PURPOSE
BUILT
COMMUNITIES

February 16, 2021

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Community Reinvestment Act Advance Notice of Proposed Rulemaking
Docket No. R-1723 and RIN 7100-AF94

Purpose Built Communities is pleased to respond to the advance notice of proposed rulemaking (ANPR) on the Community Reinvestment Act (CRA) issued by the Board of Governors of the Federal Reserve System (Board).

Purpose Built Communities works with local leaders across the country to achieve greater racial equity, better health outcomes, and economic mobility in neighborhoods, with the goal of breaking the cycle of intergenerational poverty. The Purpose Built Communities model of holistic revitalization includes mixed-income housing, a cradle-to-college education pipeline and community wellness programs and facilities in a defined neighborhood, coordinated by a dedicated, nonprofit community quarterback organization. The Purpose Built Communities Network includes 28 members in 15 states. Our network raises and invests millions each year on large capital projects in housing, education, health, and economic assets in these neighborhoods. Several regional banks work with our network members and the Truist Foundation is one of Purpose Built Communities' funders.

In many ways, the Purpose Built Communities model is a natural progression of CRA's original intent. Local leaders identify defined neighborhoods, many of which have been underserved for decades, and we work with diverse stakeholders—including financial institutions—to invest in the range of community amenities that align with the community's vision and change life trajectories. As a result, we believe our comments on the Board's ANPR provide a unique perspective on the modern challenges and opportunities in realizing CRA's intent.

We are eager to share our perspective and have provided detailed responses to select questions below. We also highlight the following recommendations as top priorities of the Purpose Built Communities Network:

- **Embed racial equity in CRA regulations** by collecting and reporting comprehensive data disaggregated by race; including demographic factors in Performance Context; and providing credit for community development activities undertaken with an explicit emphasis on racial equity.
- **Provide CRA credit for community development activities conducted nationwide** to address the current assessment area system that provides insufficient incentives for banks to invest in many underserved areas of the country.

QUESTION 2: *In considering how the CRA's history and purpose relate to the nation's current challenges, what modifications and approaches would strengthen CRA regulatory implementation in addressing ongoing systemic inequity in credit access for minority individuals and communities?*

Much of the work we do today is in response to the enduring legacies of redlining. Racist redlining practices disproportionately impacted Black households and have had lasting impacts on wealth and opportunity in Black communities. Simply ending the practice of redlining was a necessary but insufficient step to fully address the challenges and inequities plaguing Black communities and other communities of color. Efforts must be taken to undo the decades of lending discrimination that have compounded and contributed to the nation's current challenges. This will require a strong commitment from the federal regulators to affirmatively enforce equity within the sector.

We are encouraged to see the Board explicitly consider its role in updating CRA to address systemic inequity, specifically for people and communities of color. Throughout our comments we have provided recommendations to advance racial equity in CRA regulations, including recommending that the Board:

- Collect and report comprehensive data disaggregated by race;
- Include racial demographic factors in Performance Context to explicitly require banks to consider measures of racial equity in their community development lending and investments and articulate efforts taken to improve outcomes for people or communities of color; and
- Provide credit for community development activities undertaken with an explicit emphasis on racial equity, for example, taking steps to mitigate racialized perceptions of "risk" associated with borrowers of color, or seeking to remediate racialized disparities in application approvals and cost of capital.

QUESTION 8: *Should delineation of new deposit- or lending-based assessment areas apply only to Internet banks that do not have physical locations, or should it also apply more broadly to other large banks with substantial activity beyond their branch-based assessment areas? Is there a certain threshold of such activity that should trigger additional assessment areas?*

We are concerned that creating new deposit-based assessment areas may potentially create a *new* concentration of capital, given that most banks will have deposits concentrated in larger and wealthier metropolitan areas. This may be true for lending-based assessment areas as well. Instead, we support the recommendation advanced by the National Association of Affordable Housing Lenders (NAAHL) and other industry stakeholders that banks should receive full credit for community development activities outside assessment areas at the institution level. This should apply to Internet banks, wholesale and limited purpose banks, and large banks with substantial activity beyond their branch-based assessment areas. Banks will not be required to undertake community development activities outside of their assessment areas, but for those that do, full credit should be made available at the institution level. Further, a bank's total community development activity—both within and outside its assessment areas—should be measured against its total domestic deposits.

In order for this approach to be successful, the Board must ensure community development activities considered at the institution level have sufficient weighting to incent bank participation in these broader geographies, while maintaining a primary focus on local communities through strong weighting at the assessment area level. Additional data may be necessary to make an informed decision.

QUESTION 42: *Should the Board combine community development loans and investments under one subtest? Would the proposed approach provide incentives for stronger and more effective community development financing?*

Purpose Built Communities supports the proposal to combine community development loans and investments under one subtest, as long as sufficient incentives and requirements exist to ensure a continuation of bank participation in community development equity investments. Separating community development and retail activities is a sound policy decision given the distinct difference between these products and services. However, we echo a common industry concern that banks may favor community development debt products over community development equity products, given that debt products have a lower cost of capital and are traditionally more attractive to lenders. Ensuring robust community development equity investments must be a top priority in this new regulatory framework.

We support the Board setting a minimum threshold of which a bank's total community development activities must be in equity investments. The Board should consider prior levels of community development equity investments when creating this threshold. We also support additional incentives to encourage banks to do more equity investing than the minimum threshold requires. One example may be impact scores, which could include a measure of how responsive the bank's financing mix (e.g. debt, equity, and services) is to local needs.

We also recommend that the Board commit to making data publicly available for stakeholder evaluation on the percentage and dollar amount of a bank's community development activities that are loans, investments and contributions. This data would be most effective if reported on an annual basis.

QUESTION 47: *Should the Board use impact scores for qualitative considerations in the Community Development Financing Subtest? What supplementary metrics would help examiners evaluate the impact and responsiveness of community development financing activities?*

We echo the comments from our partner the Low Income Investment Fund (LIIF), which recommends that impact scores be used to quantify the existing evaluation criteria of responsive, innovative, and complex.

- Responsive: the extent to which a bank's products are directly responsive to the local needs, as determined by performance context.
- Innovative: activities that involve flexible underwriting, or a program or product that may already be in the market but is new for that particular institution.
- Complex: degree of difficulty of the particular loan or investment. May also be considered complex if it is not routinely provided by the private sector.

We believe that these qualitative criteria have been an effective means of determining impact but could be improved if greater objectivity were attached to the definition of each concept. The Board should consider assigning an impact score between 1-3 for *each* of the three qualitative terms: responsive, innovative, and complex. This would ultimately create a 9-point scale, which allows for more gradations to capture the nuance of community impact. The Board may also consider assigning an impact score to the mix of activities that would capture how responsive the financing was to priority needs. For example, if performance context demonstrated that a community needed community development equity investments more than community development lending, the Board may incorporate a percentage of its overall assessment of impact (such as 20%) to measure how responsive the financing mix was to priority needs.

We do request that the Board provide additional information as to how impact scores would be incorporated into the final rating structure. And, in order for any evaluation of impact to be successful, we strongly recommend that Federal Reserve economists and community affairs staff collaborate to develop a standardized method for developing performance context for metropolitan areas and rural counties. The current process in which banks set their own performance context is insufficiently rigorous and will impede the successful implementation of any proposals like impact scores that hinge on strong performance context criteria.

QUESTION 54: *Should the Board specify certain activities that could be viewed as particularly responsive to affordable housing needs? If so, which activities?*

We recommend including mixed-income housing in the definition of activities that are particularly responsive to affordable housing needs. Mixed-income housing developments are an important tool to increase affordable housing options for LMI people in higher-opportunity communities, while also working to reduce neighborhood segregation in lower-income communities. In our experience, mixed-income housing is an essential part of holistic neighborhood revitalization. By attracting residents with a broad range of incomes, new economic conditions emerge attracting businesses and services like grocery stores, pharmacies, banks, and retail destinations. Additionally, mixed-income housing helps create social capital which is essential to provide all neighborhood residents with access to educational and career opportunities. We strongly support incentives to invest in mixed-income housing and we recommend that activities deemed to be particularly responsive to affordable housing needs receive a correspondingly higher Impact Score, as discussed in question 47.

QUESTION 67: *Should banks receive CRA consideration for loans, investments, or services in conjunction with a CDFI operating anywhere in the country?*

We support the Board's proposal to provide CRA consideration for activities completed in conjunction with a CDFI operating anywhere in the country. This proposal will allow our CDFI partners more flexibility to support implementation of the Purpose Built Communities model across the country.

QUESTION 95: *Are the community development financing data points proposed for collection and reporting appropriate? Should others be considered?*

We support the proposed data points, which include the loan or investment amount (original or remaining on balance sheet), area(s) benefitted, community development purpose (e.g., affordable housing or economic development), and type of investments (e.g., equity investment or mortgage-backed security). These data are a foundational step to creating a baseline understanding of community development activity. We also recommend collecting and reporting community development financing data disaggregated by race, where feasible.

There is tremendous value in building a comprehensive dataset of community development investment activity; this information will allow stakeholders to better target resources to underserved communities and communities of color, as well as identify efficiencies that strengthen the sector. We believe it is feasible for banks to collect and report this data, and we posit that the widespread benefits—to communities, to overall safety and soundness, to the public, and to compliance with other banking laws—outweigh any short-term data collection or reporting burden. Further, given the fact that the vast majority of the community development proposals in the ANPR rely on improved data, the Board is unlikely to be able to proceed with the proposed framework in the absence of this baseline data.

Purpose Built is encouraged by the direction articulated in the ANPR and we are eager to offer feedback on many of the questions posed by the Board. We also take this opportunity to reiterate the importance of the three federal regulators coalescing around a joint rulemaking process, and we appreciate the Board's leadership on this issue.

If you have any questions regarding these comments, please contact me at cnaughton@purposebuiltcommunities.org.

Sincerely,

Carol R. Naughton

Carol R. Naughton
Chief Executive Officer
Purpose Built Communities