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Via Electronic Submission

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System 20th
Street and Constitution Avenue, NW Washington, DC
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Docket No. R-1723; RIN 7100-AF94

Re: Community Reinvestment Act

Ladies and Gentlemen:

QCR Holdings, Inc. is pleased to comment on the Advance Notice of Proposed Rulemaking (ANPR) issued by the Board of Governors of the Federal Reserve System (Federal Reserve) that would modernize the regulations that implement the Community Reinvestment Act of 1977 (CRA).

We care deeply about the vibrancy and vitality of our communities, and we support the goals of the CRA statute. In fact, we provide millions in capital *each year* to low- and moderate-income (LMI) communities. Our banks also supply financial products and services that provide important economic opportunities for individuals, families, and small business owners. QCR Holdings, Inc. is a five bank holding company located in Iowa, Illinois, and Missouri. Our banks are located in MSAs and specialize in commercial lending.

It is our hope the CRA regulatory framework is updated to reflect how technology has transformed the delivery of financial products and services. We understand our banks can do more to enhance economic opportunity for underserved consumers and communities. Additionally for us to be successful banking agencies need to ensure that CRA expectations are transparent and that examiners interpret and apply CRA regulations consistently.

Improving the CRA regulations will be challenging; the needs of our communities vary widely, our bank business model differs from our peers, and technology has forever changed consumer preferences for accessing financial products and services. These are complex issues. Yet, we remain optimistic that it is possible to improve the effectiveness and administration of the CRA in a manner that will enable our banks to effectively support the communities and consumers we serve in the Midwest.

To that end, we offer the following comments, observations, and recommendations, which reflect the perspective of the full range of our bank business model, asset sizes, and geographic locations.

I. Summary of the Comment

We strongly support the Federal Reserve's efforts to update the regulations that implement the CRA. The Federal Reserve's ANPR is an important step forward, and we are grateful for the Federal Reserve's considerable research, analysis, and outreach to date. We especially appreciate public statements by individual members of the Board of Governors noting that the ANPR seeks to lay the foundation on which the banking agencies can build a shared, modernized CRA framework that has broad support. We urge the Federal Reserve to work with leadership and staff of the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) to craft a modernized regulatory framework that can be adopted by all three agencies. Failure to act in coordination would yield undesirable results— including perpetuating confusion and inconsistency— which would be contrary to the objectives of the modernization effort.

Our comments address the following concepts and objectives we believe should inform CRA modernization:

- **Durability**. A modernized CRA regulatory framework must be long-lasting. Modernized regulations that are clear and calibrated appropriately will avoid the need for subsequent amendments, adjustments, and clarifications. Multiple iterations would be costly and counterproductive. Working in a multi-banking holding company, changes take time to implement. Our MSA competitors are aggressive therefore changing the expectations and meeting new benchmarks will take time to see results.

- **Diversity of the Banking System**. A one-size-fits-all approach to CRA would not be practical, sustainable, or desirable. Tailoring should continue to be part of the CRA regulatory framework and should take into account our banks business model, areas of specialization, and community characteristics. Please do not remove the authority of our Federal Reserve Examination team to understand what we do, hear our story, and then effectively evaluate our effectiveness to meeting the needs of our communities.

- **Scope of Improvements**. A modernized regulatory framework should aim to refine existing CRA regulations with the goal of improving transparency, consistency, and overall effectiveness. A complete regulatory re-write is unnecessary. With that being said, establishing benchmarks for CRA activity should provide guidance as the proposed benchmarks are above our current market data of our peers in all our communities. When increasing the benchmarks, all banks and financial institutions will strive to meet the requirement. As stated above not all banks are the same, some banks are good at investments, some are good at community development lending. QCRH banks are not retails banks. The benchmarks if used as a requirement will require a strategic plan change for my commercial banks to obtain the proposed guidelines which will deviate from what we are good at and specialize in, which is business lending. We do not meet the proposed benchmarks today as you have currently proposed them.

- **Assessment Areas**. CRA cannot be truly modernized without addressing the digital revolution and reframing how and where banks are evaluated for CRA compliance. A revised framework should also facilitate and incentivize the flow of CRA capital to underserved communities outside of a bank's assessment areas. Additionally requiring large banks to define their facility based assessment area be no smaller than a county will required some changes to our current programs.

- **Quantitative vs. Qualitative Factors**. Quantitative performance metrics would provide much-needed transparency and certainty to the CRA evaluation process and assignment of ratings. However, to have a full understanding of a bank's CRA performance, regulators must also take qualitative factors into account. Updated CRA regulations should provide transparent standards for drawing ratings conclusions, including how examiners make judgments, the data that they use to inform those judgments, and the weight of other factors that examiners consider in determining a bank's CRA rating.

- **Complexity**. In an effort to develop transparent performance standards, regulators should work to develop a framework that is clear, understandable, and not overly complicated. Overly granular data analysis runs the risk of being overly burdensome without improving community outcomes or the examination process. Bankers should not have to guess if they are meeting regulator expectations to pass their next exam. Establishing transparency in performance standards assist bankers in establishing effect strategic CRA goals.

- **Data Burden**. Quantitative performance measures will likely result in new data reporting requirements. However, a revised framework should not result in massive new data collection and reporting requirements simply for the sake of adopting a metrics-based approach. Rather, any new burdens must be offset by corresponding improvements to and efficiencies in the administration of bank CRA programs and regulatory examination. QCRH does not currently have capabilities to track and monitor retail geographic penetration. This would require additional software and oversight within our banks.

Qualitative Considerations

The Federal Reserve is considering providing more specificity regarding performance context and other qualitative factors that examiners will consider as part of the Community Development Financing Subtest. In particular, the Federal Reserve would describe how impactful activities are factored into performance ratings. Performance context would continue to play an important role in identifying the unique community development needs of each assessment area, which would help inform examiners' evaluation of the impact and responsiveness of a bank's activities.

Notably, the Federal Reserve considered using activity-based multipliers, but concluded that the impact and responsiveness of particular community development financing activities can vary considerably, which could not be captured using uniform weights. Instead of activity-based multipliers, the Federal Reserve is considering assigning an impact score of 1-3 (with 3 being the highest) to each community development financing activity, based on the examiner's assessment of the activity's impact locally. Under this approach, examiners could use bank- provided information along with a review of performance context to determine an impact score for a bank's community development activities in an assessment area. All Community Development Financing Subtest conclusions could include a statement about both the community development financing metric and the impact score, which could also be used to adjust the bank's performance conclusion relative to the quantitative assessment.

The Federal Reserve also is considering using supplementary metrics to illustrate the composition of a bank's community development activities (i.e., the percentage and dollar amount of the bank's community development loans, investments, and contributions).
The Federal Reserve believes that the supplementary metrics could help stakeholders better understand how well banks are leveraging their resources to meet the needs of local communities.

These supplementary metrics seem to work at cross purposes with aggregating community development loans and investments under the Community Development Financing Subtest. As previously discussed, the purpose of consolidating community development loans and investments is to provide banks with more flexibility to tailor their community development activities to the needs and opportunities in their communities. As such, supplementary metrics should not measure the distribution of a bank's loans relative to investments. A loan versus investments comparison risks becoming an unproductive, check-the-box exercise. Instead, CRA's broader focus should be on whether the bank is serving its community effectively.

In addition, both the supplementary metrics and the impact score illustrate the inherent challenge in CRA modernization—that is, providing transparency and rigor regarding how examiners will apply qualitative performance measures in a manner that does not la additional complexity onto an already complicated regulatory framework. Ultimately, CRA modernization should not add complexity to CRA administration and examination. QCRH as a multi-bank holding company has opportunities with joint efforts between our banks to participate in larger CRA activities when we work together to share the investment or the loan. Our banks would appreciate the qualitative considerations as much as the quantitative metric.

Thank you for the opportunity to comment on potential revisions to the regulations that implement the Community Reinvestment Act. We are grateful for the Federal Reserve's leadership in soliciting ideas to modernize these regulations and in crafting an ANPR with the goal of developing broad consensus that will lead to an interagency final rule. Thank you for not jumping on the bandwagon of others and taking the time to analyze the impact this regulation has on our communities and the financial institutions.

Sincerely,

Tonia Taylor

Tonia Taylor
SVP Director of Compliance
QCR Holdings, Inc.