

Community Reinvestment Act

The Modern CRA Service Test: Six Trends That Banks Need to Know

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While banks have operated under the Community Reinvestment Act (CRA) for 40 years, the range of CRA Services they provide to meet the Service Test has grown. Over this period, banks have responded in many creative and impactful ways to meet the needs of their communities, particularly in services.

The Service Test portion of Performance Evaluations has also changed as examiners have recognized new complex bank-led services. Financial tools, designed to address the needs of LMI low-or moderate income customers, have become more complex. Bankers are providing these financial services to a broader range of clients, in more geographic areas and through different delivery mechanisms. The result has been an increase in the complexity of CRA services and, in turn, regulator expectations under the Service Test.

This article focuses on trends we have observed in the modern Service Test, and how banks can succeed in addressing those trends.

TREND #1: THE PROCESS FOR DEVELOPING A CONTEXT FOR PERFORMANCE AND EVALUATION CHANGED

When evaluating Service Test Performance, regulators consider the bank's economic environment, local Assessment Area (AA) needs, demographic characteristics of the LMI population, the bank's financial resources and its constraints. Regulators have intensified their focus on local economic revitalization needs - Examiners use *their* understanding of the bank's performance context to identify and estimate the range and depth of needs the bank should be serving, and they evaluate each bank's effort and effectiveness in providing relevant services.

Regulators are providing more details about local needs by assessment area. They also provide detailed descriptions about what the bank is doing to meet those needs in each AA. Regulators count the service hours provided by employees per year and publish the figure for each AA.

In the next exam, regulators check whether the service hours increased. This detail includes volunteer hours by type of service (board service, technical assistance or teaching), organization (social service, affordable housing or economic development), regardless of whether it is a full scope or limited scope evaluation.

Regulators expanded the list of where qualified services are provided. Regulators look at the record of opening and closing retail bank branches, particularly whether it adversely impacts those that serve LMI geographies and individuals. They are providing more detailed summaries for local needs and bank

service meeting those needs for each AA, including volunteer hours by type of service (board service, technical assistance or teaching), organization (social service, affordable housing or economic development), regardless of whether it is a full scope or limited scope evaluation.

TREND #2: REGULATORS REWARD BANKS FOR DISTRIBUTING BANKER EXPERTISE AMONG COMMUNITY-BASED EFFORTS TO MEET NEEDS.

Regulators are rewarding banks for working on a variety of needs throughout the community, acknowledging efforts by banks to serve a broad number of types of organizations. The greater the number of bankers, representing different financial specialties in each AA, the better.

Regulators recognize bankers for showing leadership on board of directors, noting service on the executive committee of the board. They give greater scores to banks that provide service delivery to meet economic revitalization needs. When banks provide service hours for brick and mortar community revitalization, regulators tend to give Outstanding scores for the efforts. This type of brick and mortar service in distressed neighborhoods takes more advanced investment and lending expertise, to make the service program a success.

Regulators have been rewarding banks for providing efforts to develop financing programs for CDCs (Community Development Corporations), economic development services to Chambers and industrial parks for attracting new businesses to increase jobs in underserved communities.

Banks count their on-line business assistance tools as part of their service test accomplishments. Banks now include minority supplier training conferences and nonprofit seminars (because nonprofits are a small business) in CRA Service.

TREND #3: GEOGRAPHIC DISTRIBUTION OF RETAIL BANK BRANCHES: IMPORTANT BUT NOT AS MUCH AS IT USED TO BE

Regulators assess the cost borne by the customer for using basic retail services, including reasonableness and fairness for all income categories and all geographies. The new **assessment area** is emerging as the location where the internet connection exists instead of where a deposit-taking physical branch exists.

A branch is now any smartphone, tablet or computer with a browser or mobile banking application. Branch closures are less likely to pull down the bank's CRA rating because of the ever-growing accessibility of substitute financial programs offered by the bank and its competitors.

Substitute financial services competing in each assessment area are plentiful unless the area is rural or remote. When broadband internet is available, regulators direct more focus on internet product delivery and how it impacts the customers using them in each income category.

Regulators are now expecting banks to measure that impact and offer proof that their online program directly benefits LMI customers. When regulators are satisfied with the methodology of assessment, they are more likely to allow flexibility in managing the bank network.

Regulators don't recognize ATMs as a service, citing "ATMs are simply cash dispensers. They are not an effective means of delivering services."

Regulators assess the effectiveness of alternative systems for delivering retail banking services in LMI geographies and to LMI individuals. Regulators provide points to banks that provide service in new places to reduce the cost of accessing credit. Banks now provide services on site at manufacturing plants, at schools in LMI areas and hospitals because these institutions employ significant numbers of entry level workers.

Similarly, regulators reward banks for setting up temporary banking service stations at disaster sites. Banks that provide temporary banking services for communities suffering from fires, floods, tornados and other natural disasters earn recognition from the regulators, even if the bank provides this temporary service outside of its assessment area.

Performance evaluations are redefining the location of the appropriate assessment area because of cost burden. Regulators are allowing CRA service credit for bank service provided in middle-income census tracts in high cost cities, underserved non-metropolitan areas and distressed middle-income census tracts. A recent CRA evaluation, granted service credit, citing, "This organization also provides financing for middle income individuals due to the high cost of housing in the AA."

TREND #4: CUSTOMIZED SOLUTIONS TO ADDRESS LOCAL NEEDS

Regulators reward banks for putting effort into developing, launching and selling products customized for a range of LMI customers. The effort might be new to the whole banking system, to the local community or to the bank itself. Regulators are focusing more on whether the bank provided customized solutions that directly addressed local needs in new ways.

This means regulators are approving a broader range of services and approaches. Qualified services now include human resources problem-solving, implementing computer software systems, and helping develop marketing programs. Service hours now include hours spent helping non-profits raise and manage funds in struggling LMI economies.

Specialized banking services offered to organizations that help individuals on social service public assistance at Veterans Centers, HUD vouchers at Housing Authorities and Medicaid at hospitals receive credit from regulators.

TREND #5: REGULATORS ARE REWARDING BANKS FOR SERVICES THAT GO FURTHER THAN FINANCIAL SEMINARS

Regulators have been looking for greater diversity in services beyond offering financial seminars. Additional services include one-to-one technical assistance, financial counseling, community-wide

financial events focused on resolving a need for LMI people, assistance with management issues for nonprofits and small businesses, government backed programs.

Banks, providing any specialized LMI mortgage programs are praised, especially first-time homebuyer programs. Similarly, regulators compliment banks for using the Federal Home Loan Bank (FHLB) and HUD programs to help developers build affordable housing.

Regulators applaud efforts to bank the unbanked or the underbanked with Opportunity Checking Accounts, free Electronic Benefit Transfer (EBT) Systems for government assistance payments and efforts to help LMI persons access their Earned Income Tax Credits.

TREND #6: THE PROCESS IS MORE COMPETITIVE

Regulators compare the way all banks in an assessment area meet the service test, then they compare that performance to the bank under evaluation. Each bank is expected to meet the minimum to earn a satisfactory rating in that assessment area.

Regulators assess whether a bank had an opportunity to provide impactful service hours in its assessment area and whether the bank led the effort to develop meaningful service programs that meet local needs. If a bank did well in the service test, but poorly in recently acquired assessment areas, that tends to bring down the total service test score.

Banks planning to enter a specific market must develop a plan to produce CRA outcomes immediately. Being new to a market or having limited numbers of branches does not excuse the bank from producing CRA service hours and offering meaningful CRA products.

Banks now have a broader range of options to offer employees for their CRA volunteerism. Documenting these diverse service types, qualifying them as CRA services, and reporting them accurately to regulators is now more complicated and must tie back to local needs. Regulators are now more focused on impact. That impact should directly improve programs addressing revitalization needs.

IN SUMMARY...

The trends described above should be considered in the continuous process of developing relevant service test strategies. Responsive services require multi-layered, customized, local solutions to demonstrated needs. Banks should explore these trends and how they may impact their evaluations of Service Test performance for their upcoming examinations.

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