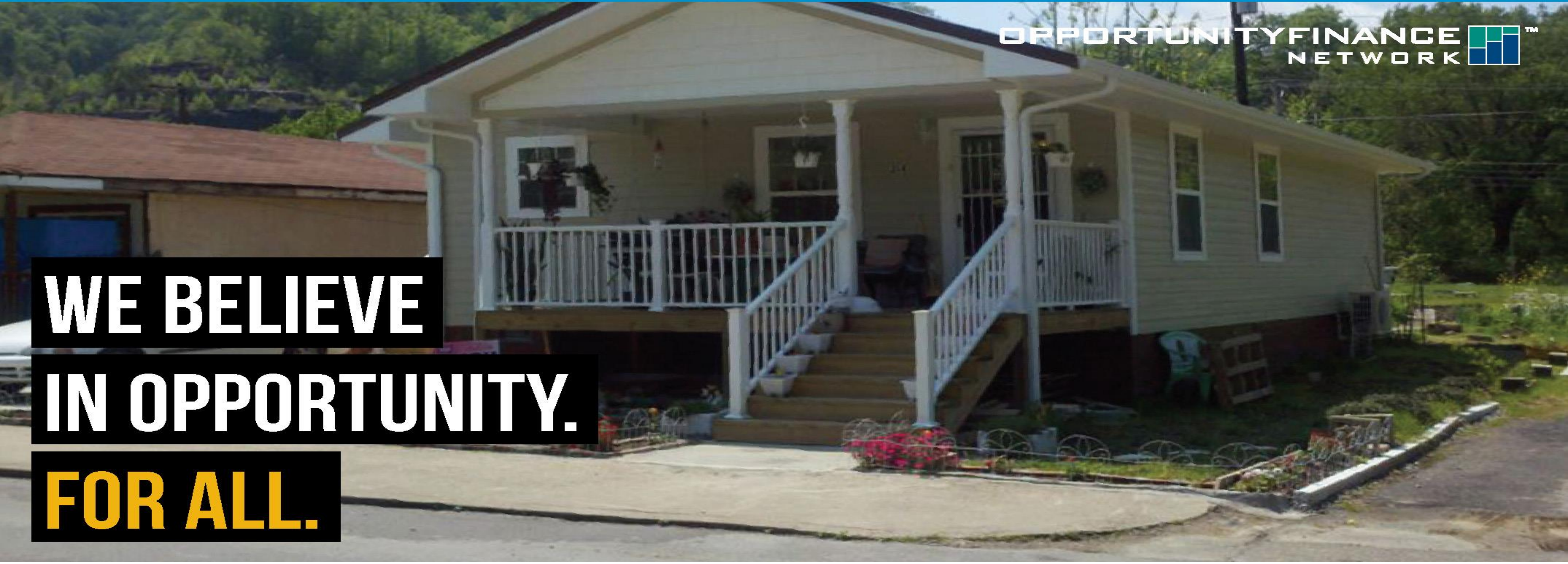
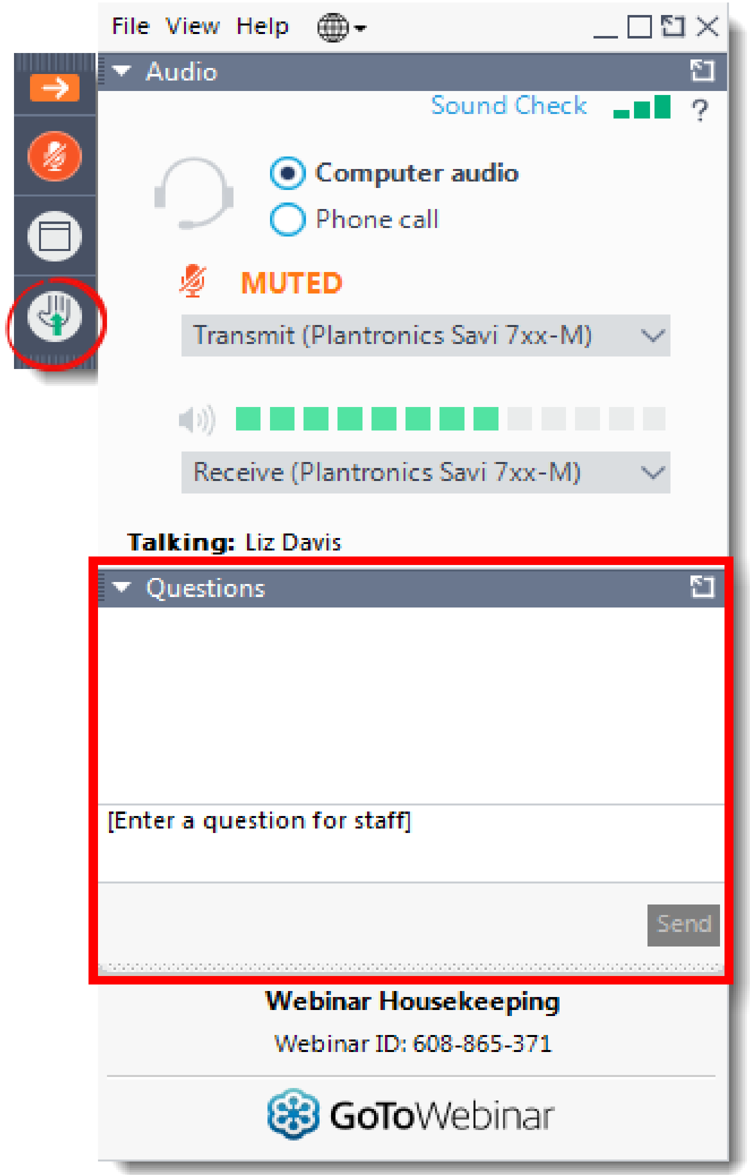


CDFI Industry Recommendations for Community Reinvestment Act (CRA) Reform

January 23, 2020

Housekeeping

- The webinar is being recorded. The audio recording and slides will be available at ofn.org/webinars.
- Questions can be typed into the chat box at any time.
- You can also raise your hand to have your line unmuted.



Overview: The Community Reinvestment Act

- The Community Reinvestment Act (CRA) became law in 1977 to combat discriminatory lending practices by banks.
- CRA requires banks to meet the credit needs of the communities they serve, including low- and moderate-income (LMI) neighborhoods, consistent with the banks’ safe and sound operations.
- The Office of the Comptroller of Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve of Governors currently enforce the CRA through a joint regulatory framework.

CRA Regulatory Reform Process

- The OCC launched the reform process in summer 2018, issuing an Advanced Notice of Proposed Rulemaking (ANPR) on changes to the regulatory framework for enforcing the CRA.
- OFN consulted extensively with our membership, ally organizations and other stakeholders to review the proposal and develop policy positions on the ANPR.
- OFN's November 2018 comment letter opposed the "one-ratio" approach in the ANPR, made specific recommendations related to CDFIs, and commented on other critical aspects such as assessment areas and CRA-qualifying activities.

CRA Regulatory Reform Process

- In a Notice of Proposed Rulemaking (NPR) released on December 12, the OCC and FDIC took the next step in a major overhaul of CRA for the first time in 25 years.
- It is extremely noteworthy that the Federal Reserve has not joined the other two regulators in issuing this rulemaking. Federal Reserve Board Governor Lael Brainard provided an alternative approach during a speech at the Urban Institute on January 8.
- The NPR was published in the Federal Register on January 9, 2020 with a 60 day comment period. Recommendations are due to the OCC and FDIC by March 9, 2020.
- OFN submitted a letter requesting an extension of the comment period to 120 days.

CRA Regulatory Reform Process

- Congress has also taken an interest in CRA regulatory reform:
  - Joint letter to regulators led by Rep. Meeks (D-NY) and Sen. Brown (D-OH)
  - On January 14, the House Financial Services Subcommittee on Financial Institutions and Consumer Credit held a hearing entitled "The Community Reinvestment Act: Reviewing Who Wins and Who Loses with Comptroller Otting's Proposal".
  - On January 29, the full Financial Services Committee will hold a hearing entitled "The Community Reinvestment Act: Is the OCC (Office of the Comptroller of the Currency) Undermining the Law's Purpose and Intent."
    - 2128 Rayburn House Office Building @ 10AM EST.
    - Watch the livestream

Developing Recommendations for CRA Reform

- The regulatory comment process provides an opportunity to develop nuanced policy positions on the proposal.

- Opportunities to Participate in Developing OFN's Policy Positions

  - First Staying Connected call – Thursday, January 7 2:00-3:30PM EST
  - TODAY's Staying Connected call – Thursday, January 23 2:00-3:00PM EST
  - Circulate Draft Comments to OFN members – Early February

Reforming CRA Regulations: Today's Discussion

- On today's webinar, we are seeking your comments on key provisions in the NPR:
  - Performance Standards – **How** to measure CRA activity
  - Redefining Assessment Areas – **Where** it counts
  - Expanding CRA-Qualifying Activities – **What** counts
  - CDFI multiplier

Proposed Metric for Determining a Bank's CRA Rating

$$\frac{\text{Dollar Volume of CRA Eligible Activities}}{\text{Dollar Volume of a Bank's Retail Deposits}}$$

$\frac{6}{100}$ = Satisfactory

$\frac{11}{100}$ = Outstanding

Measuring Community Development

- The proposal includes a Community Development (CD) minimum that requires the total amount of CD loans and CD investments divided by retail domestic deposits to be not less than 2 percent.

- Banks must meet or exceed that 2 percent threshold in over 50% of their assessment areas and at the overall bank level to receive an “Outstanding” or “Satisfactory” rating.

- The separate community development test that certain banks must meet under current regulations is eliminated.

Performance Measurement: Discussion Questions

- Are there any refinements in the current proposal that should prompt OFN to reconsider its opposition to the dollar volume ratio design?

- Community development lending is measured very differently in the OCC-FDIC proposal. Are there concerns or recommendations the CDFI industry should make regarding the community development test?

- Should banks be required to meet the community development standards in more than 51% percent of their assessment areas? If so, what should that threshold be?

Redefining Assessment Areas

- Under the current system, a bank's Assessment Area (AA) is largely determined by its deposit-taking, branch or HQs location.

- The proposal would create "facility-based" Assessment Areas and a new category of "deposit-based" Assessment Areas.
  - Facility-based AAs – Banks still required to have AAs around their main office, branches, or non-branch deposit-taking facilities as well as the surrounding areas where banks have originated or purchased a substantial portion of their loans
  - Deposit-based AAs - Banks that receive 50 percent or more of retail domestic deposits outside of facility-based AAs would be required to delineate deposit-based AAs where they receive five percent or more of their retail domestic deposits.

Redefining Assessment Areas

- Banks need to meet the performance measures (6% for a Satisfactory and 11% for an Outstanding, with Community Development activity accounting for 2%) for a majority of their assessment areas. In other words, banks could fail in 49% of their AAs and still receive a Satisfactory or Outstanding rating.

- Banks can get credit for CRA activities outside of their AAs at the bank-level CRA performance evaluation.

  - Example: Lending in Indian Country

Redefining Assessment Areas: Discussion Questions

- Establishing deposit-based assessment areas is new. How will this impact CDFIs and the provision of credit to LMI people and places?
- Should banks be required to meet the performance standards in more than 51% percent of their assessment areas? If so, what should that threshold be?
- Are there other ways that CRA reform can address “credit deserts” and “credit hotspots”?
- Should banks still be required to meet the needs of their assessment areas before getting credit outside of their assessment area?

Qualifying Activities: What Counts

- The proposed rule greatly expands the activities that are eligible for CRA credit, especially community development activities.

- New framework would create a non-exhaustive list of qualifying activities to provide greater certainty regarding which community development activities receive CRA credit.

- Proposal outlines process for updating the list and periodic public input on qualified activities.

Retail Lending Qualifying Activities: Discussion Questions

- Should consumer loans (car loans, student loans, and credit card loans) be included as part of the retail lending test?

- If so, should regulators assess the quality of the loan, i.e. provide less credit for high-cost subprime car or credit card loans?

- Should mortgage loans to higher income borrowers in LMI census tracts receive CRA credit?

- Should the threshold for small business loans and small farm loans be increased from $1 million to $2 million for both the size of the loan and the size of business/farm?

Community Development Qualifying Activities: Discussion Questions

- Should banks get CRA credit for financial literacy programs or education or homebuyer counseling that benefits individuals of all income levels or should it be limited to LMI individuals?
- Should essential infrastructure be required to directly benefit or serve LMI individuals or areas of identified need?
- Should all investments in qualified opportunity funds that benefit low- or moderate-income qualified opportunity zones qualify? What guardrails should be put in place to allow an investment to qualify?
- Are there other activities that should be included on the list that are not?

CDFI Multiplier: Discussion Questions

- The proposal would double the value of qualifying activities involving CDFIs, community development investments (not including mortgage-backed securities or municipal bonds), and other affordable housing-related community development loans.

- Should the “multiplier” for CDFI activities be higher than two? If so, what is the appropriate multiplier?

Get Involved: Advocacy Opportunities

- CDFI industry must engage in this critical policy conversation.

- Submit comments from your organization
  - OFN will provide sample comments
  - Every letter counts
  - Customize your comments

- Other Ways to Engage
  - Contact your Members of Congress to express your concerns
  - Draft op-eds, blogs
  - Use social media to share your thoughts

Questions?

- Contact Us

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