



On October 24, 2023, Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) (collectively “the agencies”) **modernized the Community Reinvestment Act (CRA)**.<sup>1</sup> Requirements set forth in the Final Rule refined expectations for how banks **meet the credit needs of the communities in which they do business** through a tailored evaluation framework for limited purpose, small, intermediate, and large banks while maintaining the option to seek approval for a limited purpose designation and select a strategic plan option. The Final Rule also includes significant changes to better align regulatory requirements to the growth of **mobile and online banking** and provides more guidelines around banks achieving a satisfactory rating with a more granular rating scale for individual performance tests. The Final Rule takes effect on April 1, 2024, with staggered compliance dates of January 1, 2026, and 2027.

## 5 insights you should know

**Tailored evaluation framework:** The Final Rule implements tailored performance standards based on bank asset size and business models to evaluate institutions meeting the credit needs of their communities. There are four weighted performance tests (compared to the current three tests): (i) Retail Lending Test, (ii) Retail Services and Products Test, (iii) Community Development Financing Test, and (iv) the Community Development Services Test. The Retail Lending and Community Development Financing tests will be weighted at 40%, respectively. Large banks will be measured under all four, while intermediate and small banks will have optionality.

**Increased scope of assessment areas:** To better align with the changes in the banking industry, including increased digital banking and hybrid models, the Final Rule shifts from the strictly geographic footprint approach (Facility Based Assessment Areas) to include assessment areas broadened as a result of digital servicing and origination channels for certain large banks (Retail Lending Assessment Areas).

**Expanded product and services scope:** The scope of covered products and services has expanded beyond traditional credit products and programs to include community development services, bank services delivery, consumer loans, and deposits. The Final Rule also attempts to reduce some complexity by defining “major product lines” for evaluation (e.g., 15% standard) and limiting automobile lending.

**Data collection and reporting:** While the Final Rule does not change data collection and reporting requirements for small and intermediate banks, large banks are subject to expanded customer-level data collection, maintenance, and reporting requirements. This data will be critical to informing the establishment of standardized metrics for retail lending, community development financing, and retail services and products.

**Community development activities:** To further encourage community development activities that are responsive to the needs of low- and moderate-income (LMI) individuals and communities and enhance financial inclusion, the Final Rule outlines 11 different categories of community development activities (e.g., loans, investments, and services), with the agencies planning to provide a publicly available illustrative list of qualifying activities.

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## 5 considerations to evaluate

**Conduct detailed impact analysis:** Utilizing the Final Rule requirements, banks should conduct a detailed product-level impact assessment across first line processes (including controls, documentation, and training), technology, data infrastructure, and data quality controls along with recalibration of risk and compliance oversight to identify potential gaps. Performing this through a multi-disciplined and coordinated governance program can prevent potential pitfalls in the design, development, and implementation of the action plans associated with the identified gaps.

**Intersection with Fair Lending Section 1071:** As highly anticipated, the Final Rule aligns the CRA’s “small business” and “small farm” definitions with Section 1071 and includes references to future agency-specific amendatory text that provides for a transition to Section 1071 data. Banks should quickly coordinate with their Section 1071 project teams to confirm intersections and related impacts prior to implementation of data and technology enhancements.<sup>2</sup>

**Review assessment area impact:** While the Final Rule streamlines some previously proposed Retail Lending Assessment Area requirements, the expanded new scope will likely have a substantial impact on current CRA assessment areas. Business lines, CRA program office, and data and technology stakeholders will need to closely coordinate to delineate these new assessment areas and establish required data collection, validation, and reporting capabilities.





**Evaluate community development opportunities:** Banks will need to evaluate their current community development processes and adjust for the intake of potential activities to align with the 11 categories (e.g., revision to front-end intake systems selection options), and to review and enhance existing evaluation criteria for determining “credit” for activities outside of the bank’s traditional assessment areas.

**More data means more scrutiny:** The expansion of the tests that banks will be assessed on, coupled with the enhanced data collection, increased assessment areas, and metrics and benchmarks will make achieving a satisfactory or better rating more difficult and can impact a bank’s ability to expand to new markets. Banks should be prepared to perform rigorous self-assessments and routinely track performance, inclusive of public sentiment, to manage the compliance and reputational risk.

<sup>1</sup> FRB, OCC, FDIC, “[Agencies issue final rule to strengthen and modernize Community Reinvestment Act regulations](#),” October 24, 2023. <sup>2</sup> Deloitte, “[Intersection of Section 1071 and proposed Community Reinvestment Act \(CRA\) modernization data collection and reporting requirements](#),” September 9, 2023.



The four weighted performance tests outlined in the Final Rule are tailored based on bank asset size and business models. The table below outlines the overall scope / objective of each test, applicability to bank based on size, and key considerations.

	RETAIL LENDING TEST	RETAIL SERVICES & PRODUCTS TEST	COMMUNITY DEVELOPMENT FINANCING TEST	COMMUNITY DEVELOPMENT SERVICES TEST
SCOPE / OBJECTIVE	 <p>Evaluates a bank’s record of helping to <b>meet credit needs of its entire community</b> through the bank’s origination and purchase of closed-end mortgages, small business loans, small farm loans, and automobile loans (if a majority auto lender) in each facility-based assessment area as well as retail lending assessment areas and outside retail lending areas (where applicable)</p>	 <p>Evaluates the <b>availability and responsiveness of a bank’s retail banking services and products</b> to the credit needs of the bank’s entire community including low- and moderate-income individuals, low- and moderate-income census tracts, and small businesses and farms utilizing a tailored approach</p>	 <p>Evaluates how well a bank meets the <b>community development financing needs</b> of each facility-based assessment area, state or multistate Metropolitan Statistical Area (MSA) (as applicable), and for the institution through its <b>provision of community development loans and community development investments</b></p>	 <p>Evaluates a bank’s <b>record of helping to meet the community development services needs</b> (including in fostering partnerships, building capacity, and creating effective community development conditions) within the bank’s facility-based assessment areas, states, multistate MSA (as applicable), and nationwide</p>
KEY CONSIDERATIONS	<p><i>Agencies will utilize metrics tailored to local opportunities and economic conditions, including:</i></p> <ul style="list-style-type: none"> <li>Retail Lending Volume Screen</li> <li>Evaluation of geographic distribution and borrower distribution of a bank’s major product lines (utilizing metrics and benchmarks)</li> </ul>	<p><i>Agencies will conduct a qualitative evaluation and utilize quantitative benchmarks, considering:</i></p> <ul style="list-style-type: none"> <li>Branch and remote service facility availability / services as well as digital delivery systems and other delivery systems</li> <li>Responsiveness of credit products and programs and availability / usage of responsive deposit products at the institution level</li> </ul>	<p><i>Agencies will consider several numerical metrics and additional elements, including:</i></p> <ul style="list-style-type: none"> <li>Community Development Financing Metric</li> <li>Standardized benchmarks for assessing performance</li> <li>Impact and responsiveness review</li> <li>Additional metric to measure community development investments relative to deposits (only for banks with assets greater than \$10 billion)</li> </ul>	<p><i>Agencies will evaluate the extent of community development services provided, including:</i></p> <ul style="list-style-type: none"> <li>A qualitative review of relevant data (e.g., number of activities, total service hours)</li> <li>Impact and responsiveness review of community development services</li> </ul>

\*Small Banks must opt into Retail Lending Test, otherwise will leverage existing lending test

\*\*Intermediate Banks must opt into Community Development Financing Test, otherwise will leverage existing lending test

**APPLICABILITY LEGEND**

Large banks	Intermediate banks	Small banks	Limited Purpose banks
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## Agencies modernize the Community Reinvestment Act (CRA)

Initial perspectives related to the interagency finalization of the CRA and key changes from the proposed rule



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