To: N.C. Housing Coalition
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Community Reinvestment Act (CRA) Modernization

The CRA was enacted in 1977 to encourage banks to help meet the credit needs in their local communities, including low- and moderate-income (LMI) neighborhoods. The FDIC and OCC (Treasury) issued a Notice of Proposed Rulemaking because the banking industry has changed dramatically since the law's enactment and major changes to the regulation were last made in 1995. The framework that guides the CRA has not kept pace with such changes. Over the past twenty-five years, new financial laws and regulations were passed and implements; banks engaged new technology changes; online banking was instituted; the low income housing tax credit (LIHTC) was new and the new markets tax credit (NMTC) and opportunity zones didn't exist.

The proposal is intended to expand the scope of activities that qualify for CRA credit, including CRA credit for loans and investments in Indian country, minority depository institutions (MDIs), and community development activity that supports qualified opportunity funds that benefit LMI qualified opportunity zones. It also increases to $2 million the size of qualifying loans to small businesses and small farms.

The rule-making addresses the evaluation of CRA performance objectives and proposes to establish new standards using benchmarks and thresholds. The FDIC and OCC propose to publish qualifying activities and establish a process for stakeholders to confirm whether an activity would receive CRA credit. There will still be a delineation of assessment areas around main offices, branches and deposit-taking facilities but an addition would be to delineate additional assessment areas if there is a 50 percent or more adjustment of retail deposits from geographies outside their assessment areas with facilities. Because of new record-keeping, banks with asset sizes of $500 million or less could opt-in to the new framework and continue to be evaluated under the existing standards.

<u>Major effects possible:</u>

Investment in affordable housing, historic preservation and renewable energy–plays a role in whether financial institutions meet their CRA requirements. The proposed guidance–the first major rewrite of how to measure CRA compliance since 1995–has a potentially massive impact.

The OCC and FDIC supervise CRA for approximately 85 percent of the financial institutions required to comply. The Federal Reserve did not join the NPR.

In 2018, the concept started with a ratio concept but there was push back because of the fear of imbalance in geography and a concern that quality versus quantity, especially with impact, could reduce investment in affordable housing and community development. Layering and leveraging the capital stack in community development means that the relationship between CRA and the tax incentives is important. CRA-seeking investment and lending encourages LIHTC and NMTC since the census tracts are LMI. Historic Tax Credits are not required in LMI areas but tend to be used there. The Opportunity Zones incentive focuses on LMI census tracts which means there can be a coupling with CRA.

There has been concern that emphasizing the dollar amount of loans and investments could result in deemphasizing LIHTC and NMTC equity investment as compared to lending, because it is much easier for banks to make loans so loans over investments could be favored.

Currently, CRA investments initiated outside the three-year examination period don't receive as much consideration for CRA credit as those inside the period of review; under this NPR, measurement and investment could be calculated on an ongoing basis using an average and banks could see the equations. The proposed regulations say that double weighting would be used "to provide an incentive for banks to engage in these activities," but there are questions as to whether or not the doubling the effect of affordable housing or community development investments would be enough of an incentive to sustain LIHTC and NMTC equity investment at current volumes.

A new list of qualifying activities in the proposed regulations includes examples in affordable housing, community development, historic preservation and renewable energy.

Resources:

Videos Resources on the CRA

- **What is the Community Reinvestment Act?**
- **The Small Bank and Intermediate Small Bank CRA Examination**
- **Leading Practices for Effective CRA Programs**
- **CRA Community Development Defined**

The Federal Reserve Board released *Perspectives from Main Street: Bank Branch Access in Rural Communities*, a report that examines how rural consumers and small businesses use bank branches and how their communities have been affected by branch closures.

Of the counties analyzed in the report, more than half lost bank branches between 2012 and 2017, with some predominantly rural counties experiencing considerable declines. The deeply affected rural counties tended to be less economically well off and have residents with lower levels of education. They also had a greater proportion of minority residents relative to other rural counties.

Much of the information in the report was gathered at listening sessions hosted by Federal Reserve Banks across the country between July 2018 and January 2019. The consumers, small business owners, and local government officials who participated in the sessions said that while they have found local or technological substitutes for many, but not all services, the alternatives are generally more costly and less convenient.

Other data and research presented in the report show that despite the increasing use of digital methods to access financial services, branches continue to be important for certain services, including resolving problems, submitting loan applications, and for deposits and withdrawals. The data also show that a majority of small businesses prefer to utilize local banks to access financial services, which may give them greater credit availability and more favorable credit terms. These businesses expressed concern that loan product costs and terms were not always transparent when accessing credit through online lenders.

The research reviewed also found that adoption of digital banking services has been more gradual among consumers who are older, have lower incomes or fewer years of formal education, or who live in rural areas. This lower adoption rate suggests that bank branch closures may present greater challenges for these individuals.

For more information, download the report at: www.federalreserve.gov/publications/files/bank-branch-access-in-rural-communities.pdf