BANK INVESTMENT FALLS SHORT IN RURAL AMERICA

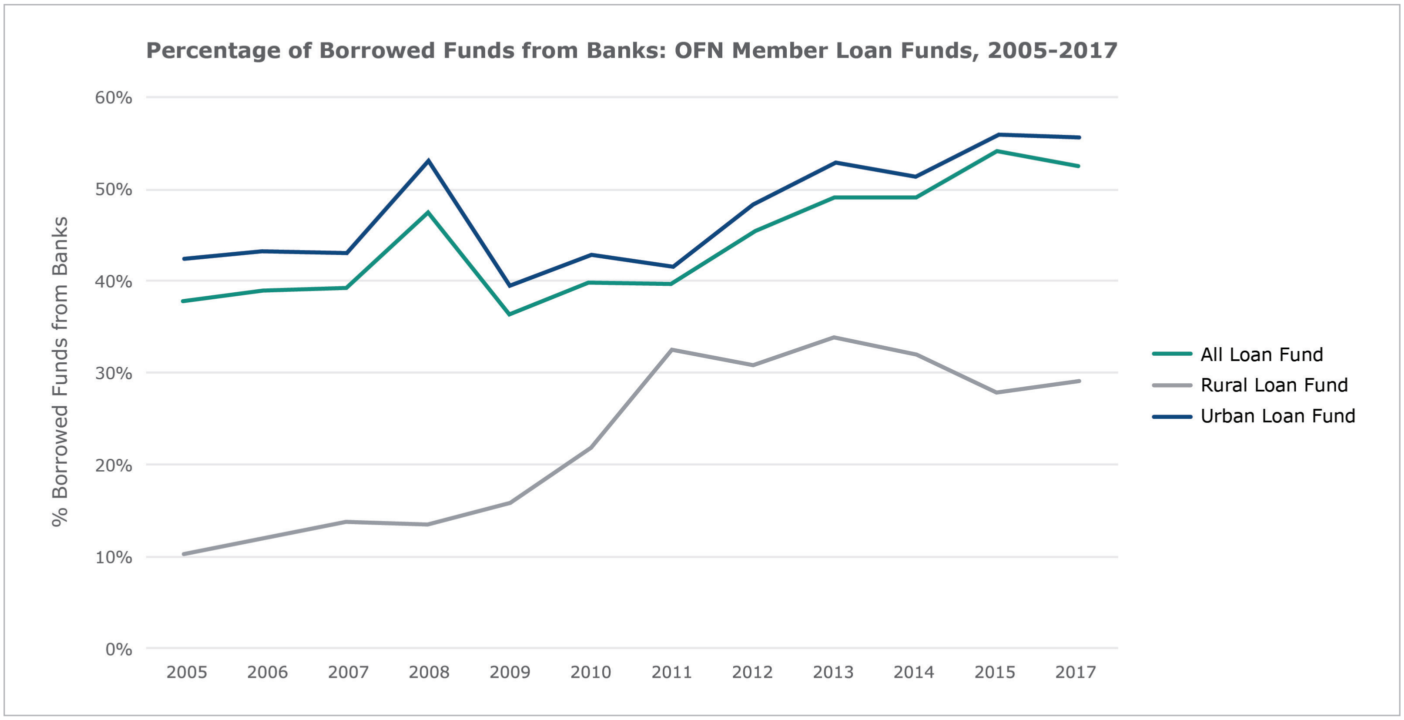
Reforms to the Community Reinvestment Act (CRA) Could Help

Dramatic Gap in Bank Investment in CDFIs Serving Rural Communities Compared with Bank Investment in CDFIs Serving Urban Markets

Community development practitioners have long decried the modest levels of bank investment in rural communities. Opportunity Finance Network (OFN) has documented this pattern through the data collected annually from community development loan funds in its membership.

Banks may receive credit on their Community Reinvestment Act (CRA) exam when they lend to or invest in a CDFI. In 2017, OFN member loan funds reported a total of $3.2 billion in capital borrowed from banks. This $3.2 billion supported $14.6 billion in outstanding financing by CDFIs to underserved borrowers and communities nationwide.

Longitudinal data from the past dozen years illustrates the painful gap between bank investment in CDFIs serving rural markets compared to bank investment in CDFIs serving urban markets. **For rural CDFIs, capital borrowed from banks in 2017 comprised 29% of total borrowed funds. For urban CDFIs, capital borrowed from banks comprised 56% of total borrowed funds.**



Under the existing regulatory framework for CRA, bank examiners focus on CRA activity in a bank's largest markets, which rarely include rural areas or even small cities. For the first time in many years, a serious policy discussion is under way about reforms to the Community Reinvestment Act (CRA). There is much room for improvement in how CRA addresses the persistent underinvestment in rural America.

CRA Modernization Could Attract More Capital to Rural Areas

Opportunity Finance Network recommends:[1]

- Opposition to the proposed "one-ratio" metric, which would replace the current CRA framework in favor of a single metric comparing total dollar volume of CRA activity to a bank's size. Less populous markets, particularly rural communities, could easily be ignored in an aggregation of all CRA activity by a bank into one number.
- Recognize the credential of CDFI certification in evaluating bank partnerships with CDFIs. CDFIs should be treated the same as Minority Depository Institutions and Low-Income Credit Unions for purposes of awarding CRA credit. If a bank had certainty that partnering with a CDFI would receive CRA credit, CDFIs serving rural markets would be more competitive in attracting CRA-motivated bank loans and investments.
- Support for reforms designed to drive more investment to less-populated regions, including rural and Native communities. The CRA's current emphasis on "assessment areas" (geographies where a bank takes deposits) discourages bank investment in rural areas. Reforms would include:
    - Branchless banks conducting business nationwide should be evaluated on activities nationwide and not have local assessment areas.
    - Once a bank with a branch network has satisfactorily served its assessment area, it should receive full CRA credit for community development activities anywhere in the nation. Added weight should be given to CRA activities in high poverty markets (including rural areas) and other communities with documented levels of distress.
    - Non-metro regions within a state should be consolidated into a single or, depending on the size of the state, a few assessment areas.
    - Community development activity should be aggregated in assessment areas subject to a limited scope CRA exam. Full scope exams focus on a bank's largest markets which rarely include rural communities. Therefore, community development activity by banks in rural areas are largely ignored by bank examiners.
    - Existing Interagency Questions and Answers should be revised to clarify the definition of "broader statewide or regional area." Lists of regulator-approved regional areas should be made public so banks can have more certainty before undertaking a community development transaction.

ABOUT OFN

Opportunity Finance Network (OFN) is a national association of more than 250 CDFIs investing in opportunities that create quality affordable housing, vital community services, and entrepreneurial capital in rural, urban, and Native communities. OFN members have cumulatively provided more than $65 billion in responsible lending to help low-income, low-wealth, and otherwise disinvested individuals and communities nationwide.

[1] OFN Letter to the OCC on Reforming Community Reinvestment Act Regulatory Framework, November 15, 2018. http://bit.ly/OFN_CRA

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