

# CRA and Sustainability

Prepared by the National Center on Poverty Law\*

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**Overview:** *It takes a lot of work to start a financial education program, but in order for it to have long term, maximal results, it also needs to be sustainable. By sustainable, we mean that it needs to eventually be able to run smoothly, continuously, and with minimal manpower. Perhaps most importantly, it also needs to be financially sustainable. This financial stability can often be very difficult to establish. In most cases, community based non-profits (the target audience for this chapter) do not have the resources (either in the form of financial capital or human capital) to fully run a financial education program on their own. Therefore, for the survival of a financial education program it is necessary to establish supports that will ensure its long-term success. One tool to aid in the survival of a financial education program is the Community Reinvestment Act, a law that can make running a sustainable financial education program feasible. In this chapter you will learn:*

- *Why federally insured financial institutions are obligated to serve low- and moderate-income individuals and communities.*
- *Who makes sure that financial institutions are serving low- and moderate-income communities and how they determine if a community's needs are being met.*
- *How you can get a financial institution's help in running your own financial education program for low- and moderate-income individuals.*
- *What to do if you do receive a large grant from a financial institution.*

## I. CRA Basics

When offering a financial education program, it makes sense that one avenue of support can come from local financial institutions (banks and credit unions). Each person or organization deals with money and fundraising in a different way. It may be intimidating to approach a bank for help with your program. You might not know whom to talk to at a bank or what to ask for from the bank. However, this doesn't have to be the case. In this chapter, we outline why banks should help you with your financial education program and how they are either rewarded or penalized by the agencies that monitor their business according to how well banks serve the needs of low- and moderate-income individuals in their communities.

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## **Why should a bank help me?**

In 1977, Congress passed a law called the Community Reinvestment Act (CRA) stating that “Financial institutions have a continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered, including low- and moderate-income and minority communities.” (CRA statute, see 12 USC 2901; Title VII of Pub. L. 95-128, 91 Stat. 1147; Woodstock Institute PowerPoint Presentation) Basically, this means that federally insured (FDIC) financial institutions are required *by law* to serve everyone — not just individuals with large incomes or good credit histories.<sup>1</sup>

Not surprisingly, CRA was enacted in response to banking “redlining” (discrimination due to income or race) and was meant to minimize and curtail these activities. CRA was also enacted to encourage banks to bring low- and moderate-income individuals into the financial mainstream. In fact, the law does more than just encourage banks to participate in positive activities, it actually requires that banks provide lending, services, and investments in their entire assessment area.

Typically, each bank determines the geographic boundaries of their assessment area. However, assessment areas must include the areas where a bank has its main office, branches, and deposit-taking ATMs, and may not reflect illegal discrimination nor arbitrarily exclude low- and moderate- income geographies. (National Community Reinvestment Coalition Web site and NCRC Advanced CRA Manual)

*What this means for your financial education program is that the FDIC-insured financial institutions in your community are required by federal law (the CRA) to help the members of your target audience (low- and moderate-income individuals).*

## **Who makes sure that financial institutions follow the CRA?**

In order to make sure that banks comply with the CRA, they are periodically required to go through CRA “exams.” Depending on the characteristics of the bank, each bank is watched by one of four federal regulatory agencies. Each of these agencies is responsible for regulating the activities of banks, and part of their responsibility is to do a needs assessment in the community and see if the banks are meeting those needs in compliance with the CRA. Each banking agency regulates a different type of bank.

A list of the four regulatory agencies and the types of banks each one regulates appears on the following page. (Marsico, 135)

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<sup>1</sup> Even though the CRA does not apply to credit unions or non-federally insured financial institutions, most banks are federally insured and so chances are that the CRA will apply.

<b>Regulatory Agency</b>	<b>Type of banks regulated</b>
Board of Governors of the Federal Reserve System (Federal Reserve)	State-chartered banks that are members of the Federal Reserve System
Federal Deposit Insurance Corporation (FDIC)	State-chartered banks and savings banks that are not members of the Federal Reserve System
Office of Thrift Supervision (OTS)	Savings associations whose deposits are insured by the FDIC
Office of the Comptroller of Currency (OCC)	National banks

**How do the regulatory agencies make sure that financial institutions are following the CRA guidelines?**

One of the four regulatory agencies conducts a CRA exam for each bank to make sure that it is in compliance with the law. These exams vary depending on the type of bank in question. There are two times when a CRA exam is given:

- 1.) When conducting a periodic performance examination (a "PE") of a bank's CRA record

OR

- 2.) When considering a bank's application to expand its business (an application to obtain a charter, obtain deposit insurance, establish a branch, relocate a home office or branch, merge with another bank, or obtain the assets or assume the liabilities of another bank). (Marsico, 137)

In recent years, the CRA exam system has been restructured so that it emphasizes bank performance in making loans instead of a bank's process for complying with CRA. (NCRC: Woodstock ppp) At the end of the exam, the regulator gives the bank one of four ratings based on its compliance with the CRA guidelines: Outstanding, Satisfactory, Needs Improvement, or Substantial Non-compliance.

"The CRA regulations recognize three types of banks and establish different criteria for evaluating their CRA performance." (Marsico, 145) On the next page you will find the different types of banks and the criteria the regulatory agencies look at when evaluating them.



Type of Bank	CRA criteria used by regulatory agency
<p>Large Bank (has at least \$250 million dollars in assets)</p>	<p>Graded according to three separate tests, the scores of which are compiled to give an overall rating:</p> <ol style="list-style-type: none"> <li>1. <i>The Lending Test (this test is given at least twice as much weight as the other two tests):</i> This test looks at the number and dollar amount of loans, the amount of lending in the assessment area, the geographic distribution of the loans, the distribution of loans across borrowers of various income levels, community development lending, and how innovative and flexible a bank's lending practices are. (Woodstock ppp)</li> <li>2. <i>The Service Test:</i> This test looks at a bank's record of opening and closing branches, the effectiveness of bank marketing and implementation of products, technical assistance and support provided to communities, and any innovative services it might have. <b>Banks can get credit under this portion of the test for helping with your financial education program.</b></li> <li>3. <i>The Investment Test:</i> This test looks at grants and investments to community organizations for affordable housing, economic development, and other community projects. (Marsico, 145) <b>Banks can get credit under this portion of the test for financially supporting your financial education program.</b></li> </ol>
<p>Small Bank (has less than \$250 million dollars in assets)</p>	<p>Graded according to five separate criteria:</p> <ol style="list-style-type: none"> <li>1. Loan-to-deposit ratio</li> <li>2. Percentage of loans in assessment area</li> <li>3. Record of lending to borrowers of different income levels, small businesses, and farms</li> <li>4. Geographic distribution of loans</li> <li>5. Responsiveness to complaints (NCRC; Marsico, 145)</li> </ol>
<p>Wholesale or Limited Purpose Bank ("A wholesale bank is a bank that is not in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers. A limited purpose bank is a bank that offers only a narrow product line to a regional or broader market." (Marsico, 145; NCRC).</p>	<p>Graded according to three separate criteria:</p> <ol style="list-style-type: none"> <li>1. Total number and dollar amount of community development loans, investments, or services</li> <li>2. Innovativeness, complexity, and unique nature</li> <li>3. The bank's responsiveness to community development needs (Marsico, 145; NCRC)</li> </ol>

Each bank is evaluated according to its type and then given an overall rating of “Outstanding”, “Satisfactory”, “Needs Improvement,” or “Substantial non-compliance” according to how well the financial institution meets the needs of the community as determined by the needs assessment conducted earlier by the CRA examiner.

Finally, a bank may choose to be evaluated under the “strategic plan option.” With this option, a bank “defines for itself what constitutes a satisfactory CRA performance. A strategic plan must be in writing, contain measurable goals, and address lending, investment, and services. A bank that wishes to be evaluated according to the strategic plan option must submit its plan to its federal banking agency for approval prior to adoption. Before the bank submits its plan to its federal banking agency for approval, it must seek public comment on the plan.” (Marsico, 145) Although the “strategic plan option” can be attractive to banks since it allows them to set their own guidelines, it takes a lot of work to put together an acceptable “strategic plan” and so very few banks use this option.

### **Why should a bank care about its CRA rating?**

There can be penalties or benefits for financial institutions depending on how well they score on the CRA exams. If a bank receives a good score, it will not be evaluated as often (there are guidelines that determine how often each type of bank is evaluated). If the bank is applying to expand its business, the likelihood that its application will be accepted increases. However, if a bank receives a poor rating, it can be evaluated more often. Even more seriously, a poor CRA rating may be the basis for denying a bank the approval needed to expand its business (*e.g.*, a merger or acquisition) or for making approval conditioned upon the bank agreeing to improve its CRA record. (Marsico, 146) “Poor CRA ratings do not result in immediate sanctions for a lender, but can curtail a bank’s future plans for service changes or merging with other financial institutions.” (NCRC website)

## **II. Making the CRA work for you**

**Although a bank’s CRA rating may not seem to have many consequences for running a financial education program, it can be a very powerful tool for getting the help you need to create a sustainable program. Although some banks are ambivalent about their CRA ratings (especially banks who aren’t looking to expand their business), most banks are eager to maintain a good rating if they have one and improve a poor rating if they received one on a periodic examination. One of the ways in which banks can improve their rating is by participating in activities related to financial education. These activities may include direct support to your financial education program. By helping financial education programs, financial institutions can receive credit under the “service” and investment” portions of the CRA exams. Remember, it is a *law* that banks must provide financial services and participate in activities that serve low- and moderate-income (LMI) communities. In other words “it is not enough for a bank simply not to redline LMI neighborhoods. Instead, a bank must actually do something to meet the credit needs of LMI neighborhoods.” (Marsico, 131)**

**So, encouraged by the CRA guidelines, financial institutions in your neighborhood may be more open to helping you with your programs than you might think. At this point, you may be a little confused as to how to use the CRA as a tool to leverage help with your financial education program. Although it is a good first step to know about this law, it will take a few more steps to truly make it work for you. It will take some time, effort, and persistence to make CRA work for you, but it is not a hard process and the results (a sustainable financial education program) can be extremely rewarding.**

### **Step 1: Educate yourself**

The first step to making CRA work for you is to educate yourself. Reading this chapter is a good way to start, but it is only a brief overview. For more information on the Community Reinvestment Act, consult the list of references at the end of this chapter. They contain much more detailed information about the CRA and are more specific.

### **Step 2: Research the bank**

Once you feel comfortable with the CRA, it is time to look closer to home. At every federally insured bank there is a "CRA Public File." "The public file must be at the bank's main office and at least one branch office in each state if the bank is an interstate bank. If the public file is not at a particular branch office, the bank has five calendar days to make it available at a particular branch office in response to a request from a citizen." (NCRC Web site) There are two ways to get hold of a bank's public file: (1) go to the bank and ask to see the file; or (2) make an appointment to see the file. The bank is REQUIRED by CRA guidelines to show you its public file if you ask to see it.

The public file "contains at least six types of documents: all written comments received from the public in the current calendar year and the two previous calendar years relating to the bank's CRA performance; the bank's most recent CRA performance evaluation; a list of the bank's branches and locations by address and census tract; a list of bank branches opened or closed in the current and previous two years by address and census tract; a list of services at each branch with a description of material differences in services; and a map of each bank CRA assessment area that identifies the census tract it contains." (Marsico, 163)

In addition to these six types of documents, other useful documents will be included in the CRA public file depending on the type of bank it is. By reading the documents in this file, you will get a good idea of the bank's record, how dedicated the bank is to serving low- and moderate- income communities, what the bank is doing to comply with the CRA, and how the bank stands with its federal regulatory agency. By reading this file, you will become well educated about the activities of the particular financial institution (or institutions) in your area and will know how to proceed.

### **Step 3: Think about the type of assistance you want from the bank**

After reading your bank's profile, it is time to think about how your bank can help your financial education program. Before approaching your financial institution, think thoroughly about what it can do to help your program. "Be prepared before you go, provide information about your organization, expertise of leaders, and ability to raise funds from other sources." (FDIC ppp) "Show" a bank what you want, explain how your project meets the CRA definition of community development, and be specific about what you want." (FDIC ppp) Banks are willing to help, but they want to see that you have "done your homework", are serious about your project, have reasonable goals in mind, and have concrete ideas on how to reach those goals. A bank will be much more eager to help with a project if they know that it is well constructed, sound, and truly serves the needs of the community.

Additionally, a bank will be much more willing to help if you are able to show them SPECIFICALLY how you need their help: do not just vaguely ask for assistance. If you are requesting monetary assistance, do not just request a lump sum. Tell the bank how the money will be used, what it will be used for, and how this contribution will make a positive impact on your organization. For example, you might ask a financial institution for money to buy a particular software program to aid your program, for money to cover postage for mailings about your program, for money to photocopy your curriculum materials, or for matching funds if you are sponsoring an Individual Development Account (IDA) program. You should not feel, however, that a monetary contribution is the only way in which a bank can help your program. Feel free to be creative in your requests.

A bank can provide the physical space for your classes, free financial education materials, or supplementary materials. The bank can donate in the form of staff time and provide experts to talk to your financial education classes, sponsor field trips to the bank, offer to help open up checking accounts for low- and moderate- income people, or host special workshops or meetings. The bank could also offer to adjust or waive requirements for low- or moderate-income individuals to open a checking or savings account. Participating in any of these activities gives the bank positive consideration under the "service" and "investment" portions of the CRA exam. There are countless other ways in which a bank can help; do not feel limited by the few suggestions here.

### **Step 4: Prepare a written request**

Banks usually require a written request, so it is a good idea to put your request in writing. This will also help you to focus your efforts and identify the areas where you need the most assistance. Write a letter and send it to the bank before meeting with anyone face-to-face.

- In your letter, be sure to include:
- ✓ Documentation that your program is part of a non-profit organization and has been given a 501(c)3 designation by the Internal Revenue Service
  - ✓ An explanation of what your organization does and, in particular, what your financial education program will do
  - ✓ Specific requests for what you want from the bank
  - ✓ Contact information on how to reach you

(Please see the sample letter at the end of this chapter as a guide on how to write your own letter of request.)

### **Step 5: Talk to someone at the bank**

In each bank, there is an individual whose specific job is to handle CRA and community investment issues. This individual's title is "CRA Officer," "Community Investment Officer," or something similar (each bank is a little bit different). This person should be willing to talk to you about your program and what the bank can do to help you with it. However, this individual isn't the only person you can talk to about your program. If you sense that the CRA officer at your bank is unwilling to listen to you or is hesitant to give you the help that you need, do not get discouraged. Sometimes, your local branch manager or someone from a different department entirely will be the best person to talk to. Although it makes sense to start with the CRA officer (since presumably he or she will know the most about the CRA regulations), do not give up if this individual does not give you a satisfactory answer. Many people at your bank will be aware of the CRA and you should try your hardest to make a connection with someone with whom you feel comfortable and someone you feel will listen carefully and respectfully to your requests.

After you identify the person you think will be most helpful, make a formal appointment with him or her to discuss your program and your request for assistance in detail. At your meeting, you can use your written request as a guide and try to reach a resolution on how the bank can help your financial education program.

### **Step 6: Follow up**

After meeting with your bank officer, it is always a good idea to follow up with him or her. Depending on the outcome of your meeting, there are a few different ways to follow up.

- If the financial institution rejects your request for assistance, a thank-you note is a simple, but effective, way to remind the bank officer of your program and will also pave the way for future good relations. Even if the financial institution does not help you at this juncture, it does not mean that it won't help if you ask again in the future. It will be easier to ask in the future if your relationship is cordial.

- Sometimes the bank officer at your meeting will tell you that the financial institution is not able to help your program at that point in time (perhaps they have already spent all of their grant money for a particular time period), but would consider helping at another time (say, 6, 12, or 18 months in the future). If this is the case, be sure to thank the officer for his time, but let him know that you will contact him again at a specified time in the future and would appreciate meeting him again then. Obviously, it is very important to take the initiative to follow up.
- If you establish a written “CRA Agreement” with the financial institution, the procedures for following up become a bit more formal. In 1999, Congress passed a law with a provision requiring non-profits (among others) to disclose and report certain agreements, contracts or grants they have with banks. (Woodstock ppp) The shorthand name for this provision is “Sunshine.” (Woodstock ppp) “Sunshine” only applies to a very specific set of CRA agreements that meet certain criteria. If you have an agreement with a bank, it is important that you determine whether it is covered by “Sunshine” and, if it is, follow up using the appropriate reporting and disclosure methods. For more information on “Sunshine” and to determine whether or not your agreement is covered by this provision, consult the Woodstock Institute’s Web site at [www.woodstockinst.org](http://www.woodstockinst.org) or the NCRC Fact Sheet.

### **III. Ways to get involved with CRA issues**

Negotiating a CRA agreement with a bank is only one way to be involved in CRA issues. There are many other areas of involvement that promote compliance with CRA guidelines. If you don’t initially feel comfortable using the CRA to go to a financial institution and request assistance, you might want to get involved in another way first. This will allow you to get comfortable with the CRA, learn from others, and gain more experience with the issues at hand before “going it alone” with your own financial institutions.

#### **Public Comment**

Once a quarter (once every three months) each federal bank regulatory agency publishes a list of banks that will undergo a periodic examination in the next quarter (the OCC actually specifies the month in which the exams will be conducted). The list is published 30 days before the quarterly exams begin. From the time the list is published until the time the exams are conducted, the regulatory agencies welcome letters from the public commenting on a bank’s performance. Regulators pay attention to the letters they receive and take them into consideration when assigning a bank their rating. In your letter, you should specifically address what a financial institution under review either is or is not doing to meet the needs of low- and moderate-income individuals in the community.

You may also send letters to your financial institutions and their response to your comments, if any, will also be considered in their rating. (Remember, a bank's "responsiveness to complaints" is considered in their rating.) In your letter, you may cite things that the financial institution is doing poorly and things that it is doing well, and offer suggestions on what you would like to see it do in the future to better serve the needs of the community. If you wish to influence a bank's rating you should send your letter to the local office of the federal bank regulatory agency that oversees the particular financial institution in the 30-day time period open for public comment. (Addresses are available on the regulatory agencies websites). To be notified of which exams are taking place when, it is a good idea to either check the regulatory agency Web sites often or put yourself on mailing lists through these Web sites that will automatically notify you of the banks to be examined. (Please see the sample letter at the end of this chapter as a guide on how to write a letter to a federal bank regulatory agency.)

### **Media Attention**

It is also not a bad idea to notify your local newspapers about the exams and what you think the outcome of the exams should be. Any kind of press puts pressure on the banks to comply with CRA guidelines and puts pressure on the federal bank regulators to seriously look at the bank's performance and give them a rating appropriate to the bank's performance. Writing letters to the editor and getting in contact with a reporter from the business section of the newspaper are both good ways to start.

### **Local Initiatives**

Another way to get involved with CRA issues is to get in contact with other non-profits in your area. Many organizations are already working on CRA issues and by joining forces with them you will not only be able to learn from them, but will also be able to form a more powerful group. Two heads are better than one; three heads are better than two, and so on. Coalition building is a useful and powerful tool that promotes information sharing and allows for a lot of work to get done without too much of a burden on any one organization. By joining a coalition or a group that is already working on CRA issues, you will be able to learn more about the CRA before approaching a bank for support.

### **National Initiatives**

In addition to local initiatives, there are a number of national organizations that focus primarily on financial education and community reinvestment issues. Two of these organizations are the National Community Reinvestment Coalition and the Corporation for Enterprise Development, both based in Washington, D.C. Both of these organizations are excellent resources. They can give you a good picture of the work that is being done on a national scale and can also put you in touch with organizations in your area that are working on CRA issues. Each year NCRC and CFED host separate annual conferences that highlight CRA, financial education, and asset building issues through a number of workshops. The conferences are a good place to learn more about the CRA and also make contacts with other organizations that might be able to help your work.

By becoming well informed about CRA (remember: financial institutions are *obligated by law* to serve the needs of their communities), how it relates to you, and how to use it effectively, you are helping to ensure the success and longevity of your financial education program. There are other tools to make your financial education program sustainable (these are discussed elsewhere in the chapter), but using the CRA to your advantage can be a powerful one. By building a positive relationship with your bank, you are utilizing a significant resource, helping to ensure the longevity of your program, and also encouraging compliance with CRA regulations.

#### TAKE-HOME MESSAGES

- Financial institutions are obligated *by law* under the CRA to serve low- and moderate- income individuals in their assessment areas.
- In order to make sure that financial institutions meet this CRA requirement, federal regulatory agencies evaluate the banks periodically.
- The banks are given a rating based on how well they meet the criteria of the CRA.
- In order to receive a favorable CRA rating, banks often welcome suggestions as to how they can serve low- and moderate- income individuals. You should not be afraid to approach a bank for help: it never hurts to ask.
- In each financial institution there is at least one person responsible for CRA issues. Talk to the CRA officer, branch manager, or other bank representative about assistance for your financial education program.
- Before you talk to the bank, be prepared. Know about the bank you are approaching for help, know what kind of assistance you would like, and be specific in your request.
- If you receive assistance from a bank through a written CRA agreement, follow up according to “Sunshine” requirements.

#### **IV. Resources**

*For a detailed explanation of CRA guidelines and CRA exams, read:*

National Community Reinvestment Coalition Beginner's and Advanced CRA Manuals

Marsico, Richard D., *Enforcing the Community Reinvestment Act: An Advocate's Guide to Making the CRA Work for Communities*, New York Law School Journal of Human Rights, vol. XVII part one; 129-197.

*For more information on CRA exams (upcoming and past) and CRA guidelines, contact:*

Federal Reserve Board  
20th Street and Constitution Avenue, NW  
Washington, D.C. 20551  
[www.federalreserve.gov](http://www.federalreserve.gov)

Federal Deposit Insurance Corporation (FDIC)  
550 17th Street NW  
Washington, D.C. 20429-9990  
[www.fdic.gov](http://www.fdic.gov)

Office of Thrift Supervision (OTS)  
1700 G. Street, NW  
Washington, D.C. 20552  
[www.ots.treas.gov](http://www.ots.treas.gov)

Office of the Comptroller of the Currency (OCC)  
250 E Street, S.W.  
Washington, D.C. 20219  
[www.occ.treas.gov](http://www.occ.treas.gov)

Federal Financial Institutions Examinations Council  
[www.ffiec.gov](http://www.ffiec.gov)

(Please note: the addresses given above are for the *national* offices of the federal regulatory agencies. To find the regional offices closest to you, go to the Web sites given above and perform a search).

*For more information on financial education, coalition building, and CRA issues, contact:*

National Community Reinvestment Coalition  
733 15<sup>th</sup> St., NW  
Washington D.C., 20005  
Phone: 202-628-8866  
Fax: 202-628-9800  
[www.ncrc.org](http://www.ncrc.org)

Corporation for Enterprise Development  
777 N. Capitol St., NE, Suite 800  
Washington D.C., 20002  
Phone: (202) 408-9788  
Fax: (202) 408-9793  
[www.cfed.org](http://www.cfed.org)

Woodstock Institute  
407 S. Dearborn, Suite 550  
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Fax: 312-427-4007  
E-mail: [woodstock@woodstockinst.org](mailto:woodstock@woodstockinst.org)  
[www.woodstockinst.org](http://www.woodstockinst.org)

National Center on Poverty Law  
205 W. Monroe, 2<sup>nd</sup> Flr.  
Chicago, IL 60606  
Phone: 312-263-3830  
Fax: 312-263-3846  
E-mail: [flip@povertylaw.org](mailto:flip@povertylaw.org)  
[www.povertylaw.org](http://www.povertylaw.org)