



**JULY 26, 2022**

**LAST CHANCE:  
COMMENT ON PROPOSED  
FEDERAL CRA RULE CHANGES**





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## Horacio Mendez

President & CEO, Woodstock Institute  
hmendez@woodstockinst.org



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## Jane Doyle

Policy & Communications Associate, Woodstock Institute  
jdoyle@woodstockinst.org



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## Sharon Legenza

Executive Director, Housing Action Illinois  
sharon@housingactionil.org



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## Tasha Brown

Midwest Director, Small Business Majority  
tbrown@smallbusinessmajority.org





Woodstock Institute works to create an economy where everyone has access to the financial services and resources they need to prosper. They advocate for strong policy initiatives that are backed by research and will close the racial wealth gap in Chicago, in Illinois and nationally.

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Housing Action Illinois leads a statewide coalition to protect and expand the availability of quality, affordable, accessible housing in Illinois. We work with our 160+ members and other allies to create an Illinois where everyone has a good, stable home.



Small Business Majority is a national small business organization that empowers America's diverse entrepreneurs to build a thriving and equitable economy. We engage our network of more than 85,000 small businesses and 1,500 business and community organizations to deliver resources to entrepreneurs and advocate for public policy solutions that promote inclusive small business growth.

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The Illinois CRA Coalition is a group of organizations dedicated to protecting and strengthening the federal and the Illinois Community Reinvestment Acts as tools for building more equitable communities and addressing the racial wealth gap. For more information, visit: [www.ilcracoalition.org](http://www.ilcracoalition.org)



# CRA: The Basics



## Federal Community Reinvestment Act

Passed in 1977 to create a continuing and **affirmative responsibility** for banks to make loans and investments in **LMI communities**.

Enforcement:

- **Federal Deposit Insurance Corp. (FDIC)**
  - Regulates non-federal reserve member state banks
- **Federal Reserve Board**
  - Regulates state member banks and holding companies
- **Office of the Comptroller of the Currency (OCC)**
  - Regulates national banks

More info: [www.ILCRACoalition.org](http://www.ILCRACoalition.org)

# CRA: Modernization Timeline



## Federal Community Reinvestment Act

On May 5, 2022, the Board, OCC and FDIC jointly released a **Notice of Proposed Rulemaking (NPR)** to review the CRA regulations

- The last major interagency revisions to the CRA regulations were in 1995
- The NPR request comments on all aspects of the proposed regulatory text as well as on alternative approaches discussed at the beginning of the NPR (in the "preamble")
- **The comment period ends on August 5, 2022**

Back Story: Actively working on federal CRA modernization for past 3 years!

# Quick Overview of the NPR



## The NPR is divided up into a few key sections ...

- Assessment Areas
- Defining Community Development
- A New Evaluation Framework
- Retail Lending, Services & Products Tests
- Community Development Financing & Services Tests
- Impact Review
- A New Ratings Matrix
- New Data Collection and Report Requirements

# Quick Overview of the NPR



## The NPR has 8 stated objectives:

- Achieving core purpose of the CRA and LMI / communities of color
- Adapt to changes in the industry
- Provide clarity and consistency
- Tailored performance based on bank size, business model and local conditions
- Tailor data collection and use existing data when possible
- Promote transparency & public engagement
- Reinforce CRA-Fair Lending connection
- Consistency among agencies

# What's Happening Now: Joint NPR & Priority Areas



## The Illinois CRA Coalition Steering Committee identified these priority areas:

- Evaluation metrics & process
- Measuring performance
- Assessment areas
- Impact on rural communities
- Community engagement
- Balance of interest
- Small Businesses
- Racial Equity

**Do you have others?**

# Priority Issue: Evaluations



## Agencies propose four tests:

### 1. Retail Lending Test

- *How are your loans distributed across borrowers and communities at different income levels?*

### 2. Retail Products & Services Test

- *Do you offer products and services that are responsive to community needs?*

### 3. Community Development Financing & Investments Test

- *What loans and investments have you made in community development projects?*

### 4. Community Development Services Test

- *What community development services have you provided?*

# Priority Issue: Evaluations



## Exams are tailored to bank size:

- **Large banks (\$2B+)\***
  - All four tests
- **\*Large banks (\$10B+)**
  - Additional data reporting requirements
  - Retail Products & Services – also evaluated on digital/other delivery systems
- **Intermediate banks (\$600M up to \$2B)**
  - Retail Lending Test
  - Existing CD test OR opt-in for Community Development Lending & Investment Test
- **Small banks (less than \$600M)**
  - Existing lending test OR opt-in for Retail Lending Test



**ask the Regulators**

# Overall Evaluation Framework

Large Banks	<b>Retail Lending Test</b>	<b>Retail Services and Products Test</b>	<b>CD Financing Test</b>	<b>CD Services Test</b>
Intermediate Banks <i>Retail Lending Test and existing CD test <u>or</u> opt into CD Financing Test</i>	<b>Retail Lending Test</b>		<b>existing CD test</b>   <b>CD Financing Test</b> <i>(default) or (opt-in)</i>	
Small Banks <i>existing lending test <u>or</u> opt into Retail Lending Test</i>	<b>existing lending test</b>   <b>Retail Lending Test</b> <i>(default) or (opt-in)</i>			
Wholesale and Limited Purpose Banks			<b>CD Financing Test</b>	

# Priority Issue: Measuring Performance

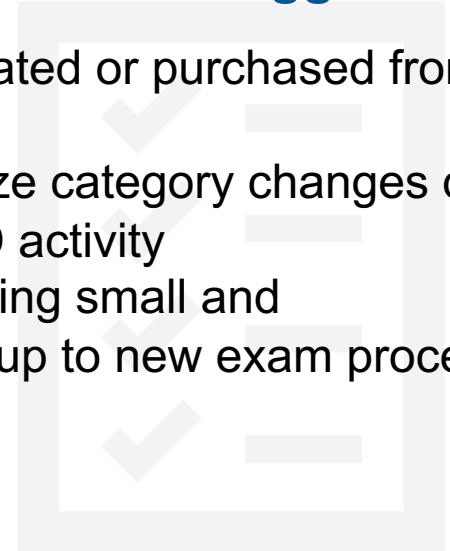


## Proposal takes steps to address rating inflation in CRA exams...

- In recent years, 98% of banks passed their CRA exams
- Metrics-based tests set clear and consistent expectations
- Qualitative tests allow for examiner discretion
- Focus on preventing "loan churn"

## ...but should go further. We suggest:

- Limit to loans originated or purchased from originator
- Ensure that bank size category changes do not result in less CD activity
- Transition plan to bring small and intermediate banks up to new exam process



## Community Development (CD) Activities List & Impact Review

- **CD Activities List** gives examples of projects that would be considered in exam
  - Our position: Proceed with **caution**
  - Stress that list is not exhaustive, banks should not limit activities based on the list.
- **Impact Review** will add consideration of CD activities impact on LMI communities
  - Our position: Proceed with **caution**
  - Add more quantitative elements to create more consistency, transparency, and limit rating inflation

# Priority Issue: Measuring Performance



# NPR: Bank Size



## Remember: bank size matters

- **Large banks**
  - Assets of \$2 billion+
- **Intermediate banks**
  - Assets between \$600 million & less than \$2 billion
- **Small bank**
  - Assets less than \$600 million



# Priority Issue: Assessment Areas



## Where bank activity will be considered for CRA purposes - proposed:

- **Facility-Based Assessment Areas (FBAAs)**
- **Retail Lending Assessment Areas (RLAAs) - *NEW***
- **Other Areas for Eligible Community Development Activity – *NEW***
- **Deposit Based Assessment Areas (DBAAs) - ???**



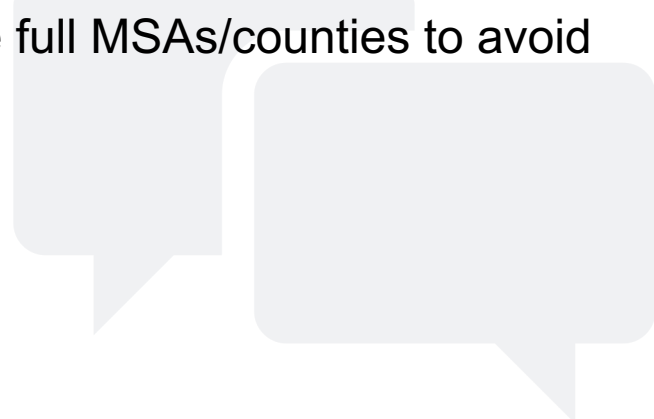
# Priority Issue: Assessment Areas



## Facility-Based Assessment Areas

are areas around a bank's main office, branches and deposit-taking remote service facilities, e.g., ATMs

- NPR proposes that intermediate and small banks could designate partial MSAs or counties; large banks must still designate whole MSAs, metro divisions or counties
- Our position: partial MSAs/counties **okay** for small banks **but not** for intermediate banks. Intermediate banks should have to designate full MSAs/counties to avoid redlining.



# Priority Issue: Assessment Areas



## Retail Lending Assessment Areas (RLAAs) - NEW

- NPR proposes only for large banks
- RLAA based on **concentrations of home mortgage or small business lending** outside of FBAAAs

\* **100 home loans or 250 small business loans** in **each** of the two most recent years

Our position: Creating RLAAAs **great** but **also include** intermediate banks and add consumer lending activity to mortgage/small business lending

Additional **caution:** reconsider flat loan number thresholds to avoid manipulation

## Priority Issue: Assessment Areas



- **Other Areas for Eligible Community Development Activity – *NEW***
- NPR proposes that community development loans, investments and services conducted anywhere nationwide outside of FBAs would be considered at the state, multistate MSA, and institution levels, as applicable, for banks evaluated under the new performance tests (just discussed)
- Our position: Proceed with **caution**
  - focus here should be on areas with low levels of community development activity like some **rural areas**



# Priority Issue: Assessment Areas



**Not included in the NPR but  
we **strongly** support:**

- **Deposit-Based Assessment Areas**
  - Based on where a bank, including online ones, receive deposits
  - A way to account for new way of banking
  - *Why?* Because CRA should evaluate how banks are doing where they're doing business, including getting deposits



# Priority Issue: Rural Communities



## Good news:

- Regulators include **consideration** of the unique credit and banking needs **of rural areas** throughout the NPR.
- We **support** focusing certain aspect of the NPR to rural and other underserved areas, such as:
  - The newly proposed "**other Areas for Eligible Community Development Activity**" (discussed above)
  - As part of an **impact review** (discussed above)

# Priority Issue: Community Engagement



**The NPR falls short on delivering anything useful related to community engagement, so it's up to us:**

- Use large distribution networks to announce upcoming CRA exams
- Include a link in the announcement for people to submit a comment
- Create an open database for individuals and organizations interested in providing comments
- *NEW* community contacts for each exam
- Use plain language in announcements, notifications, exams and requests for information

# Priority Issue: Balance of Interest



**Efforts to reduce regulatory burden must not come at the expense of community needs. Our 3 principles:**

1. Under no scenario should reform result in any institution doing less
2. More data = greater accountability
3. Make all data used to evaluate a bank publicly available and in plain English

# Priority Issue: Balance of Interest



## Specific recommendations:

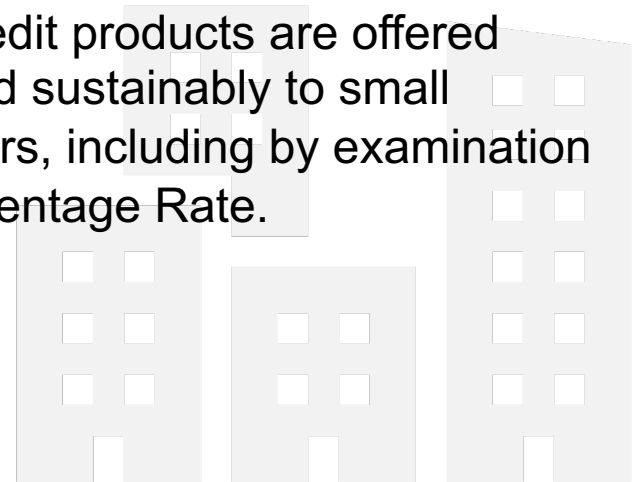
- Treat all large banks equally
- Include direct and indirect consumer loans
- Only consider financial literacy to LMI
- No institution should be allowed to fail *any* of their communities
- Evaluate lending products based on the # of loans, not \$ amount
- Collect deposit information
- No institution should do less reinvestment because of this reform

# Priority Issue: Small Businesses



## There are 3 areas we would like developed for the benefit of the BIPOC small business owner:

- Leverage Section 1071 race collection data to better track the success of lending to BIPOC small business owners,
- Ensure the small business component of the Retail Lending Test accurately measures and tests all business lending made to smaller firms, specifically for loans under \$250,000, and
- Ensure that credit products are offered responsibly and sustainably to small business owners, including by examination of Annual Percentage Rate.



# Priority Issue: Racial Equity



## The Federal CRA was enacted to eliminate redlining by lenders.

Was drafted to eliminate the practice of redlining by lending institutions.

- Redlining is about race not income
- Fed ANPR spent a lot of time asking questions about how to incorporate race into the CRA
- NPR proposal to publish HMDA data in each large bank exam BUT *without* having an impact on ratings ... **THAT'S IT!!!!**

# Priority Issue: Racial Equity



## Coalition Proposal on Race & CRA:

- Adding racial demographics to the list of factors to consider when delineating assessment areas
- Creating benchmarks and metrics to evaluate lending and services to communities of color in each subtest
- Incorporating HMDA data analysis of lending by race
- Any violation of civil rights, equal protection, or consumer protection laws results in immediate downgrade to **Needs to Improve**
- If fair lending investigation pending, note during exam and follow-up when investigation done

# Questions & Discussion



## What do the federal regulators need to know from community to make the CRA an effective tool?

- *What will help your community meet their credit needs?*
- *What rules will make things better in your community? What are you hoping to see change?*

Share your organization's experience serving your community – and feel free to add any specific recommendations and/or cautions you have.



# Joint NPR: Speak Up!



## Simple ways to have your voice heard:

1. Join the Coalition and sign on to the IL CRA Coalition Letter.

- **Firm Deadline for Coalition Sign On Letter: Aug. 4, 2022, at Noon (12:00 p.m.) Central Time**

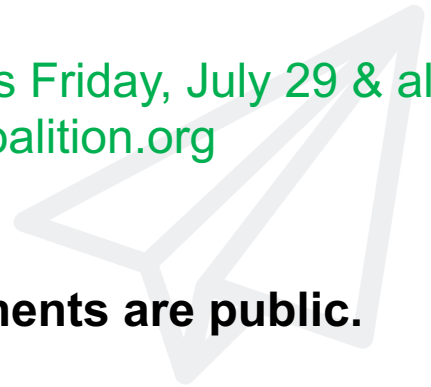
2. Use our portal to submit an individual comment letter.

- **Final deadline for all comments is Friday, Aug. 5, 2022.**

### Be on the look-out:

Links will be sent out this Friday, July 29 & also available on [www.ilcracoalition.org](http://www.ilcracoalition.org)

**Note that all comments are public.**



# On the Horizon



Illinois Department of Financial & Professional & Regulation (IDFPR) will release proposed implementing rules for the recently passed **Illinois Community Reinvestment Act** (IL CRA).

Once this occurs, there will be an opportunity to review and comment.

**Critically important.**



# THANK YOU

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QUESTIONS? COMMENTS?

[www.ILCRACoalition.org](http://www.ILCRACoalition.org)

