

CRA in Rural America

The Community Reinvestment Act and Mortgage Lending in Rural Communities

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HAC, founded in 1971, is a nonprofit corporation that supports affordable housing efforts in rural areas of the United States. HAC provides technical housing services, loans from a revolving fund, housing program and policy assistance, research and demonstration projects, and training and information services. HAC is an equal opportunity lender and provider.

CRA in Rural America

THE COMMUNITY REINVESTMENT ACT AND MORTGAGE LENDING IN RURAL COMMUNITIES

The Community Reinvestment Act (CRA), adopted in 1977, requires federally-insured depository institutions to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods. Assessments of CRA's scope and effectiveness are typically conducted at a market-specific level, and those markets analyzed are almost exclusively metropolitan or urban in nature. Very little is known about the implementation of CRA in the rural context.

The Housing Assistance Council (HAC) conducted a general assessment to provide a better understanding of CRA's implementation in rural communities. The report focuses on mortgage lending and CRA.

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EXECUTIVE SUMMARY

The Community Reinvestment Act (CRA), adopted in 1977, requires federally insured depository institutions to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods, consistent with safe and sound operation. Assessments of CRA's scope and effectiveness are typically conducted at a market-specific level, and those markets analyzed are almost exclusively metropolitan or urban in nature. Very little is known about the implementation of CRA in the rural context.

The Housing Assistance Council (HAC) conducted a general assessment to provide a better understanding of CRA's implementation in rural communities, focusing largely on mortgage lending and CRA. Below are some highlights of HAC's findings.

The Mortgage Marketplace Continues to Evolve in Rural

Communities Changes in the financial and mortgage lending landscape over the last two decades have impacted rural communities. Over the last few decades, the banking industry has undergone considerable consolidation, with the number of lenders insured by the Federal Deposit Insurance Corporation (FDIC) dropping from approximately 15,000 in 1990 to just over 7,000 in 2010. Between 2000 and 2010, the number of depository institutions based in rural areas declined by 21 percent.

Most Rural Institutions Receive the Small Bank CRA Examination

Banks in rural and small town communities constitute a majority of FDIC-insured lenders. More than half (52 percent) of FDIC-insured lenders were headquartered in rural areas or small towns in 2012. These rural-based institutions, despite their relatively large numbers, are generally small and contain only about 6 percent of all assets held by federally insured depository institutions. In contrast, the 20 largest lenders, all headquartered in urban and suburban communities, hold over half of all bank assets. Due to their small asset size, rural-based banks overwhelmingly (85 percent) receive the small bank CRA examination. Federal regulators conduct the small bank examination less frequently than the more detailed large bank examination.

The Vast Majority of Rural Mortgages are Made by Large Lenders

While three-quarters of rural banks are classified as small lenders under CRA, they originated only 13 percent of rural mortgages in 2012. Conversely, large, predominately urban-based banks made nearly 70 percent of mortgages in rural areas in 2012. In some rural areas, however, community-based banks still originate the majority of loans.

Rural CRA Ratings: “All the Children Are Above Average” Similar to ratings for banks nationally, approximately 99 percent of rural and small town lenders received either an “outstanding” or “satisfactory” CRA rating. Only 1 percent of rural institutions received a “needs to improve” or “substantial noncompliance” rating, which could adversely affect mergers or branch expansions. A smaller percentage of small bank lenders than large lenders earn an “outstanding” rating. Large asset lenders, which are much more common in urban areas, receive the more extensive large bank examination which may provide an opportunity for more detailed review and discovery of all lender activities, while a small bank test is more cursory, simply identifying adequate efforts.

CRA Assessment Areas for Rural Banks: “Two Sides of the Coin” CRA examinations are based on activities that occur within the area an institution designates as its service area, known as its CRA assessment area. While data are limited, an estimated one-quarter of all rural mortgages originated in 2012 were for properties outside the lenders’ CRA assessment areas. These preliminary findings suggest that, at least in some cases, rural assessment areas do not entirely reflect where lender activities occur. At the same time, there has also been a call for increased CRA community development activities by large banks in rural communities that are typically outside their assessment areas.

CRA in Designated High Credit Need Rural Areas CRA examinations incorporate a targeted approach that evaluates the degree to which lenders make credit available to all portions of their service area, particularly low- and moderate-income, distressed rural, and remote (underserved) rural census tracts. For community development activity to qualify for CRA consideration, it must occur in one of these “high credit need” areas. In 2012, federal regulators designated 6,814 rural and small town census tracts as having high credit needs. These census tracts are home to 25.4 million people, about 42 percent of rural and small town residents, but they received only roughly 29 percent of rural and small town mortgage originations in 2012. In addition, these high credit need rural and small town areas had high rates of loan denials and high interest rate lending.

Gaps in Rural CRA Coverage In the modern mortgage marketplace there are notable gaps where CRA may be outmoded or is not aligned to markets or products. These gaps include rural communities, where geography and housing characteristics differ from more urbanized locales. Home Mortgage Disclosure Act (HMDA) data indicate that an estimated one-third of all 2012 reported mortgage originations in rural areas were made by non-CRA-regulated institutions. In other years, specifically before the Great Recession, non-CRA-covered lenders (credit unions and mortgage companies) actually reported a majority of all mortgage originations.

The failure of lending activity to match up with assessment area boundaries reflects the reality that retail bank locations are no longer the sole conduit for mortgage access. A decreased reliance on “brick and mortar” banks, along with the greater prevalence of manufactured home lending, contributes to these blank spots in rural lending activities.

INTRODUCTION

The Community Reinvestment Act (CRA) is intended to ensure equal access to credit for all communities and to end discriminatory lending practices. In particular, Congress intended CRA to combat discriminatory practices, such as redlining, that denied credit to entire groups and communities based on income and racial characteristics. Before CRA, lenders often took funds, in the form of deposits, out of lower-income neighborhoods, and put them into more affluent communities in the form of loans and credit services. The CRA legislation was initially generated as a response to lending activities that occurred primarily in urban communities, but it also applies to depository institutions' activities serving rural and small town areas – an aspect that is often overlooked and little understood or examined.

The Housing Assistance Council (HAC) explored the CRA's role in rural and small town communities, particularly in regard to mortgage lending activities. The analysis investigated the degree to which CRA applies to lenders headquartered in rural areas and small towns and mortgage lending activity, and assessed whether patterns exist between this coverage and lender activities. These efforts included describing and reviewing lender-identified CRA assessment areas and regulator-designated high credit need census tracts.

A CRA Primer

Congress enacted the Community Reinvestment Act in 1977 as a way of encouraging lenders to fully meet the credit needs of all the communities in which they operate.¹ The primary intent of the law was to ensure banks no longer denied or underserved certain communities, in particular those with minority and low-income residents. CRA is one of the final pieces of federal legislation enacted in the 1970s, along with the Equal Credit Opportunity Act, Fair Housing Act, and Home Mortgage Disclosure Act, to improve access to credit markets and to end discrimination in financial products.²

To achieve its goal, CRA requires that federal bank regulators evaluate and rate depository institutions on the degree to which they are meeting the credit needs of their entire service areas (the communities where they have offices, branches, or lending activity). The evaluations' purpose is to identify banks that fail to serve neighborhoods and populations suffering from a lack of credit and disinvestment.

As an enforcement mechanism, regulators review CRA evaluations when a lender applies to open a new location, acquire another institution, or is involved in a potential merger. If a lender receives a poor CRA evaluation, the regulator can use the CRA rating to deny the application.³

Initially, CRA was a somewhat obscure banking regulation receiving little scrutiny or public notice.⁴ CRA evaluations were rarely, if ever, used to deny bank acquisitions.⁵ Furthermore, the evaluation information was not made public, and the information used in its calculation was not necessarily related to actual lending activities and outcomes.⁶ This changed in 1989 when the law was amended to require public disclosure of CRA ratings and performance evaluations, thus increasing the involvement of advocacy groups, among others.⁷ Today, select CRA data are available for public review and are used by advocacy or consumer groups, as well as researchers, to evaluate lender service provision.

The CRA Process

CRA covers only financial institutions that accept deposits, or what are legally construed as deposits. The law specifically excludes credit unions and mortgage brokers from CRA regulation. Some advocates have been critical of this limited coverage, asserting that CRA no longer provides adequate and complete oversight of credit markets. CRA did apply to approximately 7,200 Federal Depository Insurance Corporation (FDIC) insured lenders in 2011.¹

To ensure depository institutions fulfill their CRA obligations, federal bank regulators evaluate their retail lending, service area operations, and community development efforts and rate them according to how well they serve all neighborhoods in their service areas. Regulators award institutions one of the following four ratings:

1. **Outstanding;**
2. **Satisfactory;**
3. **Needs to Improve; and**
4. **Substantial Noncompliance.**

The last two ratings are considered poor or failing ratings. Regulators can use the receipt of one of the two lower ratings to deny a lender's application for a bank merger, acquisition, or new branch location.

Federal regulators announce the CRA review process for banks to the public weeks in advance of an examination and can take several months to complete an examination. An onsite evaluator reviews institution records and any additional information provided by concerned groups. CRA examinations occur every two to five years, depending on lender asset size and previous rating.

CRA evaluations are based on institutions' financial activity, or lack of activity, in their self-identified assessment areas. These areas reflect both office locations and substantial lending activity. Assessment areas must consist of geographies where a lender operates a physical office or deposit taking ATM as well as where a lender originates or purchases a substantial portion of their loans. A bank generally identifies large geographies such as MSAs, cities or counties as assessment areas first, and refines the area down to the census tract level to more precisely reflect where they do business. Assessment areas should be contiguous and cannot arbitrarily exclude low- and moderate-income census tracts.

Regulators

Three federal financial regulatory agencies perform CRA evaluations: the FDIC, the Federal Reserve Board (FRB), and the Office of the Comptroller of the Currency (OCC).¹¹ A bank's regulator is determined by where

¹ Lenders that are federally insured, and thus covered by CRA, include federally chartered savings associations as well as banks. The general term "bank" is used throughout this report to indicate all CRA-covered institutions.

¹¹ During the period covered by the data reviewed in this report, the Office of Thrift Supervision (OTS) also conducted CRA evaluations. In July 2011, the OTS was merged into the Office of the Comptroller of the Currency (OCC).

it is chartered and whether it is a member of the Federal Reserve System.¹ In some instances, banks are alleged to have intentionally changed regulators, a practice that has been termed “regulator shopping.”⁸ As a result, different agencies may perform a bank’s CRA evaluation over time. While each regulatory agency has authority to write its own rules, they generally use similar regulations to help foster uniformity in the process.⁹ All agencies use the same criteria and award the same CRA ratings.

Examination Type

The type of CRA examinations undertaken varies based on lender asset size. There are three primary examination types:

1. Large bank,
2. Intermediate small bank, and
3. Small bank.¹¹

The “large bank” examination applies to lenders with \$1.186 billion or more in assets for the previous two years and evaluates lenders extensively on three tests: lending, services, and investment.¹¹ The lending test evaluates how well a lender meets its service area’s credit needs. The test reviews mortgage, small business, small farm, and community development lending.¹⁰ Research suggests that considerable weight is given to Home Mortgage Disclosure Act (HMDA) mortgage lending data in this process.¹¹ The service test portion of the examination evaluates the availability and effectiveness of a lender to provide retail services to all parts of its service area. For example, the service test might include reviewing the distribution of an institution’s branches and ATMs across all service area neighborhoods. The investment test assesses the degree to which a lender provides funds and assistance for community development purposes in its assessment area.¹² Large banks are the only lenders subject to all three tests.

The “intermediate small bank” examination, a category established in 2005 with the goal of reducing the CRA reporting burden on more modest-sized lenders, applies to institutions with assets totaling between \$296 million and \$1.186 billion in the previous two years. Prior to 2005, regulators applied large bank examinations on all institutions not considered “small banks.” The intermediate small examination is essentially a streamlined version of the large bank examination with less detail (e.g., no specific threshold for community development loans) and no small business activity reporting.¹³ Evaluators apply both a lending test and a community development test that is an abbreviated version of large bank investment and service area tests focusing on community development activity.

¹ The FDIC oversees state chartered banks that are not part of the Federal Reserve System. The FRB oversees state chartered banks that are part of the Federal Reserve System. The OCC oversees all federally chartered banks and federal savings associations. Until 2011, the OTS regulated savings and loan associations, also called thrifts.

¹¹ There are a total of nine examination methods: Large Bank, Small Bank, Strategic Plan, Limited Purpose, Wholesale, Wholesale Limited Purpose, Intermediate Small Bank, Assessment Factor, and Hybrid. Over 90 percent of all institutions fit into one of the three examination methods described here. http://www.ffiec.gov/craratings/Rtg_spec.aspx

¹³ Each year the regulatory agencies release a joint statement adjusting for inflation the asset thresholds associated with each examination type. The following discussion uses the 2013 thresholds.

The “small bank” test, which applies to institutions with less than \$296 million in assets in at least one of the last two years, includes only the retail lending test. Under CRA regulations, small banks are not obligated to engage in community development activities.¹⁴ Activities such as mortgage lending primarily determine the CRA ratings under the small bank test.

Type of CRA Exam	Asset Limits (2013)	Tests Involved
Large bank	\$1.186 billion or more	Lending, investing, and services. Most comprehensive test.
Intermediate small bank	\$296 million up to large bank limit	Lending and community development. Streamlined, less comprehensive test than large bank exam.
Small bank	Below \$296 million	Lending alone. Least rigorous test.

Examination Process

The CRA examination typically follows a standard process. Several quarters before an examination, a regulatory agency publicly releases the names of lenders to be evaluated. The lender prepares materials for the examination. A regulator performs an onsite examination, reviewing loan transactions, internal bank records, and other outside information.¹⁵ Because CRA regulations require a lender to be evaluated based on meeting local community credit needs, community groups can provide regulators with information and they can make a regulator aware of problems or concerns.¹⁶ Since the early 1990s, advocacy groups have become increasingly active in the process.

CRA in the Rural Context

With a bank’s asset size as a primary determinate, CRA involvement is often viewed as not relevant or applicable for rural lenders or communities. Correspondingly, there is little research or understanding on the role of the CRA in rural areas. For the most part, studies and assessments of CRA tend to explore the law’s impact on lending nationally, particularly its ability to encourage lending in low-income areas, and on the role it may have played in the most recent economic crisis.¹⁷ Such analyses typically focus on large banks headquartered in major metropolitan areas since these are the institutions making the most loans.

While most studies do not specifically explore rural lending activities, they provide insight into how lending patterns are analyzed. Many CRA studies rely on HMDA mortgage lending data as a measure of banking activity and regulator-designated high credit need census tracts as a proxy for underserved neighborhoods.¹⁸ HMDA, the primary source of mortgage lending data, exempts extremely small lenders (based on asset size) and lenders without an office in a metropolitan area from reporting lending information. These exemptions have resulted in gaps in mortgage lending data that some experts believe make analysis of communities located outside metropolitan areas unreliable.¹⁹

Despite the overall lack of concentration in this particular area, a few investigations have explored CRA within the rural context. A 2007 National Community Reinvestment Coalition (NCRC) study of the CRA’s impact on Appalachia reviewed CRA examinations for a sample of 220 lenders headquartered in the region. The study indicated that these Appalachian lenders originated \$5.4 billion in loans for community development projects in a two-and-a-half-year period. Of those funds, \$807 million were invested in

affordable housing projects – a sizable investment for a region that often struggles for financial assistance.²⁰

The NCRC study focused primarily on community development efforts. It found that banks headquartered in metropolitan areas originated considerably more community development loans, about 91 percent of the total, than did lenders headquartered outside metropolitan areas. These findings may be driven, at least in part, by the relatively large size of a few metropolitan area institutions. In addition, the NCRC analysis was performed before the inclusion of CRA's distressed and/or underserved rural census tracts, which may impact lending.

A 1994 study published in the *Journal of Community Development Society* is one of the few academic papers specifically exploring how lenders in rural areas identify and evaluate the needs of their service area populations to comply with the CRA.²¹ The article notes a general shortage of data available on banking activities, particularly in rural communities, and explores possibilities for generating information to better assess how well a bank is or is not serving its entire community.

A 2005 analysis from the Federal Reserve investigated potential changes to CRA and how they might impact communities outside metropolitan areas.²² The study explored the impact of the then proposed (and now implemented) changes in the CRA examination method. The changes raised the large bank test asset threshold and created the intermediary small bank category, as well as added to the definition of designated high credit need census tracts, expanding it to include more census tracts outside metropolitan areas. The analysis indicated that a disproportionately high number of lenders no longer subject to the more rigorous large bank test were headquartered outside metropolitan areas. The authors found no evidence, however, that the affected banks would change their retail lending patterns significantly. Another 2006 study from the Federal Reserve similarly asserted that change in bank examination processes was likely to have little impact on community development lending.²³

The 2005 Federal Reserve study also predicted that the proposed rule changes would significantly increase the number of rural regulator-designated “high need” tracts. The ultimate goal of this policy change was to increase lending activity in high credit need rural communities. More recently, bank regulators have again focused on a lack of community development lending in high credit need rural communities.²⁴

These analyses are informative and helpful for guiding future research, data sources, and approaches, but many questions remain. How many CRA-covered institutions operate in rural communities? What types of examinations and ratings are rural lenders receiving? What is the scope of coverage in rural America? Is mortgage lending activity reaching CRA-eligible census tracts? This investigation hopes to spotlight these gaps in information and continue the discussion on rural CRA.

ABOUT THE STUDY

HAC conducted a multi-layered assessment of CRA in rural communities using regulator ratings, performance evaluations, and disclosure reports as well as lending data from the Home Mortgage Disclosure Act (HMDA). This layered research approach was conducted through five distinct areas of emphasis and inquiry.

1. Rural-Based Banks

Over the past few decades, the banking industry has undergone considerable consolidation and change. Has this resulted in a decline in the number of banks headquartered in rural and small town communities? How are these rural and small town banks assessed by CRA?

2. Mortgage and Lending Activity in Rural Communities

In addition to rural banks, many urban- and suburban-based banks also make mortgage loans in rural communities. What proportion of rural mortgage loans are made by small, intermediate, or large institutions, as classified under CRA? Using both CRA examination and HMDA-reported mortgage lending data, the review assessed the total proportion of rural and small town loans that are made by small, intermediate, or large institutions as classified under CRA.

3. Bank Ratings and Rural Lending Activity

What are the CRA ratings (outstanding, satisfactory, needs improvement, or substantial noncompliance) of institutions that make mortgage loans in rural communities? Do these ratings differ for institutions making loans in suburban and urban communities? The analysis compared rural and small town mortgage lending to suburban and urban lending, as reported in HMDA data, highlighting differences associated with lender geography and CRA ratings.

4. Rural Assessment Areas Reassessed

CRA examinations are based on institutions' activity, or lack of activity, within their service areas, known as CRA assessment area. What is the scope of CRA's assessment in rural America? How many rural tracts are assessed under CRA in a given year? How do lender assessment areas match up with branch/office location and actual lending activity? While data are limited, the analysis reviewed 2013 CRA assessment area data and explored how these areas relate to rural lending activities.

5. Mortgage Lending in Designated High Credit Need Rural Census Tracts

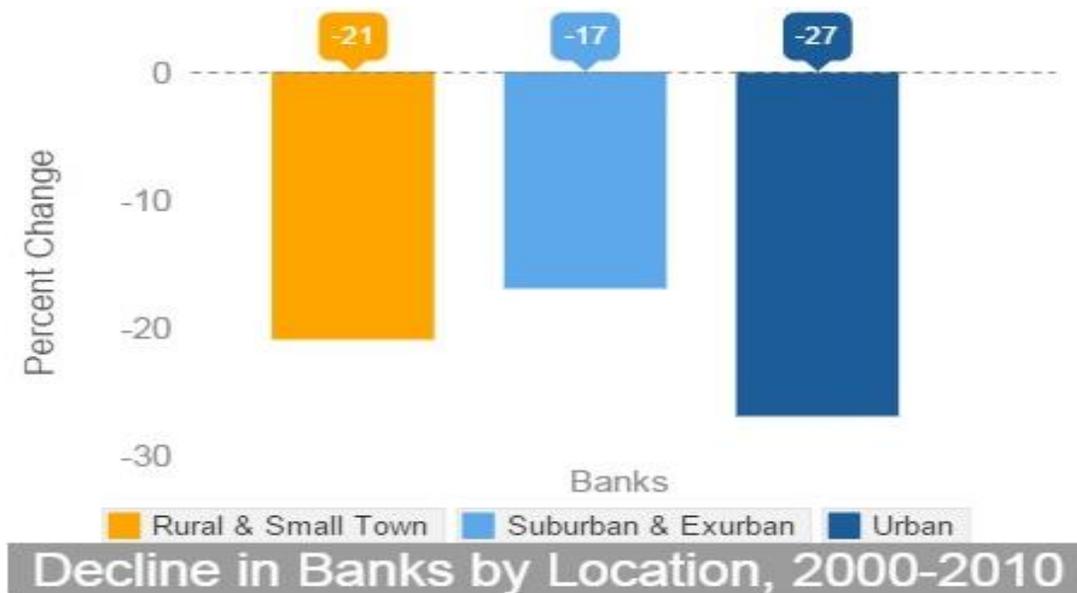
CRA examinations, particularly with regard to community development activities, incorporate a targeted approach to encourage credit access in low- and moderate-income, distressed rural, and underserved rural census tracts. What does mortgage lending look like in these “high need” census tracts? What percentage of mortgage loans in the regulator-designated high credit need rural census tracts are classified as high cost loans? Using HMDA mortgage data and CRA-designated high credit needs census tracts, the analysis presents an initial review of mortgage lending activities in these designated areas noting differences based on CRA oversight.



1. RURAL-BASED BANKS

Over the past few decades, the banking industry has undergone considerable consolidation and change. Has this resulted in a decline in the number of banks headquartered in rural and small town communities? How many of these rural or small town banks are assessed under CRA?

The banking industry has undergone dramatic changes over the last few decades. One of the more significant changes has been the overall decline in the number of banking institutions. In 1990, the industry included over 15,000 FDIC-insured lenders; by 2012, this number was cut in half.¹ This decline has been relatively consistent over this period with the drop in the number of FDIC-insured depository institutions totaling approximately 2,200, or 23 percent, during the last decade.¹¹ The decline generally reflects consolidation in the banking industry.²⁵ The number of small lenders, with assets totaling less than \$100 million, has declined by 85 percent since 1985, while the number of all other larger-asset lenders, particularly those with \$10 billion or more in assets, has grown.



Source: HAC comparison of FDIC-insured lenders, 4th quarter of 2000 and 4th quarter of 2010, classified by main office location.

The pattern of decline in depository institutions has generally occurred across all geographies. The number of FDIC-insured lenders with rural or small town main offices declined by 21 percent from 2000 to 2010.

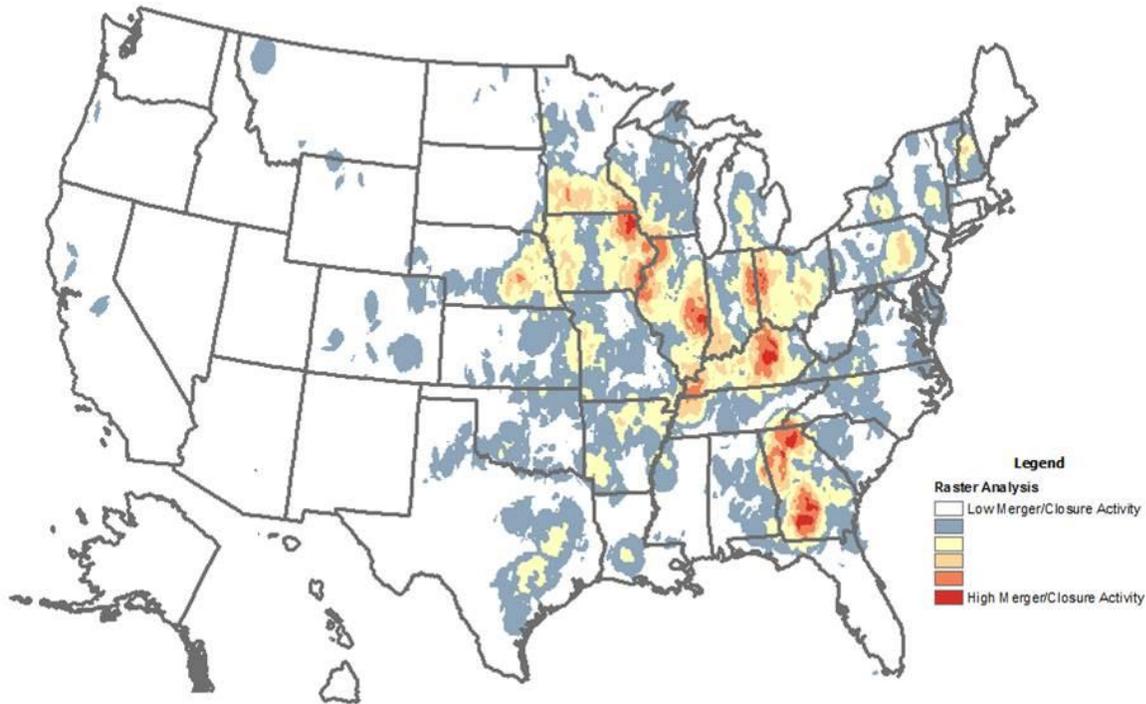
¹ There were 15,138 reported FDIC-insured lenders in the fourth quarter of 1990 and there were 7,083 by the fourth quarter of 2012. <http://www2.fdic.gov/qbp/index.asp> (accessed 2/1/14).

¹¹ Measured from the fourth quarter of 2000 (9,904) to the fourth quarter of 2010 (7,658) and totals 2,246 banks and 22.7 percent.

This decline in rural-headquartered lenders was somewhat higher than the 16 percent drop occurring for suburban- and exurban-based lenders, but less than the 27 percent drop experienced by urban-based lenders. The decreasing numbers of depository institutions potentially limit the credit options available to borrowers, making even more important the CRA's objective of ensuring that lenders adequately serve all communities.

Bank Merger and Closure Heat Map, 2000-2010

Bank Closure/Merger Hotspots



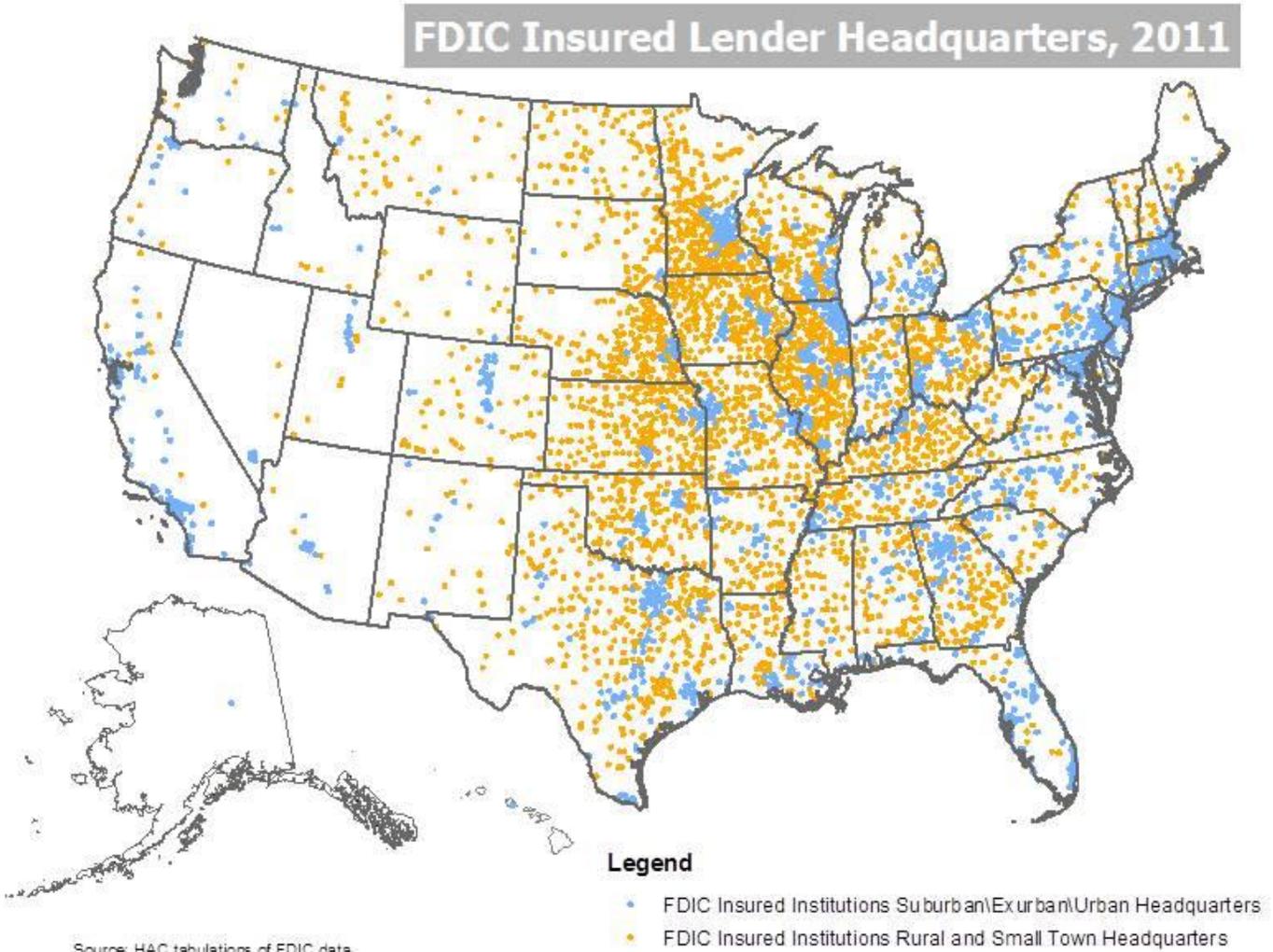
Source: Housing Assistance Council (HAC) Tabulations of FDIC Data

Rural and Small Town Lender Characteristics

A majority of FDIC-insured institutions (52 percent) in 2011 were headquartered in rural and small town census tracts.¹ Forty-seven states have at least one rural and small town lender and the Midwest contained 54 percent of all rural-based banks.²⁶ Approximately 64 percent of all lenders operated a main office or a branch in a rural or small town census tract.

¹ FDIC-insured institutions in 2011 refer to lenders reporting bank data (Summary Deposit and Call Reports) on December 31, 2011. Unless otherwise noted, this is the data source throughout the report.

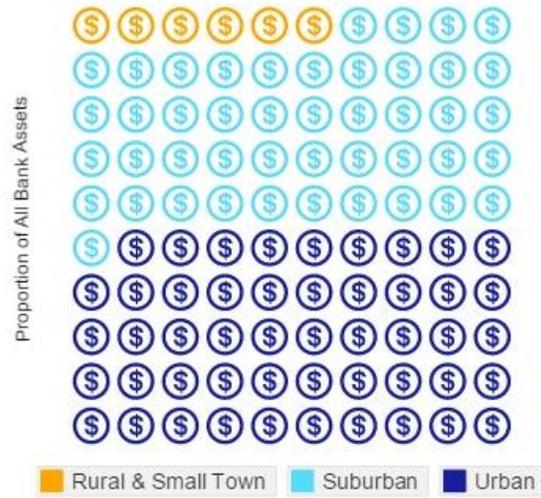
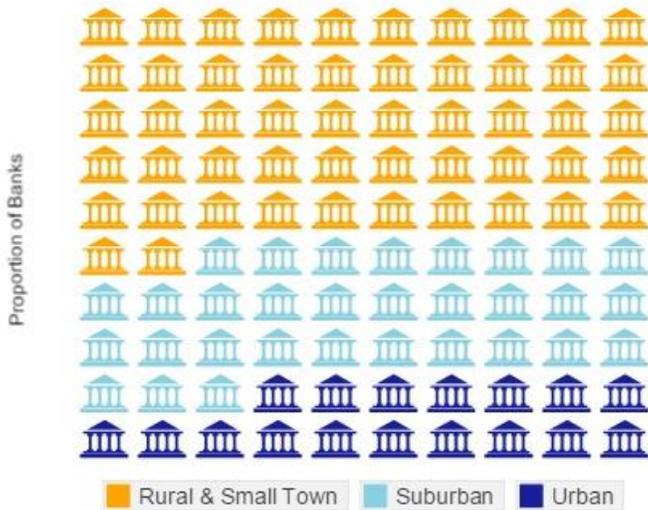
While these figures point to considerable rural and small town coverage by banks, the overwhelming majority of bank branches are not in rural and small town communities. Suburban and urban communities are home to over three-quarters of all bank branches.



Despite constituting a majority of banks, the rural- and small town-based FDIC-insured lenders held only 6 percent of reported bank assets in 2011. Lenders based in urban places held approximately 55 percent of all assets while making up just 18 percent of all FDIC-insured institutions. Urban-headquartered lenders had a median asset total of \$336 million – almost three times greater than the median amount for rural and small town lenders (\$114 million).

In addition to the prevalence of large-asset lenders in urban areas, the banking industry has seen considerable asset concentration, with the ten largest FDIC-insured lenders holding 52 percent of all

reported assets for depository institutions. This concentration of assets among a small number of large lenders has been a relatively recent occurrence. The Federal Reserve Bank of Dallas estimates that the largest five banks held just 17 percent of all assets in 1970, but by 2010 that grew to more than half of all assets.²⁷



Bank Headquarters by Location, 2011

Banks by Asset Size and Location, 2011

Source: HAC tabulation FDIC data.

Not only do rural lenders have fewer assets, but their lending activities also differ from that of their suburban and urban counterparts. The FDIC classified 38 percent of all lenders in 2011 with main offices in rural areas or small towns as an agricultural bank (25 percent or more of assets involved in agricultural purposes). Agriculture was the largest FDIC classification category for rural- and small town-headquartered institutions. In comparison, commercial lending (25 percent or more of assets involved in commercial or industrial purposes) was the largest category for urban and suburban institutions. The FDIC identified over 70 percent of suburban and urban institutions as commercial. These differences in lending patterns likely reflect market differences, with agricultural activities more common in rural and small town areas and commercial endeavors more common in suburban or urban communities.

CRA Examination Method

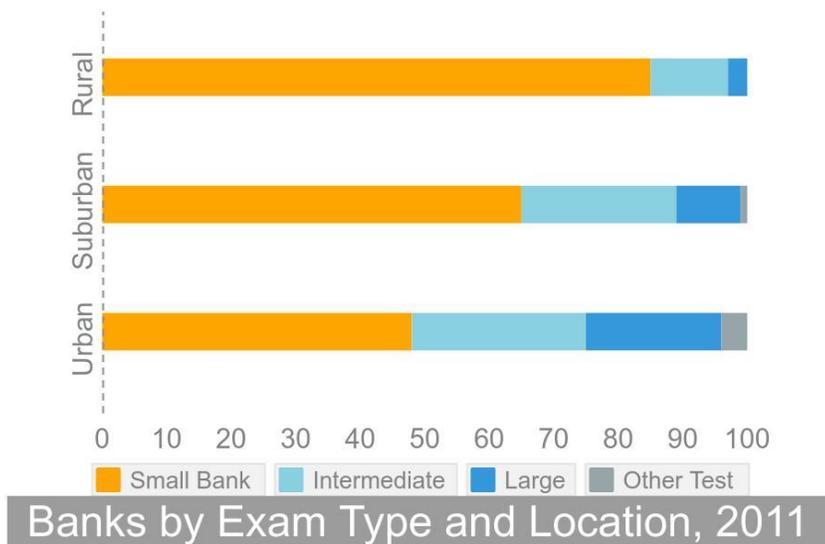
Approximately 72 percent of all FDIC-insured institutions in 2011 received small bank examinations while only 8 percent received the more rigorous large bank examinations.¹ The distribution of examination type varies by geography. The overwhelming majority of rural- and small town-based lenders received small bank CRA examinations, while almost half of urban-headquartered lenders received either a large or

¹ The analysis successfully identified and linked the FDIC data on bank location and the regulatory agencies' data on CRA examinations and ratings for approximately 7,051, or 95 percent, of FDIC-insured lenders. The study used the most recent available CRA examination that occurred during the 2009-2012 period for each lender.

intermediate small bank examination. Only 3 percent of all rural and small town-based lenders received the large bank examination.

On average, 1,400 CRA evaluations were conducted per year between 2009 and 2012 with the most occurring in 2012. Rural and small town institutions comprised slightly fewer than half of these evaluations each year. Overall, approximately 19 percent of all FDIC-insured rural and small town institutions were evaluated each year during the 2009 to 2012 period.

In the mid-2000s some rural advocates opposed the creation of the intermediate small streamlined examination because they estimated that many of the lenders affected would be rural banks and the ultimate result would be reduced oversight of credit markets.²⁸ Indeed, considerably fewer rural lenders are now subject to the more extensive CRA large bank examinations. Using the pre-2005 approach, where only small and large bank examinations were performed, 30 percent, or 209, of rural and small town FDIC-insured institutions examined in 2012 would have been evaluated under large bank examinations, compared to the actual number of 40.



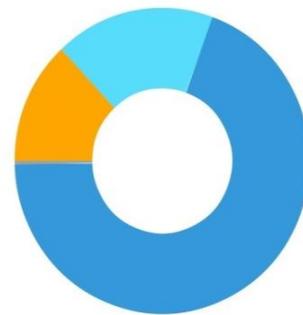
2. MORTGAGE AND LENDING ACTIVITY IN RURAL COMMUNITIES

In addition to rural banks, many urban- and suburban-based banks make mortgage loans in rural communities. What proportions of rural mortgage loans are made by small, intermediate, or large institutions, as classified under CRA?

Rural and small town and suburban depository institutions constitute approximately 81 percent of all lenders serving rural and small town communities. Urban lenders, however, play a large role in mortgage originations. Institutions with rural and small town main offices were responsible for only 30 percent of all rural and small town mortgage originations in 2012, while urban-headquartered lenders reported the most, 42 percent. As with much of the banking industry, rural lending tends to be concentrated among a few large providers. The twenty largest rural and small town loan originators are responsible for 45 percent of all depository institution made loans. Wells Fargo Bank, NA, the largest lender by volume of HMDA-reported loans in the United States, originated 15 percent of all depository institution rural and small town loans.

A similar distribution of lenders and concentration of activity can be witnessed in CRA examinations. Fifty-eight percent of all depository institutions reporting at least one rural mortgage origination underwent a small bank assessment. These smaller lenders however, accounted for only 13 percent of all rural and small town originations.

Conversely, just 14 percent of rural and small town-serving depository institutions experienced a CRA large bank examination, but these lenders handled 69 percent of rural mortgage originations. Eighty-seven percent of rural and small town originations were reported by lenders receiving a large or intermediate small bank examination.¹



Rural Lending Activity by Exam Type, 2012

Source: HAC tabulation of 2013 HMDA data (calendar year 2012 activity)

Although the majority of lenders serving rural and small town communities are not exposed to the more detailed large bank CRA examination, the overwhelming majority of mortgages are in fact made by lenders that do submit to such an

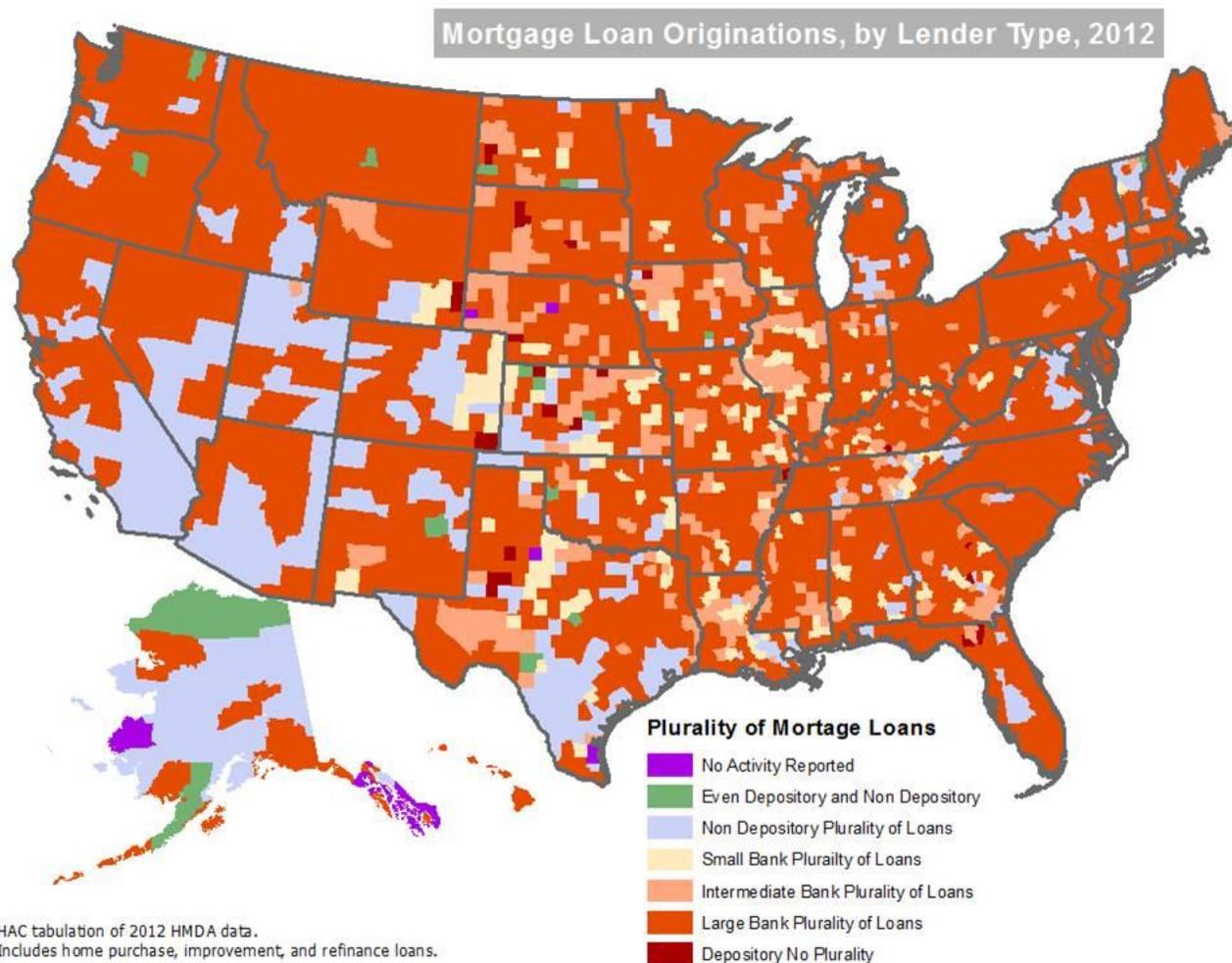
examination. Still, three important issues indicate oversight could be lax in certain rural communities. First, HMDA data has gaps, especially in rural and small town communities, because extremely small lenders (based on asset size) and lenders without offices in metropolitan areas are exempt from reporting lending

¹ It is important to note that HMDA data limitations likely exaggerate the role small lenders play in rural and small town communities. Filing exceptions are based on lender size and operations.

information. While the excluded lenders may engage in a relatively small amount of mortgage lending, they may play an oversized role in certain communities.

Second, these aggregate figures on mortgage lending are accurate for the nation as a whole, but each community is different. Many rural and small town communities and consumers rely on small lenders.

Finally, CRA-covered lenders do not make all rural and small town loans. Approximately 30 percent of rural and small town HMDA-reported loan originations were made by credit unions, mortgage companies, or other entities not evaluated under CRA. In the early 2000s, before the Great Recession, non-depository institutions actually originated more than half of all mortgage loans. This is a particularly important issue for manufactured home lending with over half of all manufactured originations occurring in rural and small town communities. Two large mortgage companies reported 41 percent of all rural manufactured home applications in 2012 – neither of which was evaluated under CRA.



It is important to note that throughout this study our analysis of mortgage lending activity explores all applications, originations, etc. for each group (Large, intermediate or Small Bank, CRA covered or not, etc.) as a whole. Individual lender evaluations may result in different results.

3. BANK RATINGS AND RURAL LENDING ACTIVITY

What are the CRA ratings of institutions that make mortgage loans in rural communities? Do these ratings differ for institutions making loans in suburban and urban communities? The analysis compared rural and small town mortgage lending to suburban and urban lending to highlight differences associated with lender geography and CRA ratings.

Based on an examination, a regulator gives a lender one of four CRA ratings: outstanding, satisfactory, needs improvement, and substantial noncompliance. Lenders who receive either of the two latter ratings can be denied applications for bank acquisitions or mergers.²⁹ Large and intermediate small bank lenders receiving a satisfactory or better CRA rating are evaluated every two or three years while a small bank with a similar rating is evaluated every four or five years.³⁰ Lower ratings can necessitate more frequent examinations.

The overwhelming majority – 90 percent – of all FDIC-insured institutions in 2011 received satisfactory ratings. Only 1 percent of all identified CRA ratings fell into the bottom two categories (needs to improve and substantial noncompliance). Similarly, about 99 percent of rural and small town lenders received outstanding or satisfactory ratings. Before the 2005 change in CRA regulations shifted some banks from the large bank examination to the less rigorous intermediate small examination, research generally found somewhat higher percentages of needs to improve and substantial noncompliance CRA ratings – nearly 5 percent on average.³¹

FDIC-Insured Lenders by Most Recent CRA Rating, 2011

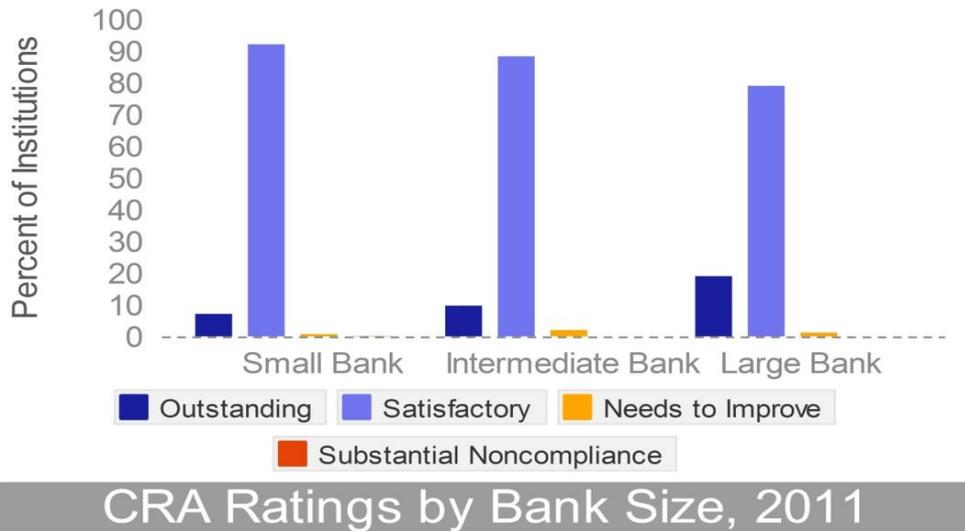
CRA Rating by Lender Location (most recent rating)	Rural and Small Town		Suburban and Exurban		Urban		Total	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Outstanding	291	7.87	161	7.50	173	14.33	625	8.86
Satisfactory	3,384	91.53	1,964	91.48	1,001	82.93	6,349	90.04
Needs to Improve	20	0.54	21	0.98	31	2.57	72	1.02
Substantial Noncompliance	2	0.05	1	0.05	2	0.17	5	0.07

Source: HAC tabulation of most recent CRA examination during the 2006 to 2012 period for all FDIC-insured institutions in 2011 (FDIC and FFIEC).

Urban-headquartered depository institutions stand out for relatively high percentages of both excellent and poor ratings. Approximately 3 percent of urban lenders were rated either needs to improve or substantial noncompliance. The percentages and numbers are relatively low, but they are considerably higher than the 0.6 percent rate for both rural- and suburban-based lenders. At the same time, urban lenders received twice the rate of outstanding ratings as rural-based lenders. More than one in ten banks with an urban main office earned the highest CRA rating.

Outstanding evaluations appear to be related to examination type. Urban-based lenders are more likely to receive the more detailed large bank examination. Large bank examinations generated a greater percentage of outstanding ratings when compared to small bank CRA examinations, 20 percent to 7 percent. A possible explanation in the outstanding rating discrepancy is that large bank examinations collect more information, potentially allowing for an extensive assessment that identifies all lender efforts at complying with CRA.³² For example, evaluators thoroughly review investment and community development lending for large banks, but rarely review such information for small banks. An absence of such a detailed review may suggest that evaluators overlook small bank lender efforts to reach high need areas which are required to earn an outstanding CRA rating. Also, the more detailed examination might cause lenders to engage in additional lending efforts to reach low- and moderate-income areas, thus, resulting in higher ratings. The large lender, with more locations to choose from than a small lender, may be able to identify an assessment area that is more conducive to a good rating.

The association between CRA exam type and rating, on the other hand, may reflect that large banks do a good job of serving all parts of their service area, particularly low- and moderate-income communities. Large lenders have more resources than small community banks which they can use for community



development and investment efforts. These large banks may also be more likely than small banks to acquire other institutions in the future and having an outstanding CRA rating helps with the application process. More analysis of outstanding CRA rated lenders is needed to fully understand the relationship.

4. RURAL ASSESSMENT AREAS REASSESSED

CRA examinations are based on institutions' activity, or lack of activity, within their service areas, known as CRA assessment areas. What is the scope of CRA's assessment in rural America? How many rural tracts are assessed under CRA in a given year? How do lender assessment areas match up with branch/office location and actual lending activity?

Under CRA, banks and institutions define their own assessment areas within the parameters outlined by CRA regulations. Assessment areas are generally political geographies, usually metropolitan statistical areas, cities, towns, and counties where an institution either has a branch or deposit-taking ATM, or makes or purchases a substantial portion of its loans. CRA regulations allow institutions to refine these large assessment areas, using the much smaller census tract geography, to reflect more accurately where they do business, have a physical office, or engage in credit services. Institutions cannot arbitrarily exclude low- to moderate-income geographies and must select entire census tracts. Regulators can review assessment areas to ensure they are accurate and representative; however, such a review is not part of the CRA examination.³³

CRA assessment areas are important, as they constitute the communities for which a regulator evaluates an institution. Assessment areas have been criticized for not always reflecting institutions' actual service areas. In some cases, institutions define their assessment areas solely on the basis of their main office locations. Some advocates criticize the overall assessment area approach as outdated and primarily based on "brick and mortar" office locations when lending is no longer entirely bound by those limits due to online financial services and increased internet connectivity.³⁴

Rural and Small Town Census Tracts in Assessment Areas

Three-quarters of all 406 FDIC-regulated disclosure data reporters in 2013 included in their CRA assessment areas at least one rural or small town census tract. This finding reflects the fact that most lenders served at least some rural communities. Only 8 percent, or 31 lenders, however, reported a majority rural and small town assessment area population. The percentage of lender assessment area residents living in rural and small town census tracts was generally low, a median of 3.7 percent. Among those lenders reporting some rural and small town assessment area population, the median percentage of rural residents was still relatively low at 8.1 percent.

Given that the overwhelming majority of HMDA-reported mortgage lending activity (over 80 percent) occurs in suburban/exurban and urban communities, it is not surprising that rural and small town populations generally made up a small portion of most lenders' assessment areas. The overrepresentation of large lenders (the only required data providers) exaggerates the lack of rural and small town residents, however, as large lenders are often located in suburban and urban jurisdictions. Small lenders, which do not have to provide CRA assessment area disclosure data to the FFIEC, made up only 3 percent of the lenders reviewed.

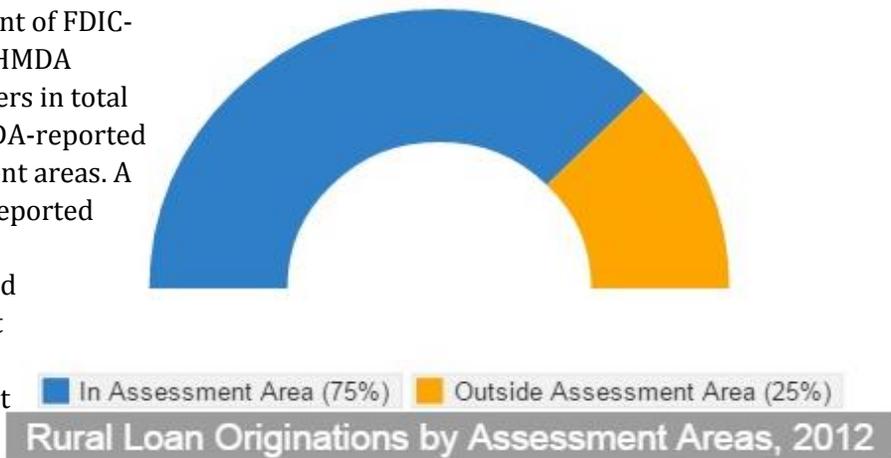
Despite the data limitation, the findings do raise concerns that because rural and small town populations make up such a small portion of large lender assessment areas, they might be more easily overlooked, particularly when it comes to investment or community development lending. For example, large lenders might concentrate community development activities in high credit need areas that are located near major offices and in more populous portions of their service areas with few efforts designed to reach the relatively limited number of credit-distressed rural areas. Recently, regulators have noted the limited amount of CRA-related investment occurring in rural community development.³⁵

Assessment Area Rural and Small Town Coverage

CRA’s regulation detailing how lenders are to identify assessment areas focuses on physical offices or branch locations. Assessment areas are to contain all census tracts that are home to bank offices, as well as deposit-accepting ATMs.³⁶ This brick and mortar focus reflects the importance of actual office locations in the lending process that existed in the late 1970s, when the CRA was enacted.

The vast majority of lenders whose assessment areas were reviewed in this analysis included all of their listed branch office locations. Ninety percent of lenders operating at least one rural and small town office with reported deposits – 199 of the 218 banks – identified an assessment area that included all such branch locations. The rural and small town office assessment area coverage was slightly higher than the overall office coverage.

Another way to look at CRA assessment areas is to explore the degree to which they encompass lender activity as measured by HMDA-reported mortgage lending. Eighty-five percent of FDIC-regulated lenders (345) reported HMDA mortgage originations. These lenders in total originated 77 percent of their HMDA-reported loans in their designated assessment areas. A smaller number of lenders (287) reported at least one rural and small town mortgage origination. The rural and small town origination assessment area percentage was lower, 75 percent, but still represented about three-quarters of all loans. From another perspective, roughly one-quarter of all HMDA-reported rural home loans occurred outside assessment areas or outside CRA review. Assessment area coverage varies by lender.



Source: HAC analysis of FFIEC 2013 CRA disclosure data and 2012 HMDA mortgage loan data.

It is important to note that the CRA assessment area data, while being less than thorough for large-scale national analysis, may be more appropriate for individual lender explorations. The current data reporting is better suited for local or community-based organizations that may want to evaluate a particular lender than for exploration of all lenders. Given the current reporting structure, national level analysis can only

provide approximate estimates of assessment area activity, and the actual degree to which this is a problem is unclear due to data limitations.

5. MORTGAGE LENDING IN DESIGNATED HIGH CREDIT NEED RURAL CENSUS TRACTS

CRA examinations incorporate a targeted approach to encourage credit access in low- and moderate-income, distressed rural, and underserved rural census tracts, or “high credit need” areas. What does mortgage lending look like in these census tracts? What percentage of mortgage loans in the designated high credit need census tracts are classified as high cost loans?

CRA examinations evaluate the degree to which an institution serves the financial needs of all portions of its service area. CRA examinations, specifically the investment portion of the large bank examination involving community development activities, use a targeted approach focusing on the degree to which lenders make credit available to the neediest portions of their service areas as defined by the CRA regulations. For a community development project to qualify for CRA consideration, it must occur in a census tract designated by the CRA regulatory agencies as a high need area.³⁷ The CRA regulations initially targeted only low- to moderate-income census tracts where median household incomes were less than 80 percent of area medians. To increase rural coverage, regulatory agencies added two categories in 2005. First, the agencies adopted parts of the Treasury Department’s Community Development Financial Institution (CDFI) Fund’s definition of distressed areas. According to the CDFI Fund’s regulations, a place is distressed if it is located outside a metropolitan area and has:

- An unemployment rate of at least 1.5 times the national average,
- A poverty rate of 20 percent or more, or
- A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the five-year period preceding the most recent census.³⁸

Second, regulators added a remote rural, or “underserved” category. Underserved census tracts are located well outside metropolitan areas, as determined by the USDA Economic Research Service (ERS) urban influence codes.³⁹

Banks receive points for community development activity occurring in these low-or moderate-income, distressed or underserved census tracts (called distressed or underserved geographies in the CRA regulations and in this report labeled as high credit need). The system serves as an encouragement to lenders to engage in often overlooked communities.

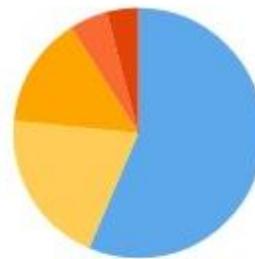
Lending Patterns and Activity in CRA-Designated High Credit Need Rural Census Tracts

In 2013, for CRA purposes, 25,312 census tracts were classified as either low- or moderate-income, outside metropolitan area distressed, or outside metropolitan area underserved (all referred to as high credit needs in this report).⁴⁰ The overwhelming majority of these census tracts, 21,586, are classified as low- or moderate-income, and approximately 15 percent of them are rural tracts. Prior to 2005, these were the only designated CRA-eligible census tracts. The creation of the outside metropolitan area distressed and/or underserved census tracts substantially increased the number of rural and small town tracts designated as having high credit needs. Ninety-eight percent of those census tracts, a total of 3,665, are rural. There are a total of 6,814 rural and small town low- or moderate-income, underserved, and distressed census tracts occupied by approximately 25.4 million people, about 42 percent of all rural and small town residents.

Eligible tracts are particularly prevalent in the Great Plains, Lower Mississippi Delta, and Central Appalachia regions. Many of these communities are located in rural high needs regions and suffer greatly from limited access to credit. In 2012, lenders made roughly 29 percent of all rural and small town HMDA-reported loan originations in regulator-designated high credit need census tracts.

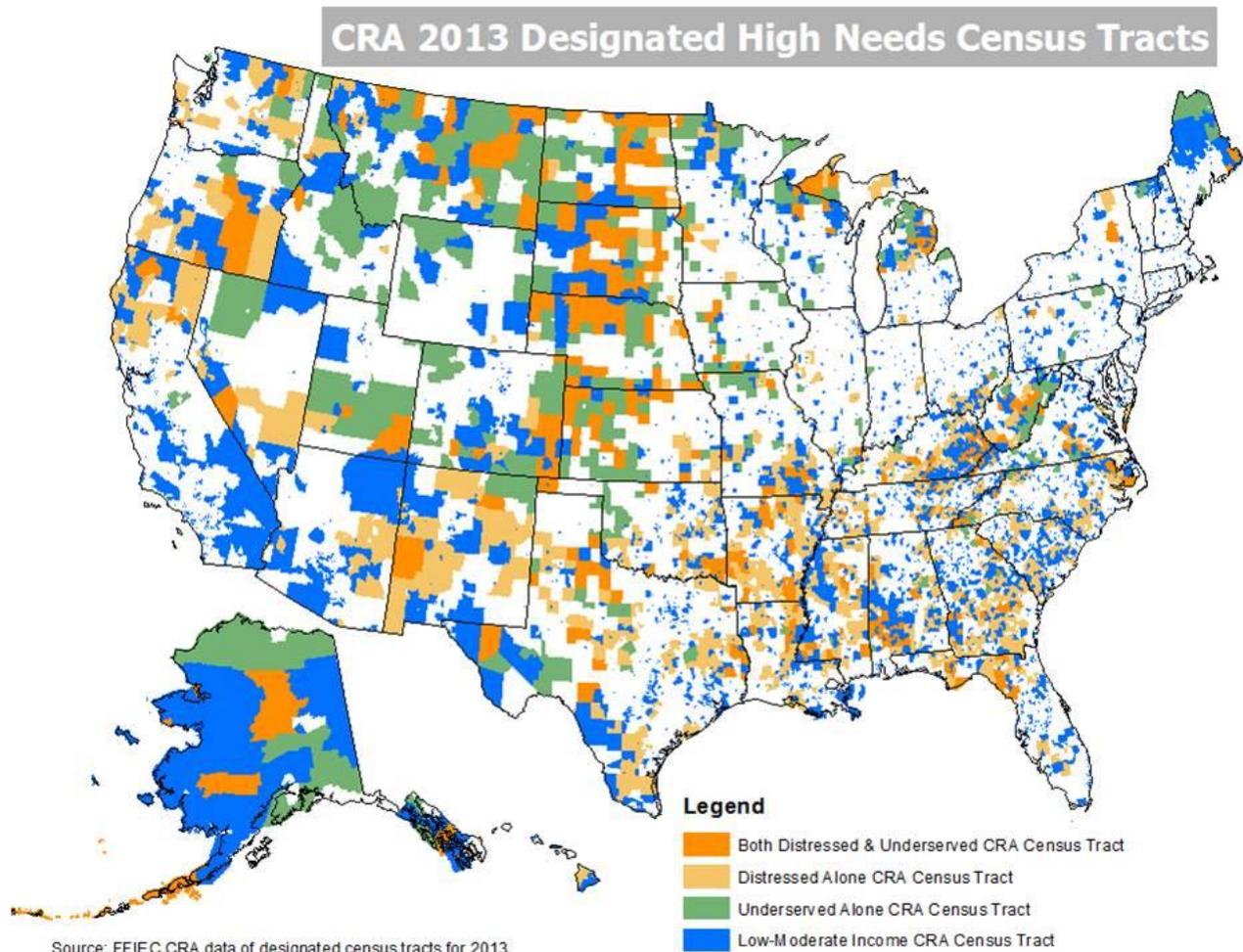
A review of HMDA mortgage application data for 2012 highlights lending differences between CRA high credit need tracts and all others. The proportion of HMDA applications denied for non-designated rural and small town census tracts is relatively high at approximately

20 percent when compared to suburban and urban non-designated census tract loan denials of 16 percent. CRA designated low- to moderate-income rural and small town census tracts experienced the highest percentages of loan denials at 27 percent.



Rural & Small Town Census Tracts by CRA Designation, 2013

Source: HAC tabulation of HMDA 2012 loan data and FFIEC 2013 CRA-designated high needs census tract data



Rural and small town rates of high cost loans are elevated in general when compared to suburban and exurban areas, but they are higher yet for these designated high credit need census tracts. High cost loans are those with interests rates several points higher than an equivalent prime rate loan.¹ In rural and small town areas that were not identified as having high credit need, roughly 4.9 percent of loan originations were classified as high cost. In high credit need rural and small town census tracts, high cost loans represented 9.3 percent of all mortgage originations. Census tracts classified as both underserved and distressed had substantial rates of high cost lending at 13 percent.

¹ A high-cost loan is defined by the Consumer Financial Protection Bureau, Code of Federal Regulations 12 (2014), § 1026.35(a), as a first lien loan with an interest rate of 1.5 percentage points or more than one would receive for similar prime rate loan. For second lien loans, a high cost loan has an interest rate of 3.5 percentage points or more than the interest rate for a similar prime loan.

The results are similar for home purchase applications. The percent of HMDA home purchase application denials for rural and small town non-high credit need tracts is 17 percent while denials in high credit need tracts range from 18 to 28 percent, depending on the census tract designation (distressed, underserved, etc.). Lenders denied approximately 28 percent of the HMDA-reported home purchase loan applications from tracts that were both underserved and distressed.

High cost home purchase loans are also more prevalent in rural and small town designated high credit need tracts: 8 percent for non-designated census tracts compared to 14 percent for high credit need tracts. Approximately 20 percent of home purchase loans originated in underserved and distressed census tracts had high cost interest rates. The percentages of denials and high cost loans are notably elevated, and it is easy to see why the CRA regulators designated these areas as needing credit access.

DISCUSSION

The preceding report and analyses demonstrate that, despite prevailing assumptions, CRA does play a role in rural and small town lending markets. CRA applies to over 3,000 rural and small town-headquartered depository institutions as well as the largest mortgage lenders and banks which are increasingly active in rural communities. But the current CRA policies and approaches fall short of providing the most comprehensive or meaningful level of oversight that these often overlooked credit markets need.

CRA enforcement suffers from limited coverage, a less than critical assessment, and an outdated service area identification process. In addition, many mortgage lenders – such as credit unions, mortgage brokers, and manufactured home lenders – are excluded from CRA oversight, although they originated roughly one-third of all mortgages in 2012 and, at other times, reported a majority of all home loans. These gaps are particularly problematic in rural and small town communities where a single lender might be the only source of credit, and a failure to evaluate that lender is a failure to evaluate the entire market. There should be some way to ensure that all credit markets, even the most remote and sparsely populated, receive at least some level of oversight.

The finding that the CRA currently rates nearly all lenders with a satisfactory or outstanding score is another possible area for additional investigation. A 99 percent rate of satisfactory (or higher) suggests that almost all lenders are adequately serving the entirety of their communities. With the recent economic crisis, increasing housing affordability challenges, and rising income and wealth disparities, are the current CRA thresholds and processes still applicable in a modern economic marketplace? The inclusion of the intermediate small bank evaluation may have resulted in a large proportion of CRA examinations being so cursory that satisfactory ratings are easily achieved. It is also possible that lenders' self-identified assessment areas are drawn in ways that favor positive scores. Whatever the reason, an increase in the amount of publicly available data – preferably for all evaluated lenders – would serve to empower the public to more easily identify potential problems and bring them to CRA evaluators' attention. This expansion could coincide with improved HMDA data collection to include all lenders that make mortgage loans, regardless of asset total and geographic location of offices. Another improvement would be full disclosure of lender assessment area data in a single data file in a format that allows for user manipulation.

The increased data would also improve understanding of the degree to which the CRA may or may not impact lending, particularly in designated high credit need areas. For example, 2012 loan data suggests that, as a whole, a higher percentage of rural and small town mortgage applications were approved by CRA-covered lenders than by non-covered institutions; yet the proportion of these loans considered high cost was the same regardless of CRA oversight. Increased lending data, some of which the Consumer Financial Protection Bureau (CFPB) has proposed collecting under HMDA in regulation 12 CFR Part 1003, might also help provide more insights through improved borrower and loan specific information.

Some regulators have also raised concerns about the effectiveness of the CRA to promote community development lending in rural high need areas. While this study addresses primarily mortgage lending, a review of the available FDIC-regulated lender assessment area data indicates that few rural high credit need census tracts are included in most lenders' assessment areas. This likely reflects the overall makeup of the credit markets of many large banks, not some blatant disregard on their part. Regulators should specifically recognize more rural and small town lending efforts to encourage involvement. Efforts have

been underway to expand consideration for CRA-qualified activities to recognize more rural communities outside of metropolitan areas – even if they are not in defined assessment areas.⁴¹

Lender assessment area identification criteria could also benefit from more oversight and expansion to ensure they accurately reflect current lending practices. It does appear that, in at least a few cases, lender-identified assessment areas do not match actual home lending activity. A potential response might be for the CRA evaluation to note any discrepancies. In some instances this could benefit the institution being evaluated. Given that lending is not limited by the proximity of an office, as the HMDA data shows with almost 25 percent of reported rural and small town mortgage loans occurring outside assessment areas, it might be necessary to modify the criteria to include a larger role for actual lender activity in defining assessment areas.

Improved assessment area data, particularly for small lenders, would improve understanding of intermediate and small bank service area coverage. Such data is currently not available in a single location and is not provided in a format that allows users to manipulate it. This greatly inhibits analyses of lender assessment areas for multiple lenders. Given that many credit markets are served by more than one lender, these data shortcomings limit credit market research, particularly for rural and small town communities that are served by several small and intermediate sized lenders.

Although potential changes could improve it in the rural context, CRA is clearly a valuable policy tool. CRA does touch many rural and small town lenders and works to ensure that these lenders consider the overlooked portions of their service areas. CRA places a positive value on serving these communities, something that otherwise might not exist. CRA is far from perfect, and changes to broaden coverage and improve available information would certainly make it more effective for its intent of improving credit availability for all consumers – urban and rural.

APPENDIX: ABOUT THE STUDY

This research is a descriptive analysis of the CRA exploring how it relates to rural and small town depository institutions and lending. The analysis focuses on two areas: lenders and service areas. The lender focus describes the degree to which the CRA covers rural- and small town-based lenders, the type of CRA examinations and ratings they receive, and the amount of their rural and small town mortgage lending. The specific research questions guiding the analysis are as follows:

- 1) How many banks headquartered in rural and small town communities are assessed under the CRA?
- 2) What portion of rural and small town mortgage loans are made by small, intermediate small, or large institutions as classified by CRA examination method?
- 3) What are the CRA ratings (outstanding, satisfactory, needs improvement, or substantial noncompliance) of institutions that make mortgage loans in rural communities? Do these ratings differ from institutions making loans in suburban and urban communities?
- 4) What is the scope of CRA's assessment in rural America? Do assessment areas reflect rural and small town operations and lending activities?
- 5) What does mortgage lending look like in regulator-designated high credit need rural communities? What percentage of mortgage loans in rural distressed tracts are classified as high cost loans?

Methodology

This study included an exploratory analysis designed to shed light on the topic, and, it is hoped, in pointing out the basics of the CRA in rural and small town communities, identify areas for future study. Addressing the key elements of this research required identifying, locating, and merging lender, mortgage lending, and CRA data. For the lender portion of the analysis, this research identified potential CRA covered lenders, located them on a map – identifying rural and small town institutions – and linked this information to both CRA characteristics and HMDA mortgage lending data. Analysis of the merged data then highlighted patterns associated with CRA characteristics, lender location, and lending

activities. This information addressed the first three research questions.

For the service area portion of the analysis, the research required merging CRA service area information, both lender assessment areas and CRA designated high credit need census tract, with lender characteristics and HMDA mortgage lending data. The background work created a file containing records for all rural and small town mortgage applications along with the reporting lenders' information, and CRA and service area specifics. Analysis of the file then described the degree to which assessment areas reflected bank operations and mortgage lending in rural and small town communities, as well as reviewing lending activities in designated high credit need census tracts. This information addressed the last two research questions. The research work specifics are discussed below.

Identify CRA-Covered Institutions

The initial step involved identifying lenders, specifically those subject to CRA review. Because the CRA applies to depository institutions, the very lenders the FDIC insures, a list of FDIC-insured institutions contains most if not all lenders falling under CRA review at a given time. This study's list of lenders consisted of all FDIC-insured lenders as of December 31, 2011. This data not only represents conditions at the end of 2011, but also provides the best count of lenders at the beginning of 2012.

Locate Institutions

FDIC data, which is generated from federal filings like the Call and Summary of Deposit reports, include bank office street addresses and geographic coordinates. For main offices, this research, using ArcGIS, located each lender geographically by two methods: geocoding street addresses and plotting the provided longitude and latitude. The analysis employed both methods just in case one did not work for a particular institution. Once located on a map, the research involved merging together lender and census tract based information (geography codes and mortgage lending records) for

CRA in Rural America

home lending analysis and geographic classification (rural, suburban, etc.).

CRA Examination Information

This research collected from the FFIEC all CRA examination data for the 2006 to 2012 period. Since even the most infrequent examinations occur once every five years, this data contains all available CRA examination information for the identified FDIC institutions. The analysis next involved selecting the most recent examination records for each institution. Lenders were then evaluated according to their most recent CRA examination methods and ratings and how these related to their main office location.

CRA High Credit Needs Census Tracts

The study also explored lender and lending activity in 2013 regulator-designated high need census tracts. The FFIEC provided a list of designated high credit needs census tracts. Linking this information to mortgage lending and lender data, which includes CRA characteristics and geographic location, allowed this research to explore lending patterns in these designated communities and how they relate to the CRA. In particular, focus was placed on high cost, defined as all first liens with an interest rate that exceeds the estimated prime rate by 1.5 percent or more, and all subordinate loans with an interest rate that is 3.5 percent or more above the prime rate.

Assessment Areas

CRA assessment area data in a usable format is much more limited than, say, CRA ratings and mortgage lending data.ⁱ Only lenders subject to the large bank CRA examination must provide assessment area data (disclosure data) to the FFIEC, which it in turn makes available to the public in a usable format at a single location. In addition to these large lenders, some intermediate and small asset lenders voluntarily submit assessment area data. The FFIEC annually provides assessment area data for approximately 830 or half of all

ⁱ All non-reporting CRA covered institutions provide a list of assessment area census tracts to the CRA evaluators. This information is made available to the public in the regulatory agency final CRA evaluation report which is in a pdf format. A manual review of all CRA evaluation reports would be required to collect all assessment area information.

institutions evaluated each year.ⁱⁱ This analysis reviewed the information for all FDIC-regulated reporters or almost half (406) of all 2013 cases.ⁱⁱⁱ The data was restricted to FDIC-regulated cases to make the analysis manageable and mergers between assessment, lending, and bank branch data workable.

Mortgage Lending Data

The analysis used the HMDA 2013 data, which covers calendar year 2012 activity, for all mortgage lending information. The data is located to the census tract level and provides loan action (originate, deny, etc.) and pricing information (interest above prime rate) by lending institution. The data includes only loan applications – preapprovals alone are not included – for single-family and manufactured homes. The research linked this data to both service area and lender information to evaluate mortgage lending practices as described above.

Defining Rural

A key element of this analysis is identifying rural geographies. It is important to accurately identify rural areas and to label lenders, service areas, and lending activities accordingly. The research achieves this by using geographic classification developed by the Housing Assistance Council (HAC). HAC's approach uses the census tract as its unit of analysis. Based on its housing density and commuting patterns, each census tract is classified as one of the following: rural and small town, suburban and exurban, and urban.^{iv}

ⁱⁱ In email and phone correspondence, FFIEC staff indicated that approximately 40 percent of all disclosure data reporters are voluntary.

ⁱⁱⁱThe data was limited to institutions receiving FDIC oversight, both to make the analysis manageable (linking the thousands of assessment area tracts to branch locations and HMDA data is more workable when the number of cases is limited) and to ensure all files could be accurately linked together. Since this restriction still means that about half of all lenders were included in the analysis and the overall distribution of those reporters, when comparing assets and CRA examination type, shows only small differences (fewer large bank examination lenders covered by FDIC than other regulators, 58 and 69 percent respectively), HAC believes this limitation should have no impact on the findings.

^{iv} For a more complete explanation see page 113 of Housing Assistance Council, *Taking Stock: Rural People, Poverty and Housing in the 21st Century* (Washington, DC: Housing Assistance Council, 2012),

HAC's Rural & Small Town Tract Designation

Given the changes and shortcomings to traditional definitions used to identify rural areas, HAC developed a sub-county designation of rural and small-town areas which incorporates measures of housing density and commuting at the Census tract level to establish a more precise measure of rural character.¹ This alternative definition includes six classifications: 1) rural, 2) small-town, 3) exurban, 4) outer suburban, 5) inner suburban, and 6) urban.

For simplicity, these designations are often collapsed into three general classifications: 1) small town and rural tracts, 2) suburban and exurban tracts, and 3) urban tracts.

USDA Economic Research Service (ERS) Rural-Urban Commuting Area Codes⁴²

The Rural-Urban commuting area (RUCA) codes are a detailed and flexible scheme for delineating sub-county components of the U.S. settlement system developed by the U.S. Department of Agriculture's Economic Research Service (ERS). RUCA codes are based on the same theoretical concepts used by the Office of Management and Budget (OMB) to define county-level metropolitan and micropolitan areas. ERS applied similar criteria to measures of population density, urbanization, and daily commuting to identify urban cores and adjacent territory that is economically integrated with those cores. ERS adopted OMB's metropolitan and micropolitan terminology to highlight the underlying connectedness between the two classification systems. However, the use of census tracts instead of counties as building blocks for RUCA codes provides a different and more detailed geographic pattern of settlement classification. Census tracts are used because they are the smallest geographic building blocks for which reliable commuting data are available.

Census Tracts⁴³

Census tracts are small, relatively permanent statistical subdivisions of a county or equivalent entity that are

<http://www.ruralhome.org/component/content/article/587-taking-stock-2010>.

¹ HAC's tract-based rural classification definition is based in part on concepts of housing density introduced by David Theobald, "Land-Use Dynamics Beyond the American Urban Fringe," *Geographical Review* 91 no. 3 (July 9, 2001): 544-564.

updated by local participants prior to each decennial census as part of the Census Bureau's Participant Statistical Areas Program. The Census Bureau delineates census tracts in situations where no local participant existed or where state, local, or tribal governments declined to participate. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data.

Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. A census tract usually covers a contiguous area; however, the spatial size of census tracts varies widely depending on the density of settlement. Census tract boundaries are delineated with the intention of being maintained over a long time so that statistical comparisons can be made from census to census. Census tracts occasionally are split due to population growth or merged as a result of substantial population decline.

Census tract boundaries generally follow visible and identifiable features. They may follow nonvisible legal boundaries, such as minor civil division (MCD) or incorporated place boundaries in some states and situations, to allow for census-tract-to-governmental-unit relationships where the governmental boundaries tend to remain unchanged between censuses. State and county boundaries always are census tract boundaries in the standard census geographic hierarchy.

Merging Data

Two primary merges linked these various data sources together. Data with institution information were linked using a respondent (lender) identification number and regulatory agency code variable. This variable linked FDIC lender data to CRA and HMDA data, allowing each institution's CRA ratings and assessment areas to be identified and its lending activity to be highlighted.

The HAC geography classification was linked to all data containing a census tract location through Federal Information Processing Standards (FIPs) codes. All FDIC-insured lenders (based on main office), HMDA mortgage lending, CRA assessment area, and CRA designated high credit need areas were classified according to their HAC classification. Analysis then compared the information across these geographies with a focus on rural and small town efforts.

CRA in Rural America

Data Sources

This research used several different, publicly available data sets. The FDIC website was the source of all lender background data. The FFIEC website was the source for all CRA examination and assessment data as well as the source of HMDA lender records. The 2010 Census site provided all population, housing, and geographic location data.

FDIC Lender Data

The FDIC website provided all lender specific information, in a downloadable format, generated from Call and Summary of Deposit reports. More specifically, all lender data used in the primary CRA analysis came from December 31, 2011 reports. This information includes unique regulatory agency identification numbers (known as the certificate number and used in data merges), total assets, bank asset type classification, and the number, location, year established, and deposit information for bank main office and branches.¹ In addition, the FDIC website provided lender data for 2000 and 2010.

FFIEC CRA Data

The FFIEC provided, in a downloadable format, all CRA examination and service area data. The CRA examination and assessment area data are all lender based and come in flat file format. The examination data covers the 2006 to 2012 period (data for each lender's most recent examination was used), while the assessment area data is for 2013 alone. The FFIEC provided 2012 CRA high credit need census tract data, which identifies each census tract according to its classification (low- and moderate-income, outside metropolitan area distressed, and outside metropolitan area underserved).

FFIEC HMDA Data

The FFIEC also provided, in a downloadable format, the HMDA lending data. The data contains information on loan application action taken, purpose, property involved, loan type, and applicant characteristic. Of particular note, loan pricing data is included with high cost lending defined as all first liens with an interest rate that exceeds the estimated prime rate by 1.5 percent or

more, or subordinate loans with an interest rate that is 3.5 percent or more of the prime rate.

Census Data

This analysis used Census 2010 census tract population data in describing assessment areas and lending activity. Census 2010 ArcGIS census tract shape files were used to locate all lenders. The HAC geographic classification used Census 2010 housing unit and land area data.

¹ In addition, OCC and FRB data was accessed to identify missing FDIC identification numbers and link FFIEC data.

NOTES

¹ *Community Reinvestment Act, U.S. Code 12 (2014)*, §§ 2901-2908. The CRA was implemented by regulations 12 CFR parts 25, 228, 345 and 563e.

² Ben Bernanke, “The Community Reinvestment Act: Its Evolution and New Challenges” (speech at the Community Affairs Research Conference, Washington, DC, March 30, 2007), <http://www.federalreserve.gov/newsevents/speech/bernanke20070330a.htm>.

³ The regulations promulgated by the three regulators are codified separately: *Code of Federal Regulations 12 (2014)*, §§ 228.11-228.45 (FRB), *Code of Federal Regulations 12 (2014)*, §§ 345.11-345.45 (FDIC), *Code of Federal Regulations 12 (2014)*, §§ 25.11-25.45 (OCC). The regulations’ section numbers match; for example, the potential effects of CRA ratings on lenders’ applications are set forth in § 228.29, § 345.29, and § 25.29. This report refers to the section numbers alone, such as § 29.

⁴ Bernanke, “CRA: Its Evolution and New Challenges.”

⁵ Regulators denied only 8 out of 40,000 merge and branch opening applications due to CRA evaluations in the first ten years, indicating how little such evaluations were even considered. The denial rate increased considerably in the 1990s. Jason Stoehr, “Assessing Lending Institutions’ Community Development Activities under the Community Reinvestment Act,” *New Visions in Public Affairs 4 (2012)*: 16-29, <http://nvpajournal.files.wordpress.com/2013/06/assessing-lending-institutions-community-development-activities-under-the-community-reinvestment-act.pdf>.

⁶ Stoehr, “Assessing Lending Institutions”; Camden Betz, “Recent Changes to the Community Reinvestment Act and Their Impact on Community Banks and Rural Economies,” *North Carolina Banking Institute 10 (2006)*: 157-186, <http://www.law.unc.edu/components/handlers/document.ashx?category=24&subcategory=52&cid=167>.

⁷ Bernanke, “CRA: Its Evolution and New Challenges.”

⁸ Jessica Silver-Greenberg, “Small Banks Shift Charters to Avoid U.S. as Regulator,” *New York Times*, April 2, 2012.

⁹ Robert B. Avery, Glenn B. Canner, Shannon C. Mok, Dan S. Sokolov, and Onka L. Tenkean, “Community Banks and Rural Development: Research Relating to Proposals to Revise the Regulations that Implemented the Community Reinvestment Act,” *Federal Reserve Bulletin 91 (2005)*: 202-235.

¹⁰ Housing Assistance Council (HAC), *A Guide to the Community Reinvestment Act for Housing in Rural America* (Washington, DC: Housing Assistance Council, 2002), <http://www.ruralhome.org/storage/documents/craguide.pdf>.

¹¹ Sumit Agarwal, Efraim Benmelech, Nittai Bergman, and Amit Seru, *Did the Community Reinvestment Act (CRA) Lead to Risky Lending?*, Working Paper No. 18609 (Cambridge, MA: National Bureau of Economic Research, 2012).

¹² HAC, *Guide to CRA*.

¹³ “A Brief Description of CRA,” National Community Reinvestment Coalition (NCRC), accessed August 24, 2014, <http://www.ncrc.org/programs-a-services-mainmenu-109/policy-and-legislation-mainmenu-110/the-community-reinvestment-act-mainmenu-80/a-brief-description-of-cra-mainmenu-136>.

¹⁴ “Community Reinvestment Act,” Partnership for Progress, Federal Reserve Board Program for Minority-Owned Institutions, accessed January 5, 2014, <http://www.fedpartnership.gov/bank-life-cycle/topic-index/community-reinvestment-act.cfm>.

¹⁵ HAC, Guide to CRA.

¹⁶ HAC, Guide to CRA.

¹⁷ Agarwal et al., Did CRA Lead to Risky Lending?; William C. Apgar and Mark Duda, "The Twenty-Fifth Anniversary of the Community Reinvestment Act: Past Accomplishments and Future Regulatory Challenges," Federal Reserve Bank of New York, Economic Policy Review (June 2003): 169-191; Susan White Haag, Community Reinvestment and Cities: A Literature Review of CRA's Impact and Future (Washington, DC: Brookings Institution Center on Urban and Metropolitan Policy, 2000), <http://www.brookings.edu/~media/research/files/reports/2000/4/cra%20haag/haag1.pdf>; Liz Laderman, Has the CRA Increased Lending for Low-Income Home Purchases?, (Federal Reserve Board San Francisco, 2004), <http://www.frbsf.org/economic-research/publications/economic-letter/2004/june/has-the-cra-increased-lending-for-low-income-home-purchases/>.

¹⁸ Agarwal et al., Did CRA Lead to Risky Lending?

¹⁹ Robert B. Avery, Kenneth P. Brevoort, and Glenn B. Canner, "Opportunities and Issues in Using HMDA Data," The Journal of Real Estate Research 29 no. 4 (2007): 352-379. The HMDA asset reporting threshold for 2013 was \$42 million. Lenders with assets below this threshold were exempt from filing requirements.

²⁰ National Community Reinvestment Coalition, Access to Capital and Credit for Small Businesses in Appalachia (Washington, DC: Appalachian Regional Commission Report and National Community Reinvestment Coalition, 2007), http://www.arc.gov/assets/research_reports/AccessToCapitalandCreditforSmallBusinessesinAppalachia3.pdf.

²¹ Gary P. Green and Deborah Klinko Cowell, "Community Development and Local Economic Development in Rural Areas," Journal of Community Development Society 25 no. 2 (1994): 229-245.

²² Avery et al., "Community Banks and Rural Development."

²³ Betz, "Recent Changes to the CRA."

²⁴ Thomas J. Curry (remarks before the National Community Reinvestment Coalition, March 12, 2014), <http://www.occ.gov/news-issuances/speeches/2014/pub-speech-2014-38.pdf>.

²⁵ FDIC Community Banking Study (2012), <http://www.fdic.gov/regulations/resources/cbi/report/cbi-full.pdf>.

²⁶ See Footnote 2 on page ii of the executive summary. [COMMENT FROM LESLIE: There are no footnotes in the executive summary; the source needs to be cited here rather than cross-referenced.]

²⁷ Federal Reserve Bank of Dallas, 2011 Annual Report, <http://www.dallasfed.org/assets/documents/fed/annual/2011/ar11.pdf>.

²⁸ "Debunking CRA Myths," Center for Rural Strategies, accessed January 5, 2014, <http://www.ruralstrategies.org/debunking-cra-myths>.

²⁹ "A Brief Description of CRA," NCRC.

³⁰ Agarwal et al., Did CRA Lead to Risky Lending?

³¹ Ann B. Matasar and Deborah D. Pavelka, "Minority Banks and Minority Communities: Are Minority Banks Good Neighbors?," International Advances in Economic Research 10 no. 1 (2004): 43-52.

³² Paula Woessner, “CRA Exam Basics and 9th District Breakdown,” Community Dividend, Federal Reserve Bank of Minneapolis (March 2007), http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=1927.

³³ CRA Regulations § 41.

³⁴ John Taylor and Josh Silver, “The Community Reinvestment Act at 30: Looking Back and Looking to the Future,” New York Law School Law Review 53 (2008/09): 203-225, 210, <http://www.nylslawreview.com/wp-content/uploads/sites/16/2013/11/53-2.Taylor-Silver.pdf>.

³⁵ Curry, remarks, March 12, 2104.

³⁶ CRA Regulations § 41.

³⁷ Michael Grover, “2005 Revisions Define New CRA-Eligible Geographic Areas,” Community Dividend, Federal Reserve Bank of Minneapolis (March 2007), https://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=1923&.

³⁸ Code of Federal Regulations, 12 (2014), § 1805.201(b)(3)(ii)(D).

³⁹ Underserved census tracts are census tracts located outside metropolitan areas and classified by the United States Department of Agriculture (USDA), Economic Research Service (ERS) 2013 Urban Influence Codes as 7, 10, 11 or 12. Further information on Urban Influence Codes can be found at http://www.ers.usda.gov/data-products/urban-influence-codes.aspx#.U_taTPmwKYU (accessed August 20, 2014).

⁴⁰ Annual lists of distressed or underserved nonmetropolitan census tracts are posted at <http://www.ffiec.gov/cra/distressed.htm>.

⁴¹ Thomas J. Curry (remarks before the National Community Reinvestment Coalition, March 12, 2014), <http://www.occ.gov/news-issuances/speeches/2014/pub-speech-2014-38.pdf>. In this speech Mr. Curry mentions that dearth of community development/investment spending in rural areas and efforts that were done and continue to be done to increase such assistance through the CRA.

⁴² Excerpted from “Rural-Urban Commuting Area Codes,” USDA Economic Research Service, <http://www.ers.usda.gov/data-products/rural-urban-commuting-area-codes.aspx>.

⁴³ Excerpted from “Geographic Terms and Concepts – Census Tracts,” U.S. Census Bureau, https://www.census.gov/geo/reference/gtc/gtc_ct.html.



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