



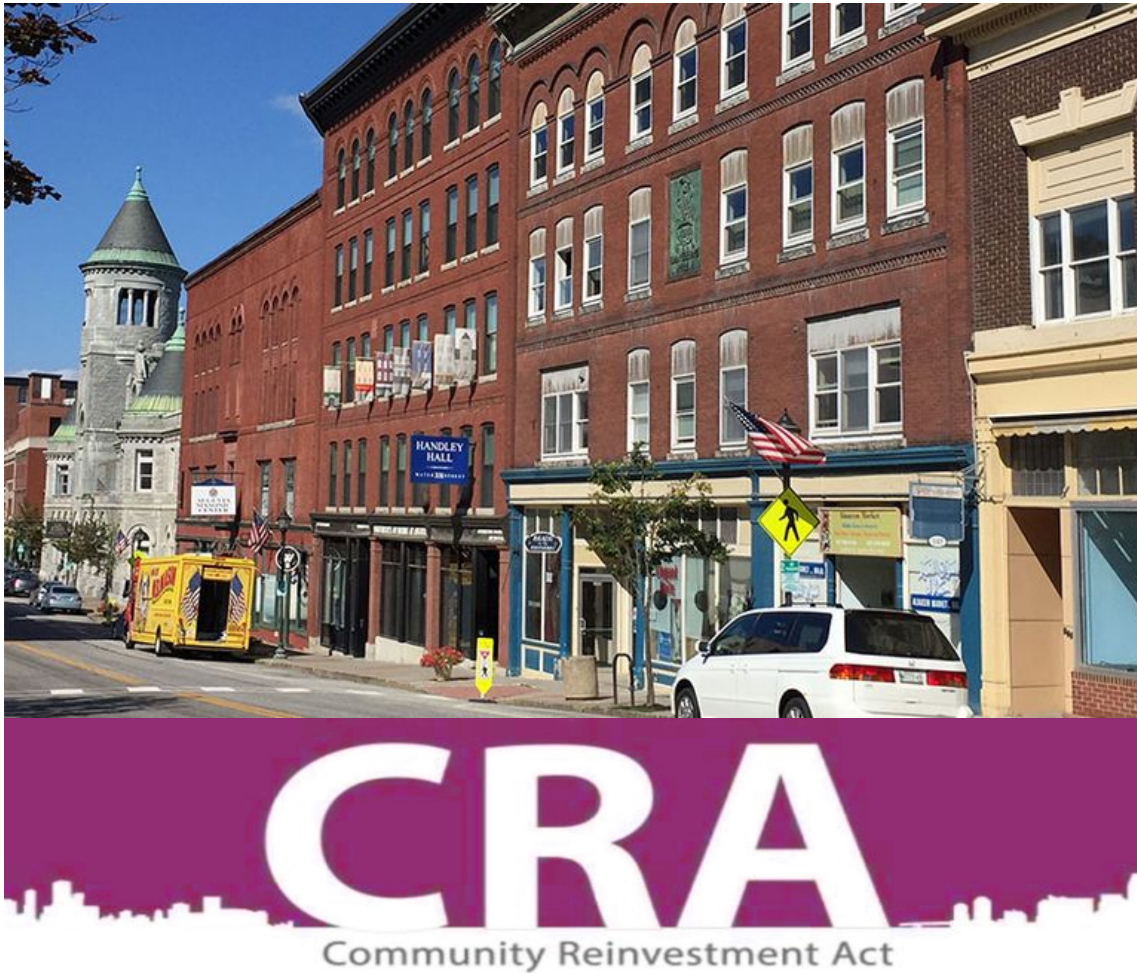
Federal Reserve
Bank of Dallas

**CRA in the Modern Age:
Exploring the Federal Reserve System's CRA
Modernization Approach**

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The views expressed are my own and do not necessarily reflect official positions of the Federal Reserve System.

CRA Modernization Update



- More than 40 years have passed since CRA was established in 1977.
- Interagency Regulators worked hard to come together on a CRA modernization reform proposal.
- The collaborative approach was unsuccessful.
- The OCC and FDIC chose to proceed with a Notice of Proposed Rulemaking (NPR) without the Federal Reserve.
- The Federal Reserve is not commenting on other agencies' proposals.
- The Federal Reserve remains committed to CRA regulatory reform and will use the OCC and FDIC NPR to inform its next steps.

Federal Reserve CRA Modernization Objectives

- Promoting greater consistency and predictability in CRA evaluations and ratings.
- Tailoring standards to banks of different sizes and business models and accounting for fluctuations in business cycles.
- Updating the area in which the agencies assess a bank's CRA activities while retaining the core focus on place-based investments.
- Continuing to encourage banks to meet the credit needs of low- and moderate-income and underserved neighborhoods and ensuring that any revisions to CRA serve to strengthen this core purpose.
- Continuing to recognize that CRA is one of several mutually reinforcing laws that are designed to guard against discriminatory or unfair and deceptive lending practices.



Federal Reserve CRA Modernization Process

- This has been an ongoing process for several years, the federal banking regulators have been engaging stakeholders for input on strengthening the CRA regulations to better serve communities as well as better reflect new banking models.
- The Federal Reserve hosted CRA listening sessions throughout 2018 and 2019 to prepare for the modernization process.
- These sessions provided invaluable insight from stakeholders about CRA activities, impact, compliance, and reform.
- The Federal Reserve has allowed these outreach activities to guide its work on CRA reform.
- This work led to the Federal Reserve's 7 Principles on CRA Reform in 2018 as well as intentional focus on metrics.

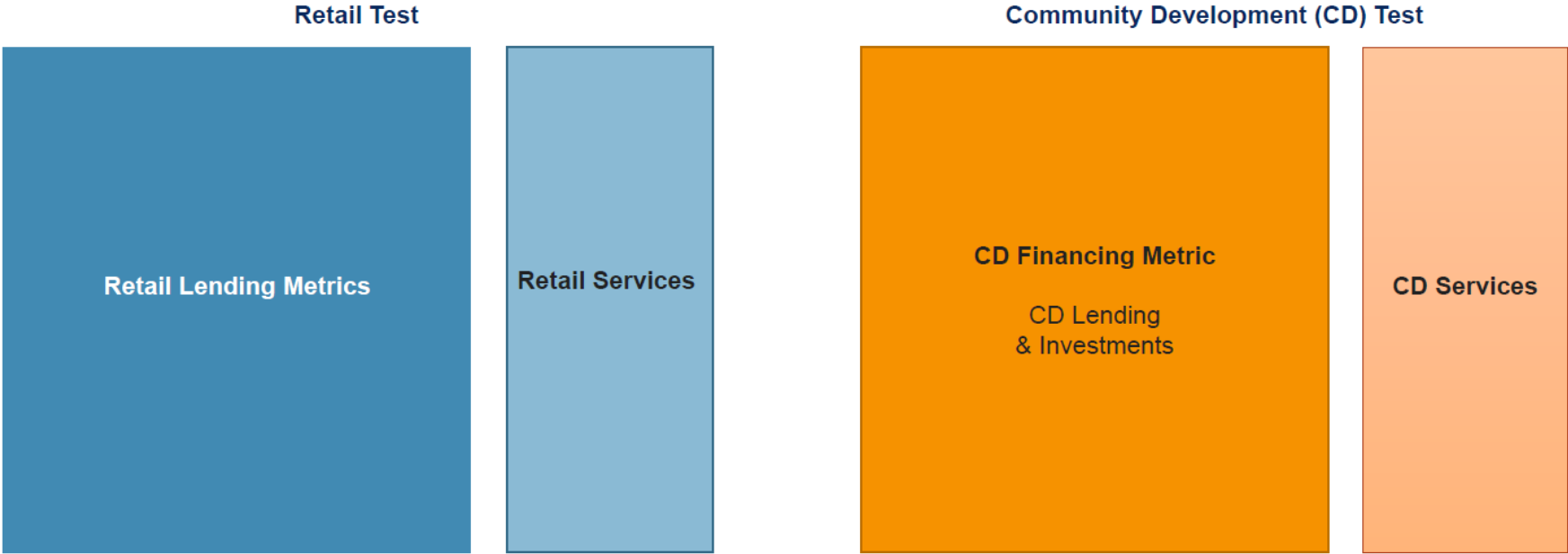
Grounding CRA Metrics in Data

The screenshot displays the Federal Reserve Board's website. The main navigation bar includes links for 'About the Fed', 'News & Events', 'Monetary Policy', 'Supervision & Regulation', 'Payment Systems', 'Economic Research', 'Data', and 'Consumers & Communities'. The 'Data' link is highlighted. Below the navigation bar, the page title is 'Community Reinvestment Act (CRA)'. A search bar is present with the text 'Search: Evaluations & Ratings (Federal Reserve Supervised Banks)'. The search interface includes a sidebar with links such as 'History of the CRA', 'CRA Regulators', and 'Search: Evaluations & Ratings'. The main search area contains a form with the following fields: 'Institution Name or ID', 'Overall CRA Rating', 'City', 'County', 'State', 'Asset Size Range (In Thousands)', 'Exam Year', 'Public Year', and 'Exam Method'. Each field has a dropdown menu with 'All' selected. There are 'Clear' and 'Search' buttons at the bottom of the form.

- Proposed CRA reform must be grounded in analysis and data to avoid unintended consequences.
- In the absence of readily available, consistent data on CRA-eligible activities.
- Federal Reserve Research staff created a database of more than 6,000 FRB, OCC, and FDIC written public CRA evaluations from a sample of 3,700 banks of varying sizes, geographic areas, and business models.
- Database includes location, number, and amount of CRA-eligible loans and investments and each bank's CRA performance rating.
- The database goes back to 2005 and provides longitudinal data on bank performance across varying economic cycles.

Federal Reserve CRA Modernization Proposal

Figure 1: Separate Retail and Community Development Tests



Retail Test would not apply to wholesale banks
Retail Services subtest would not apply to small retail banks

CD Test would not apply to small retail banks

Federal Reserve CRA Modernization Proposal



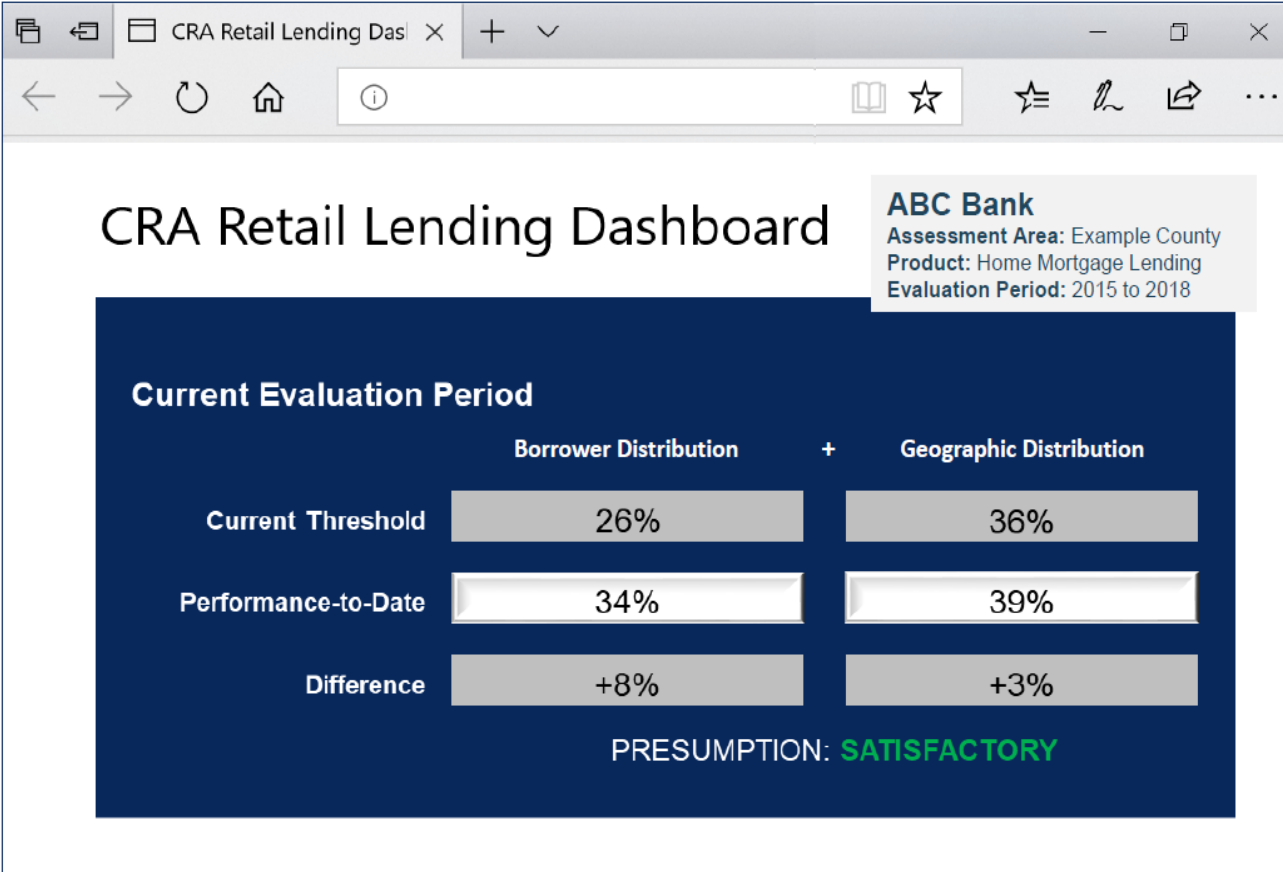
Retail Lending Test

Two core questions are:

1. How well a bank is serving LMI borrowers, small businesses, and small farms in its assessment area?
 2. How well a bank is serving LMI neighborhoods in its assessment area?
- Focus on loan counts rather than aggregate dollar value.
 - Evaluation of each major product line in a bank's assessment area.

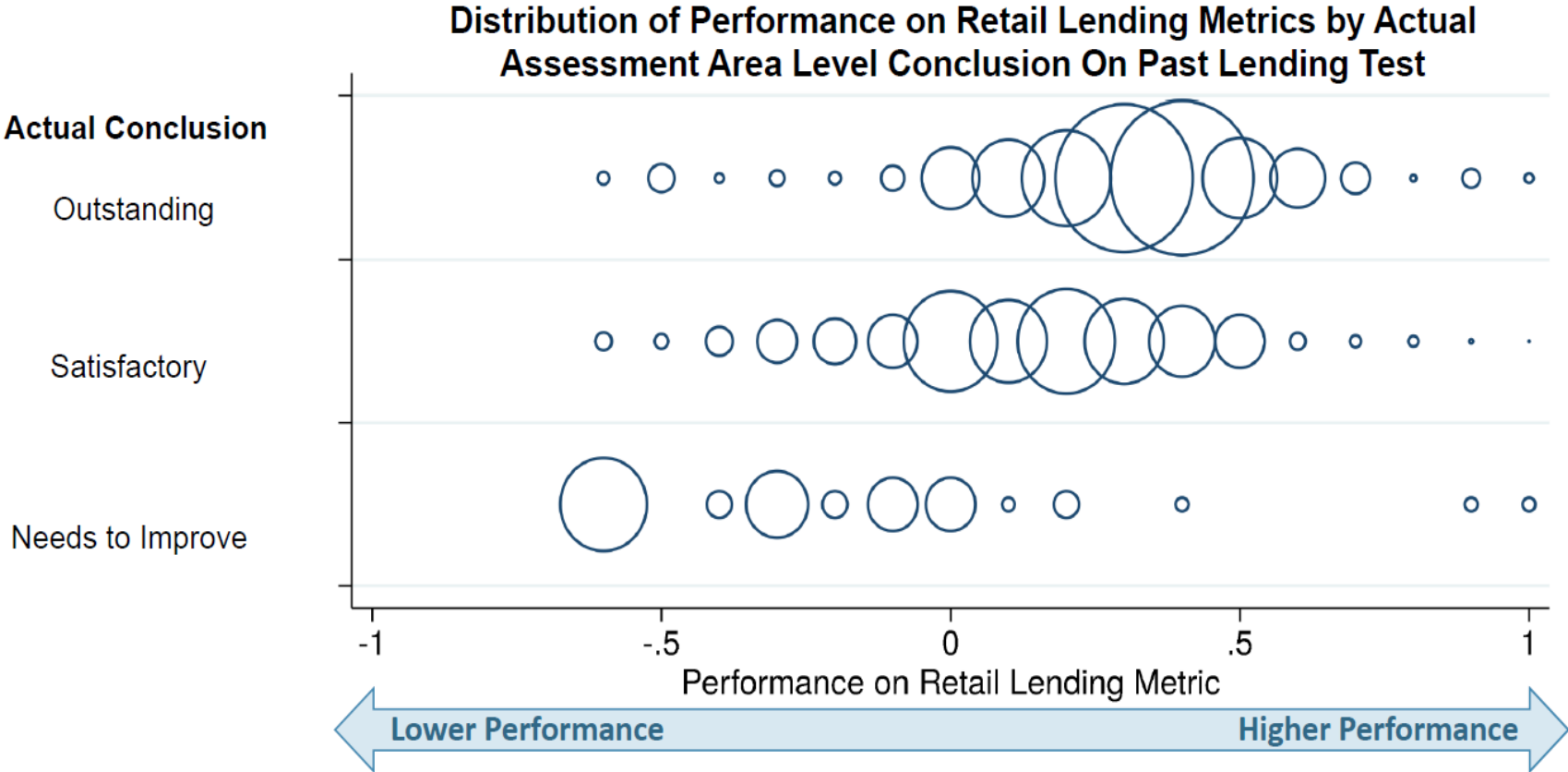
Federal Reserve CRA Modernization Proposal

Figure 2: Each Bank Could Track Retail Lending with a Dashboard



Federal Reserve CRA Modernization Proposal

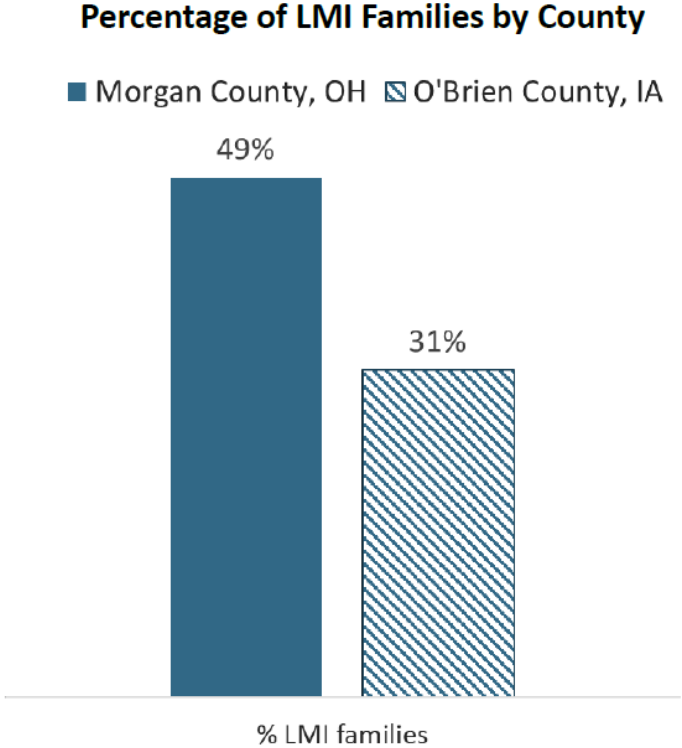
Figure 3: Retail Lending Metric Correlates Well with Ratings



Note: Bubble size represents the fraction of individual assessment areas in the Board’s database that reached a given level of performance on the retail lending metric. Fractions are calculated separately for each of the three ratings categories shown: Outstanding, Satisfactory and Needs to Improve. A performance level of zero represents the point that best distinguishes between assessment areas which received high and low ratings on the lending test, according to staff analysis.

Federal Reserve CRA Modernization Proposal

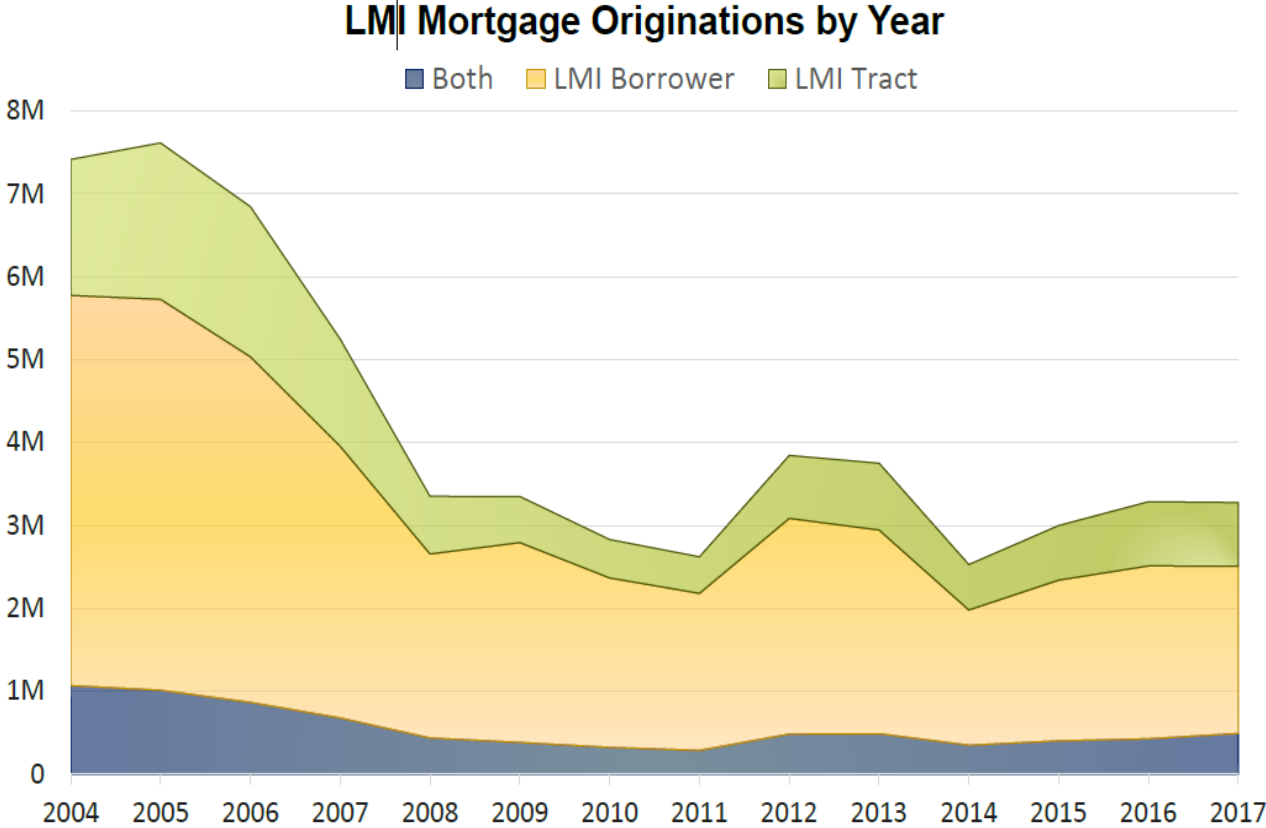
Figure 4: Tailoring Thresholds is Important because LMI Shares Differ Across Geographies



Note: Morgan County and O'Brien County represent the 90th and 10th percentile, respectively, of the fraction of families per county that are LMI.

Federal Reserve CRA Modernization Proposal

Figure 5: Tailoring Thresholds is Important because LMI Retail Lending Varies Cyclically



Key identifies areas in order from bottom to top.

Federal Reserve CRA Modernization Proposal



Retail Services Test

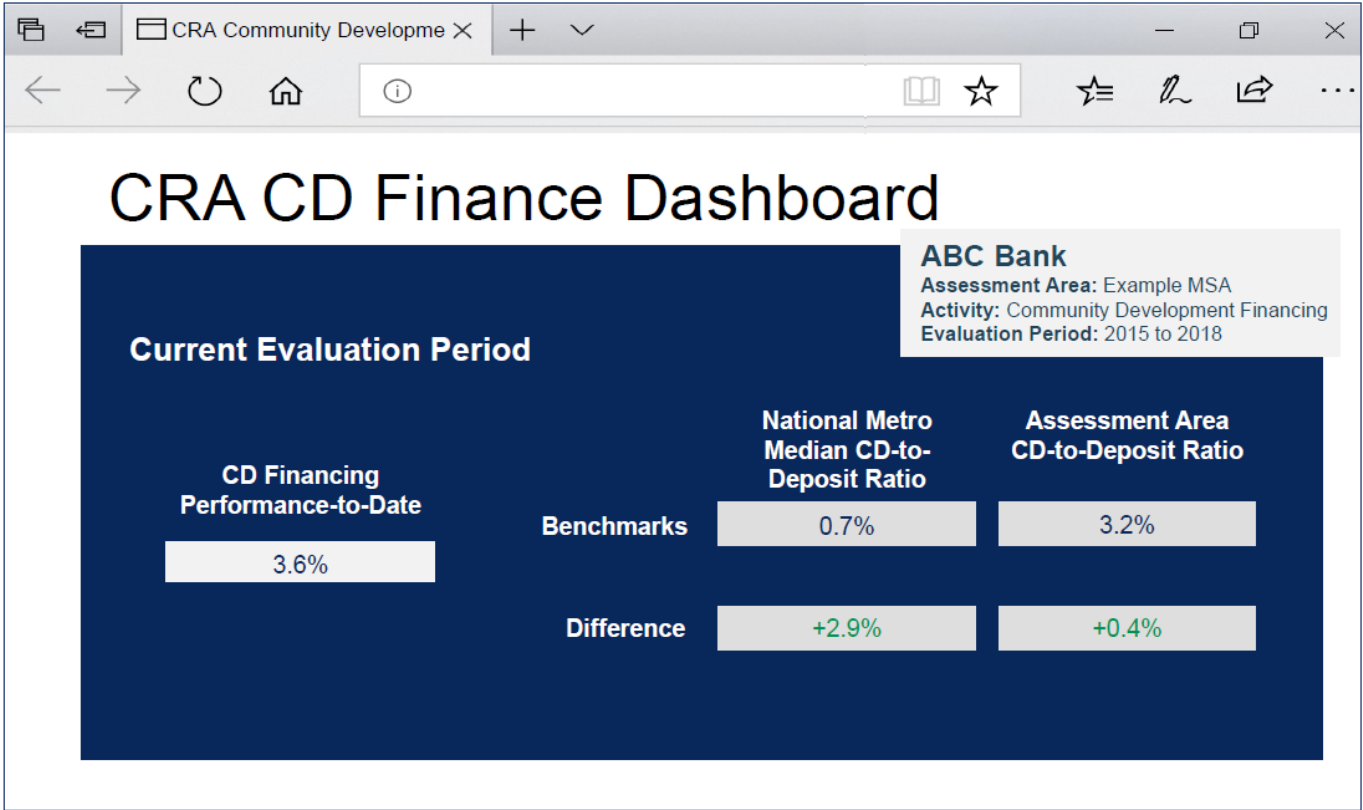
Areas of focus would include:

- Responsiveness of bank's products and services
- Bank's service and product delivery systems (i.e. branches, ATMs, online and mobile access)
- Distribution of branches (openings and closures)
- Broader patterns of activities in the assessment area/region

Note: There is recognition that qualitative criteria may be best to evaluate these types of data points.

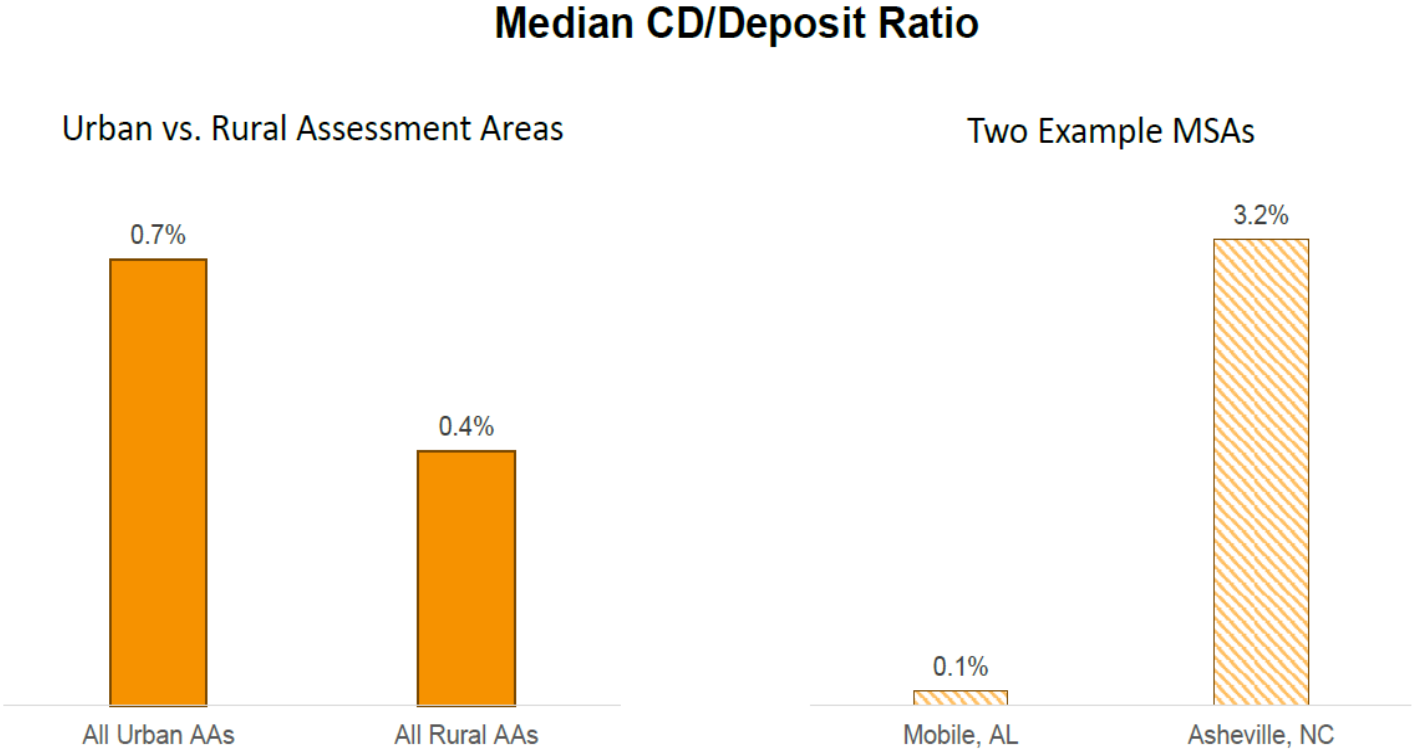
Federal Reserve CRA Modernization Proposal

Figure 6: Each Bank Could Track CD Finance with a Dashboard



Federal Reserve CRA Modernization Proposal

Figure 7: CD Financing Opportunities Vary Across Geographies



Note: All figures reflect CD-to-Deposit ratios using existing CD and deposit data. Mobile, AL and Asheville, NC represent the 10th and 90th percentile, respectively, across MSAs of the median CD-to-Deposit ratio among banks assessed there.

Federal Reserve CRA Modernization Proposal

Other Areas of Focus for the Fed

- Tailoring performance metrics to bank size and business strategy, as well as to local and cyclical conditions
- Tailoring data collection and reporting requirements
- Updating assessment areas
- Definitions for qualifying activities



CRA Modernization Next Steps

- The Federal Reserve will continue to engage the public through all forums on our proposal as well as gathering additional stakeholder input.
- The Federal Reserve will continue to leverage community development staff who engage with consumers, community organizations, and banks to further refine its understanding on external perspectives and what changes might be most responsive to local need.
- The Federal Reserve encourages all stakeholders to submit comments to the OCC & FDIC current NPR which will conclude April 8, 2020.
- The Federal Reserve plans to read all the comment letters submitted in response to the OCC/FDIC NPR as it did with the OCC ANPR.
- Presently, the Federal Reserve has no plans to release its own NPR, it will allow the OCC/FDIC NPR process to inform next steps.
- The Federal Reserve recognizes the importance of a strong common set of interagency standards, and will continue to share data and analysis informing its regulatory proposal and seeking public feedback.

QUESTIONS?

Contact

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