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# Community Reinvestment Act

And the use of Community Development activities

# DISCLAIMER

- The views expressed in this presentation are my own and do not reflect the view of the Federal Reserve Bank of New York or the Federal Reserve System

# Objectives

- I. Provide general overview of the Community Reinvestment Act (“CRA”) and its origin
- II. Understand the responsibilities of the Federal Reserve System and its role in the CRA
- III. Understand how the CRA is evaluated
- IV. Define what “Community Development” is under CRA
- V. How you can use CRA to better partner with banks

# The Community Reinvestment Act- Overview

- The Community Reinvestment Act encourages depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income (“LMI”) neighborhoods.
- The CRA requires that each depository institution’s record of helping meet the credit needs of its communities be evaluated by bank regulators and made public through a published Performance Evaluation.

# The Community Reinvestment Act- Overview (continued)

- History of discrimination against minority communities
- As a result of Civil Rights movement minority communities drove key pieces of legislation:
  - Fair Housing Act- 1968
  - Equal Credit Opportunity Act- 1974
  - Community Reinvestment Act- 1977

# Federal Reserve- Overview and Responsibilities

- Federal Reserve does:
  - Conducts US monetary policy
  - Supervise Banks for financial condition (safety and soundness) and consumer protection laws, including CRA
  - Maintain stability of financial system
  - Provide services to US government, US financial institutions, and foreign official institutions, such as domestic and foreign wire transfers
  - Perform outreach to help facilitate relationship development between community organizations and banks
- Federal Reserve does not:
  - Make loans or provide banking services to the general public
  - Require a bank to make a particular loan, investment, donation

# Community Reinvestment Act Performance Evaluations

Routine mandated CRA performance evaluations consider a bank's loan, investment, and service activities in areas such as volume and impact

- Lending products considered
  - Home Mortgages
  - Small Business
  - Consumer Loans
  - Commercial Loans
- Investment types
  - Mortgage-backed securities
  - Municipal bonds
  - Equities
  - Grants and Donations
- Services:
  - Branch locations and hours
  - Providing financial services or expertise to LMI individuals or community organizations serving LMI individuals
  - Product channels (online applications, mobile deposits)
  - Products such as low or no-fee checking and savings accounts



# Community Development Activities- Loans, Investments, and Services

## 1. Primary Purpose

- Majority of dollars of beneficiaries
- Express intent of activity is Community Development;

## 2. Community Development

- Affordable housing for low- or moderate-income individuals
- Community services targeted to low- or moderate-income individuals
- Activities that promote economic development by financing small businesses or small farms
- Activities that revitalize or stabilize low- or moderate-income census tracts, distressed or underserved nonmetropolitan middle-income census tracts, or **designated disaster** areas

# Community Development- Lending

- Lawful Loan
- Primary purpose of Community Development

## Examples:

- An housing organization needs a loan of \$500,000 to construct a multifamily building for low-income individuals
- A nonprofit that provides child care services to low- or moderate-income children needs a line of credit for general operations
- A community organization is refinancing a recreation facility in a low-income community that also houses an early education center, a job training program, and a senior health-care facility
- An economic development organization requests a revolving loan fund to promote economic development by financing small businesses
- A business owner requests funding for a manufacturing plant for economic development, which creates new jobs in a moderate income census tract

# Community Development -Investments/Donations

- Lawful investment, deposit, membership share, or grant/donation
- Primary Purpose of Community Development

## Examples:

- A community development organization providing credit counseling and job training for LMI individuals requests a donation
- A community group focused on providing services to LMI individuals requests a grant
- Debt Securities- A city is issuing a municipal bond to support building infrastructure in a low-income neighborhood
- An equity investment Community Development Financial Institution (“CDFI”) which provides microcredit to small businesses.

# Community Development- Services

- Primary Purpose of Community Development
- Related to the provision of financial services

## Examples of CD Services:

- A school with a majority of LMI students partners with a bank to have bank employees teach personal finance courses
- A community organization providing services to LMI individuals partners with a bank to have a bank officer to serve as treasurer on the board of directors
- A community organization serving LMI individuals partners with a bank to have a bank employee provide accounting/bookkeeping services

# Obtaining Loans and Partnering with Banks

- Who to talk to at the bank:
  - Branch Manager
  - Community Development Officer
  - CRA Officer
  - Bank President
  - Bank Foundation
- Check the bank's website for resources

# Obtaining Community Development Loans and Partnering with Banks

## Bank's typically want to know:

- What type of activity are you interested in discussing:
  - Loan
  - Investment
  - Service
- Organization mission and history
- The purpose of the funds
- How much money are you requesting
- Budget of project
- If requesting a loan, how will the bank be repaid
  - CRA is not "free money"
- Who will benefit

# Exercise – Qualifying CRA Activities

Scenario	Activity Type (Loan, Investment, Grant, Service)	Does it qualify for Community Development under CRA?	Why?
An organization providing child care services requests \$50k line of credit in middle and upper income neighborhoods	Loan	No	The census identified that the majority of people in the neighborhood are middle and upper income.
An non-profit organization that builds affordable housing for LMI individuals or families approaches a bank with a proposal to get permanent financing for a newly constructed building	Loan	Yes	The units are restricted to LMI individuals and families.

# Exercise Continued

<p>Municipality of Ponce issues bond to fund infrastructure improvements</p>	<p>Investment</p>	<p>Yes</p>	<p>Per the Interagency Guidance, Puerto Rico has been designated an area targeting revitalization due to the impact of Hurricane Maria</p>
<p>A non-profit community organization receives assistance from a bank partner to provide volunteers to help build a house for a low-income family</p>	<p>Service</p>	<p>No</p>	<p>The employees are building the house and not utilizing financial expertise</p>
<p>A food bank requests a \$1,000 donation from a partner bank to support operations</p>	<p>Investment (Donation)</p>	<p>Yes</p>	<p>The organization targets its services to LMI individuals</p>



# Exercise Continued

<p>A soup kitchen's treasurer is the president of a local bank</p>	<p>Service</p>	<p>Yes</p>	<p>The bank president is providing financial expertise</p>
<p>Shares of a Community Development Financial Institution ("CDFI") are owned by a local financial institution</p>	<p>Investment</p>	<p>Yes</p>	<p>CDFI's are formed with the specific purpose of community development</p>



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