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January 4, 2020

Board of Governors for the Federal Reserve System
20th Street and Constitution Ave. NW
Washington, DC 20551

Re: **Community Reinvestment Act: Docket No. R-1723 RIN 7100-AF94**

Dear Sirs,

I have provided CRA consulting advice to community banks and community groups since 1994. I intend to submit extensive comments regarding many aspects of the Board's CRA ANPR in a subsequent submission by email. However, I have decided to submit preliminary comments regarding the Board's ideas and questions pertaining to Assessment Area delineation because by isolating my comments on AA delineation I hope to attract the Board's attention to the far-reaching implications and the magnitude of the impact of AA delineation rules.

The construction of a CRA Assessment Area is perhaps the most important decision made by a bank. This is because the construct of an Assessment Area not only dictates bank performance under all the tests applied in a CRA PE, it also has a profound impact on performance expectations. All CRA evaluations apply tests to calculate a bank's performance and it is obvious that expanding or contracting an AA will affect a bank's results under the CRA tests.

What many people (bankers especially) don't seem to understand is that AA delineation drives what the regulation calls "performance context", the demographics of the delineated community and the credit markets associated with the defined community. These performance context factors establish performance expectations and standards. Therefore, expanding or contracting an AA will immediately and directly affect not only a bank's computed performance, but it will also affect the benchmarks used by examiners to evaluate a bank's performance.

Performance context factors drive performance expectations. Hence, any changes in AA delineation rules has a potentially dramatic effect on a bank's performance in terms of its quantitative performance as well as the quantitative performance standards applied by examiners. The ANPR would maintain this correlation and make it even more precisely defined by using "comparators", predefined percentages of peer penetration rates and demographic parameters. Consequently, any changes to the AA delineation rules will have substantial, if not overwhelming, impact on the measurement of a bank's performance.

Under the current regulation, a bank may construct its AA by taking into consideration "the area it can reasonably be expected to serve." But, under the ideas articulated in the ANPR, "Large" banks (which may be as small as $750 million - or even smaller) will not be allowed to construct an AA that is smaller than an entire county.

This rigid restriction of AA delineation may not have an impact on the major money center banks as well as other mega-lenders, but it could have profoundly adverse consequences for banks that don’t have a branch system large enough to serve an entire county. Some counties are so large that any bank with fewer than dozens of branches would not be able to adequately serve the entire county.

Los Angeles County would be a good example of this problem. There are 2,343 census tracts in LA County. The June 2020 SOD data shows that there are 98 banks with branches in LA County. Of those 98 banks, 75 have fewer than 10 branches to serve the county. Even more of concern, 36 of those banks have total deposits exceeding $1 billion, but fewer than 10 branches within the county. In fact, 26 banks with at least $1 billion of deposits have 5 or fewer branches to serve LA County. This means even though the Board is considering imposing a county-minimum AA construct on only “large” banks, many banks that would fall into that category would have an unrealistically defined Assessment Area imposed on them.

The Board's response may be that examiners will take unrealistic Assessment Areas into consideration when confirming a bank's CRA performance. But in light of the fact that a laudable and lofty goal of the ANPR is to make performance ratings more measurable and objective, unrealistically defined Assessment Areas would appear to seriously undermine that goal. Even worse, unrealistic performance standards driven by unrealistic Assessment Areas would be completely counterproductive because the "objective" quantified performance results could be seriously misleading. Perhaps examiners could understand the implications of unrealistically defined Assessment Areas and mitigate criticism, but would the public be able to make those same adjustments when judging a bank's performance?

Given the foregoing, we find it surprising that the Board would consider removing the realistic flexibility regarding Assessment Area delineation that is currently allowed. We would view this as a step backward. Reading the ANPR we have inferred that a significant underlying motive for the potential AA delineation rules change may be the "dashboard" the Board believes would be helpful to bankers and the public alike. We point out that there is no need to adopt rigid restrictions regarding Assessment Area delineation in order to develop a dashboard of performance standards available to bankers and the public alike.

Although we are a small company, GeoDataVision uses sophisticated GIS mapping to instantaneously determine performance standards and compare them to a client's performance under the various CRA tests ("penetration" rates in AA LMI tracts or lending based on borrower characteristics as well as Assessment Area ratios). Typically, we compute the results based on both loan counts and the dollar value of loans. This analysis can be done simply by pointing and clicking tracts on and off. The concept of "comparators" introduced in the ANPR could easily be applied using the same methods. Consequently, if a primary objective of the Board is to create a "performance dashboard" we point out that artificial and rigid restrictions on Assessment Area construction are not necessary to achieve the objective.

We would be pleased to provide the Board a demonstration of the foregoing process via Zoom meetings if the Board would so desire. We would request however, that the presentation be kept confidential and restricted to Board personnel. If you are interested in such a demonstration, I may be contacted at the phone number below or by return email.

Sincerely,

Len Suzio

Leonard F. Suzio Jr., President

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