

FEDERAL CRA NOTICE OF PROPOSED RULEMAKING:

An Overview

June 2022

CRC

California
Reinvestment
Coalition



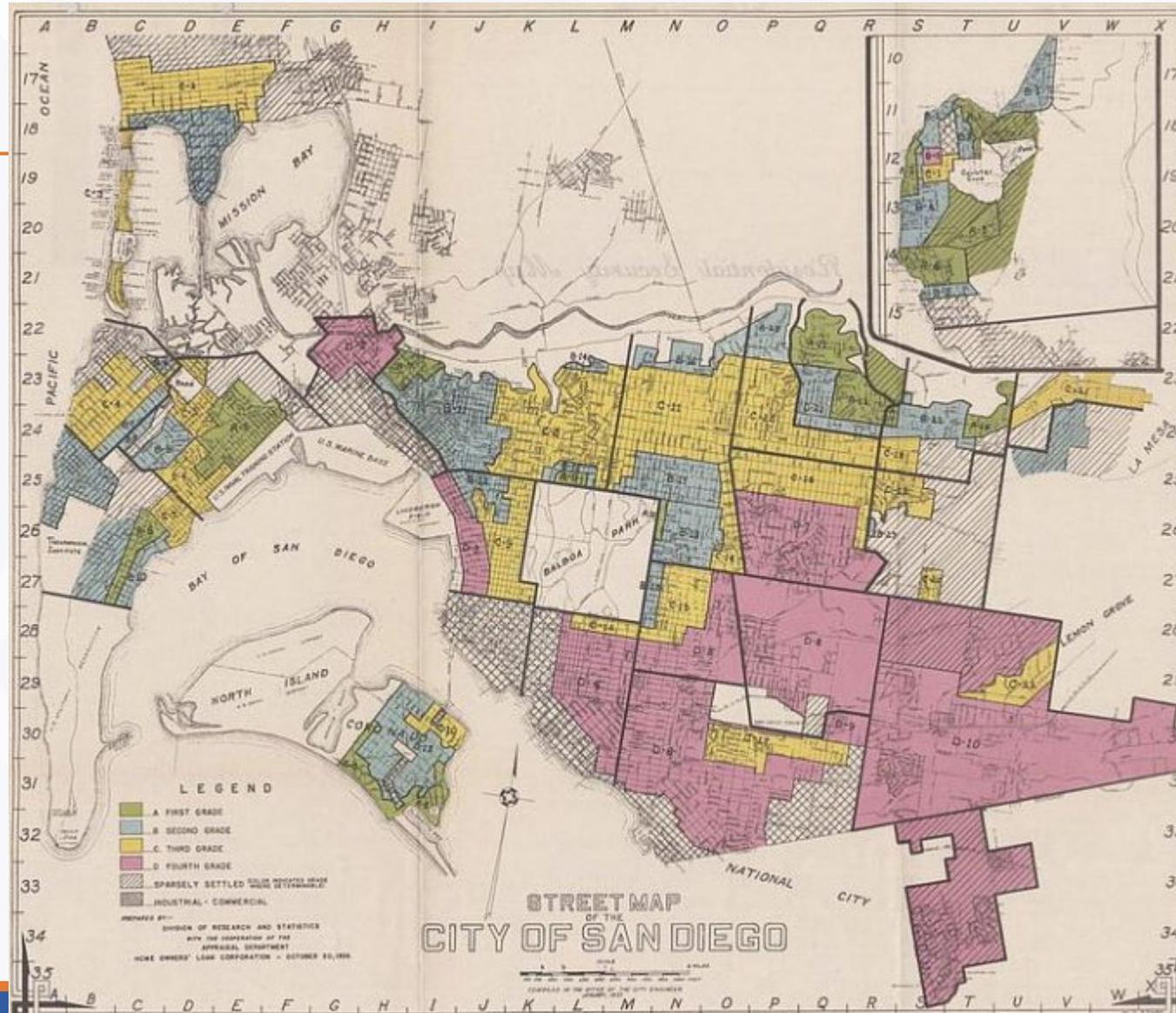
Democracy
isn't dying
in darkness,
it's being
murdered
in broad
daylight.

AGENDA:

- I. Welcome
- II. What is the CRA
- III. Context-setting – how did we get here
- IV. High-level framework overview
 - I. Agency goals
 - II. Proposed rule
- V. Next Steps & Questions



HOW DID WE GET HERE?

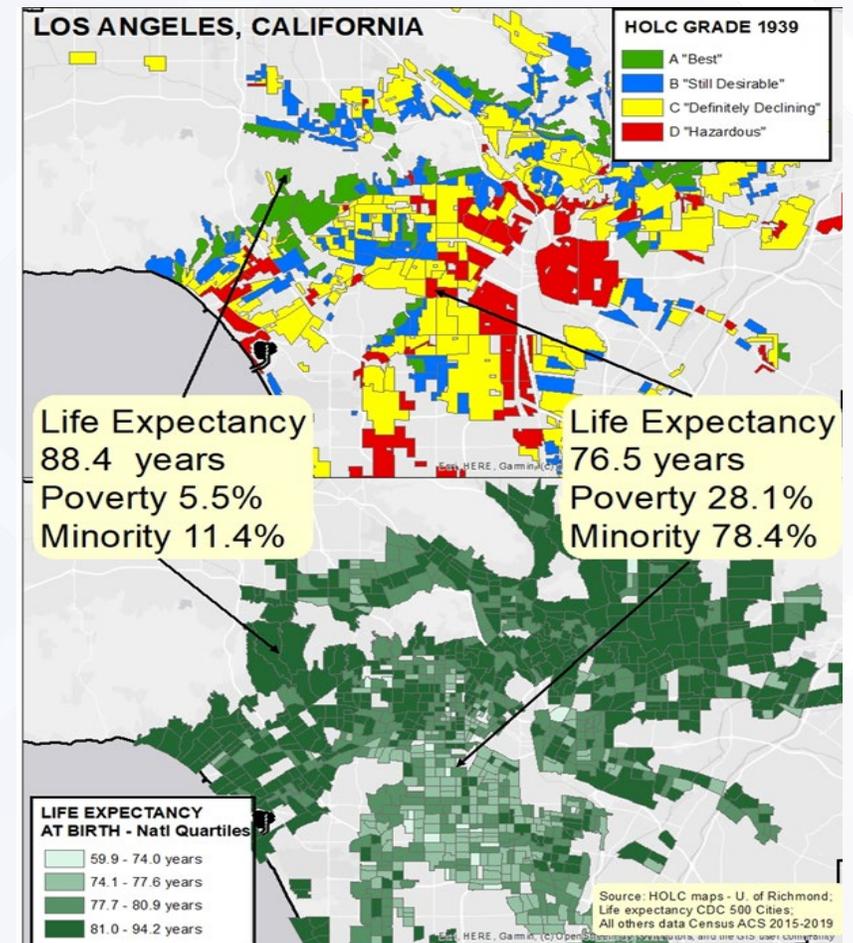


**“AT ITS CORE,
THE CRA IS A CIVIL RIGHTS BILL”**

- U.S. CONGRESSMAN GREGORY MEEKS

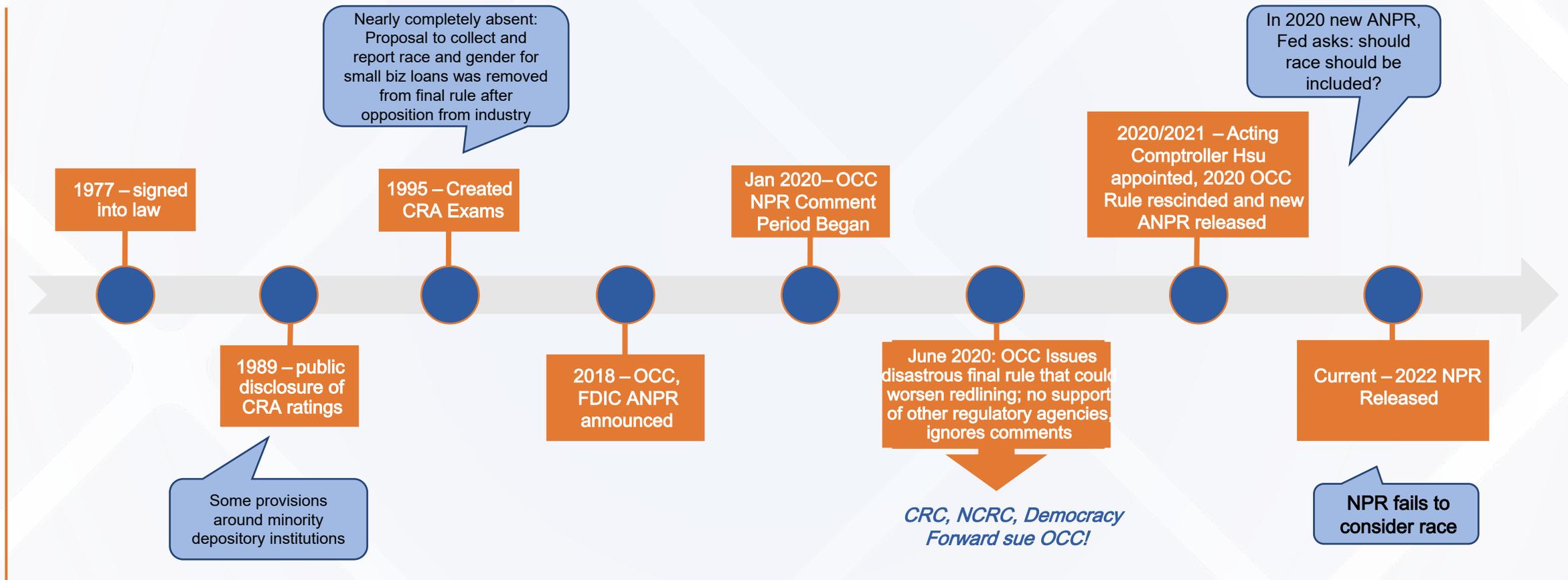
RACE AND CRA

- CRA was passed to respond to systemic discrimination and denial of credit for borrowers and communities of color
- The statutory language and CRA rules focus on income.
- But how can a race-neutral law resolve a racist history?
- Housing discrimination leads to poorer health outcomes, correlates with disinvested public services, and greater wealth inequality perpetuated intergenerationally



HOW DID WE GET HERE?

CRA History + how has race been included?



Democracy
isn't dying
in darkness,
it's being
murdered
in broad
daylight.

HOLD BANK
ACCOUNTABLE

STOP
• EVICTION
• HARASSMENT
NEIGHBORHOOD
DESTRUCTION

OVERVIEW OF WHAT'S IN THE PROPOSED RULE

Exyg

Agencies' stated goals with NPR

1. Strengthening achievement and purpose of statute
2. Adapt to changes in the banking industry, including mobile + online banking
3. Provide greater clarity and consistency in the application of the rules
4. Tailor performance standards to differences in size, model, and local conditions
5. Tailor data collection and reporting and use existing data where possible
6. Promote transparency and public engagement
7. Confirm that CRA and fair lending are mutually reinforcing
8. Create a consistent regulatory approach

NEW: FOUR TESTS FOR LARGE BANKS (OVER \$2 BILLION IN ASSETS)

Before...

1. Lending Test - 50%
2. Investment Test - 25%
3. Services Test - 25%

In this proposal...

1. Retail Lending Test - 45%
2. Community Development Financing Test - 30%
3. Retail Services and Products Test - 15%
4. Community Development Services Test - 10%

WHAT'S IN THE NEW RETAIL LENDING TEST AND BANK PERFORMANCE METRICS?

- New performance standards measure loan distribution to (LMI) census tracts and borrowers.
- Would assess a bank's overall retail lending relative to its deposits using a retail lending screen in facility-based assessment areas.
 - Have to exceed 30% of market or bank fails that test
- General focus on loan units, not dollars - good
- Evaluates lending to small biz < \$250K, \$1M in gross rev – **very good!**
- Looks at lending to low income and moderate income separately - good
- Looks at loans to owner occupants and investors together, **not good**

PRODUCT LINES

- Major product lines are those that constitute 15% or more of the dollar value of a bank's retail lending in a particular AA
 - Automobile loans for the first time now qualify for consideration
 - Closed end home mortgage loans
 - Open end home mortgage loans
 - Multifamily loans
 - Small business loans
 - Small farm loans

WHAT IS IN THE NEW CD FINANCING TEST:

- Eligible activities go from 4 to 11 categories
 - climate resilience, Native Land Areas, community infrastructure (broadband)
- Ratio of CD Dollars/deposits, compared with national, AA level benchmarks
- Must have a CD purpose – but is “express bona fide intent” enough?
- Many qualifying activities count regardless of location, AA (LMI?)
- No credit for displacement financing – a qualified win!
- Loans and investments originated AND on balance sheet count
- CD investments and loans evaluated together – **negative impact on LIHTC?**
- Impact review – are activities having an impact?

WHAT'S IN THE NEW RETAIL PRODUCTS AND SERVICES TEST?

1. Delivery systems prong - branches, digital and mobile

- Emphasis on branches – but no downgrade for closing branches
- Remote services evaluated
- Digital service - optional for banks btw \$2B and \$10B, required if over \$10B

2. Credit and deposit products prong

- Responsiveness of credit products to LMI – small dollar loan, SPCP, CDFIs?
 - i. # LMI customers using each product, how they use the product, rates of successful repayment, loan terms, underwriting, pricing, and safeguards that minimize adverse borrower outcomes.
- Deposit products response to LMI
 - i. No OD, Bank On accounts opened, closed, % of all accounts
 - ii. Only banks over \$10B have this component of the test

ASSESSMENT AREA CHANGES

- Facility-based assessment areas are still a cornerstone (branches)
- New Assessment Areas:
 - Retail Lending Assessment Area - account for internet, mobile banking
 - Threshold of MSA/metropolitan division wherein there is at least 100 mortgages or 250 small business loans
 - Agencies estimate 50% of bank loans currently not covered would be covered
 - What does this mean for rural areas?
 - Outside Retail Lending Areas evaluates retail lending at institution level using tailored benchmark for large and certain intermediate banks
 - CD Activity *anywhere nationwide* is considered in performance tests

DID WE GET WHAT WE ASKED FOR?

1. Takes race into account? **BIG NO**
2. End CRA grade inflation, ensure greater investment? **Probably**
3. Impose consequences for harm caused? **NO**
4. Consider both quantity and quality of reinvestment? **Probably**
5. Maintain separate focus on CD lending and investment? **BIG NO**
6. Expand scrutiny of financial services such as branches and bank accounts? **Somewhat, but for banks > \$10B in assets**
7. Increase community participation – **Not really**
8. Balance underserved areas and those w branches – **PROBABLY**
9. Beware pull away from LMI, local, and loopholes – **MAYBE**

MORE ON RACE

- Does not evaluate bank lending, investment by race - **Big miss**
- Written PEs will include HMDA charts by race, but wont impact ratings - **Little benefit**
- Large banks can fail in 39% of Assessment Areas and still pass – **not good**
- SPCPs mentioned, but **no clear impact on evaluation of race (“LMI”)**
- Assessment areas cannot exclude parts of counties, which is good, **but how much impact?**
- Discrimination will now include non credit discrimination, such as w bank account products – **This is a big advance, can result in lower CRA rating**

For more information or comments:
Jyotswaroop Bawa-- jbawa@calreinvest.org



California
Reinvestment
Coalition