

Understanding Community Development Needs through the Performance Context

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Welcome

Thank you for attending today's session. How to join (remember, this session is being recorded)

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- Email us at: communities@stls.frb.org.
- Type your question into the chat box of the webinar.

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In connection with this session, you can find a variety of additional resources on this topic , available at www.fedcommunities.org. We encourage you to browse through this site and to contact your regional office if you would like additional information on any of these items.

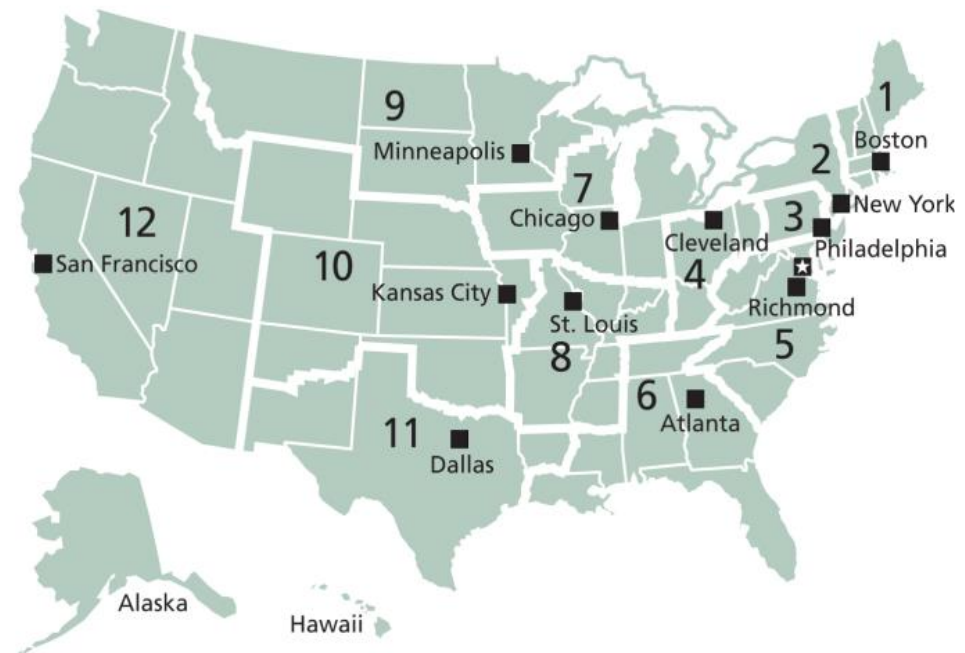
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Community Development

The Community Development (CD) function within the Federal Reserve System – consisting of individual departments at each of the twelve Federal Reserve Banks as well as at the Board of Governors – promotes economic growth and financial stability for low- and moderate-income (LMI) communities and individuals through a range of activities, including:

- **Convening stakeholders**, including practitioners, financial institutions, nonprofits, governmental agencies, and the philanthropic and private sectors,
- **Conducting and sharing research** to examine economic challenges facing low- and moderate-income communities and attendant policy implications; and,
- **Identifying emerging issues.**



Today's Presenters and Agenda

- **William Dowling**, *Research Associate*, Federal Reserve Bank of San Francisco
- **Jessica Farr**, *Manager of Examinations*, Federal Reserve Bank of Atlanta
- **Beth Trotter**, *CRA Officer*, IBERIABANK
- The following will be discussed:
 - Introduction to the Performance Context
 - The Performance Context from a Regulator's Perspective
 - The Performance Context from a Banker's Perspective

Introduction to the Performance Context

William Dowling

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CRA and the Performance Context

- The Community Reinvestment Act (CRA) was enacted in 1977 and encourages financial institutions to help meet the credit needs of their communities, consistent with safe and sound operations.
- Financial institutions undergo routine examinations to ensure their compliance with CRA.
- Performance context is an important part of this process.

CRA and the Performance Context (continued)

- Performance context factors typically include:
 - *The financial institution's* size, business strategy, product offerings, economic climate, regulatory restrictions, and past performance
 - *The community's needs*, including lending, investments, and service opportunities, demographics, housing stock, labor market, community plan, and overall economy

CRA and the Performance Context (continued)

- Performance context is important for bankers, regulators, and other community stakeholders.
- While the process of researching performance context will vary across institutions and regulators, the end result should be consistent, namely, a data-based understanding of the community development needs and opportunities present within a bank's assessment areas.

CRA and the Performance Context (continued)

- What does it look like?
- Who writes it?
- How do I find it?
- How do I use it?

The Performance Context from a Regulator's Perspective

Jessica Farr

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Performance Context from a Regulator's Perspective

- CRA performance is judged in the context of information about the bank and its assessment areas.
- The examiner develops the performance context to provide the framework for the CRA analysis.
- The bank prepares the performance context to tell the story about their CRA performance.
 - Banks are encouraged but not required to submit a performance context.
- The examiner looks to the bank for information to complement our assessment of the community needs and conditions.

Setting the Context for a CRA Evaluation

- Bank business plan
- Competition – retail banking and lending
- Bank customer base
- Assessment area characteristics – branches, cities
- Community needs assessment/community contacts
- Community development opportunities and bank capacity vis-à-vis CRA opportunities
- Community indicators/impact of bank's activities
- Internal and external conditions impacting bank opportunities

Questions to Consider

- Sample questions to consider in developing the performance context:
 - How does the bank assess community needs and identify community development opportunities and partners?
 - What type of credit products does the bank offer to meet the needs of first time homebuyers, credit-impaired borrowers and small business customers? Are any of these products considered innovative or particularly responsive to local economic needs and conditions?
 - What type of outreach does the bank do to reach small business segments and underserved communities?
 - What is the bank's role in housing or community development programs in the market? Has the bank taken a leadership role in terms of investing or service hours?

Questions to Consider (continued)

- What does the bank consider to be the most high-impact projects in its community development portfolio?
- Is the bank supporting alternative financing sources, such as community development financial institutions (CDFIs)?
- What is the bank doing to address community revitalization/stabilization in the community, particularly areas still recovering from the recession?
- What is the bank doing to promote access to banking for underserved consumers? Has the bank developed new products or mechanisms for delivery services? What metrics does the bank gather to show the impact of alternative delivery services in meeting the needs of LMI consumers?
- Who are the bank's competitors? What are they doing around CRA and how are they doing it?

Commitment to Impact

- The performance context is not just about identifying needs—it is about communicating the **IMPACT** of the bank's activities in addressing these needs.

Use of the Performance Context for a CRA Exam

- Review of lending activity, flexible lending programs and retail services
- Qualitative review of CD activities
- Emphasis on performance context increasing in CRA examination procedures in response to Q&A adopted in November 2013 and proposed Q&A

How Is Performance Context Written

- Major themes:
 - Population and income trends
 - Housing conditions
 - Economic conditions
 - Community development needs and opportunities
 - Competition
- Sample of public data sources: U.S. Census; Bureau of Labor Statistics (BLS); PolicyMap; Federal Deposit Insurance Corporation (FDIC)
- Sample of external resources: chambers of commerce, Housing and Urban Development (HUD), local and state government agencies, state housing finance agencies
- Community contacts
- If available, regulators can incorporate the bank's performance context in to the analysis.

The Performance Context from a Banker's Perspective

Beth Trotter

CRA Officer

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The Performance Context as an Internal Tool

- Continuous interaction is maintained with and communication between the CRA department and markets facilitates the identification of community needs as well as strong nonprofit partners which are positively impacting those needs in each assessment area (AA).
- Associates in each AA seek out community development opportunities which peers have not identified; unique or underused services.
- For example, our team recognized a need for down payment assistance in several key markets, and so we were able to create a new grant program to assist with those needs in conjunction with nonprofit partners.
- This program allowed us to increase Home Mortgage Disclosure Act (HMDA) lending in those markets while also addressing a pressing community needs.

Communication with Markets

- Continuous community development research in all assessment areas allows a bank to be more responsive to needs.
- CRA market liaisons in every market are critical; dotted line reporting to CRA department.
- Monthly teleconferences are scheduled with that team to discuss new initiatives and community needs, communicate annual targets and progress toward goals, and more.
- Capturing data in a very detailed fashion allows for various “views” of the data for different audiences.
- The board and executive team, as well as business unit owners, can easily review and assess CRA performance by state and by AA.
- Distribution of the performance context to each AA’s leadership team allows for meaningful conversation regarding which partnerships are working and where there are gaps in CRA performance which need to be addressed.

Process of Gathering CRA Information

- Collect information regarding community needs and outreach efforts at an assessment area level occurs regularly.
- Allow the ability to gauge community needs quickly and adjust bank strategies accordingly, including consideration of unique aspects of each AA.
- Also allow for detailed documentation of all CRA-related activities in every assessment area, almost at a branch level.
- Bank's impact in each AA is tracked with the assistance of the CRA liaisons.
- A good data capture system is imperative; create detailed automated forms on internal bank website for all associates' use in reporting CD service hours, donations, and loans

Drafting the Performance Context

- Stay organized! Have a game plan in terms of what charts need to be made, what sections need to be written and delegated, etc. It is helpful to have a skeleton of a full scope assessment area, a limited scope assessment area. This ensures that information is consistent for all areas.
- Delegate the writing, preferably by specific sections, throughout all assessment areas.
- The CRA market liaisons and market presidents provide the narratives for the needs and impacts in their AAs.
- The CRA team adds in the data and specific performance using rating system for each test component based on metrics and targets.
- In addition to data and numbers, include success stories such as highlights regarding specific community development relationships in each AA; makes the data more meaningful.
- Highlight your institution's "uniqueness" in community service arena as well as internal and external conditions impacting bank opportunities.

Summary

- Performance context should highlight examples of employees working as a team in each market to increase capacity of the institution by positively impacting communities.
- Actual process of drafting the document raises awareness of associates in all markets regarding community needs and the planning of CRA initiatives around those needs.

Questions?

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1. Email us at: communities@stls.frb.org.
2. Type your question into the chat box of the webinar.

Wrap-Up/Closing

Thank you to today's presenters and to all participants for joining this session.

Next steps:

- All session materials are available on our web site and in the next few days we will be posting an audio file of today's session.
- If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at communities@stls.frb.org
- Information about future sessions will be posted on our website along with archived materials from past sessions:
www.stlouisfed.org/connectingcommunities/

Related Resources



In connection with this session, you can find a variety of additional resources on this topic , available at **www.fedcommunities.org**.

It provides an array of practical resources to help you in your role as a community development professional, whether your work involves supporting people, places, the practice of community development, or small business development.