

Statement by FDIC Chairman Jelena McWilliams

on the

Notice of Proposed Rulemaking on Revisions to the Community Reinvestment Act Regulations

**FDIC Board Meeting
December 12, 2019**

The business of banking has changed dramatically in recent years, and regulations must evolve with the industry in order to foster an effective system that serves the needs of businesses and consumers across the nation. By modernizing our regulations implementing the Community Reinvestment Act (CRA), we expect to promote greater investments in the communities that need them most.

Generally, when we speak of different statutes and regulations, those discussions can appear technical in nature, often complex and nuanced, and, at times, somewhat removed from an ordinary person.

CRA is not one of those statutes.

In fact, CRA, unlike so many other statutes, touches the lives of ordinary Americans in a direct way that is somewhat unique in our bank regulatory framework. When a law or regulation becomes out of sync with the technological and business changes, the beneficial impact of such laws or regulations can diminish.

The impact of CRA regulations becoming out of sync with technology that banks utilize to offer banking services is all the more compounded for the communities the law is intended to serve.

At its core, the CRA encourages banks to help meet the credit needs of the communities in which they are chartered, including low- and moderate-income (LMI) areas. This statutory objective remains as critical today as it was over 40 years ago. However, in light of the transformative changes in the banking industry during this period – including the advent of digital banking – it is clear that the regulations implementing the law must be updated if they are to fulfill this objective.

Today, the Board considers a notice of proposed rulemaking that would modernize the regulations implementing the CRA, the last major revisions to which were made in 1995. The proposal will preserve the aspects of the regulations that are working well while updating outdated components and providing much needed clarity to financial institutions, resulting in an improved framework that will benefit LMI communities across the nation.

The principal goal in undertaking these reforms is to increase LMI lending. Our proposal seeks to achieve that goal in several ways, including:

- Encouraging banks to make long-term commitments in LMI communities by providing greater credit for retail loans retained on-balance sheet;
- Increasing to \$2 million the size of qualifying loans to small businesses and small farms to encourage economic development and job creation and help family farms;
- Providing CRA credit for retail and community development activities in Indian Country; and
- Expanding the activities that qualify for CRA credit to include capital investments and loan participations undertaken by a bank in cooperation with Community Development Financial Institutions (CDFIs), regardless of where the CDFI is located.

In addition, the proposal would clarify the activities that qualify for CRA credit in two key ways. First, it would require the FDIC and OCC to publish periodically a list of illustrative examples of qualifying activities, and establish a process for stakeholders to seek agency determination of a qualifying activity. Second, it would establish new performance standards to assess: (1) the distribution of qualifying retail loan originations to LMI individuals, and to small farms and small businesses in an assessment area; and (2) the quantified value of the bank's qualifying activities relative to its assessment area and bank-level retail deposits. Both components would be compared to specific benchmarks and thresholds that would be established prior to the beginning of a bank's evaluation period. We believe these steps will incentivize great CRA activity by enabling banks to plan activities without the risk of such activities not qualifying for CRA credit, which they cannot do with specificity under the current framework.

The proposal would also recognize the evolution of the banking system – including the emergence of digital banks – by requiring banks to add assessment areas where they have significant concentrations of retail domestic deposits. This proposal, which recognizes that banks may now receive large portions of their deposits from outside their traditional assessment areas, conforms with the CRA's intent to ensure that banks help meet credit needs where they collect deposits, which they cannot do with specificity under the current framework.

The proposal would leave intact existing provisions for banks to delineate assessment areas where they have their main office, branches, and deposit-taking facilities, and to include in those areas the surrounding geographies where banks originate or purchase a substantial portion of their loans.

Finally, the proposal would ensure that small banks are not overly burdened by the need to overhaul their existing systems or collect and report extensive data to comply with the new framework. Accordingly, the proposal would allow small banks (*i.e.*, those with \$500 million or less in total assets) to select to be evaluated under the current rules or to opt in to the new performance standards.

I would like to close by emphasizing the need for robust public comment on this proposal. As with any comprehensive set of reforms, we rely on stakeholder feedback to help us make further improvements. We will continue to engage with banks, community groups, Congressional

leadership, and other stakeholders as we work to improve the proposal and finalize these changes.

The proposal reflects hard work, collaboration, and coordination among the FDIC, OCC, and Federal Reserve Board, including many recommendations from staff at all three agencies. Although the Federal Reserve Board has not joined the proposal at this time, I appreciate their engagement and recommendations for improvement, many of which are reflected in this proposal, and I look forward to continuing to work with them as the proposal moves forward.

I support this proposed rule.

Thank you.