Strengthening the CRA: A Conversation with Representatives of Native Communities

Remarks by

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at

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(via webcast)

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Good afternoon.[1] I am happy to join you today for the National Native Coalition listening session to discuss the Community Reinvestment Act (CRA). I want to thank the National Congress of American Indians and its many tribal partners, as well as Casey Lozar and his team at the Center for Indian Country Development at the Federal Reserve Bank of Minneapolis. I am pleased to be joined by Acting Comptroller of the Currency Michael Hsu of the Office of the Comptroller of the Currency (OCC) and Acting Chairman Martin Gruenberg of the Federal Deposit Insurance Corporation (FDIC).

In May, the Federal Reserve, the OCC, and the FDIC issued a unified proposal to modernize the CRA regulations. This is a once-in-a-generation opportunity to strengthen the CRA to bring greater credit, investment, and banking services to the communities that have faced the greatest challenges. For the first time, the CRA will provide powerful incentives for banks to make investments in communities that do not have access to branches, such as in Native lands.

As representatives of Native communities, you know all too well the challenges faced by Native communities in getting access to financial services—challenges that were made worse by the pandemic. I have visited with Native communities in South Dakota and Oklahoma and seen firsthand the resiliency and innovation of these communities in the face of numerous challenges.[2] Even with the implementation of the CRA and other complementary laws, tribal economic inclusion is hindered by a lack of banking and credit access. As of the most recent 2019 data, over 16 percent of Native

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[1] I am grateful to Amanda Roberts and Matthew Lambert of the Federal Reserve Board for their assistance in preparing this text. The views expressed here are my own and do not necessarily reflect those of the Federal Reserve Board or the Federal Open Market Committee.

[2] See Lael Brainard, "Financial Inclusion and Economic Challenges in the Shadow of the Pandemic: A Conversation with Tribal Leaders" (speech at Fed Listens: Roundtable with Oklahoma Tribal Leaders, Oklahoma City, Oklahoma, October 13, 2021), https://www.federalreserve.gov/newsevents/speech/brainard20211013a.htm.

Americans are unbanked—three times higher than the rate for all U.S. households.[3] In part, the large share that is unbanked reflects low access to a bank branch. As of 2021, majority-Native American counties have an average of only two and a half bank branches—less than one-tenth the 26-branch overall average for all counties nationwide.[4] Native small businesses often struggle to access capital: CRA small business and small farm lending per capita in majority-Native American census tracts is only about a quarter of that in majority-White-non-Hispanic tracts.[5]

As representatives of Native communities, you bring valuable insights to CRA reform because of your extensive knowledge of the investment and credit needs of Native communities, citizens, and businesses. The interagency CRA proposal was informed by consultation with Native representatives through roundtables, listening sessions, meetings, and comment letters. Indeed, we took much of your feedback from comment letters to develop the Native Land Areas sections of this proposal. As a result of this valuable feedback, the interagency CRA proposal would provide additional scope for bank loans, investments, and services in Native communities. Today, I want to focus on several aspects of the proposal that are beneficial for Native communities.

First, the proposal provides greater incentives for community investments in Native Land Areas by providing enhanced clarity and specificity about what activities qualify for CRA credit. The proposed activities in Native Land Areas cover four specific place-based categories: revitalization; essential community facilities; essential

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[3] Federal Deposit Insurance Corporation, "How America Banks: Household Use of Banking and Financial Services," FDIC Survey (2019), https://www.fdic.gov/analysis/household-survey/.

[4] Information calculated using Summary of Deposits (SoD) 2021. Note that not all counties, especially some with high Native American populations, exist in the SoD dataset.

[5] Federal Reserve Board staff analyzed annually reported CRA Small Business and Small Farm loan data submitted by banks at the tract level and combined it with demographic data from the American Community Survey 2015-2019 5-Year Survey.

community infrastructure; and disaster preparedness and climate resiliency. The proposal also incorporates a new definition of Native Land Areas based on the political status and government recognition of tribes and tribal areas that would enable the qualification of place-based activities in Native Land Areas.

The proposal also provides clarity for Native community development financial institutions (CDFIs) and minority depository institutions (MDIs). Recognizing that Native CDFIs and MDIs are critical players in supporting credit access and investment in Native communities, the proposal provides additional certainty that activities with Treasury-certified CDFIs will qualify for CRA consideration and provides greater clarity to banks on receiving credit for activities with MDIs.

The agencies also propose maintaining a publicly available illustrative list of eligible community development activities, which provides an opportunity to highlight qualifying activities particularly responsive to the needs of Native communities.

In another important change, the proposal would result in greater CRA activity outside of where banks have branches and physical locations in order to address unmet needs in communities that have more limited access to bank branches. To this end, we also propose evaluating the impact and responsiveness of a bank's community development activities through a series of specific qualitative factors, with activities benefitting Native communities as one of those specific factors.

In addition, now that many banks conduct significant lending and investments outside of their branch networks, it is important to ensure CRA accounts for these different business models. For example, we propose establishing retail lending assessment areas where a large bank has a concentration of either 100 mortgage loans or 250 small business loans for two years in a row.

Finally, the proposal would continue to emphasize a bank's performance in the local communities where it maintains branches, regardless of their performance in other areas. In addition to assessing a large bank's retail lending and community development activities in each facility-based assessment area, we also propose to evaluate whether banks have branches in low-income and moderate-income census tracts. In particular, the agencies propose providing positive qualitative consideration if banks operate branches located in Native Land Areas.

In closing, your feedback is key to ensuring that we get CRA reform right. I strongly encourage you to submit a comment letter by the August 5th deadline. We look forward to reading each comment letter and deeply appreciate your insight and participation with us through the rulemaking process. Thank you.