One Mission. Community Banks.

2023 CRA Final Rule – High-Level Summary

Background & Introduction:

The Community Reinvestment Act ("CRA") was enacted in 1977 to combat redlining by ensuring that each insured depository institution serves the convenience and needs of its entire community, including low- and moderate-income (LMI) neighborhoods, consistent with its safe and sound operation.

The CRA has been amended several times since its original enactment, and its implementing regulations have changed as well, with the last major overhaul being completed in 1995. Since 2017, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Board of Governors (FRB) have worked to modernize the 1995 rule. On October 24, 2023, the OCC, FDIC, and FRB published a final CRA rule that creates a modernized rule for the banking industry.

Totaling nearly 1,500 pages, the rule is highly complex. ICBA will soon produce a thorough summary that details the new calculations and tests. In the interim, this high-level summary is intended for you to easily assess whether your bank is covered by new rules, and if so, what those changes entail.

Asset Size Thresholds:

The new CRA rule has increased asset size thresholds and has changed the responsibilities – and options – for banks in some categories.

For small banks, the threshold has been **increased from $357 million to $600 million in assets**. Small banks will generally have the option of choosing to **OPT IN** to the New Retail Lending Test or continue to have their loans and investments evaluated under the current approach.

For intermediate banks, the threshold has been **increased from $1.503 billion to $2 billion in assets**. Intermediate banks will be required to have their retail loans evaluated under the new Retail Lending Test but may choose to have their community development loans and investments evaluated under the existing Community Development Test or the New Community Development Financing metric.

Large banks, those with **over $2 billion in assets**, will be required to have their loans, investments, and services evaluated under the New Retail Lending Test, the New Retail Products and Services Test, the New Community Development Financing Metric, and the New Community Development Services Test. In addition, they may be required to delineate and be evaluated in Retail Lending Assessment Areas (RLAAs), where they do not have a physical branch.

Size Category	Assets	Retail Lending		Community Development (CD)	
Small	<$600 million	Existing Retail Lending Test	New Retail Lending Test	Can continue, but are not required to request credit for CD activity under Existing CD test	
		(Default **or** *Opt-in*)		*Optional*	
Intermediate	$600 million to $2 billion	New Retail Lending Test		New CD Financing Metric	Existing CD Test
		And		(*Opt-in* **or** *Default*)	
Large	>$2 billion	New Retail Lending Test	New Retail Products and Services Test	New CD Financing Metric	New CD Services Test
		And	*And*	*And*	

<u>New Retail Lending Test:</u>
The new retail lending test is designed to ensure a bank is making sufficient home mortgage, small farm, and small business loans in its assessment areas. The test is applied in each of a banks' assessment areas in each of its retail product lines, home mortgage, small business, and small farm lending. In general, the process works as follows:

- First, a Retail Lending Volume screen is applied to assess a bank's volume of retail lending relative to its deposit base, compared to other banks in each facility-based assessment area.
- Second, metrics and benchmarks are used to evaluate the following four categories of lending for each of a bank's major product lines in each Retail Lending Test Area:
    - Loans in low-income census tracts;
    - Loans in moderate-income census tracts;
    - Loans to low-income borrowers (or to businesses or farms with gross annual revenues of $250,000 or less); and
    - Loans to moderate-income borrowers (or to businesses or farms with gross annual revenues greater than $250,000 but less than or equal to $1 million).
- Agencies may apply multipliers as performance factors that consider whether some loans are more impactful.

- Conclusions assigned to each Retail Lending Test Area, and a weighted average approach to determine Retail Lending Test conclusions at the State, multistate MSA, and institution levels, are computed to create a final Retail Lending Test Score.

The Retail Lending Test accounts for 50% of the total exam score of an intermediate bank and 40% of the score of a large bank.

Assessment Areas:

All banks will continue to be required to delineate an assessment area in locations where they have a main office, a branch, or a deposit-taking remote service facility, as well as the surrounding counties in which the bank has originated or purchased a substantial portion of its loans (including home mortgage loans, multifamily loans, small business loans, small farm loans, and automobile loans).

A small or intermediate bank may adjust the boundaries of its facility-based assessment areas to include only the portion of a county that it reasonably can be expected to serve so long as that adjustment does not reflect illegal discrimination; nor arbitrarily exclude low- or moderate-income census tracts.

New Retail Lending Assessment Areas:

Depending on the proportion of activity within their facility-based assessment areas, Large banks may be required to delineate additional Retail Lending Assessment Areas (RLAAs) in geographic areas where they do not have a branch.

> **Large Banks that are NOT Subject to RLAA:**
> If the large bank **originated or purchased more than 80 percent** of its home mortgage loans, multifamily loans, small business loans, small farm loans, and automobile loans **within its facility-based assessment areas** (i.e. the areas near branches where the bank has existing assessment areas) in the prior two years, then it is **not** required to delineate any RLAAs.
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> **Large Banks that ARE Subject to RLAA:**
> However, if a large bank **originated more than 20 percent** of its home mortgage, multifamily, small business, and small farm loans **outside its facilities-based assessment areas**, then it **will be** required to delineate a RLAA in MSAs[1] where they have originated at least **150 closed-end home mortgage loans** or at least **400 small business loans** in each of the prior two calendar years.

[1] Or all of the counties in the nonmetropolitan area of the state.

New Retail Services and Products Test:
This test evaluates the availability of a bank's retail banking services and retail banking products and the responsiveness of those services and products to the credit needs of the bank's entire community by examining its branch distribution (in LMI census tracts) and digital product offerings. This test will count for 10% of the large bank's exam score.

New Community Development Financing Test:
The Community Development Financing Test evaluates a bank's commitment to making qualifying CD loans and investments. For large banks, gives equal weight to retail activities and CD activities (compared to a proposed 60 percent retail/40 percent CD split).

Banks will have their community development lending at investment evaluated at the assessment area, state, multistate, and national level using a quantitative framework that will compare their level of qualifying activities to their peers.

This evaluation will be driven by a new quantitative formula. Community development will count for 50% of an intermediate banks' score and the Community Development Financing Test will count for 40% of the large bank's exam score.

New Community Development Services Test:
The new CD Services Test evaluates a bank's record of helping to meet the community development services needs of its entire community. This includes evaluation of the number of community organizations served by staff, including in what capacity, for example as member of a board of a nonprofit, and hours served. This test will count for 10% of the large bank's exam score.

Applicability:
Effective dates:

- **April 1, 2024 →** banks are required to comply with provisions of the final rule that are similar to the current CRA regulations, including:
    - facility-based assessment area delineations,
    - effect of CRA on applications,
    - public file,
    - bank public notice, and CRA examination schedule public notice provisions, as well as the new public engagement provision.
- **January 1, 2026 →** banks are required to comply with all other provisions of the final rule
- **January 1, 2027 →** banks are expected to comply with reporting requirements of data on operating subsidiaries, affiliates, CD loans and investment by a consortium or third party, and assessment area data.