The New CRA Rule: What It Means for Community Banks

regulatory DEI

Summary: The Community Reinvestment Act is getting modernized with the issuance of a new rule that reflects how the delivery of financial services has vastly changed in nearly 50Ys. We delve into the details, particularly how the new rule will impact community banks and what they should do to prepare for the first phase of implementation, slated for 2026.

Prior to the official launch of the internet to the public, the state of New York tested the first online banking system with its major banks in 1981. Despite the novelty of displaying customer accounts on terminals or TV screens, onlookers weren't too impressed, and adoption was minimal. In 1994, Stanford Federal Credit Union was the first financial institution (FI) to offer internet banking, but usage was still sparse due to either security concerns or a lack of motivation to learn how to do it. However, when e-commerce gained popularity after 2000, the desire to conduct transactions online trumped any fears or hesitation, and online banking took off.

A Modern Approach to the CRA

Now that digital banking is mainstream, people living in one part of the country can easily bank at a financial institution thousands of miles away. This is one of the main reasons why the Community Reinvestment Act (CRA) — enacted in 1977 to better serve low- and moderate-income neighborhoods — needed to be modernized to fit a greatly expanded definition of a community bank's footprint.

In March, we outlined the major tenets of the CRA and some of the overarching reasons why the regulators were updating it. This October, the Federal Reserve Board, the FDIC, and the OCC issued their final rule, with most of the requirements becoming effective on Jan. 1, 2026. The remaining new requirements, including data reporting, are applicable on Jan. 1, 2027.

The CRA's Updated Regulations

The new rule is meant to emphasize the original purpose of CRA: to serve low- and moderate-income communities. The updated regulations are targeting the following objectives:

- Encourage banks to increase access to credit, investment, and banking services in low- and moderate-income neighborhoods.
- Adjust to the constantly evolving banking industry, especially as it concerns mobile and online banking.
- Supply clarity and consistency in CRA regulation application, so that banks have a better understanding of the required performance standards.
- Customize CRA evaluation and data collection to each type and size of bank.

The last change is an important one. Small banks (less than $600MM in assets) and intermediate banks ($600MM to $2B in assets) can now choose the way they are evaluated under the CRA, while larger banks ($2B and higher in assets) are subject to a wider variety of evaluations. Community banks can choose between the current CRA small bank lending test or the retail lending test, which will evaluate how well a bank meets the credit needs of its entire community regarding mortgages, apartment loans, small business loans, and small farm loans, as well as auto loans, if the bank makes a substantial number of them.

The new rule also now incorporates how digital banking plays into meeting CRA requirements. While the focus will continue to be on how the bank meets needs in areas where they have deposit-taking facilities, the new rule will also evaluate retail lending activities that occur in “retail lending assessment areas” outside of its physical branch footprint. The new rule also provides consideration for banks’ community development activities nationwide.

Moreover, small and intermediate banks are exempt from new data requirements that apply to banks with assets of at least $2B. The updated CRA rule also limits certain new data requirements to large banks with assets greater than $10B.

How To Prepare for the CRA Changes

Timothy Burniston, senior advisor of regulatory strategy at Wolters Kluwer, told National Mortgage News that FIs first need to carefully read the final rule and supplemental information, and then consider how the updates impact their assessment areas and eligible activities.

“Understanding geographically where you’re going to be evaluated and determining if there are areas where you are not currently being evaluated is an essential first step in trying to understand how this rule will impact your bank most,” Burniston says.

The good news is that the majority of small and intermediate banks will not be affected by the new data requirements, allowing banks to focus on reviewing their digital footprint and how those digital services are providing greater financial access to low- and moderate-income communities in their regions.

The modernized CRA requirements are now posted for you to thoroughly read and prepare ahead of the first wave of requirements taking effect on Jan. 1, 2026. Take the time now to figure out how you will be evaluated, and check back with us for future updates.

BUILDING THE FEDNOW SERVICE WITH SHEILA NOLL

As the FedNow Service gains momentum, we sat down with Sheila Noll, a payments expert and PCBB’s COO, to understand how the service came to be, and get advice for CFIs regarding faster payments implementation.
Download PCBB's Industry Insights paper to learn the details.

ECONOMY & RATES

Rates As Of: 12/19/2023 10:08AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.46	0.01	1.04
6M	5.36	-0.02	0.60
1Y	4.92	-0.21	0.21
2Y	4.43	-0.25	0.01
5Y	3.94	-0.33	-0.07
10Y	3.92	-0.40	0.05
30Y	4.03	-0.46	0.07

FF Market	FF Disc	IORB

5.33	5.50	5.40
SOFR	**Prime**	**OBFR**
5.32	8.50	5.32