able to do some of the lender’s advertising for its new affordable loans, through community organizations and connections with local media.

You might also be able to help the lender itself find other subsidies. For example, if the lender is a member of the Federal Home Loan Bank, FHLB’s Affordable Housing Program may loan the lender money at a low interest rate so that the lender can loan it to the community at lower than market rates.

Suggest Activities Other Than Loans

As stated earlier, “meeting community credit needs” is not limited to making loans or introducing innovative lending programs. This guide has already mentioned strategies for lenders such as hiring staff compatible with potential borrowers, entering into lending consortia with other institutions, and providing housing counseling programs. Other possibilities include fee waivers, in-kind donations, targeted advertising campaigns, etc. There are, of course, many other strategies.

Negotiate a CRA Agreement

CRA sets the framework for lenders to form relationships with their communities. CRA agreements are often a product of these developing relationships. Lenders and community organizations may come together to negotiate a lending and/or financial service goal that the financial institution commits to meet. These negotiations can occur at any time; however, they have been most likely to occur during a CRA challenge (see Merger Application section below). There is no standard CRA agreement; however, community activists tend to agree that there are some characteristics that are important.

While it is not essential that the CRA agreement be a written document, it may be useful to have the agreement in writing in case of any future disputes. This is particularly important if a number of parties and/or a long time period are involved. As previously mentioned, the CRA “sunshine rule” requires CRA agreements to be reported to the appropriate regulatory agency and made available to the public. The parties to the agreement must also file a report annually with the appropriate agency concerning the disbursement, receipt, and use of funds or other resources under the agreement.

A written agreement should certainly be drawn up when specific lending tools are developed to reach the target communities. A written agreement should spell out what activities are to be undertaken by each party (lender, government agency, community organization, etc.), including any specific dollar or percentage commitments. It should include time periods.
within which activities will occur. It should also provide for an ongoing relationship among the parties, perhaps through periodic meetings and/or written progress reports.

According to the National Community Reinvestment Coalition (NCRC), CRA agreements are a “win-win” result for banks and communities. Banks find profitable business opportunities that they may have otherwise overlooked, and traditionally underserved communities secure additional credit and capital. NCRC has calculated that, from CRA’s passage in 1977 through 2001, CRA agreements have generated more than $1.5 trillion in loans, investments, and services nationwide.\textsuperscript{10} Using NCRC’s database on CRA agreements, recent studies found that banks and thrifts increase their lending to low- and moderate-income communities in geographical areas in which they have CRA agreements.\textsuperscript{11}

**Using CRA With or Without a Lender**

The actions suggested in this section are particularly useful when a lender is not interested in working with you in a cooperative manner. Some of these tools may be used to acknowledge and reward the actions of a helpful lender.

**Write Letters**

If you believe an institution is doing a good or bad job with respect to meeting community credit needs, say so in writing. Regulators report that the more detailed your comments are, the more useful they are. Include statistics, specify loans that were accepted or rejected, relate the institution’s activities to the specific lending, service and investment criteria, and so on. State specifically in the letter that you are writing about CRA activities and specify that the letter should be placed in the public comment file. Send a copy to the appropriate regulatory agency. Remember, however, that there is no requirement for the institution or the regulator to respond to your correspondence.

**Greenlining**

A very public and effective way to combat redlining is to engage in greenlining. Taking business away from institutions that receive poor ratings and giving it to those with good ratings is one of the few carrots and sticks available to community organizations. Place your organization’s resources, and convince others to place their resources, in lending institutions

\textsuperscript{10} National Community Reinvestment Coalition, CRA Sunshine, 3. This publication provides detailed information on 700 CRA agreements and provides examples of how community groups and banks make the “sunshine” disclosures.

\textsuperscript{11} The Joint Center for Housing Studies, Harvard University, 25\textsuperscript{th} Anniversary of the Community Reinvestment Act: Access to Capital in an Evolving Financial Services System, prepared for the Ford Foundation, March 2002; and Raphael Bostic, Ph.D and Breck Robinson, Ph.D., “Do CRA Agreements Influence Lending Patterns,” to be published in early 2003 in Real Estate Economics and available in 2002 at \url{www.usc.edu/schools/sppd/lusk/research/papers/pdf/wp_2002_1007.pdf}. 
that have good CRA ratings and good reputations within your community. Some activists have also found it useful for local governments to adopt policies of keeping government funds in institutions with positive CRA ratings. Even if such a policy does not involve switching lenders, the publicity involved in its adoption may provide some publicity for reinvestment issues.

**Publicize an Institution’s Rating**

CRA ratings can be an important public relations tool. Lenders that are meeting the credit needs of their community will want to publicize their rating and community organizations can play an important role in doing this. A negative rating can damage a bank’s reputation within the community. Publicizing a bank’s negative rating and your perceptions of their lending behavior is highly contentious and should be used only when all else has failed.

It is important to note that many members of the media and the public are not aware that CRA exists, or of its potential importance. Therefore, publicizing a CRA rating may require that you engage in some political education as well as publicity.

**Challenge a Merger, Branch Closing, or Branch Opening**

CRA ratings are taken into account when a financial institution applies to merge with another institution, to close a branch, to open a new branch, or to relocate a home office or a branch.\(^ {12} \) Bank mergers are very public events that focus attention on CRA issues and provide those concerned with the opportunity to participate in the process. Regulators have the authority to deny an application for any of these activities based on a negative CRA rating. Although regulators have seldom exercised this sanction, the potential exists. A more common result of CRA-based challenges to merger applications is the negotiation of a “CRA agreement” between the institution and the protestant, typically a community organization. A CRA agreement is a statement made by the lending institution wherein it commits to certain actions, such as extending a specified amount of credit for housing development or increasing products and services for a target community.

The banking industry is now operating in a very competitive environment. Many lenders have focused on increasing their customer base, reducing costs, and operating more efficiently. One way of doing this is by entering new markets and merging with existing lenders. While these mergers may make business sense for financial institutions, many community activists worry that this mega-merger phenomenon will lead to higher fees for consumers, decreased access to branch offices, less choice, and the like.

For several reasons, CRA presents different issues in rural areas than in cities. Rural lenders are less likely than larger, urban lenders to be expanding, so there are fewer opportunities to ask regulators to take action based on poor CRA ratings. On the other hand, national mega-mergers have placed many large lenders into smaller markets that were traditionally served by

\(^ {12} \) Regulators take a number of factors into consideration when making a decision on a lender application, including the financial health of the institution and anti-trust issues. CRA is but one factor.
local lenders, giving community groups greater opportunities to comment on a lender’s CRA activities. Rural advocates do have some concerns about the increasing volume of bank mergers. Housing activists in rural areas predict that if larger lenders merge or buy out small local lenders, these new institutions will choose to close smaller, less profitable branches. There is also the concern that larger national lenders will pay closer attention to the needs of their urban customers in larger metro areas, without giving much thought to the needs of their rural customers. In the context of increasing merger activity nationally, it is crucial for rural community groups to understand the merger process, as a significant amount of CRA activity occurs around these events.

After filing the appropriate application with its regulatory agency, a lending institution must advertise its intentions in a newspaper of general circulation in the communities where the main offices of the banks or savings associations involved are located. Lending institutions are not required to notify customers or community groups directly of the pending merger application. However, many banks will notify community partners of merger applications in advance.

Any member of the public who wishes to comment on the application may do so. Public comments on the pending application must be in writing and must be directed to the regulatory agency. Each regulator sets the length of public comment period, which ranges from 10 days to 30 days from the filing of the application. Comments that are not received during this period will not be taken into consideration as the regulators make their decision on the application. You should be aware of the time constraints and format that comments must follow. In order to have the most accurate information on pending lender applications, contact the regional office of the regulatory agency.

Public comments that object to the pending application are viewed as a CRA protest by the regulators. Protests of an application should outline the community that the bank should be serving, as well as provide proof that the lender has not fulfilled its obligation to this community. The regulatory agency must take these public comments into consideration when making its decision on the pending application. If the protest raises significant questions about the bank’s lending behavior in the community, the agency can hold public hearings or meetings at which members of the community may testify as to the perceived impacts of the pending application and the lending activities of the lending institution. Public hearings and/or meetings are not held every time a CRA protest is lodged, and each regulatory agency has its own procedure for convening these proceedings.

A challenge (or protest) to a lending institution's request for approval to merge or to open or close a branch provides a prime – albeit adversarial – opportunity for community advocates to press the institution for community lending commitments or a CRA agreement. Regulators

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13 The OCC has a public comment period of 30 days for most applications and 10 days for bank branch activities. The FRB has a 30 day comment period for most applications. The FDIC has a 15 comment period for most applications, 21 days for office relocations and 30 days for mergers. The OTS has a 10 day comment period for most applications. This agency will grant a 7 day extension on request.
rarely deny applications on grounds of insufficient community lending activities, but activists challenging applications on CRA grounds have succeeded in persuading lenders and regulators to address weaknesses in community reinvestment performance. Given the banking industry's trend towards consolidation, challenges are likely to continue to be an important way to generate lending agreements.
CASE STUDIES

The Community Reinvestment Act has changed the dynamics between lending institutions and lower-income communities and borrowers. CRA has set a context that fosters relationship building between lenders and community groups that can improve financial services for low-income residents. This section presents four case studies of how CRA has directly or indirectly impacted rural communities and provides some examples of how CRA has been used by rural organizations. All of the organizations interviewed for this guide have entered into long-term successful lending relationships with local financial institutions that have yielded construction loans, rehabilitation loans, permanent financing, small lines of credit, etc. Understanding that lending plays an integral role in an institution’s CRA evaluation can be used to your advantage when approaching lenders with proposals.

**Florida Low Income Housing Associates**

A nonprofit organization in an area served by many banks, Florida Low Income Housing Associates (FLIHA) has used lender financing for several purposes. Local bankers have provided site acquisition loans, construction loans, permanent mortgages, and a variety of special loan programs to enable low-income FLIHA clients to purchase homes.

FLIHA serves low-income residents of Citrus and Marion counties in west central Florida, where tourism is a major industry and many workers earn minimum wage. The organization was founded in 1989, and for several years relied on the volunteer efforts of its board members. In 1995 FLIHA received a grant from USDA to provide technical assistance (TA) to homebuyers participating in the agency’s self-help housing program. The program requires purchasers to provide part of the construction labor for a group of homes including their own, thus lowering the costs. The TA funding enabled the organization to hire its voluntary director as an employee. Over the next few years, the group gained experience with other housing programs, was certified as a Community Housing Development Organization (CHDO), and acquired four full-time and one half-time staffers.

FLIHA’s approach to working with lenders has been simple, according to its director, who says she calls a lender with a proposal, and if they say no she goes on to another lender. She has developed strong relationships with several lenders in the area, and one banker sits on FLIHA’s board of directors.

The group first used bank financing to help develop 40 single-family homes in Citrus County. Because FLIHA’s financing was new and the organization had almost no financial track record, no single lender would accept the risk of the entire project. Several banks agreed to help, dividing the loans, and thus the risk. Since then FLIHA has successfully developed additional single-family units and is planning more. Area lenders have provided a variety of types of assistance.

For example, a medium-sized, Florida-based bank loaned FLIHA money to purchase lots for self-help homes. The loans were for terms of about six months, after which they were replaced by site development loans. The lender lowered its usual interest rate to half a percentage point.
over prime, and charged only one point in fees. To further reduce costs for FLIHA and for the eventual homebuyers, the lender was willing to forego appraisals, relying instead on tax assessments.

For FLIHA's first single-family affordable housing development, five area lenders and the Housing Assistance Council (HAC), a national nonprofit lender, provided construction loans. FLIHA assigned each lender a set of lots on which they made loans, so the process did not involve creating a loan pool.

Area lenders have also made permanent mortgage loans for families buying the homes developed by FLIHA. These are all for 30 years at fixed interest rates, slightly less than market rates. The details vary for each lender. Interest rates may be one half point below market rate, or prime rate, or prime plus 1 percent, or may be calculated some other way. Some of the mortgages carry government guarantees from the Federal Housing Administration or USDA’s Section 502 program. Some are for 70 percent of value, supplemented by government-subsidized second mortgages, while others cover up to 98 or even 100 percent of value. Some are financed through statewide bond funds, with interest rates as low as 3 percent. These are originated by a participating lender and then transferred to a bond pool for which a servicing company collects payments, so the lender's involvement lasts less than six months.

FLIHA provides homebuyer education classes, and most of the purchasers receive additional financial assistance to help them afford their homes. This assistance may come from county-administered state funds, state-administered federal funds, or both. Very low-income families are eligible for county funds of up to $7,500 from Florida's Statewide Housing Initiatives Program (SHIP) to help with closing costs and the like. For both very low- and low-income buyers, the Florida Housing Finance Authority provides soft second mortgages of $13,000 using federal HOME funds. No regular payments of principal or interest are required on these second mortgages, although repayment is necessary when a home is sold.

To help low-income purchasers, and to enhance FLIHA's application for HOME funds, one of the lenders providing mortgages in Marion County made a written commitment to provide extra assistance to homebuyers. The arrangement was based on the lender's existing first-time homebuyer mortgage program, with some additional provisions. The lender waives many of the standard fees it charges for conventional mortgage loans. It also committed to expand its work with delinquent borrowers, so that in addition to its usual notifications of delinquent payments it works with borrowers to identify reasons for late payments and then refers them to agencies that can provide appropriate counseling or assistance.

As a result of the combined lender financing and other subsidies, most of FLIHA’s self-help homes are affordable for families with incomes below 80 percent of area median income. For a family of four, $26,650 is 80 percent of the $32,800 area median. In Citrus and Marion counties a three-bedroom, two-bathroom house sells for about $58,000. FLIHA has developed a few four-bedroom homes as well, for larger families.

FLIHA continues to seek ways to serve residents with even lower incomes. For example, while the organization has been pleased with the terms offered by lenders, in retrospect staff believes
they could have negotiated some even better deals, with fewer points charged by the lenders. Construction loans included about $1,000 in points, fees, and insurance for each house, a relatively high proportion of the $52-58,000 final cost. Another way of reducing costs has been to obtain a federal Self-Help Homeownership Opportunity Program (SHOP) loan, administered by HAC, for self-help site development. If a nonprofit developer produces its SHOP-assisted units on time, 75 percent of the SHOP loan becomes a grant. FLIHA expects to convert its SHOP loan into a grant, thus obtaining funds it can reuse for additional housing production.

The organization has also expanded its work to develop multifamily housing. There is a need for three- and four-bedroom rental units for very low-income families in the area. Funding sources may include lenders, low income housing tax credits, and federal and state government subsidies.

The bankers who have worked with FLIHA express enthusiasm and commitment for these projects. All seem to conduct other CRA activities as well, at a minimum providing loan products tailored to first-time homebuyers. One banker says his institution is always looking for community lending opportunities, and FLIHA provided one.

It is not clear to FLIHA’s director whether any of the area’s lenders fit the regulatory definition of a “small” lender. All FLIHA’s lenders cover service areas wider than FLIHA’s two-county focus, but the group’s director does see a difference in the activities undertaken by huge regional lenders with branches in Citrus and Marion counties and those by relatively smaller, locally focused lenders. Some of the former, having merged with local lenders, seem to do only the minimum to indicate they are serving the area, whereas the remaining Florida-based lenders are more likely to be flexible and helpful. The larger the lender, she adds, the more urban its focus, although she believes small rural projects should be easy for the large regional lenders.

Despite some frustration with the bankers who have declined to work with FLIHA, the organization seems to have developed a solid working relationship with many area lenders. Both bankers and FLIHA staff expressed uncertainty about the area’s banking future simply because of the number of lender mergers occurring there. Given the observation that large lenders headquartered elsewhere are less likely to become involved in relatively small loans for rural housing projects, such uncertainty seems appropriate.

**Southern Illinois Coalition for the Homeless**

The Southern Illinois Coalition for the Homeless (SICH) is a nonprofit organization that provides a full range of services for homeless families and individuals. Established in 1991, the coalition serves the southernmost counties in Illinois. The coalition is comprised of a network of cooperating agencies, local governments, businesses, community groups and volunteers. SICH has developed a strong program that moves low-income families into homeownership.

SICH’s service area encompasses 24 counties, which have the highest per capita concentrations of poverty in the state. Many of the coal mines that were once major employers in the area have either downsized or gone out of business, which has left the region with a scarcity of
family-sustaining jobs. Although the overall economy has improved and homelessness rates have decreased, housing costs are on the rise in the region.

SICH’s homeownership project was originally funded in 1993 with a loan to purchase homes and a grant for rehabilitation from the Illinois Housing Development Authority (IHDA). IHDA is a state agency that receives its funding from the state’s real estate transfer fee. This fee goes into the Housing Trust Fund which is administered by IHDA. Monies in the Housing Trust Fund are earmarked for low-income rental and homeownership housing programs in the state.

The initial funding from IHDA in 1993 enabled SICH to purchase 23 homes at $10,000 each and provided $5,000 per home of grant funds for rehabilitation. By the next funding round in 1995, SICH had learned some valuable lessons – primarily that $15,000 was too little to purchase and rehabilitate homes, even in the instances where they were able to purchase foreclosed properties. Therefore, during the next round, rather than limit themselves to $15,000, SICH decided to spend more for homes and invest more in rehab as well. In doing so, they were only able to purchase 15 homes over a two-year period. The benefit, however, was that the homes were in better condition and in better neighborhoods. On average, SICH homes cost about $30,000 including rehab.

The homeless-to-homeownership program has four distinct phases. The first phase of the program is the application process. SICH’s case management division screens all potential purchasers. Over the years SICH has come to realize the importance of this component of the program. Many of the potential clients have been referred to SICH by one of the agencies in the region that serve homeless families. While SICH is committed to serving homeless clients, they also realize that homeownership is probably one of the most significant responsibilities a person will embark upon. It is important for their clients to be prepared to make this step.

As of April 2001, SICH has purchased 33 homes and rehabbed all but one. Twenty-seven of the 33 homes are occupied and only four of these families are still in the rental phase of the program. As of April 2001, 15 families have progressed to the fourth and final stage of the program, which is permanent financing. Most of the families received permanent financing from a small, local lender, while some families received financing from a larger, state-wide lender. It is interesting to note that one family paid off their home during the contract for deed period and completely bypassed the conventional financing phase.

Both lenders from whom SICH’s clients received mortgage loans made certain concessions when providing permanent financing. For example, one of the lenders did not require SICH clients to make down payments and approved the mortgage applications using only the lease history with SICH. The other lender waived fees for the families and also approved them for additional loan money to complete further home improvements. SICH’s executive director has talked to approximately six other financial institutions in the area in hopes of attracting more lenders to the program. These lenders agree that SICH loans are attractive business deals, primarily because the loans are small and the owners have equity in the homes when they apply for financing.
SICH’s executive director admits that it took a lot of outreach in order to find two lenders willing to work with them. She says that she never got discouraged by the lack of interest some bankers showed or the many meetings that never resulted in commitments from lenders. She was persistent until she got the results she wanted.

No one at SICH has any expertise with the CRA regulations or CRA issues. When talking with lenders, CRA rarely comes up. Staff indicated that although they are not “experts,” they believe that now is a good time to go to lenders with affordable housing projects. Based on conversations with other nonprofit staff members, more and more financial institutions are looking for the opportunity to make loans rather than in-kind donations. SICH’s director believes this is because of the emphasis placed on lending in the current CRA regulations. When asked what the major challenge is with regard to gaining access to lenders for rural clients, she noted that programs like hers in larger metropolitan areas are often approached by lenders who are actively seeking CRA projects. Unfortunately, she does not see this type of proactive outreach from lenders in small rural communities.

**United Housing and Educational Development Corporation**

United Housing and Educational Development Corporation (UHEDC) was incorporated in 1990. UHEDC is an established Rural Development self-help group serving families in the rural areas of Pima and Pinal counties in Arizona. Pima County is a large metropolitan county with a population of 843,746 and nonmetro Pinal County has a population of 179,727. UHEDC’s self-help program serves a largely Hispanic community with a sizable Native American population as well. As a Rural Development Section 523 grantee, UHEDC serves very low- and low-income families with the families performing 65 percent of the labor to construct their homes. As of April 2001, UHEDC had produced 202 self-help homes. It was able to do so by linking with other local organizations, lending institutions and business and government entities to accomplish its homeownership mission.

Both Pima and Pinal counties are considered high cost areas. All of UHEDC’s clients receive Section 502 direct loans from USDA Rural Development, formerly the Farmers Home Administration. Rural Development is able to loan up to $112,000 per home in this area, but because of limited Section 502 dollars available, UHEDC has had to identify funds from other sources and blend those dollars with Rural Development funding.

UHEDC has been quite successful in garnering support from a variety of lenders, ranging from small, local lenders to large, national lenders. For example, a large national lender provides construction loans to UHEDC. Rather than making many small loans to individual families, the lender extends an 18-month line of credit to UHEDC for construction of the units. Another large, national lender has provided permanent financing for UHEDC clients. These mortgages are typically 30 years and offer low interest rates.

More recently, UHEDC has undertaken a venture with Fannie Mae. Fannie Mae made a commitment to financial institutions to buy blended Section 502 direct loans on the secondary market if the lenders would agree to Rural Development underwriting guidelines. Representatives from Fannie Mae and UHEDC attended meetings with lenders to spread the
word about the concept. The program allows UHEDC to continue to work with its established network of lenders. The added benefit is that the permanent lenders are able to sell the loans on the secondary market, which ultimately reduces their risk.

To make units even more affordable UHEDC used a variety of funding mechanisms, including HUD HOME dollars to cover closing costs and Federal Home Loan Bank Affordable Housing Program (AHP) grant dollars to lower site costs. The AHP is administered by each of the regional Federal Home Loan Bank on a competitive basis and provides below-market-rate loans for such things as the purchase and construction of low-income housing. Because nonprofits cannot apply directly for AHP funds, UHEDC worked with a local lender that is a member of the Federal Home Loan Bank system to apply for the grant. This member lender serves as a sponsor for UHEDC and helped them prepare the necessary applications. UHEDC also received federal Self-Help Homeownership Opportunity Program (SHOP) loans for site development from the Housing Assistance Council, a national nonprofit lender. SHOP loans become grants if units are completed on time. UHEDC expects to complete its units on time and plans to turn the money into a revolving loan fund.

UHEDC has been vigilant in working to cultivate its relationship with area lenders. Over the years staff have used a combination of personal contacts, regular meetings, training, and their successful track record to convince lenders to work with them. Overall, UHEDC staff feel they have been successful gaining the support of financial institutions because they have established a proven track record – which is what the lenders are looking for. UHEDC’s executive director also credits personal contacts as a critical factor in gaining access to one of their largest lenders. A business acquaintance from earlier in his career with whom he has maintained contact now works as a CRA officer for the lender. This friend put a good word in for United Housing and provided the entree that was needed to develop a long-term relationship.

UHEDC tries to keep up with area lenders and pays close attention to the types of projects these institutions are undertaking. If they notice certain lenders are not very active, UHEDC tries to arrange meetings with lender representatives to highlight their program and see if the lenders have an interest in contributing in some way. Sometimes if UHEDC’s staff knows that a specific lender has a CRA exam coming up, the executive director will meet with the lender’s staff to see if they are interested in developing a partnership. Sometimes this approach works – and sometimes it does not. In any case, it lets lenders know that UHEDC has a viable program and is willing to work with them.

Overall, UHEDC is a proponent of building the organization’s credibility by developing solid, well thought out projects. It is critical to UHEDC to have the market studies, cost analyses, and other feasibility studies completed prior to approaching lenders. In sum, UHEDC believes that solid projects carry their own weight with lenders.

One of the differences UHEDC has seen when working with larger lenders is that they have more resources. Therefore, they have more flexibility in the terms of the deals they put together. UHEDC has also had a lot of luck working with the community development and foundation subsidiaries of larger lenders. These entities are established specifically to put
together community development deals, which makes the process more user-friendly for nonprofit organizations.

UHEDC reports that many lenders would attend meetings and talk, but they rarely came to the table and said, “Here’s the money. This is what you need to complete your project. Let’s do it!” UHEDC claims that since the current regulations went into effect, there has been a noticeable difference in what the lenders are willing to do.

Another employee of a large lender that works closely with UHEDC said that his lender has a full understanding and respect for the values that nonprofits bring to the table and views UHEDC as a business partner and not a social service agency. He also said that over the years lenders have developed a better understanding of the challenges facing nonprofits and nonprofits understand the challenges facing lenders. Therefore, they are better equipped to establish objectives and work within those constraints to achieve their mutual goals. In terms of the regulations, he commented that in the past, even if a lender’s numbers “weren’t that good, it was okay” – as long as they documented their effort. Since the regulations changed, lenders need proof that demonstrates to examiners that they have actually made loans.

Overall, UHEDC’s experience seems unique among the case studies compiled for this report. It is in an area of the country that is served by very pro-active national lenders. This type of affiliation can be the catalyst for involving other financial institutions and local organizations. UHEDC has also benefitted from being located in an area where mega-mergers took place. Merging institutions pay close attention to their community lending activities. UHEDC’s work with their various lending partners has helped them both work more closely within the spirit of the act – where lenders are only as good as their community lending performance record.

**North Central Massachusetts Community Reinvestment Act Coalition**

The North Central Massachusetts Community Reinvestment Act Coalition is a joint effort of financial institutions, community organizations, and local government officials in a largely rural part of Massachusetts. While the coalition’s sole housing loan product has been effective only in the area’s largest towns, coalition participants see the group as an important vehicle for connecting people who otherwise might not work together.

The coalition serves 27 towns in north central Worcester County. According to 2000 census data, the total population of the 27 towns is close to 240,000, and the majority of residents are white. The African-American population of Worcester County is relatively small and is scattered. Hispanic residents comprise about 25 percent of the population in the “twin cities” of Fitchburg and Leominster, while few live in the rest of the county. Leominster is the largest town in the area, with 41,303 residents. Fitchburg has 39,102 occupants, and the next largest city, Gardner, 20,770.

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14This case study was last updated in 1998. HAC was unable to locate contacts to update it more recently. It is included in this guide because the information remains relevant for those interested in using CRA in other rural areas.
Area community organizations provided the catalyst for the coalition’s creation, inviting area lenders to meet in 1989 and 1990. Some of the local bankers, concerned about increasing regulatory attention to CRA, were interested in finding a regional alternative to the Massachusetts Lenders Association’s statewide but Boston-oriented CRA initiatives, and were happy to respond. By 1992 or 1993, when a case study on the coalition was prepared for an earlier version of this manual, the coalition was an informal affiliation of 16 financial institutions, 10 community organizations, and seven local government officials. It had no staff and little administrative organization, but was in the process of incorporating.

By 1998, the coalition had become a formal corporation with part-time office staff. The local economy had strengthened considerably, although Leominster recovered more quickly than Fitchburg. The coalition’s 16 lender members in 1998 were not all the same institutions as the 16 in 1992 because many small community lenders have disappeared in mergers. Small local lenders still exist; several of the coalition’s 16 financial institution members have less than $50 million in assets. Other members in 1998 included six nonprofit organizations and three local governments. Dues are set on a sliding scale, with the largest lenders paying the most and the local governments receiving dues waivers.

Committees of coalition members conduct the organization’s business: Marketing and Membership; Housing; Education and Basic Lending; Economic Development; and Needs Assessment. Each committee has two co-chairs, one representing a lender and the other a nonprofit or local government entity. The coalition’s president is always a nonprofit/government representative, and the vice president is always a lender representative. Coalition leaders describe the membership’s purposefully cooperative, non-confrontational approach as important in the group’s development and its continued success. Members listen to each other, they say, so that no one dictates solutions.

The coalition has undertaken one housing endeavor, which it calls the Rehabilitation and Purchase Program (RAPP). Long-time coalition members report that RAPP was created as the result of a needs assessment conducted early in the group’s history. Administered by the Twin Cities Community Development Corporation (CDC), with funding from local lenders, the cities of Fitchburg and Leominster, and the coalition, the program funds the purchase and rehabilitation of owner-occupied homes in the two cities.

The program enables first-time homebuyers with incomes below 80 percent of area median to purchase and renovate either single-family or multifamily homes. In this context a multifamily building means a structure with two, three, or four units. One of the units must be occupied by the owner, who is responsible for managing the others as rental units. Like the owner, the renters must have incomes below 80 percent of median.

In both Fitchburg and Leominster the program is run by the CDC, which screens applicants, refers them to lenders, provides homebuyer education, and the like. Purchasers of multifamily buildings receive additional training and must be considered qualified to act as landlords. Using funds it collects as membership dues, the coalition covers a small part of the CDC’s costs for providing homebuyer education classes. Funds for the balance of the CDC’s administrative costs come from a variety of public and private sources.
In both cities the program uses federal funds provided by the cities to make homeownership affordable for buyers, but the details differ. Under what it calls the Home Ownership Opportunity Program (HOOP), the city of Fitchburg provides soft second mortgages for purchasers using entitlement funds it receives through the federal Community Development Block Grant (CDBG) program. Leominster is also a CDBG entitlement city, but has chosen to participate using funds from the federal HOME program rather than from CDBG. Its First Time Homebuyers program provides soft second mortgages, down payment assistance, and closing cost assistance.

Participating financial institutions have signed written but nonbinding commitments to make loans for purchasers under the RAPP/HOOP/Homebuyers program. Individual lenders apply their own criteria on matters such as credit history, while some underwriting criteria are consistent for all the participating lenders. All require a 5 percent cash down payment; generally the buyer provides 3 percent and the remaining 2 percent comes from a revolving loan fund administered by the city with CDBG funds, from the CDC’s own revolving loan fund, or from HOME monies. For purchasers of single-family homes, debt-to-income ratios cannot exceed 33 and 38 percent; for multifamily purchasers, the ratios are 30 and 36 percent. Loans cannot exceed 80 percent of post-rehabilitation appraised values. The lenders charge no points, and closing costs can be financed as part of the mortgages.

The first mortgages provided by the lenders and credit unions are at market interest rates. Making the purchases affordable to low-income buyers is possible only because of the soft second mortgages provided by the local governments. These are considered loans but, depending on the buyer’s circumstances and the home’s location, their terms may range from small monthly payments to forgiveness of the entire loan.

The soft seconds are also essential for participating lenders to be comfortable with their level of risk in making their first mortgage loans, since they are loaning only 80 percent of the post-rehabilitation value. If a borrower defaults and a lender has to foreclose, it will obtain a property worth more than the lost loan amount.

Figures published by the Twin Cities CDC show that from mid-1992 through mid-1998, the program resulted in 64 loans, 28 for single-family homes and 36 for multifamily units. The cities have loaned $706,000, and the lenders have loaned $4,306,000. The average lender loan is $67,276. Almost half the purchasers are single heads of household. Reflecting the racial and ethnic mix in the cities, most are white or Hispanic. None of the borrowers has defaulted on a loan. Local bankers, who expected some defaults would occur, are enthusiastic about the “good business” provided by the program.

The purchase and rehabilitation program works in Fitchburg and Leominster because the cities can rely on having funds available every year to provide soft second mortgages for purchasers. Gardner, in contrast, is not an entitlement city, so it competes for CDBG funds every year and has not received an award for several years. Similarly, other towns in the coalition’s service area have not had the resources to provide the second mortgages that make the purchases affordable.
Coalition leaders believe it is unlikely that the purchase and rehabilitation program would have been created without the coalition. While the group does not involve a joint underwriting process or a pool of funds -- each lender underwrites and issues its own loans -- it did establish a partnership between lenders, cities, and community organizations that might not have occurred otherwise. The coalition provides a structure for lender participation, and assistance for their loans through government programs and community groups' outreach and training. It provides a single line of communication through which nonprofits such as the Twin Cities CDC can reach numerous committed lenders. The coalition may also encourage broadened coverage for small lenders with limited service areas, although other members already cover service areas more extensive than the coalition's. Most lender members undertake other CRA-related activities in addition to those promoted by the coalition, including affordable housing projects.

Coalition activities beyond the purchase and rehab program have been relatively small in scale, and have included a variety of educational programs. One set of classes, developed in cooperation with a regional nonprofit's education program, covered basic banking information and used bankers as trainers. Many of the trainees were young single mothers inexperienced in using checking or savings accounts. Other classes have included homebuyer training, and bankers discovered the participants included small business owners to whom they could convey some useful information at the same time. The coalition has also sponsored a job fair in the City of Gardner.

Perhaps the coalition's most important result has been the generation of strong working relationships. Beyond activities undertaken in the coalition's name, individual lenders and community groups have engaged in housing endeavors they might not otherwise have tried. For example, one lender provided loans to the Twin Cities CDC to purchase and rehabilitate multifamily buildings the CDC now rents to low-income tenants.

Area housing organizations such as Rural Housing Improvement (RHI) and the CDC have worked with a number of lenders on housing activities outside the scope of the coalition's program. On complex housing development projects RHI has found it easier to work with large lenders. They are able to understand and accept more risk, according to RHI's director. On the other hand, they are less interested in small-scale activities than the small local lenders are, so none participate in the Fitchburg/Leominster homebuyer program. That program's lenders are all small local lenders and credit unions.

Coalition leaders did not fully agree in their assessment of the impact of CRA regulations on participation by large or small lenders. The emphasis on proven activity is applauded, but at least one nonprofit believed the less clearly defined rating process for small lenders has removed “a lot of pressure” from those lenders. The coalition itself was seen as a possible generator of such pressure, since over time it has established “good will” and certain expectations for lender behavior. Continuing the pressure of those expectations means keeping the coalition active, according to one member, and that means it is more important than ever for members to invest time in the group.
In 1998 the coalition’s housing committee hoped to spread its success in the future by developing a housing loan product that works outside the twin cities, and the CDC hoped to expand the funds available for second mortgages for homebuyers within the cities. Possible additional funding sources included HUD’s HOME program and state soft second mortgage funds through the Massachusetts Housing Finance Agency and the Massachusetts Housing Partnership, a quasi-public entity. Outside Fitchburg and Leominster, local nonprofit community organizations such as RHI would fill the role taken by Twin Cities CDC in the cities.

Future success may also be indicated by the fact that, beginning around 1996, credit unions began joining the coalition without having been targeted for membership. Credit unions are not subject to CRA, but those chartered by the state of Massachusetts are covered by a state law similar to CRA. At least one coalition member believes their interest may also have been inspired by the realization that the coalition provides opportunities to make good loans.

That distinction echoes the history of the coalition through the 1990s. The group was created out of concern about the statutory and regulatory requirements imposed by CRA, but over time other important factors have included the constructive atmosphere created by its leaders, the business opportunities it presents for lenders, and the positive results it yields for low-income residents. The effort produced partnerships among local players that remain important even beyond the purchase program’s new homes for 64 Massachusetts households.

CONCLUSION

The Community Reinvestment Act can be used in many different ways to generate funds for rural housing. As public funds for low-income housing programs decline, private investment has become increasingly important. Thus CRA’s usefulness has increased in recent years, particularly since statutory amendments in 1989 provided for public CRA ratings, and will continue to increase as the trend toward mergers of financial institutions provides opportunities to use CRA with institutions not otherwise interested in community credit needs. This is as true for small rural lenders as for large urban ones. While CRA is not a panacea or a solution to all rural housing financing problems, the Housing Assistance Council hopes that this guide will help readers avail themselves of its possibilities.
APPENDICES
APPENDIX A
THE COMMUNITY REINVESTMENT ACT, AS AMENDED

12 USC CHAPTER 30 - COMMUNITY REINVESTMENT TITLE 12 - BANKS AND BANKING CHAPTER 30 - COMMUNITY REINVESTMENT

Sec. 2901. Congressional findings and statement of purpose

(a) The Congress finds that - (1) 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; (2) the convenience and needs of communities include the need for credit services as well as deposit services; and (3) regulated financial institutions have continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered.

(b) It is the purpose of this chapter to require each appropriate Federal financial supervisory agency to use its authority when examining financial institutions, to encourage such institutions to help meet the credit needs of the local communities in which they are chartered consistent with the safe and sound operation of such institutions.

(1) compare the risks and returns of lending in low-income, minority, and distressed neighborhoods with the risks and returns of lending in other neighborhoods; “(2) analyze the reasons for any differences in risk and return between low-income, minority, and distressed neighborhoods and other neighborhoods; and “(3) if the risks of lending in low-income, minority, and distressed neighborhoods exceed the risks of lending in other neighborhoods, recommend ways of mitigating those risks.”

Sec. 2902. Definitions

For the purposes of this chapter - (1) the term “appropriate Federal financial supervisory agency” means - (A) the Comptroller of the Currency with respect to national banks; (B) the Board of Governors of the Federal Reserve System with respect to State chartered banks which are members of the Federal Reserve System and bank holding companies; (C) the Federal Deposit Insurance Corporation with respect to State chartered banks and savings banks which are not members of the Federal Reserve System and the deposits of which are insured by the Corporation; and (2) Section 1818 of this title, by the Director of the Office of Thrift Supervision, in the case of a savings association (the deposits of which are insured by the Federal Deposit Insurance Corporation) and a savings and loan holding company;¹⁵ (2) the term “regulated financial institution” means an insured depository institution (as defined in section 1813 of this title); and (3) the term “application for a deposit facility” means an application to the appropriate Federal financial supervisory agency otherwise required under Federal law or regulations thereunder for - (A) a charter for a national bank or Federal savings

¹⁵So in original. Text reading ``(2) section 1818 of this title, by the Director” probably should read “(D) the Director”
and loan association; (B) deposit insurance in connection with a newly chartered State bank, savings bank, savings and loan association or similar institution; (C) the establishment of a domestic branch or other facility with the ability to accept deposits of a regulated financial institution; (D) the relocation of the home office or a branch office of a regulated financial institution; (E) the merger or consolidation with, or the acquisition of the assets, or the assumption of the liabilities of a regulated financial institution requiring approval under section 1828(c) of this title or under regulations issued under the authority of title IV of the National Housing Act (12 U.S.C. 1724 et seq.); or (F) the acquisition of shares in, or the assets of, a regulated financial institution requiring approval under section 1842 of this title or section 408(e) of the National Housing Act (12 U.S.C. 1730a(e)). (4) A financial institution whose business predominately consists of serving the needs of military personnel who are not located within a defined geographic area may define its “entire community” to include its entire deposit customer base without regard to geographic proximity.

Sec. 2903. Financial institutions; evaluation

(a) In general

In connection with its examination of a financial institution, the appropriate Federal financial supervisory agency shall - (1) assess the institution’s record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of such institution; and (2) take such record into account in its evaluation of an application for a deposit facility by such institution.

(b) Majority-owned institutions

In assessing and taking into account, under subsection (a) of this section, the record of a nonminority-owned and nonwomen-owned financial institution, the appropriate Federal financial supervisory agency may consider as a factor capital investment, loan participation, and other ventures undertaken by the institution in cooperation with minority- and women-owned financial institutions and low-income credit unions provided that these activities help meet the credit needs of local communities in which such institutions and credit unions are chartered.

Sec. 2904. Report to Congress

Each appropriate Federal financial supervisory agency shall include in its annual report to the Congress a section outlining the actions it has taken to carry out its responsibilities under this chapter.

Sec. 2905. Regulations

Regulations to carry out the purposes of this chapter shall be published by each appropriate Federal financial supervisory agency, and shall take effect no later than 390 days after October 12, 1977.
Sec. 2906. Written evaluations

(a) Required

(1) In general

Upon the conclusion of each examination of an insured depository institution under section 2903 of this title, the appropriate Federal financial supervisory agency shall prepare a written evaluation of the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods.

(2) Public and confidential sections

Each written evaluation required under paragraph (1) shall have a public section and a confidential section.

(b) Public section of report

(1) Findings and conclusions

(A) Contents of written evaluation

The public section of the written evaluation shall - (i) state the appropriate Federal financial supervisory agency's conclusions for each assessment factor identified in the regulations prescribed by the Federal financial supervisory agencies to implement this chapter; (ii) discuss the facts and data supporting such conclusions; and (iii) contain the institution's rating and a statement describing the basis for the rating.

(B) Metropolitan area distinctions

The information required by clauses (i) and (ii) of subparagraph (A) shall be presented separately for each metropolitan area in which a regulated depository institution maintains one or more domestic branch offices.

(2) Assigned rating

The institution's rating referred to in paragraph (1)(C) shall be 1 of the following:¹⁶

(A) "Outstanding record of meeting community credit needs". (B) "Satisfactory record of meeting community credit needs". (C) "Needs to improve record of meeting community credit

¹⁶So in original. Probably should be paragraph "(1)(A)(iii)."

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needs”. (D) “Substantial noncompliance in meeting community credit needs”. Such ratings shall be disclosed to the public on and after July 1, 1990.

(c) Confidential section of report

(1) Privacy of named individuals

The confidential section of the written evaluation shall contain all references that identify any customer of the institution, any employee or officer of the institution, or any person or organization that has provided information in confidence to a Federal or State financial supervisory agency. (2) Topics not suitable for disclosure The confidential section shall also contain any statements obtained or made by the appropriate Federal financial supervisory agency in the course of an examination which, in the judgment of the agency, are too sensitive or speculative in nature to disclose to the institution or the public. (3) Disclosure to depository institution The confidential section may be disclosed, in whole or part, to the institution, if the appropriate Federal financial supervisory agency determines that such disclosure will promote the objectives of this chapter. However, disclosure under this paragraph shall not identify a person or organization that has provided information in confidence to a Federal or State financial supervisory agency.

(d) Institutions with interstate branches (1) State-by-State evaluation In the case of a regulated financial institution that maintains domestic branches in 2 or more States, the appropriate Federal financial supervisory agency shall prepare - (A) a written evaluation of the entire institution's record of performance under this chapter, as required by subsections (a), (b), and (c) of this section; and (B) for each State in which the institution maintains 1 or more domestic branches, a separate written evaluation of the institution's record of performance within such State under this chapter, as required by subsections (a), (b), and (c) of this section. (2) Multistate metropolitan areas In the case of a regulated financial institution that maintains domestic branches in 2 or more States within a multistate metropolitan area, the appropriate Federal financial supervisory agency shall prepare a separate written evaluation of the institution's record of performance within such metropolitan area under this chapter, as required by subsections (a), (b), and (c) of this section. If the agency prepares a written evaluation pursuant to this paragraph, the scope of the written evaluation required under paragraph (1)(B) shall be adjusted accordingly. (3) Content of State level evaluation A written evaluation prepared pursuant to paragraph (1)(B) shall - (A) present the information required by subparagraphs (A) and (B) of subsection (b)(1) of this section separately for each metropolitan area in which the institution maintains 1 or more domestic branch offices and separately for the remainder of the nonmetropolitan area of the State if the institution maintains 1 or more domestic branch offices in such nonmetropolitan area; and (B) describe how the Federal financial supervisory agency has performed the examination of the institution, including a list of the individual branches examined.

(e) Definitions

For purposes of this section the following definitions shall apply: (1) Domestic branch The term "domestic branch" means any branch office or other facility of a regulated financial institution
that accepts deposits, located in any State. (2) Metropolitan area The term “metropolitan area” means any primary metropolitan statistical area, metropolitan statistical area, or consolidated metropolitan statistical area, as defined by the Director of the Office of Management and Budget, with a population of 250,000 or more, and any other area designated as such by the appropriate Federal financial supervisory agency. (3) State The term “State” has the same meaning as in section 1813 of this title.

Sec. 2907. Operation of branch facilities by minorities and women

(a) In general

In the case of any depository institution which donates, sells on favorable terms (as determined by the appropriate Federal financial supervisory agency), or makes available on a rent-free basis any branch of such institution which is located in any predominantly minority neighborhood to any minority depository institution or women’s depository institution, the amount of the contribution or the amount of the loss incurred in connection with such activity may be a factor in determining whether the depository institution is meeting the credit needs of the institution’s community for purposes of this chapter.

(b) Definitions

For purposes of this section - (1) Minority depository institution The term “minority institution” means a depository institution (as defined in section 1813(c) of this title)\(^ {17} \) (A) more than 50 percent of the ownership or control of which is held by 1 or more minority individuals; and (B) more than 50 percent of the net profit or loss of which accrues to 1 or more minority individuals. (2) Women’s depository institution The term “women’s depository institution” means a depository institution (as defined in section 1813(c) of this title) - (A) more than 50 percent of the ownership or control of which is held by 1 or more women; (B) more than 50 percent of the net profit or loss of which accrues to 1 or more women; and (C) a significant percentage of senior management positions of which are held by women. (3) Minority The term “minority” has the meaning given to such term by section 1204(c)(3) of the Financial Institutions Reform, Recovery and Enforcement Act of 1989.

\(^ {17} \)So in original. Probably should be “minority depository institution”.
APPENDIX B
CRA LEGISLATIVE CHANGES

In 1989, as part of the savings and loan bailout, the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA), Congress mandated some important amendments to CRA. As a result of this amendment, regulators’ evaluations of CRA performance were required to be written. A four-tier descriptive rating system (Outstanding, Satisfactory, Needs to Improve, Substantial Noncompliance) replaced the previous numerical system. And, perhaps most importantly, CRA ratings were made available to the public.

CRA was amended again in 1991 through the Resolution Trust Corporation Refinancing, Restructuring and Improvements Act. In an effort to encourage the creation and operation of minority- and women-owned branches, that Act added a new section to CRA providing that an institution’s donation, sale on favorable terms, or allowance of rent-free use of a branch in a “predominantly minority neighborhood” by a “minority depository institution or women’s depository institution” would be treated as part of meeting the credit needs of its community. A minority depository institution is defined as one in which more than 50 percent of the ownership or control is held by minorities, and more than 50 percent of the profit or loss accrues to minorities. A women’s depository institution is defined by the same two 50 percent tests, with an additional requirement that a significant percentage of the senior management positions must be held by women.

While these amendments impacted significant components of CRA, including public access to ratings and the scale used to rate institutions, the regulations governing how evaluations would be conducted remained essentially the same. CRA examiners were required to assess an institution’s performance using 12 CRA assessment factors, which were grouped into five performance categories: ascertainment of community credit needs, marketing and types of credit offered and extended, geographic distribution and record of opening and closing offices, discrimination and other illegal credit practices, and community development. This process received widespread criticism from all fronts, including consumer and community groups and the banking industry. While their complaints were somewhat different, the overall feeling was that CRA examinations over emphasized process and under emphasized performance.

In response to these concerns, new regulations were published in April 1995 and were phased in over a period of 18 months beginning January 1, 1996. The new regulations eliminated the 12 assessment factors and established three separate sets of evaluation criteria: for large, small, and special purpose and wholesale lenders. These regulations also provide all lenders with the option of being evaluated using a strategic planning process.

To eliminate statutory barriers separating banking, insurance, and securities businesses, Congress passed the Gramm-Leach-Bliley Act, which is also referred to as the Financial Modernization Act of 1999. This Act is intended to provide a prudential framework for the affiliation of banks, securities firms, insurance companies, and other financial service providers. The CRA amendments of this act, referred to as the “sunshine rule,” were released in late December 2000. The CRA sunshine rule requires the disclosure of CRA agreements, contracts, and written understandings among banks, community groups, and other non-
governmental entities. CRA agreements and written understandings commit banks to make a
specified number of loans to and investments in low-and moderate-income communities.
Under these requirements, agreements that involve funds or other resources of an insured
depository institution or affiliate with an aggregate value of more than $10,000 per year, or
loans with an aggregate principal value of more than $50,000 per year must be made available
to the public and the appropriate agency. The parties must also file a report annually with the
appropriate agency concerning the disbursement, receipt and use of funds or other resources
under the agreement.
Subpart A——General

§ 345.11 Authority, purposes, and scope.

(a) Authority and OMB control number—(1) Authority. The authority for this part is 12 U.S.C. 1814--1817, 1819--1820, 1828, 1831u and 2901--2907, 3103--3104, and 3108(a).
(2) OMB control number. The information collection requirements contained in this part were approved by the Office of Management and Budget under the provisions of 44 U.S.C. 3501 et seq. and have been assigned OMB control number 3064--0092.
(b) Purposes. In enacting the Community Reinvestment Act (CRA), the Congress required each appropriate federal financial supervisory agency to assess an institution’s record of helping to meet the credit needs of the local communities in which the institution is chartered, consistent with the safe and sound operation of the institution, and to take this record into account in the agency’s evaluation of an application for a deposit facility by the institution. This part is intended to carry out the purposes of the CRA by:
(1) Establishing the framework and criteria by which the Federal Deposit Insurance Corporation (FDIC) assesses a bank’s record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the bank; and
(2) Providing that the FDIC takes that record into account in considering certain applications.
(c) Scope—(1) General. Except for certain special purpose banks described in paragraph (c)(3) of this section, this part applies to all insured state nonmember banks, including insured state branches as described in paragraph (c)(2) and any uninsured state branch that results from an acquisition described in section 5(a)(8) of the International Banking Act of 1978 (12 U.S.C. 3103(a)(8)).
(2) Insured state branches. Insured state branches are branches of a foreign bank established and operating under the laws of any state, the deposits of which are insured in accordance with the provisions of the Federal Deposit Insurance Act. In the case of insured state branches, references in this part to “main office” mean the principal branch within the United States and the term “branch” or “branches” refers to any insured state branch or branches located within the United States. The “assessment area” of an insured state branch is the community or communities located within the United States served by the branch as described in §§ 345.41.
(3) Certain special purpose banks. This part does not apply to special purpose banks that do not perform commercial or retail banking services by granting credit to the public in the ordinary course of business, other than as incident to their specialized operations. These banks include banker’s banks, as defined in 12 U.S.C. 24 (Seventh), and banks that engage only in one or more of the following activities: providing cash management controlled disbursement services

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18 Each regulating agency publishes its own CRA regulations, which are substantively the same.
or serving as correspondent banks, trust companies, or clearing agents.

§§ 345.12 Definitions.

For purposes of this part, the following definitions apply:

(a) **Affiliate** means any company that controls, is controlled by, or is under common control with another company. The term “control” has the meaning given to that term in 12 U.S.C. 1841(a)(2), and a company is under common control with another company if both companies are directly or indirectly controlled by the same company.

(b) **Area median income** means:
   (1) The median family income for the MSA, if a person or geography is located in an MSA; or
   (2) The statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

(c) **Assessment area** means a geographic area delineated in accordance with §§ 345.41.

(d) **Remote service facility (RSF)** means an automated, unstaffed banking facility owned or operated by, or operated exclusively for, the bank, such as an automated teller machine, cash dispensing machine, point-of-sale terminal, or other remote electronic facility, at which deposits are received, cash dispersed, or money lent.

(e) **Bank** means a state nonmember bank, as that term is defined in section 3(e)(2) of the Federal Deposit Insurance Act, as amended (FDIA) (12 U.S.C. 1813(e)(2)), with federally insured deposits, except as provided in §§ 345.11(c). The term bank also includes an insured state branch as defined in §§ 345.11(c).

(f) **Branch** means 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 section 3(o) of the FDIA (12 U.S.C. 1813(o)).

(g) **CMSA** means a consolidated metropolitan statistical area as defined by the Director of the Office of Management and Budget.

(h) **Community development** means:
   (1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals;
   (2) Community services targeted to low- or moderate-income individuals;
   (3) 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 (13 CFR 121.301) or have gross annual revenues of $1 million or less; or
   (4) Activities that revitalize or stabilize low- or moderate-income geographies.

(i) **Community development loan** means a loan that:
   (1) Has as its primary purpose community development; and
   (2) Except in the case of a wholesale or limited purpose bank:
   (i) 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 (as described in Appendix A to Part 203 of this title); and
(ii) Benefits the bank’s assessment area(s) or a broader statewide or regional area that includes
the bank’s assessment area(s).
(j) Community development service means a service that:
(1) Has as its primary purpose community development;
(2) Is related to the provision of financial services; and
(3) Has not been considered in the evaluation of the bank’s retail banking services under §§
345.24(d).
(k) Consumer loan means a loan to one or more individuals for household, family, or other
personal expenditures. A consumer loan does not include a home mortgage, small business, or
small farm loan. Consumer loans include the following categories of loans:
(1) Motor vehicle loan, which is a consumer loan extended for the purchase of and secured by a
motor vehicle;
(2) Credit card loan, which is a line of credit for household, family, or other personal
expenditures that is accessed by a borrower’s use of a “credit card,” as this term is defined in §§
226.2 of this title;
(3) Home equity loan, which is a consumer loan secured by a residence of the borrower;
(4) Other secured consumer loan, which is a secured consumer loan that is not included in one
of the other categories of consumer loans; and
(5) Other unsecured consumer loan, which is an unsecured consumer loan that is not included
in one of the other categories of consumer loans.
(l) Geography means a census tract or a block numbering area delineated by the United States
Bureau of the Census in the most recent decennial census.
(m) Home mortgage loan means a “home improvement loan” or a “home purchase loan” as
defined in §§ 203.2 of this title.
(n) Income level includes:
(1) Low-income, which means an individual income that is less than 50 percent of the area
median income or a median family income that is less than 50 percent in the case of a
geography.
(2) Moderate-income, which means an individual income that is at least 50 percent and less
than 80 percent of the area median income or a median family income that is at least 50 and
less than 80 percent in the case of a geography.
(3) Middle-income, which means an individual income that is at least 80 percent and less than
120 percent of the area median income or a median family income that is at least 80 and less
than 120 percent in the case of a geography.
(4) Upper-income, which means an individual income that is 120 percent or more of the area
median income or a median family income that is 120 percent or more in the case of a
geography.
(o) Limited purpose bank means a bank that offers only a narrow product line (such as credit
 card or motor vehicle loans) to a regional or broader market and for which a designation as a
limited purpose bank is in effect, in accordance with §§ 345.25(b).
(p) Loan location. A loan is located as follows:
(1) A consumer loan is located in the geography where the borrower resides;
(2) A home mortgage loan is located in the geography where the property to which the loan
relates is located; and
(3) A small business or small farm loan is located in the geography where the main business facility or farm is located or where the loan proceeds otherwise will be applied, as indicated by the borrower.

(q) Loan production office means a staffed facility, other than a branch, that is open to the public and that provides lending-related services, such as loan information and applications.

(r) MSA means a metropolitan statistical area or a primary metropolitan statistical area as defined by the Director of the Office of Management and Budget.

(s) Qualified investment means a lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

(t) Small bank means 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.

(u) Small business loan means a loan included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income.

(v) Small farm loan means a loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income.

(w) Wholesale bank means 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 §§ 345.25(b).

Subpart B——Standards for Assessing Performance

§§ 345.21 Performance tests, standards, and ratings, in general.

(a) Performance tests and standards. The FDIC assesses the CRA performance of a bank in an examination as follows:

(1) Lending, investment, and service tests. The FDIC applies the lending, investment, and service tests, as provided in §§ 345.22 through 345.24, in evaluating the performance of a bank, except as provided in paragraphs (a)(2), (a)(3), and (a)(4) of this section.

(2) Community development test for wholesale or limited purpose banks. The FDIC applies the community development test for a wholesale or limited purpose bank, as provided in §§ 345.25, except as provided in paragraph (a)(4) of this section.

(3) Small bank performance standards. The FDIC applies the small bank performance standards as provided in §§ 345.26 in evaluating the performance of a small bank or a bank that was a small bank during the prior calendar year, unless the bank elects to be assessed as provided in paragraphs (a)(1), (a)(2), or (a)(4) of this section. The bank may elect to be assessed as provided in paragraph (a)(1) of this section only if it collects and reports the data required for other banks under §§ 345.42.

(4) Strategic plan. The FDIC evaluates the performance of a bank under a strategic plan if the bank submits, and the FDIC approves, a strategic plan as provided in §§ 345.27.

(b) Performance context. The FDIC applies the tests and standards in paragraph (a) of this section and also considers whether to approve a proposed strategic plan in the context of:
(1) Demographic data on median income levels, distribution of household income, nature of housing stock, housing costs, and other relevant data pertaining to a bank's assessment area(s);
(2) Any information about lending, investment, and service opportunities in the bank's assessment area(s) maintained by the bank or obtained from community organizations, state, local, and tribal governments, economic development agencies, or other sources;
(3) The bank's product offerings and business strategy as determined from data provided by the bank;
(4) Institutional capacity and constraints, including the size and financial condition of the bank, the economic climate (national, regional, and local), safety and soundness limitations, and any other factors that significantly affect the bank's ability to provide lending, investments, or services in its assessment area(s);
(5) The bank's past performance and the performance of similarly situated lenders;
(6) The bank's public file, as described in §§ 345.43, and any written comments about the bank's CRA performance submitted to the bank or the FDIC; and
(7) Any information deemed relevant by the FDIC.

(c) Assigned ratings. The FDIC assigns to a bank one of the following four ratings pursuant to §§ 345.28 and Appendix A of this part: “outstanding”; “satisfactory”; “needs to improve”; or “substantial noncompliance” as provided in 12 U.S.C. 2906(b)(2). The rating assigned by the FDIC reflects the bank's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the bank.

(d) Safe and sound operations. This part and the CRA do not require a bank to make loans or investments or to provide services that are inconsistent with safe and sound operations. To the contrary, the FDIC anticipates banks can meet the standards of this part with safe and sound loans, investments, and services on which the banks expect to make a profit. Banks are permitted and encouraged to develop and apply flexible underwriting standards for loans that benefit low- or moderate-income geographies or individuals, only if consistent with safe and sound operations.

§§ 345.22 Lending test.

(a) Scope of test. (1) The lending test evaluates a bank's record of helping to meet the credit needs of its assessment area(s) through its lending activities by considering a bank's home mortgage, small business, small farm, and community development lending. If consumer lending constitutes a substantial majority of a bank's business, the FDIC will evaluate the bank's consumer lending in one or more of the following categories: motor vehicle, credit card, home equity, other secured, and other unsecured loans. In addition, at a bank's option, the FDIC will evaluate one or more categories of consumer lending, if the bank has collected and maintained, as required in §§ 345.42(c)(1), the data for each category that the bank elects to have the FDIC evaluate.
(2) The FDIC considers originations and purchases of loans. The FDIC will also consider any other loan data the bank may choose to provide, including data on loans outstanding, commitments and letters of credit.
(3) A bank may ask the FDIC to consider loans originated or purchased by consortia in which the bank participates or by third parties in which the bank has invested only if the loans meet
the definition of community development loans and only in accordance with paragraph (d) of this section. The FDIC will not consider these loans under any criterion of the lending test except the community development lending criterion.

(b) Performance criteria. The FDIC evaluates a bank’s lending performance pursuant to the following criteria:

(1) Lending activity. The number and amount of the bank’s home mortgage, small business, small farm, and consumer loans, if applicable, in the bank’s assessment area(s);

(2) Geographic distribution. The geographic distribution of the bank’s home mortgage, small business, small farm, and consumer loans, if applicable, based on the loan location, including:
   (i) The proportion of the bank’s lending in the bank’s assessment area(s);
   (ii) The dispersion of lending in the bank’s assessment area(s); and
   (iii) The number and amount of loans in low-, moderate-, middle-, and upper-income geographies in the bank’s assessment area(s);

(3) Borrower characteristics. The distribution, particularly in the bank’s assessment area(s), of the bank’s home mortgage, small business, small farm, and consumer loans, if applicable, based on borrower characteristics, including the number and amount of:
   (i) Home mortgage loans to low-, moderate-, middle-, and upper-income individuals;
   (ii) Small business and small farm loans to businesses and farms with gross annual revenues of $1 million or less;
   (iii) Small business and small farm loans by loan amount at origination; and
   (iv) Consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals;

(4) Community development lending. The bank’s community development lending, including the number and amount of community development loans, and their complexity and innovativeness; and

(5) Innovative or flexible lending practices. The bank’s use of innovative or flexible lending practices in a safe and sound manner to address the credit needs of low- or moderate-income individuals or geographies.

(c) Affiliate lending. (1) At a bank’s option, the FDIC will consider loans by an affiliate of the bank, if the bank provides data on the affiliate’s loans pursuant to §§ 345.42.

(2) The FDIC considers affiliate lending subject to the following constraints:
   (i) No affiliate may claim a loan origination or loan purchase if another institution claims the same loan origination or purchase; and
   (ii) If a bank elects to have the FDIC consider loans within a particular lending category made by one or more of the bank’s affiliates in a particular assessment area, the bank shall elect to have the FDIC consider, in accordance with paragraph (c)(1) of this section, all the loans within that lending category in that particular assessment area made by all of the bank’s affiliates.

(3) The FDIC does not consider affiliate lending in assessing a bank’s performance under paragraph (b)(2)(i) of this section.

(d) Lending by a consortium or a third party. Community development loans originated or purchased by a consortium in which the bank participates or by a third party in which the bank has invested:
   (1) Will be considered, at the bank’s option, if the bank reports the data pertaining to these loans under §§ 345.42(b)(2); and
(2) May be allocated among participants or investors, as they choose, for purposes of the lending test, except that no participant or investor:
(i) May claim a loan origination or loan purchase if another participant or investor claims the same loan origination or purchase; or
(ii) May claim loans accounting for more than its percentage share (based on the level of its participation or investment) of the total loans originated by the consortium or third party.
(e) Lending performance rating. The FDIC rates a bank’s lending performance as provided in Appendix A of this part.

§ 345.23 Investment test.

(a) Scope of test. The investment test evaluates a bank’s record of helping to meet the credit needs of its assessment area(s) through qualified investments that benefit its assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area(s).
(b) Exclusion. Activities considered under the lending or service tests may not be considered under the investment test.
(c) Affiliate investment. At a bank’s option, the FDIC will consider, in its assessment of a bank’s investment performance, a qualified investment made by an affiliate of the bank, if the qualified investment is not claimed by any other institution.
(d) Disposition of branch premises. Donating, selling on favorable terms, or making available on a rent-free basis a branch of the bank that is located in a predominantly minority neighborhood to a minority depository institution or women’s depository institution (as these terms are defined in 12 U.S.C. 2907(b)) will be considered as a qualified investment.
(e) Performance criteria. The FDIC evaluates the investment performance of a bank pursuant to the following criteria:
(1) The dollar amount of qualified investments;
(2) The innovativeness or complexity of qualified investments;
(3) The responsiveness of qualified investments to credit and community development needs; and
(4) The degree to which the qualified investments are not routinely provided by private investors.
(f) Investment performance rating. The FDIC rates a bank’s investment performance as provided in Appendix A of this part.

§ 345.24 Service test.

(a) Scope of test. The service test evaluates a bank’s record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of a bank’s systems for delivering retail banking services and the extent and innovativeness of its community development services.
(b) Area(s) benefited. Community development services must benefit a bank’s assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area(s).
(c) Affiliate service. At a bank’s option, the FDIC will consider, in its assessment of a bank’s service performance, a community development service provided by an affiliate of the bank, if the community development service is not claimed by any other institution.
(d) Performance criteria--retail banking services. The FDIC evaluates the availability and effectiveness of a bank's systems for delivering retail banking services, pursuant to the following criteria:
(1) The current distribution of the bank's branches among low-, moderate-, middle-, and upper-income geographies;
(2) In the context of its current distribution of the bank's branches, the bank's record of opening and closing branches, particularly branches located in low- or moderate-income geographies or primarily serving low- or moderate-income individuals;
(3) The availability and effectiveness of alternative systems for delivering retail banking services (e.g., RSFs, RSFs not owned or operated by or exclusively for the bank, banking by telephone or computer, loan production offices, and bank-at-work or bank-by-mail programs) in low- or moderate-income geographies and to low- and moderate-income individuals; and
(4) The range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.
(e) Performance criteria--community development services. The FDIC evaluates community development services pursuant to the following criteria:
(1) The extent to which the bank provides community development services; and
(2) The innovativeness and responsiveness of community development services.
(f) Service performance rating. The FDIC rates a bank's service performance as provided in Appendix A of this part.

§§ 345.25 Community development test for wholesale or limited purpose banks.

(a) Scope of test. The FDIC assesses a wholesale or limited purpose bank's record of helping to meet the credit needs of its assessment area(s) under the community development test through its community development lending, qualified investments, or community development services.
(b) Designation as a wholesale or limited purpose bank. In order to receive a designation as a wholesale or limited purpose bank, a bank shall file a request, in writing, with the FDIC, at least three months prior to the proposed effective date of the designation. If the FDIC approves the designation, it remains in effect until the bank requests revocation of the designation or until one year after the FDIC notifies the bank that the FDIC has revoked the designation on its own initiative.
(c) Performance criteria. The FDIC evaluates the community development performance of a wholesale or limited purpose bank pursuant to the following criteria:
(1) The number and amount of community development loans (including originations and purchases of loans and other community development loan data provided by the bank, such as data on loans outstanding, commitments, and letters of credit), qualified investments, or community development services;
(2) The use of innovative or complex qualified investments, community development loans, or community development services and the extent to which the investments are not routinely provided by private investors; and
(3) The bank's responsiveness to credit and community development needs.
(d) Indirect activities. At a bank’s option, the FDIC will consider in its community development performance assessment:
(1) Qualified investments or community development services provided by an affiliate of the bank, if the investments or services are not claimed by any other institution; and
(2) Community development lending by affiliates, consortia and third parties, subject to the requirements and limitations in §§ 345.22(c) and (d).

(e) Benefit to assessment area(s)–(1) Benefit inside assessment area(s). The FDIC considers all qualified investments, community development loans, and community development services that benefit areas within the bank’s assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area(s).
(2) Benefit outside assessment area(s). The FDIC considers the qualified investments, community development loans, and community development services that benefit areas outside the bank’s assessment area(s), if the bank has adequately addressed the needs of its assessment area(s).

(f) Community development performance rating. The FDIC rates a bank’s community development performance as provided in Appendix A of this part.

§ 345.26 Small bank performance standards.

(a) Performance criteria. The FDIC evaluates the record of a small bank, or a bank that was a small bank during the prior calendar year, of helping to meet the credit needs of its assessment area(s) pursuant to the following criteria:
(1) The bank’s loan-to-deposit ratio, adjusted for seasonal variation and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
(2) The percentage of loans and, as appropriate, other lending-related activities located in the bank’s assessment area(s);
(3) The bank’s record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes;
(4) The geographic distribution of the bank’s loans; and
(5) The bank’s record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

(b) Small bank performance rating. The FDIC rates the performance of a bank evaluated under this section as provided in Appendix A of this part.

§ 345.27 Strategic plan.

(a) Alternative election. The FDIC will assess a bank’s record of helping to meet the credit needs of its assessment area(s) under a strategic plan if:
(1) The bank has submitted the plan to the FDIC as provided for in this section;
(2) The FDIC has approved the plan;
(3) The plan is in effect; and
(4) The bank has been operating under an approved plan for at least one year.

(b) Data reporting. The FDIC’s approval of a plan does not affect the bank’s obligation, if any, to report data as required by §§ 345.42.

(c) Plans in general–(1) Term. A plan may have a term of no more than five years, and any
multi-year plan must include annual interim measurable goals under which the FDIC will evaluate the bank’s performance.

(2) Multiple assessment areas. A bank with more than one assessment area may prepare a single plan for all of its assessment areas or one or more plans for one or more of its assessment areas.

(3) Treatment of affiliates. Affiliated institutions may prepare a joint plan if the plan provides measurable goals for each institution. Activities may be allocated among institutions at the institutions’ option, provided that the same activities are not considered for more than one institution.

(d) Public-participation in plan development. Before submitting a plan to the FDIC for approval, a bank shall:

(1) Informally seek suggestions from members of the public in its assessment area(s) covered by the plan while developing the plan;

(2) Once the bank has developed a plan, formally solicit public comment on the plan for at least 30 days by publishing notice in at least one newspaper of general circulation in each assessment area covered by the plan; and

(3) During the period of formal public comment, make copies of the plan available for review by the public at no cost at all offices of the bank in any assessment area covered by the plan and provide copies of the plan upon request for a reasonable fee to cover copying and mailing, if applicable.

(e) Submission of plan. The bank shall submit its plan to the FDIC at least three months prior to the proposed effective date of the plan. The bank shall also submit with its plan a description of its informal efforts to seek suggestions from members of the public, any written public comment received, and, if the plan was revised in light of the comment received, the initial plan as released for public comment.

(f) Plan content—(1) Measurable goals. (i) A bank shall specify in its plan measurable goals for helping to meet the credit needs of each assessment area covered by the plan, particularly the needs of low- and moderate-income geographies and low- and moderate-income individuals, through lending, investment, and service as appropriate.

(ii) A bank shall address in its plan all three performance categories and, unless the bank has been designated as a wholesale or limited purpose bank, shall emphasize lending and lending-related activities. Nevertheless, a different emphasis, including a focus on one or more performance categories, may be appropriate if responsive to the characteristics and credit needs of its assessment area(s), considering public comment and the bank’s capacity and constraints, product offerings, and business strategy.

(2) Confidential information. A bank may submit additional information to the FDIC on a confidential basis, but the goals stated in the plan must be sufficiently specific to enable the public and the FDIC to judge the merits of the plan.

(3) Satisfactory and outstanding goals. A bank shall specify in its plan measurable goals that constitute “satisfactory” performance. A plan may specify measurable goals that constitute “outstanding” performance. If a bank submits, and the FDIC approves, both “satisfactory” and “outstanding” performance goals, the FDIC will consider the bank eligible for an “outstanding” performance rating.

(4) Election if satisfactory goals not substantially met. A bank may elect in its plan that, if the bank fails to meet substantially its plan goals for a satisfactory rating, the FDIC will evaluate
the bank’s performance under the lending, investment, and service tests, the community
development test, or the small bank performance standards, as appropriate.

(g) Plan approval—(1) Timing. The FDIC will act upon a plan within 60 calendar days after the
FDIC receives the complete plan and other material required under paragraph (d) of this
section. If the FDIC fails to act within this time period, the plan shall be deemed approved
unless the FDIC extends the review period for good cause.

(2) Public participation. In evaluating the plan’s goals, the FDIC considers the public’s
involvement in formulating the plan, written public comment on the plan, and any response by
the bank to public comment on the plan.

(3) Criteria for evaluating plan. The FDIC evaluates a plan’s measurable goals using the
following criteria, as appropriate:

(i) The extent and breadth of lending or lending-related activities, including, as appropriate,
the distribution of loans among different geographies, businesses and farms of different sizes,
and individuals of different income levels, the extent of community development lending, and
the use of innovative or flexible lending practices to address credit needs;

(ii) The amount and innovativeness, complexity, and responsiveness of the bank’s qualified
investments; and

(iii) The availability and effectiveness of the bank’s systems for delivering retail banking
services and the extent and innovativeness of the bank’s community development services.

(h) Plan amendment. During the term of a plan, a bank may request the FDIC to approve an
amendment to the plan on grounds that there has been a material change in circumstances.
The bank shall develop an amendment to a previously approved plan in accordance with the
public participation requirements of paragraph (d) of this section.

(i) Plan assessment. The FDIC approves the goals and assesses performance under a plan as
provided for in Appendix A of this part.

§ 345.28 Assigned ratings.

(a) Ratings in general. Subject to paragraphs (b) and (c) of this section, the FDIC assigns to a
bank a rating of “outstanding,” “satisfactory,” “needs to improve,” or “substantial
noncompliance” based on the bank’s performance under the lending, investment and service
tests, the community development test, the small bank performance standards, or an approved
strategic plan, as applicable.

(b) Lending, investment, and service tests. The FDIC assigns a rating for a bank assessed under
the lending, investment, and service tests in accordance with the following principles:

(1) A bank that receives an “outstanding” rating on the lending test receives an assigned rating
of at least “satisfactory”; and

(2) A bank that receives an “outstanding” rating on both the service test and the investment
test and a rating of at least “high satisfactory” on the lending test receives an assigned rating of
“outstanding”; and

(3) No bank may receive an assigned rating of “satisfactory” or higher unless it receives a
rating of at least “low satisfactory” on the lending test.

(c) Effect of evidence of discriminatory or other illegal credit practices. Evidence of discriminatory
or other illegal credit practices adversely affects the FDIC’s evaluation of a bank’s performance.
In determining the effect on the bank’s assigned rating, the FDIC considers the nature and
extent of the evidence, the policies and procedures that the bank has in place to prevent discriminatory or other illegal credit practices, any corrective action that the bank has taken or has committed to take, particularly voluntary corrective action resulting from self-assessment, and other relevant information.

§ 345.29 Effect of CRA performance on applications.

(a) CRA performance. Among other factors, the FDIC takes into account the record of performance under the CRA of each applicant bank in considering an application for approval of:
   (1) The establishment of a domestic branch or other facility with the ability to accept deposits;
   (2) The relocation of the bank’s main office or a branch;
   (3) The merger, consolidation, acquisition of assets, or assumption of liabilities; and
   (4) Deposit insurance for a newly chartered financial institution.

(b) New financial institutions. A newly chartered financial institution shall submit with its application for deposit insurance a description of how it will meet its CRA objectives. The FDIC takes the description into account in considering the application and may deny or condition approval on that basis.

(c) Interested parties. The FDIC takes into account any views expressed by interested parties that are submitted in accordance with the FDIC’s procedures set forth in part 303 of this chapter in considering CRA performance in an application listed in paragraphs (a) and (b) of this section.

(d) Denial or conditional approval of application. A bank’s record of performance may be the basis for denying or conditioning approval of an application listed in paragraph (a) of this section.

Subpart C——Records, Reporting, and Disclosure Requirements

§ 345.41 Assessment area delineation.

(a) In general. A bank shall delineate one or more assessment areas within which the FDIC evaluates the bank’s record of helping to meet the credit needs of its community. The FDIC does not evaluate the bank’s delineation of its assessment area(s) as a separate performance criterion, but the FDIC reviews the delineation for compliance with the requirements of this section.

(b) Geographic area(s) for wholesale or limited purpose banks. The assessment area(s) for a wholesale or limited purpose bank must consist generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking RSFs.

(c) Geographic area(s) for other banks. The assessment area(s) for a bank other than a wholesale or limited purpose bank must:
   (1) Consist generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns; and
   (2) Include the geographies in which the bank has its main office, its branches, and its deposit-
taking RSFs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans (including home mortgage loans, small business and small farm loans, and any other loans the bank chooses, such as those consumer loans on which the bank elects to have its performance assessed).

(d) Adjustments to geographic area(s). A bank may adjust the boundaries of its assessment area(s) to include only the portion of a political subdivision that it reasonably can be expected to serve. An adjustment is particularly appropriate in the case of an assessment area that otherwise would be extremely large, of unusual configuration, or divided by significant geographic barriers.

(e) Limitations on the delineation of an assessment area. Each bank’s assessment area(s):

(1) Must consist only of whole geographies;

(2) May not reflect illegal discrimination;

(3) May not arbitrarily exclude low- or moderate-income geographies, taking into account the bank’s size and financial condition; and

(4) May not extend substantially beyond a CMSA boundary or beyond a state boundary unless the assessment area is located in a multistate MSA. If a bank serves a geographic area that extends substantially beyond a state boundary, the bank shall delineate separate assessment areas for the areas in each state. If a bank serves a geographic area that extends substantially beyond a CMSA boundary, the bank shall delineate separate assessment areas for the areas inside and outside the CMSA.

(f) Banks serving military personnel. Notwithstanding the requirements of this section, a bank whose business predominantly consists of serving the needs of military personnel or their dependents who are not located within a defined geographic area may delineate its entire deposit customer base as its assessment area.

(g) Use of assessment area(s). The FDIC uses the assessment area(s) delineated by a bank in its evaluation of the bank’s CRA performance unless the FDIC determines that the assessment area(s) do not comply with the requirements of this section.

§ 345.42 Data collection, reporting, and disclosure.

(a) Loan information required to be collected and maintained. A bank, except a small bank, shall collect, and maintain in machine readable form (as prescribed by the FDIC) until the completion of its next CRA examination, the following data for each small business or small farm loan originated or purchased by the bank:

(1) A unique number or alpha-numeric symbol that can be used to identify the relevant loan file;

(2) The loan amount at origination;

(3) The loan location; and

(4) An indicator whether the loan was to a business or farm with gross annual revenues of $1 million or less.

(b) Loan information required to be reported. A bank, except a small bank or a bank that was a small bank during the prior calendar year, shall report annually by March 1 to the FDIC in machine readable form (as prescribed by the FDIC) the following data for the prior calendar year:

(1) Small business and small farm loan data. For each geography in which the bank originated
or purchased a small business or small farm loan, the aggregate number and amount of loans:
(i) With an amount at origination $100,000 or less;
(ii) With an amount at origination of more than $100,000 but less than or equal to $250,000;
(iii) With an amount at origination of more than $250,000; and
(iv) To businesses and farms with gross annual revenues of $1 million or less (using the
    revenues that the bank considered in making its credit decision);
(2) Community development loan data. The aggregate number and aggregate amount of
community development loans originated or purchased; and
(3) Home mortgage loans. If the bank is subject to reporting under part 203 of this title, the
location of each home mortgage loan application, origination, or purchase outside the MSAs in
which the bank has a home or branch office (or outside any MSA) in accordance with the
requirements of part 203 of this title.
(c) Optional data collection and maintenance.--(1) Consumer loans. A bank may collect and
maintain in machine readable form (as prescribed by the FDIC) data for consumer loans
originated or purchased by the bank for consideration under the lending test. A bank may
maintain data for one or more of the following categories of consumer loans: motor vehicle,
credit card, home equity, other secured, and other unsecured. If the bank maintains data for
loans in a certain category, it shall maintain data for all loans originated or purchased within
that category. The bank shall maintain data separately for each category, including for each
loan:
(i) A unique number or alpha-numeric symbol that can be used to identify the relevant loan
file;
(ii) The loan amount at origination or purchase;
(iii) The loan location; and
(iv) The gross annual income of the borrower that the bank considered in making its credit
decision.
(2) Other loan data. At its option, a bank may provide other information concerning its lending
performance, including additional loan distribution data.
(d) Data on affiliate lending. A bank that elects to have the FDIC consider loans by an affiliate,
for purposes of the lending or community development test or an approved strategic plan, shall
collect, maintain, and report for those loans the data that the bank would have collected,
maintained, and reported pursuant to paragraphs (a), (b), and (c) of this section had the loans
been originated or purchased by the bank. For home mortgage loans, the bank shall also be
prepared to identify the home mortgage loans reported under part 203 of this title by the
affiliate.
(e) Data on lending by a consortium or a third party. A bank that elects to have the FDIC
consider community development loans by a consortium or third party, for purposes of the
lending or community development tests or an approved strategic plan, shall report for those
loans the data that the bank would have reported under paragraph (b)(2) of this section had the
loans been originated or purchased by the bank.
(f) Small banks electing evaluation under the lending, investment, and service tests. A bank that
qualifies for evaluation under the small bank performance standards but elects evaluation
under the lending, investment, and service tests shall collect, maintain, and report the data
required for other banks pursuant to paragraphs (a) and (b) of this section.
(g) Assessment area data. A bank, except a small bank or a bank that was a small bank during
the prior calendar year, shall collect and report to the FDIC by March 1 of each year a list for each assessment area showing the geographies within the area.

(h) CRA Disclosure Statement. The FDIC prepares annually for each bank that reports data pursuant to this section a CRA Disclosure Statement that contains, on a state-by-state basis:

(1) For each county (and for each assessment area smaller than a county) with a population of 500,000 persons or fewer in which the bank reported a small business or small farm loan:

(i) The number and amount of small business and small farm loans reported as originated or purchased located in low-, moderate-, middle-, and upper-income geographies:

(ii) A list grouping each geography according to whether the geography is low-, moderate-, middle-, or upper-income;

(iii) A list showing each geography in which the bank reported a small business or small farm loan; and

(iv) The number and amount of small business and small farm loans to businesses and farms with gross annual revenues of $1 million or less;

(2) For each county (and for each assessment area smaller than a county) with a population in excess of 500,000 persons in which the bank reported a small business or small farm loan:

(i) The number and amount of small business and small farm loans reported as originated or purchased located in geographies with median income relative to the area median income of less than 10 percent, 10 or more but less than 20 percent, 20 or more but less than 30 percent, 30 or more but less than 40 percent, 40 or more but less than 50 percent, 50 or more but less than 60 percent, 60 or more but less than 70 percent, 70 or more but less than 80 percent, 80 or more but less than 90 percent, 90 or more but less than 100 percent, 100 or more but less than 110 percent, 110 or more but less than 120 percent, and 120 percent or more;

(ii) A list grouping each geography in the county or assessment area according to whether the median income in the geography relative to the area median income is less than 10 percent, 10 or more but less than 20 percent, 20 or more but less than 30 percent, 30 or more but less than 40 percent, 40 or more but less than 50 percent, 50 or more but less than 60 percent, 60 or more but less than 70 percent, 70 or more but less than 80 percent, 80 or more but less than 90 percent, 90 or more but less than 100 percent, 100 or more but less than 110 percent, 110 or more but less than 120 percent, and 120 percent or more;

(iii) A list showing each geography in which the bank reported a small business or small farm loan; and

(iv) The number and amount of small business and small farm loans to businesses and farms with gross annual revenues of $1 million or less;

(3) The number and amount of small business and small farm loans located inside each assessment area reported by the bank and the number and amount of small business and small farm loans located outside the assessment area(s) reported by the bank; and

(4) The number and amount of community development loans reported as originated or purchased.

(i) Aggregate disclosure statements. The FDIC, in conjunction with the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision, prepares annually, for each MSA (including an MSA that crosses a state boundary) and the non-MSA portion of each state, an aggregate disclosure statement of small business and small farm lending by all institutions subject to reporting under this part or parts 25, 228, or 563e of this title. These disclosure statements indicate, for each geography, the number and amount of all small business and small farm loans originated or purchased by
reporting institutions, except that the FDIC may adjust the form of the disclosure if necessary, because of special circumstances, to protect the privacy of a borrower or the competitive position of an institution.

(j) Central data depositories. The FDIC makes the aggregate disclosure statements, described in paragraph (i) of this section, and the individual bank CRA Disclosure Statements, described in paragraph (h) of this section, available to the public at central data depositories. The FDIC publishes a list of the depositories at which the statements are available.

§ 345.43 Content and availability of public file.

(a) Information available to the public. A bank shall maintain a public file that includes the following information:

(1) All written comments received from the public for the current year and each of the prior two calendar years that specifically relate to the bank’s performance in helping to meet community credit needs, and any response to the comments by the bank, if neither the comments nor the responses contain statements that reflect adversely on the good name or reputation of any persons other than the bank or publication of which would violate specific provisions of law;

(2) A copy of the public section of the bank’s most recent CRA Performance Evaluation prepared by the FDIC. The bank shall place this copy in the public file within 30 business days after its receipt from the FDIC;

(3) A list of the bank’s branches, their street addresses, and geographies;

(4) A list of branches opened or closed by the bank during the current year and each of the prior two calendar years, their street addresses and geographies;

(5) A list of services (including hours of operation, available loan and deposit products, and transaction fees) generally offered at the bank’s branches and descriptions of material differences in the availability or cost of services at particular branches, if any. At its option, a bank may include information regarding the availability of alternative systems for delivering retail banking services (e.g., RSFs, RSFs not owned or operated by or exclusively for the bank, banking by telephone or computer, loan production offices, and bank-at-work or bank-by-mail programs);

(6) A map of each assessment area showing the boundaries of the area and identifying the geographies contained within the area, either on the map or in a separate list; and

(7) Any other information the bank chooses.

(b) Additional information available to the public--

(1) Banks other than small banks. A bank, except a small bank during the prior calendar year, shall include in its public file the following information pertaining to the bank and its affiliates, if applicable, for each of the prior two calendar years:

(A) If the bank has elected to have one or more categories of its consumer loans considered under the lending test, for each of these categories, the number and amount of loans:

(i) To low-, moderate-, middle-, and upper-income individuals;

(ii) Located in low-, moderate-, middle-, and upper-income census tracts; and

(iii) Located inside the bank’s assessment area(s) and outside the bank’s assessment area(s); and

(B) The bank’s CRA Disclosure Statement. The bank shall place the statement in the public file...
within three business days of its receipt from the FDIC.

(2) Banks required to report Home Mortgage Disclosure Act (HMDA) data. A bank required to report home mortgage loan data pursuant part 203 of this title shall include in its public file a copy of the HMDA Disclosure Statement provided by the Federal Financial Institutions Examination Council pertaining to the bank for each of the prior two calendar years. In addition, a bank that elected to have the FDIC consider the mortgage lending of an affiliate for any of these years shall include in its public file the affiliate's HMDA Disclosure Statement for those years. The bank shall place the statement(s) in the public file within three business days after receipt.

(3) Small banks. A small bank or a bank that was a small bank during the prior calendar year shall include in its public file:

(i) The bank's loan-to-deposit ratio for each quarter of the prior calendar year and, at its option, additional data on its loan-to-deposit ratio; and

(ii) The information required for other banks by paragraph (b)(1) of this section, if the bank has elected to be evaluated under the lending, investment, and service tests.

(4) Banks with strategic plans. A bank that has been approved to be assessed under a strategic plan shall include in its public file a copy of that plan. A bank need not include information submitted to the FDIC on a confidential basis in conjunction with the plan.

(5) Banks with less than satisfactory ratings. A bank that received a less than satisfactory rating during its most recent examination shall include in its public file a description of its current efforts to improve its performance in helping to meet the credit needs of its entire community. The bank shall update the description quarterly.

(c) Location of public information. A bank shall make available to the public for inspection upon request and at no cost the information required in this section as follows:

(1) At the main office and, if an interstate bank, at one branch office in each state, all information in the public file; and

(2) At each branch:

(i) A copy of the public section of the bank's most recent CRA Performance Evaluation and a list of services provided by the branch; and

(ii) Within five calendar days of the request, all the information in the public file relating to the assessment area in which the branch is located.

(d) Copies. Upon request, a bank shall provide copies, either on paper or in another form acceptable to the person making the request, of the information in its public file. The bank may charge a reasonable fee not to exceed the cost of copying and mailing (if applicable).

(e) Updating. Except as otherwise provided in this section, a bank shall ensure that the information required by this section is current as of April 1 of each year.

§ 345.44 Public notice by banks.

A bank shall provide in the public lobby of its main office and each of its branches the appropriate public notice set forth in Appendix B of this part. Only a branch of a bank having more than one assessment area shall include the bracketed material in the notice for branch offices. Only a bank that is an affiliate of a holding company shall include the next to the last sentence of the notices. A bank shall include the last sentence of the notices only if it is an affiliate of a holding company that is not prevented by statute from acquiring additional banks.
§ 345.45 Publication of planned examination schedule.

The FDIC publishes at least 30 days in advance of the beginning of each calendar quarter a list of banks scheduled for CRA examinations in that quarter.
APPENDIX D
SELECTED CRA RESOURCES

Association of Community Organizations for Reform Now (ACORN)
739 8th Street, SE
Washington, DC 20003
1-877-55ACORN toll-free
202-547-2500 phone
202-546-2483 fax
natacorndc@acorn.org
www.acorn.org

“ACORN® is the nation’s largest community organization of low and moderate-income families, with over 120,000 member families organized into 600 neighborhood chapters in 45 cities across the country. . . . Our priorities include: better housing for first time homebuyers and tenants, living wages for low-wage workers, more investment in our communities from banks and governments, and better public schools. We achieve these goals by building community organizations that have the power to win changes – through direct action, negotiation, legislation, and voter participation.”

American Bankers Association
1120 Connecticut Avenue, NW
Washington, DC 20036
1-800-BANKERS
202-663-5087
202-663-7543 fax
www.aba.com

“The American Bankers Association represents banks of all sizes on issues of national importance for financial institutions and their customers. The ABA, founded in 1875, brings together all categories of banking institutions, including community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks.”

Allen Fishbein or Debby Goldberg
Center for Community Change
1000 Wisconsin Avenue, NW
Washington, DC 20007
202-342-0567 phone
202-333-5462 fax
www.communitychange.org
afishbein@communitychange.org, dgoldberg@communitychange.org

“The Center for Community Change is committed to reducing poverty and rebuilding low income communities. To do this, we help people to develop the skills and resources they need to improve their communities as well as change policies and institutions that adversely affect their lives. . . . The heart of our work is helping grassroots leaders build strong organizations that bring people together to become a force for change in their communities.”
Jennifer Pinder
Housing Assistance Council
1025 Vermont Avenue, NW
Suite 606
Washington, DC 20005
202-842-8600 phone
202-347-3441 fax
jenniferp@ruralhome.org
www.ruralhome.org

“The Housing Assistance Council (HAC), founded in 1971, is a nonprofit corporation that supports the development of rural low-income housing nationwide. HAC provides technical housing services, loans from a revolving fund, housing program and policy assistance, research and demonstration projects, and training and information services. HAC is an equal opportunity lender.”

National Community Reinvestment Coalition
733 15th St., NW
Suite 540
Washington, DC 20005
202-628-8866 phone
202-628-9800 fax
www.ncrc.org

The National Community Reinvestment Coalition (NCRC) is “the nation’s CRA trade association of more than 700 community organizations and local public agencies dedicated to fairness in lending and increasing access to credit and capital for minority and low- and moderate-income communities. NCRC provides technical assistance to its member organizations in the areas of civil rights enforcement, legislative advocacy, data analysis, and CRA agreements. NCRC operates a Consumer Rescue Fund for victims of predatory lending, a financial education program, and a small business lending program called Community Express.”

National Conference of State Legislators
7700 East First Place
Denver, CO 80230
303-364-7700 phone
303-364-7800 fax
info@ncsl.org
www.ncsl.org

“NCSL is recognized as the pre-eminent bipartisan organization dedicated to serving the lawmakers and staffs of the nation’s 50 states, its commonwealths and territories. . . . With a focus on service, NCSL is a source for research, publications, consulting assistance, meetings and seminars.”
National Training and Information Center
810 N. Milwaukee Ave.
Chicago, IL 60622
312-243-3035 phone
312-243-7044
ntic@ntic-us.org
www.ntic-us.org
The National Training and Information Center’s mission “is to build grassroots leadership and strengthen neighborhoods through issue-based community organizing.”

Kenneth H. Thomas, Ph.D.
The CRA Handbook
kenmia22@aol.com
www.kenthomas.com

Woodstock Institute
407 South Dearborn
Suite 550
Chicago, IL 60605
312-427-8070
312-427-4007 fax
woodstock@woodstockinst.org
www.woodstockinst.org
“Woodstock Institute is a 29 year-old nonprofit organization located in Chicago. We are dedicated to promoting community reinvestment and economic development in lower-income and minority communities both locally and nationally. We work with community organizations, financial institutions, foundations, government agencies and others to reach our goals. The Institute engages in applied research, policy analysis, technical assistance, public education, and program design and evaluation. Areas of expertise include Community Reinvestment Act . . . and Fair Lending policies, financial and insurance services, small business lending, financial literacy, community development financial institutions, predatory mortgage and payday lending, and economic development strategies including local employment.”
APPENDIX E
CRA REGULATORY AGENCIES

Board of Governors of the Federal Reserve System
Division of Consumer and Community Affairs
20th & C Street, NW
Washington, DC 20551
202-452-3000
www.bog.frb.fed.us

Federal Deposit Insurance Corporation
Office of Consumer Affairs
550 Seventeenth St., NW
Washington, DC 20429
202-393-8400
www.fdic.gov

Office of the Comptroller of the Currency
Office of Consumer Policy
250 E Street, SW
Washington, DC 20219
www.occ.treas.gov

Office of Thrift Supervision
Compliance Programs
1700 G Street, NW
Washington, DC 20552
202-906-6000
www.ots.treas.gov

Federal Financial Institutions Examination Council
2100 Pennsylvania Avenue, NW
Suite 200
Washington, DC 20037
202-634-6526
www.ffciec.gov
APPENDIX F
GLOSSARY OF TERMS

APPRAISAL - Professional estimation of the value of a specific property. The term refers to the process of estimating value, as well as to the written report setting forth the estimate and conclusion of value. An appraiser uses one or more of three approaches to estimate the value of real estate: cost approach, income approach, and market data (comparable) approach.

ASSESSMENT - The imposition of a tax or a levy.

CLOSING - The final procedure in a real estate sale, when title is transferred from the seller to the buyer, legal documents such as the mortgage are signed, and closing costs are paid. Often conducted with the buyer and seller, and sometimes other parties like investors, in the same room at the same time, but need not be.

CLOSING COSTS - Expenses besides the cost of the property that are paid at closing, including attorney's fees, title insurance, loan fees (origination and/or discount fees, measured in points), appraisal fees, fees for survey and pest inspection/treatment.

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) - Created in 1974 to replace eight former categorical grant and loan programs with a system of unified block grants, the CDBG program funds a variety of community development projects benefitting low- and moderate-income people, from parks and economic development to housing. Communities of over 50,000 population are “entitled” to an annual CDBG grant. Communities under 50,000 are eligible to compete within their respective states for non-entitlement CDBG funds.

COMMUNITY HOUSING DEVELOPMENT ORGANIZATION (CHDO) - A community-based nonprofit organization certified by a participating jurisdiction as meeting requirements specified in the HOME regulations. CHDOs are eligible for some set-aside funding under the HOME program.

FANNIE MAE - Formerly the Federal National Mortgage Association or FNMA, a government sponsored entity that purchases housing loans in the secondary market.

GOVERNMENT GUARANTEE - A promise by the government to pay the debt of another if the debtor does not pay. Thus, a “guaranteed loan” is made by one entity and is guaranteed by a government entity. For example, in the Section 502 guaranteed loan program, private lenders make mortgage loans to rural residents purchasing homes, and RHS/Rural Development guarantees that the loans will be repaid.

HOME - HOME Investment Partnerships Program (the letters HOME are not an acronym). Administered by HUD. Provides relatively flexible funding for activities connected with low-income housing. Funds are distributed through participating jurisdictions and CHDOs.
MEDIAN INCOME - Income level at which half the incomes in the geographic area are lower, and half are higher. Area median income is often used to establish thresholds for program eligibility. In rural places, the geographic area most often used is a county. For some purposes, the median income of all the rural or nonmetropolitan parts of a state is used. Median is not the same as mean, or average, which is the total of all incomes divided by the total number of households; means can be skewed by the presence of a few very high or very low incomes in an area.

PACKAGE (loans) - Prepare a complete loan application package. Usually used with reference to individuals or local organizations preparing applications for RHS/Rural Development funding.

PARTICIPATING JURISDICTION (PJ) - In the HOME program, a local or state government, or a consortium of local governments, approved by HUD to receive direct allocations of HOME monies. In most nonmetro areas, the relevant PJ is the state.

PARTICIPATION MORTGAGE - A mortgage under which the lender receives a share of (participates in) the property’s cash flow, and/or its appreciation over time, in addition to receiving interest.

POINT - One point is 1 percent of the amount of a mortgage. Origination fees and other charges may be measured in points, and lenders may charge additional points as fees also.

SECOND MORTGAGE - A mortgage that is subordinate to a first mortgage on the same property. A “hard second,” like a first mortgage, has a regular payment schedule, and nonpayment gives the lender the right to foreclose. In the affordable housing context, a hard second often carries a below-market interest rate. A “soft second” also carries a below-market interest rate, or no interest at all. In addition, it may not require any periodic payments with payment required only if the property is sold or is used for market-rate housing, or only when project income reaches a specified level.

SECONDARY MARKET or SECONDARY MORTGAGE MARKET - Market in which existing mortgage loans, or securities backed by mortgage loans, are bought and sold. Mortgage loan originators – the primary market – may hold loans in portfolio, but most often sell them into the secondary market. The originator can then use the sales proceeds to make another loan, and the secondary market purchaser can combine a number of loans into a security which it can sell to investors, generating funds for it to purchase more new loans and giving the investors the benefits of the income stream as the original borrower pays off the mortgage loan. Fannie Mae, Freddie Mac, and Ginnie Mae dominate the secondary market.

SELF-HELP HOUSING - Generally, a model of housing production in which purchasers reduce the cost of their homes by contributing “sweat equity” – their own labor in the construction of their own homes. In rural areas, much self-help housing is produced with technical assistance funded by the RHS Section 523 program, and many self-help purchasers receive mortgages from the RHS Section 502 program. RHS uses the “mutual self-help” method, in which
participants build homes in groups of six to twelve, working on each other’s homes until all are completed.

SELF-HELP HOMEOWNERSHIP OPPORTUNITY PROGRAM (SHOP) - Created by Congress in 1996 and administered by HUD, this program provides funds to cover land purchase and site development costs for self-help housing projects. HAC administers several million dollars in SHOP funds.

SITE DEVELOPMENT LOAN - A loan to cover the costs of preparing a building site, such as installing water and sewer lines or paving access roads. Usually for a short term.

SUBSIDY - Financial assistance, usually from a government entity, and usually in the form of a grant or a below-market-rate loan.

TITLE INSURANCE - A policy insuring an owner or mortgage lender against loss resulting from defects in the title to a parcel of real estate, other than those encumbrances, defects, and matters that are specifically excluded by the policy.

UNDERWRITING - A lender’s process for identifying and evaluating the risk of making a loan. Lenders develop underwriting standards, and secondary market purchasers impose standards requiring all loans to meet certain minimum criteria. Underwriting standards apply to areas such as equity (down payment), ratios, the quality of the property and surrounding neighborhood, the credit history and income of the borrower, and the presence of mortgage insurance.
The Community Reinvestment Act (CRA) has increased access to credit for low- and moderate-income borrowers since its inception in 1977. More than $1.5 trillion in loans and investments have been negotiated by community organizations and lending institutions for traditionally underserved communities. This report provides history on CRA, explains how the CRA process works, describes the role of the regulatory agencies, and provides guidance for rural practitioners and borrowers on how to use CRA to improve credit opportunities in rural areas. This report also provides four case studies that illustrate how CRA has directly or indirectly impacted rural communities and provides some examples of how CRA has been used by rural organizations, and ways that other rural organizations can overcome some of the barriers to lending that are indigenous to rural areas.