

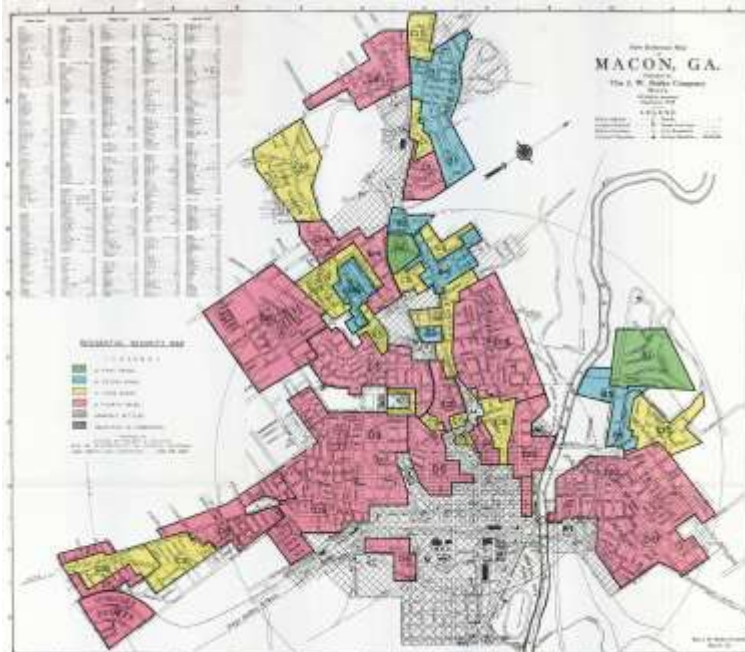
The Future of The Community Reinvestment Act: Where Do We Go From Here?

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Where Do We Start?

A History of Discrimination in Banking

- [Recent studies show](#) that as far back as the 1930s, low-income neighborhoods and communities of color were seen as “hazardous” for banking.



CITY	HAZARDOUS %
Macon, GA	64.99%
Birmingham, AL	63.91%
Wichita, KS	63.87%
Springfield, MO	60.19%
Augusta, GA	58.70%
Columbus, GA	57.98%
Newport News, VA	57.51%
Muskegon, MI	57.24%
Flint, MI	54.19%
Montgomery, AL	53.11%

What is the CRA?

Community Reinvestment Act

- Passed in 1977, the Community Reinvestment Act was part of a series of legislative attempts to end discrimination in housing including:
 - Fair Housing Act (1968)
 - Equal Credit Opportunity Act (1974)
 - Home Mortgage Disclosure Act (1975)
- Establishes a **“continuing and affirmative obligation”** for banks to meet **“the credit needs of its entire community . . . consistent with the safe and sound operation of the institution.”**
- Creates a framework for the community to engage with the bank.

Summary of CRA Exams

- All banks are graded every 3-4 years on
 - Lending Test - How well they are lending to LMI borrowers and neighborhoods
 - Investment Test - The level of support they are giving to needed community development projects
 - Service Test - Maintaining branches in LMI neighborhoods and offering CRA services
- And you can comment on how well a bank is doing on each of these aspects of their CRA performance

Assessment Areas

- CRA performance is measured in a bank's assessment area, which include bank branches and deposit-taking ATMs.
- Studies have found that a bank's lending in their assessment areas is less likely to result in foreclosure than lending done outside of assessment areas, which is currently not regulated by the CRA.
- When examiners evaluate a bank's community performance, they review the bank's public comment file, and also interview local community organizations and leaders to understand the bank's full profile.

Community Needs Matter

- CRA reform must first and foremost have the convenience and needs of the community as its central guiding principle.
- CRA reform should not be considered as burdensome to banks.
- In the last 24 years, since 1995, about 98% of banks have passed their CRA exams.
- There is a need to strengthen CRA, not weaken it.
- Easy grading = Less lending!

Proposed Rule Changes to CRA

- The Office of the Comptroller of the Currency (OCC) has released an Advanced Notice of Proposed Rulemaking (ANPR), which is the beginning of a rulemaking process for changing the CRA
- The ANPR asks a series of questions about how to change how the CRA is implemented, as well as offering a few examples of changes
- This is an opportunity for the CRA to be either strengthened, or weakened

ANPR Issues

One Ratio



- OCC has suggested using one ratio, or formula, to determine a bank's CRA performance, that would work like this:

$$\frac{\begin{aligned} &\text{Bank's Lending to LMI Borrowers and Neighborhoods} \\ &+ \text{Community Development Loans and Investments} \\ &+ \text{Philanthropy} \\ &+ \text{Possible New Activities} \end{aligned}}{\text{Bank's Assets}}$$

ANPR Issues

One Ratio

- Moving to this approach would allow banks to simply buy themselves into passing CRA performance, and allow them to ignore local needs.
- One simple ratio could not adequately take into account varying needs of communities across the country.
- Also could make the public comment process drastically less effective.
- NCRC does not oppose the use of metrics, but believes that a single metric should not be used to evaluate a bank's entire CRA performance.

ANPR Issues

Expanding What Counts

- Based on previous statements made by bank association groups, we expect the banks to push hard for reducing the need for community development to be focused on helping LMI people and communities
- Expect to see requests for financing infrastructure and hospitals to be included

ANPR Issues

Expanding What Counts

- ANPR suggests reworking how banks get credit for small business lending
- Suggested that banks should get credit for all loans to businesses that meet the SBA small business standards, which vary widely by industry
- For example, if adopted, banks would now get CRA credit for loans to used car dealerships making \$25 million a year
- SBA standards make sense for government contracting, not financing

ANPR Issues

Expanding What Counts

- ANPR suggests monetizing CRA service hours, so what used to count as a single hour would now be multiplied by an “average labor rate”
- Say a bank did a 100 hours of CRA service, and the average labor rate of the bank staff was determined to be \$20 an hour
- The bank has turned 100 into 2,000 – while offering no additional services

ANPR Issues

Credit Outside of Assessment Areas

- For years, NCRC and others have been saying that the CRA needs to account for a bank's lending outside of their assessment areas
- ANPR proposes summing up all of these activities "in aggregate"
- This is not how this should be carried out, we want additional assessment areas
- This way the local needs of those areas can be taken into account, and we don't create a situation where banks can only receive positive consideration

ANPR Issues

Branches Still Matter

- ANPR openly asks if branches in LMI areas should be reviewed on a CRA evaluation
- De-emphasizing bank branches would mean less services for already underserved neighborhoods
- Studies show the harm that branch loss has on home and small business lending
- Bank branches are more essential for LMI communities

ANPR Issues

Data Reporting

- ANPR asks about what data should be reported
- NCRC believes that the public needs to be able to access information on a bank's community development loan and investment activity in their communities on an annual basis
- Mortgage and small business lending is already reported this way

ANPR Issues

What's Missing?

- ANPR does not address several crucial issues for strengthening the CRA
 - Race – time that CRA exams include an analysis of a bank's lending to different racial groups, as the law was intended
 - Community Benefits Agreements – regulators should recognize community benefits agreements that financial institutions enter into with community groups
 - Affiliates – stop the practice of letting banks choose if affiliates are evaluated on CRA exams

Where Are We In The Rulemaking Process?

- On Tuesday, August 28 at 2:00pm EST, the OCC issued a Press Release announcing it would begin the ANPR process for modernizing CRA
- We had a 75 day comment period – deadline is **Monday, November 19, 2018**
- We need to generate hundreds of comments NOW!
- OCC will review comments, tentatively make adjustments, then issue an official NPR

ESTIMATED LOSS OF LENDING

due to the weakening of CRA
in low- and moderate-income tracts
across the country over five years

TOTAL LOSS OVER FIVE YEARS

\$52 Billion
to
\$105 Billion



HOME MORTGAGE LENDING LOSS

\$44 Billion
to
\$89 Billion



SMALL BUSINESS LENDING LOSS

\$8 Billion
to
\$16 Billion



State & Local Impact in Dollars (000s)

State or Congress Member	Small Business 10% Loss	Small Business 20% Loss	Mortgage Lending 10% Loss	Mortgage Lending 20% Loss	All Lending 10% Loss	All Lending 20% Loss
Florida	\$496,485	\$992,971	\$1,977,293	\$3,954,585	\$2,473,689	\$4,947,378
Val Demings (D-Orlando)	\$15,207	\$30,413	\$70,382	\$140,764	\$85,589	\$171,177
Darren Soto (D-Orlando)	\$18,536	\$37,071	\$140,145	\$280,290	\$158,681	\$317,362

What Can You Do?

- Need to generate as many comments as possible that reject the unhelpful proposals in the ANPR, head off the comments of the industry, and advance an agenda for strengthening the CRA
- [NCRC has developed our #TreasureCRA page for our that has additional detail on the ANPR, resources to help you comment, as well as for encouraging others to do so](#)
- Page also includes a form for you to provide your email so you can receive updates
- [JOIN NCRC!](#)