CRA and Community Development Lending

Contact: Mike Townsend, ABA Public Relations (202) 663-5471 or mtownsend@aba.com

Banks play a vital role in community development.

- Banks care a great deal about their communities and would be involved whether or not the Community Reinvestment Act (CRA) was a law. Modernizing CRA will enable banks to be even more effective in their communities.
- Historically, banks were the first businesses in a new town and provided the necessary capital for building homes, businesses and schools.
- Today, banks still provide capital for many community programs and development.
- Community development is more than a loan. It often requires technical assistance, collaborative relationships with community groups and government agencies, flexible credit policies and long-term commitments.
- Thousands of commercial banks work with community and non-profit groups on projects throughout the country.
- Other assistance that banks provide for community development includes low-interest loans for revitalization projects and often, outright donations.
- Many banks also offer financial education programs for children and adults, as well as scholarships to improve educational opportunities.

CRA ratings show that the vast majority of banks meet or exceed requirements for community reinvestment.

- Regulators rate the great majority of depository institutions as having either “Outstanding” or “Satisfactory” CRA performance.
- Overall, about 47% of the number of reported small business loan originations (about 34% measured by dollar amount of loans) and 58% of the number of reported small farm loan originations (about 69% measured by dollar amount of loans) were extended to businesses or farms with revenues of $1 million or less.[1]

It’s time to modernize CRA for the better.

- The current framework is holding back investment in communities the law is intended to serve, while failing to account for significant innovations in the banking sector, including the opportunities presented by mobile technologies.
- Regulations should take into account all the changes that have taken place in banking.
- More than 40 years ago, Congress passed the CRA with the goal of encouraging banks to help meet the credit needs of the communities in which they operate, including low and moderate income neighborhoods, without compromising safety and soundness.
- Unfortunately, the rules surrounding CRA simply have not kept up with the times. It’s been more than 20 years since the rules have been updated in a meaningful way.

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- The good news is that regulators, led by the OCC and FDIC, have are working toward bringing this law into the modern era by updating the rules implementing it. This effort has the potential to significantly benefit communities across the country by removing red tape that inhibits investment in neighborhoods and communities that need it most.

- All stakeholders – banks and community groups alike – want changes that will allow every American community to succeed.

We welcome the December 2019 joint proposal from the OCC and FDIC to modernize Community Reinvestment Act regulations.

- We believe that updating these rules to reflect the reality of financial services today can enhance banks' ability to invest in their communities and achieve the laudable goals of CRA.

- We thank Comptroller Otting, Chairman McWilliams and their staffs for their commitment to updating this critically important regulatory framework and their willingness to seek input from all stakeholders, including America's banks.

- We continue to believe that the nation would be best served by a final interagency rule that also includes the Federal Reserve, which would provide a consistent regulatory framework for all banks.

- We remain hopeful that any final rule reflects a shared consensus that CRA rules can be modernized in thoughtful ways that promote bank investment and economic growth in the areas that need it most.

Background:

Passed in 1977, the CRA applies to all banks and savings associations, regardless of size. The law directs them to lend to their entire market area and to help meet the needs of low- and moderate-income neighborhoods consistent with safe and sound banking practices. (Notably, credit unions are not required to meet any community reinvestment requirements.) Federal regulatory agencies are responsible for assessing every bank's performance in meeting the needs of its community. The act carries no civil or criminal penalties, but banks that don't live up to CRA standards risk being denied applications for federal charters, mergers, acquisitions, etc.

As part of ABA's long-term engagement with the Treasury Department and financial regulators on the CRA, the association sent a white paper to Treasury in December 2017 with several recommendations for modernizing the regulatory approach to CRA. Treasury released a memorandum highlighting its CRA modernization recommendations in April 2018.

In August 2018, the OCC issued a long-anticipated advance notice of proposed rulemaking seeking input on the best ways to modernize CRA regulations.

In November 2018, ABA submitted its comment letter to the OCC providing detailed feedback on how best to modernize CRA regulations. ABA's comment letter incorporated feedback from banks nationwide representing a range of business models, asset sizes and geographic locations.

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As regulators undertake the process of updating the CRA regulations, they must consider the advances in technology and innovation that have taken place in the three decades since the statute became law, ABA said. This includes an acknowledgement that technology has enabled banks to expand their business beyond a limited geographic location.

ABA also emphasized the need for greater clarity, transparency and predictability around the CRA examination, including the types of activities that count toward CRA credit and how CRA ratings are derived. ABA called for regulators to recognize that community development needs and opportunities in small towns and rural areas can be vastly different from those in urban centers.

In addition, ABA urged regulators to address market distortions in areas where the market is over-saturated and there are fewer opportunities to obtain community development credit; improve the supervisory process; and consider applying CRA-like requirements to credit unions and other financial firms.

In December 2019, OCC and FDIC jointly released a proposed rulemaking to update CRA regulations. The Federal Reserve did not join the proposal, but could possibly join the final rule.

Sources:

[1]*Findings from Analysis of Nationwide Summary Statistics for 2017 Community Reinvestment Act Data Fact Sheet,* FFIEC (Oct. 2018). Retrieved from: https://www.ffiec.gov/hmcrpr/cra_fs19.htm