



CRA

Community
Reinvestment
Act

Modernization Proposal

JULY 12, 2022



Community Reinvestment Act (CRA) Reform Update:

Overview of the Interagency CRA Notice of Proposed Rulemaking

Introduction, Janis Frenchak, FRBNY

Overview and Q&A, Chelsea Cruz and Taz George, Federal Reserve Board

Closing, David Erickson, FRBNY

Agenda

- **Objectives**
- **Notice of Proposed Rulemaking Overview**
 - Assessment Areas
 - Community Development Definitions
 - Overall Evaluation Framework
 - Retail Lending Test
 - Retail Services and Products Test
 - Community Development Financing Test
 - Community Development Services Test
 - Impact Review
 - Ratings
- **Comment Submissions**

CRA Reform Objectives

The proposal builds on previous agency proposals, feedback from stakeholders, and research. The NPR discusses the following objectives in updating the CRA regulations:

- Strengthen the achievement of the core purpose of the statute
- Adapt to changes in the banking industry, including mobile and online banking
- Provide greater clarity and consistency in the application of the regulations
- Tailor performance standards to account for differences in bank size, business model, and local conditions
- Tailor data collection and reporting requirements and use existing data whenever possible
- Promote transparency and public engagement
- Confirm that CRA and fair lending responsibilities are mutually reinforcing
- Create a consistent regulatory approach among all three banking agencies

Assessment Areas

Overview: Proposal would update assessment areas to reflect changes in banking and more comprehensively evaluate the communities where a bank operates. The proposal would also maintain a focus on evaluating bank performance in areas where banks have branches.

Facility-Based Assessment Areas would be established around a bank's main office, branches, and deposit-taking remote service facilities (e.g., ATMs):

- Large banks, wholesale banks, and limited purpose banks:
 - Facility-based assessment areas would be required to be one or more MSAs or metropolitan divisions, or one or more contiguous counties
- Intermediate and small banks:
 - Partial county designations for facility-based assessment areas permitted
- All bank facility-based assessment areas:
 - May not reflect illegal discrimination or
 - Arbitrarily exclude low- or moderate-income census tracts

Assessment Areas (continued)

Retail Lending Assessment Areas

- Applies to large banks
- Based on concentrations of home mortgage or small business lending outside of facility-based assessment areas

Outside Retail Lending Areas

- Evaluate retail lending in a bank's "outside retail lending area" at the institution level using a tailored benchmark for large banks and certain intermediate banks

Areas for Eligible Community Development Activity

- Proposal provides credit for all eligible community development loans, investments, and services conducted anywhere *nationwide* including outside of facility-based assessment areas.
- These activities would be considered at the state, multistate MSA, and institution levels, as applicable, for banks evaluated under the Community Development Financing Test and Community Development Services Test.

Community Development Definitions

Overview: Provide more certainty on eligible activities and emphasize activities that are responsive to community needs, especially the needs of low- and moderate-income individuals, low- and moderate-income communities, small businesses, and small farms.

Under the proposal, the agencies would:

- Define a primary purpose standard that builds on current guidance
- Maintain a publicly available illustrative list of qualified community development activities
- Development a process for a bank to request confirmation of an activity's eligibility

Community Development Definitions (continued)

The proposal would include eleven community development categories that build on the existing community development definition and that are intended to provide greater clarity on activities that qualify:

- Affordable housing
- Economic development
- Community supportive services
- Revitalization activities undertaken with a government plan, program, or initiative
- Essential community facilities
- Essential community infrastructure
- Recovery activities in designated disaster areas
- Disaster preparedness and climate resiliency
- Activities with minority depository institutions, women's depository institutions, low-income credit unions, and Treasury Department-certified community development financial institutions
- Financial literacy
- Activities in Native Land Areas

Overall Evaluation Framework

Large Banks

**Retail Lending
Test**

**Retail Services and
Products Test**

**CD Financing
Test**

**CD Services
Test**

Intermediate Banks

*Retail Lending Test
and
existing CD test or opt into CD
Financing Test*

**Retail Lending
Test**

**existing
CD
test**

**CD
Financing
Test**

(default) or (opt-in)

Small Banks

*existing lending test or opt into
Retail Lending Test*

**existing
lending test**

**Retail
Lending
Test**

(default) or (opt-in)

Wholesale and Limited
Purpose Banks

**CD Financing
Test**

Retail Lending Test

Overview: Proposal for retail lending metrics, benchmarks, performance thresholds, and major product line standards to make retail lending evaluations more transparent and predictable. Metrics approach would be tailored to local opportunities and economic conditions in each assessment area.

Major Product Line Standard: Would standardize when a bank is evaluated on a specific retail lending product line. Major product lines would be separately determined in each assessment area and outside retail lending area.

- 15% of dollar value for home mortgage (all types), small business, small farm loans
- 15% based on average of two percentages for automobile loans:
 - The bank's percentage of automobile lending by dollar volume and
 - The bank's percentage of automobile lending by number of loans

Retail Lending Test (continued)

Retail Lending Metrics

Tailored to the local opportunities and economic conditions in an assessment area.

- **Retail lending volume screen:** Evaluates volume of a bank's lending relative to deposit base and compared to lending of other local banks in the same assessment area
- **Geographic distribution metric:** Lending in low-income and moderate-income census tracts
- **Borrower distribution metric:** Lending to low-income, moderate-income individuals, and small businesses and small farms

Performance Ranges: Correspond to the following categories: "Outstanding," "High Satisfactory," "Low Satisfactory," "Needs to Improve," and "Substantial Noncompliance"

Thresholds

- Set by leveraging local community and aggregate lending data
- As a result, the thresholds would be tailored to each community and would vary across assessment area and for each major product line
- Differs from the current regulation, which does not specify performance thresholds for specific conclusions, such as, a "Low Satisfactory" or an "Outstanding"

Retail Services and Products Test

Overview: The proposal would adapt to changes in the banking industry, including mobile and online banking, with a balanced evaluation framework that considers all bank delivery systems and promotes financial inclusion.

	Delivery Systems	Deposit & Credit Products
All large banks	<ul style="list-style-type: none"> • Branch availability and services • Remote service facility (e.g., ATM) availability 	<ul style="list-style-type: none"> • Responsiveness of credit products and programs
Large banks with assets >\$10 billion	<ul style="list-style-type: none"> • Digital and other delivery systems (e.g., mobile and online banking) 	<ul style="list-style-type: none"> • Availability and usage of responsive deposit products

- **Quantitative benchmarks** to evaluate branch and ATM distributions, and to identify areas with lower access to bank branches
- **Qualitative evaluation** of responsiveness of a bank's credit and deposit products to the needs of LMI individuals, small businesses, and small farms

Community Development Financing Test

Overview: The CD Financing Test would evaluate how well a large bank or an intermediate bank opting into this test meets the community development financing needs in a bank's facility-based assessment areas, and at the applicable state, multistate MSA, and institution levels by:

1. Applying a *CD financing metric* to evaluate the dollar amount of a bank's community development financing (loans and investments) relative to its deposit base
 - Includes new originations plus outstanding balance of prior-year financing activities
2. Establishing *standardized benchmarks* for evaluating a bank's CD financing metric performance
3. Using an *impact review* to encourage activities that are particularly impactful or responsive

Community Development Services Test

Overview: The CD Services Test would evaluate the extent of community development services provided by a large bank and the impact and responsiveness of these activities.

The evaluation would include:

1. A qualitative review of relevant community development services data, such as the number of activities and total service hours
2. A quantitative review, using a standardized metric (CD service hours per full-time employee) for large banks with assets over \$10 billion
3. An impact review to encourage services that are particularly responsive

Under the proposal, community development services in non-metropolitan areas would include activities unrelated to the provision of financial services

Impact Review: CD Financing Test and CD Services Test

Overview: Encourage activities that are responsive to community credit needs and opportunities through review of the impact factors including whether the activity:

- Serves persistent poverty counties
- Serves geographic areas with low levels of community development financing
- Supports an MDI, WDI, LICU, or Treasury Department-certified CDFI
- Serves low-income individuals and families
- Supports small businesses or small farms with gross annual revenues of \$250,000 or less;
- Facilitates affordable housing in High Opportunity Areas
- Benefits Native communities
- Is a qualifying grant or donation
- Reflects bank leadership through multi-faceted or instrumental support; or
- Results in a new community development financing product or service for low- or moderate-income individuals and families

Ratings

Overview: The proposed ratings approach is intended to increase clarity, consistency, and transparency and is grounded in the bank's performance in local communities.

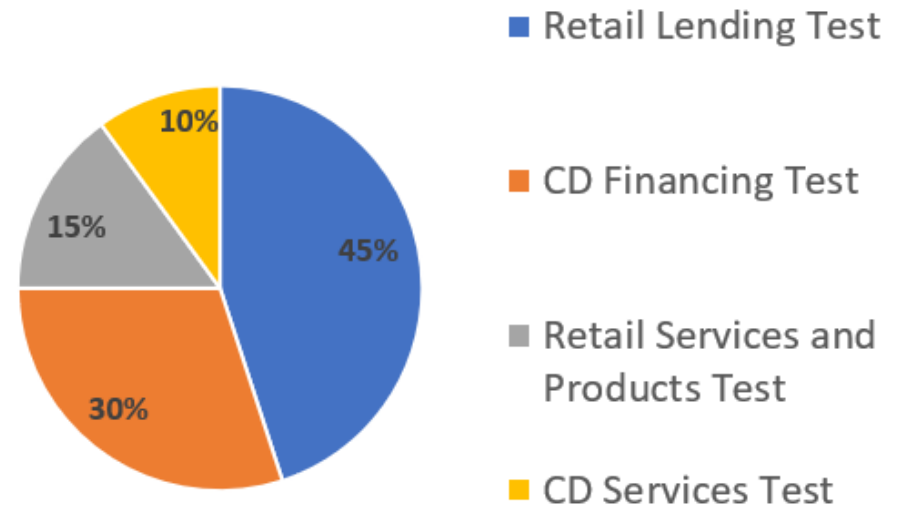
The proposed ratings approach would:

- Utilize a weighted average-approach to translate performance in all assessment areas into ratings, with weighting based on a hybrid share of loan and deposit dollars
- Implement a standardized and transparent process for performance test conclusions at each geographic level (state, multistate MSA, and institution)
- Provide that discriminatory or illegal practices could adversely affect CRA rating

Ratings: Large Bank

- Maintain the emphasis on retail lending and recognize the importance of CD lending and investments in the overall CRA rating
- A large bank with 10 or more assessment areas could not achieve a satisfactory (or higher) rating at the institution level *unless* 60+ percent of its assessment areas have at least satisfactory performance
 - Similar provision proposed for state and multistate MSA ratings.

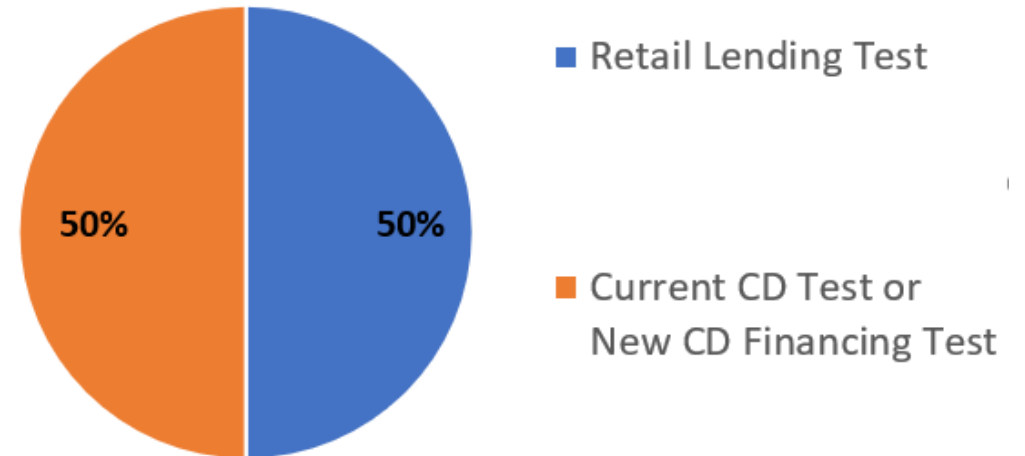
Large Bank Weighting



Ratings: Intermediate Banks

- Equally weight retail lending and community development activities in the overall CRA rating for an intermediate bank
- Maintain the retail lending emphasis by requiring a satisfactory (or higher) rating on the Retail Lending Test

Intermediate Bank Weighting



Data Collection and Reporting

All large banks

- CD financing data
- Retail services and products data for branch and remote service facilities
- Small business and small farm data (until Section 1071 data from CFPB made available)
- Data for HMDA reporters similar to current regulatory requirements
- Assessment area delineations

In addition, large banks with assets over \$10 billion

- Deposits data at the county level
- Automobile lending data
- Retail services and products data for digital and other delivery systems, and responsive deposit products
- CD services data for proposed metric

Wholesale and limited purpose banks

- Automobile lending data (if the bank has assets over \$10 billion)
- CD financing data
- Assessment area delineations

Small and intermediate banks

- No new data requirements

Comment Submissions

- Comment period ends on August 5, 2022.
- Comments can be submitted to any of the three agencies and all comments will be shared between the agencies. Refer to the NPR for additional details.

Board:

- Submit a comment using the link on:
<https://www.federalreserve.gov/consumerscommunities/community-reinvestment-act-proposed-rulemaking.htm>
- Comments can also be emailed, faxed, or mailed.

OCC:

- Submit a comment here: Go to <https://regulations.gov/>. Enter “Docket ID OCC-2022-0002” in the Search Box and click “Search.”
- Comments can also be mailed or hand-delivered.

FDIC:

- Submit a comment here: <http://www.fdic.gov/regulations/laws/federal/propose.html>. Include the RIN 3064 -AF81 on the subject line of the message.
- Comments can also be emailed, mailed, or hand-delivered.