MAY 10
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US regulators' overhaul of Community Reinvestment Act stops short of fintechs

Article

The news: **The Federal Reserve, Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corp (FDIC)** have collaborated on **a proposed update of the**

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Community Reinvestment Act (CRA).

The banking regulators will accept comments on their proposal until August 5, 2022.

What is the CRA? The CRA requires the Fed and other agencies **to encourage banks to help meet the credit needs of their local communities, including low- and moderate-income (LMI) neighborhoods.**

Enacted in 1977, along with other complementary federal civil rights laws, **the CRA sought to address redlining** and other systemic inequities in access to credit, investment, and banking services faced by LMI and minority communities.

The Fed oversees CRA compliance among state-chartered banks within the Federal Reserve System by:

- Examining state member banks to evaluate and rate their performance under the CRA.
- Considering banks' CRA performance in context with other supervisory information when analyzing applications for mergers, acquisitions, and branch openings.
- Sharing information about community development techniques with bankers and the public.

What prompted this overhaul? Financial inclusion remains a work in progress. And the CRA, which was last updated in 1995, fails to reflect how technology has substantially changed the way banks do business. Banks' branch footprints are still central to the metrics of CRA tests.

- But according to the FDIC, between 2010 and 2019, the number of full-service bank branches fell from almost 95,000 to just over 83,000.
- Only 30% of US digital banking users cited having a nearby branch as a consideration when choosing a new bank, while mobile and online banking were cited by 48% and 36%, respectively, according to our 2021 US Mobile Banking Emerging Features Benchmark survey.

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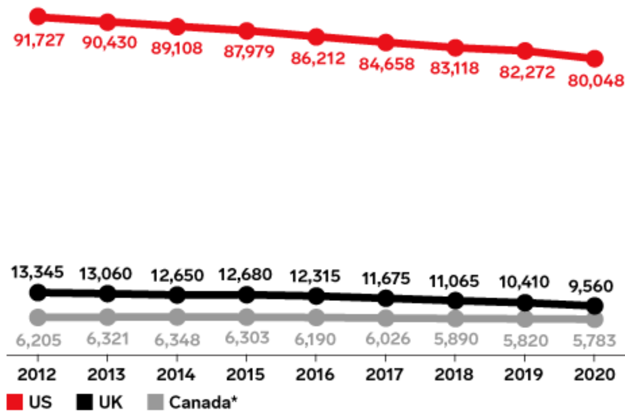
Total Bank Branches in the US, the UK, and Canada*, 2012-2020



*Note: *Canada branch data is based on figures as of Oct 2020 from BMO Financial Group, CBIC, Canadian Western Bank, HSBC Bank Canada, Laurentian Bank of Canada, National Bank of Canada, Royal Bank of Canada, Scotiabank, and TD Financial Group*
Source: Federal Deposit Insurance Corporation, Dec 2020; Canadian Bankers Association, Dec 2021; UK Parliament House of Commons Library, Oct 2021; National Credit Union Administration, March 2022

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A look at the CRA proposal: Banks would be subject to up to four tests: 1) retail lending; 2) retail services and products; 3) community development financing; and 4) community development services.

CRA reviews would acknowledge the differences in bank sizes—which the proposal updates—and business models, and be tailored accordingly:

- **Small banks:** Less than $600 million in assets.
- **Intermediate banks:** Between $600 million and $2 billion in assets.
- **Large banks:** More than $2 billion in assets.

Large banks would face tougher examinations. The new metrics would be mandatory for large banks. Small and intermediate banks could choose to be measured by existing metrics, or a combination of new and old tests.

Michelle Bowman, one of the Fed's governors, expressed concerns that banks with assets above $10 billion might find it onerous to gather and report extensive new information on assets, loans, channel usage, community development loans and services, and detailed information about branches.

New assessment criteria apply to some banks. Agencies would still use "facility-based assessment areas," based on branch locations, to measure how banks are meeting CRA

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specifications.

- But the proposed changes add new assessment areas based on where some banks lend, instead of where they have physical branches, regulators said.
- Large banks must also consider areas with concentrations of mortgage and small-business lending.

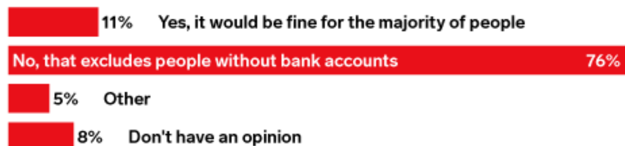
Banks would have more clarity on how their activities would be credited. Agencies would create a list of community development activities that qualify for CRA consideration, letting banks know in advance whether engaging in those activities would be worthwhile.

- Credited activities would include investments in childcare, education, workforce development, job training, health services, financial literacy efforts and revised parameters for affordable housing.
- Smaller-value loans and investments that would have a “high impact” on poor neighborhoods would be emphasized, rather than just a few large-scale projects.
- Large banks could consider community development activities nationwide as a separate metric.

The big takeaway: Expanding the CRA from a local service focus to a national one, when appropriate, is an effective step toward its modernization.

But to truly promote community reinvestment, the proposal also needs to address nonbanks that originate government-backed home loans—as Illinois, Massachusetts, and New York are already doing. Nonbanks now own roughly two-thirds market share, and have become the primary source of mortgage originations and a growing source of mortgage servicing.

Do US Adults Think a Cashless Society Would Be Fair?
% of respondents, Aug 2021



Note: n=2,061 ages 18+
Source: CivicScience as cited in company blog, Aug 17, 2021
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