

***Community
Development Financing in
Rural Pennsylvania
October and November, 2006***

Changes to the Community
Reinvestment Act



FEDERAL RESERVE BANK
OF PHILADELPHIA

2005 CRA Changes

- The FDIC, FRB, and the OCC jointly approved amendments on July 19, 2005
 - Changes to the regulations were effective on September 1, 2005

- The OTS published a new CRA rule on March 2, 2005
 - Changed the definition of small bank to those institutions with assets <\$1 billion

2005 CRA Changes

- Three key changes by FDIC, FRB and OCC:
 - (1) Changed small bank size to < \$1 billion
 - Holding company affiliation no longer relevant
 - No CRA data reporting for these banks
 - (2) New category of banks established- Intermediate Small Bank
 - (3) Expansion of “Community Development” definition that applies to all banks
 - Distressed nonmetropolitan middle-income geographies
 - Underserved nonmetropolitan middle-income geographies
 - Designated disaster areas

Definitions- Small Bank and ISB

- Small Bank- Assets of less than \$1 billion as of December 31st of either of the prior two calendar years
- Intermediate Small Bank- Small Bank with assets of at least \$250 million* as of December 31st of both of the prior two calendar years, and less than \$1 billion* as of December 31st of either of the prior two calendar years

NEW!

* Annual adjustment of asset thresholds based on changes in the Consumer Price Index will be reported in the Federal Register

Changes in Community Development Definition (All Examination Methods)

- Affordable housing for LMI individuals
- Community services targeted to LMI individuals
- Activities that promote economic development by financing small businesses and small farms
- Activities that revitalize / stabilize:
 - LMI Geographies
 - *Distressed or Underserved Nonmetropolitan Middle-Income Geographies*
 - *Designated Disaster areas*

New!

New!

Distressed Nonmetropolitan Middle- Income Geographies

- Located in counties that meet one or more CDFI triggers:
 - Unemployment rate of at least 1.5 times the national average
 - Poverty rate of 20% or more
 - Population loss of 10% or more between the previous and most recent census
- OR-
- Net migration loss of 5% or more over the five-year period before most recent census

Distressed Nonmetropolitan Middle- Income Geographies

Treatment for Distressed

- Activities that revitalize or stabilize distressed nonmetropolitan middle-income areas:
 - Must help to attract new, or retain existing residents or businesses
 - Will consider all activities, but give greater weight to activities that are most responsive to community needs, including needs of LMI individuals and geographies

Underserved Nonmetropolitan Middle-Income Geographies

- Must meet criteria to indicate that the population is so small, thin and distant from a population center that it has difficulty financing essential community needs
- Underserved geographies are those that have “urban influence codes” numbered 7, 10, 11 and 12*

*Maintained by the Economic Research Service of the United States Department of Agriculture
(www.ers.usda.gov/Briefing/Rurality/urbaninf/)

Underserved Nonmetropolitan Middle-Income Geographies

Treatment for Underserved

- Activities that revitalize or stabilize underserved nonmetropolitan middle-income areas:
 - Must facilitate the construction, expansion, improvement, maintenance, or operation of essential infrastructure, including needs of low- or moderate-income people
 - Essential infrastructure means: facilities for health services, education, public safety, industrial parks, or affordable housing
 - Must meet needs of the entire community, including LMI

Distressed and Underserved Nonmetropolitan Middle-Income Geographies



- List of Distressed and Underserved Geographies available on FFIEC website (www.ffiec.gov/cra)
 - List will be reviewed and updated by the agencies annually, and changes posted to the FFIEC website
- One-year lag period will be in effect for the calendar year following the date of removal from the list
 - Activities that were undertaken during the lag period will still count

Distressed and Underserved Nonmetropolitan Middle-Income Geographies in Pennsylvania



- As of July 27, 2006
 - Thirteen distressed tracts in Warren and Montour counties
 - Nine underserved tracts in Fulton, Juniata and Sullivan counties
 - Thirteen distressed and underserved in Forest and Susquehanna counties

Designated Disaster Areas

- Major disaster area designated by federal government
 - List of federally declared disaster areas available on FEMA's website (www.fema.gov)



Final CRA Questions & Answers

- Agencies considered comments and made changes to some of the proposed Qs & As
- Final CRA Qs & As were released in the Federal Register on March 10, 2006
(Also in CA Letter 06-7)



Qs & As Adopted As Proposed

- Commenters generally did not object to most of the content contained in the proposal
- As a result, 10 of the proposed Qs & As were adopted as proposed

Qs & As Adopted As Proposed (con't)

§ ____ .12(g)(4)-1:

States that the definition of community development is applicable to all banks, not just ISBs.

§ ____ .12(g)(4)(iii)-1:

Sets forth the criteria used to designate distressed and underserved nonmetropolitan middle-income geographies.

Qs & As Adopted As Proposed (con't)

§ _____.12(g)(4)(iii)-2:

Explains that the agencies will review and update the list of distressed and underserved geographies annually (changes will be posted to FFIEC website). Also adopts a twelve-month lag period for these geographies.

§ _____.12(i)-3: [Revision of existing § _____.12(j)]

Adds two new examples of community services-

- (1) Financial services to LMI individuals through branches in LMI areas
- (2) International remittances for LMI persons

Qs & As Adopted As Proposed (con't)

§ ____ .12(t)-1:

States that examiners will consider investments that were made prior to the current examination, but are still outstanding.

§ ____ .12(t)-4: [Revision of existing § ____ .12(s)]

Adds one new example of qualified investments-

- (1) Investments in Rural Business Investment Companies (RBICs)

Qs & As Adopted As Proposed (con't)

§ _____.12(u)(2)-1:

States that asset thresholds for small banks and ISBs will be made annually based on changes to the CPI, and will be published in the Federal Register.

§ _____.26-1:

Explains that examiners will consider affiliate activities-

- (1) retail and community development loans originated or purchased by an affiliate;
- (2) qualified investments made by an affiliate; or
- (3) community development services provided by an affiliate.

Qs & As Adopted As Proposed (con't)

§ _____.26(c)-1:

Explains how the ISB community development test will be applied flexibly. Banks are given the flexibility to allocate community development resources to be responsive to areas of greatest community need. Generally, cannot ignore one or more category.

§ _____.26(c)(4)-1:

Discusses examiners' consideration of qualitative and quantitative factors when assessing an ISB's responsiveness to community development needs.

Revisions to Proposed Qs & As (con't)

§ ____ .12(g)(4)-2: *Housing for middle- and Upper-Income Individuals as community development*

➤ Q&A Revision

- (1) Distressed Areas or Disaster Areas- Clarifies that projects that provide housing for middle- and upper-income individuals may qualify in distressed areas or disaster areas if they *directly* help to revitalize or stabilize by attracting or retaining businesses and residents, and in the case of disaster areas, are related to disaster recovery. Greater weight will be given to activities that are most responsive to community needs, including LMI.
- (2) Underserved Areas- Activities that provide housing for middle- and upper-income individuals may qualify if they also provide housing for LMI individuals.

Revisions to Proposed Qs & As (con't)

§ ____ .12(g)(4)(ii)-1: *Description of the disaster area and length of CRA consideration*

➤ Q&A Revision

- A designated disaster area is a major disaster area designated by the federal government such as Major Disaster Declarations administered by FEMA.
- Designated disaster areas will exclude counties that receive **only** FEMA Public Assistance Emergency Work Category A (Debris Removal), and/or Category B (Emergency Protective Measures) assistance.
- Examiners will consider activities related to disaster recovery that revitalize or stabilize a designated disaster area for 36 months following its designation. This period may be extended by the agencies if there is a demonstrable community need to assist in long-term recovery efforts.

Revisions to Proposed Qs & As (con't)

§ ____.***12(g)(4)(ii)-2: Consideration of revitalization or stabilization activities in disaster areas***

➤ Q&A Revision

- Consideration given if the activity revitalizes or stabilizes by attracting or retaining businesses or residents **and** is related to disaster recovery
- Presumed to revitalize or stabilize if consistent with a bona fide government plan
- Greater weight given to activities most responsive to community needs, including LMI needs

Revisions to Proposed Qs & As (con't)

§ ____ .12(g)(4)(iii)-3 and 4: *Evaluation of revitalization / stabilization activities in distressed or underserved areas*

➤ Q&A Revision

- To clarify the guidance, the agencies split this proposed Q & A into two separate questions and answers
- Distressed Areas - An activity revitalizes or stabilizes a distressed area if it helps to attract or retain businesses or residents. Activities are presumed to revitalize or stabilize if consistent with a bona fide government plan. Greater weight will be given to activities that are most responsive to community needs, including LMI needs.
- Underserved Areas- An activity revitalizes or stabilizes an underserved area if it helps to meet essential community needs, including LMI needs*.

*Essential community needs- financing for the construction, expansion, improvement, maintenance or operation of essential infrastructure or health services, education, public safety, public services, industrial parks or affordable housing.

Revisions to Proposed Qs & As (con't)

§ _____.26(c)(3)-1: *Provision of community development services by ISBs*

➤ Summary of Comments Received

Most commenters asserted that ISBs should be evaluated on the number and percentage of branches in LMI areas.

➤ Q & A Revision

Examiners will consider the types of services provided to LMI, as well as the provision and availability of services to LMI, including through branches and other facilities.

Generally, the presence of branches in LMI geographies will help to demonstrate the availability of services to LMI individuals.

Resources

➤ FFIEC:

www.ffiec.gov/cra

2001 Qs and As

<http://www.ffiec.gov/cra/pdf/qa01.pdf>

2006 Qs and As

<http://www.ffiec.gov/cra/pdf/06-2188.pdf>

Distressed and Underserved Census Tracts-
CRA Exam Procedures also on this page

<http://www.ffiec.gov/cra/examinations.htm>

➤ Board of Governors of the Federal Reserve System:

<http://www.federalreserve.gov/>

Resources

- Federal Deposit Insurance Corporation:
<http://www.fdic.gov/>
- Office of the Comptroller of the Currency:
<http://www.occ.treas.gov/>
OCC Summer 2006 Newsletter
<http://www.occ.gov/cdd/summer06/index.html>
- Federal Emergency Management Agency:
<http://www.fema.gov/>