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Proposed Changes to the Community Reinvestment Act (CRA)

■ September 13, 2018

Overview: The Community Reinvestment Act

- The Community Reinvestment Act (CRA) became law in 1977 to combat discriminatory lending practices by banks.
- CRA requires banks to meet the credit needs of the communities they serve, including low- and moderate-income (LMI) neighborhoods, consistent with the banks' safe and sound operations.
- The Office of the Comptroller of Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve of Governors enforce the CRA through a joint regulatory framework.

CRA Modernization

- In an Advance Notice of Proposed Rulemaking (ANPR) published on September 5, the OCC has launched a process to consider changes to the regulatory framework for enforcing the CRA.
- Recommendations are due to the OCC by November 19, 2018
- Following a review of public comments to the ANPR, the three bank regulators are expected to coordinate on developing recommendations for changes to CRA regulations. Changes will be put forward (probably in 2019) in the form of a proposed rule which will also be subject to a public comment process.

Developing Recommendations for CRA Reform

- OFN is working with its members, as well as ally organizations, to shape recommendations in response to the OCC's ANPR.
- Opportunities to Participate in Developing OFN's Policy Positions
 - TODAY's Staying Connected call – Thursday, September 13
 - Staying Connected call - Wednesday, October 3
 - OFN Conference session – October 8-11
 - Circulate Draft Comments to OFN members – Late October

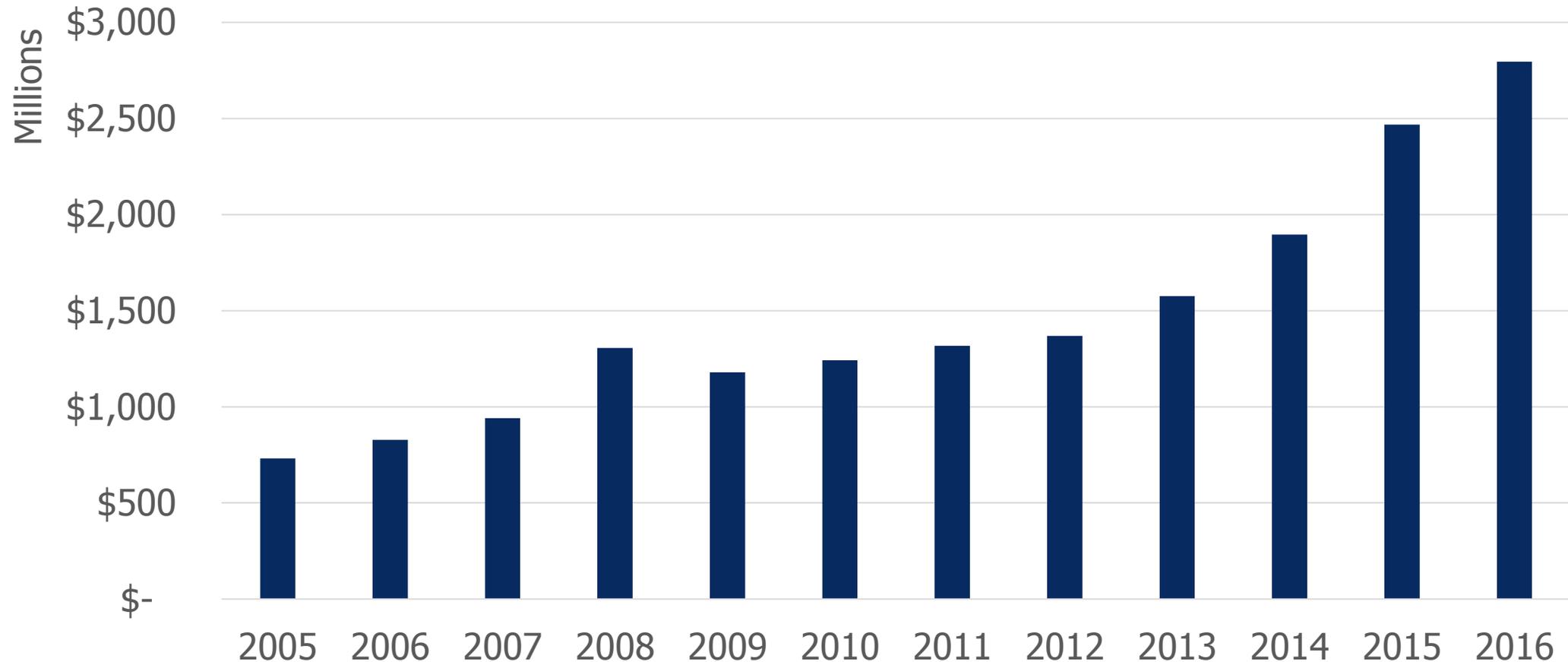
OCC's Advanced Notice of Proposed Rulemaking

- ❑ The OCC's ANPR poses 31 questions regarding changes to CRA regulations.
- ❑ Most questions are very broad thereby inviting ANY recommendation OFN or other respondents may choose to make. Responding expansively to the OCC's ANPR is an opportunity unlikely to be available in subsequent "requests for comments" about a proposed rule laying out a proposed course of action with some degree of specificity.
- ❑ At the same time, the OCC signals its interest in some new directions in CRA enforcement.

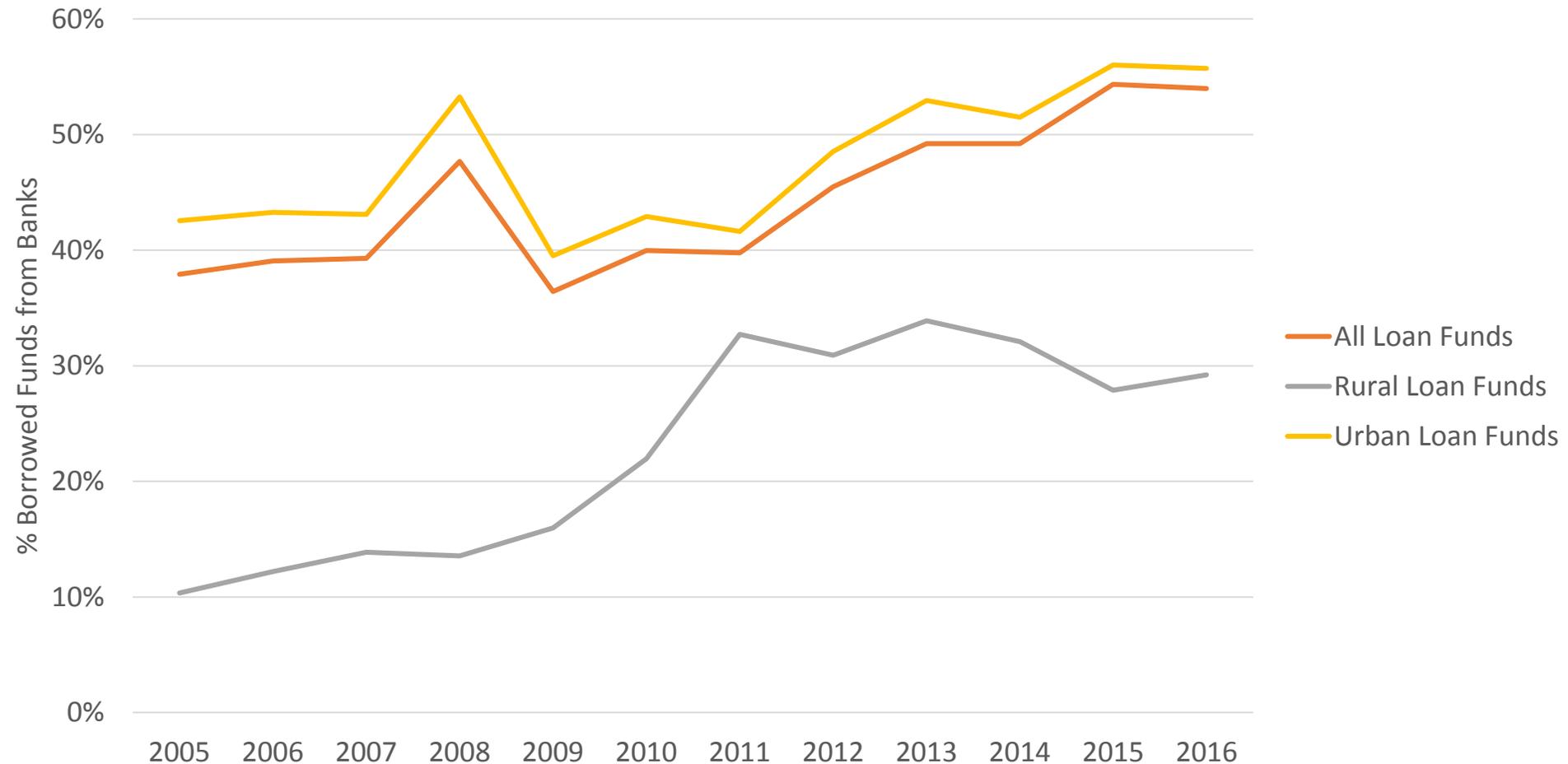
Why Potential CRA Rule Changes Matter to Low and Moderate-Income Communities and CDFIs Serving Those Markets

- The CRA has been an important policy tool in the community development landscape. It has had a significant impact on CDFI capitalization.
- Some proposed changes could have an impact on CDFI-bank relationships and the availability of credit to underserved communities.
- CDFI borrowing from banks has increased dramatically in recent years.

Dollar Amount of Borrowed Funds from Banks: OFN Member Loan Funds, 2005-2016



Percentage of Borrowed Funds from Banks: OFN Member Loan Funds, 2005-2016



Reforming CRA Regulations

- The ANPR seeks general feedback on the existing regulatory framework and poses questions on the following four issue areas:
 - Metric-Based Framework (One Ratio)
 - Redefining Assessment Areas
 - Expanding CRA-Qualifying Activities
 - Reporting and Recordkeeping

Metric-Based Framework: One Ratio

- With the goal of increasing transparency and simplicity, the OCC is floating a new approach to measuring CRA performance where a benchmark representing the dollar value of CRA-qualified activity would be compared to some measurement of a bank's size. This one ratio would determine a bank's CRA rating.
- OFN is concerned that under the one ratio approach, banks will avoid smaller, often more complicated deals in favor of larger transactions that will more easily allow them to "hit the number" they need to achieve a given ratio and CRA rating. Impactful, community-based activities – including those involving CDFIs – could be valued less than under the current system.

Metric-Based Framework: One Ratio

All CRA-Eligible Activities

Bank Size

“One Ratio” Metric: Questions for Discussion

- Initial reactions to the “one ratio” metric?
- What is the appropriate balance between improved clarity and continued responsiveness to specific community needs?
- Should the CDFI industry propose an alternative measurement?

Redefining Assessment Areas

- The ANPR asks whether and how assessment areas could be redefined to allow banks to receive consideration for CRA activity in communities beyond their assigned assessment areas. Under the current system, a bank's assessment area is largely determined by its branch and deposit taking footprint.
- Communities lying outside a bank's assessment areas or assessment areas where bank examiners conduct "limited" rather than "full scope" exams have difficulty attracting bank investment and services because activities in those areas do not gain the bank CRA credit.

Redefining Assessment Areas: Questions for Discussion

- How could assessment areas be redefined to ensure “CRA deserts”, or LMI communities without CRA investments, are being adequately served?
- Should investing in national or regional CDFIs that serve low and moderate-income communities outside of a bank’s defined assessment area qualify for CRA credit?

Expanding CRA-Qualifying Activities

- The ANPR seeks feedback on ways to achieve greater transparency and certainty regarding which community development activities receive CRA consideration.
- Regulators currently have broad latitude to define which activities qualify for CRA consideration.

Expanding CRA-Qualifying Activities: Questions for Discussion

- Should the range of activities that qualify for CRA credit be expanded? If so, how and why? What are some examples?
- How can the bank regulators provide greater clarity, in advance, on which activities are CRA-Qualifying?
- Are there categories of community development investments that must serve specified underserved populations or geographic areas in order to receive CRA consideration?
- Under what circumstances should small business loans receive CRA consideration?

Reporting and Recordkeeping

- The existing CRA reporting system makes it difficult for the public to analyze CRA performance data and assess how well banks are meeting the needs of communities. CRA reports on an individual bank's performance are very complex and rarely timely, limiting their usefulness.

Reporting and Recordkeeping: Questions for Discussion

- What reforms would improve the public's ability to track, monitor, and compare CRA performance and compliance?
- Are there CDFI-specific reporting and recordkeeping issues that should be highlighted?

Questions?

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