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CALIFORNIA REINVESTMENT COALITION

Protecting California Communities: Protecting the CRA

CRA – the nation's anti-redlining law – is under attack!

The Trump Administration is proposing to weaken vital Community Reinvestment Act (CRA) rules, which will result in fewer first time homebuyers, less ability for small businesses to grow and hire locally, a reduction in the development and preservation of critically needed affordable housing, and decreased consumer access to bank branches and affordable banking products; all while making it easier for Big Banks to meet their reinvestment obligations, and leaving low income communities and communities of color vulnerable to gentrification and displacement pressures.

CRA works!

The Community Reinvestment Act creates an affirmative and continuing obligation of banks to meet local community credit needs, particularly the needs of low and moderate income (LMI) communities. CRA has resulted in trillions of dollars in bank loans and investments in LMI communities for homeownership, affordable rental housing, small business ownership and expansion, job creation, philanthropic support for local nonprofits, and branches and affordable bank accounts that can keep families away from predatory check cashers and payday lenders. CRC and our members meet with banks to help identify community needs. In the last few years, we have entered into Community Benefits Agreements with banks that total over $50 billion in local reinvestment for California communities.

What exactly is happening?

The OCC and the FDIC are proposing to weaken CRA rules in alarming ways.

1. Breaking with precedent and creating an uneven playing field:

In charging ahead without the Federal Reserve, the OCC and FDIC are creating a 2-tiered system of oversight where the rules of the game will not be the same for all banks. Even within this new system, certain small banks can opt out of the new rules and reduce their existing community development obligations. This also presents the opportunity for larger banks to shift bank charters to benefit from easier OCC rules. CRC strongly believes that all banks, particularly larger banks, should have strong obligations to reinvest in the community.

2. Allowing banks to get credit for serving higher income people and neighborhoods, retreating from a core CRA principle to serve LMI people and communities:

° Small business loan thresholds double. Banks would get credit for larger loans (up to $2 million) and for lending to larger businesses (with up to $2 million in revenue in wealthy neighborhoods). Entrepreneurs and most small businesses, including family-owned mom and pop businesses, will lose out as banks migrate to the more profitable larger loans.

° Projects that only partially benefit LMI people, such as large infrastructure and energy projects, would get credit for that portion, even if the project would have no trouble getting financing and would only minimally benefit LMI people.
° Banks could get credit for financing rental housing with affordable rents, even if the units were occupied by wealthy tenants in wealthy neighborhoods.
° Banks could get credit for financial literacy classes and services to wealthier consumers, and can monetize credit for bank staff who "volunteer" in the community for activities unrelated to the provision of financial services.

3. Allowing banks to get credit outside local communities, retreating from a core CRA principle to meet local credit needs:

° Creates a new bank level evaluation where ALL qualified activity gets credit, regardless of whether it's near local bank branches or meets local needs.
° Creates a new process for fintech and non-retail banks (online banks) to have some reinvestment obligation where they take deposits, but does so in a way that it will not capture many banks, and does not require reinvestment where these banks lend and profit. CRA obligations would only exist when over 50% of bank deposits are from outside a bank's headquarters, and obligations would be only where 5% of deposits come from. Much of the data behind these calculations is not readily available to the public. Banking deserts are very unlikely to benefit.

4. Failing to downgrade for harm inflicted by banks:

° The new proposal still allows the OCC to give banks passing CRA grades even where there is evidence of discrimination.
° Credit can still be given for loans on rental housing that foreseeably lead to increased rents, harassment, and displacement of tenants.
° Credit would be given for investments in Opportunity Zone Funds, for things like sports stadiums, luxury housing, or self-storage facilities - even where there is no benefit to LMI households, or worse, investments displace local residents.
° Banks could get credit for lending by bank affiliated companies. But if these bank affiliates discriminate or violate consumer protection laws, will the banks ratings be downgraded?

5. Devaluing bank activity that is important to local communities:

° Almost no credit for branches in LMI communities and no analysis of branches that are opened or closed in such neighborhoods, reducing the incentive for banks to keep them open.
° No consideration would be given to whether banks open accounts or have products that serve LMI consumers (or elders who need age-friendly products). This has been a key feature of CRA.
° No consideration of whether bank services and products are accessible to immigrant families through inclusive translation, interpretation, hiring and product offerings.
° No analysis of smaller loan sizes (under $100K, $100K - $250K) for small businesses.
° No consideration for whether economic development leads to job creation.

6. New grading system lowers the bar and undermines the anti-redlining intent of CRA:

° The current exam has lending, investment, and service tests that evaluate distribution of retail lending; number and dollars to finance community development; and analysis of bank branches, products, and volunteer activities. All activities must demonstrate how they benefit LMI people or neighborhoods.
° The new one-ratio approach (even though the NPR acknowledges that the majority of comments did not favor one-ratio) essentially evaluates the dollar amount of qualified activities in all three categories together, excluding anything that can't be monetized, and compares it to a measure of deposits. This calculation is done in each assessment area and then with a true one-ratio calculation at the bank-level, including activities both inside and outside of assessment-areas.
° This one-ratio approach will incentivize banks to do the largest and easiest deals and emphasize quantity over quality at the expense of small nonprofits, small projects, and local impact. Overall bank level evaluation will consider all qualified activity anywhere, which will lead to further CRA grade inflation. For example, banks could count credit card and auto lending far from branches and without regard to local community need. Currently, 97% of banks pass CRA exams. The proposal will make an easy test even easier.
° Assessment area evaluation allows banks to fail to serve up to half of their assessment areas and still pass overall. This will likely hurt rural areas and possibly increase redlining since banks can ignore areas perceived as harder to serve, which are more likely to be rural areas and LMI neighborhoods of color.
° The retail evaluation is graded pass/fail and only requires banks to lend at 55% of area demographics OR 65% of what their peers are doing. This a low bar.
° The proposal to double credit given for certain community development (CD) financing could lead to LESS CD activity as banks could do half as much and get the same credit. This, coupled with less of an obligation to lend and invest locally, is almost certain to lower competition for, and thus, reduce the dollar value of, LIHTC investments. This will lead to LESS equity for affordable housing projects.
° The grading system appears based on arbitrary thresholds that are not explained, and no supporting data are provided. This will likely lead to banks getting higher grades without clearly serving the community any better.
° All of the banks that get an outstanding rating under the new system won't face a new exam for 5 years. Without more frequent oversight, communities will not be served in the interim.

7. Importantly, the proposal threatens to reduce the critical role of community input in CRA:

° Banks will perform to the teachers test, focusing on large and simple deals and will not invest the time to talk to communities and potential partners to understand and address local needs.
° By not sharing any data the OCC relied upon in developing this proposal, it is hard for the public to comment on the consequences of this rule which will have such large impacts on communities. The agencies are only giving the public 60 days to comment, which does not suggest they are really interested in receiving and considering community input on the proposal. In fact, the proposed rule includes the problematic one-ratio concept which was widely criticized in the prior comment period. Is the OCC even listening?
° The proposal creates an evaluation system that would be based on data not readily available to the public (or the banks!), which will make it much harder for the public to evaluate how well banks are serving the community.

° The proposal sets bank targets and a "presumptive rating" before even considering community input. Community input and community context will likely have little impact.
° The OCC and FDIC even propose to take away the public's right to walk into a bank and ask for a copy of a Bank's CRA Public File to see how well it serves the community.

What does this all mean?

° Less investment in complex, deeply affordable rental housing tax credit and other deals
° Rural areas likely to lose out, as banks chase higher deals in higher cost areas
° Fewer smaller loans to small businesses that serve local communities and hire locally
° Displacement through Opportunity Zone fund investments and lending to predatory equity landlords who evict and harass tenants
° Fewer branches and affordable bank accounts in LMI communities
° Low income consumers more likely to turn to predatory financial services providers
°Less connection between banks and communities; reinvestment less tied to local needs
° Fewer contribution dollars for local groups
° Less bank reinvestment in the community
° Less community input and participation
° An increase in redlining of communities of color

What can we do?

We all need to stand up and fight for our communities and for the CRA. Groups nationwide will be submitting comments, calling for an extension of the comment period to 120 days, a more thoughtful process, and a stronger, not weaker CRA. CRC will be urging all of our members to submit comments and to help us fight this harmful proposal which can have a huge detrimental impact on California's low income communities and communities of color.

For more materials, sample letters, and fact sheets on CRA, visit the CRC website www.calreinvest.org/cra or NCRC www.ncrc.org/treasurecra or ANHD www.anhd.org. Contact CRC with any questions and ideas at (415) 864-3980 or email kstein@calreinvest.org