Welcome to the Webinar

Today’s event will begin at 2:00 PM ET.
Housing Assistance Council

Building Rural Communities since 1971
Upcoming Events

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Proposed Changes to the Community Reinvestment Act (CRA)

AND WHAT IT MEANS FOR RURAL COMMUNITIES

HOUSING ASSISTANCE COUNCIL

10-24-18
Office of Comptroller of Currency (OCC) is seeking comments in advance of their rulemaking efforts to reform the CRA.

The CRA charges federal regulators with assessing the degree to which depository institutions meet the credit needs of their communities.

Regulatory changes can impact lending in many areas.

Comments are due by November 19th.
What is your knowledge level of the CRA?
The Community Reinvestment Act (CRA) in 5 minutes

- CRA Legislation enacted in 1977 to combat “redlining” and disinvestment.
- The legislation requires federally-insured depository institutions to meet the credit needs of their entire service areas, including low- and moderate-income neighborhoods.
- The CRA charges federal bank regulators (OCC, FDIC and Federal Reserve) with evaluating and rating depository institutions on the degree to which they fulfill these obligations.
- Periodic examinations based on asset size.
- Regulators list upcoming CRA examination and public input is encouraged.
CRA examinations review activities occurring within a lender’s service or assessment area.

Regulators identify low- and moderate-income and distressed and underserved census tracts. Qualified activities in these areas are highly valued.

There are four CRA ratings: Outstanding, Satisfactory, Needs to Improve and Substantial Non-Compliance.

Regulators can consider CRA examinations when a lender applies for other things like a merge or bank branch opening.
CRA Matters to Rural America

A majority of the institutions subject to CRA regulations, FDIC-insured lenders, are actually headquartered in rural and small-town areas.

FDIC-Insured Institutions by Headquarters Location, 2017

- Rural and Small Town: 54.8%
- Exurban and Suburban: 29.6%
- Urban: 15.7%

Source: Bank offices as of 6/30/17. Information obtained, 2/18/18, from the following FDIC website (Click on “Branch Office Deposits tab and select "All, 2017")
Areas Where Changes Are Proposed

The OCC notice presents this as modernizing the CRA
OCC efforts primarily focus on:

- Moving to a less complex, quantitative evaluation measure or measures
- Altering how lender assessment or service areas are defined
- Expanding the types of activities for which lenders can receive CRA consideration
Moving to a Quantitative Measure

How should we rate a lender’s performance?

- Currently most CRA exams evaluate an institution’s activities in at least one of the following three areas, lending, service and community development/investment tests, depending on asset size.
- Evaluators review and rate lenders activities (information collected by bank and provided by public) and at the end a **final score** is provided along with a report explaining how it was arrived at.
- The proposal seeks to move the rating to be a metric-based approach.

Also known as the “One Metric Rule”
One Metric Rule

“For example: a bank with $1 billion in total assets that conducted $100 million in CRA-qualified activities in the aggregate would receive a 10-percent ratio.” The new rating would be based on established ratio thresholds

- Potentially limits community involvement
- Potential to further minimize rural activities
- Easier to determine a score this way, however, it would be difficult to capture how well a lender is meeting the financial service needs of their assessment area with a single measure.
Expanding Assessment Areas

Where is a bank responsible for lending?

- Currently a lender’s assessment area primarily consists of where they have a bank branch.
- Lenders are only evaluated on what occurs in their assessment areas

Under the current definition of assessment areas, there is limited activity in low-income rural areas.
Expanding Assessment Areas

The OCC notes, “An updated approach to define assessment areas could allow a bank to include additional areas tied to the bank’s business operation (e.g., areas where the bank has a concentration of deposits or loans, non-bank affiliate offices, or loan production offices.)

- Could limit the importance of bank offices and in store services.
- Rural areas do not fare so well currently. Bank branches are declining in number.
- Need to include more activity in underserved-distressed rural areas while also preserving importance of bank branches.

Moving to a Quantitative Measure >> Expanding Assessment Areas >> Expanding the types of CRA activities
Expanding the types of CRA Eligible Activities

- CRA exams explore retail and community development lending and investment activities, with a focus on what occurs within low- and moderate-income (distressed and underserved) areas.
- The CRA examiner, applying general guidelines, determines which activities receive consideration.

Moving to a Quantitative Measure

Expanding Assessment Areas

Expanding the types of CRA activities
Expanding the types of CRA Eligible Activities

The OCC APR asks, “Under what circumstances should consumer lending be considered as a CRA-qualifying activity? For example, should student, auto, credit card or affordably priced small-dollar loans receive consideration? If so what loan features or characteristics should be considered in deciding whether loans in these categories are CRA-qualifying.”

- Broadening the number of CRA acceptable activities would not necessarily increase access and investment.
- Want to be sure that any new activity included represents a quality, affordable financial service.
- Increased clarity could help.

Moving to a Quantitative Measure  
Expanding Assessment Areas  
Expanding the types of CRA activities
Other Areas of Importance

- More emphasis on minority neighborhoods
- Nearly all lenders currently pass the CRA Exam
- Treatment of bank affiliates
- Important to consider CRA exams when lender applies for bank branches.


HAC’s draft comments will be released early November—Look out for information
Timeline

- Advanced Notice of Proposed Rulemaking November 19th
- High volume of comments are expected
- OCC to put out NPR sometime in 2019
The OCC Needs to Hear from Rural America!

Comments are due by November 19th!

Questions?

LET US KNOW WHAT YOU NEED TO KNOW