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WHAT'S AT STAKE:
The Community Reinvestment Act (CRA)

10 Bad Ideas & Bank-Centric Proposals for CRA Regulatory Reform

Jesse Van Tol
Chief Executive Officer, NCRC
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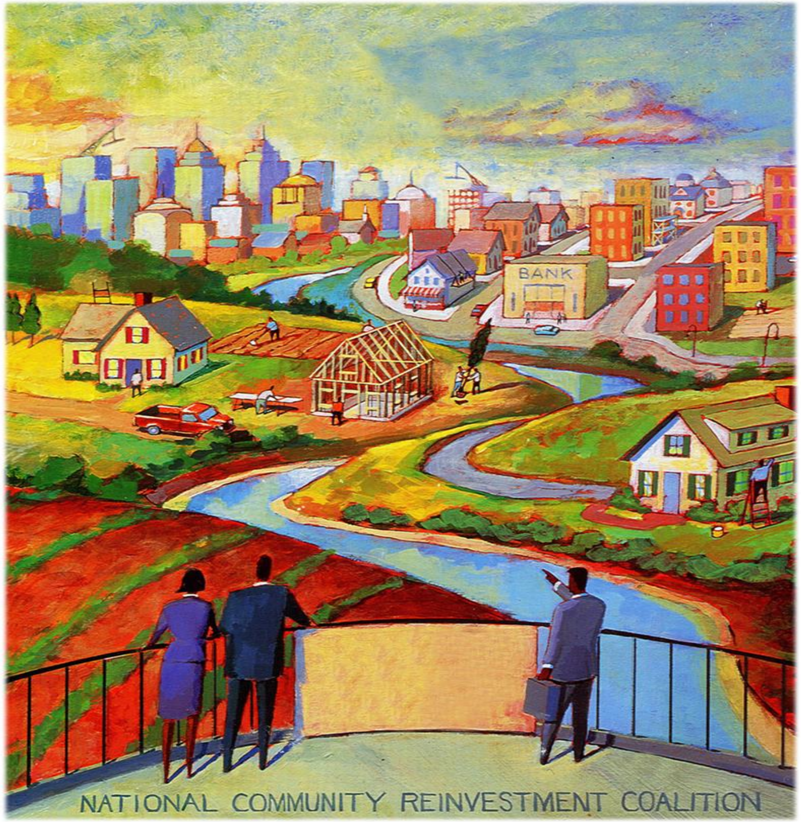
National Community Reinvestment Coalition

NCRC and its grassroots member organizations help create opportunities for ordinary people to build wealth. We work with community leaders, policymakers and financial institutions to champion fair access to credit, capital, banking and housing.

- A **good bank** can anchor a vibrant community.
- It can be as or more important to the success of a community as a good school, or a hospital.
- Like some public institutions, **banks have obligations too**.
- They have an obligation to address **community needs**.
- They have an obligation to produce a **public benefit**



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- But banks don’t always contribute to vibrant communities. The past few years have taught us that.
- Not only did banks not **produce a public benefit**, some of them caused incredible **harm**.
- The government and the public supported them, to the tune of **$23 trillion** in loans, investments and guarantees.
- The obligations of banks should be greater, because the taxpayer backs the banking system. **It's time to raise the bar, to increase expectations. It’s a new era for responsible banking work.**

The Community Reinvestment Act

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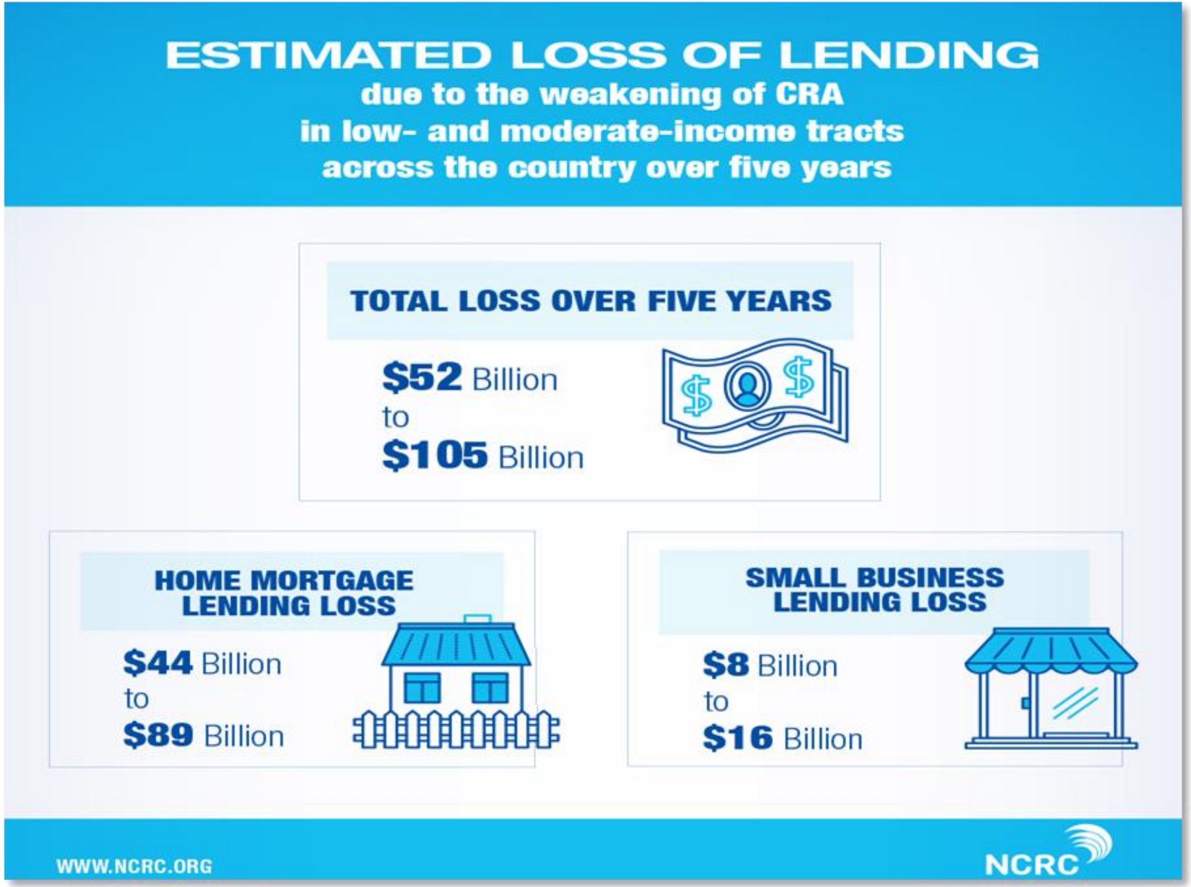
- The Community Reinvestment Act (CRA) establishes that banks have social responsibilities. It says that they cannot wash their hands of serving the working class, or other disadvantaged people. The act itself is a recognition that banks are an important ingredient in the health and vibrancy of neighborhoods and communities.

- CRA was enacted in 1977 in response to redlining, or the refusal to lend in certain neighborhoods. It applies to deposit taking institutions, in part based on the rationale that they receive a public benefit in the form of government insurance.

- CRA establishes an affirmative obligation for banks to meet the credit needs of credit worthy businesses and individuals in low- and moderate-income communities.


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
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An Advance Notice of Proposed Rulemaking (ANPR)

- **On August 28, 2018**, the OCC released an advance notice of proposed rulemaking **(ANPR)** that asks 31 questions on how to reform CRA

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An OCC-only approach to CRA reform

- At the outset, any CRA reforms must be a joint rulemaking that includes the other bank regulators - **the FDIC and the Federal Reserve**- otherwise **OCC-only** reforms will promote inconsistency is CRA crediting, examination, and remedial standards.

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Taking the LMI out of CRA

- The **OCC's ANPR** has asked whether CRA credit should be limited to loans to LMI borrowers and loans in LMI or other identified areas
- The architects of CRA sought to combat **redlining**: the practice of banks refusing to consider mortgage applications from minorities based on the neighborhood they lived in rather than their personal credit and financial situation.
- CRA has historically and should remain targeted on access to credit and financial services for **LMI borrowers and communities** traditionally underserved by the nation's financial system.

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Allowing banks to disregard local credit needs

- The **OCC's ANPR** suggests a redefinition of "community" under CRA so that banks can get CRA credit
  - ***"in the aggregate, at the bank level, in addition to activities in its traditional assessment areas or local geographies."***

- The OCC suggests grading banks and dispensing CRA credit for far-off activities, without first requiring that the bank meet the needs of the local communities where it takes deposits.

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A "one-ratio" everything counts approach to CRA bank exams – a recipe for more CRA grade inflation

- The **"one-ratio"** approach or a single metric could diminish the local analysis bank examiners undertake, including the geographic distribution of bank lending across various neighborhoods, borrower profiles and whether the bank has first met the mortgage, small business, affordable housing and other credit needs of their local community before receiving CRA credit for what could be more profitable activities elsewhere and outside the bank's assessment area.

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Scrapping examiners' local & more *qualitative* analysis of bank lending and investments

- The OCC's ANPR suggests adopting a more rigid "**quantitative**" approach to CRA.
  - ➢ Examiners not only determine if a sufficient number of loans are made, but they also determine the distribution of loans among low-, moderate-, middle- and upper-income geographies, and identify groups of geographies, by income categories, where there is little or no loan penetration.

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Exempting more banks from CRA exams 1 – the community development test & affordable housing

- The nation’s banks are pushing hard to raise asset-size thresholds further so more banks will have easier CRA exams to pass.

- In the midst of affordable housing and other credit challenges across the country, more of the nation’s banks want to be exempted from CRA examinations of whether they help finance community development projects in their local communities.

Exempting more banks from CRA exams 2 – the CRA service test & bank branches

- The **OCC's ANPR** asks whether branching in **LMI areas** should be reviewed, as banks seek more exemptions from the CRA service test, which reviews bank branching patterns and basic banking services in LMI areas.

- **LMI and rural communities** bank branches remain critical for the provision of bank loans, investments, and services

- **CRA Service test** remains an incentive for the nation's largest banks to open/close bank branches in LMI communities equitably and provide other basic banking services.

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Letting banks with poor CRA records get bigger and bigger without community accountability

- OCC Comptroller **Joseph Otting** has admitted that part of his CRA reform plan is to make it harder for community groups to "hold [bankers] hostage"

- Since 2016, banks have negotiated **$86 billion** in community benefit agreements **(CBAs)** with local stakeholders because of CRA and its community input provisions during mergers/acquisitions –resulting in banks providing more mortgages, small business and community development loans and investments in LMI communities around the country.

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Muting the community's voice in how banks are serving local communities

- ❑ **It is important for examiners to gather information from grassroots community groups and local contacts.**
- ✓ They help the examiner develop a community profile.
- ✓ Determine opportunities for participation by banks in helping to meet local credit needs.
- ✓ They help examiners understand the performance of banks in helping to meet local credit needs.
- ✓ Provide a context on the community to assist in the evaluation of an institution's CRA performance.

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Expanding CRA Qualifying Activities – another recipe for more CRA grade inflation

OCC's asks a series of CRA diluting questions:

- If projects, programs, or organizations with a mission, purpose, or intent of community or economic development should be "presumed" to receive CRA credit.
- Whether community development activities that "benefit specified underserved populations or areas" should be the only ones that receive credit.
- Whether CRA credit should be extended to "all loans to businesses that meet the Small Business Administration standards for small businesses"

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Sign up and learn how to file your own comment letter to the OCC at:

www.ncrc.org/treasurecra