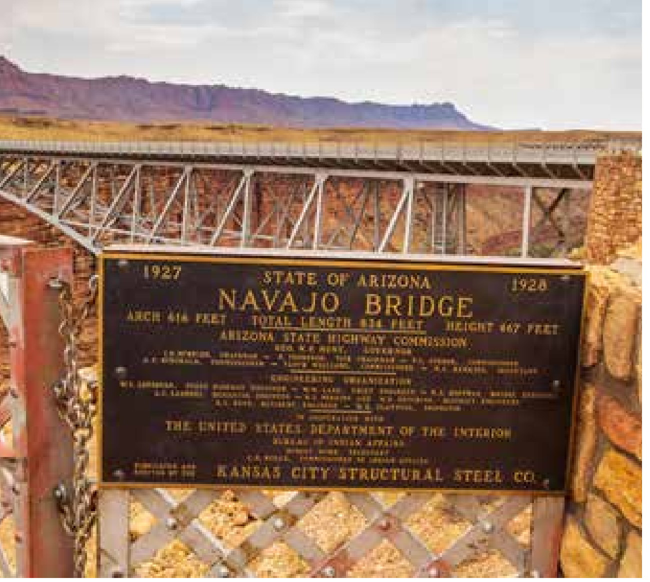


## Expanding Where CRA Activity Counts

Modernized regulations should retain assessment areas in which a bank has its main office and branches or deposit-taking ATMs. Under the proposal, banks would designate assessment areas consisting of one or more whole metropolitan statistical areas, whole metropolitan divisions, or whole contiguous political subdivisions (such as counties or cities) in which the bank has its main office and branches or deposit-taking ATMs.

In addition, modernized regulations should require a bank that receives 50 percent or more of its domestic retail deposits from outside of areas surrounding its main office and branches or deposit-taking ATMs to designate additional assessment areas in geographies where the bank receives a significant portion of its domestic retail deposits. Today, a bank with its headquarters and branches in one state or region that has a large concentration of deposit customers outside of that region is not evaluated for lending, investing, and servicing its broader communities, including LMI areas and populations. That leads to CRA deserts where communities go underserved. Revising the regulation to require banks to serve their broader communities helps to eliminate this inequity.

Several state-implemented CRA regulations define assessment areas based on the location of headquarters and branches as well as defining assessment areas more broadly and where loan activity occurs.

### Benefits of Expanding Assessment Areas

- Maintaining assessment areas around bank headquarters, branches, and deposit-taking ATMs preserves the local community focus of CRA activity.
- Creating assessment areas for banks with significant customer populations outside of the areas surrounding their headquarters, branches, and deposit-taking ATMs helps eliminate CRA deserts, and incentivizes investment and lending in rural communities.
- Adding assessment areas that capture banks' broader customer base holds banks accountable for meeting the needs of their entire communities and better matches how consumers bank today.

## Establishing a More Objective Way to Measure CRA Performance

Regulations should be revised to establish empirical benchmarks based on historical CRA activity that banks must meet to receive a presumptive rating for each statutory rating category (outstanding, satisfactory, needs to improve, and substantial noncompliance). Each bank should be evaluated against that empirical benchmark in each of its assessment areas and for the overall bank.

To establish the empirical benchmarks, regulators would consider historical CRA activity compared with domestic deposits.

Banks would be required to report CRA activity to regulators on a periodic basis.

During its performance evaluation, examiners would validate the reported activity and compare the volume of reported activity with the empirical benchmarks to assign a presumptive rating.

Once an examiner establishes the bank's presumptive rating, the examiner would consider the performance context specific to the bank to adjust the rating. The examiner would also make any adjustments that are warranted based on evidence of discriminatory or other illegal credit practices.

The evaluation would appraise the bank within each assessment area and at the overall level, appraise both the value and the volume of activity, and require a minimum mix of certain types of activities that meet the needs of the bank's communities.

### Benefits of Objective Evaluation

- Objective empirical benchmarks reduce subjectivity in evaluating bank CRA performance.
- Empirical benchmarks at assessment area and overall bank levels ensure banks serve both their local and broader communities.
- Benchmarks at bank and assessment area levels eliminate concern of a single measure.
- Benchmarks can be set to incentivize more investment, lending, and services.
- Proposed method preserves a role for performance context.
- Proposed method differentiates among size and business models.
- Requiring activity to be composed of a certain percentage of investment and services ensures an effective mix of CRA activity.

## Making Reporting More Timely and Transparent

Revised regulations should require banks to report information to support the evaluation of their CRA activity. Aggregate data may be made available to the public to promote awareness and transparency of CRA activity among banks. Regular reporting based on objective measures and consistently defined data fields improves comparability from bank to bank, region to region, and over time. Improved reporting reduces regulatory burden involved in evaluating banks' CRA performance and reduces the time required to produce public performance evaluations.

### Benefits of More Timely and Transparent Reporting

- More standardized reporting allows for comparison across industry and over time.
- Better reporting enables more effective stakeholder dialogue regarding the volume, type, and quality of CRA activity.
- More timely reporting reduces the gaps between published performance evaluations.
- More timely and transparent reporting brings greater predictability to certain licensing applications.

# COMMUNITY REINVESTMENT ACT

## Opportunity for Modernization

Office of the Comptroller of the Currency

OCC-regulated banks and savings associations are estimated to conduct up to 70 percent of all CRA activity.

## Making CRA Regulation Work Better for Everyone

The Community Reinvestment Act (CRA) has been a critically important tool, helping to keep communities vibrant for more than 40 years and spurring banks to spend trillions of dollars in lending, investment, and services to communities across the nation that need them most. More CRA activity to promote the revitalization of our neighborhoods and make CRA work better for everyone can be accomplished by

- clarifying what activity is eligible for CRA consideration.
- expanding where activity counts.
- creating a more objective way to evaluate CRA activity.
- improving the transparency and timeliness of reporting.

## Why Now?

Over the last 40 years, CRA regulations have not kept pace with the changes in banking.

Regulations and guidance have become difficult to understand, cumbersome, outdated, and complex.

- Evaluations occur every several years and public reports take even longer, creating long gaps between published evaluations.
- Evaluations and ratings are subjective and inconsistent.
- Community and economic development activities are narrowly defined and provide little incentive for many loan products, investments, and services that could help communities.
- Ambiguity over what activities qualify for CRA consideration discourages new and creative investment and lending in high-need areas.
- The current, limited definition of assessment areas creates CRA deserts in rural areas.
- Assessment areas have not evolved along with how consumers bank and how banking services are delivered.

***94*** percent of ANPR comments think the current CRA lacks objectivity, transparency, and fairness.

***98*** percent think it is applied inconsistently.

***88*** percent say it is hard to understand.

## CRA Background and Authority

The CRA was enacted in 1977 to encourage insured depository institutions to meet the credit and deposit needs of their communities, including low- and moderate-income (LMI) communities. The law fought “redlining” and helps to increase access to capital, credit, and banking services, particularly in underserved areas.

Regulations have changed several times since the CRA became law, most significantly in 1995.

The law requires the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation (FDIC), and the Board of Governors of the Federal Reserve System to

- write implementing regulations.
- encourage institutions to help meet the credit needs of their communities.
- assess institutions’ CRA performance.
- publish ratings and performance evaluations.
- consider CRA ratings in certain licensing applications.
- report to Congress annually.

The CRA does not require the agencies to issue joint rules. Although the OCC is working closely with other agencies to issue a notice of proposed rulemaking, the OCC can adopt rules applicable to the federal banking system. Modernizing CRA regulations for OCC-regulated banks and savings associations could make a significant difference because OCC-regulated institutions are estimated to conduct up to 70 percent of all CRA activity.

The CRA does not give agencies the authority to take enforcement action based on CRA performance. Instead, poor performance may adversely affect mergers and acquisitions, as regulators are required to consider bank CRA performance when evaluating applications for mergers, consolidations, and establishing and relocating branches.

CRA performance evaluations are not fair lending examinations and are not used to identify discrimination in individual credit decisions. Federal banking regulators conduct fair lending examinations separately from CRA performance evaluations and take enforcement actions based on violations of fair lending laws and regulations.

## Opportunities to Improve CRA Regulations

Feedback from comments to the advance notice of proposed rulemaking (ANPR) published in August 2018 and extensive outreach suggest four areas in which CRA regulations can be dramatically improved. Many of these changes are consistent with CRA laws and regulations implemented in the 11 states that have enacted state-level CRA requirements for state banks.

### Clarifying What is Eligible for CRA Consideration

CRA regulations should be revised to establish clear standards for what activities receive CRA consideration and what do not; require agencies to publish periodically a list of approved loan products, investments, and services; and require agencies to establish a transparent process for approving additional activities eligible for CRA consideration.

**Benefits of Clarifying What Activities Are Eligible for CRA Consideration**

- A published list and process for seeking advance approval would eliminate ambiguity regarding what counts and what does not.
- Less ambiguity and greater transparency eliminate uncertainty and increase predictability regarding bank CRA activity and the evaluation of that activity.
- Providing consideration for loans to small businesses and farms up to $5 million in annual revenue would provide greater incentives for lending to small businesses and farms and create jobs in underserved areas.