



The CRA's Impact on Successful Community Development

regulatory lending

Summary: CRA-regulated CFIs play a crucial role in supporting low- and moderate-income communities and small businesses. We discuss how institutions can ensure compliance with the Act, and how it is evolving to meet the needs of today's world.

Did you know that in the early 1960s, [the bald eagle was on the brink of extinction](#), with only 487 nesting pairs remaining? Fortunately, thanks to the banning of DDT, the introduction of the Endangered Species Act in 1973, and various other initiatives, the bald eagle species slowly started to recover. In 2007 our national symbol was, thankfully, removed from the list of threatened species.

Although fortunately not yet in danger of extinction, people also rely on legislation and regulators to ensure we're able to develop and grow. By their very nature and intrinsic connection to the communities in which they operate, community financial institutions (CFIs) play a crucial role in community development, including supporting small businesses and low- and moderate-income (LMI) communities. For example, [CFIs provide almost 60% of all small business loans and approximately 80% of all agricultural loans](#) across the US.

By providing their time, expertise, financial and human capital, as well as partnering with local organizations, CFIs of course play a vital role in improving economic, housing, and health outcomes for LMI communities. This would increase the opportunities available to LMI communities and support long-term positive change.

But, as we all know, successful community development is complex, often requiring public, private, and non-profit organizations to pool resources and collaborate. Access to capital and financial resources is key to a healthy community, which is why it's essential that the Community Reinvestment Act (CRA) continues to meet the needs of our communities and the banking industry.

The CRA's Role in Community Development

First enacted in 1977 to encourage financial institutions to provide services to all communities — particularly LMI populations and small businesses — the Community Reinvestment Act (CRA) provides an important framework to help increase lending to underserved populations and small businesses, drive innovation in service delivery, encourage mutually beneficial partnerships, and increase funding to and investment in community development initiatives.

To ensure compliance with the act, regulators use various tests depending on the size of the financial institution and its assets, including the lending, investment, and service tests. The CRA doesn't currently apply to credit unions. CRA compliance requires a bank's relevant activity to have community development as its primary purpose. These activities fall into four main areas:

1. Affordable housing for LMI persons.
2. Community services targeting LMI persons.
3. Economic development through small business financing.
4. Revitalization or stabilization of certain designated areas.

A financial institution’s CRA rating (outstanding, satisfactory, needs to improve, substantial non-compliance) and performance evaluation, which must be publicly available, can impact the financial institution’s applications for new branches, relocation of main offices, mergers and acquisitions, and charter conversions.

CFIs can implement the CRA framework in various ways, customizing it to the needs of a particular area and/or demographic. **Here are four examples of CFIs applying the CRA in practice.**

- 1. A WV-based CFI initiated a bank-funded grant program at the start of the COVID-19 pandemic. This initiative was designed to aid projects within the CFI’s footprint area that addressed issues such as food insecurity, the need for personal protective equipment, and helping students learn online.
- 2. Another CFI in VT has invested in and worked closely with two housing organizations to develop affordable multifamily housing properties. It has also been running a long-term program working with schools and volunteer parents to help children learn about savings.
- 3. A CFI in MS has established a program that helps unbanked people in its community establish credit, improve credit scores, and secure home loans. It provides financial education workshops and counseling sessions, as well as loans to LMI households.
- 4. An MA-based bank has an initiative specifically focused on accelerating the growth of minority-owned businesses in its area. It leverages its own network to raise funding, provide advice and operational support, and connect businesses with supplier and procurement opportunities.

Modernizing the CRA

While the CRA has played a crucial role in supporting LMI communities and small businesses for many years, it hasn’t necessarily evolved to meet the changing nature of banking. For example, it currently doesn’t account for online banking, advances in technology, and the emergence of new types of financial institutions. It also doesn’t always address the needs of certain underbanked or underserved areas.

To rectify this, regulators announced a raft of [proposed changes to the CRA](#) in 2022. These include having more detailed and standardized guidelines and benchmarks for evaluation, and accounting for the move to online and mobile banking. The changes should also ensure greater consistency, transparency, and clarity around assessment, while at the same time allowing smaller banks to still be assessed under the old rules.

The results of the public consultation have not been announced yet, but it is expected that these changes will significantly impact the entire, and longstanding, community development ecosystem. To continue to meet the CRA’s regulatory requirements and be able to best serve their customers, CFIs should continue to record and document how they support their communities while staying abreast of how the CRA is changing.

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ECONOMY & RATES

Rates As Of: 03/02/2023 06:34AM (GMT-0700)			
Treasury	Yields	MTD Chg	YTD Chg

3M	4.90	0.02	0.48
6M	5.20	0.03	0.44
1Y	5.04	0.03	0.34
2Y	4.93	0.11	0.50
5Y	4.33	0.14	0.32
10Y	4.06	0.14	0.18
30Y	4.01	0.09	0.05
FF Market		FF Disc	IORR
4.57		4.75	4.65
SOFR		Prime	OBFR
4.55		7.75	4.57

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