CRA Reform Proposal to Target Mortgage Activity

By Yemeng Yang, Inside Mortgage Finance, December 19, 2019

Banking regulators last week unveiled a sweeping plan to modernize the Community Reinvestment Act, including major changes to how mortgage lending activity is qualified. The move has some community lending groups unsettled.

The proposal, issued jointly by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corp., would block banks from getting CRA "credit" from originating loans to middle- and upper-income borrowers residing in low- and moderate-income neighborhoods. The regulators would only assess banks' distribution of mortgage lending to LMI borrowers.

The Federal Reserve is not part of the proposal.

The four-decade-old CRA statute plays an important role in combating lending discrimination and ensuring banks meet credit needs of communities where they have a physical presence.

Regulators are concerned that lending to higher-income individuals and families in LMI areas would speed up gentrification and push out poor people.

"Unlike small loans to businesses and small loans to farms in LMI areas that may result in additional job creation or other positive efforts for the larger community, home mortgage and consumer loans to middle- or upper-income individuals and families in LMI areas are generally not as beneficial to LMI communities and may result in displacement," according to the proposal.

Similarly, under the proposal, mortgage-backed securities acquired by banks would be deemed qualified CRA investments only if backed by loans made to LMI borrowers.
In response to concerns the current framework gives too much CRA credit to frequently traded MBS, the regulators plan to only calculate the value of MBS for the period the investment remains on a bank's balance sheet.

Mixed Reactions

Community lending groups are concerned the proposed changes would discourage banks from lending and investing in LMI communities and weaken the CRA mission. Josh Silver, senior CRA advisor at the National Community Reinvestment Coalition, calls for a more targeted policy to address concerns relating to lending to higher-income borrowers living in low-income communities.

For example, regulators could identify census tracts that are gentrifying and then either prohibit or limit counting lending to middle- and upper- income people living in those areas.

“That would be a much more nuanced and sophisticated way of dealing with this issue,” said Silver. “In most of the country, gentrification is not a pressing issue. It’s a very significant issue in big cities on the coast, like Washington, DC, and San Francisco.”

Buzz Roberts, president and CEO of the National Association of Affordable Housing Lenders, said middle-income borrowers in LMI communities would be left out under the proposal.

“From the neighborhood perspective, those neighborhoods need a stable and diverse income mix, and [the CRA proposal] would no longer provide encouragement for lending to middle-income homebuyers in LMI neighborhoods,” said Roberts.

In addition, Roberts said, under the new framework, home mortgages sold to the secondary market would be discounted by 75% for CRA credit purposes, which is a big discouragement.

“One of the benefits of the secondary market, of course, is that it allows banks to make mortgages more effectively,” said Roberts. “[The change] might encourage some banks to hold those loans in their portfolio even though that does not make business sense.”
The 240-page proposal contains a wide range of changes, including clarifying the activities that qualify for CRA consideration, establishing additional assessment areas and providing performance measurements.

Banking groups, though, applauded the effects to modernize the CRA regulatory framework, while noting they will continue to review the proposal.

“We’re encouraged that it would clarify what qualifies for CRA credit by requiring regulators to develop, publish and periodically update an illustrative list of pre-approved CRA activities that is available to the public,” Rob Nichols, president and CEO of American Bankers Association, said in a statement. “We also appreciate efforts to develop performance standards that will provide greater transparency and consistency as banks plan and execute CRA initiatives.”