

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

Description:

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From: Communities Unlimited, Inc., Ines Polonius

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

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Comments:

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Your comment: February 15, 2021

Board of Governors of the Federal Reserve System

Ms. Ann E. Misback

Secretary

20th Street and Constitution Avenue NW,

Washington, DC 20551

Re: Notice of Proposed Rulemaking, Community Reinvestment Act Regulations, Docket (R-1723) and RIN 7100-AF94

At Communities Unlimited, Inc., we see the Federal Reserve's proposal to update the Community Reinvestment Act (CRA) as a promising opportunity to strengthen the regulation, but it does not go far enough. The new CRA must incentivize banks to triple bank lending, services, and investment in underserved markets and ensure bank investments actually reach underserved areas such as rural areas of persistent poverty areas and communities of color.

The CRA, enacted in 1977, is intended to be a critical tool to ensure banks lend, invest, and provide services in low-income communities and is inextricably linked to racial equity. The CRA, though imperfect, has been an important tool for catalyzing investment in low-income communities often beyond the reach of traditional bank business models.

Communities Unlimited, Inc. is a Community Development Financial Institution (CDFI) serving Texas, Oklahoma, Arkansas, Louisiana, Tennessee, Mississippi and Alabama which include 45% of the persistent poverty counties in America. Given the needs in our footprint, the focus of our lending is to provide emergency financing to rural water and waste water systems, a backbone infrastructure that is rapidly deteriorating and in need of replacement or repair. We also provide working capital and start-up loans to rural entrepreneurs that have no other access to non-predatory capital. In our footprint, we continue to see a consolidation of banks, inevitably leading to the closure of more rural branches. In our footprint, we need broader CRA regulations that require banks to make investments in persistent poverty counties regardless of their narrow, mostly urban markets. The work of our CDFI is dependent

on the CRA investment capital from banks!

In 2019, the Amarillo Area Foundation and key local banks, motivated by CRA, created a unique partnership to help Communities Unlimited expand into Amarillo and the Panhandle which currently does not have access to a single CDFI. Motivated by CRA, the banks made sizable investments both in the form of loans and grants to allow us to hire staff in a region that we could not otherwise serve with working capital / start-up loans to entrepreneurs that are the economic lifeblood for many rural communities in the Panhandle. PRT opposes the

The CRA regulations as currently proposed will allow our banking partners use of deposit-based assessment areas which would limit their investment to Amarillo and leave the lower-income rural areas of the Panhandle even further behind.

While there are many parts of the proposal that merit concern and reconsideration, the following five areas are the ones of particular importance to ensure that rural areas, especially those experiencing persistent poverty, and communities of color are not left even further behind in our country.

1. Small Business Threshold

We strongly oppose the proposed threshold increase for the definition of small business size and loan threshold. Data does not support increasing the threshold from up \$1 million to \$1.65 million to adjust for inflation. Our 22 years of experience working with entrepreneurs of color and rural entrepreneurs in persistent poverty areas has demonstrated that there is a significant difference in the risk profiles of businesses with \$1 million in sales versus those with \$1.65 million in sales as relates to years of management experience and available collateral. In other words, raising the thresholds simply rewards banks for making loans that they would otherwise make.

2. Increasing Investment into CDFIs

Communities Unlimited strongly supports the Federal Reserve's proposal to allow CRA credit for an investment in a CDFI, regardless of whether that CDFI is located in a bank's assessment area if it can be documented that the investment reaches communities of color and other communities historically overlooked. Furthermore, the investments must be meaningful in size.

3. Assessment Areas

We support extending CRA to online banks as long as the national assessment areas are limited to severely economically distressed areas and communities of color. For facility-based banks, we strongly support assessment areas that are facility-based with additional areas utilizing a hybrid approach where banks lend and take deposits from consumers. Most of Communities Unlimited's small business clients no longer have a local bank branch and must conduct their banking in the nearest metro- or micropolitan area. Under current CRA regulations, funds never flow back to the rural community where those businesses are located. The same holds true for personal depositors/borrowers who reside in rural communities.

4. Increasing Investments in Designated Areas of Need

Overall, we support Federal Reserve's proposal to allow banks to receive CRA credit for community development investments outside of their assessment areas, and targeting those investments in underserved areas. CRA credit for investments in "designated areas of need" must be given enough weight to incent investments. "Designated areas of need" require clear definition. We would like to offer up a definition based on low-levels of per capita home lending and small business lending in those areas. An analysis by our partner, Hope Policy Institute, indicates that the two lowest quintiles of counties have significant overlap with persistent poverty counties, including communities of color in rural areas that tend to be most overlooked by other types of designations.

5. Provisions with Implications for Rural Areas

While Communities Unlimited is appreciative of the Federal Reserve's attention to rural communities, the proposal uses the rural designation in many instances to provide unnecessary exemptions for smaller banks most often found in these areas. We oppose the proposed increase of the small bank designation to banks to either \$750 million or \$1 billion in assets. Given that small banks are exempt from the community development services test and rural communities and persistent poverty areas have a dearth of national banks, this increased threshold and the exemptions that flow from it will significantly reduce small banks' obligations to serve the very areas in which they are located. Since 1975, Communities Unlimited has been working to ensure our communities, particularly rural communities in persistent poverty areas of the South, are places of economic opportunity and we became a CDFI in 1992. At Communities Unlimited, we deeply appreciate our relationship with each of our bank investors. Their investments are key to our ability to make the needed loans that they are not

able to make. We also understand that these investments require regulatory incentives and cannot just rely on the charity of banking partners.

Sincerely,
Ines Polonius
Chief Executive Officer
Communities Unlimited, Inc.