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Regulators Make Right Call on CRA Revisions

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The Office of the Comptroller of the Currency joined the Federal Reserve and the Federal Deposit Insurance Corp. last week to issue revised guidelines on the implementation of the Community Reinvestment Act.

Comptroller Thomas Curry and his colleagues deserve credit for helping ensure the Act remains, in Curry's words "an effective, sustainable tool for community progress," at a time when the agencies have many challenging issues to address.

Twenty years ago, the Community Reinvestment Act represented only a shadow of its promise. Regulators used nebulous, qualitative factors to gauge compliance, leaving even the most conscientious bankers unsure if they had lived up to their obligations. The paperwork burden of CRA compliance was overwhelming for smaller institutions and had come to deter CRA lending. In the midst of a credit crunch, low- and moderate-income families lacked access to the credit that could spark a revitalization of their communities.

President Bill Clinton heard about these problems in Arkansas and on the campaign trail, and he made fixing them a priority when he came to Washington. At the OCC, we helped lead the administration's efforts to refocus the CRA on reliable, quantitative evidence of community-oriented lending, investment and services. Our work helped create a more stable, predictable lending environment for banks, and freed them to sponsor a wider set of effective community development activities. These changes strengthened American communities, which, in turn, strengthened their local banks.

But banking is not set in stone, and neither is the CRA. Things are different in the post-crisis landscape than they were in the 1990s. Technology has let even small regional banks expand their footprints to far-flung locations. Some banks have successfully transitioned away from bricks-and-mortar branches entirely, while others have seized the opportunity to set up or acquire storefronts in a wider array of locations. Interest rate pressures are still pushing institutions out on the risk curve, and competition from nonbanks is leading many to think more creatively about their service offerings.

It isn't easy to define community obligations in this context. What is truly a bank's "community" in an age where many customers are hundreds of miles from the nearest branch? What do you owe to the places you lend, versus those where you provide services? Are your obligations proportionate to your degree of involvement in the community — and how do you define and measure that involvement?

This is where the agencies' work has already started to make a difference. The revised Q&A proposal makes it clear that national investments can sometimes be the right CRA approach for national institutions. It will allow banks more leeway to support regional community development activity — even if that activity doesn't have an immediate, direct benefit on a bank's assessment area. It will further reduce the paperwork burden that has deterred some banks from supporting national projects. It will open up new areas for CRA assistance by requiring additional, stricter measures of community income. And, most importantly, it makes clear that institutions will hurt their overall lending test performance if they fall short on the CRA.

Community development is one of the most powerful activities that policymakers can encourage. As American workers, consumers and communities continue the hard work of recovering from the deepest economic collapse since the Depression, maintaining the CRA's effectiveness is more important than ever.

Comptroller Curry and his colleagues deserve credit for their leadership in carrying the torch forward. We should applaud their efforts and continue to explore new ways to help banking create stronger communities.

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