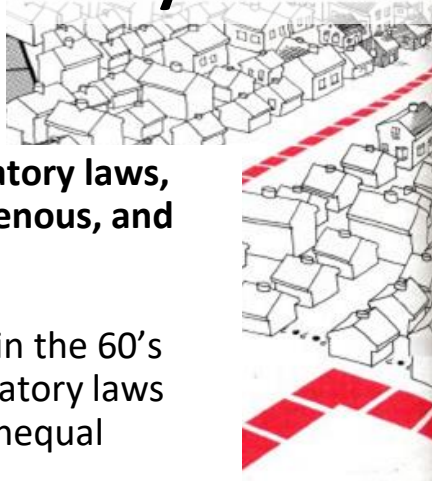




Webinar for New York Housing Conference
Federal Reserve Board's Proposal for
CRA Modernization
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Jaime Weisberg, Association for Neighborhood and Housing
Development (ANHD)
Mark Willis, NYU Furman Center

History of the Community Reinvestment Act (CRA)



The U.S.'s long history of racism and discriminatory laws, policies, and practices has harmed Black, Indigenous, and People and Communities of Color

The CRA was one of the civil rights laws passed in the 60's and 70's in response to some of these discriminatory laws and practices, such as redlining, separate and unequal housing, Jim Crow segregation and more:

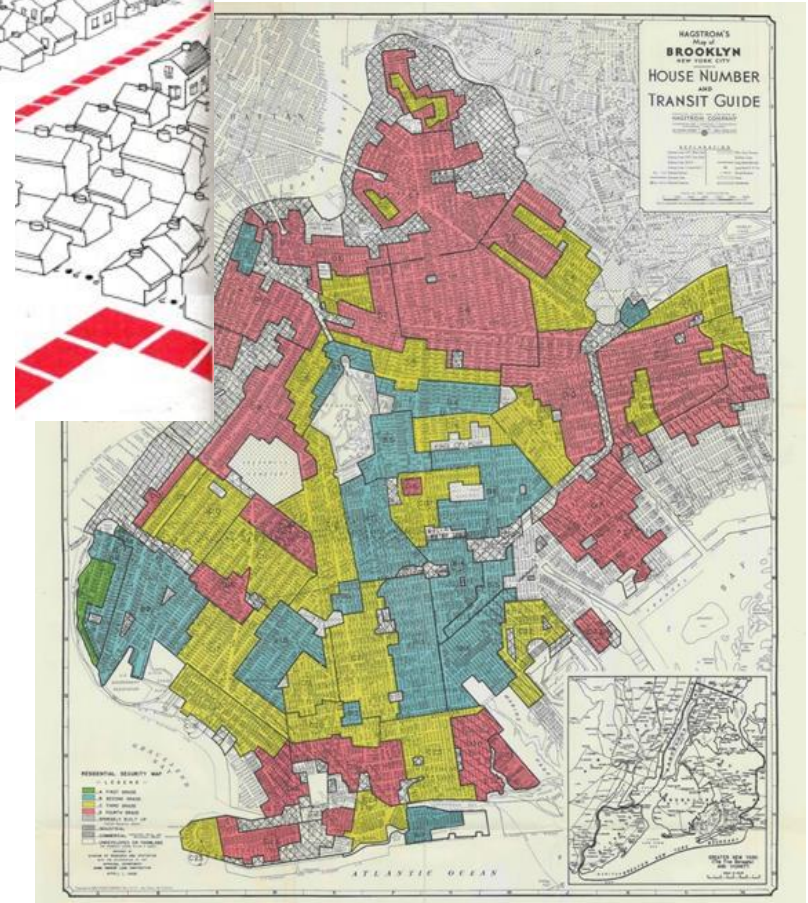
Civil Rights Act of 1964

Fair Housing Act of 1968

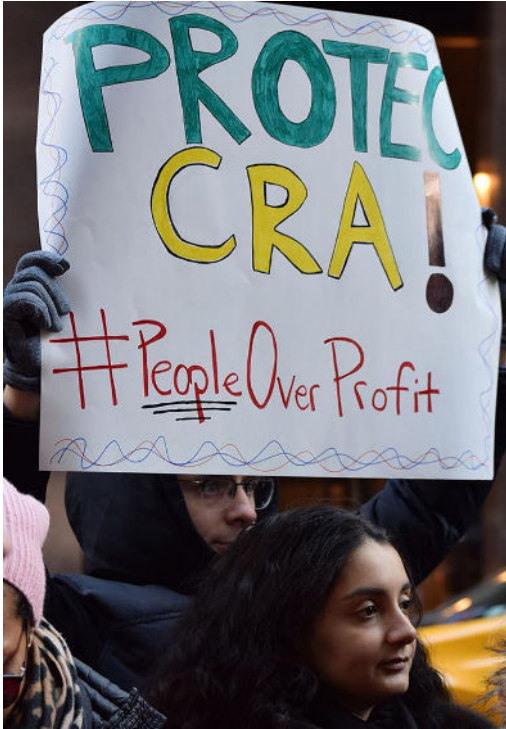
Equal Credit Opportunity Act of 1974

Home Mortgage Disclosure Act of 1975 (HMDA)

Community Reinvestment act of 1977 (CRA)



What is the Community Reinvestment Act?



The CRA is a federal law stating that banks have an obligation to help meet the credit needs of the local communities in which they are chartered.

The focus has historically been on low- and moderate-income (LMI) people and communities, small businesses and small farms

The CRA Exam is the mechanism to evaluate a bank's compliance with the law

- ***Banks are evaluated within geographic areas called "Assessment Areas," at the state level, and overall.***

Assessment Areas (AA's) are determined by where banks have branches and deposit-taking ATMs

- ***Ratings for the bank***
 - *Pass: Outstanding, High or Low Satisfactory (only Satisfactory in final rating)*
 - *Fail: Needs To Improve or Substantial Noncompliance*
- **Can downgrade the final rating if evidence of illegal or discriminatory credit practices are found.**

**Roughly 96% - 98% of banks pass their
CRA Exams each year**

Large banks (over \$1.3B assets) have a 3-prong CRA test: Lending, Investments, and Services tests

Lending Test (50%)

- **Distribution of 1-4 Family Lending, small business, small farms, and some multifamily**
- **Volume and analysis of Community development lending:** Affordable Housing, Economic Development (jobs/small businesses), Community Service, Revitalization/Stabilization

Community Development Investment Test (25%):

Service Test (25%):
Branches, banking products, and service hours

Gives credit for **innovative/ responsive / flexible** lending practices and products in each category

Federal Reserve Board's Proposal Overview



Stated objectives for reform

- More effectively meet the needs of LMI communities and address inequities in credit access.
- Increase the clarity, consistency, and transparency; minimize burden
- Tailor CRA supervision of financial institutions (banks) to reflect:
 - Differences in bank sizes and business models;
 - Differences in local markets, needs, and opportunities, including with respect to small banks serving rural markets; and
 - Expectations across business cycles.
- Reflect increased use of mobile and internet delivery channels.
- Promote community engagement.
- Strengthen the special treatment of minority depository institutions (MDIs).
- Recognize that CRA and fair lending responsibilities are mutually reinforcing.

Federal Reserve Board's Proposal Overview

- Not a one-ratio structure. Incorporates more metrics, includes “presumption of satisfactory”
- Retains **focus on LMI** and states **“CRA and Fair lending are mutually reinforcing”**
Questions about Race & CRA - ways to better serve **people and communities of color**.
(also asks about other laws to incorporate, in addition to Fair Housing laws and the Equal Credit Opportunities Act. Americans with Disabilities Act is one suggestion).
- **(1) Retail Test: Lending** (1-4 family, small business/farm, and consumer) and **Services** (branches/banking), and **(2) Community Development Lending, investments, and services** tests: presumption of satisfactory based on metrics; qualitative analysis for final rating.
- **Maintains branch-based and ATM Assessment Areas (AAs) and proposes ways to expand beyond that.** – explores lending-based AA's; and “underserved areas”, mainly underbanked and areas with less lending. Maintains AA ratings, state, and national ratings
- **Ratings:** More formulaic, and eliminates low/high satisfactory ratings for lending/CD finance/service tests

Areas for Discussion

Importance of Consistent CRA policies across all three bank agencies

Does it raise the bar for CRA? Does it further racial equity and improve access and services for LMI people and communities

Role of community input, and opportunities to provide input

Both branches and online banking

Ratings:

Qualitative vs. Quantitative

Transparency vs. certainty/predictability

Danger of race to the bottom if quantitative standards are too low

What gets credit for responsiveness, innovativeness, complexity

Downgrades for harm and displacement

Use of metric and benchmarks

Metrics for evaluating retail loans: what is measured together / separately

CD lending and investment combined - pros/cons

Retail and CD services

Consumer loans—when/how to evaluate