

Lael Brainard: Modernising and strengthening CRA regulations - a conversation with the Chicago Community Trust

Speech by Ms Lael Brainard, Member of the Board of Governors of the Federal Reserve System, at the Chicago Community Trust, Chicago, 1 December 2020.

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Good morning. I want to thank Dr. Helene Gayle for inviting me to join this conversation, along with the staff, grantees, and partners of the Chicago Community Trust and President Charlie Evans of the Federal Reserve Bank of Chicago. I appreciate the opportunity to discuss economic inclusion and the Community Reinvestment Act (CRA) and learn more about the Trust's work with its partners in Chicago.¹

The effect of COVID-19 has underscored the importance and urgency of your work. This year the Chicago Community COVID-19 Response Fund has helped many of the nonprofits and communities hardest hit by the pandemic, and I know you have been thinking critically about doing this work in a way that supports an equitable recovery for Black and Latinx communities.² I commend the Trust for your leadership on these principles.

The disproportionate effects of the pandemic on low-income and minority households and the importance of an equitable recovery are also a key focus of the Federal Reserve. While creating hardship for all, the pandemic has inflicted disproportionate economic pain on vulnerable businesses, sectors, and demographic groups, which risks entrenching a K-shaped recovery that is weaker overall. Small businesses in consumer-facing sectors, along with many low-income workers, women workers, and Black and Hispanic workers, are at a precarious stage of the pandemic. Even as we are buoyed by news that effective vaccines may be widely available by next summer, COVID case counts are resurgent, and many low- and moderate-income households are facing the exhaustion of unemployment benefits, the depletion of savings from CARES Act (Coronavirus Aid, Relief, and Economic Security Act) programs, and the fear that eviction moratoriums and forbearance for mortgages and student loans will soon end. While the Paycheck Protection Program provided some relief to many small businesses earlier in the year, that sector remains under pressure, and many small businesses in sectors hit hard by virus restrictions are facing dwindling cash buffers. In addition, states and localities are confronting difficult choices as they respond to increased needs in the face of reduced revenues. The combination of highly supportive fiscal policy and monetary policy was critical in driving the initial strong bounceback from the first wave of the pandemic.³ Similarly today, it is vitally important to provide a lifeline to hard-hit households and businesses facing the harsh reality of a resurgent COVID second wave as a bridge to the time an effective vaccine will be widely available.

The Federal Reserve is committed to providing sustained accommodation through its forward rate guidance and continued asset purchases to achieve our maximum employment and 2 percent average inflation goals. In parallel, additional fiscal support is essential to bridge past COVID's second wave in order to avoid labor market scarring, reductions in crucial state and local services, and bankruptcies. Such additional support is critical to turn this K-shaped recovery into a broad-based and inclusive recovery that is stronger overall.

As we support a broad-based and inclusive recovery, the Board is focused on updating and strengthening CRA regulations to better meet their core purpose. You know the associated challenges well, given the Trust's mission to close the racial and ethnic wealth gap and the role you play in fostering opportunity and inclusion in communities across Chicago. The CRA was enacted in response to inequities in access to credit for communities that were redlined as a result of discriminatory government policies and market practices. Now, in light of the persistence of systemic credit disparities and in response to changes in the banking landscape, it is time to strengthen and modernize the CRA.

In September, we proposed a framework for reforming the CRA that would advance the following principles.⁴ First and foremost, the CRA should focus on addressing credit disparities and financial inclusion in low- and moderate-income and minority communities to fulfill its core purpose. One way our proposal addresses this first principle is by emphasizing minority depository institutions and community development finance institutions, and we are continuing to look for more ways to achieve this goal. Our proposal also makes a special effort to address the challenges of underserved rural communities.

A related goal is to ensure that the CRA encourages banks to meet the broad spectrum of credit needs of communities. Our proposal considers how to evaluate banks across a number of areas, such as a bank's retail lending, which includes their home mortgages and small business loans. It also focuses on essential banking products and services like low-cost checking accounts. Community development activities are another point of emphasis, including financing for affordable housing and other needs, or volunteer activities, such as financial counseling, and providing clearer and stronger incentives to invest in the areas of need that lie outside of existing branch-based assessment areas.

Another key objective is to provide greater certainty; tailor regulations based on local community needs, bank size, and business model; and minimize burden. Ultimately, we hope that our proposal provides a foundation for the three banking agencies to converge on a consistent approach that has broad support among stakeholders.

The next step for us is to continue to gather feedback on our proposal from a wide range of stakeholders, including local communities. In addition to participating in conversations like this one today, we hope to receive as many comments as possible through our formal comment process, which has a deadline of February 16, 2021. We value this feedback tremendously, and our proposal includes specific questions where we are especially interested in input. Given the expertise and leadership of the Trust on racial equity, we will be particularly interested in your comments on the second question in our proposal: "In considering how the CRA's history and purpose relate to the nation's current challenges, how can we strengthen the CRA to address ongoing systemic inequity in credit access for minority individuals and communities?"

I thank you for your valuable engagement in this process thus far and look forward to hearing your ideas today and in the months to come. With your continued engagement, I am confident we can come together on a stronger approach to the CRA that will benefit communities across the country.

¹ I am grateful to Taz George of the Federal Reserve Bank of Chicago for his 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 For more information, see the Chicago Community Trust's webpage "[Chicago Community COVID-19 Response Fund](#)." [Return to text](#)

³ Recent research indicates that the government's response offset what could have been a surge in income poverty. Han, Meyer, and Sullivan (2020) found that income poverty declined about 1.5 percentage points, and that government programs, including the regular unemployment insurance program, the expanded unemployment insurance programs, and the Economic Impact Payments, account for more than the entire decline in poverty, which would have risen over 2.5 percentage points in the absence of these programs. See Jeehoon Han, Bruce D. Meyer, and James X. Sullivan (2020), "[Income and Poverty in the COVID-19 Pandemic](#)," NBER Working Paper Series 27729 (Cambridge, Mass.: National Bureau of Economic Research, August). [Return to text](#)

⁴ 85 FR 66410 (October 19, 2020), "[Community Reinvestment Act: Advance notice of proposed rulemaking and request for comment \(PDF\)](#)." [Return to text](#)