

Press Release

September 21, 2020

Statement by Governor Lael Brainard

The Federal Reserve Board advance notice of proposed rulemaking (ANPR) will strengthen, clarify, and tailor the CRA regulation to better meet the law's core purpose. I am pleased to support it.

The CRA is a seminal statute that remains as important as ever as the nation confronts challenges associated with racial equity and the COVID-19 pandemic. We must ensure that CRA is a strong and effective tool to address ongoing systemic inequities in access to credit and financial services for low- and moderate-income (LMI) and minority individuals and communities.

The Board's ANPR seeks to advance the CRA's core purpose of addressing inequities in credit access and ensuring an inclusive financial services industry. To strengthen the CRA's role in financial inclusion, the ANPR would clarify that banks can receive credit for partnerships with MDIs and other mission-oriented institutions on a nationwide basis, and that such activities would be considered as part of a potential pathway to an "outstanding" rating. Furthermore, for regulated MDIs, investments in other MDIs and in their own institutions could be considered as enhancing their CRA performance.

Moreover, the ANPR proposes to designate certain areas, based on persistent inequities, where banks could receive credit for community development activities that often lie beyond the boundaries of a bank's branches. It proposes giving banks greater certainty that their community development activities will be considered in broader statewide and regional areas to enable banks to help address needs in "credit deserts" if they have the capacity to do so. The ANPR considers that loans with the smallest businesses, smallest farms, and minority-owned small businesses might be considered particularly impactful and responsive to community needs.

The Board seeks feedback on what additional modifications and approaches would strengthen the CRA regulation in addressing systemic inequities in credit access for minority individuals and communities.

Second, it is important for the CRA to ensure that a wide range of LMI banking needs are met. Stakeholder feedback has highlighted that retail lending, retail services, community development financing, and community development services are all essential to LMI communities. For large retail banks, separate assessments of each will support robust bank engagement with communities through a variety of channels.

Third, the ANPR proposes to modernize CRA assessment areas in recognition that reliance on mobile and internet banking has increased in the 25 years since the CRA regulation was last substantially revised. The ANPR still maintains a significant focus on branches, given their importance to individuals and communities. It proposes to tailor the branch-based assessment area definition based on bank size.

For large banks that conduct a significant amount of lending and deposit-taking outside of their facility-based assessment areas, the ANPR considers lending-based and deposit-based options for determining where banks should be assessed outside of where their branches are located.

For internet banks, which lend across a broad area with few or no branch locations, a nationwide assessment area may advance the CRA's goals more effectively than the current practice of assessing these banks solely where they have a headquarters office.

Fourth, the ANPR seeks to provide greater clarity and consistency through tailored performance evaluations. The ANPR introduces a metrics-based approach that is calibrated based on a database reflecting over 6,000 written public CRA evaluations. Clear quantitative thresholds would be established for the level of retail lending and community development financing that is needed to achieve a "satisfactory" CRA rating and made available in simple, regularly updated dashboards that banks could use to assess their own levels of activity.

For the Retail Lending Subtest, the thresholds would be based on local data that reflect the credit needs and opportunities among LMI individuals, small businesses, and small farms, and market data that reflects the level of LMI lending in the area by all lenders.

For the Community Development Financing Subtest, a large retail bank's community development loans and investments would be measured relative to its deposits in each assessment area. The thresholds for the Community Development Financing Subtest would be tailored to local differences and differences at the national level between rural and metropolitan areas and adjust automatically to changes over time.

Fifth, expectations would be tailored to the size and business models of different banks. Only large retail banks would be evaluated under all four subtests. Wholesale and limited purpose banks would be evaluated only on their community development activities. It is important for small banks to be able to remain under the current more qualitative approach to CRA evaluations if they so choose, although small banks would have the option to have their retail lending evaluated under the metrics-based Retail Lending Subtest.

Sixth, the ANPR seeks comment on striking an appropriate balance between providing greater certainty for how banks are assessed through the increased use of metrics and minimizing the associated data collection and reporting burden. The proposed metrics would rely to the greatest extent possible on existing data collections and public data sources, and the approach would exempt small banks from deposit and certain other data collection requirements.

Seventh, the ANPR proposes updating and clarifying which community development activities qualify in order to provide greater certainty to banks and communities about what counts. The ANPR proposes to publish and regularly update an illustrative, but not necessarily exhaustive, list of qualifying activities. The Board also seeks feedback on a pre-approval process, so that banks can seek feedback on whether a community development activity will qualify before proceeding.

The ANPR seeks feedback about clarifying the definitions of qualifying activities and broadening certain definitions in targeted ways, such as for CRA-eligible activities that create or preserve naturally occurring affordable housing. The ANPR considers approaches that are important in Indian Country, where we want to encourage banks to make impactful investments that have the support of tribal governments and to increase certainty that these activities qualify for CRA credit.

Finally, stakeholder feedback emphasized that smaller retail banks play a vital role in many underserved communities, such as in rural areas, so the ANPR provides targeted flexibility for these circumstances.

It has been 25 years since the last significant revision to the CRA regulation, so it is important to get reform right. Stakeholders have expressed strong support for the agencies to work together to modernize the CRA. By reflecting stakeholder views and providing a 120-day period for public comment, the ANPR is intended to build a foundation for the banking agencies to converge on a consistent approach to strengthening the CRA that has broad support among stakeholders.

Last Update: September 21, 2020