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# Community Reinvestment Act (CRA) Reform Update: Overview of the Interagency CRA Notice of Proposed Rulemaking

## Speakers:

- ▶ **Carrie Johnson**, Federal Reserve Board (Board)
- ▶ **Karen Bellesi**, Office of the Comptroller of the Currency (OCC)
- ▶ **Pamela Freeman**, Federal Deposit Insurance Corporation (FDIC)

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# Welcome everyone

- **Today's session**
- **Questions:**
  - As this session relates to a proposal out for public comment, we encourage you to follow the process outlined in the Federal Register notice to submit your comments on the proposed revisions.
- **This call is being recorded and will be available immediately following the session.**
  - Archived recording can be accessed using the same link as today's webinar.
- **A survey will be delivered via email following the call. Let us know your thoughts or ideas for future sessions.**



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# Agenda

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



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## Timeline

- On May 5, 2022, the Board, OCC, and FDIC jointly released a Notice of Proposed Rulemaking to revise the CRA regulations
  - The last major interagency revisions to the CRA regulations were in 1995
  - The Notice of Proposed Rulemaking (NPR) requests comments on all aspects of the proposed regulatory text as well as on alternative approaches discussed in the preamble
- The comment period ends on August 5, 2022



# 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 the assessment area approach 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 would be required to designate facility-based assessment areas consisting of one or more metropolitan statistical area (MSAs) or metropolitan divisions or one or more contiguous counties
- Intermediate and small banks would have continued flexibility to use partial county designations, consistent with current practice and reflecting their smaller service areas
- Facility-based assessment areas may not reflect illegal discrimination or arbitrarily exclude low- or moderate-income census tracts



# Assessment Areas (continued)

**Activities Outside Facility-Based Assessment Areas** would be evaluated as follows:

- **Retail Lending Assessment Areas**
  - Require large banks to delineate retail lending assessment areas 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**
  - Under the proposal, community development loans, investments and services conducted anywhere *nationwide* outside of facility-based assessment areas would be considered at the state, multistate MSA, and institution levels, as applicable, for banks evaluated under the new performance tests



# 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 (LMI) individuals, LMI communities, small businesses, and small farms.

Under the proposal, the agencies would:

- Define a primary purpose standard for community development activities to ensure activities benefit LMI individuals and communities, as well as distressed and underserved non-metropolitan census tracts
- Include standards for qualifying activities building on current guidance
- Maintain a publicly available illustrative list of qualified community development activities and develop 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 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 (MDIs), women’s depository institutions (WDIs), low-income credit unions (LICUs), and Treasury Department-certified community development financial institutions (CDFIs)
- Financial literacy
- Activities in Native Land Areas



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# Overall Evaluation Framework

Large Banks	<b>Retail Lending Test</b>	<b>Retail Services and Products Test</b>	<b>CD Financing Test</b>	<b>CD Services Test</b>
Intermediate Banks <i>Retail Lending Test and existing CD test <u>or</u> opt into CD Financing Test</i>	<b>Retail Lending Test</b>		<b>existing CD test</b> (default) or <b>CD Financing Test</b> (opt-in)	
Small Banks <i>existing lending test <u>or</u> opt into Retail Lending Test</i>	<b>existing lending test</b> (default) or <b>Retail Lending Test</b> (opt-in)			
Wholesale and Limited Purpose Banks			<b>CD Financing Test</b>	



# Evaluation Framework: Large Banks

## Overview

- Assets  $\geq$  \$2 billion
- Apply four tests for large banks:
  - Retail Lending Test
  - Retail Services and Products Test
  - Community Development (CD) Financing Test
  - Community Development Services Test



## Other Details

- Parts of Retail Services and Products Test would only apply to large banks with assets over \$10 billion



# Evaluation Framework: Intermediate Banks

## Overview

- Assets  $\geq$ \$600 million and  $<$ \$2 billion
- Apply two tests for intermediate banks:
  - Proposed Retail Lending Test
  - Existing regulation’s community development test with ability to opt into the proposed CD Financing Test

## Other Details

- Under either community development evaluation approach, bank option to designate a retail loan as a community development loan
- If the bank opts for evaluation under the CD Financing Test, activities eligible under Retail Services and Products Test and CD Services Test could be considered at bank’s option



AND



OR



(opt-in to new approach)



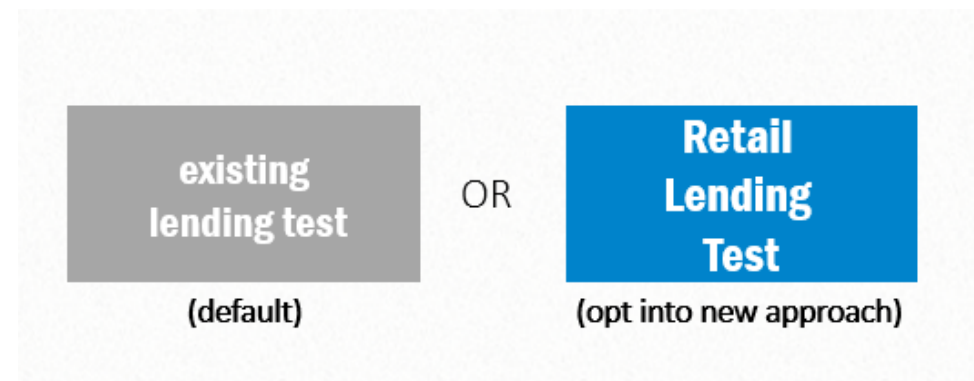
# Evaluation Framework: Small Banks

## Overview

- Assets < \$600 million
- Apply one test, focused on retail lending, for small banks
  - Existing regulation's small bank lending test with ability to opt into the proposed Retail Lending Test

## Other Details

- All other activities considered at bank's option





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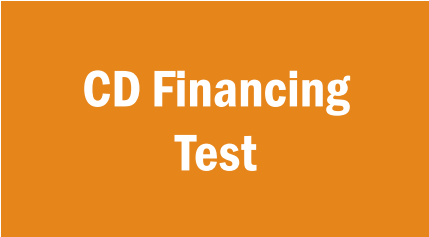
# Evaluation Approach: Wholesale & Limited Purpose Banks and Strategic Plan Option

## Wholesale & Limited Purpose Banks

- Apply one test, the CD Financing Test for Wholesale and Limited Purpose Banks
- Community development services activities considered at bank's option

## Strategic Plan Option

- Maintain an approved strategic plan option for all banks
- Require the plan to adhere to the assessment area requirements and performance standards that would otherwise apply to the bank





# Retail Lending Test

**Overview:** Proposal would establish retail lending metrics, benchmarks, and performance thresholds, which would make retail lending evaluations more transparent and predictable. Metrics approach would be tailored to local opportunities and economic conditions in each assessment area.

## Products Evaluated in Retail Lending Test

- The proposal would evaluate closed-end home mortgage loans, all open-end home mortgage loans, and all multifamily home mortgage loans as separate product lines
- Small business and small farm lending would continue to be evaluated as separate product lines
  - Would add definitions of small business and small farm that align with the CFPB’s proposed small business definition in its current section 1071 rulemaking
- Would evaluate automobile lending using metrics in recognition of its importance to low- and moderate-income borrowers and communities



# Retail Lending Test (continued)

**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.

- **For closed-end home mortgage, open-end home mortgage, multifamily home mortgage, small business, and small farm lending product lines**, the proposal would establish a major product line threshold of 15 percent of the dollar value of a bank's retail lending
  - Example: A bank would meet or exceed the major product line standard for closed-end home mortgages, if it had \$1,000,000 in overall retail lending in an assessment area, and at least \$150,000 of that lending was for closed-end home mortgage loans
- **For automobile lending**, proposal would establish a major product line threshold of 15 percent based on the average of two percentages:
  - 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:** The proposal would establish a set of retail lending metrics to evaluate a bank's lending to low-income and moderate-income borrowers, small businesses and small farms, and low-income and moderate-income census tracts in its assessment areas and outside retail lending area.

- **Retail lending volume screen:** Would assess a bank's volume of retail lending relative to its deposit base in each facility-based assessment area, compared to other banks with branches in the assessment area
- **Distribution metrics:** Would separately evaluate the geographic distribution and borrower distribution of a bank's lending for each major product line, with separate metrics for:
  - **Geographic distribution:** Lending in low-income and moderate-income census tracts; and
  - **Borrower distribution:**
    - **For mortgage and auto lending:** Lending to low- and moderate-income borrowers
    - **For small business and small farm lending:** Lending to businesses with gross annual revenues of \$250,000 and less and to businesses with gross annual revenues above \$250,000 to \$1 million after section 1071 data is available. Would use only lending to businesses with gross annual revenues of \$1 million or less before section 1071 data is available.



# Retail Lending Test (continued)

**Performance Ranges and Thresholds for Retail Lending Metrics:** The agencies propose to compare a bank’s distribution metrics to specific performance ranges tailored to each assessment area and product line

- **Performance Ranges** would correspond to the following categories: “Outstanding,” “High Satisfactory,” “Low Satisfactory,” “Needs to Improve,” and “Substantial Noncompliance”
- **Thresholds** would establish these performance ranges.
  - The proposed thresholds would be set using a methodology that leverages local demographic and aggregate lending data.
  - As a result, the thresholds would be tailored and would vary from assessment area to assessment area. In addition, the thresholds would be tailored to each major product line’s distribution metrics.
  - This proposed approach 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"> <li>Branch availability and services</li> <li>Remote service facility (e.g., ATM) availability</li> </ul>	<ul style="list-style-type: none"> <li>Responsiveness of credit products and programs</li> </ul>
Large banks with assets >\$10 billion	<ul style="list-style-type: none"> <li>Digital and other delivery systems (e.g., mobile and online banking)</li> </ul>	<ul style="list-style-type: none"> <li>Availability and usage of responsive deposit products</li> </ul>

- Incorporate quantitative benchmarks to evaluate branch and ATM distributions and identify areas with lower access to bank branches
- Qualitatively evaluate 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:

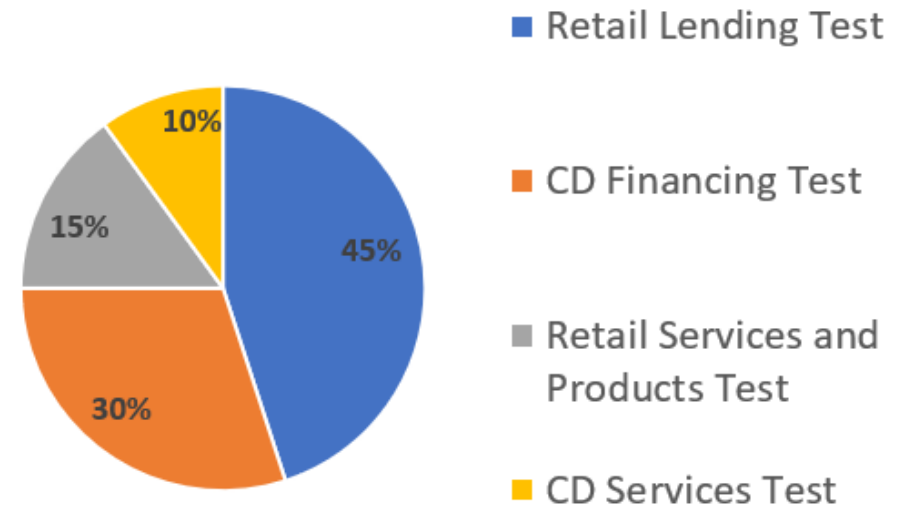
- Utilize a weighted average-approach to translate performance in all assessment areas into ratings, with weighting based on a hybrid share of loan and deposit dollars
- Implement a standardized and transparent process for performance test conclusions at each geographic level (state, multistate MSA, 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



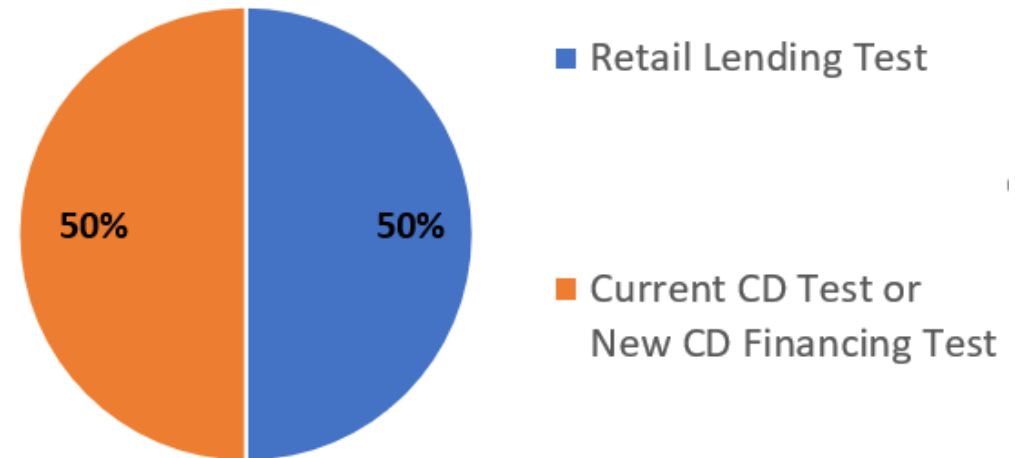




# Ratings: Intermediate Banks

- 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

**Overview:** Would tailor data collection and reporting requirements and use existing data when possible. Under the proposal, small and intermediate banks would not have new data requirements for the required performance tests.

## Deposits Data:

- Require large banks with assets over \$10 billion to collect, maintain, and report deposits data based on the location of the depositor
- Use FDIC Summary of Deposits data for large banks with assets of \$10 billion or less, intermediate banks, and small banks
- Other banks could collect and maintain deposits data, at their option

## Retail Lending Data:

- Require banks with assets over \$10 billion to collect, maintain, and report automobile lending data



# Data Collection and Reporting (continued)

## CD Financing Data:

- Require large, wholesale, and limited purpose banks to collect, maintain, and report CD financing data in a prescribed format for purposes of constructing CD financing metrics and benchmarks
- Provide intermediate banks that opt into the CD Financing Test the choice of collecting and maintaining CD financing data in a prescribed format or a format of their own choosing (reporting would not be required)

## CD Services Data:

- Require large banks with assets over \$10 billion to collect, maintain, and report CD services data in a prescribed format
- All other banks would not be subject to regulatory data collection, maintenance, or reporting requirements for CD services data



# Data Collection and Reporting (continued)

## **Retail Services and Products:**

- Require large banks to collect and maintain data related to retail services and products in a prescribed format
- Only large banks with assets of over \$10 billion would be required to collect and maintain data on digital and other delivery systems, as well as responsive deposit products

## **Assessment Area Delineation:**

- Require large, wholesale, and limited purpose banks to report assessment area delineations, including retail lending assessment areas, if applicable



# 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.