How Do Banks Fulfill Their Community Reinvestment Act Obligations?

An Examination of Seven Articles

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The following seven articles discuss the different community development activities that can earn banks Community Reinvestment Act (CRA) credit. While each article addresses a different qualifying activity, there are some collective themes:

- No matter which type of community development activity a bank chooses, a critical way to ensure it qualifies for CRA consideration is to consider fit in terms of local context and if it fills a community need.
- Due to the combination of an individualized approach to bank evaluations and a lack of clear regulations, there is no one-size-fits-all way for banks to fulfill CRA obligations.
- In addition to nonprofits and communities benefitting from banks' community development activities, banks themselves generally benefit from investments, a more positive public perception and increased ties to the community.
- There are a wide variety of different ways in which banks can earn CRA credit, and there are many resources available to help them reach these goals.

Engaging Workforce Development: A Framework for Meeting CRA Obligations

Elizabeth Sobel Blum, Federal Reserve Bank of Dallas

Steve Shepelwich, Federal Reserve Bank of Kansas City

December 2016

https://www.kansascityfed.org/~/media/files/publicat/community/workforce/2017-engaging-workforce-cra-framework.pdf?la=en

This article serves as a roadmap for banks hoping to gain CRA credit through workforce development activities that help low- and moderate-income populations succeed in the labor force. It provides an overview of the actors involved in workforce development and the different strategies that can be used, explaining that banks must be innovative and responsive to community needs in selecting among these actors and strategies to engage and receive CRA credit. The article provides a flow chart to help banks determine whether an activity will qualify for credit and suggests questions to ask of potential community partners. Finally, it provides an outline for the final report that banks provide to CRA examiners to ensure that they include all necessary information so their activities qualify for CRA consideration.

How Affordable Housing Qualifies for Community Reinvestment Act Consideration

Vonda Eanes, Office of the Comptroller of the Currency

March 2017

https://www.occ.treas.gov/publications/publications-by-type/other-publications-reports/cdi-newsletter/affordable-housing-march-2017/article-04-eanes.html

This article discusses links between poverty and mental illness and how banks can play a role in addressing these problems. People living in poverty are two to three times more likely to experience mental illness, and some of this increased risk may have to do with high levels of financial stress, which can impact health. Because of this relationship, the article suggests that partnerships between mental health organizations and financial organizations can help address these problems in low-income communities. The article provides three case studies where a mental health provider received financial support that allowed its organization to continue providing critical services in the community and to grow; as a result, the supporting financial institution received CRA credit for its contribution. According to the article, loans and investments in healthcare facilities in low- and moderate-income communities, as well as technical assistance to these organizations, such as sitting on their boards, qualify for CRA credit.

Strategies for Community Banks to Develop Partnerships with Community Development Financial Institutions

FDIC, March 2014

https://www.nlp-inc.com/pdf/community-banks-partnerships-with-CDFIs-report-5-14.pdf

This article guides banks looking to select a community development financial institution (CDFI) – a bank, credit union, loan fund or venture capital fund – with which to form a partnership. The article suggests that banks first consider their business strategy and target geographic area before looking through the U.S. Department of the Treasury CDFI Fund’s online list of certified CDFIs to find one that satisfies a community lending need that the bank itself does not. In evaluating potential partners, the article instructs banks to conduct a credit and performance review and consider 1) potential risks associated with partnership activities and 2) ways to mitigate those risks. The article offers several examples of CDFI partnership options, including providing funds and technical assistance.

Banks' Community Reinvestment Act Opportunities for Promoting Job Creation, Workforce Development, and Place-Based Investments

Sydney Goldstein and Lei Ding

Federal Reserve Bank of Philadelphia, October 2017

https://www.philadelphiafed.org/-/media/egmp/images/publications/banks-community-reinvestment-act-opportunities/banks-community-reinvestment-act-opportunities.pdf?la=en

This article considers the opportunities for banks to earn CRA credit in the areas of job creation, workforce development, transportation and affordable housing. These activities should benefit low- and moderate-income populations within the banks' assessment areas; job creation should make jobs available to these populations, and workforce development should prepare people to fill these jobs. Transportation and affordable housing provide workers with access to jobs to which their location would otherwise serve as a barrier. Finally, the report provides several excerpts from actual CRA bank performance evaluations where banks received credit for these types of activities. From these examples, banks can utilize best practices from successful banks in order to best ensure that their community development activities receive CRA credit.

Community Reinvestment Act & Pro Bono Service

Corporate Social Responsibility

Taproot Foundation, August 2014

https://taprootfoundation.org/community-reinvestment-act-pro-bono-service/

This article explains that financial services firms that provide pro bono work to nonprofits can qualify for CRA credit and provides a checklist for companies to use to ensure that their work qualifies. According to the checklist, the nonprofit's mission should be community development, and it should be located geographically within the financial institution's CRA assessment area. The financial institution must keep proper documentation of its activities to show that they are community development-related and that they benefit low- and moderate-income populations, and any volunteers must serve as representatives of the institution. Finally, the checklist asserts the institution's activities should be related to the provision of financial services.

Community Reinvestment Act Consideration for Rural Broadband Development Initiatives

Michael Carrier, Office of the Comptroller of the Currency

November 2018

https://www.occ.treas.gov/publications/publications-by-type/other-publications-reports/cdi-newsletter/rural-broadband-nov-2018/article-2-cra-consideration.html

According to this article, banks can be considered for CRA credit for providing broadband access to underserved, nonmetropolitan middle-income geographies. In the 2016 revision of the “Interagency Questions and Answers Regarding Community Development,” the agencies directly acknowledge the need for broadband development; they explicitly define it as community development by including it as a type of communications infrastructure. However, the article emphasizes that in order for broadband provision to qualify for CRA consideration, the project must serve low- and middle-income communities that are traditionally underserved. If the project serves upper-income housing developments and bypasses the LMI developments with similar needs, it will not receive CRA credit.

CRA and Financial Education

American Bankers Association

https://www.aba.com/archive/Pages/CRA_financialed.aspx

This article explains how banks can receive consideration for CRA credit for providing financial literacy services. It makes sense for banks to run financial literacy education programs since their employees, bankers, are subject-matter experts. The article posits that because this takes advantage of employee expertise, this may be one of the most valuable CRA services a bank can provide. In order to receive credit for these activities, banks must be able to explain how their financial literacy programs lead to increased community development. The article provides the following example to demonstrate such an explanation: If a bank hosts a seminar on homeownership, this will lead to greater community development because it will encourage more members of the community to own property. By incorporating such explanations to their services, banks can ensure that the valuable financial literacy programs they provide receive CRA consideration.