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Compliance Corner

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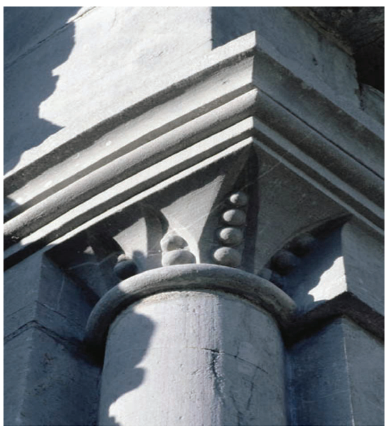
CRA 101 - Basic Training for Small Banks



So, you're an officer at a small[1] national bank and you've just learned that you're also the Community Reinvestment Act (CRA) officer. First, congratulations: you have an important assignment. Second: don't panic. This brief overview will help you understand the basics of small bank CRA compliance requirements. If your bank can demonstrate a strong commitment to the communities it serves, you should have no difficulties when the CRA examiners come to call.

There are five questions you should consider as you prepare for your CRA examination. They tie directly to the five performance criteria for small banks:[2]

Question	How We Measure Your Performance	What You Need to Meet the Standard for Satisfactory Performance
Are you lending?	Loan-to-deposit ratio.	A reasonable ratio, considering your performance context, compared to similarly situated lenders.
Are you lending locally?	Lending in the assessment area, also known as the "in/out" ratio.	A majority (more than 50 percent) of loans must be within your assessment area.
Who are you lending to?	Lending to borrowers of different incomes and to businesses of different sizes.	Reasonable distribution, given your performance context, compared to relevant income/revenue demographic comparables such as family household income levels and business revenues.
Where are you lending?	Geographic distribution of loans.	Reasonable distribution, given your performance context, compared to relevant demographic data such as location of owner-occupied housing units, and location of households and businesses.

Are you responsive to complaints?	Responses to complaints.	Appropriate action, as warranted, in response to written complaints about your performance in helping to meet the credit needs of your assessment area.

Examiners will use these five performance criteria to review your bank's CRA performance, using data from loan samples and/or the Home Mortgage Disclosure Act, if applicable. They also will consider data for those types of loans that you primarily originated or purchased since the last examination. Within these loan types, they will focus on loans to low- or moderate-income persons, farms or businesses with annual revenues of $1 million or less, and loans in low- or moderate-income areas. They will also conduct community contacts in order to better understand the community in which your bank is doing business. Most importantly, they will evaluate performance taking into consideration your bank's specific *performance context*.

Performance context includes local credit needs, demographic data, the local economy and local competition, community contact data, community development opportunities, if applicable, and other relevant information that, in the examiner's judgment, are needed to understand and evaluate the bank's CRA performance. When developing the performance context, examiners will also consider the bank's corporate structure and affiliations; its business strategy and major business products; its targeted markets or communities; its distribution methods to serve those communities; and its financial condition, capacity, and ability to lend or invest in its communities. If applicable, examiners will consider the assets and profitability of the bank's subsidiaries and understand the influence they may have on the bank's capacity to lend or invest in its communities.[3]

Hints to help you maximize CRA results:

1. Ensure that the examiners understand your bank's performance context.

   It's useful to discuss this with the examiners at the beginning of the CRA examination. Take this opportunity to ensure that they understand how the bank's particular performance context influences its CRA-related activities. Your on-site, first-hand knowledge is relevant and important. After all, the examiners must consider the performance context when reaching conclusions about the bank's CRA performance.

2. Ensure that any lending-related activities are appropriately considered under the performance criteria.

   Lending-related activities are optional activities. They include the number and amount of loans sold to the secondary market and the number and amount of community development loans and lending-related qualified investments. An example of a lending-related qualified investment is a qualified investment in a community development organization that makes small business loans. Lending-related activities may be considered when evaluating the bank's performance criteria to determine if the bank meets or exceeds the standard for satisfactory performance.

   Your bank does not have to make qualified investments. It can earn a satisfactory or outstanding rating based solely on its lending performance. However, a lending-related qualified investment can enhance the bank's lending performance and help it reach a satisfactory or even an outstanding rating. The bank does not have to request an investment test review in order to receive consideration under the five performance criteria for lending-related qualified investments. In fact, a lending-related qualified investment would be considered as either part of the lending performance (using the five performance criteria) or under a separate investment test review, but not both.

3. Do well what the bank does best.

Most small banks meet CRA goals by doing what they would do anyway as conscientious citizens: serving their local communities. They organize their business strategies and lending activities with the goal of helping their communities, including low- and moderate-income people, recognizing that strengthening the community is the best way to build and sustain the bank's long-term viability.

CRA Credit for Farming-Related Loans and Activities in Rural Areas

- Small loans to farms receive positive CRA consideration under the small bank test and under the lending test for large banks.
- Small loans to farms are:
- Loans of $500,000 or less, secured by farmland, including loans guaranteed by USDA or the SBA (unless they are extended, serviced, collected and insured by USDA); and reported on Call Report Schedule RC-C Part I, item 1b.
- Loans of $500,000 or less, to finance agricultural production, whether secured or unsecured, and whether made to farm and ranch owners and operators (including tenants) or to nonfarmers; and reported on Call Report Schedule RC-C Part I, item 3.
- Ag loans that are over $500,000 may be reported as community development (CD) loans if they meet the definition of CD in the CRA regulation.
- Such loans that promote economic development by financing small farms, i.e., farms with gross annual revenues of $1 million or less, may be reported as CD loans. An activity is considered to promote economic development if it supports permanent job creation, retention, and/or improvement for persons who are currently low- or moderate-income, or supports permanent job creation, retention, and/or improvement either in low-or moderate-income geographies or in areas targeted for redevelopment by Federal, state, local, or tribal governments.
- A bank receives positive consideration under the services test, as a CD service, for providing financial analysis classes to individuals who are starting small farms and ranches to help them learn to manage their cash flow better and assist them in obtaining credit.
- A bank makes a loan to a non-profit organization whose function is to provide small loans to farmers who do not qualify for traditional bank financing. The loan qualifies as a CD loan under the CRA.

(Footnotes)

[1] Small banks under CRA are banks with total assets under $250 million that are either independent or owned by holding companies with total assets under $1 billion.

[2] See the OCC's *Community Bank Consumer Compliance* booklet of the *Comptroller's Handbook* for the interagency examination procedures.

[3] See OCC Bulletin 97-26 for additional guidance on performance context.