CRA Strategy Development

Developing A Bank CRA Strategy
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Training Topics:

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

e.g. Interagency Q&A product strategy
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.
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.
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.