



**Survey of the
Performance and Profitability
of CRA-Related Lending**

January 21, 2000

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Purpose and Content

The Congress has directed the Board of Governors of the Federal Reserve System to undertake a special, comprehensive study of the performance and profitability of lending undertaken by banking institutions in conformity with the Community Reinvestment Act of 1977 (CRA). The main part of the study will consist of responses to the attached survey of the 500 largest retail banking institutions. In conformance with Congressional direction, the Board must report to the Congress by March 15, 2000, and make the data collected in the survey available to the public. The data will not be disclosed in a way that permits members of the public to determine the responses provided by a particular institution. Given the nature of the survey data, such data also will not be used for supervisory purposes.

Since the survey collects information on both CRA-related and other lending, and on a number of different credit products and programs, it is important that the individual(s) completing the survey have extensive knowledge of the relevant type of lending or program. In addition, if your banking institution conducts CRA-related lending through any affiliate whose activity is included in an assessment of your institution's CRA performance, such as a mortgage or consumer finance company, you should include that affiliate's activities in your responses.

The survey consists of a "General Institutional Information" page and two basic parts. The general information page requests background information about your institution. Part A, entitled "Survey of CRA Lending," seeks to collect systematically information on CRA lending activity in three broad areas: one-to-four family residential lending, small business lending, and community development lending (including multifamily residential lending). One-to-four family residential lending is subdivided into two categories: (i) home purchase and refinance mortgage lending; and (ii) other residential lending, such as home improvement and home equity lending (excluding home equity lines of credit). Part A focuses on delinquency rates, default rates and the profitability of both CRA-related and all other lending in the relevant loan product category. A primary objective of this part of the survey is to obtain information regarding the comparative experiences with CRA-related and other lending. Thus, many questions ask you to directly compare these experiences.

Part A uses a definition of "CRA Loans" that comports with the primary focus of the "lending test" portion of CRA performance evaluations. Because of the nature of the regulations that implement the CRA, the definition of a "CRA Loan" differs somewhat according to

loan product. In particular, *for 1-4 family residential lending*, any loan made within your banking institution's local CRA-assessment area(s) (generally those areas where your retail banking offices are located) to a lower-income borrower (regardless of neighborhood income) or in a lower-income neighborhood (regardless of borrower income) is considered a "CRA Loan."¹ Likewise, *for small business lending*, any small business loan (as defined in the CRA regulations) made within your banking institution's local CRA-assessment area(s) to a small firm (regardless of neighborhood income) or in a lower-income neighborhood (regardless of firm size) is considered a "CRA Loan."² With respect to *community development lending*, a "CRA Loan" means any community development loan (as defined in the CRA regulations) which is considered in your CRA performance evaluation and can include loans outside your local CRA-assessment area(s).

Part B of the survey, entitled "Survey of CRA Special Lending Programs," seeks to gather information concerning the characteristics and performance of your institution's CRA special lending programs. By "CRA special lending program" we mean a lending program that your institution has developed (or participates in) and uses *specifically* to enhance its CRA performance. A program meets this criteria only if one of the program's documented purposes is to enhance your institution's CRA performance. CRA special lending programs may include special affordable lending programs that offer more flexible underwriting standards and special loan terms (such as discounted interest rates or waivers or discounts of fees); and special programs offered or developed in conjunction with third parties, such as lending consortia, nonprofit organizations, or government agencies that offer special lending programs in which you participate. A CRA special lending program may involve housing-related, small business, consumer or other types of loans. However, for purposes of this survey, a CRA special lending program does **not** include (i) traditional government-backed lending programs, such as those offered by the Federal Housing Administration (FHA), Department of Veterans Affairs (VA), and Small Business Administration (SBA), **unless** your institution provides a special enhancement to these programs, such as a formal program of homebuyer education or a waiver of fees, and (ii) programs that focus on making community development loans (as defined in the CRA regulations).³

Most questions ask about your lending experiences in calendar year 1999 or about your portfolio as of December 31, 1999. If your banking institution has merged with another institution since that date, please

¹ In conformity with the regulations that implement the CRA, a lower-income (low- and moderate-income) borrower is one whose income is less than 80 percent of the median family income of their metropolitan statistical area (MSA) or nonmetropolitan portion of their state. A lower-income (low- and moderate-income) neighborhood (census tract) is one whose median family income is less than 80 percent of the median family income of the MSA or nonmetropolitan portion of the state where the property or business related to the loan is located.

² A small firm is defined as a firm with revenues of \$1 million or less.

³ Part A of the survey asks a limited number of questions concerning CRA special lending programs. The definition of CRA lending programs discussed above should also be used by your institution in responding to these questions in Part A.

answer questions as your institution was constituted at year-end 1999.

Given the Congressional mandate, the survey has a tight time schedule. To facilitate its completion, Part A of the questionnaire is broken into four separate, self-contained units that may be distributed individually to staff with expertise in the particular area of lending. We request that you complete and return the general information sheet and both parts of the survey (four sections in Part A and one section in Part B) no later than March 1, 2000 to the following address:

Federal Reserve Board
Attention: CRA Lending Survey
1709 New York Avenue, Fifth Floor
Washington, D.C. 20006

For your convenience, we have enclosed a self-addressed envelope. Your participation in this survey is greatly valued. With the information you provide, we will gain new and important insights and measures of the performance of CRA-related lending.

If you have questions about this survey, please contact the Federal Reserve Board using the toll-free number (800-281-4930). Your call will be forwarded into a voice mail system where you can record your message. Every effort will be made to return your call within 24 hours.