



**Federal Financial Analytics, Inc.**

## **THE CLASH BETWEEN CRA HOPE AND REGULATORY REALITY**

The belated inter-agency effort to update and tighten key community-service rules is likely to derail into a morass of conflicting provisions, complex data requirements, and costly mandates.

The analytics below are based on in-depth reports provided to FedFin clients.

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We were as hopeful as any banker or community advocate that the multi-year effort aimed at updating the 1995 rules governing Community Reinvestment Act (CRA) standards would lead to a new era of meaningful banking-industry commitments befitting both their charters and acute needs across an array of under-served communities. But, our read of the proposal's 678 pages leaves us with faint heart. The agencies tried to do so much for so many in such a myriad of ways that we suspect even the finger-weary scribes who worked on this proposal at the OCC, FRB, and FDIC aren't entirely sure what they've brought forth.

FedFin clients received two in-depth reports on this proposal since, for all its complexities, its more than consequential. The [first](#) hones in on the impact the rule would have on U.S. residential finance; the [second](#) analysis is longer and broader, looking across the spectrum of financial products to see which are favored how in order to forecast to whom credit would flow in which communities.

Or, we should say, we did our best in both reports to provide this strategic advice. Perhaps the most certain take-away from our read of the proposed rule is that its product definitions and eligibility standards are so finely tuned and its examination standards are so complex that each large bank will chart its own course through the CRA maze. Even then, banks won't know what to expect when they exit all these regulatory twists and turns because, for all the very, very complex metrics detailed over dozens of pages, examiners have considerable discretion to decide who scores how based on factors such as what community groups have to say about a bank or how examiners think the market works in each the bank's assessment areas – and don't even ask how these are defined.

Or, you can ask since we've done our best to answer this and many other questions about the CRA proposal in each of our reports. Since much of the rule would be as what each bank and examiner make

of it, much of the strategic planning now must be based on what each bank wants to make of this rule and how community groups believe that would affect economic opportunity. This is, after all, only a proposal.

To learn more about Karen Petrou's book, *Engine of Inequality: The Fed and the Future of Wealth in America*, click [here](#)

Karen Petrou's latest column can be found [here](#)

To read Karen Petrou's latest speech, click [here](#)

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