

CRA Strategy Development

Developing A Bank CRA Strategy



CRA Strategy Development

Training Topics:

- **1. Developing a Bank CRA Strategy**
- **2. Monitoring and Tracking Progress**

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- 1. Developing a CRA Strategy**



Why Develop a CRA Strategy?

- Treat CRA as a line of business
- Help bank management and staff achieve their loan production goals

When you fail to plan you are planning to fail



Why Develop a CRA Strategy?

- **Board Approval of a CRA Plan Keeps the Board Apprised.**
- **Positive Implications for CRA Performance – Plan the Work and Work the Plan.**



Steps in Developing a CRA Strategy

Step 1. *Understand CRA Performance Evaluation Criteria*
(i.e. Small Bank v. ISB criteria)

Step 2. Assess bank performance context

Step 3. Assess community credit needs

Step 4. Match bank products, services with community credit needs

Step 5. Develop performance and rating goals, objectives



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Step 1. **Understanding Bank
CRA Performance
Criteria**

Understand CRA Evaluation Criteria

- **Determine Bank Evaluation Criteria**
 - ***Small Bank***
 - Small Bank Evaluation Criteria - Lending
 - ***Intermediate Small Bank***
 - Small Bank Evaluation Criteria - Lending
 - Community Development
- **Review prior CRA Performance Evaluation (PE)**



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Step 2.

***Assess your
CRA Performance
Context***



Assess Bank Performance Context

- Identify and build on bank capacity, strengths and business model
- Analyze your bank's loan to deposit ratio and identify your primary products to determine in/out ratio, geographic distribution, and loans to borrowers of different incomes.
- Track economic and demographic trends in your community its housing stock, costs and income levels.



Assess Bank Performance Context

- Read local revitalization plans, such as HUD consolidated plans and those reports prepared by the Federal Home Loan Banks and others to help determine community credit needs
- Develop a peer analysis of similarly situated institutions
- Catalogue CD opportunities to lend, invest or provide services

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***Step 3. Assessing
Community
Credit Needs***



Assessing Community Credit Needs

- Review written reports and publications on credit needs and programs to serve LMI families.
- Become knowledgeable of reports by entities that specifically research and analyze policies affecting LMI populations and underserved areas.
- Explore needs of the least-served areas, where opportunities may be greatest and the competition is least.
- Compare and contrast products and services provided by the bank against the areas served.

Assessing Community Credit Needs

- **Community Contacts**
 - Make contact and develop relationships with community groups, CD practitioners.
 - Develop relationships with local and state government officials.
 - Make contact with small business advocates.
 - Make use of bank regulatory resources.
- **Competitive Analysis**
 - What are other banks doing?

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Step 4. ***Matching Bank Products,
Services and Community
Credit Needs***



Matching Bank Products, Services with Community Credit Needs

- Compare the banks lending focus, its economic and performance context, and its products and services to community credit needs.
- Identify gaps in your lending and service by borrower income, geography or product.
- Evaluate products and service offerings.

Matching Bank Products, Services with Community Credit Needs

- Develop an internal strategy for delivering CD loan products or CD services to fill gaps:
 - Take advantage of lending staff expertise in CD finance and knowledge of bank risk tolerance.
 - Responsibility, Resources, Reporting
- Develop and maintain a relationship with bank business units and branch managers.
- Train bank staff to be aware of the banks CRA objectives overall and to identify CD lending, investment and service opportunities.



Matching Bank Products, Services with Community Credit Needs

- Consider developing new loan products to meet community credit needs.
- Explore options for CD product delivery such as establishing a bank-owned CDC or making an investment in a multi-bank CDC, loan fund or loan pool.
- Use government loan programs as resources to enhance lending opportunities and to manage and mitigate lending risk.
- Match investments and grants with CRA objectives.

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***Step 5. Develop CRA
Performance Goals
and Objective***

Develop CRA Performance Goals and Objectives

- Performance Benchmarks:
 - **Lending**
 - Mortgage Lending
 - Small Business/Small Farm Lending
 - Consumer Lending
 - Community Development Lending
 - **Investments**
 - Qualified Community Development Investments
 - **Services**
 - Qualified Community Development Services

Develop CRA Performance Goals and Objectives

- Consider establishing goals for business units and staff within each unit:
 - Review and adjust incentive and compensation plans.
 - Devote sufficient resources to CD activity.
 - Allow time for product marketing and delivery mechanisms.
 - Be patient and allow time for relationships to mature.
- Evaluate the process to identify internal inefficiencies and obstacles!



Developing Product Considerations

- Determine community needs.
- Determine costs of development and implementation.
- Ensure management buy-in for timeline expected and total costs.
- Develop strong marketing program.
- Implement and initiate periodic progress report.
- Measure impact.
- Report to Management and Board.

CRA Goals and objectives

- Understand and communicate the role and function of CD activities
 - CD products generate revenue.
 - CD initiatives can expand your bank's market.
 - CD initiatives complement existing product lines.
 - CD initiatives may involve specialized knowledge.
 - CD risks can be mitigated and managed.



Develop a CRA Strategy

- **Integrate CRA strategy into bank business plan**
 - How will CRA strategy impact bank business plan?
 - How will CRA strategy support bank growth plan?
 - How will CRA strategy affect decision of the bank?
 - How will strategy impact marketing activity of bank?

Steps to Successful CRA Performance

Module 3.

***Monitoring and
Tracking Progress***

Monitoring and Tracking Progress

- Board approval of amendments to CRA plan.
- Formal CRA committee.
- Board Reporting - How does your bank compare?

Monitoring and Tracking Progress

- **Monitoring and Tracking Systems**

- Loan approval sheet
- Loan application register
- Loan origination system or software

- **Self Evaluation**

- Impact and effectiveness of marketing efforts.
- Systematically review and document performance.
- Understand performance strengths and weaknesses.
- Don't try to paper over performance issues.

Monitoring and Tracking Progress

- **Internal Reporting**
 - Identify and report performance weaknesses.
 - Develop plan to address weaknesses.
 - Identify end users.
- **Exam Preparation**
 - Penetration rates in LMI census tracts, to LMI borrowers, and to small business/farm
 - Be thorough.
- **Mapped Data Systems**
 - Consider using data management systems (i.e. CRA Wiz, Tactician, others).

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- Conclusion, a strong CRA Strategy:
 - **Is by plan and not by chance.**
 - **Is integrated into bank business plan.**
 - **Has Board and management understanding & commitment.**
 - **Is founded on facts and research.**
 - **Is the responsibility of all staff.**