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

- 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

- 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

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

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

<table>
<thead>
<tr>
<th>CRA evaluation</th>
<th>Retail lending distribution tests</th>
<th>CD minimums</th>
<th>Presumptive rating category</th>
</tr>
</thead>
<tbody>
<tr>
<td>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).</td>
<td>A bank meets the established thresholds for all the retail lending distribution tests for its major retail lending product lines in that assessment area.</td>
<td>The quantified value of community development loans and community development investments in the assessment area, <em>divided by</em> the average of the bank’s assessment area retail domestic deposits must meet or exceed 2 percent.</td>
<td>Outstanding.</td>
</tr>
<tr>
<td>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).</td>
<td>A bank meets the established thresholds for all the retail lending distribution tests for its major retail lending product lines in that assessment area.</td>
<td></td>
<td>Satisfactory.</td>
</tr>
<tr>
<td>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).</td>
<td></td>
<td></td>
<td>Needs Improvement.</td>
</tr>
<tr>
<td>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).</td>
<td></td>
<td></td>
<td>Substantial Non-compliance.</td>
</tr>
</tbody>
</table>

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