NCRC
National Community Reinvestment Coalition

Thursday, December 7th, 2023

CRA Final Rule
Deep Dive

House Keeping

Code

Our code of conduct applies to all gatherings.
http://www.ncrc.org/conduct/

Q&A

Submit your questions for the speakers via the Q&A module at the bottom of your screen.

Essential links / tags

www.ncrc.org/
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Tag #TreasureCRA and #JustEconomy

About NCRC

The National Community Reinvestment Coalition is a network of organizations and individuals dedicated to creating a nation that not only promises but delivers opportunities for all Americans to build wealth and live well.

We work with community leaders, policymakers and institutions to advance solutions and build the will to solve America's persistent racial and socio-economic wealth, income and opportunity divides.

Mission

Make a **Just Economy** a national priority and a local reality.

Speakers

- **Catherine Crosby**, *Chief of Community Engagement & Institutional Accountability, NCRC*
- **Kevin Hill,** *Senior Policy Advisor, NCRC*
- **Vernice Miller-Travis**, *Executive Vice President, Metropolitan Group*

Presentation Outline

- Summary of New Rule
  - High Level
  - Deeper Dive
- Important Topics for Community Organizations
- Some Issues We Will Be Tracking
- Q&A

Positive Changes from Previous CRA
– Retail Lending Test and New Assessment Areas

- Much more objective and transparent Retail Lending Test
- In summary, large banks must lend at
  - either 80% of total lending to borrowers with low and moderate incomes or small businesses/farms, or at 60% of local demographics,
  - in 60% of their assessment areas in order to pass the Retail Lending Test that accounts for 40% of their CRA rating

Positive Changes from Previous CRA *– Retail Lending Test and New Assessment Areas*

- Analysis of small business/small farm lending now looks at lending to businesses under $250,000 in revenue, instead of only under $1 million
- In addition, much 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 – *Community Development*

- New categories of CRA-eligible community development encourage banks to pursue loans, investments, and grants on Native Lands, support weather resiliency, and financing that contributes to the health and well-being of individuals with LMI

Positive Changes from Previous CRA *– Community Development*

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

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

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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 will only be evaluated if it accounts for 50% of a bank's total retail lending

Unhelpful Changes From The Proposed Rule

- Evaluation of credit and deposit products can now only contribute positively to a banks CRA performance, meaning banks will not be downgraded for only offering expensive deposit accounts or unaffordable loan products
- Also, the new investment metric for banks above $10 billion can only contribute positively as well

Missed Opportunities

- Little progress on incorporating race into the CRA process
- No changes to how CRA performance affects merger and branch applications
- No improvements to process for submitting comments
- No evaluation of the climate impacts of bank financing

Increased Asset Thresholds

- **Large Banks** - $2 billion in assets and up
  - Previously $1.5 billion and up
- **Intermediate Banks** – between $600 million and $2 billion in assets
  - Previously $376 million to $1.5 billion
- **Small Banks** - $600 million in assets and below
  - Previously $376 million and below

Assessment Areas

- <u>**Facility-Based Assessment Areas**</u> – these are the assessment areas we have now and includes where a bank has branches or ATMs and applies to banks at all asset levels
- There are two new types of assessment areas
  - Retail Lending Assessment Areas
  - Outside Retail Lending Assessment Area

New Assessment Areas

- **Retail Lending Assessment Areas** – large banks that do more than 20% of their retail lending outside their branch network (or facility-based assessment areas) will now have retail lending assessment areas in markets where they've originated either 150 closed-end mortgages, or 400 small business loans, in each of the last two years

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New Assessment Areas

- Regulators estimate that 310 large banks (83% of large banks) will not be required to create Retail Lending Assessment Areas, 50 (13%) will be required to create 1-10, and 5 will be required to create more than 50
- Based on 2018-2020 data, large banks would have received failing ratings in 22.4% of Retail Lending Assessment Areas, and that this would've resulted in 7% of large banks receiving a "Needs To Improve" on the new Retail Lending Test

New Assessment Areas

- **Outside Retail Lending Areas** - All large banks will now be evaluated on their lending in Outside Retail Lending Areas, which is a nationwide assessment area that excludes the banks facility based and retail lending assessment areas, as well as any rural counties where the bank did not originate or purchase any loans

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New Assessment Areas

- **<u>Outside Retail Lending Areas</u>** - Intermediate banks will also have Outside Retail Lending Areas if 50% or more of their loans and purchases, using a combination of loans counts and dollars, are outside of their facility-based assessment areas.
- In addition, intermediate banks, as well as small banks, can opt in to having Outside Retail Lending Areas

Tests and Weights

- **Large Banks** - $2 billion in assets and up
  - Retail Lending Test – 40% weight of state, MSA, and institution/total rating
  - Community Development Financing Test – 40% weight of state, MSA, and institution/total rating
  - Retail Services and Products Test – 10% weight of state, MSA, and institution/total rating
    - Qualitative evaluation of products can only contribute positively
  - Community Development Services Test – 10% weight of state, MSA, and institution/total rating

Tests and Weights

- All large banks with 10 or more facility-based assessment areas and retail lending assessment areas may not receive a passing rating unless the bank receives at least a “Low Satisfactory” on the lending test in 60% of its facility and retail based assessment areas

Tests and Weights

- **<u>Intermediate Banks</u>** - $600 million to $2 billion in assets
  - Retail Lending Test (with modifications) – 50% weight of state, MSA, and institution/total rating
  - Previous Community Development test with opt-in option for new Community Development Financing test – 50% weight of state, MSA, and institution/total rating
- **<u>Small Banks</u>** - $600 million in assets and below
  - Previous lending test, with opt-in option for new modified Retail Lending Test – 100% of state, MSA, and institution/total rating

Retail Lending Test

- **4 step process**
  1. Retail Lending Volume Screen
  2. Determining Major Product Lines
  3. Distribution Analysis – Comparing to Market and Community Benchmarks
  4. Combining different product line scores and assessment areas

Retail Lending Test
– Retail Lending Volume Screen

- In each facility-based assessment area, a banks loan-to-deposit ratio needs to be within 30% of the aggregate of all banks loan-to-deposit ratio
- If it fails this screen, a large bank cannot pass in that assessment area unless it has an “acceptable basis” for not reaching the 30% threshold

Retail Lending Test
– *Major Product Lines*

- All major product lines will be evaluated on the extent of loans made to borrowers with low incomes, moderate incomes, or to businesses or farms below $250,000 and between $250,000 and $1 million, as well as in low and moderate income census tracts

Retail Lending Test
– Major Product Lines

- A banks closed-end mortgage lending, small business or small farm lending, and auto lending is considered a major product line if it accounts for 15% or more of the banks total lending in the assessment area
- In retail lending assessment areas, a major product line is any that meets the thresholds for requiring a retail lending assessment area – at least 150 closed-end mortgage loans or at least 400 small business loans in each of the last two years.

Retail Lending Test – *Distribution Analysis*

- Lending performance will be compared to two benchmarks
- Market benchmark determined by an aggregate of all lending to each category
- Community benchmark determined by local demographic data

Select the Lesser of the Two Calibrated Benchmarks

Supporting Conclusion	Calibrated Market Benchmark		Calibrated Community Benchmark
"Outstanding"	115% of the Market Benchmark	or	100% of the Community Benchmark
"High Satisfactory"	105% of the Market Benchmark	or	80% of the Community Benchmark
"Low Satisfactory"	80% of the Market Benchmark	or	60% of the Community Benchmark
"Needs to Improve"	33% of the Market Benchmark	or	30% of the Community Benchmark

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Retail Lending Test
– Combining Scores

- Each product line score will be weighed based on the banks percentage of loan dollars and total loans from that product line in order to get the final rating for that assessment area
- The weight of each assessment area for state ratings and the overall Retail Lending Test score is based on the average of (1) the banks share of deposits in the assessment area, and (2) the banks share of loans using loan dollars and loan counts

Community Development Financing Test

- This test analyzes community development by comparing a bank's ratio of combined loans and investments compared to deposits to state and nationwide benchmarks
- Banks will be analyzed on activities in their branch networks, as well as nationwide
- Examiners will also evaluate for impact and responsiveness
- Does not include thresholds for determining ratings

Community Development Financing Test

- NCRC and several of our members requested a separate metric for investments to ensure that combining loans and investments does not lead to banks decreasing investments
- In response, the agencies added an additional metric and benchmark for banks above $10 billion in assets

Community Development Financing Test

- This metric will analyze the banks investments compared to deposits, and compare it to the national benchmark of all other banks above $10 billion in assets, with investments in mortgage backed securities excluded
- However, this can only contribute positively to a banks exam

Retail Services and Products Test – *Branches and Services*

- Banks with assets above $10 billion will be evaluated on
  - Branch availability and services
  - Remote service facility availability (ATMs for example)
  - Digital delivery systems and other delivery systems
- Banks w/ $2 billion - $10 billion in assets will not be evaluated on digital and other delivery systems, unless the bank requests it, or if the bank does not maintain any branches

Retail Services and Products Test – *Branches and Services*

- Branch networks will be analyzed by comparing the percentage of branches in census tracts at each income level (Low, Moderate, Middle, and Upper) to three separate benchmarks determined by the percentage of
  - (1) census tracts,
  - (2) households, total businesses and farms, and
  - (3) full service bank branches, at each census tract income level in the specific assessment area

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Retail Services and Products Test
– Branches and Services

- Regulators will also evaluate services provided at branches that improve access or decrease costs for customers with LMI. The following services are provided as examples
    - Bilingual and translation services
    - Free or low-cost check cashing services, including, but not limited to, check cashing services for government-issued and payroll checks
    - Reasonably priced international remittance services
    - Electronic benefit transfers

Retail Services and Products Test – *Credit and Deposit Products*

- All large banks will be evaluated on their credit products, large banks above $10 billion in assets will also have their deposit products analyzed
- Credit products evaluated on their quantity, features, accessibility, and affordability
- Deposit products evaluated on cost, availability, usage, and responsiveness
- The evaluation of both credit and deposit products can only boost a banks score

Community Development Service Test

- Community development services are evaluated based on
  - Number of services in each community development category
  - The capacities in which a bank's board members or employees serve (for example, do bank staff serve on boards of nonprofits)
  - Total service hours
  - Any other evidence demonstrating that the bank's community development services are responsive to needs, such as the number of organizations served

Implementation Timeline

- Although the effective date of the final rule is April 1, 2024, the majority of the rule does not take effect until January 1, 2026

Race

- The agencies will start publishing info on the lending performance of large banks by race and ethnicity in all of their assessment areas using HMDA data
- This information will be on agencies websites, not on CRA exams, and will not impact a banks CRA rating
- CRA performance can still be downgraded for illegal credit practices, but not for non-credit practices, as originally proposed

Important Topics for Community Organizations

- The following categories have been added to the definition of community development
    - Community supportive services
    - Disaster preparedness and weather resiliency
    - Revitalization or stabilization, essential community facilities, essential community infrastructure, and disaster preparedness and weather resiliency in Native Land Areas
    - Activities with Minority depository institutions (MDIs), Women depository institutions (WDIs), Low income credit unions (LICUs), or Community Development Financial institutions (CDFIs

Important Topics for Community Organizations – *Weather Resiliency*

- "Weather resiliency" was originally called "climate resiliency" in the proposal
- These activities must
  - benefit or serve targeted census tracts and their residents
  - be done in conjunction with a government plan, program, or initiative, or a mission-driven nonprofit organization,
  - not directly result in forced or involuntary relocation of individuals with LMI

Important Topics for Community Organizations – *Weather Resiliency*

- Examples provided of what would qualify include;
  - the construction of flood control systems,
  - promoting green space in order to mitigate the effects of extreme heat,
  - community solar projects, microgrid and battery projects that could help ensure access to power to an affordable housing project in the event of severe storms

Important Topics for Community Organizations – *Weather Resiliency*

- The agencies note that LMI communities are more affected by "weather-related risks" but largely avoid a discussion of how climate change is increasing the frequency and severity of these risks.
- They specifically declined to consider financing related to decarbonization and transition to clean energy in general as eligible, citing difficulties with determining how it would benefit residents of LMI census tracts and other targeted census tracts
- However, financing that increases energy efficiency should qualify if it meets the criteria

Important Topics for Community Organizations *– Impact & Responsiveness Factors*

- CRA exams will now include how much of a banks community development activities fits into 12 different categories of impact and responsiveness
- This could help local organizations position their communities for community development financing that banks might not have previously pursued since banks will want to avoid having nothing to report for the various categories

Important Topics for Community Organizations *– Impact & Responsiveness Factors*

1. Serves persistent poverty counties, with persistent poverty counties defined as those with poverty rates of 20% or more for 30 years
2. Serves census tracts with a poverty rate of 40% or higher
3. Serves areas with low levels of community development financing

Important Topics for Community Organizations *– Impact & Responsiveness Factors*

4. Supports MDI, WDI, LICU, or CDFI, excluding certificates of deposit with a term of less than one year
5. Benefits or serves individuals, families, or households with low income
6. Supports small businesses or small farms with gross annual revenues of $250,000 or less
7. Directly facilitates the acquisition, construction, development, preservation, or improvement of affordable housing in High Opportunity areas

Important Topics for Community Organizations *– Impact & Responsiveness Factors*

8. Benefits or serves residents of Native Land Areas
9. Is a CRA-eligible grant or donation
10. Is an investment in projects financed with LIHTC or NMTC
11. Reflects bank leadership through multi-faceted or instrumental support
12. Is a new community development financing product or service that addresses community development needs for individuals, families, or households with LMI

Some Issues We Will Be Tracking

- We will continue to monitor trends in home lending for borrowers with LMI and people of color to evaluate the impact of the new Retail Lending Test
- Tracking new SPCPs
- Loss of branches and community development caused by new asset thresholds
- Declines in investments
- Examiner guidance and implementation documents, including any open comment periods related to these

National Community Reinvestment Coalition

Q&A

Thank you for joining us!

- Keep an eye on www.ncrc.org/events for future events

- Join or renew if you're not a current member: www.ncrc.org/join
  - Email us at membership@ncrc.org for more info

- Save the date! 2024 Just Economy Conference, April 2-4. www.ncrc.org/conference

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