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U.S. Municipal Housing

CRA Reform is on the Table, Regulatory Update

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Recent Proposal by Federal Regulators

Yesterday, U.S. federal regulators, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) released a draft overhaul of the 1977 Community Reinvestment Act (CRA) that is being described as a plan to modernize agencies' current regulations. This would be the first major change to the investment rules in almost 25 years.[1] The end goal of the changes are to renovate the guidelines and encourage banks to lend more in communities that need investment dollars. We expect the general feedback should be somewhere between a moderate and favorable reaction. Banks have been patiently anticipating changes and are likely to be satisfied with the level of clarity included in yesterday's offering.

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Highlights of Proposal

- For years treatment of internet deposits has been skewing investment, because of changes in banking behavior. This is being addressed in the proposal. To help assess where banks assets are located, a key component of the new plan revolves around a new "50% - 5%" breakdown of bank assessment areas. This should help broaden distribution opportunities for municipal bonds, if ever so slightly.
- A more transparent list of CRA activities that can be used as a guide is expected.
- Banks will be able to have projects approved before they are underwritten.
- Regulators will add clarity and want to make the CRA exam structure more efficient. The scoring process is expected to focus more on units.
- Attention is being paid to small banks; included in the proposal is a carve-out for banks with less than $500 million of assets.[2]

What is the Community Reinvestment Act?

The Community Reinvestment Act of the Housing and Community Development Act of 1977 was designed to incentivize financial institutions such as commercial banks to lend to all parts of the communities in which they are located with a focus on low and moderate income areas. The financial institutions that possess CRA requirements are monitored by one of the following: The Federal Deposit Insurance Corp.; Federal Reserve Board; or the Office of the Comptroller of the Currency.

Summary and Next Steps

If anything the proposal sends the message that the fundamental CRA requirements are not going anywhere and that there are not dramatic changes coming down the pipeline that may require another level of resources with which to comply. Participants are also likely to be relieved by this. Both the Office of the Comptroller of the currency and the FDIC have supported the draft proposal. The Federal Reserve has not signed on in support.[3] Comments are currently being collected about the new proposal's details.

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[1] *FDIC and OCC Propose to Modernize the Community Reinvestment Act Regulations Press Release; Dec 12, 2019.*
[2] *For more details please see: Pederson, Brendan; CRA Cheatsheet: New Regime Would Look Very Different; American Banker; Dec 12, 2019.*
[3] *Pederson, Brendan; CRA Cheatsheet: New Regime Would Look Very Different; American Banker; Dec 12, 2019.*

Please see disclosure starting on page 2.