

Connecting Communities



Modernizing the Community Reinvestment Act (CRA): An Overview of the Federal Reserve Board's Advance Notice of Proposed Rulemaking

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Welcome



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Join

- Call-in number **888-625-5230**
- Conference Code: **227 949 25#**
- Webinar link: <https://www.webcaster4.com/Webcast/Page/584/37371>

Questions

- Email us at: communities@stls.frb.org.
- Type your question into the chat box of the webinar

Website

- Please visit <https://bsr.stlouisfed.org/connectingCommunities>

The **Connecting Communities**[®] audio conference series is a Federal Reserve System initiative intended to provide timely information on emerging and important community and economic development topics with a national audience. The audio conference series complements existing Federal Reserve Community Development outreach initiatives that are conducted through our regional Reserve Bank offices and at the Federal Reserve Board of Governors in Washington, D.C.

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Community Development

The mission of the Federal Reserve’s community development function is to promote the economic resilience and mobility of low- to moderate-income (LMI) and underserved individuals and communities.



Topics of Today's Session

- CRA modernization objectives
- Assessment areas
- Evaluation framework:
 - Retail Test
 - Community Development Test
- Qualifying activities and geographies
- Ratings
- Data collection
- Proposals for rural areas
- Looking ahead and next steps

CRA Modernization Objectives

- **Strengthen regulations in alignment with CRA statute:**
 - Strengthen regulations to ensure that a wide range of LMI banking needs are being met.
 - Promote financial inclusion, including credit for activities in areas with unmet needs outside of assessment areas, including Indian Country.
 - Incentivize investment in minority depository institutions (MDIs) and community development financial institutions (CDFIs).
 - Update standards in light of changes to banking over time, including mobile and Internet banking.
 - Continue to promote community engagement.

CRA Modernization Objectives (continued)

- **Provide greater certainty, tailor regulations, and minimize burden:**
 - Bring greater clarity, consistency, and transparency to tailored performance evaluations.
 - Minimize data collection and reporting burden.
 - Tailor performance evaluations to bank size and business models and local conditions.
 - Clarify and expand eligible CRA activities focused on LMI communities.
 - Recognize the special circumstances of small banks in rural areas.

CRA Modernization Objectives (continued)

- **Provide a foundation for the agencies to converge on a consistent approach that has broad support among stakeholders:**
 - Build on stakeholder feedback from extensive Federal Reserve outreach, review of public comment letters, and ideas of all three banking agencies responsible for CRA.
 - Work towards a consistent approach by reflecting this feedback, providing a long comment period, and adding to the process by getting comments on additional proposal and options.
 - Continue to engage to get views of stakeholders throughout the process.

Assessment Areas

Goal: *Modernize assessment areas to reflect changes in the banking industry, including Internet and mobile banking, while maintaining a focus on branches*

- **Facility-based assessment areas:**
 - Branches – Propose keeping assessment areas around branches.
 - Loan production offices and deposit-taking ATMs – Request for feedback on these options.
- **Potential new assessment areas – Request for feedback on the following options:**
 - Deposit-based assessment areas
 - Lending-based assessment areas
 - Nationwide assessment areas for Internet banks

Overview of Evaluation Framework

Goal: *Tailor evaluation framework to bank size and business model*

- **Large Retail Banks:**
 - Evaluated under Retail Test (including both Retail Lending Subtest and Retail Services Subtest) AND
 - Evaluated under Community Development Test (including both Community Development Financing Subtest and Community Development Services Subtest)
- **Small Retail Banks:**
 - Can choose to be evaluated under the current framework or the new framework
 - If elect the new framework, would be assessed solely under Retail Lending Subtest, unless they opt to have other activities considered.
 - Asset size threshold between small and large retail banks: Seek feedback on two options, \$750 million or \$1.0 billion.
- **Wholesale and Limited Purpose Banks:**
 - Evaluated under Community Development Test

Evaluation Framework for Large Retail Banks

Goal: *Ensure that the wide range of LMI banking needs are met by separately evaluating retail lending, retail services, community development financing, and community development services*

Retail Test



Small retail banks may remain under current framework or may elect to be evaluated under only the Retail Lending Subtest. Can submit retail services activities for optional qualitative review.

Wholesale and limited purpose banks would not be evaluated under the Retail Test.

Community Development Test



Community Development Test would only apply to **large retail banks** and to **wholesale and limited purpose banks**.

Small retail banks can submit community development activities for optional qualitative review.

Retail Lending Subtest Presumption of “Satisfactory”

Goal: Increase clarity, consistency, and transparency through a metrics-based approach that is tailored to local conditions and adjusts with business cycles

Retail Lending Screen

Does the bank engage in sufficient dollar amount of lending relative to its deposits in the assessment area? Threshold would be set at a low level to act as a screen for the distribution metrics.

If **Yes**, go to distribution metrics

(1) Geographic Distribution Metric

For each major product line, does the bank engage in sufficient lending in LMI census tracts within the assessment area?



(2) Borrower Distribution Metric

For each major product line, does the bank engage in sufficient lending to LMI borrowers, small businesses, and small farms in the assessment area?

If **Yes** to both, go to Presumption of Satisfactory

YES

Presumption of Satisfactory

If a bank’s Geographic Distribution Metric and Borrower Distribution Metric meet the threshold(s) for each of its major products lines in an assessment area, it would receive a presumption of “satisfactory” for that assessment area. Banks receiving the presumption of “satisfactory” could also be considered for an “outstanding,” based on an evaluation of performance ranges, targeted performance context information, and specific activities.

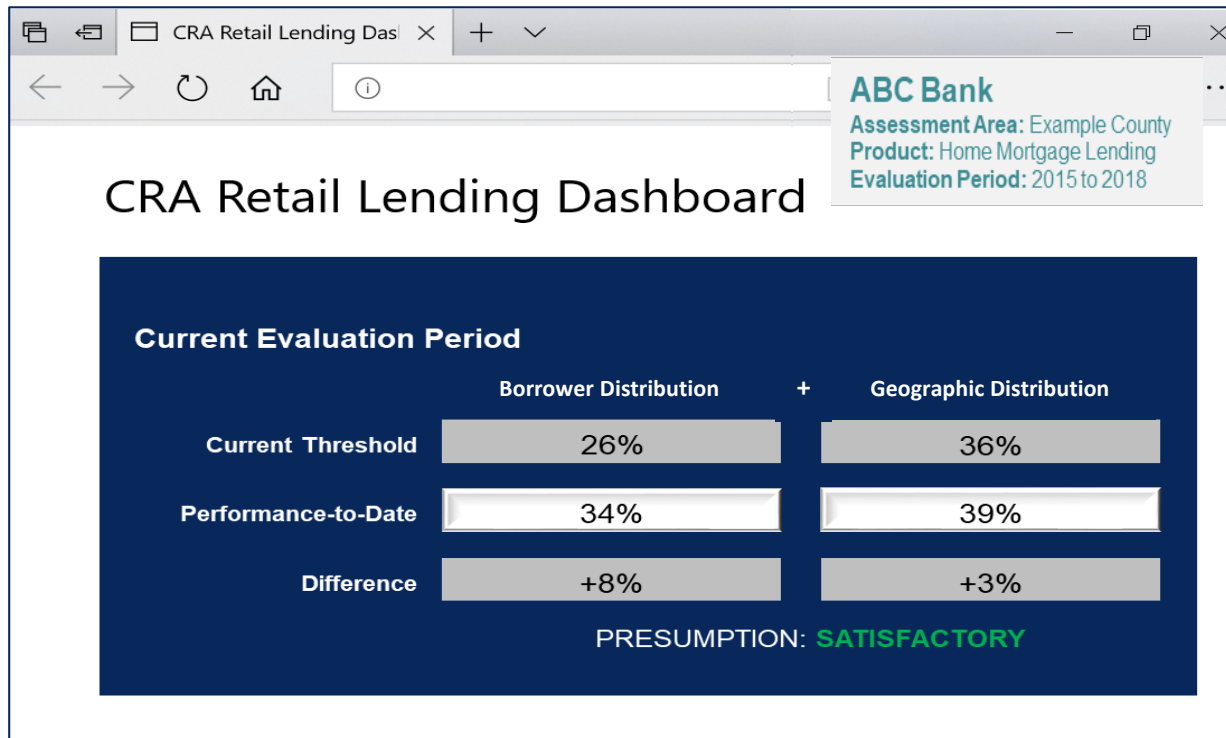
NO

No Presumption of Satisfactory

If a bank does not receive a presumption of “satisfactory,” it could receive any conclusion, based on an evaluation of performance ranges, targeted performance context, and specific activities.

Retail Lending Dashboard for Presumption of “Satisfactory”

Goal: Facilitate ease of use by allowing banks to track performance against thresholds and increase clarity, consistency, and transparency



Retail Services Subtest

Goal: *Ensure responsiveness of retail services to LMI communities and customers and encourage financial inclusion*

- **Delivery systems:**

- Branch distribution
- Branch-related services
- Non-branch delivery systems (e.g., mobile and online banking)

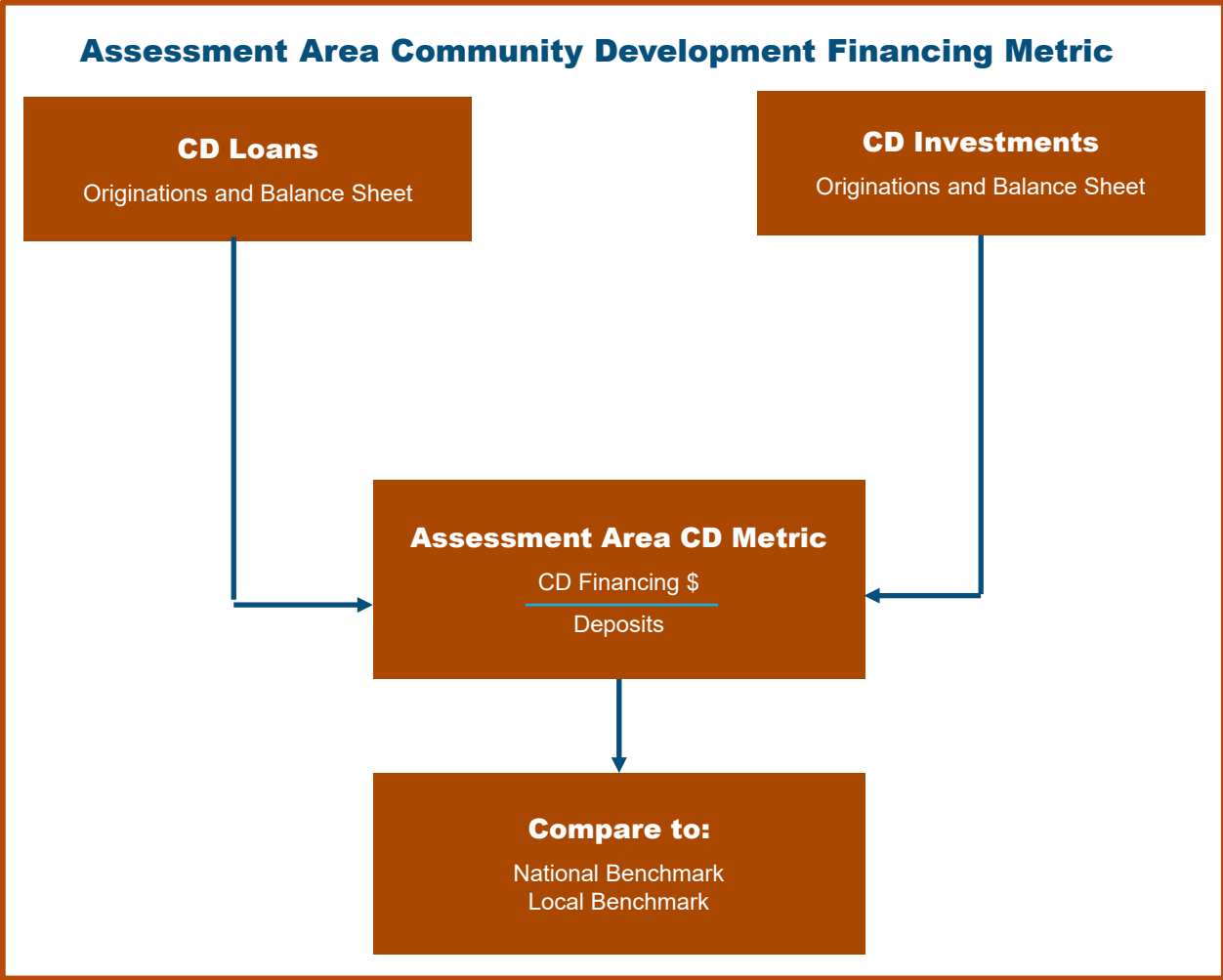


- **Deposit products:**

- e.g., checking account and savings account products

Community Development Financing Metric

Goal: Increase clarity, consistency, and transparency through a metrics-based approach that encourages lending and investments that benefit LMI communities



Options for Using Community Development Financing Metric

- **Presumption approach or gradated approach:**
 - **Presumption approach:**
 - If a bank's community development financing metric surpasses a specified threshold, the bank would be presumed to have achieved a "satisfactory"
 - **Gradated approach:**
 - Incremental change from current evaluation approach until more data are available
 - If bank's community development financing metric surpasses a threshold, this would be taken into consideration, but not grant a presumption of "satisfactory" on this subtest
- **Capture impact and responsiveness through an impact score:**
 - Reflect impact and responsiveness of community development financing activity through an impact score

Community Development Services Subtest

Goal: *Evaluate impact of activities through qualitative process and increase clarity, consistency, and transparency through use of quantitative measures*

- **Qualitative framework:**

- Provide a framework for consistently and transparently evaluating community development service activities—such as volunteer activities or board service— while still relying on examiners to reflect unique circumstances of each assessment area
- Clearly define and standardize qualitative measures

- **Quantitative measures:**

- Incorporate standardized quantitative measures into the assessment, such as number of community development service activities and

- **Impact and responsiveness:**

- Reflect impact and responsiveness of services through an impact score

Qualifying Activities

Goal: *Increase certainty about what counts for CRA consideration and retain focus on activities that benefit LMI communities*

- **Foster greater financial inclusion:**

- Special provisions for MDIs, women-owned financial institutions, low-income credit unions, and CDFIs
- Broaden consideration to retail activities in Indian Country both inside and outside of a bank's assessment area
- Designate certain activities as impactful and responsive, such as housing for very low-incomes households and activities with very small businesses and minority-owned small businesses

- **Provide greater *ex ante* certainty to what counts:**

- Clearer definitions of affordable housing, community services, economic development, and revitalization and stabilization.
- Publication of a non-exclusive illustrative list and a pre-approval process

Qualifying Geographies

Goal: *Increase certainty as to where activities will be assessed and expand where activities will receive CRA consideration to foster financial inclusion*

- **Eligible states, territories, and regions**
- **Seeks feedback on expanding CRA consideration to designated areas of need:**
 - Economically distressed rural or metropolitan areas
 - Areas where the community development financing metric is below an established threshold
 - Areas that have low levels of home mortgage lending or small business loans as identified by lending data
 - Areas with limited bank branches or ATMs
 - Indian Country
 - Appalachia
 - The Mississippi Delta
 - Colonias areas

Ratings

Goal: *Increase clarity, consistency, and transparency, encourage activity in all assessment areas, and reflect any illegal credit practices in ratings*

- Weighted average-approach to translate local and state performance into ratings
- Grounded in performance in a bank's local communities
- Standardized and transparent process for each geographic assessment level (state, multistate metropolitan statistical area, and institution)
- Activities with MDIs, women-owned financial institutions, and low-income credit unions would receive consideration for “outstanding” rating.
- Discriminatory or illegal credit practices would adversely affect CRA assessment.

Data Collection

Goal: *Increase clarity, consistency, and transparency while minimizing data collection and reporting burden*

- Rely on existing data to the greatest extent possible.
- Exempt small banks from deposit data collection requirements.
- Existing data sources would also be used when possible for large banks.
 - New data collection and reporting on community development financing activities
- Considering deposit data options for large banks:
 - Particularly for large banks with extensive deposit activity outside of the areas served by their physical branches
 - FDIC Summary of Deposits data versus new data collection and reporting
- Exploring options for retail and community development services

Proposals for Rural Areas

Goal: *Tailor assessments to recognize the unique circumstances of rural areas*

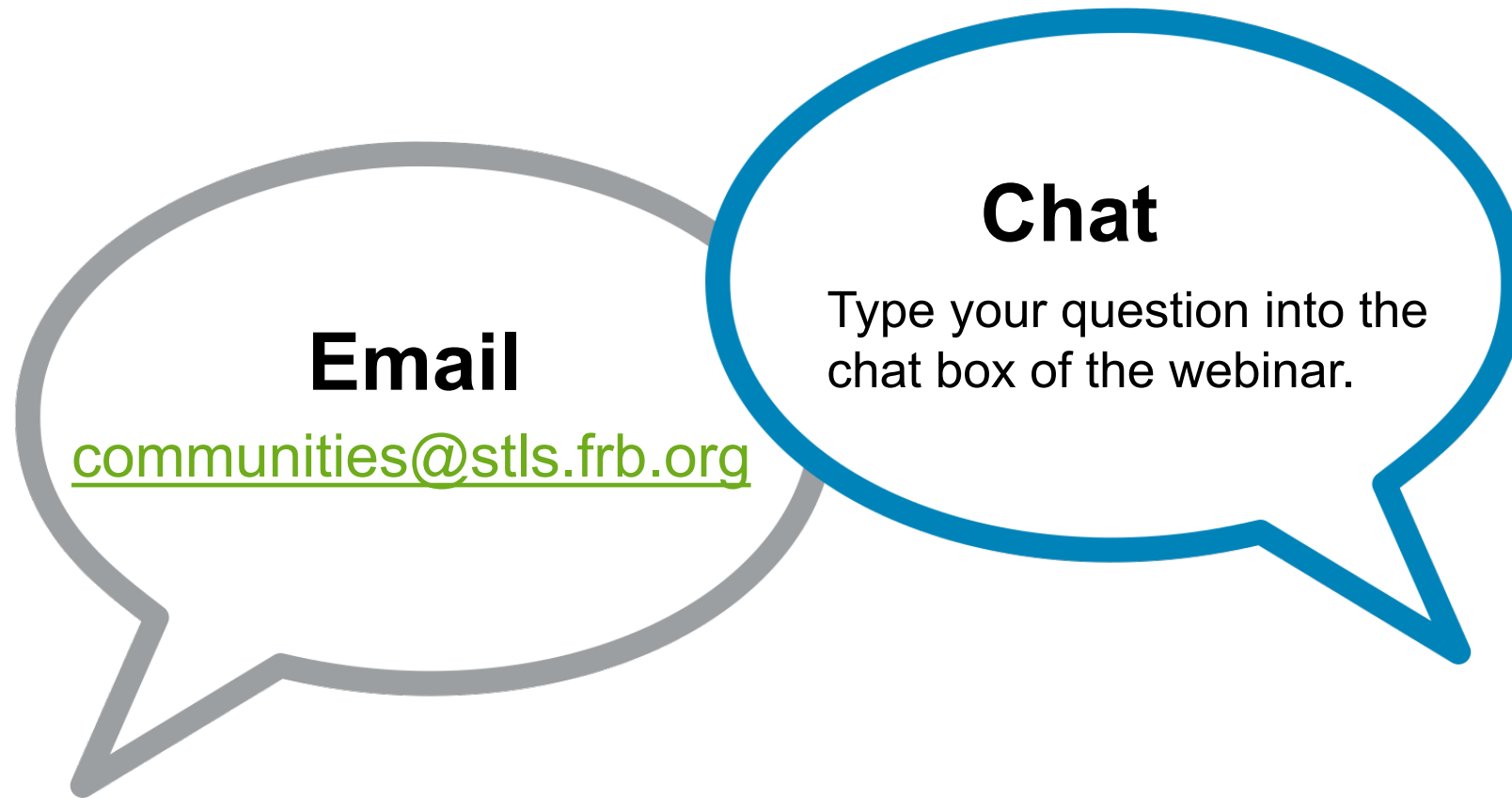
- Expanded definition of community development services in rural areas
- Designated geographic areas of need that overlap with rural communities
- The use of calibrated thresholds in assessment areas for both the Retail Lending Subtest and Community Development Financing Subtest
- Ratings for Retail Test and Community Development Test inclusive of all assessment areas, including smaller rural assessment areas

Looking Ahead and Next Steps

Goal: *Build a foundation for the banking agencies to converge on a consistent approach that has the broad support of stakeholders*

- Extended comment period:
 - 120 day comment period
- Continued engagement:
 - Will continue to seek the views of all stakeholders throughout this process
- Board's CRA Proposed Rulemaking Resources Page:
 - <https://www.federalreserve.gov/consumerscommunities/community-reinvestment-act-proposed-rulemaking.htm>

Questions



Next Steps

- All session materials are available on our website, and in the next few days, we will post an audio file of today's session.
- If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at communities@stls.frb.org.
- Information about future sessions will be posted on our website along with archived materials from past sessions:
<https://bsr.stlouisfed.org/connectingcommunities>.