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Board of Governors of the Federal Reserve System,
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Washington, DC 20551
Submitted electronically: regs.comments@federalreserve.gov

February 15, 2021

Re: Advance Notice of Proposed Rulemaking, Community Reinvestment Act Regulations, Docket No. R-1723 and RIN 7100-AF94

To Whom it May Concern:

As the Executive Director of cdcb | come dream. come build. the largest producer of affordable housing in Texas, and the administrator of the Rio Grande Valley Multibank (RGVMB), a licensed CDFI, I write to commend the Federal Reserve's efforts to modernize the Community Reinvestment Act Regulations through the approaches outlined in the Advance Notice of Proposed Rulemaking (ANPR) and to provide recommendations to increase the strength of the proposed changes. The CRA is the primary vehicle that ensures that banks serve and invest in low- and moderate-income (LMI) communities. While the CRA was passed in 1977 specifically to combat the egregious practice of 'redlining' today it is used to ensure that banks invest in communities of color and LMI areas to provide households with reasonable access to credit and provide CDFIs with critical capital investments for affordable housing, sound alternative financial products and services, small businesses, and economic development.

cdcb and the RGVMB's regional geographic footprint includes the southernmost communities located along the U.S.-Mexico border, principally Cameron, Hidalgo, Starr and Willacy counties. The individuals and families residing along the frontera are subject to the compounding effects of long-standing income poverty, financial deserts, and a prevalence of chronic physical disease. Approximately 1,700 miles south of our nation's capital the southernmost stretch of the Texas-Mexico border represents 1 of the 4 persistent poverty regions in the US, where Brownsville is often referred to as the poorest city in the country, with the lowest credit scores in the nation, where generational poverty is deeply entrenched, individuals face seemingly insurmountable obstacles while striving to engage in the financial mainstream, purchase a home and accumulate wealth. Persistent poverty areas are a result of years of disinvestment, structural racism and inadequate policies that hinder low-income individuals, families, and communities from accessing vehicles that enable middle- and upper-income households to build wealth. The unprecedented COVID-19 pandemic is yet another example of an unexpected event that renders low to moderate income individuals into a prolonged state of economic distress.

Over the last 45 years working in the Rio Grande Valley, cdcb the RGVMB have developed innovative financial products and services to provide low- and moderate-income individuals with high quality affordable housing, tailored mortgage lending and sound small dollar loan alternatives precisely to enable them to withstand widespread economic shocks and to facilitate upward economic mobility. As community grounded institutions cdcb and the RGVMB develop innovate culturally and linguistically appropriate financial products for LMI individuals and households that respond to the episodic nature of their income, smooth the spikes and dips of volatile household balance sheets, prevent asset striping from recurring fees associated with predatory alternative financial services and provide them with tangible opportunities to build wealth. From 2015 – 2019 cdcb and the RGVMB have deployed $84,517,353 of capital directly into LMI persistent poverty counties comprised of a majority of households of color by providing 25,036 alternative small dollar loans, 388 mortgage loans, and financing 291 affordable housing units (Table 1.). In the last five years cdcb and the RGVMB have leveraged investments from CRA regulated banks to infuse persistent poverty counties along with $23,826,060 in small dollar loans, $31,564,239 in mortgage loans, and $5,537,951 in financing of affordable rental and owner-occupied housing units. Our ability to produce wealth building opportunities to LMI households in our region hinges on investment from banks regulated by the CRA. CRA modernization is critical to the economic recovery and resilience of households in the hardest areas to serve, the treasured communities we call call home.

Table 1. cdcb & RGVMB Capital Deployed in Persistent Poverty Counties with Majority Minority Populations

	2016 – 2020	Projected 2021-2030
Small Dollar Loans*	$23,826,060	$85,036,293
Small Dollar Loans in Rural Areas	$4,765,212	$17,007,259
Number of Small Dollar Loans	25,036	90,464
Number of Small Dollar Loans in Rural Areas	5,007	18,093
Mortgage Loans	$31,564,239	$155,355,930
Mortgage Loans in Rural Areas	$3,194,326	$24,519,000
Number of Mortgage Loans	388	1,909
Number of Mortgage Loans in Rural Areas	43	330
Affordable Housing Financed (Rental and Homeownership)	$17,504,559	$50,369,616
Affordable Housing Financed in Rural Areas (Rental and Homeownership)	$5,537,951	$28,494,668
Number of Affordable Housing Units Financed	291	1082
Number of Affordable Housing Units Financed in Rural Areas	138	316

*Alternative to Payday, Car Title, Finance Company and Pawnshop Loans

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Through the ANPR the Federal Reserve seeks "to more effectively meet the needs of low- and moderate-income (LMI) communities and address inequities in credit access." The ANPR specifically notes the need to tailor CRA supervision to reflect "[d]ifferences in local markets, needs, and opportunities, including with respect to small banks serving rural markets." In order to accomplish the outlined objectives and intentionally consider race and ethnicity within the CRA framework cdcb and the RGVMB offer the following recommendations.

Increasing Investments in Designated Areas of Need

The ANPR considers the following for determining Designated Areas of Need:

- Areas with an unemployment rate that is persistently 1.5 times the national average OR a persistent poverty rate of 20 percent or more.
- Areas where the local benchmark for the community development financing metric is **below** an **established threshold**.
- Areas that have **low levels** of home mortgage or small business loans as identified by lending data.
- Areas with **limited** bank branches or ATMs.
- Targeted geographies designated by other federal agencies that exhibit persistent economic distress, such as: Federal Native Areas including Federally Designated Indian Reservations, Off Reservation Trust Lands or Alaskan Native Village Statistical Areas, or Hawaiian Home Lands; ARC and DRA Areas, which are areas designated as distressed by, respectively, the Appalachian Regional Commission or Delta Regional Authority; and Colonias areas, which are low-income communities on the U.S.-Mexico border as designated by HUD.

cdcb and the RGVMB's primary concern regarding the ANPRs description of Designated Areas of Need is the lack of clarity of definition and prioritization of specific terms and thresholds. For example, the ANPR does not define the established threshold or benchmark to which the community development financing metric will be measured 'below' and whether that threshold will remain constant or change over time. Furthermore, there is no clear description of 'low levels' of home mortgage or small business loans. NCRC's proposal divides persistent poverty counties into quintiles and encourages priority be given for investments in counties within the 1st quintile. While the NCRC definition prioritizes persistent poverty counties with the lowest levels of home mortgage and small business loans which include Starr and Willacy counties this would exclude Cameron and Hidalgo counties which are in the 3rd quintile. While cdcb and the RGVMB serve Starr and Willacy counties we propose that the Federal Reserve prioritize Designated Areas of Need defined as persistent poverty counties that are within the lowest 1st to 3rd quintiles and that have racial and ethnic minority populations above 80% (Table 2.).

Table 2. Designated Areas of Need, Persistent Poverty Counties and Percentage Minority Populations							
County FIPS Code	County	State	1990 % Poverty	2000 % Poverty	2010 % Poverty	Quintile	Minority PCT (2019 Estimates)
48427	Starr	TX	60	50.9	38	1	99.36
48489	Willacy	TX	44.5	33.2	43.4	1	88.94
48061	Cameron	TX	39.7	33.1	34.7	3	90.66
48215	Hidalgo	TX	41.9	35.9	34.4	3	93.41

cdcb and the RGVMB are also concerned with the Designated Areas of Need definition using 'targeted geographies designated by other federal agencies that exhibit persistent economic distress.' For example, HUD's identification of colonias does not incorporate all new colonias in the Rio Grande Valley. Furthermore, if the Federal Reserve defers to the Federal Housing Finance Administration's definition of colonias per the Duty to Serve guidelines, this will also exclude numerous colonias in South Texas where there is a current deficit of bank physical presence and investment.

Increasing Investment into CDFIs

The ANPR proposes automatic CRA credit for qualified activities in conjunction with certified CDFIs located anywhere in the country including those outside of the bank's assessment area. One concern is that the current placement in the evaluation framework is not sufficient to motivate banks to make additional investments in CDFIs in persistent poverty counties that are outside of their assessment area. Few large banks will be motivated to invest capital to gain favorable qualitative consideration to increase from a satisfactory presumption to outstanding rating.

The ability for a bank to receive CRA credit for qualified activities with certified CDFIs across the county could potentially provide a new source of capital for CDFIs in persistent poverty counties if for example a bank in the East or West coast invests in the RGVMB. Organizations such as cdcb and the RGVMB could potentially benefit from this proposed rule change and use this as leverage to attract investment from banks not only for CRA credit but also in an area where the bank can demonstrate greater impact from their investment. For example, cdcb could demonstrate that a $1 million capital investment could potentially create 10 mortgage loans in a Designated Area of Need outside of the banks assessment area, such as deep South Texas, where the same $1 million in a major metropolitan area might result in 3 or fewer mortgage loans. However, the ability for banks to gain CRA credit for investments outside their assessment area could also make it easier for banks to invest in well-established CDFIs in large metro areas outside their assessment areas that have larger projects that require less time and layering to invest in and demonstrate a return in a shorter period. This could incentivize banks to participate in high dollar deals as opposed to providing capital to entities such as cdcb and the RGVMB that need patient capital to leverage and provide small home mortgages and small business loans in areas of high need, such as South Texas.

Broadening the Threshold for Small Banks

The ANPR considers broadening the threshold for small banks from those under $326 million in assets to either $750 million or $1 billion. Increasing the threshold would provide current allowances for small banks to be applied to an increased number of banks and impacts rural areas, suburban communities, and small cities as they have a greater share of small banks. The ANPR considers whether small banks should be required to serve whole counties in their assessment areas due to branch or ATM locations, or whether they can 'carve out' by census tract. The 'carve out' provision could negatively impact rural counties if small banks were allowed to exclude parts of counties where they do not have a physical location from an assessment area or exclude an area where it engages in an insignificant amount of lending or there is substantial competition from other banks. Thus, banks could select areas within a county where they have a physical presence or engage in larger volumes of lending which might exclude LMI communities within the county. Secondly, small banks would be allowed to decide whether to assess community development activities in addition to their retail services test and could also choose to have those tests be qualitative rather than metrics based. Finally, banks in rural areas, regardless of size, would be able to count volunteer activities in their community development activities. This could create a situation where a bank in a rural area that has not engaged in sufficient in lending in rural areas to compensate by engaging in qualitative volunteer service activities such as serving on the board of the local chamber of commerce. While cdcb and the RGVMB support the engagement of small bank staff via their voluntary participation in the construction of a self-help home in rural Willacy County, we are more interested in the CRA serving as a vehicle to encourage small banks investment of capital to fund the MiCasita loan product - - as a mean of acquiring CRA credit as this has a greater value for CDFIs than that of a pre-determined 'day' of volunteer service.

Prioritizing a Commitment to Incentivize Lending, Investment and Services in LMI and Communities of Color: Including Race in the CRA

The Covid-19 pandemic has disproportionately impacted LMI and communities of color across the United States. cdcb and the RGVMB are concerned with the length of time the three governing bodies will take to determine the long-term impact of COVID19 on the banking system, and specifically how the banking systems serves or further isolates LMI households of color, specifically those in rural areas and small communities. CRA regulations should encourage bank investment in specific geographic areas and provide quantitative evaluation metrics that capture race and ethnicity data. In persistent poverty counties such as Cameron, Hidalgo, Willacy and Starr between 14 – 18 percent of households remain unbanked and 20 to 24 percent remain underbanked, twice as many households as that of Texas and the U.S. (Table 3). We are greatly concerned that further bank branch closures resulting from a prolonged increase in mobile and online banking services may occur on account of the pandemic, which will further exacerbate the limited access of individuals in financial deserts such as Cameron County where the ratio of mainstream financial institutions to predatory alternative providers is 1 to 22. Although the long-term impact of the coronavirus on bank branches is yet to be seen, analysis thus far indicates that the pandemic has increased the use of digital banking services and in fact Wells Fargo CEO Mary Mack reported a 35% increase in digitally deposited checks, more than 50% increase in online wire transactions as well as increase in consumers registering for mobile services who previously used call centers and physical bank locations for basic transactions. Unfortunately, the uptake in mobile bank services in LMI communities of color has not increased at the same rate during the pandemic, and many individuals lack the ability to engage in mobile bank services given their inability to access broadband. The digital divide inhibits the ability of individuals in persistent poverty counties and communities of color in South Texas to access mainstream mobile financial services as 34% to 39% of households in the 4 southernmost U.S. counties lack internet access.

cdcb and the RGVMB are members of an experienced cohort of CDFIS, the Partners for Rural Transformation, that include 6 CDFIs working in Appalachia, the Mississippi Delta, Indian Country, the Black Belt, the Rural West and the U.S. - Mexico Border. Collectively we are creating homeownership opportunities in persistent poverty counties where poverty has not only exceeded 20% over the last three decades but exceeded 30% in 2019. The individuals we serve are often the most vulnerable to sudden unexpected financial shocks, and in South Texas alone 61% of all households lacked sufficient assets to quickly draw down in the event of a financial emergency and subsist above the poverty line for 3 months. Prior to the pandemic 11% of households in the 4 counties served by cdcb and the RGVMB resided in overcrowded households, and this has likely increased as the probability of evictions and foreclosures loom near for many LMI households. cdcb and the RGVMB have been recognized across the country as leaders within the CDFI community, specifically for our commitment to creating and scaling innovative financial products and services that enable individuals to purchase a home, rehabilitate a dilapidated structure, 'grow' a home's physical size and financial mortgage loan over time as their family size and household financial metrics increase and supply thousands of LMI individuals of color with sound small dollar loans to supplement their earnings and escape the vicious debt trap of predatory payday, car title, finance company, pawnshop and federal income tax preparation lenders.

Table 3. Financial Health Metrics

	Cameron County	Hidalgo County	Starr County	Willacy County	Texas	U.S.
Median Household Income	$38,758	$40,014	$30,387	$35,521	$61,874	$62,843
Income Poverty Rate	31%	31%	35%	33%	14%	13%
Liquid Asset Poverty Rate	59%	60%	66%	59%	42%	34%
Unbanked	18%	19%	16%	14%	10%	7%
Underbanked	20%	20%	24%	22%	24%	19%
Homeownership Rate	66%	68%	74%	75%	62%	63%

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Median Home Values	$85,800	$87,100	$71,900	55,300	$172,500	$217,500
Overcrowded Households	11%	12%	13%	9%	4.7%	3.3%
Households Without Internet Access	34%	31%	38%	39%	18%	17%
Housing Cost Burdened Homeowners	33%	36%	43%	36%	27%	28%
Housing Cost Burdened Renters	55%	53%	56%	41%	49%	50%
Likelihood of Eviction or Foreclosure (October 2020)	N/A	N/A	N/A	N/A	27%	36%

To continue this work, we need a commitment from the Federal Reserve to strengthen CRA regulations and specifically incentivize small and large banks to invest patient capital with reasonable rates and terms that will allow cdcb and the RGVMB to continue to scale our innovative mortgage and small dollar loan products to build inclusive wealth in remote areas throughout the U.S. – Mexico border that are the hardest to serve. Over the next ten years cdcb and the RGVMB are poised to deploy $350,983,187 of capital through the development of affordable rental units, financing single family mortgage loans, and issuing small dollar loans in Designated Areas of Need, and our ability to do so is dependent on investment capital from small and large banks. The original intention of the CRA was to ensure that small and large banks created provide vital capital investments and banking services to millions of LMI communities including the communities cdcb serves, high need areas in persistently poor counties along the U.S.-Mexico border. As seasoned practitioners with experience leveraging bank investments to increase wealth building opportunities for people in places often forgotten by mainstream financial institutions, we offer the above mentioned suggestions to modernize and strengthen the CRA and to ensure that the Federal Reserve propose regulatory changes that incentivize increased investment by small and large banks in CDFIs serving LMI communities of color.

Respectfully submitted on behalf of cdcb | come dream. come build. and the Rio Grande Valley Multibank,

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