

CRA Investing Survey

3rd Edition | September 2018



COMMUNITY
CAPITAL MANAGEMENT

Impact Investing Since 1999

CRA Investing Survey

3rd Edition | September 2018

Thank you to everyone who participated in the 3rd edition of our CRA Investing Survey. The results are always informative and we very much appreciate your time and efforts in completing the survey.

Introduction

The results from our 3rd annual CRA Investing Survey are in with 69 respondents. Below each question, you will see the number of individuals that responded and the corresponding responses. Responses are a mix of shareholders and non-shareholders in CCM's CRA Qualified Investment Fund – CRA Shares (CRAIX). The results are always interesting, and we have highlighted a few data points that stood out to us this year:

- **What was your CRA Investment Rating in your last exam?**

We were pleased to see that 60.6% of respondents received either an “Outstanding” or “High Satisfactory” on their last CRA Investment Rating. No banks received Substantial Non-Compliance and only 7.6% received a “Needs to Improve” with 31.8% receiving a “Low Satisfactory”.

- **In your last CRA exam, what were your total qualified investments as a percentage of assets?**

This is the most commonly asked question from banks. Unfortunately, there is no magical number. From our discussions with banks, the most consistent response is 1% of assets. However, the results show otherwise with 46.8% of banks selecting a percentage less than 1%. We were surprised that the number for 0-0.25% was as high as it was at 19.4%. It is also worthwhile to note that 30.6% of the survey respondents use Tier 1 capital or another measurement for percentage of CRA qualified investments.

- **Is your regulator giving current period consideration to investments that you have held over more than one CRA exam cycle?**

This is the second most commonly asked question from banks invested in the CRA Fund. We always get mixed responses. We were glad to see that 77% of banks did receive current period consideration. Given the CRA Fund's earmarking process, we believe that CRA Fund shareholders should be receiving current period credit for new securities earmarked on their behalf each CRA exam cycle. We recently updated our summary letters to explain this concept to the regulators showing that the investments were earmarked during the bank's current exam cycle.

- **Overall do you feel your regulator understands the investment portion of the CRA exam?**

We saw an increase in this response to 90.6% from 83.1% in last year's survey. We are glad to see that bank's feel more comfortable with their regulator understanding the investment portion of the CRA exam and hope that this number continues to rise.

We compared some of the responses and thought readers would be interested in seeing the following outcomes.

- Regulator vs. total qualified investments as a percentage of assets**

When looking at regulator and total qualified investments as a percentage of assets in each bank's last CRA exam, FDIC banks were scattered across the board with the majority in the smallest bucket of 0-0.25%. Most of the OCC banks are using Tier 1 Capital or another measure for percentage of CRA qualified investments. Like FDIC banks, FRB banks were mixed in their responses with the majority somewhere in the 0.25-1.5% range.

In your last CRA exam, what were your total qualified investments?

As a % of assets

	0.00% - 0.25%	0.25% - 0.50%	0.50% - 0.75%	0.75% - 1.00%	1.00% - 1.50%	1.50% - 2.00%	2.00% - 2.50%	2.50% - 3.00%	> 3.00%	Tier 1 Capital / Another Measure
OCC (18)	4	-	-	-	-	1	-	-	-	13
FDIC (35)	8	2	5	6	5	1	2	-	2	4
FRB (12)	-	2	2	3	1	-	-	-	2	2

- Regulator vs. overall CRA Rating in your last exam**

The majority of OCC banks received an Outstanding Rating with the majority of FDIC and FRB banks getting a Satisfactory Rating.

What was your overall CRA Rating in your last exam?

	Outstanding	Satisfactory	Needs to Improve
OCC (18)	14	3	1
FDIC (37)	5	31	1
FRB (14)	2	12	-

- Regulator vs. CRA Investment Rating in your last exam**

Looking specifically at each bank's CRA Investment Rating in their last exam, the majority of banks from all three regulators received High Satisfactory or Low Satisfactory.

What was your CRA Investment Rating in your last exam?

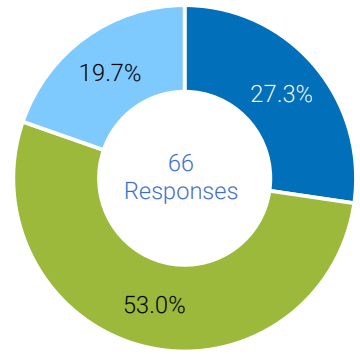
	Outstanding	High Satisfactory	Low Satisfactory	Needs to Improve
OCC (18)	6	6	5	1
FDIC (37)	4	14	16	3
FRB (14)	4	7	2	1

CRA Investment Survey Results

1

Regulator:

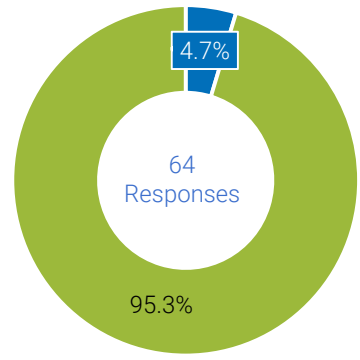
● OCC	27.3%
● FDIC	53.0%
● FRB	19.7%



2

Is your bank currently being evaluated under a strategic plan?

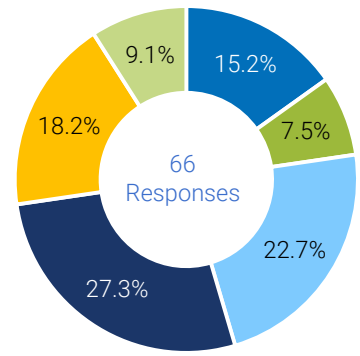
● Yes	4.7%
● No	95.3%



3

What region is your bank headquartered in?

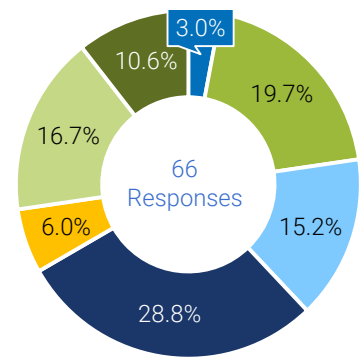
● Northeast	15.2%
● Southeast	7.5%
● Midwest	22.7%
● Southwest	27.3%
● West	18.2%
● Mid-Atlantic	9.1%



4

Asset size of my bank:

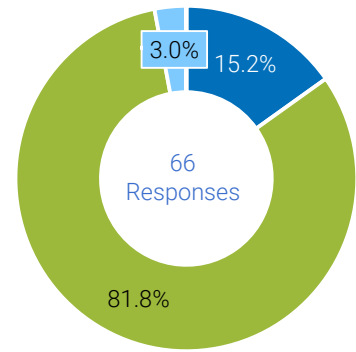
● < \$313M (Small Bank)	3.0%
● \$313M - \$749M (Int / Small)	19.7%
● \$750M - \$1.251B (Int / Small)	15.2%
● \$1.252B - \$5B (Large Bank)	28.8%
● \$5B - \$10B (Large Bank)	6.0%
● \$10B - \$25B (Large Bank)	16.7%
● > \$25B (Large Bank)	10.6%



5

What was your overall CRA rating in your last exam?

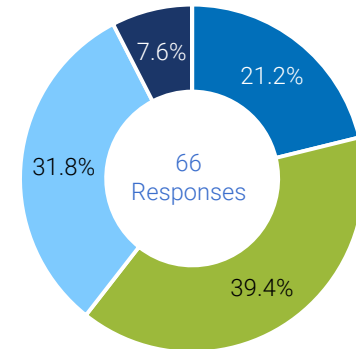
● Outstanding	15.2%
● Satisfactory	81.8%
● Needs to Improve	3.0%



6

What was your CRA investment rating in your last exam?

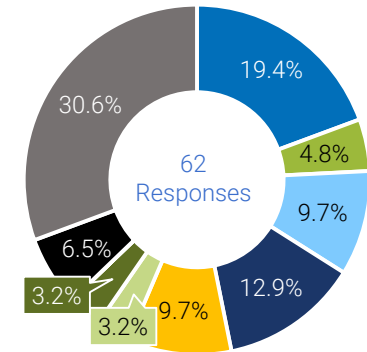
● Outstanding	21.2%
● High Satisfactory	39.4%
● Low Satisfactory	31.8%
● Needs to Improve	7.6%



7

In your last CRA exam, what were your total qualified investments as a % of assets?

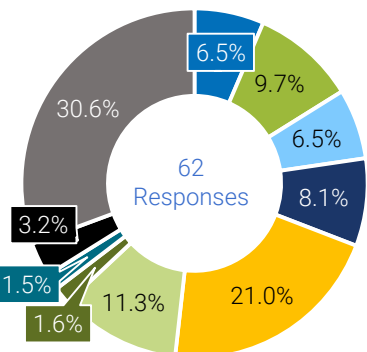
● 0.00% - 0.25%	19.4%
● 0.25% - 0.50%	4.8%
● 0.50% - 0.75%	9.7%
● 0.75% - 1.00%	12.9%
● 1.00% - 1.50%	9.7%
● 1.50% - 2.00%	3.2%
● 2.00% - 2.50%	3.2%
● 2.50% - 3.00%	-
● > 3.00%	6.5%
● My bank uses Tier 1 Capital or another measurement for % of CRA qualified investments	30.6%



8

In your next CRA exam, what is your target qualified investments as a % of assets?

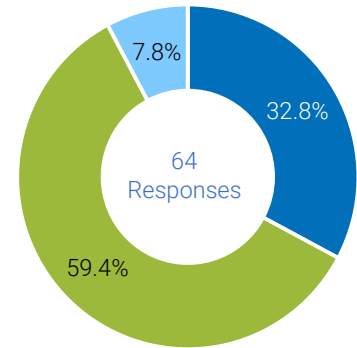
● 0.00% - 0.25%	6.5%
● 0.25% - 0.50%	9.7%
● 0.50% - 0.75%	6.5%
● 0.75% - 1.00%	8.1%
● 1.00% - 1.50%	21.0%
● 1.50% - 2.00%	11.3%
● 2.00% - 2.50%	1.6%
● 2.50% - 3.00%	1.5%
● > 3.00%	3.2%
● My bank uses Tier 1 Capital or another measurement for % of CRA qualified investments	30.6%



9

In your next CRA investment exam, what is your rating target?

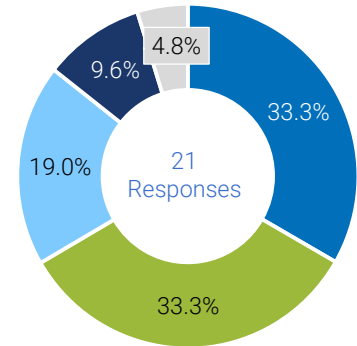
● Outstanding	32.8%
● High Satisfactory	59.4%
● Low Satisfactory	7.8%



10

If your bank measures total CRA investment targets as a % of Tier 1 Capital, what % was that in your last CRA exam?

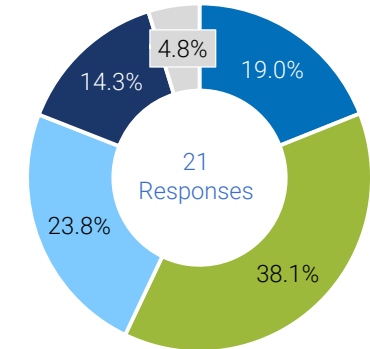
● < 5%	33.3%
● 5% - 10%	33.3%
● 10% - 20%	19.0%
● 20% - 100%	9.6%
● Other Response:	4.8%
<ul style="list-style-type: none"> Limited Purpose - measure loans and investments together. Aim for 1-1.25% of total assets. 	



11

If you answered yes to the previous question, what is the bank's target for qualified investments for its next exam as a % of Tier 1 Capital?

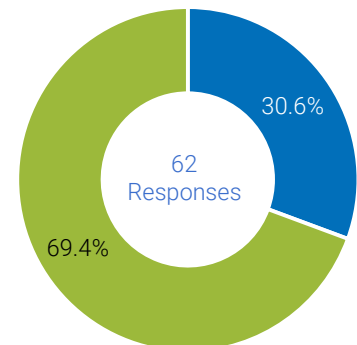
● < 5%	19.0%
● 5% - 10%	38.1%
● 10% - 20%	23.8%
● 20% - 100%	14.3%
● Other Response:	4.8%
<ul style="list-style-type: none"> Limited Purpose - measure loans and investments together. Aim for 1-1.25% of total assets. 	



12

Did any of your investments receive "innovative and complex" in the bank's last CRA investment exam?

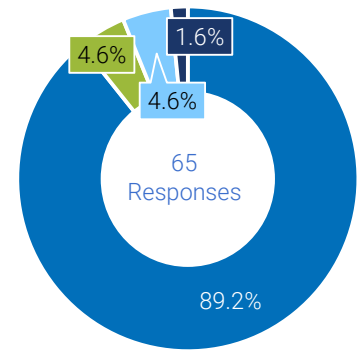
● Yes	30.6%
● No	69.4%



13

How long after the completion of your CRA exam did your bank receive its results?

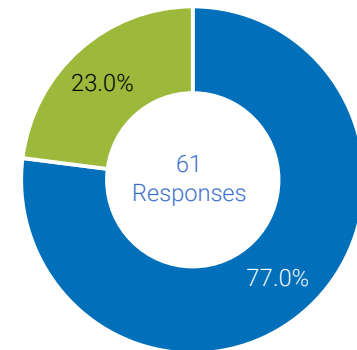
● Within 1 Year	89.2%
● 1 to 2 Years	4.6%
● 2 to 3 Years	4.6%
● Greater than 3 Years	1.6%



14

Is your regulator giving current period consideration to investments that you have held over more than one CRA exam cycle?

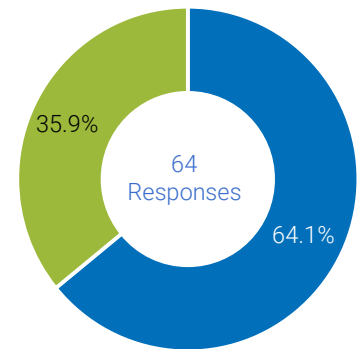
● Yes	77.0%
● No	23.0%



15

Are any of your bank's CRA investments managed externally or outsourced?

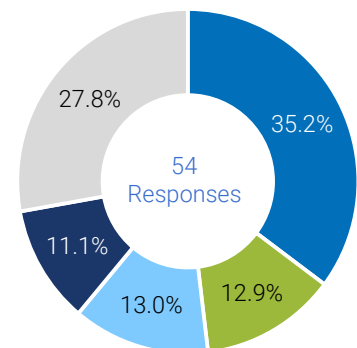
● Yes	64.1%
● No	35.9%



16

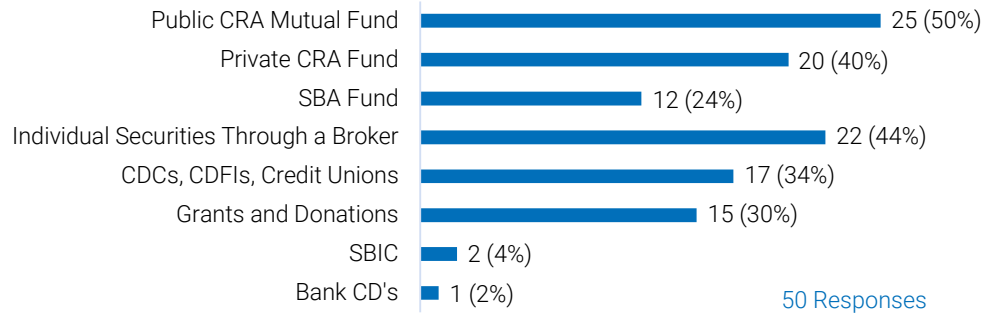
If you answered yes to question #15, what percent?

● < 25%	35.2%
● 25% - 50%	12.9%
● 50% - 75%	13.0%
● 75% - 100%	11.1%
● N/A	27.8%



17

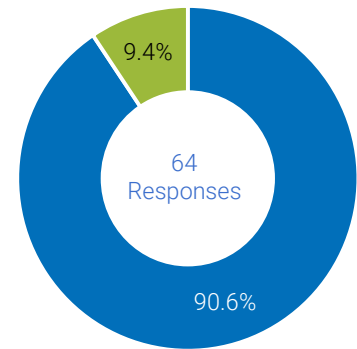
Please check all that apply for your bank's CRA investments that are managed externally or outsourced.



18

Overall, do you feel your regulator understands the investment portion of the CRA exam?

● Yes	90.6%
● No	9.4%



19

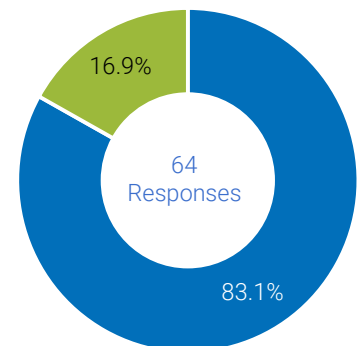
If you answered no to the previous question, please share feedback on what you believe is not being understood.

- Junior staff asks questions that they should not need to ask me.
- They indicated that the investment was not "new" and considered the investment as "prior" giving no credit to innovative/flexible.
- Limited opportunities available for investments and difficulty to be innovative.
- Regulators do not appear to understand market restrictions on availability of viable CRA investments that are prudent and sound.
- How investments in an assessment area with less than 50% LMI tracts still benefits those LMI tracts for CD credit.

20

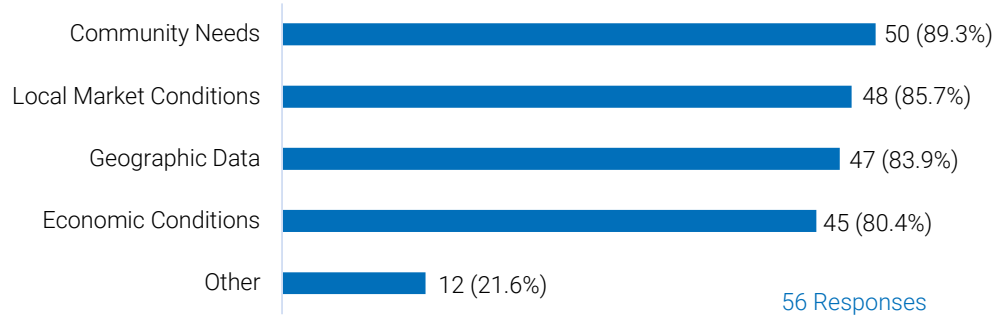
Does your bank set the performance context for its examiner prior to its upcoming exam?

● Yes	83.1%
● No	16.9%



21

If you answered yes to question 18, what information do you typically provide? Check all that apply.



Other:

- Information regarding median home prices in comparison to median wages
- Competition
- Information from community groups, research reports, etc.
- Business model
- Peer review
- The bank's goals and objectives. In addition, we highlight those investments that are innovative or complex so the regulators do not have to search for them.
- Description of bank including assessment areas and peers
- Business strategy as it relates to assessment area (in/out %)
- Community needs surveys performed by the bank
- Demographic data

22

If you answered no to the question about performance context, what is your reasoning for not setting the performance context?

- We have been focusing more on the loan side since the loans are more heavily weighted in the CRA exam. Investments are such a subjective prong in the mix.
- We had not done that previously and have a new compliance officer.
- Turnover within the CRA area.
- It doesn't really change from period to period.
- They already have this information.
- Never have.
- Did not know of this option.
- I don't know what setting the performance context means.

About Community Capital Management, Inc. and the CRA Qualified Investment Fund

Community Capital Management, Inc. is the registered investment adviser to the CRA Qualified Investment Fund CRA Shares (CRAIX). The CRA share class is designed specifically for banks looking to receive positive consideration on the investment test portion of their CRA exam. The CRA Qualified Investment Fund was launched in August of 1999 and seeks to provide current income consistent with the preservation of capital through investments in high credit quality fixed income securities that support community development activities. Additional information on the CRA Qualified Investment Fund can be found by visiting www.ccminvests.com.

The CRA Qualified Investment Fund is distributed by SEI Investments Distribution Co. (SIDCO), 1 Freedom Valley Drive, Oaks, PA 19456, which is not affiliated with Community Capital Management, Inc. Investing involves risk including loss of principal. Bonds and bond funds will decrease in value as interest rates rise. The Fund is not diversified. Carefully consider the Fund's investment objectives, risks, charges, and expenses. This and other information can be found in the Fund's prospectus, which can be obtained by calling 866-20-3573. Please read it carefully before investing.

Copyright © 2018 Community Capital Management. All Rights Reserved.

