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

Description:

Comment ID: 137728

From: Heather Barnes

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

Subject: R-1723 Community Reinvestment Act

Comments:

NONCONFIDENTIAL // EXTERNAL

Dear Federal Reserve System,

I appreciate the Federal Reserve Board encouraging public input on ways to modernize and improve the Community Reinvestment Act (CRA).

An updated CRA that responds to changes in the banking sector- such as the decrease in community-based banks and the evolving ways in which consumers use banks- will have a modest impact unless the evaluation process for banks awards "outstanding" and "satisfactory" grades less frequently than in the past. The current rating system suggests that the banking system is doing a good job meeting the CRA's goals, which is clearly not the case.

We need an evaluation process that more meaningfully addresses systemic inequities in access to credit, expands financial inclusion, and combats redlining, particularly for communities of color and rural communities. Access to credit includes affordable mortgage and home equity loans for sustainable homeownership, as well as affordable and flexible small business credit, savings, and loan products that create a foundation for sustainable small businesses.

This means a CRA that includes an explicit focus on racial equity. Data consistently shows that if income is controlled for as a variable, loan denials correlate to race. Examiners should downgrade bank ratings when persistent disparities are found in lending or banking services, including for small business loans.

Create a Tougher Rating Process

A fundamental historic shortcoming of the CRA is that nearly every bank receives a passing rating, even though many communities- particularly communities of color suffer from disinvestment, and many homeowners and small business owners with good credit lack access to lending and banking services. Until the evaluation process is tougher, based on whether investment is increasing in communities with historically low levels of lending and other factors (e.g., reduction in the number of unbanked households), many banks will not take their CRA responsibilities seriously.

Explicitly Focus on Racial Equity

The CRA evaluation process should include an explicit focus on promoting racial equity. For example, CRA exams could include performance measures assessing services to marginalized people of color and historically disinvested communities of color, such as lending and investing in majority-minority census tracts outside of core assessment areas. In addition, scoring on exams should separate and heavily weight findings from fair lending analysis of disparate lending patterns. When banks are found to have a pattern of disparate lending in consumer and small business banking, especially compared to non-Latinx white communities and customers, their scores should be lowered. When banks participate in activities that address racial disparities in lending (e.g., working with community lenders to create mortgage products that increase home ownership rates among low- and moderate-income people of color), that bank should see an increased score.

Target Financial Education to Those Most In Need
CRA credit should not be awarded for providing financial education to households at any income level. The CRA is intended to increase access to credit for low- and moderate-income consumers, and to address historic redlining that impacted their ability to get home and business loans and credit. Because of this, only financial education for low- and moderate-income households and small business owners should count for CRA credit.

Evaluate Based on Community Engagement, Investment and Support
The CRA should also more meaningfully require community engagement by banks with community-based organizations, including 501c3 nonprofit economic development, entrepreneurship and business service organizations, in regional and local community development planning, financial education, housing counseling efforts and other activities. This engagement must show that the bank has committed the time and resources necessary to understand and respond to local needs, and must be matched with actual investment and financial support to be meaningful.

Reduce the Racial Wealth Gap by Supporting Home Ownership
Considering how important home ownership is to creating household wealth and the long-standing disparities in home ownership rates by race and ethnicity, the CRA evaluation process should include a core component that examines whether banks are providing mortgage and home equity loan that offer a path to affordable, sustainable home ownership. Banks need to do better in overcoming barriers to home ownership caused by overly stringent underwriting criteria, appraisal bias, lack of down payment assistance, and other factors. Moreover, promoting home ownership is a strategy for revitalizing communities suffering from disinvestment in their single-family housing stock.

Reduce the Racial Wealth Gap by Supporting Small Business Ownership
Given that small business ownership is also a critical means to create household wealth, the CRA evaluation process should also take into account whether banks offer affordable and flexible small business credit, savings and loan products that create a foundation for sustainable small businesses development and success in historically disinvested communities of color. The lack of access to capital rooted in lending discrimination and the racial wealth gap is the greatest barrier to small business ownership and success in Black and Brown communities. The CRA can be an effective tool for addressing barriers to access to capital, such as lending discrimination, by providing a strong incentive to financial institutions to increase their lending to Black and Brown entrepreneurs.

Support Affordable Rental Housing That Promotes Long-Term Affordability
Providing CRA credit for financing naturally-occurring affordable housing is a worthwhile idea; however, it is key to ensure that such housing actually increases the overall long-term housing affordability in a community and does not promote gentrification and displacement. Often, only rental housing subsidized through project- or tenant-based funding actually meets the needs of people with the lowest incomes. Affordable rental housing also will complement local community businesses that provide reasonably priced goods and services for diverse households.

Maintain Focus on Place-Based Services
National assessment areas should not be used for online or similar non-brick-and-mortar-based banks. These entities should have their evaluations tied to a place-based review of the geocoding of customer addresses and other factors. As we expect continued lessening of reliance on physical bank branches in the future, banks need to be better evaluated in terms of how well their marketing practices, financial products, and non-branch physical services (e.g., ATMs and loan production offices) meet the needs of low- and moderate-income communities- particularly communities with a large number of unbanked people and low levels lending

Sincerely,
Heather Barnes