Lael Brainard: Community investment in Denver

Speech by Ms Lael Brainard, Member of the Board of Governors of the Federal Reserve System, at the Federal Reserve Bank of Kansas City, Denver Branch, Denver, Colorado, 15 October 2018.

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Good afternoon. I am delighted to be here in Denver for a few days to visit with community leaders working to support affordable housing, workforce development, and small businesses across the Mile High City. So far, I have had a chance to hear firsthand about the housing affordability challenges facing many Denver families, which are requiring some families to make difficult choices between paying rent and paying for other necessities, and the associated challenges of homelessness. I have also had the opportunity to see the incredible work underway in Denver to ensure that individuals and families in need have access to safe, affordable shelter and the healthcare and case management services they need to get back on their feet.

Not only is Denver's approach to service delivery a national model, but your use of Social Impact Bonds to fund those programs is also at the forefront of innovation in the community development sector. I can see there is a lot of pride in what you are accomplishing locally, and I look forward to seeing more groundbreaking work during the remainder of my time here.

Every few months, I try to make a visit such as this one to better understand how different communities across the country are experiencing the economy. Promoting community development is one of the key purposes and functions of the Federal Reserve, and it requires that we have a strong understanding of the impacts of financial policies and practices in communities in all of our Districts.[1]

I have heard about the important role the Community Reinvestment Act (CRA) has played in strengthening community investment, so I am happy to have this opportunity to learn about your perspectives, as bankers here in Denver, on opportunities for further improvement. This roundtable is the first of several that the Federal Reserve System will host in the next several months to hear directly from bankers, community members, practitioners, researchers, and others about improving the CRA's effectiveness in making credit available to lower-income areas. We are inviting representatives of other banking regulatory agencies to join us so that we can all benefit from learning from different local experiences with the CRA. Our hosts at the Reserve Banks will be taking notes, and a summary of the findings from this outreach initiative will be made public.

Before we get started, I want to say a few words about the interagency process for revising CRA regulations and the Federal Reserve's priorities. As you know, the Office of the Comptroller of the Currency recently published an Advance Notice of Proposed Rulemaking (ANPR) to solicit public comment on a variety of questions related to revising CRA regulations. Comments are due by November 19.

Last week, the Board heard from members of the Fed's Community Advisory Council that there may be some confusion about commenting on the ANPR because it was not published on an interagency basis. Even though the Federal Reserve did not join in the publication of the ANPR, we will be reading the comment letters in anticipation of working with the Comptroller and Federal Deposit Insurance Corporation on a joint proposal. We understand the importance of having the agencies work toward one set of CRA regulations that are clear and consistently applied and will do everything we can to make that possible. CRA regulations are complicated, and the regulators will benefit from perspectives from a variety of channels, so I encourage you all to submit comments. The CRA is too important to the financial well-being of communities across this country for banks and community members to disengage in any part of this process.

The CRA has not only made more credit available in lower-income areas, but it has also helped to create a valuable community and economic development infrastructure. Revising the regulations will require careful consideration in order to strengthen that infrastructure. All of the agencies share the stated purpose of revising the regulations, which is to promote more, not less, CRA activity in underserved areas, as the Comptroller stated in recent testimony.[2] Properly balancing the goals of simplifying and clarifying the regulations, with the goal of promoting more CRA activity through stronger local community engagement, will require careful consideration.

I want to emphasize the Board's commitment to regulatory revisions that strengthen the CRA's purpose, which is to encourage banks to help meet the credit needs of the communities they are chartered to serve, including low- and moderate-income neighborhoods. In that regard, there are a few principles that will guide our work.

First, we should update the area in which the agencies assess a bank's CRA activities while retaining the core focus on place. I look forward to hearing your suggestions about how we can broaden our evaluation of banks' CRA performances to take into account the technological advances that have made it possible for banks to serve customers remotely, while retaining the focus on local credit needs that vary from place to place. The Federal Reserve's research, surveys, and outreach point to an economy that is very strong on an aggregate level but significantly more varied at the community level, with many neighborhoods still struggling.

Second, the CRA regulations should be tailored to banks of different sizes and business models. Currently, the evaluation methods are tailored to banks of different sizes and business models. We should consider whether assessment areas also should be tailored to the business models employed by banks.

Third, any redesign of CRA regulations should be done with the goal of encouraging banks to seek out opportunities in underserved areas. This is not simply a question of expanding a bank's assessment area, but of providing more incentives for banks to more effectively address the needs in neighborhoods that they may already be serving with branches. For example, there are concerns that distortions may lead some areas to become credit hot spots, while others become credit deserts. Investments, such as Low-Income Housing Tax Credits, are in such high demand in some areas that there is little return on investment, while it is difficult to find investors in other areas. We believe that it is important for revisions to CRA regulations to address this type of market distortion to promote more lending and investment in smaller markets within a bank's footprint.

Fourth, the Federal Reserve is interested in promoting greater consistency and predictability in CRA evaluations and ratings. We see the value of clearer definitions and metrics that use publicly available information to identify local credit needs and opportunities.

Finally, it is important to recognize that the CRA is one of several mutually reinforcing laws. The central thrust of the CRA is to encourage banks to ensure that all creditworthy borrowers have fair access to credit. For banks to be successful in meeting the credit needs of their entire community, it has long been recognized that they must guard against discriminatory or unfair and deceptive lending practices.

With these principles in mind, I look forward to hearing your ideas on how we can make the CRA a more effective tool for bringing credit and capital to underserved communities.

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[1] See *The Federal Reserve System Purposes & Functions* at www.federalreserve.gov/aboutthefed/pf.htm. Return to text

[2] U.S. Senate Committee on Banking, Housing, and Urban Affairs. Return to text