
ABA Bank Compliance
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The Opportunities and Challenges of Bank-Fintech Partnerships
Overdraft and NSF Fee Practices
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Avoid CRA Pitfalls!

Tips for Navigating Around Six Common CRA Mistakes

AS ANY CRA OFFICER WILL TELL YOU, someday CRA seems like a jungle cruise and other days it feels you're lost on a treacherous path with no way out. Much like Indiana Jones, who will again shine on cinema screens this June after a 15-year hiatus, CRA professionals often venture into unexplored territory seeking CRA treasure. Through working with banks over the past ten years at findCRA, I've noticed some common pitfalls reoccurring. Read on for six missteps to avoid that could impact your bank's CRA program.

1 Venturing Off Alone

Every great explorer was backed by a team of locals and experts to guide them along the way. Why should leading CRA be any different? Many CRA Officers are tasked with managing their bank's CRA program as part of many other job responsibilities. Others are "volun-told" that they have inherited the CRA Officer title. Regardless, while the CRA Officer crown is only bestowed on one individual, the responsibility for CRA performance can—and should—be shared.

The most successful CRA Officers know that going it alone is a dangerous proposition, so they enlist other stakeholders within their institution to champion CRA. Cultivating a CRA culture at your bank is key to simplifying the ongoing needs of an evolving regulatory environment. It starts at the top, by ensuring that the bank's Board of Directors and C-suite are thinking about CRA throughout the year, rather than only when that pre-examination request hits their inbox. Engaging bank leadership in CRA discussions will empower decision-making and often creates impactful opportunities that may not materialize otherwise. Consider convening a CRA Committee to meet regularly to discuss performance and community outreach.

While building of CRA culture inside your bank is important, failing to embrace local community leaders to serve as active participants in the bank's CRA planning can lead to a vacuum of assumptions that may not accurately reflect true community needs in the bank's assessment areas. The bank should cultivate a diverse network of community partner relationships in all markets to ensure that not only the largest and loudest voices are heard. Seek out new or smaller nonprofit organizations to understand unique challenges faced by these lesser-known players in community development. Explore new potential with CDFIs, minority depository institutions, or other emerging businesses to truly develop a robust understanding of how your bank can make the most responsive impact.

2 Ignoring Your Map

While we may all get the urge to set off somedays without a destination in-mind to see where the day takes us, this approach to CRA management can lead to disaster. There is an abundance of CRA guidance available for bankers to help interpret the many questions that arise in the CRA day-to-day.

Researching the text of the CRA regulation and discovering the conciseness of it can lead to a false understanding of the depth of CRA management. Although the regulation may be slim, the interpretive guidance is not. Last updated in 2016, the Interagency Questions and Answers on Community Reinvestment provide key interpretive insights into regulatory expectations in the real world. They serve as a Rosetta Stone to understanding the intent of the regulation and how it impacts bank operations. Further, they also provide dozens of details and examples for a variety of scenarios that are not present in the regulation itself.

Additional guidance is also available for understanding CRA. Wondering how to file your annual CRA Loan Register? The FFIEC provides CRA Getting It Right!, a helpful guidebook. Unsure how your bank's COVID responsive activities qualify for CRA credit? The banking agencies issued specific CRA FAQs to provide clarity. Seek out these interpretive documents to shine a light on your CRA path.

3 Going In Blind

Once you have a grasp of your bank's CRA program and activities, you may feel like you've finally settled into a nice rhythm that allows you to coast to the next examination. You're only part of the way there.

Comparatively measuring your bank's current performance *only* to your own past performance may result in underestimating CRA needs. For decades, bankers have compared their mortgage lending and small business/small farm lending to readily available aggregated data published each year by the CFPB or FFIEC. In recent years, banks have also been challenged to develop an understanding of their how their bank's community development activities compare to similarly-situated banks within their assessment areas.

Finding the right similarly-situated banks can be difficult, especially if your bank is somewhat unique in its product offerings, business strategy, or footprint. There may not be enough banks in your

assessment areas that are a good match for peer comparison and you may need to expand your radius to include a larger geographic region or the entire states where you operate. The key is finding true peer banks—somewhat of a Goldilocks conundrum. Ideally, the right banks for comparison will be similar in geographic footprint, asset size, business model, and financial capacity.

Once you've identified your similarly-situated banks, not only should you evaluate your bank's activities compared to the other banks at the institution level, but also within each assessment area. In many banks, a few assessment areas may comprise the majority of their business and other smaller assessment areas represent less activity. The bank should ensure that its analysis is adjusted as needed for these market concentrations to reflect differences in benchmarking accurately.

4 Leaving Treasure Behind

Over the years, many banks have approached me concerned that they do not have enough community development loans, qualified investments, or community development service. That concern can grow, if the bank has accurately identified similarly-situated banks and appears to be underperforming in one or more of these areas. However, while working with those banks, I often find that they are tripping over gold that they just need to pick-up.

Often, due to time constraints or lack of strong documentation, banks leave behind many community development activities simply due to lack of research. The bank has already originated the loans, purchased the investments, or conducted the service, but the documentation of how those activities align with CRA is light or non-existent. The best, most cost-effective way to close gaps in bank performance is to dig-in on past activities and document the CRA alignment of those that already qualify.

Regarding community development lending ("CDL"), banks often document loans made to CRA-qualified nonprofits or for affordable housing, but may forget about other areas of CRA qualification. Has the bank originated CDLs to help revitalize or stabilize a low- or moderate-income geography targeted under a local government master plan? Has the bank originated a CDL that creates permanent low- or moderate-income jobs for a business with gross annual revenues under $1 million dollars? More importantly, has the bank renewed a prior CDL in a different year that it was originated and forgotten to count the renewal for additional CDL credit?

Leaning into involving bank management as discussed above, CRA Officers should have regular conversations with Chief Credit Officers, CFOs, and Chief Investment Officers regarding loans and investments to identify qualified activities. Ideally, these conversations should be had before an investment is purchased or loan closed. Additionally, regularly communicating the need for accurate and comprehensive reporting of volunteer activities by bank staff will also ensure maximum reporting of community development service activity.

5 Ignoring Growth

Think about this, your bank has regularly made $5 million in new qualified investments over the past few examination cycles. You've also maintained a similar level of community development lending cycle-to-cycle. Seems like everything should be ready for the next examination. Sadly, you may be in for a surprise.

An effective CRA program must grow and adjust with the bank's overall growth. Maintaining the same dollar amount of CDLs or qualified investments during each examination cycle may seem like a good strategy. However, if the bank is experiencing expansive asset growth, high levels of lending, or has ramped up investment purchases, the bank's CRA activity levels will represent a smaller portion of overall activity. In the same vein, if the bank has opened new branches or acquired or merged with another institution, the overall financial landscape of the bank may have changed significantly.

A review of CRA Public Evaluation reports provides a key insight to how banks should approach managing CRA activity levels. Keeping track of the number and dollar amount of CDLs and qualified investments is key, but the bank should also analyze those activities in comparison to its average assets, average loans, and average securities during the examination cycle. Furthermore, if the bank has selected similarly-situated banks for CRA comparative benchmarking, utilizing this same approach will help to allow for better comparison in relation to overall bank financial capacity and smooth out differences in bank size when looking only at the number of dollar amount of CRA activities.

6 Letting Someone Else Tell Your Story

Gathering data, documenting CRA activities, and drawing comparative analyses are important parts of a CRA program. However, each component stands alone unless your bank crafts a compelling narrative to draw them all together.

As a general rule, the bank should never assume that the intent or effect of its CRA activities are obvious. CRA documentation should be explicit and clear, providing all related details to support the regulatory alignment and share the overall community impact and responsiveness. Supporting documentation should accompany summaries and tracking sheets whenever possible so that there is no guess work in determining if a CRA activity is qualified.

The bank should also share compelling data on programs or initiatives that have been developed in response to identified community needs. Has the bank created specific deposit products or deployed unique or more flexible underwriting to provide greater credit access to CRA-qualified individuals and geographies? Has the bank served in a leadership position in community development or as a catalyst for a community project that may have not been undertaken without the bank's participation? Is the bank developing community partnerships that are empowering change in the bank's assessment areas? The details of these initiatives and relationships may not be fully understood if the bank does not highlight them in its documentation.

Equally important, the bank should invest time and resources into crafting clear performance context for its communities. Strong performance context can make the difference between a needs to improve and satisfactory CRA rating. The bank should analyze its own activities and investigate any underperformance to determine if market factors or bank competition are creating unique challenges. Is there a lack of a community development infrastructure in the bank's assessment areas or is the market saturated with bank competition? How does the bank's overall business strategy impact the its ability to lend or serve its community? What do local government representatives or community nonprofits think are the largest challenges facing the area? Are there any national or regional events or financial trends impacting the bank? By exploring these questions and preparing a narrative in answer to them, the bank will be better prepared to explain its performance at the next CRA examination.

Be the Hero

You are the hero of your bank's CRA story, especially if you take the lead in sharing that story in the way you want it told. It may seem daunting at times to coordinate the many different areas of CRA performance and the larger the bank, the more complex those responsibilities become. By taking the time to strategically plan your CRA approach, and avoiding the six pitfalls outlined here, you can ensure that you'll be the CRA legend we all talk about for years to come! ■

ABOUT THE AUTHOR

BRIAN WATERS, CRCM, is the President, COO and Co-Founder of findCRA, which offers both online services for banks to identify and document CRA-qualified nonprofit relationships and build instant performance context, as well as traditional CRA consulting and training services. He has over 20 years of experience in banking compliance and community development and is a resident of Louisville, KY. Contact him at brian@findCRA.com.

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