LISC

UNDERSTANDING THE

CRA

An overview of the guidelines and examination procedures for large banks and wholesale and limited purpose institutions.

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INTRODUCTION

The Community Reinvestment Act was enacted to prevent redlining and encourage banks and saving institutions to help meet the credit needs of all segments of their communities including low- and-moderate income neighborhoods. Financial institutions are evaluated every three years to ensure they are fulfilling their obligation to their community. However, small banks with assets less than $250 million may be evaluated less frequently. A bank's rating is also considered when it applies to merge, open a branch, or acquire another institution.[1]

This memo outlines the guidelines and examination procedures for large banks and wholesale and limited purpose institutions. A large bank defined by CRA regulators is an institution with assets of $1.202 billion or more.[2]

THE CRA RATINGS

The CRA ratings comprise of four designations: Outstanding, Satisfactory, Needs to Improve, and Substantial Noncompliance. Financial institutions are examined under different evaluation methods depending on their size and operations. Large banks are evaluated under three tests: Lending, Investment, and Service. All lending activities, including direct real estate investment and loans to CDFIs, are evaluated under the Lending test, qualified investments, for example, low income housing tax credit investments, are evaluated under the Investment test, and retail banking and community development services are evaluated under the Service test. Unlike large banks, wholesale and limited purpose institutions are assessed on their total community development contributions, and are not required to engage in all three test areas to perform well on the exam.[3]

A monthly list of banks examined for CRA compliance can be found on the FDIC and banks that are up for evaluation can be found on the OCC.

THE ASSESSMENT AREA

The CRA regulatory agencies are charged with evaluating the extent to which banks are effectively meeting the credit needs within their assessment area (AA). An assessment area is one or more geographical areas delineated by the bank, based on its business footprint. The examiner does not evaluate the bank's delineation of its AA as a criterion but reviews whether the AA appears to be reasonable based upon the location the bank's offices, its lending patterns, and if there is evidence that LMI areas have been arbitrarily excluded.[4]

For wholesale and limited purpose banks, the geographical area(s) must consist of one or more MSAs, metropolitan divisions, or contiguous political subdivisions such as counties, cities, or towns where the bank has its main office, branches, and ATMs.[5]

For large banks, the geographical area(s) must consist of one or more MSAs, metropolitan divisions, or contiguous political subdivisions. It must also include the geographies the bank has its main office, branches, and ATMs, as well as the surrounding geographies where 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 consumer loans that the bank can select to have its performance assessed.[6]

For all banks, the AA must consist only of whole census tracts and cannot extend substantially beyond an MSA boundary or beyond a state boundary unless it is located in a multistate MSA. If a bank serves an area that extends substantially beyond a state boundary, it will delineate separate AAs in each state. If a bank serves an area that extends substantially beyond an MSA boundary, the bank will delineate separate AAs for the areas inside and outside the MSA.[7]

It is generally required that a financial institution's CRA Lending, Investment, and Service activities must occur its AA or for community development activities, a broader statewide or regional area that includes the AA. However, there are exceptions.

EXCEPTIONS

Banks may receive CRA consideration for capital investments, loan participations, and other ventures undertaken by minority- or women-owned financial institutions and low-income credit unions, as long as these activities help meet the credit needs of the local communities where the minority- or women-owned institutions or low-income credit unions are located or chartered.[8] A bank's investment in a minority- or women-owned financial institution or low-income credit union, including one designated as a CDFI, will receive favorable CRA

consideration even if the CDFI is not serving the AA of the investing institution or the broader statewide or regional areas that include the investing institution's AA.

In 2005, the definition of community development was expanded to include designated disaster areas to help regions rebuild after severe hurricanes, flooding, earthquakes, tornados, and other disasters. Banks anywhere in the U.S. can receive consideration for CRA credit if they facilitate making credit available to a distressed location or geographic area outside their AA.[9] A list of federally declared disaster areas can be found on FEMA.

Wholesale and limited purpose institutions can receive CRA consideration for Investments, Loans, or Services conducted with CDFIs nationwide once they adequately address the community development needs of their AA.[10] Whether a bank has adequately addressed the needs of their AA is a subjective determination made by the examiner.

Lastly, if an examiner decides that a large bank adequately addressed the needs of borrowers in its AA, loans made outside the AA to low- and moderate income persons and small business and farm loans can receive CRA credit in the lending test.[11]

EVALUATION DATA COMPILED BY EXAMINERS

CRA examiners evaluate a bank's activities against the credit and community needs of its AA across all performance tests. Examiners consider the bank's capacity, its business strategy, community need, and the opportunities for Lending, Investments, and Services. To inform their assessment, examiners collect information from a variety of sources including:[12]

• Demographic data on income levels, unemployment rate, and housing costs compiled by local, state and federal agencies (i.e. Census data and Department of Housing and Urban Development)

• Public comments received by the examiner in response to its publication of its planned examination schedule

• Information from community leaders or organizations (i.e. Interviews with affordable housing groups and CDFIs)

• Studies and reports from academic institutions and other research bodies

• Consumer complaint information

• Information provided to examiners by the bank that is maintained by the institution in its ordinary course of business. (FFIEC published a report on Data Collection and Reporting. See page 17.)

LENDING, INVESTMENT, AND SERVICE ACTIVITES FOR LARGE BANKS

As described in previous sections, there are not clear rules and guidelines provided by regulators on how to score well on the CRA assessment test. That said, there are some distinctions made for large banks.

LENDING TEST[13]

The Lending test is regarded as the most important of the three tests, comprising of 50% of the total points awarded.[14] The Lending test evaluates the number and amount of mortgage, small business, small farm, and consumer loans across low, moderate, and upper income geographies and low, moderate, and upper income individuals in the bank's AA.

There are no data reporting requirements for consumer loans. However, if consumer loans constitute a substantial majority of the bank's business, both in number and dollar amount, the examiner

will evaluate them even if the institution does not elect to do so.[15]

If a bank is not required to collect home mortgage loan data by the Home Mortgage Disclosure Act, it does not need to collect home mortgage data under the CRA exam.[16] Large banks cannot designate a loan as a community development loan if it has already been reported or collected as a small business, small farm, consumer, or home mortgage loan except in the case of multifamily dwelling loan. A multifamily dwelling loan can be considered a community development loan as well as a home mortgage loan.[17]

In the evaluation, examiners consider the bank's use of innovative or flexible lending practices. It is not required to obtain a specific rating but is a qualitative consideration that can enhance the CRA performance.[18] For example, small dollar loan programs in conjunction with outreach initiatives that include financial literacy would be considered innovative and flexible. Assessing the characteristics and differences of an institution's lending programs is based on the examiner's judgement.

Banks receive more credit making direct loans to borrowers because it is eligible for CRA credit under the Lending test. Secondary markets, where investors purchase loans that have already been originated, are eligible for credit under the Investment test. A bank can receive CRA consideration under the Lending test for making a loan to LMI individuals that is guaranteed by the Federal Home Administration. But if a bank purchases securities backed by pools of FHA-guaranteed mortgage originations, it receives credit under the Investment test.[19]

INVESTMENT TEST

The Investment test comprises of 25% of the total points awarded and evaluates a bank's record of meeting the credit needs of its AA through qualified investments. Qualified investments for large banks include donating, selling, 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.[20] Qualified investments also include equity investments in Low Income Housing Tax Credits and New Markets Tax Credits.

SERVICE TEST

The Service test comprises of 25% of the total points awarded and mainly evaluates a bank's retail banking services. Examiners consider the availability and effectiveness of an institution's systems for delivering banking services, the range of services, and the degree to which the services are tailored to meet the needs of the AA. Examples of retail banking services that improve access to financial services, or decrease cost to low or moderate incomes include:[21]

- Low-cost deposit accounts
- Electronic benefit transfer accounts and point of sale terminal systems
- Individual development accounts
- Free or low cost government payroll, or other check cashing services
- Reasonably priced international remittance services

Convenient access to full service branches is an important factor in determining the availability of credit and non-credit services. Examiners mainly focus on the bank's distribution of branches and its record of opening and closing branches but also consider whether the business hours are tailored to the needs and convenience of the AA, the availability of information in languages other than English, and the account usage and retention.

Community development activities are also included in the Service test. These activities must promote economic development by financing small businesses or farms but also include community or tribal-based child care, educational, health, social services, or workforce development or job training programs, affordable housing, and activities that revitalize or stabilize low or moderate-income areas, designated disaster areas, or underserved or distressed nonmetropolitan middle income geographies.

OTHER CONSIDERATIONS

As part of the overall community development assessment, regulators review the "number and amount of community development loans and investments in the evaluation period and any outstanding from prior evaluation periods; community development services; the use of innovative or complex investments; the extent to which investments are not regularly provided by private investors; and the institution's responsiveness to credit and community development needs."[22]

Community development activities that finance small businesses or farms are considered under a "size" and "purpose" test.[23] A bank meets the "size" test if it finances either directly, or through an intermediary, businesses or farms that meet the standards of the Small Business Administration's Development Company, Small Business Investment Company programs, or have gross annual revenues of $1 million or less. To meet the ''purpose test,'' the institution's Loan, Investment, or Service must promote economic development.

There are several qualitative factors in the CRA exam including the use of innovative or complex qualified investments. It is up to the regulator's judgment to determine the "innovativeness or complexity" of an investment, there is no specific guidance on this. From the evaluation summaries, LIHTC and NMTC are equity investments have been considered to be innovative and complex.[24] LIHTC equity investments are considered "innovative and complex" because they often require coordination with several different state and federal housing agencies involved in funding the project. These investments also require detailed asset monitoring and complex financial reporting to ensure compliance with requirements imposed by the federal tax code for taking the tax credit.

NMTC equity investments also involve a great deal of complexity due to highly structured legal arrangements involving many parties and entities, and the need for customized underwriting and concessionary features inherent to the program, including subordinated debt, reduced origination fees, higher than standard loan- to value ratios, lower than standard debt service coverage ratios, and non- traditional collateral.

"Innovative or responsiveness" is another qualitative measure under the community development service test. In addition to evaluating quantitative factors such as the number of organizations served and the number of hours a bank's staff has devoted, examiners look at the extent to which the services are innovative or responsive because some community development services require special expertise and effort on part of the bank to provide a benefit to the community that otherwise would not be possible.[25]

For examples of community development loans, qualified investments, and community development services given by the Federal Deposit Insurance Corporation, see the appendix section.

CRA EFFECTIVENESS

In summary, CRA examinations are largely in the hands of the examination team. It is up to the examiner to determine if the bank has undertaken a sufficient amount of CRA activities. There is not an official quota or benchmark indicating when banks

have done enough CRA-qualified activities to receive a certain rating.[26]

According to the National Community Reinvestment Coalition (NCRC), more than 98% of banks have passed their CRA exams, receiving an "Outstanding" or "Satisfactory" rating.[27] However, most of them do not earn the highest rating.[28] Performance evaluation results can be found on the OCC and the NYS Department of Financial Services.

Banks that do not perform on the CRA exam are prohibited from making acquisitions or filing applications to open new branches. Regulators are unlikely to approve merges and will impose conditions requiring improvements on CRA performance.[29] The OCC can also revoke a bank's ability to name new directors and senior executives or to change the duties of existing executives without notifying the agency.

[1] Willis, Mark. "It's the Rating, Stupid: A Banker's Perspective on the CRA." 2009 February. pg. 60. Federal Reserve Banks of Boston and San Francisco. http://www.frbsf.org/community-development/files/revisiting_cra.pdf

[2] "Community Reinvestment Act Fact Sheet." OCC. 2014 March. https://www.occ.treas.gov/topics/community-affairs/publications/fact-sheets/fact-sheet-cra-reinvestment-act.pdf

[3] "Federal Register Q&A. Rules and Regulations." 2016 July 25. pg. 48544. FDIC. https://www.fdic.gov/regulations/cra/

[4] "Community Reinvestment Act Performance Evaluation, Goldman Sachs Bank USA." 2012 December 31. New York State Department of Financial Services Financial Frauds and Consumer Protection Division. http://www.dfs.ny.gov/reportpub/cra_reports/cr12goldsbk.pdf

[5] A Guide to CRA Data Collection and Reporting." 2016 March 1. Pg. 36 Federal Financial Institutions Examination Council. https://www.ffiec.gov/cra/guide.htm

[6] Ibid

[7] Ibid

[8] "Regulatory Context and Bank/CDFI Partnerships." 2014 May 7. Community Affairs Program- Strategies for Community Banks to Develop Partnerships with Community Development Financial Institutions. FDIC. https://www.fdic.gov/consumers/community/CDFI/index.html

[9] Getter, Darryl E. "The Effectiveness of the Community Reinvestment Act." 2015 January 7. Pg 7. Congressional Research Service. https://www.fas.org/sgp/crs/misc/R43661.pdf

[10] Regulatory Context and Bank/CDFI Partnerships." 2014 May 7. Community Affairs Program- Strategies for Community Banks to Develop Partnerships with Community Development Financial Institutions. FDIC. https://www.fdic.gov/consumers/community/CDFI/index.html

[11] "Federal Register Q&A. Rules and Regulations." 2016 July 25. pg. 48538. FDIC. https://www.fdic.gov/regulations/cra/

[12] "Federal Register Q&A. Rules and Regulations." 2016 July 25. pg. 48534. FDIC. https://www.fdic.gov/regulations/cra/

[13] "A Guide to CRA Data Collection and Reporting." 2016 March 1. Pg. 41 Federal Financial Institutions Examination Council.

[14] Getter, Darryl E. "The Effectiveness of the Community Reinvestment Act." 2015 January 7. Pg. 4. Congressional Research Service. https://www.fas.org/sgp/crs/misc/R43661.pdf

[15] "Federal Register Q&A. Rules and Regulations." 2016 July 25. pg. 48536. FDIC. https://www.fdic.gov/regulations/cra/

[16] "A Guide to CRA Data Collection and Reporting." 2016 March 1. Pg. 5 Federal Financial Institutions Examination Council. https://www.ffiec.gov/cra/guide.htm

[17] "A Guide to CRA Data Collection and Reporting." 2016 March 1. Pg. 10 Federal Financial Institutions Examination Council. https://www.ffiec.gov/cra/guide.htm

[18] "Federal Register Q&A. Rules and Regulations." 2016 July 25. pg. 48513. FDIC. https://www.fdic.gov/regulations/cra/

[19] Getter, Darryl E. "The Effectiveness of the Community Reinvestment Act." 2015 January 7. Pg. 5-6. Congressional Research Service. https://www.fas.org/sgp/crs/misc/R43661.pdf

[20] "A Guide to CRA Data Collection and Reporting." 2016 March 1. Pg. 31 Federal Financial Institutions Examination Council. https://www.ffiec.gov/cra/guide.htm

[21] "Federal Register Q&A. Rules and Regulations." 2016 July 25. pg. 48542. FDIC. https://www.fdic.gov/regulations/cra/

[22] "A Guide to CRA Data Collection and Reporting." 2016 March 1. Pg. 32 Federal Financial Institutions Examination Council. https://www.ffiec.gov/cra/guide.htm

[23] "Federal Register Q&A. Rules and Regulations." 2016 July 25. pg. 48526. FDIC. https://www.fdic.gov/regulations/cra/

[24] "Community Reinvestment Act Performance Evaluation, Goldman Sachs Bank USA." 2012 December 31. New York State Department of Financial Services Financial Frauds and Consumer Protection Division. http://www.dfs.ny.gov/reportpub/cra_reports/cr12goldsbk.pdf

[25] "Federal Register Q&A. Rules and Regulations." 2016 July 25. pg. 48543. FDIC. https://www.fdic.gov/regulations/cra/

[26] Getter, Darryl E. "The Effectiveness of the Community Reinvestment Act." 2015 January 7. Pg. 8-9. Congressional Research Service. https://www.fas.org/sgp/crs/misc/R43661.pdf

[27] Silver, Josh. "CRA Exams Aren't Cutting it for Communities in Need." 2016 January 21. Rooflines, the Shelterforce Blog. http://www.rooflines.org/4364/cra_exams_arent_cutting_it_for_communities_in_need/

[28] "The Community Reinvestment Act: Vital for Neighborhoods, the Country, and the Economy." NCRC. 2016 June. http://www.ncrc.org/images/ncrc_cra_affirmation_final.pdf

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APPENDIX

Examples of CRA Activities: Community Development Loans[1]

Examples of community development loans include loans to:

• Borrowers for affordable housing rehabilitation and construction, including construction and permanent financing of multifamily rental property serving low- and moderate-income persons;

• Not-for-profit organizations serving primarily low- and moderate-income housing or other community development needs;

• Borrowers to construct or rehabilitate community facilities that are located in low- and moderate-income areas or that serve primarily low- and moderate-income individuals;

• Financial intermediaries including Community Development Financial Institutions (CDFI), New Markets Tax Credit-eligible Community Development Entities, Community Development Corporations (CDC), minority- and women-owned financial institutions, community loan funds or pools, and low-income or community development credit unions that primarily lend or facilitate lending to promote community development;

• Local, state, and tribal governments for community development activities;

• Borrowers to finance environmental clean-up or redevelopment of an industrial site as part of an effort to revitalize the low- or moderate-income community in which the property is located;

• Businesses, in an amount greater than $1 million, when made as part of the Small Business Administration's 504 Certified Development Company program; and

• Borrowers to finance renewable energy, energy-efficient, or water conservation equipment or projects that support the development, rehabilitation, improvement, or maintenance of affordable housing or community facilities, such as a health clinic that provides services for low- or moderate- income individuals. For example, the benefit to low- or moderate-income individuals may result in either a reduction in a tenant's utility cost or the cost of providing utilities to common areas in an affordable housing development. Further, a renewable energy facility may be located on-site or off-site, so long as the benefit from the energy generated is provided to an affordable housing project or a community facility that has a community development purpose.

Examples of CRA Activities: Qualified Investments[2]

Examples of qualified investments include investments, grants, deposits, or shares in or to:

• Financial intermediaries (including CDFIs, New Markets Tax Credit-eligible Community Development Entities, CDCs, minority- and women-owned financial institutions, community loan funds, and low-income or community development credit unions) that primarily lend or facilitate lending in low- and moderate-income areas or to low- and moderate-income individuals in order to promote community development, such as a CDFI that promotes economic development on an Indian reservation;

• Organizations engaged in affordable housing rehabilitation and construction, including multifamily rental housing;

• Organizations, including, for example, SBICs, specialized SBICs, and Rural Business Investment Companies (RBIC) that promote economic

development by financing small businesses;

• Community development venture capital companies that promote economic development by financing small businesses;

• Facilities that promote community development by providing community services for low- and moderate-income individuals, such as youth programs, homeless centers, soup kitchens, health care facilities, battered women's centers, and alcohol and drug recovery centers;

• Projects eligible for low-income housing tax credits;

• State and municipal obligations, such as revenue bonds, that specifically support affordable housing or other community development;[3]

• Not-for-profit organizations serving low- and moderate-income housing or other community development needs, such as counseling for credit, home- ownership, home maintenance, and other financial literacy programs; and

• Organizations supporting activities essential to the capacity of low- and moderate-income individuals or geographies to utilize credit or to sustain economic development, such as, for example, day care operations and job training programs or workforce development programs that enable low- or moderate-income individuals to work.

Mortgage- backed securities and municipal bonds are not qualified investments because their primary purpose is not community development. However, mortgage-backed securities or municipal bonds designed primarily to finance community development generally are qualified investments. Municipal bonds or other securities with a primary purpose of community development do not need to be housing- related. A bond to fund a community facility or park or to provide sewage services as part of a plan to redevelop a low-income neighborhood is a qualified investment. Certain municipal bonds in underserved nonmetropolitan middle-income geographies may also be qualified investments.

Examples of CRA Activities: Community Development Services[4]

Examples of community development services include:

• Providing technical assistance on financial matters to nonprofit, tribal, or government organizations serving low- and moderate-income housing or economic revitalization and development needs;

• Providing technical assistance on financial matters to small businesses or community development organizations, including organizations and individuals who apply for loans or grants under the Federal Home Loan Banks' (FHLB) Affordable Housing Program;

• Lending employees to provide financial services for organizations facilitating affordable housing construction and rehabilitation or development of affordable housing;

• Providing credit counseling, home- buyer and home maintenance counseling, financial planning or other financial services education to promote community development and affordable housing, including credit counseling to assist low- or moderate-income borrowers in avoiding foreclosure on their homes;

• Establishing school savings programs or developing or teaching financial education or literacy curricula for low- or moderate-income individuals; and

• Providing foreclosure prevention programs to low-

or moderate-income homeowners who are facing foreclosure on their primary residence with the objective of providing affordable, sustainable, long-term loan modifications and restructurings.

Examples of technical assistance activities that are related to the provision of financial services and that might be provided to community development organizations include:

• Serving on the board of directors;

• Serving on a loan review committee;

• Developing loan application and underwriting standards;

• Developing loan-processing systems;

• Developing secondary market vehicles or programs;

• Assisting in marketing financial services, including development of advertising and promotions, publications, workshops and conferences;

• Furnishing financial services training for staff and management;

• Contributing accounting/ bookkeeping services;

• Assisting in fund raising, including soliciting or arranging investments; and

• Providing services reflecting a financial institution's employees' areas of expertise at the institution, such as human resources, information technology, and legal services.

CFDI Financing Approaches

CDFI financing support from banks can be classified in three forms: equity investments, debt, and deposits.[5]

TYPES OF EQUITY

A. Grants: Grants are charitable, philanthropic financial awards to nonprofit CDFIs. Banks can provide capital grants to build the equity capital of qualifying nonprofit CDFIs. Restricted grant funding can be specifically targeted for predefined activities. Common categories of grants are capital for a CDFI loan pool and operating grants, which underwrite the costs to administer the loan pool and provide technical assistance to borrowers.

B. Equity Equivalents (EQ2s): Equity equivalent investments, or EQ2s, are long-term, fully subordinated debt instruments with features such as rolling terms and limited right-to-accelerate payments that allow them to function in a manner similar to equity. Only nonprofit CDFIs use EQ2s.

There are three different ways banks can choose to receive CRA credit from EQ2s:[6]

• The bank receives consideration for the full amount of the investment over the term of the loan.

For example, if a bank makes a $2.5 million EQ2 in a Community Development Loan Fund for 10 years and the EQ2 makes up 25% of the CDLF's equity at the time of investment, the bank would receive consideration for a $2.5 million qualified investment during the CRA evaluation period in which it was made and as an outstanding investment during the following periods as it remains outstanding.

• The bank receives consideration under the lending test for a pro rata share of the community development loans made by the CDLF over the period of time being considered in the CRA exam.

For example, if the CDLF originates $24 million in community development loans, the bank will receive consideration for $6 million (25%) under the lending test.

• In some circumstances, a bank may receive consideration for part of its investment under the lending test and also receive consideration under the investment test.

C. Stocks: CDFI banks and some CDFI venture capital funds raise equity capital by issuing stock.

TYPES OF DEBT

As long as the geographic requirements of CRA are met, and the loan is made in a safe and sound manner, community banks may receive CRA consideration for loans to or in collaboration with CDFIs that primarily serve a community development purpose.

A. Line of credit: A line of credit is an arrangement in which the bank extends a specified amount of unsecured credit to a CDFI for a specified period of time. The CDFI can borrow as it needs from the line of credit up to the established limit which is negotiated between the investing institution and the CDFI.[7]

B. Loans: Community banks can provide CDFIs short- and long-term loans, which can be secured or unsecured. Investors who choose a lower rate of return and longer investment terms help CDFIs provide less costly and more responsive financing to low-income borrowers, and pay for services such as technical assistance to help borrowers use their financing effectively. Technical assistance can include credit counseling, business training, homebuyer education, consumer education and financial literacy, and savings programs.

C. Secondary Capital: Secondary capital is an uninsured, subordinated debt instrument that offers investors an opportunity to invest in CDFI credit unions. The only credit unions permitted to accept secondary capital are those that have been designated "low-income" credit unions by the NCUA. The majority of CDFI certified credit unions have been approved by NCUA to accept secondary capital.

D. Asset-Backed Securities: Asset-backed securities are financial securities whose value and income payments are derived from and collateralized by a pool of loans with similar characteristics. A CDFI bundles a group of its community development loans and sells shares in the repayment stream to investors. The pooling of loans with one or more layers of credit enhancement into securities spreads credit risk across multiple loans and reduces each investor's exposure.

E. Guarantees: Guarantees are instruments guaranteeing the payment of a CDFI's debt obligations. Guarantee options include letters of credit, which are used to enhance the creditworthiness of a CDFI borrower receiving a loan from a third-party lender. Letters of credit are considered community development lending-related activity for CRA purposes if the institution provides information on the activity that documents its purpose. Examiners only consider letters of credit at the option of the institution.[8]

TYPES OF DEPOSITS

Deposits are funds placed in interest-bearing accounts in CDFI depositories. Deposits in FDIC-insured CDFI banks are insured up to the maximum allowed by law.

CDFI depositories offer various types of deposits at market rates, including certificates of deposit, Money Market Deposit Accounts, and savings accounts. Certificates of deposit are offered at various maturities.

Deposits can receive consideration as a community development investment.

A. Nonmember Deposits: Nonmember deposits are instruments that pay a fixed amount of interest in CDFI credit unions. These deposits are made by individuals and organizations that are not members of the institution.

EVALUATION CASE STUDIES: GOLDMAN SACHS

Evaluation Rating: Outstanding
Evaluation Method: Wholesale and Limited Purpose
Assessment Period: 2011-2012

OVERVIEW

Goldman Sachs received an "Outstanding" rating because it demonstrated excellent responsiveness to the community development needs of its assessment area through loans, investments, and services. Goldman Sachs increased its overall CRA activities by expanding its community development products, and continuing to provide innovative and complex financing deals and services.

Examiners compiled population, income, and housing characteristics and business demographics from the US Census and Department of Housing and Urban Development and unemployment rates from the New York State Department of Labor. In addition, interviews were conducted with affordable housing groups serving low income New Yorkers, a CDFI, and a NYC government agency to understand the credit needs of Goldman Sachs' assessment areas.

Goldman Sachs Assessment Area includes two geographies:

1. Multi-State MAS 35620, the NY-NJ assessment area includes counties from two Metropolitan divisions:

a. MD 35644 (New York-Wayne-White Plains, NY-NJ Metropolitan Division) consisting of Hudson County in New Jersey and New York's five boroughs

b. MD 35084 (Newark-Union, NJ-PA Metropolitan Division) consisting of Essex County in New Jersey

2. MD 35084, the Salt Lake City assessment area, consisting of Salt Lake, Summit, and Tooele Counties in the state of Utah.

COMMUNITY DEVELOPMENT LOANS

During the evaluation period, Goldman Sachs originated $578.8 million in new community development loans, an increase of 46.1% from the prior evaluation period. 51.8% of those loans were for projects to revitalize and stabilize neighborhoods. Of the bank's total net loan assets ($14.7 billion), new community development loans were 4% of the portfolio. Including the outstanding loans from previous evaluation period, the percent increases .8% to 4.8%.

EXAMPLES OF COMMUNITY DEVELOPMENT LOANS

• Affordable Housing: In 2012 GS Bank extended a $41 million standby letter of credit to provide credit enhancement to tax exempt housing bonds issued by the NYC Housing Development Corporation (HDC). The bond proceeds were used to help finance the acquisition and rehabilitation of 661 affordable housing units and approximately 20,000 square feet of commercial space located in LMI neighborhoods in Harlem (Manhattan), Bronx and Brooklyn in New York City.

• Economic Development: In 2012 GS Bank extended a $41 million loan to a corporation that is operating New York City's bicycle share program. The proceeds of the loan are being used to finance the design, building, operation, maintenance and marketing of the program, which includes a network of approximately 7,000 publicly available bicycles in a self-service bicycle share program in New York City. Approximately 70 people were employed to assemble the bicycles and stations during the launch of the program, and approximately 130 people, of whom over 90% were LMI individuals, were employed to operate the program thereafter.

• Community Services: GS Bank was the first financial institution to participate and invest in a social impact loan in the United States. The concept of "social impact investing" is to leverage private sector capital to finance public social services. During the evaluation period, GS Bank made a social impact loan to fund a specialized curriculum providing therapeutic services and group counseling to 16-18 year olds incarcerated on Rikers Island in an attempt to reduce recidivism while saving taxpayer dollars. This was highlighted as an example of "innovative and complex practices."

capital or equity contributions to entities involved or created in connection with community development projects. Approximately 50% of equity investments, including those outstanding from the prior period, were in Low Income Housing Tax Credits (LIHTC), 36% in New Market Tax Credits (NMTC), and the remainder in other equity investments.

EXAMPLES OF QUALIFIED INVESTMENTS

• Affordable Housing: GS Bank provided $25 million in LIHTC equity to finance the acquisition and revitalization of a 661 unit portfolio of existing mixed-use rental buildings in New York City. A standby letter of credit enhancement was also extended, as noted in the Community Development Lending Section of this Evaluation.

COMMUNITY DEVELOPMENT LOANS

	This Evaluation Period		Outstanding from Prior Evaluation Periods	
CD Loans	**Number**	**Amount**	**Number**	**Amount**
Affordable Housing	5	$116,825	3	$18,679
Economic Development	6	$81,884	1	$13,842
Community Services	8	$80,390	2	$10,133
Neighborhood Revitalization	17	$299,735	8	$81,486
Total:	**36**	**$578,834**	**14**	**$124,140**

• Neighborhood Revitalization: GS Bank provided $64.7 million in construction and bridge loans to finance a project in a moderate-income census tract in downtown Brooklyn that will implement major objectives of the 2004 Downtown Brooklyn Plan and the Mayor's Five Borough Economic Opportunity Plan including affordable housing and streetscape improvements. The project created over 3,000 jobs and provided food market, grocery store and restaurant options to an area with limited access to healthy food.

QUALIFIED INVESTMENTS

In the evaluation period, $384.4 million was made in new community development investments, including grants, an increase of 41.6% from the prior evaluation period. Investments were made in

• Economic Development: GS Bank provided $15 million in NMTC equity to a yogurt manufacturer to finance the expansion and equipping of its yogurt manufacturing facility in Upstate NY. The expanded facility was expected to double the production capacity and create hundreds of jobs for an economically disadvantaged community.

• Community Services: GS Bank made a $5.1 million NMTC equity investment, as well as a loan, to assist in the construction and permanent financing of a community center located in a low-income census

tract in the Bronx. The NPO that will operate the center provides a number of community programs including college counseling, youth programming and after school activities. The center will give the NPO a central location from which to operate the community programs.

• Neighborhood Revitalization: GS Bank made a $7.6 million NMTC equity investment to finance the acquisition and renovation of an existing storage facility into a mixed-use commercial space in the Crown Heights section of Brooklyn. The project was expected to create 150 to 200 construction jobs and 400 permanent jobs. In addition, it was expected to act as an anchor for future development and investment in Crown Heights.

• Grants: GS Bank contributed approximately $3.2 million to a foundation dedicated to fighting poverty in New York by supporting and developing organizations that provide direct service to poor New Yorkers in education; early childhood and youth; jobs and economic security; and survival. The foundation also launched a large-scale relief effort to aid those in areas hardest hit by Superstorm Sandy. This was highlighted as an example of "responsiveness to credit and community development needs."

EXAMPLES OF COMMUNITY DEVELOPMENT SERVICES

At least 36 senior officers provided leadership and financial expertise as members of the Board of Directors and Loan Committees of many NPOs, CDFIs, and other community development organizations that are leaders in affordable housing, education, foreclosure prevention, and other community development activities.

QUALIFIED INVESTMENTS

	This Evaluation Period		Outstanding from Prior Evaluation Periods	
CD Investments	**Number**	**Amount**	**Number**	**Amount**
Affordable Housing	7	$112,936	10	$87,381
Economic Development	3	$28,886	1	$4,737
Community Services	4	$44,314	2	$7,260
Neighborhood Revitalization	14	$153,641	8	$49,583
Total:	**28**	**$578,834**	**21**	**$148,961**
CD Grants				
Affordable Housing	5	$641		
Economic Development	8	$6,126		
Community Services	126	$34,698		
Neighborhood Revitalization	26	$3,173		
Total:	**165**	**$578,834**		

EVALUATION CASE STUDIES: DEUTSCHE BANK TRUST COMPANY AMERICA

Evaluation Rating: Outstanding
Evaluation Method: Wholesale and Limited Purpose
Assessment Period: 2011-2012

OVERVIEW

DBTCA received an "Outstanding" rating because it demonstrated excellent responsiveness to the community development needs of its assessment area through loans, investments, and services. DBTCA extends credit, makes investments, and performs services directly as well as through intermediaries.

Examiners compiled population, income, and housing characteristics and business demographics from the US Census and Department of Housing and Urban Development and unemployment rates from the New York State Department of Labor. In addition, the examiner contacted non-profit housing organizations serving LMI New Yorkers for community information on DBTCA's affordable housing and community development activities.

DBTCA's Assessment Area:

1. The five boroughs of New York City. Of the 2,168 census tracts in the AA, 292 are low-income, 578 are moderate income, 654 are middle-income, and 580 are upper-income. 64 of the tracts had no income indicated. The examiner commented that the AA was considered reasonable based on the location of DBTCA's offices and its lending patterns.

DBTCA's CRA activities are primarily conducted by a specialized business unit based in New York City which is comprised of the Community Development Finance Group and Deutsche Bank Americas Foundation.

COMMUNITY DEVELOPMENT LOANS

During the evaluation period, DBTCA originated $156.6 million in new community development loans and had $58.4 million outstanding from prior evaluation periods.

EXAMPLES OF COMMUNITY DEVELOPMENT LOANS

• DBTCA originated a $15 million line of credit to a community development intermediary based in New York City whose goal is to preserve affordable housing stock and strengthen low-income neighborhoods by expanding cash flow to the community development sector.

COMMUNITY DEVELOPMENT LOANS

	This Evaluation Period		Outstanding from Prior Evaluation Periods	
CD Loans	**Number**	**Amount**	**Number**	**Amount**
Affordable Housing	26	$151,389	30	$47,496
Economic Development	6	$5,050	3	$221
Community Services	1	$75	5	$225
Revitalization & Stabilization	1	$75	3	$10,487
Total:	**34**	**$156,589**	**41**	**$58,429**

• DBTCA continued its support for one of the nation's premier intermediaries with the issuance of a $25 million one-year unsecured line of credit in 2012. The intermediary provides grants, financing and technical assistance to community development corporations that are active in distressed areas, and focuses on housing, economic development, community-building, and general neighborhood revitalization.

• DBTCA committed to a $7.4 million participation in a $35 million standby letter of credit during the evaluation. The standby letter of credit was issued to provide credit support to the bonds issued by HDC which raised funds for construction of a new affordable apartment complex in the South Bronx.

QUALIFIED INVESTMENTS

In the evaluation period, $164.7 million was made in new community development investments during the evaluation period and had $72.9 million outstanding from prior evaluation periods. In addition, DBTCA also made $8.7 million in grants.

EXAMPLES OF QUALIFIED INVESTMENTS

• DBTCA made a $10.7 million investment commitment in a LIHTC housing project in the Bronx. The new development project consisted of three eight to ten story buildings with 141 rental apartments, all of which are affordable to low-income households.

• DBTCA made two grants of $50,000 each in 2001 and 2012 to a community-based organization whose mission is to provide a safe, affordable housing with supportive services. The grants helped redevelop a distressed 145 unit senior housing project in the Bronx that serves low-income individuals.

QUALIFIED INVESTMENTS

	This Evaluation Period		Outstanding from Prior Evaluation Periods	
CD Investments	**Number**	**Amount**	**Number**	**Amount**
Affordable Housing	16	$157,592	17	$64,757
Economic Development	4	$7,123	7	$7,914
Community Services			1	$179
Total:	**20**	**$164,715**	**25**	**$72,850**
CD Grants				
Affordable Housing	68	$3,205		
Economic Development	40	$2,577		
Community Services	100	$2,954		
Total:	**208**	**$8,736**		

EXAMPLES OF COMMUNITY DEVELOPMENT SERVICES

Highlights of Community Development Services:

• A Managing Director served on the advisory committee of an investment fund dedicated to creating pathways of opportunity for low-income people and communities. The fund is a steward for capital invested in community building initiatives and provides a bridge between private capital markets and low-income neighborhoods.

• An assistant Vice President served as a board member in a microfinance organization that focuses on education for LMI people starting new businesses.

INNOVATIVE OR COMPLEX PRACTICES

• To support housing development at the local community level, DBTCA launched the Deutsche Bank Working Capital Award program. The objective of the program is to assist CDCs in their efforts to preserve and rebuild neighborhoods struggling with neglect, disinvestment, and/or the challenges of a stagnant or deteriorating real estate market. The award combines $150,000 in grants resources and a $75,000 soft loan at 0% interest. The loans provide early stage predevelopment support.

• DBTCA offers Program Related Investments which are concessionary investments at low rates to high capacity microlenders working with people interested in starting new businesses.

ADDITIONAL FACTORS

• The Board of Directors at DBTCA has established a Committee on Public Responsibility and Concern which is charged with overseeing DBTCA's commitment to CRA compliance. This committee, consisting of outside directors who have long histories of involvement in community affairs, meets twice a year and ensures that CRA is an important element in DBTCA's priorities within the United States.

[1] "Interagency Q&A Regarding Community Reinvestment." 2016 July 25. Federal Deposit Insurance Corporation. PG 48528. https://www.gpo.gov/fdsys/pkg/FR-2016-07-25/pdf/2016-16693.pdf

[2] "Interagency Q&A Regarding Community Reinvestment." 2016 July 25. Federal Deposit Insurance Corporation. PG 4853. https://www.gpo.gov/fdsys/pkg/FR-2016-07-25/pdf/2016-16693.pdf

[3] Banks receive CRA credit by purchasing state and local municipal bonds only in their designated assessment areas.

[4] "Interagency Q&A Regarding Community Reinvestment." 2016 July 25. Federal Deposit Insurance Corporation. PG 48530-48531. https://www.gpo.gov/fdsys/pkg/-FR-2016-07-25/pdf/2016-16693.pdf

[5] "Section III- Financing Approaches." 2014 May 7. Community Affairs Program- Strategies for Community Banks to Develop Partners with Community Development Financial Institutions. FDIC. https://www.fdic.gov/consumers/community/CDFI/index.html

[6] "Community Development Loan Funds: Partnership Opportunities for Banks." 2014 October. PG 20. OCC. https://occ.gov-/topics/community-affairs/publications/insights/insights-community-development-loan-funds.pdf

[7] Phone conversation with Darryl E. Getter on December 2016.

[8] "Federal Register Q&A. Rules and Regulations." 2016 July 25. pg. 48536. FDIC. https://www.fdic.gov/regulations/cra/