



Community Reinvestment Act

# What Banks Need to Know: The Community Credit Needs Assessment

*August 2022*

Under the Community Reinvestment Act (CRA), examiners will assess the community credit and development needs in a bank's assessment area. A community credit needs assessment – which may also be referred to as a community needs assessment – is a component of the analysis of performance context in a CRA examination. It is intended to help examiners determine whether a bank's lending activity, products, services and investments are aligned with the actual needs of the community it serves.

In recent years, community credit needs assessments have emerged in the context of redlining. These assessments can be found in redlining-related consent orders as a tool for addressing identified lending disparities to minority and disadvantaged communities.

Given the historical importance of community credit needs assessments under the CRA and their increasing relevance regarding Fair Lending, it is important for banks to understand the role of these assessments in compliance management systems and how they can help achieve compliance and strategic goals.

In this article, we provide relevant information by answering several common questions concerning community credit needs assessments.

## **WHAT IS A COMMUNITY CREDIT NEEDS ASSESSMENT?**

As the phrase indicates, a community credit needs assessment, or CCNA, is an analysis of the credit needs of a community. Performed by CRA examiners, CCNAs typically involve basic reviews of economic indicators (unemployment rates, homeownership rates, residential construction activities, small business growth, median income levels, etc.), lending patterns and the competitive environment. In addition, examiners seek information from community contacts for first-person insights about the needs of residents and businesses they serve. Examiners ask community development organizations, realtors, housing authorities, pastors, and other local leaders what they believe the community's credit needs are and how local banks are meeting those needs. The collected information provides a picture of the needs of underserved communities, small affordable housing; and delivering financial education to low- and moderate-income individuals.

A bank may perform this basic CCNA as a component of its compliance management system. However, a more comprehensive assessment that encompasses deeper quantitative analysis and more qualitative research sources can offer greater strategic value. For example, a comprehensive CCNA can uncover



varying sets of needs across the market based on neighborhood differences and identify specific products and initiatives that would be most effective in each region.

### **ARE BANKS REQUIRED TO PERFORM A COMMUNITY CREDIT NEEDS ASSESSMENT?**

A CCNA is not mandated under the CRA. However, regulators encourage banks to perform CCNAs as a best practice. A CCNA demonstrates that a bank is proactive in understanding credit and community development needs and, if used strategically, identifies new opportunities and initiatives to help underserved communities and populations, small businesses, and small farms.

### **WHAT LENDING PRODUCTS SHOULD BE INCLUDED IN A COMMUNITY CREDIT NEEDS ASSESSMENT?**

The scope of a CCNA can be limited to a specific product category or encompass all material lending products. If the CCNA's objective is to address an acute compliance issue (such as disparities in mortgage lending in minority communities or lending to small businesses), focusing on the lending products relevant to that issue may be more responsive to the bank's immediate needs. If, however, the CCNA is a regular component of a bank's compliance management system, it is appropriate to include all material lending product categories.

### **WHY DO COMMUNITY CREDIT NEEDS ASSESSMENTS GO BEYOND IDENTIFYING LOAN PRODUCTS?**

When performing a comprehensive CCNA, ADI Consulting evaluates lending, housing, community development, revitalization/stabilization and economic development opportunities. Occasionally, our clients ask some form of this question: Why does ADI explore these other factors if we are trying to identify the types of loan products the bank should offer?

ADI's evaluations cover these areas because regulators consider them important, and examiners include them when conducting CCNAs in a CRA examination. Banks must address these needs in accordance with the purpose of the CRA. Beyond checking boxes, however, these additional factors provide opportunities to address credit needs holistically. For instance, CRA performance evaluations often list redeveloping blighted neighborhoods, workforce development and financial education (or literacy) classes as critical needs.

A bank can address credit needs directly by supplying affordable loan programs, loans to affordable housing programs and small business loans. A bank can also address credit needs by offering financial education classes that can help increase the knowledge and trust in the banking system among underserved individuals in a manner that will help them participate in the credit market. Likewise, workforce development can help individuals gain stable employment, which is needed to be able to qualify for loans. Supporting such initiatives may not help a bank supply credit in the near term, but it can contribute to the development of future credit opportunities in the community. Such efforts can enhance the bank's image within its community and serve as a marketing tool for various loan products.



For clients that already excel at lending to underserved communities, ADI uses these macro factors to identify and recommend new opportunities to enhance their existing presence. For clients that have struggled to lend to underserved communities, these macro factors can find ways to improve community engagement and develop new referral sources and marketing channels.

#### WHAT DO COMMUNITY CREDIT NEEDS ASSESSMENTS HAVE TO DO WITH REDLINING?

CCNAs have historically been considered a CRA-related activity. However, CCNAs have emerged as a topic in the separate but related compliance area of redlining. As shown in [recent consent orders for Cadence Bank and Trustmark National Bank – both of which were fined millions of dollars for their redlining practices and required to submit CCNAs from independent, third-party consultants](#) -- CCNAs have become an important component in monitoring and addressing Fair Lending issues. Thus, it has become a best practice to include relevant majority-minority tracts within the scope of a CCNA.

#### THERE'S MORE TO LEARN...

These are just some of the questions banks may have in deciding whether and how to incorporate CCNAs in their compliance management systems. We would be pleased to discuss any questions you have about CCNAs and their potential value in meeting your organization's compliance and strategic goals.