CRA Evaluation Measure - "*Single Metric*" *framework* - §25.10

"It is a "count the widgets" approach that does not take into account the quality and character of the bank's activities and its responsiveness to local needs."

- Former FDIC Chair Marty Gruenberg

The OCC/FDIC Proposal

$$\frac{\textit{Qualifying Activities Value}}{\textit{Average quarterly } \textbf{\textit{Retail Domestic Deposits}}} + .01\left(\frac{\textit{Branches in Specified Areas}}{\textit{Total Branches}}\right)$$

- Applies to the nation's largest banks
- CRA investment test eliminated
- Expanded list of CD activities are CRA qualifying (e.g. infrastructure projects that partially benefit LMI)
- Double credit for most CD investments (exc.MBS and muni bonds); AH CD loans; support for CDFIs

Concerns

Concerns

- Dollar volume is too determinative
- Favors large and easy deals over complex/innovative ones
- Favors quantity of bank activities over quality/impact
- Bank branches and affordable banking services given short shrift
- e.g. fewer financing options for smaller nonprofits to build and preserve deep affordable housing
- e.g. fewer small retail loans - small mortgages, small business and small farm loans

Proposed General Bank Performance Standards -*$500 million is bank assets and above*

Presumptive CRA ratings - § 25.12

“These presumptive standards undermine one of the most important benefits of CRA - the incentive for banks to develop partnerships with local community organizations and other stakeholders to address community needs - because the banks can satisfy their CRA obligations by simply hitting the metric..”

OCC/FDIC Proposal

- Dollar volume results in new “presumptive rating”
  - 11% and up = *Outstanding*
  - 6% = *Satisfactory*
  - 3% = *Needs to Improve*
  - Less than 3% = *substantial noncompliance*
- CRA Ratings at both the assessment area and bank level
- Other performance standards
  - e.g. 2% CD minimum
  - e.g. retail lending test (pass/fail)

Concerns

- Banks could fail the exam in nearly half of their local communities and still pass
- Discourages what CRA has done best – *encourage community partnerships*
- Rations CRA – *the perfect becomes the enemy of the good*
- “empirical benchmarks” appear arbitrary; impact unknown

CRA Qualifying – *expanded activities/areas - §25.04*

"expands eligible and qualifying CRA activities to include some of what banks already do in the ordinary course of business, thereby diluting the effectiveness of CRA."

OCC/FDIC Proposal

- Agencies to publish non-exhaustive list of examples of qualifying activities
- Community development expanded, including
  - essential infrastructure
  - OZ funds (e.g. stadium repair)
  - financial literacy for all
  - RH that "partially or primarily benefit" middle income in high cost areas

Concerns

- More and not less CRA grade inflation – *weakening*
- More activities; less LMI focus and impact
- *e.g. Will double affordable housing/CD credit mean easier middle-income projects over harder low-income projects?*

CRA Qualifying – definitions - §§ 25.04, 25.03

"CD loans, investments, and services would no longer have to have a primary purpose of CD targeted on LMI individuals and areas, small business or small farms, or underserved or distressed rural areas."

OCC/FDIC proposal

- Gone: "primary purpose" of CD test targeted at LMI+
- New: "partially or primarily" benefit/serve LMI standard
- More "pro-rata" credit for the dollar values that partially benefits LMI
- Expands qualifying middle-income tracts

Concerns

- Undermines CRA's historic focus on LMI
- Banks appear to do more in dollar volume, but less impactful activities
- CRA grade inflation
- Unclear impact

Retail Lending Distribution Test - § 25.11

(*depending on the bank's retail products)*

OCC/FDIC Proposal

- Borrower distribution test
  - for mortgages, small business/small farms, consumer loans
- Geographic distribution test
  - for small small business/small farms, consumer loans
- New higher small biz/small farm limits:
  - $2 mill. dollar loan limit
  - $2 mill. annual revenue limit
- Local AA: meet or exceed
  - 55% of LMI demographic percentage
  - 65% of peer loans percentage

Concerns

- Can fail in half of local AAs & still pass at the bank-level
- Low pass/fail standard -either demographic *or* peer comparator, not both
- Arbitrary thresholds
- No review of mortgage lending in LMI neighborhoods
- No incentive for small loans to home buyers, small business, small farms
- e.g. could pass with mainly high cost consumer lending

Assessment Areas (AAs) - §25.08

"…we do not know how many or where these deposit- based assessment areas might be, or how they would benefit low-and moderate-income communities. It is not clear that communities that are so-called "credit deserts" would necessarily benefit from the five percent threshold ."

OCC/FDIC Proposal

- Facility-based AAs – same as today
- New deposit-based AAs –if 50% of deposits outside branches, then where they receive 5%
- CRA credit in AAs and more *outside AAs credit* at the bank-level
- Strategic Plans rules revised & required for some

Concerns

- Favors easy retail and CD activities around the country over local credit needs
- Deposit data is limited -*how many new AAs? Where? In credit deserts? Rural areas?*
- Arbitrary deposit-based AA thresholds

The OCC's General CRA Performance Standards – *from the proposed rule*

CRA evaluation	Retail lending distribution tests	CD minimums	Presumptive rating category
The average of a bank's annual assessment area CRA evaluation measures meets or exceeds 11 percent (selected from a range of 10 to 15 percent).	A bank meets the established thresholds for all the retail lending distribution tests for its major retail lending product lines in that assessment area.	The quantified value of community development loans and community development investments in the assessment area, *divided by* the average of the bank's assessment area retail domestic deposits must meet or exceed 2 percent.	Outstanding.
The average of a bank's annual assessment area CRA evaluation measures meets or exceeds 6 percent (selected from a range of 5 to 10 percent).	A bank meets the established thresholds for all the retail lending distribution tests for its major retail lending product lines in that assessment area.	The quantified value of community development loans and community development investments in the assessment area, *divided by* the average of the bank's assessment area retail domestic deposits must meet or exceed 2 percent.	Satisfactory.
The average of a bank's annual assessment area CRA evaluation measures meets or exceeds 3 percent (selected from a range of 2 to 5 percent).			Needs Improvement.
The average of a bank's annual assessment area CRA evaluation measures is less than 3 percent (selected from a range of 0 to 5 percent).			Substantial Non-compliance.

Proposed General Bank Performance Standards - > $500 million is bank assets

NCRC