February 12, 2021

Federal Reserve Board of Governors
20th Street and Constitution Avenue N.W.
Washington, DC 20551
regs.comments@federalreserve.gov

Re: Docket Number R-1723 and RIN Number 7100-AF94

To Whom It May Concern:

I'm writing to make public comment on behalf of the Ohio CDC Association (OCDCA) which is a statewide membership organization that fosters vibrant neighborhoods and improves the quality of life in all communities through advocacy and capacity building of our member agencies.

Our 270 member organizations work in concert with banking partners to revitalize and stabilize their respective communities through tactics such as affordable housing and economic development. We've taken the time to educate and receive feedback from the membership regarding their thoughts on the proposed rule to this incredibly critical community development tool – the Community Reinvestment Act (CRA). The response to the rule is an acknowledgement that CRA needs modernization and that this rule offers some improvements over the current system, but many concerns remain.

The National Community Reinvestment Coalition (NCRC) recently released a major report finding significant correlations between redlining and susceptibility to COVID-19. 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 almost always received the riskiest designations. The designations subsequently facilitated redlining and discrimination against these neighborhoods, which have lasting effects to today. Many of these neighborhoods remain starved of credit and are predominantly lower-income and minority. These neighborhoods also have the highest incidence of health conditions such as asthma and diabetes which make residents more susceptible to COVID-19.
In Cleveland, Ohio, people who live in redlined neighborhoods are twice as likely to have poor health than those who lived in non-redlined neighborhoods, and life expectancy is almost four years lower in the redlined communities than the neighborhoods not designated as hazardous by HOLC.

According to a CBS News Report, in February 2020 there were more than one million black-owned businesses in the United States. By mid-April 2020, 440,000 of those businesses closed their doors for good – a 41% plunge. By comparison, 17% of white-owned businesses closed during that same timeframe. Discrimination in lending contributes significantly to racial disparities in small business survival rates. According to William Spriggs, chief economist to the American Federation of Labor and Congress of Industrial Organizations and former US Assistant Secretary of Labor for Policy:

> Even policies aimed at supporting economic comebacks often exacerbate inequality, either by ignoring structural racism or by putting up unnecessary barriers to assistance. The first round of pandemic relief loans offers an example: The federal government entrusted distribution in large part to major banks, many of which have a history of discrimination and limited relationships with Black-owned small businesses. Though data on the race of PPP loan recipients is limited, studies have found that Black employers' applications were denied more often, and businesses in majority-Black neighborhoods waited longest to receive funds.

The CRA is a critical tool for the work of an equitable pandemic recovery, and it must be strengthened considerably in order to combat discrimination and help our communities recover.

The Federal Reserve proposal must also prevent grade inflation. Currently, it is unclear if the Fed's proposal will address this issue. 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 low- and moderate-income (LMI) borrowers to other lenders. However, the Fed proposes thresholds that appear to replicate the high ratings on CRA exams. The Fed does not describe the impact of its initial thresholds on CRA ratings and hints that 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, resulting in fewer distinctions in performance. A new CRA exam system must have more distinctions in performance in order to motivate banks to be more responsive to COVID-19 recovery needs. If nearly every bank continues to pass their CRA exams, banks will not engage in strenuous efforts to help communities of color and LMI neighborhoods recover from the pandemic's devastation. Five ratings must be retained on the state level and on subtests.

The Federal Reserve proposal should also be strengthened to increase lending to people of color. The Fed recognizes the importance of addressing racial inequities and asked 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 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. As evidenced above, America's history of redlining; the inequitable distribution of PPP lending and credit access even prior to the pandemic; and lasting health disparities in communities of color illustrate the need for explicit consideration of race on CRA exams.

To do this, 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 Native reservations and other underserved areas.

Further, assessment areas must support and reflect a commitment to local lending, investments, and services. OCDCA applauds the Fed's proposal 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 to ensure that even national banks are investing where their lending is.

We strongly support the Fed's 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 and the smallest rural villages 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 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 could 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.

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 so that CRA exams can better target community development financing to areas of need.

In conclusion, we appreciate the direction the Fed has embarked in its proposal, but caution that it must not end up with a set of proposals that replicate existing CRA ratings inflation as this will not help historically disenfranchised communities, who are facing even more burden from economic and health disparities brought on by COVID-19. We believe that this proposal serves as an important starting point for an interagency rulemaking that will both strengthen and modernize CRA in order to more equitably invest in our communities.

Thank you for your consideration. If you have any questions, please do not hesitate to contact me at ncoffman@ohiocdc.org or (614) 461-6392 ex. 207.

Sincerely,

Nate Coffman

Nate Coffman
Executive Director
Ohio CDC Association