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In Depth: Summary of Notable Comments to Federal Banking Agencies' Interagency Proposal to Update Community Reinvestment Act Rules



By **Daniel Meade**
Partner | Financial Regulation

As we [reported in May](#), the Federal Deposit Insurance Corporation (“FDIC”), the Federal Reserve Board (“FRB”) and the Office of the Comptroller of the Currency (“OCC”) (together, the “Agencies”) issued a [notice of proposed rulemaking](#) to amend and update the rules implementing the Community Reinvestment Act (“CRA”). The comment period on the proposal ended on August 5. We held off summarizing the comments until most people returned from, hopefully, some restful end-of-summer R&R.

Summary of the Proposal

The proposal stated that it would make substantive changes in five key areas:

1. **Delineation of Assessment Areas**: The proposal would retain the current “facility-based assessment areas” (focused on where banks have physical facilities, such as branches), but also adds a “retail lending assessment area” for large banks in areas where the bank originates over 100 home mortgage loans or over 250 small business loans in each of the preceding two years.
2. **Overall Framework, and Performance Standards and Metrics**: The three bank-size categories of the current rules would be retained, but all would have higher thresholds, with small banks being defined as having assets up to \$600 million, large banks having assets of more than \$2 billion, and intermediate banks in between those two levels. Large banks generally would be evaluated under the four proposed tests: (1) Retail Lending; (2) Community Development Financing; (3) Retail Services and Products; and (4) Community Development Services. Intermediate banks would be evaluated under the proposed retail lending test and the current community development test. Small banks would continue to be evaluated under the current small bank standards but would have the option of opting into the

new proposed tests. The proposed tests would also incorporate broader use of metrics.

3. Community Development Activities: The proposed rule would continue to include activities that currently receive CRA credit as community development activities, but would also create more criteria for the type of activities that qualify for CRA community development credit, with possibly fewer geographic restrictions.
4. Data Collection, Maintenance, and Reporting: The proposal would aim to tailor data requirements based on bank size.
5. Performance Conclusions and Ratings: The proposal would assign ratings in the component tests under the familiar current ratings of Outstanding, High Satisfactory, Low Satisfactory, Needs to Improve and Substantial Noncompliance to result in overall final ratings called for in the statute (*i.e.*, no differentiation between high satisfactory and low satisfactory).

Comments on the Proposal

The Agencies received over 600 comments on the proposal. Below we summarize a sampling of the comments representing both the banking industry and community groups. Initial reactions to the proposal seemed mostly positive, but as stakeholders had time to dig in to the proposal, the volume of criticism seemed to grow.

American Bankers Association (“ABA”)

The ABA noted that it supports the objectives of the Act itself and welcomes aspects of the proposal, such as “the provisions that will give banks greater certainty regarding the activities that will receive credit, allowing them to concentrate their efforts on providing the products and services that will address community needs instead of spending time and resources trying to figure out what will count. Accordingly, we support the proposed preapproval process and list of qualifying activities for community development; the increased specificity regarding what qualifies for community development credit; and the combination of community development lending and investments into a single community development financing test. We also support providing CRA credit at the bank level for community development activities that a bank conducts outside of its assessment area(s).”

However, the ABA goes on to note that there are aspects of the proposal that it believes could result in outcomes contrary to the Agencies’ intent and the statute itself. The ABA also raised the point that aspects could be viewed as arbitrary under the [Administrative Procedures Act](#) (“APA”). The ABA noted the following points in its comment letter as things it believes the Agencies should change or amend:

- The agencies should re-open the comment period and fully explain their policy choices, including but not limited to why it is appropriate to establish thresholds that result in significant numbers of banks that will not pass their retail lending examinations.
- The final rule must simplify the highly complex, formulaic system of metrics, benchmarks, multipliers, and thresholds, and balance the formulaic approach with more flexibility to consider bank business models and

particular community needs.

- Any final rule should provide a minimum two-year implementation period.

Americans for Financial Reform (“AFR”), the Greenlining Institute and Public Citizen

AFR, Greenlining and Public Citizen’s main comment letter called the proposal thoughtful and noted that the “agencies should strengthen the regulations to better ensure that communities most impacted by redlining and environmental injustice receive the intended benefits of the CRA.” Their letter provided the five following recommendations:

- Adopt the NPR’s proposed “disaster preparedness and climate resiliency” definition under “community development activities” and list additional eligible activities under the definition.
- Explicitly utilize race as a metric in CRA exams in order to ensure that historically redlined communities, and those most vulnerable to climate change, have improved access to sustainable credit and services.
- Encourage banks to increase community engagement and relationship building with climate and environmental justice organizations, including through the use of Community Benefits Agreements (“CBAs”).
- Scrutinize bank investments that have disproportionate impacts that further contribute to climate change and impair access to credit for communities as part of CRA exams.
- Do not raise the small and intermediate small bank asset thresholds.

Bank Policy Institute (“BPI”)

BPI’s comment letter was even more critical of the proposal than other bank trade associations, highlighting possible APA and Constitutional challenges to the proposal. Like other comment letters, BPI noted its support for the goals of the CRA itself. However, BPI noted that it believes “parts of the Proposal would stray from these core values and from the agencies’ statutory mandate, resulting in a proposed framework that would be needlessly sweeping, complex, and punitive in its application.” BPI summarized its comment letter with these seven points:

- [T]he Retail Lending Test is proposed to be calibrated so stringently that it could transform the CRA from a framework for ensuring credit availability into a mechanism for credit allocation.
- [M]andatory evaluation of banks’ retail lending distribution in areas outside their facility-based assessment areas would be inconsistent with the agencies’ statutory authority as evinced in the text, history, and purposes of the CRA.
- [S]everal elements of the proposed Retail Services and Products Test would appear to serve as a *de facto* requirement to offer specific deposit services, products, and features, which indicates that the agencies have ventured far from their statutory mandate of encouraging a bank to meet the credit needs of its entire community

- [T]he Proposal is unnecessarily complex. The Proposal’s multiple new tests, subtests, and factors would subject numerous discrete areas of a bank’s operation to evaluation, and the agencies have not explained why they did not offer more straightforward alternatives that would achieve similar objectives.
- [T]he Proposal would take a rigid, “one-size-fits-all” approach to evaluating large bank performance and would lack the flexibility to accommodate large banks with less traditional business models.
- [T]he proposed compliance period of just 12 months from the final rule’s effective date would be far too short to be workable in light of the Proposal’s complexity, the vast new data collection and reporting requirements that the Proposal would impose, and key ambiguities in and unintended consequences of the Proposal that the agencies will need to address.
- [T]he agencies have proposed to eliminate any reasonable constraints on their authority to downgrade a bank’s rating based on a compliance violation.

House Democrats

A group of 76 Democrats in the House of Representatives led by House Financial Services Committee Chair Maxine Waters submitted a letter recommending that the final rule should ensure “(1) CRA exams take into account bank activities that impact communities of color as well as low-and-moderate income communities; (2) banks get CRA credit only when they make meaningful investments in communities; and (3) CRA exams become more rigorous.”

National Community Reinvestment Coalition (“NCRC”)

The NCRC comment letter summarizes its position on major issues as:

- CRA exams must explicitly consider banks’ records in serving people of color and communities of color.
- Public input mechanisms in CRA exams and merger reviews must be robust and include consideration of community benefit agreements. The agencies and banks must proactively reach out to community organizations and members of the public.
- Improvements to exam rigor and more objectivity in performance measures are needed to reduce ratings inflation, and loopholes such as not examining major loan products must be closed.
- Enhancements to community development definitions are needed to more effectively target activities to communities in need.
- Data improvements must provide more insight into banks’ records of meeting credit and community needs.
- Anti-discrimination and fair lending reviews must be more transparent. CRA exams must examine affordability and sustainability of lending in order to prevent abusive lending.

- Assessment area changes must sufficiently capture online lending and deposit-taking activity.
- The proposed asset threshold and bank classification changes would reduce community development financing and branching.

Conclusion

As can be seen above, the Agencies have their work cut out for them if they hope to achieve consensus between community groups and the banking industry. While all the comments sampled here note their support for the goals of the CRA, there is divergence on how to get there. Traditionally, the CRA has not used race-based tests, but many community groups appear to think race-based tests ought to be used. Banks applaud the unified approach of the proposal from the three Agencies, and the additional certainty the proposal provides on what counts for CRA credit, but raise concerns on some of the details on those tests.

It will be interesting to see what the Agencies choose to do in terms of next steps, and how much they may amend and refine the proposal. Additionally, a question they will need to consider is whether, in reviewing the comments received, they can finalize a rule or whether a re-proposal would be a next step. While there is no explicit deadline of when the Agencies would need to act on any CRA rule proposal, the one thing most stakeholders do agree on is that modernization of the CRA rules is well overdue.
