Banking and Finance Law Daily Wrap Up, COMMUNITY DEVELOPMENT—Acting Comptroller Michael Hsu discusses CRA modernization plans, (Feb. 15, 2022)

Banking and Finance Law Daily Wrap Up

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Hsu commented on the need for a stronger CRA and the federal banking agencies' plans for modernization of the Act.

Acting Comptroller of the Currency Michael Hsu spoke to the National Community Reinvestment Coalition on Feb. 14, 2022, addressing the agency's plans to implement Community Reinvestment Act (CRA) policymaking with other federal banking agencies. Noting that the "joint NPR to strengthen and modernize the CRA will be released for public comment in the not-too-distant future," Hsu discussed how a modernized CRA can be used to address racial and wealth gaps in banking. He also indicated that a notice of proposed rulemaking from the Office of the Comptroller of the Currency, Federal Reserve Board, and Federal Deposit Insurance Corporation should be coming soon, and all stakeholders are encouraged to review the new rule and submit comments. Said Hsu, "the need for a stronger CRA has become clear." Noting that "reducing inequality is a top priority for me and the Office of the Comptroller of the Currency," he specified that an important piece of that was strengthening and modernizing the CRA.

Hsu began by discussing the history of the CRA and highlighting the persistent gaps in wealth and economic opportunities. While he mentioned that banks have made substantial investments of CRA dollars in low-to-moderate income (LMI) communities over the past four decades to the benefit of LMI individuals, small businesses, and communities, there are still significant disparities in many LMI areas, and such gaps are most prevalent for Black, Hispanic, and Native American communities and borrowers. Hsu even pondered if following the pandemic, lending to minorities has gotten even worse. He pointed to a recent study which found that in 2020, the mortgage denial rate was 84 percent higher for Black applicants than White applicants, an increase of 10 percentage points since 2019, and Black homeownership had fallen to 44 percent from 49.7 percent in 2004. In addition, he highlighted that Black entrepreneurs and small business owners often face barriers to the credit needed to start, operate, and grow their businesses.

Plans for modernization. Hsu noted that the OCC is committed to working jointly with the FDIC and the Federal Reserve to address the racial and income disparities in lending. When discussing the plans for CRA modernization, Hsu laid out the joint "overarching objectives."

First, Hsu addressed the need for increased levels of CRA activity to help address the persistent disparities he highlighted. Additionally, he committed to ensure that banks are engaging with and being responsive to local stakeholders and the local needs of LMI communities, "not just applying one-size fits all solutions." Hsu indicated that the "new CRA regulations should ensure more and better CRA investments."

Next, Hsu expressed the importance of increasing the clarity, consistency, and transparency of CRA supervisory expectations and standards regarding which activities are eligible for CRA credit, and how eligible activities are evaluated and assessed. He noted this should allow banks to move more quickly and with greater confidence when making CRA investments. Finally, the federal agencies need to update the CRA standards to reflect changes in the business of banking, in particular the increased use of mobile and internet delivery channels. Because of this, he noted that the federal banking agencies must recognize that "it is insufficient to continue to evaluate bank CRA performance solely on a branch-based model."

Companies: National Community Reinvestment Coalition

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