Proposal: 1723 (AF94) Reg BB - Community Reinvestment Act

Description:

Comment ID: 137634

From: Rebecca Arrichiello

Proposal: 1723 (AF94) Reg BB - Community Reinvestment Act

Subject: R-1723 Community Reinvestment Act

Comments:

Date:Feb 09, 2021

Proposal:Regulation BB: Community Reinvestment Act [R-1723]
Document ID:R-1723
Revision:1
First name:Rebecca
Middle initial:
Last name:Arrichiello
Affiliation (if any):N/A
Affiliation Type: ()
Address line 1:
Address line 2:
City:
State:
Zip:
Country:UNITED STATES
Postal (if outside the U.S.):
Your comment:Docket Number R-1723 and RIN Number 7100-AF94.To Whom it May Concern:
The Federal Reserve Board (Fed) must strengthen the rigor of CRA exams in order to promote recovery from the COVID-19 pandemic. The Fed has described approaches in its Advance Notice of Proposed Rulemaking (ANPR) on CRA that will make CRA exams more objective and transparent. Yet, questions remain about whether the Fed's approach will reduce the high rate of CRA inflation. If nearly every bank continues to pass their CRA exams, banks will not engage in strenuous efforts to help communities of color and low- and moderate-income (LMI) neighborhoods recover from the pandemic's devastation.
Strengthening CRA is a critical component of a just recovery
The National Community Reinvestment Coalition (NCRC) recently released a major report finding significant correlations between redlining and susceptibility to COVID. In the 1930s, the Home Owners Loan Corporation (HOLC) commissioned the production of maps that rated neighborhoods based on the risk of lending in them. Working class and minority neighborhoods usually received the riskiest designation of hazardous. The designations subsequently facilitated redlining and discrimination against these neighborhoods, which remain starved of credit and are predominantly lower-income and minority. These neighborhoods also have the highest incidence of health conditions such as asthma, diabetes, kidney disease and stroke, which make residents more susceptible to COVID-19. Life expectancy is almost four years lower in the redlined communities than the neighborhoods not designated as hazardous by HOLC.
Since the start of the pandemic, more than 440,000 African American businesses have been closed or 41% compared to just 17% of White-owned small businesses. Discrimination in lending contributes significantly to racial disparities in small business survival rates. A NCRC investigation found that African American testers applying for Paycheck Protection Program (PPP) loans for their small businesses during the pandemic were likely to receive less information or encouragement to apply than White testers. CRA must be strengthened considerably in order to combat discrimination and help our communities recover from the pandemic.

The Federal Reserve proposal must be strengthened to prevent grade inflation

However, it is unclear if the Fed's ANPR proposals will address CRA ratings inflation. The Fed emphasizes improving the performance measures on CRA exams including those used on the lending test that compare a bank's percent of loans to LMI borrowers and communities to other lenders. However, the Fed proposes thresholds that appear to replicate the high ratings on CRA exams. The Fed does not describe in any detail the impact of its initial thresholds on CRA ratings and hints the thresholds replicate the current CRA ratings distribution.

Moreover, the Fed is proposing to reduce the number of ratings on a state level and on subtests from five to four. This proposal would result in fewer distinctions in performance whereas a new CRA exam system must reveal more distinctions in performance in order to motivate banks to be more responsive to COVID-19 recovery needs. Five ratings must be retained on the state level and on subtests.

The Federal Reserve proposal should be strengthened to increase lending to people of color

The Fed recognizes the importance of addressing racial inequities. It asks the public whether underserved areas should be designated based on high levels of poverty or low levels of retail lending. We support NCRC's designation of underserved census tracts based on low levels of lending which would effectively target neighborhoods redlined because of the HOLC classifications.

We also ask the Fed to consider explicitly including race on CRA exams. The agencies have hesitated to do so but we believe that the CRA statute allows this since the law emphasizes banks meeting credit needs in all communities, but particularly underserved ones. CRA exams could include performance measures assessing lending, investing, branching and services to people of color and communities of color. In addition, CRA exams can include racial and ethnic demographic data in performance context analysis and require banks to affirmatively include communities of color in their assessment areas (geographical areas on CRA exams). The Fed could also provide CRA consideration for lending and investing in majority minority census tracts outside of assessment areas just as the Fed is considering for Indian reservations and other underserved areas.

Assessment areas must support and reflect a commitment to local lending, investments and services

We support the Fed's proposals to expand assessment areas on CRA exams. In addition to areas around branches, assessment areas must also include areas outside of branches with significant amounts of bank lending or deposit-taking. We do not support the idea of a national assessment area for internet banks that the Fed discusses. Instead, we believe that data analysis can designate areas where high numbers of retail loans or deposits are located.

We applaud the Fed proposal to eliminate distinctions between full-scope and limited-scope assessment areas. Full-scope assessment areas, which are usually the largest cities, count more on current CRA exams than limited-scope areas that generally are smaller cities and rural counties. Often, communities of color, Native American reservations and other underserved communities continue to receive less CRA-related loans and investments because they are in limited-scope areas.

CRA modernization must maintain its focus on lower-income communities and communities of color

Unlike the Office of the Comptroller (OCC), the Fed generally does not stray away from the focus on LMI communities in its ANPR proposals. However, we do not support expanding financial education to any income since LMI consumers and people of color are most likely to be unbanked or underbanked as revealed by surveys conducted by the Federal Deposit Insurance Corporation (FDIC). The Fed can designate additional subgroups in the population such as people of color, people with disabilities or older adults for whom CRA credit for financial education or other community development activity can be earned instead of opening it up to everyone regardless of need. Likewise, the Fed should further develop its procedures for awarding CRA credit for financing affordable housing that is not subsidized so that such financing actually serves LMI tenants.

Collecting improved community development and deposit data

Finally, the Fed should pursue its proposals to collect improved community development and deposit data. Community development and deposit data should be collected on a census tract level or at least on a county level so that CRA exams can better target community development financing to areas of need.

Conclusion

We appreciate the direction the Fed has embarked in its ANPR but caution that it must not end up with a set of proposals that replicate existing CRA ratings inflation as this will not help our communities devastated by COVID-19. We believe that this proposal serves as an important starting point for an interagency rulemaking that will strengthen CRA and take a critical step towards more financially resilient communities and an equitable recovery.

Warm Regards,
Rebecca Arrichiello