

Lael Brainard: Modernizing and strengthening CRA regulations - hearing from community banks

Speech (via webcast) by Ms Lael Brainard, Member of the Board of Governors of the Federal Reserve System, at the virtual Independent Community Bankers of America Fall Leadership Meeting, 1 October 2020.

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Thank you for inviting me here today to take part in your Fall Leadership Meeting.¹

We recognize that community banks play a vital role in the communities you serve. Your insights into local conditions and your long-standing customer relationships afford you a deep understanding of the needs and characteristics of the households and small businesses in your communities, and enable you to meet their credit needs effectively. The value of these relationships has never been more evident than during this crisis—a fact that my colleague, Governor Michelle Bowman, highlighted yesterday when she said “it is no surprise that community banks are standing shoulder to shoulder with their customers, on the front lines.” Governor Bowman referred to an Independent Community Bankers of America (ICBA) report that cites preliminary data on the Paycheck Protection Program that community banks have been the main source of lending for minority-owned small businesses during the pandemic and noted the same is true for veteran-owned businesses.²

As you know, last week, the Federal Reserve Board unanimously voted to approve an Advance Notice of Proposed Rulemaking (ANPR) on the Community Reinvestment Act (CRA)³. The ANPR is built on ideas advanced by stakeholders. Throughout this process, the ICBA has been an important source of information, which has provided the Federal Reserve valuable insights into the unique role and needs of community banks as you invest in your communities. We have benefited from the ICBA’s engagement on CRA both in the form of detailed comment letters and through a number of meetings to discuss different aspects of CRA reform. We thank you for your robust engagement and trust that you see your input reflected in the ANPR.

Throughout our outreach, we consistently heard from both bankers and community groups that they value the CRA and that they want to see it improved and updated. This was important feedback as we contemplated how to modernize the regulations, while still staying true to the core purpose of the statute to meet the broad range of banking needs in low- and moderate-income (LMI) communities and address inequities in credit access.

Our first major goal for the ANPR was to strengthen the regulations in alignment with the CRA statute. This means strengthening the regulations to ensure that a wide range of LMI banking needs are being met. It also entails promoting financial inclusion by, among other things, providing credit for activities in areas with unmet needs outside of assessment areas, such as Indian Country. Additionally, we aim to create incentives for investment in minority depository institutions and community development financial institutions, many of whom are ICBA members. We know that banking has evolved over the past 25 years, so we also sought to update standards in light of changes to banking over time, including mobile and internet banking. Lastly, we wanted to continue to promote community engagement to inform the examination process.

Our second major goal for the ANPR was to provide greater certainty, tailor regulations, and minimize burden. The ANPR seeks feedback on several approaches designed to make the rules clearer, more transparent, and less subjective. For example, the proposed metrics for the retail test and the community development test would provide more clarity and transparency on how bank ratings are determined. In talking with community banks, Federal Reserve staff and I also heard about the need for clearer standards and greater limitations on the size of assessment

areas—especially for small banks operating just in a portion of a large county or only making a few loans in a part of a county. The ANPR offers ideas to provide greater clarity in response to these concerns.

Importantly, the ANPR proposes to tailor CRA to bank size and business model. In discussing CRA reform with bankers and community organizations, it has been clear that there is a need for a tailored approach for small banks and better outcomes for rural communities. I am encouraged that the ANPR offers ideas that advance these objectives. So let me say a bit more about the proposals in the ANPR that are tailored to small banks.

Small retail banks could continue to have their retail lending activities evaluated under the current framework, or they could elect to be evaluated under the proposed retail lending metric. Small banks that opt for the retail lending metric can also elect to have other activities considered. Additionally, the ANPR minimizes data collection and reporting burden by relying on existing data as much as possible, as well as exempting small banks from deposit and certain other data collection requirements.

We also heard from stakeholders like ICBA that rural areas, and banks in rural areas, have particular needs. Therefore, the ANPR proposes providing incentives for banks in rural areas to participate in beneficial civic and other nonprofit activities (e.g., serving on a board of a civic institution) that may not have a primary purpose of community development. In rural areas, bank participation in these kinds of activities can make a difference in supporting economic development. The ANPR also seeks feedback on providing CRA credit for bank volunteer activities in rural areas that do not involve the provision of financial or related services but have a clear community development purpose and greatly impact local communities, like helping to build affordable housing.

Our final major goal of the ANPR is to provide a foundation for the agencies to converge on a consistent approach that has broad support among stakeholders. Stakeholders such as the ICBA have expressed strong support for the agencies to work together to modernize CRA. By reflecting stakeholder views and providing an appropriately long period for public comment, we hope the ANPR advances the goal of building a foundation for the banking agencies to converge on a consistent approach that has the broad support of stakeholders. All three regulators have benefited from stakeholder input provided through comment letters, roundtables, and meetings. There is significant interagency agreement on the objectives of CRA reform, and many of the ideas in the ANPR reflect interagency discussions and regulatory proposals.

In closing, we look forward to modernizing the CRA in a way that strengthens the regulations to advance the core purposes of the statute, while providing greater certainty, tailoring regulations, and minimizing burden. We have appreciated the ICBA's strong engagement throughout this process, and we look forward to your continued engagement as we seek to converge on a consistent approach that has broad stakeholder support. Thank you.

¹ I am grateful to Amanda Roberts, Nancy Riley, and Joseph Firschein of the Federal Reserve Board for their assistance in preparing this text. These remarks represent my own views, which do not necessarily represent those of the Federal Reserve Board or the Federal Open Market Committee. [Return to text](#)

² See Independent Community Bankers of America, "[Data Show Community Banks Lead Economic Recovery](#)," news release, August 19, 2020. Also see, Michelle W. Bowman, "[Community Banks Rise to the Challenge](#)" (speech at the "Community Banking in the 21st Century" Research Conference, St. Louis, MO, September 30, 2020). [Return to text](#)

³ See Federal Reserve Board, "[Advance Notice of Proposed Rulemaking: the Community Reinvestment Act \(PDF\)](#)," (September 21, 2020). [Return to text](#)