



## Getting to Know CRA

Enacted in 1977, the Community Reinvestment Act (commonly referred to as CRA) encourages banks to help meet the credit needs of the communities where they take deposits, with an emphasis on low- and moderate-income (LMI) neighborhoods. A bank's CRA performance is evaluated by federal agencies that are responsible for supervising depository institutions: the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC). This CRA performance is considered in regulatory applications for charters, approval of bank mergers/acquisitions, and branch openings/relocations.

Banks are assigned a designation based on their asset size. A small bank is defined as a bank with less than \$1.122 billion in assets as of December 31st for either of the prior two calendar years. A subset of small banks is an intermediate small bank with assets between \$280 million and \$1.122 billion. Large banks are defined as banks with assets greater than \$1.122 billion.

Regardless of size, all banks are subject to report their lending activities, such as home mortgage and small business/small farm loans. For small banks, the CRA exam is comprised of the Lending Test, which includes evaluation of loan-to-deposit ratios, geographic and borrower distribution of lending, lending inside versus outside the bank's assessment areas as defined by its retail branches, and responses to written complaints about the bank's CRA performance in helping meet the credit needs in its communities.

In addition to the criteria above, intermediate small banks are also evaluated on their Community Development (CD) loans, investments, and services for the purposes of affordable housing, community services targeted to low- and moderate (LMI) individuals, economic development by financing small businesses/small farms, or revitalizing/stabilizing LMI and/or federally designated areas in need of redevelopment.

For large banks, the CRA exam is comprised of three tests—Lending, Investments, and Services—with 50% of the rating based on performance under the Lending Test. Similar to the CRA evaluation of small and intermediate banks, distribution by geographic and borrower income level is reviewed.

For mortgage lending, this means a comparison of the bank's percentage of lending to LMI geographies and borrowers to the corresponding demographic; percentage of owner-occupied houses in LMI geographies and percentage of LMI families respectively. In addition, a bank's mortgage performance is compared to that of its peers. Market conditions are also taken into consideration, such as affordability and availability of housing stock.

Finally, banks are also encouraged to identify flexible products or programs that are responsive to the credit needs of their communities, including loan modifications, foreclosure prevention efforts, and participation in government-sponsored programs, especially those that focus on LMI and/or distressed communities.

The Investment Test comprises 25% of CRA performance and evaluates the bank's CRA-qualified investments, including Low Income Housing Tax Credits, New Market Tax Credits, municipal bonds, mortgaged-backed securities, and grants in response to the credit needs of its communities. The Service Test comprises the remaining 25% of CRA performance and evaluates the location of a bank's retail branches, hours of operation, services provided, location of ATMs, alternative delivery channels, and employee outreach, with an emphasis on access and outreach to LMI populations.

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There are several ways a bank can strategically enhance its CRA program. First and foremost, a bank should conduct an annual CRA self assessment that analyzes CRA exam-to-date performance on a company-wide level. The content and format should be similar to that of a regulatory agency CRA performance evaluation and should be shared with a committee comprised of key company-wide stakeholders and decision makers. Areas of weakness should be identified through this process and action plans developed to improve performance, including the establishment of CRA goals, prior to the start of the CRA exam.

Key steps to ensuring a successful CRA program include having a commitment from the bank President and senior level executives, creating a governance model that includes the establishment of a CRA committee comprised of key, company-wide decision makers, and creating a CRA policy that ensures accountability for CRA across the company.

It is also essential to perform ongoing CRA analysis, providing regular reporting that identifies and prioritizes areas where CRA improvement is needed. In addition, it is critical to develop effective communication strategies and consistent messaging with a CRA focus. Finally, it is important to create opportunities for sharing best practices across the company, as well as providing appropriate CRA training that is tailored to the needs of the lines of business.

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## A Message from Chuck Bishop

*Senior Vice President  
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Our Diverse Segments team at Wells Fargo Funding is available to help you make sense of CRA in your market. Our Business Development Managers (BDM) provide clients with:

- Market Analysis - trends, first time homebuyer snapshots, and rural development maps
- Identifying competitive advantages in your markets
- Diverse segments strategy and product training
- Marketing, education, training, seminars and sales tools for First-time homebuyer and Community Reinvestment Act (CRA)
- Accredited training and development

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