Advance Notice of Proposed Rulemaking for the Community Reinvestment Act

Overview of ANPR goals and proposals
Comment period through February 16, 2021
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Agenda

• ANPR publication
• CRA modernization objectives
• Assessment areas
• Evaluation framework
• Qualifying activities and geographies
• Ratings
• Data collection
• Proposals for rural areas
• Looking ahead and next steps
Following an Open Board Meeting, the Federal Reserve Board issued an Advance Notice of Proposed Rulemaking (ANPR) on CRA modernization on September 21, 2020.

- **ANPR**
- **Board Memorandum**
- **Fact Sheet**
- **Press Release**
- **Meeting and Board Member Statements**

The ANPR was published in the Federal Register on October 19, 2020 with a 120 day comment period.

- *Comments are due on February 16, 2020.*
CRA Modernization Objectives

• Strengthen regulations in alignment with CRA statute:
  – Strengthen regulations to ensure that a wide range of LMI banking needs are being met.
  – Promote financial inclusion, including credit for activities in areas with unmet needs outside of assessment areas, including Indian Country.
  – Incentivize investment in minority depository institutions (MDIs) and community development financial institutions (CDFIs).
  – Update standards in light of changes to banking over time, including mobile and internet banking.
  – Continue to promote community engagement.
CRA Modernization Objectives (continued)

• Provide greater certainty, tailor regulations, and minimize burden:
  − Bring greater clarity, consistency, and transparency to tailored performance evaluations.
  − Minimize data collection and reporting burden.
  − Tailor performance evaluations to bank size and business models and local conditions.
  − Clarify and expand eligible CRA activities focused on LMI communities.
  − Recognize the special circumstances of small banks in rural areas.
CRA Modernization Objectives (continued)

• Provide a foundation for the agencies to converge on a consistent approach that has broad support among stakeholders:
  – Build on stakeholder feedback from extensive Federal Reserve outreach, review of public comment letters, and ideas of all three banking agencies responsible for CRA.
  – Work towards a consistent approach by reflecting this feedback, providing a long comment period, and adding to the process by getting comments on additional proposal and options.
  – Continue to engage to get views of stakeholders throughout the process.
Assessment Areas

Goal: Modernize assessment areas to reflect changes in the banking industry, including internet and mobile banking, while maintaining a focus on branches

- Facility-based assessment areas:
  - Branches – Propose keeping assessment areas around branches.
  - Loan production offices and deposit-taking ATMs – Request for feedback on these options.

- Potential new assessment areas – Request for feedback on the following options:
  - Deposit-based assessment areas
  - Lending-based assessment areas
  - Nationwide assessment areas for Internet banks
Overview of Evaluation Framework

**Goal:** *Tailor evaluation framework to bank size and business model*

- **Large Retail Banks:**
  - **Retail Test:** Retail Lending Subtest and Retail Services Subtest **AND**
  - **Community Development Test:** Community Development Financing Subtest and Community Development Services Subtest

- **Small Retail Banks:**
  - Can choose to be evaluated under the current framework or the new framework
  - If elect the new framework, would be assessed solely under Retail Lending Subtest, unless they opt to have other activities considered.
    - Asset size threshold between small and large retail banks: Seek feedback on two options, $750 million or $1.0 billion.

- **Wholesale and Limited Purpose Banks:**
  - Evaluated under Community Development Test
### Evaluation Framework for Large Retail Banks

**Goal:** *Ensure that the wide range of low- and moderate-income banking needs are met by separately evaluating retail lending, retail services, community development financing, and community development services.*

<table>
<thead>
<tr>
<th>Retail Test</th>
<th>Community Development Test</th>
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**Small retail banks** may remain under current framework or may elect to be evaluated under only the Retail Lending Subtest. Can submit retail services activities for optional qualitative review.

**Wholesale and limited purpose banks** would not be evaluated under the Retail Test.

Community Development Test would only apply to **large retail banks** and to **wholesale and limited purpose banks**.

**Small retail banks** can submit community development activities for optional qualitative review.
Qualifying Activities

Goal: Increase certainty about what counts for CRA consideration and retain focus on activities that benefit low- and moderate-income communities

• Foster greater financial inclusion:
  • Special provisions for minority depository institutions, women-owned financial institutions, low-income credit unions, and CDFIs
  • Broaden consideration to retail activities in Indian Country both inside and outside of a bank’s assessment area
  • Designate certain activities as impactful and responsive, such as housing for very low-incomes households and activities with very small businesses and minority-owned small businesses

• Provide greater *ex ante* certainty to what counts:
  • Clearer definitions of affordable housing, community services, economic development, and revitalization and stabilization.
  • Publication of a non-exclusive illustrative list and a pre-approval process
Qualifying Geographies

**Goal:** *Increase certainty as to where activities will be assessed and expand where activities will receive CRA consideration to foster financial inclusion*

- Eligible states, territories, and regions
- Seeks feedback on expanding CRA consideration to designated areas of need:
  - Economically distressed rural or metropolitan areas
  - Areas where the community development financing metric is below an established threshold
  - Areas that have low levels of home mortgage lending or small business loans as identified by lending data
  - Areas with limited bank branches or ATMs
  - Indian Country
  - Appalachia
  - The Mississippi Delta
  - Colonias areas
Ratings

Goal: *Increase clarity, consistency, and transparency, encourage activity in all assessment areas, and reflect any illegal credit practices in ratings*

• Grounded in performance in a bank’s local communities

• Standardized and transparent process for developing ratings at each geographic assessment level (state, multistate MSA, and institution)

• Considers several options to ensure that all assessment areas, including smaller rural assessment areas, are appropriately factored into ratings

• Activities with MDIs, women-owned financial institutions, and low-income credit unions would receive consideration for “outstanding” rating

• Discriminatory or illegal credit practices would adversely affect CRA assessment.
Data Collection

**Goal:** *Increase clarity, consistency, and transparency while minimizing data collection and reporting burden*

- Rely on existing data to the greatest extent possible.
- Exempt small banks from deposit data collection requirements.
- Existing data sources would also be used when possible for large banks:
  - New data collection and reporting on community development financing activities
- Considering deposit data options for large banks:
  - Particularly for large banks with extensive deposit activity outside of the areas served by their physical branches
  - FDIC Summary of Deposits data versus new data collection and reporting
  - Exploring options for retail and community development services
Proposals for Rural Areas

**Goal:** Tailor assessments to recognize the unique circumstances of rural areas

- Expanded definition of community development services in rural areas
- Designated geographic areas of need that overlap with rural communities
- The use of calibrated thresholds in assessment areas for both the Retail Lending Subtest and Community Development Financing Subtest
- Ratings for Retail Test and Community Development Test inclusive of all assessment areas, including smaller rural assessment areas
Comment Period

**Goal:** Build a foundation for the banking agencies to converge on a consistent approach that has the broad support of stakeholders

- **ANPR:** [https://www.federalregister.gov/documents/2020/10/19/2020-21227/community-reinvestment-act](https://www.federalregister.gov/documents/2020/10/19/2020-21227/community-reinvestment-act)

- **120 day comment period:**
  - Comment deadline is February 16, 2021

- **Instructions on submitting comments (described in ANPR):**
  - **Comment page on Federal Reserve Board website:**
  - **Email:** regs.comments@federalreserve.gov. Include docket (R-1723) and RIN numbers (7100-AF94) in the subject line of the message.
  - **FAX:** (202) 452-3819 or (202) 452-3102.
  - **Mail:** Ann E. Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551.
THANKS FOR JOINING US!

ANY QUESTIONS?

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