



CRA in Rural Communities

**2007 Community Development Policy Summit:
Partnering for Success**

Federal Reserve Bank of Cleveland

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NeighborWorks[®] America

- Evolved from a 1972 effort by Federal Home Loan Bank Board to increase thrift-industry lending in declining neighborhoods.
- Chartered by Congress in 1978
 - Funding for capital projects and operations
 - High degree of technical assistance
 - Capacity building training
 - 239 community based organizations within the NeighborWorks[®] network
 - Leverage significant private-sector resources
- Board of Directors
 - Director of FDIC
 - First Deputy Sr. Comptroller and Chief Council of OCC
 - Vice Chairman of NCUA
 - Assistant Secretary of HUD
 - Director of OTS
 - Member of the Board of Governors of the Federal Reserve

CRA

- CRA – 1977 Intended to encourage depository institutions to help meet the credit needs of low and moderate-income neighborhoods in their assessment area (12 U.S.C. 2901;12 CFR)
- Qualified Investments
 - Capital investments (investments, deposits, membership share)
 - Loan participation
 - Other Ventures
- Community Development Service defined as activities whose primary purpose is community development and which is related to the provision of financial services
 - Affordable housing
 - Community Service to low and moderate-income individuals
 - Activities that promote economic development by financing small business
 - Activities that revitalize or stabilize low or moderate-income geographies

Banks and Nonprofit Partnerships

- Banks can not comply with CRA without community-based organizations that bring together public and private funds for a deal.
- CRA doesn't WORK without community-based organizations to buffer the risks involved in direct investment into low and moderate-income neighborhoods.

Types of Nonprofit Lenders

- Community Action Programs
- Community Development Corporations
- Business and/or Economic Development Corporations
- Low-Income Credit Unions
- Community Development Banks
- Community Venture Corporations
- More

Role of the nonprofit intermediary

- They seek to leverage public resources with private resources to create an economic and social change within their communities.
 - Provision of micro and small business loans
 - Entrepreneurship programs
 - Homeownership programs
 - Affordable housing programs
 - Financial Education

Summary of Results

Commercial Lending Assessments

- 5 Organizations, lending to mixed markets
- 3 States (Kentucky, Texas , and New York)
- 95 Counties
- 797 Loans between 1990-2006
- Over \$78 million in Direct Loans
- Over \$74 million in Commercial Participation
- Over \$14 million in Entrepreneur Investment

Summary of Rural and Mixed Rural Counties in Data Base

- 57 Rural and Mixed Rural Counties
60% of total database
- 403 Loans
51% of total data base
- Over \$51 million in Direct Loans
65% of total data base
- \$55 million in Commercial Participation
74% of total data base
- Almost \$10 million in Entrepreneur Investment
71% of total data base

53 Rural Counties with Populations Living in Poverty ($\geq 12.4\%$)

State	Direct Loan Amts (‘000)	Bank Participation (‘000)	Entrepreneur Investment (‘000)
Kentucky	\$6,193	\$ 1,931 (31%)	\$ 762
New York	\$ 1,620	\$ 1,297 (80%)	\$ 74
Texas	\$18,467	\$19,848 (106%)	\$3,014

31 Rural Counties with 80% or Below State Median Household Income

Region	Direct Loan ('000)	Participation ('000)	Equity ('000)
Texas	\$ 7,754	\$ 4,180 (54%)	\$ 726
Kentucky	\$ 1,031	\$ 342 (33%)	\$ 1,031
New York	\$ 1,084	\$ 380 (35%)	\$ 210

34 Rural Counties with 4.3% Unemployment or Higher in 2000

Region	Direct Loan (‘000)	Participation (‘000)	Equity (‘000)
Texas	\$ 7,199	\$ 5,422 (75%)	\$ 735
Kentucky	\$ 1,783	\$ 380 (21%)	\$ 210
New York	\$ 1,610	\$ 710 (44%)	\$ 124

CRA works only in partnership with nonprofit intermediaries.

- 82% of the small business direct lending went to rural and mixed rural counties.
- Commercial participation investments in rural communities exceeded the direct loan amounts.
- Banks participate in rural counties with high unemployment, low median household incomes, and high poverty rates.
- Banks tend to participate in rural regions with economic traffic (Central vs. Middle Rio Grande Region, Texas).
- Additional analysis must be conducted to further understand the function of nonprofit intermediary lenders in relation to CRA compliance.