

On the Road: Preparing for Your Next CRA Examination

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Who We Are & Agenda

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Agenda

- Today's CRA Landscape
- CRA and Fair Lending Compliance
- The Self-Assessment
- CRA Examination Challenges
- Best Practices in CRA Program Management

Today's CRA Landscape

The regulatory landscape is vastly different today than the one that existed when the CRA was enacted in 1977

- After the most recent economic downturn, regulations have created a stronger link between fair lending regulations and the CRA
- Interagency review efforts, or 'Q&A', now provide additional guidance on CRA regulations

New and revised Q&A's - What you need to know:

- Community Services Targeted to LMI individuals
 - Simplified validation process to determine that services are targeted to LMI individuals when information on actual income is not available
- Primary Purpose of Community Development
 - Updated guidance indicates that mixed-income housing would be considered a community development activity; The institution would receive a pro rata consideration based on the percent of units set aside for affordable housing or LMI individuals

Federal Agencies Support CRA Expansion – HUD's Neighborhood Stabilization Program

Roadmap for Success – Fair Lending & CRA



CRA
Performance

- Examiners will utilize qualitative and quantitative measurements to evaluate the adequacy of CRA performance across your institution's assessment areas
- Perhaps one of the most significant threats to successful CRA exam results is not directly tied to your CRA performance

Fair Lending
UDAAP

- Discriminatory lending activities or any other illegal credit practices (notably, UDAAP) for your bank or its affiliates may negatively impact the overall CRA rating
- The extent of any downgrade will be dependent on the nature and scope of the illegal credit practices identified

Overall CRA
Rating

- Get involved with your institution's lending compliance team to understand the risk that potential compliance violations have on your CRA exam results
- Identify weaknesses and find solutions to mitigate them

Evaluation Tools – The Self-Assessment

Every institution should conduct a periodic self-assessment of their CRA performance to identify weaknesses that could compromise the success of a CRA examination.

Concentration should be placed on each component of the examination:

Service – 25%	Lending – 50%	Investment – 25%
<ul style="list-style-type: none">• Branch Analysis• CD Services	<ul style="list-style-type: none">• Borrower Distribution• Geographic Distribution• Market Analyses: Economic and Competition• CD Lending	<ul style="list-style-type: none">• Borrower Distribution• Geographic Distribution• Market Analyses: Economic and Competition• CD Donations / Investments

Communicate your results:

- Report findings to seniors officers to better understand CRA performance
- Work with your institution's business lines to establish goals and monitor performance

CRA Examination Challenges – Data & Reporting

Challenge #1 – Data Integrity

Data integrity challenges continue to create difficulties for many institutions:

- Map out your data flow from start to finish; Prepare a source documentation matrix to help understand where you can find the information to validate each data element
- Establish quality control procedures to ensure data accuracy
- Determine accountability and training procedures for data collection and management

Challenge #2 – Large Bank Transition Issues – New Reporting Requirements

Avoid these common errors when transitioning to large bank status:

- Insufficient documentation to support CD activities
- Including loans to non-profits or business loans secured by residential real estate in the small business loan file
- Incorrect reporting of small business revenues

CRA Examination Challenges – HMDA & Small Business

Challenge #3 – Limited or Poor HMDA Lending Performance

Solutions to help address poor HMDA lending performance:

- Evaluate conspicuous ‘gaps’; Verify you are capturing all loan data
- Work with frontline lenders to identify new lending opportunities and develop your performance context
- Consider participating in special lending/loan programs targeted to affordable housing

Challenge #4 – Limited or Poor Small Business Lending Performance

Similar to HMDA, potential solutions for poor performance in small business lending include:

- Analyze performance against demographics and other lenders to explain performance context challenges or identify potential opportunities
- Introduce new product or program targeted to small businesses with \leq \$1MM in revenues
- Share information about your lending activities and markets with your examiners

CRA Examination Challenges – Investment & Service

Challenge #5 – Investment Test

How much is enough?

- The allocation of deposits is a good proxy for allocating Tier 1 capital by assessment area
- Utilize resources from regulators and community contacts to identify possible CRA investments
- Charitable donations will qualify as CRA investments under the investments test

Challenge #6 – Service Test

The primary component to be evaluated in the service test is branch distribution:

- Compare your institution's branch distribution to the population demographics
- Document your analysis and the business justification for opening or closing branches, particularly in LMI branches
- Identify CD services and other activities targeted to LMI persons and/or geographies

Best Practices in CRA Program Management

To succeed with CRA program management, the following three factors are critical:

1. Originating CRA Activities

- Target new loans, investments and services to LMI borrowers and geographies
- Develop realistic CRA targets in partnership with business units

2. Evaluating Performance

- Conduct regular analysis to allow the early identification of problems and opportunities
- Work with business units and local markets to understand and document reasons for performance weaknesses
- Devise strategies to address performance gaps

3. Communicating with Examiners

- Helps build awareness of program parameters and success stories
- Provides opportunity to explain your business strategy and the impact of decisions on LMI communities

Keys to CRA Success

1. Understanding the regulations and how they impact your institution. Engage with your Compliance/Fair Lending team(s) to better understand risks.
2. Originate new loans, investments and services targeted to LMI borrowers and geographies.
3. Regularly evaluate your CRA performance against your own previous performance and that of your peers.
4. Actively communicate your findings to those within your organization to refine programs and respond to identified weaknesses.
5. Create a dynamic performance context and communicate regularly with your examiners when questions arise.
6. Consider the establishment of a CRA Committee to assist your organization in policy and compliance issues concerning CRA activities.
7. Map your data flow to improve data accuracy and quality.
8. Conduct a “Mock” CRA Examination.

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