INSIGHT

Community Resilience: Climate Adaptation and the Community Reinvestment Act (CRA)

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Climate change has become an increasingly salient topic among financial regulators and in the economic development and public policy arenas more generally. In particular, some climate-related disasters and long-term effects are likely to contribute to macroeconomic stress with broad implications for the financial sector and the economy as a whole. For example, extreme heat events could stymie economic productivity and output; natural disasters may induce economic shocks that threaten financial stability; and uncertainty about climate-related events and policies may inhibit certain economic activities.

In response to the increased frequency and severity of disasters that the scientific community has linked to climate change, Congress and federal agencies have sought to minimize risk through resilience investments. Resilience activities—also called pre-disaster hazard mitigation, or "adaptation" activities (see CRS In Focus IF11827, *Climate Change: Defining Adaptation and Resilience, with Implications for Policy*)—are receiving increased federal and public attention amid the growing perceived threat from climate change to the global economy and society. The federal government uses a variety of tools—including grants, loans, and tax incentives—to promote community and economic development, which includes investments that may address the risks of climate change and promote climate-related community resilience.

One tool designed to address credit availability may have the ancillary benefit of promoting climate resilience. The Community Reinvestment Act (CRA) is used to incentivize banks to make certain loans and community investments in low- and moderate-income (LMI) neighborhoods. Given how the CRA is currently implemented, it may result in some amount of those loans and investments going to projects that increase climate resilience. This Insight considers how the CRA can encourage bank lending to climate-related resilience investments.

Background on the Community Reinvestment Act

Federal banking regulation may indirectly play a role in addressing climate risks through the CRA. The CRA (P.L. 95-128, 12 U.S.C. §§2901-2908) was developed to encourage banks to meet the lending needs of their communities—including LMI neighborhoods—that often receive less market attention and investment than other communities. Three bank regulators implement and enforce the CRA: the Federal

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Reserve, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC). These bank regulators award CRA credits when banks participate in certain qualifying activities, which are ultimately transformed into performance ratings. Such ratings are taken into account when banks apply for branches, mergers, and acquisitions, among other things. CRA-qualifying activities include providing loans, investments, and service contributions within banks' designated assessment areas, which include any LMI areas (e.g., census tracts that have median incomes under 50% of the area median income and 50%-80% of area median income). For more information, see CRS Report R43661, *The Effectiveness of the Community Reinvestment Act* and CRS In Focus IF11865, *Implementation of the Community Reinvestment Act by the Office of the Comptroller of the Currency*.

Intersection of Climate Resilience Activities and CRA

Over the years, the federal bank regulators have shown increased interest in the role of banks in disaster recovery and pre-disaster hazard mitigation, including climate resilience. The bank regulators, however, generally award CRA credit for eligible activities that benefit LMI individuals or community development to be consistent with statute, rather than for all climate-friendly projects. Nevertheless, some CRA eligible activities could incidentally improve climate resilience.

- An analysis commissioned by the Federal Reserve Bank of San Francisco found that since 1998, 57% of disaster-impacted counties have census tracts where banks may receive CRA credit. The banking regulators have stated that banks may receive consideration for CRA credit when participating in activities "consistent with a bona fide government revitalization or stabilization plan or disaster recovery plan." In other words, post-disaster recovery activities, pre-hazard mitigation activities, and climate resilient investments that also meet additional criteria, such as the bona fide test and community development obligations under the CRA, may be eligible for CRA credit.
- The OCC, the Federal Reserve, and FDIC issued a joint list of examples of CRA-eligible lending activities in 2016 that included loans "to finance renewable energy, energy-efficient, or water conservation equipment or projects that support the development, rehabilitation, improvement, or maintenance of affordable housing or community facilities."
- In 2020, the OCC updated an illustrative list of qualifying CRA eligible activities and included green projects and climate resilience in LMI communities, provided those projects reduce the utility costs or otherwise maintain affordability of LMI housing.

Bank financing activities that facilitate community-level climate resilience projects may already be eligible for CRA credit if they meet the abovementioned criteria.

Broadening the CRA?

Certain climate resilience investments are viable CRA-eligible activities. However, whether CRA should be broadened to support federal policies that would encourage disaster planning at the state and local levels while addressing climate-related issues is debatable. On the one hand, broadening CRA eligibility to include any climate resilience loans and investments arguably may dilute the original intent of CRA, which focuses on promoting credit availability to LMI individuals and community development. On the other hand, bank financing for disaster mitigation efforts that address climate-related disaster events, such as extreme heat preparedness and mitigation measures, may benefit LMI communities indirectly even when a bank has made a climate resilience loan to a non-LMI borrower. Given the perceived benefit to LMI communities, bank regulators have allowed lending for disaster recovery and eligible preparedness activities to be eligible for CRA credit.

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