

**Understanding the New
Federal CRA Rules:
*Key Updates and Implications
for Your Community***

Presentation Outline

- Positive Changes from Previous CRA
- Unhelpful Changes from Proposed Rule
- Changes in Defining Bank Size
- Missed Opportunities
- Impacts NCRC Will Be Tracking
- CRA Lawsuit
- Things to Consider During Transition

Positive Changes from Previous CRA

– *Retail Lending Test*

- More objective and transparent Retail Lending Test
- In order to pass this test, large banks must lend at levels that match
 - **either** 80% of total lending by all lenders to borrowers with LMI or small businesses/farms, **or** 60% of local demographics
 - in 60% of their assessment areas.

Positive Changes from Previous CRA

– *Retail Lending Test*

- Analysis of small business/farm lending now looks at lending to businesses under \$250,000 in revenue, instead of only under \$1 million
- More of a bank's total mortgage and small business/farm lending will be included in CRA exams due to new assessment areas

Positive Changes from Previous CRA

– *New Assessment Areas*

Legacy
Assessment Area
Concept Remains

New Assessment Areas

Facility-based
assessment
areas

Retail lending
assessment
areas

Outside retail
lending areas

Positive Changes from Previous CRA

– *New Assessment Areas*

- **Retail Lending Assessment Areas**
- Large banks that do less than 80% of their lending inside their branch network will now have retail lending assessment areas where they've originated either 150 closed-end mortgages or 400 small business loans in each of the last 2 years
- Will analyze closed-end mortgages and small business lending, depending on which of these loan types trigger the loan threshold

Positive Changes from Previous CRA

– *New Assessment Areas*

- **Outside Retail Lending Area**
- Nationwide, excluding other assessment areas, as well as any rural counties where the bank doesn't lend
- All large banks will have Outside Retail Lending Areas
- Intermediate banks will have Outside Retail Lending Areas if 50% or more of their loans – including purchases - are outside of their facility-based assessment areas

Positive Changes from Previous CRA

– *Community Development*

- New categories of CRA-eligible community development encourage banks to pursue loans, investments, and grants on Native Lands, and support weather resiliency

Positive Changes from Previous CRA

– *Community Development*

- CRA exams will now include how much of a bank's community development activities fit into 12 different categories of impact and responsiveness, including activities that serve persistent poverty counties, or census tracts with poverty rates 40% or higher

Positive Changes from Previous CRA

– *Community Development*

- Illinois cities with census tracts with 40%+ poverty rates
 - Chicago
- Illinois Persistent-Poverty Counties
 - Alexander County
 - Gallatin County
 - Jackson County
 - Pulaski County

Positive Changes from Previous CRA

– *Special Purpose Credit Programs*

- Large banks will receive positive consideration for special purpose credit programs on the Retail Services and Products test
- Intermediate and small banks do not have the Retail Services and Products test, but could also receive positive consideration for developing special purpose credit programs

Unhelpful Changes From The Proposed Rule

- Thresholds for retail lending assessment areas were increased, meaning less lending will be covered, and they now only apply to large banks that do more than 20% of their lending outside branch networks
- Auto lending only evaluated if it accounts for 50% of a bank's total retail lending, or a bank chooses to include

Unhelpful Changes From The Proposed Rule

- Evaluation of credit and deposit products can now only contribute positively to a banks CRA performance, no downgrades for only offering expensive deposit accounts or unaffordable loan products
- New investment metric for banks above \$10 billion can only contribute positively as well

Changes in Defining Bank Size

- Large Banks – \$2 billion in assets and above (previously \$1.56 billion)
- Intermediate Banks – between \$600 million and \$2 billion in assets (previously \$391-\$1.56 billion)
- Small Banks – \$600 million in assets and below (previously \$391 million)

Changes in Defining Bank Size

- 407 fewer banks will have a Community Development test, 30% decrease
- 135 banks will no longer have a Service test, 19% decrease
- In Illinois, 32 less banks will have a Community Development test, 40% decrease, and 9 less banks with Service test, 21%

Changes in Defining Bank Size

- Illinois banks losing CD test
 - Longview Bank in Ogden
 - Bank of Hillsboro in Hillsboro
 - Stillman Bancorp in Stillman
- Illinois banks losing Service test
 - Signature Bank in Rosemont
 - First Bank Chicago in Highland
 - Blackhawk Bank & Trust in Milan

Missed Opportunities

- Little progress on incorporating race into the CRA process
- No changes to how CRA performance affects merger and branch applications
- Little improvement on public engagement

Impacts NCRC Will Be Tracking

- Mortgage lending for borrowers with LMI and people of color to evaluate the impact of the new Retail Lending Test, including effect of new assessment areas
- New SPCPs
- Loss of branches and community development caused by new asset thresholds
- Declines in investments

CRA Lawsuit

- Banking trades have filed a lawsuit to repeal the new CRA rule, placing the new rules on hold
- Don't want lending outside of branch networks to be factored in, even though they support getting credit for CD anywhere
- Also don't want CRA to evaluate deposit products, despite clear connection between deposit and credit needs

CRA Lawsuit

- Federal agencies are expected to update rules based on changed facts
- CRA requires agencies to assess a bank in its “entire community”
- Legislative history shows that Congress rejected language in which a bank would be assessed only in areas near its deposit taking facilities

CRA Lawsuit

- CRA does not mandate which factors can be considered in evaluating whether a bank is “meeting the credit needs of its entire community.”
- Agencies reasonably explained why evaluating deposit products is appropriate in determining whether a bank is “meeting the credit needs of its entire community

CRA Lawsuit

- This would take CRA back to it's last significant update in 1995
- Communities need stronger lending test and affordable deposit products
- New CRA rule even reduces CRA responsibilities for over 500 banks, most changes affect large banks with \$2 billion or \$10 billion in assets or more

Things for Nonprofits to Consider During Transition

- Familiarize yourself with local lending data, look for banks without branches that may have RLAAAs where you work
- Figure out how your work fits into the different impact & responsiveness factors
- Create a plan for which bank exams you will comment on
- Talk to banks about special purpose credit programs

Things for Banks to Consider During Transition

- Start thinking about lending outside of branch networks, total percentages, and how much of this is to businesses under \$250k, or to borrowers with LMI?
- Evaluate the percentage of community development that meets the different impact & responsiveness factors
- Special purpose credit programs will help you pass

Resources

- [NCRC's Guide to the New CRA Rule](#)
- [FFIEC](#) – summary CRA exam info – also shows which agency covers which banks
- CRA Performance Evaluations
 - [OCC](#)
 - [FDIC](#)
 - [Federal Reserve](#)

Resources

- Quarterly Schedule for CRA Exams
 - [OCC](#)
 - [FDIC](#)
 - [Federal Reserve](#)
- Merger and branch announcements
 - [OCC](#)
 - [FDIC](#)
 - [Federal Reserve](#) (just merger announcements)



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