COMMUNITY HOUSING CAPITAL
WHEN THE MISSING PIECE IS CAPITAL

402 E. Howard Avenue
Decatur, GA 30030
(866) 477-4215

February 15, 2021

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Docket No. R-1723 and RIN 7100-AF94 (Advanced Notice of Proposed Rulemaking Community Reinvestment Act)

Dear Ms. Misback:

Community Housing Capital (CHC), a national Community Development Financial Institution (CDFI), submits the following comments in response to the Federal Reserve's request for comments on proposed changes to the Community Reinvestment Act ("CRA") regulations. As a CDFI Loan Fund with a mission to supply low-income communities with necessary financial products to create and preserve affordable housing, CHC welcomes the opportunity to comment on the Advance Notice of Proposed Rulemaking (ANPR) entitled "Community Reinvestment Act," which was published in the Federal Register on October 19, 2020 by the Board of Governors of the Federal Reserve System ("the Board").

CRA-qualified investments have played a substantial role in the ability of CHC to deliver financial capital to low- and moderate-income (LMI) people and communities. With the help of investments from financial institutions driven by CRA incentives, CHC has originated nearly $900 million in affordable housing lending over its 20-year history. Through our borrowers' impactful work, CHC has facilitated total development of $2.7 billion, creating or preserving more than 20,500 homes nationwide.

CHC borrowers are the nearly 250 nonprofit and high-performing affordable housing developers of the NeighborWorks® network. NeighborWorks organizations (NWOs) directly facilitate CHC's ability to deploy capital to LMI communities, and NWO projects are reliant upon the flexible, patient capital that CHC provides. These award-winning organizations serve their local communities with high-quality, affordable homes, and 100% of CHC borrowers offer supportive services to their residents, including financial wellness training, vocational training, health and wellness, and transitional support.

Before acceptance as a NeighborWorks America member, these mission-driven organizations undergo rigorous financial and management evaluations and are scrutinized annually after that to ensure that every NWO can successfully create opportunities for people to live in affordable homes, improve their lives, and strengthen their communities; an outcome that exemplifies the purpose for which CRA was enacted.

These comments are intended to help shape and strengthen several critical areas addressed by the proposed rule to ensure the continued flow and expansion of sustainable, responsible capital to the LMI communities we serve.

Eligible and Qualified Activities

CHC supports the development of an illustrative, non-exhaustive list of CRA-eligible activities (Q71). We recommend that new activities be considered for inclusion along with a pathway for pre-approval of a project before the bank incurs costs. We believe this level of flexibility will incentivize banks to work creatively with CDFIs to solve community problems.

Given the critical shortage of affordable housing nationwide, we support automatic CRA eligibility for investments in subsidized and unsubsidized affordable housing, including those with an explicit pledge to retain affordability (Q52). We also support the Board's consideration to automatically include CRA credit for Banks that provide loans, investments, or services to CDFIs, anywhere the CDFI is located (Q67). We agree with the Board that this approach would increase banks' opportunities to work with CDFIs regardless of whether the CDFI operates in a bank's assessment area(s), thus expanding the bank's geographical reach to help communities most in need of investment.

We support the Board's consideration to treat CDFIs similarly with Minority Depository Institutions, Women-Owned Financial Institutions, and Low-Income Credit Unions, thus enhancing access to safe and responsible financial products and services (Q67). Along with certainty around those CDFI activities having explicit CRA eligibility, we would also support factoring in qualified activities with CDFIs as part of a pathway to achieving an "Outstanding" rating (Q23).

We recommend that automatic eligibility be extended to a bank's activity in partnership with any NeighborWorks America chartered member. As described in the opening remarks of this letter, CHC has a proven track record working with NWOs to serve LMI communities, and we believe their inclusion in eligible CRA activities, including loans, grants, and services, should be explicitly included in Qualified Activities (Q67).

CHC has supported the work of NWOs by purchasing first mortgage portfolios to improve the liquidity of a small nonprofit lender. We believe this activity can be on par with loan originations if safeguards are in place to prevent loan churning, an activity that should not be given CRA credit (Q38).

CHC has substantial experience serving the capital needs of NWOs that seek to improve lives through affordable housing in Federal Native Areas. We recommend that all LMI lending in Indian Country be automatically CRA eligible, even when not included in a bank's Assessment Area (Q40).

Community Development Services and Financing

We support both a qualitative and quantitative review for community development services that includes using an impact scoring model to recognize the different levels of impact these activities have in the bank's assessment area. We recommend increasing the proposed scale of 1-3 to allow for a more nuanced measurement of the qualitative value of, for example, contributed hours (Q49). Volunteer activities in rural areas play a vital role in support of community development. We are concerned that broadening the range of qualifying community development services for banks in rural areas could divert, for example contributed hours to activities with less direct connections to community development (Q50).

CHC supports automatically granting CRA credit to homebuyer education and financial literacy counseling only for LMI customers. Expanding CRA credit without regard for income levels has the potential to divert scarce resources to higher-income households that likely have other financial means to access these services (Q51).

We support the Board's proposal to base the CD financing test on combined loans and investments held on a bank's balance sheet. We agree this would remove the incentive for short-term CD activities (Q42).

Ratings and Metrics

The leverage afforded by grant funds is a critical component to a CDFI for deploying much-needed capital to LMI communities. The total dollar volume of grants compared to a bank's deposits can be so small that the value of the higher impact of a grant can be lost in the CD financing subtest. We recommend that grants are treated as a separate metric to properly account for how important grant funding is to the nonprofit organizations carrying out CRA's purposes (Q48). CHC agrees with the Board's proposal to use impact scores for qualitative considerations in the CD Financing Subtest, but we recommend creating a larger scale than the proposed 1-3 to give heavier weight to projects with a higher impact or a higher investment in effort, e.g., LIHTCs and NMTCs (Q49).

Having 90% of banks with a satisfactory CRA rating suggests there is not enough nuanced differentiation in the scale used to designate a financial institutions′ performance level. CHC supports including split designations of high and low for Satisfactory designations, no matter the bank size.

As the nation focuses on racial and social justice issues, we believe the finance sector needs to transparently improve the incentives and measurement of its diversity and inclusion efforts. To that end, we recommend including a metric that measures the racial distribution of a bank's investments (Q2).

Assessment Areas - Large and Small Banks

In keeping with the Board's resolve to ensure that an assessment area does not arbitrarily exclude LMI areas, we support not permitting large banks to exclude portions of counties and to allow small banks that lack capacity to serve only parts of particularly large counties (Q5). As online, branchless banks have become more prevalent, CHC supports the elimination of AAs around Loan Production Offices in cases where regulators concur there is no significant business relationship to the local community (Q6).

CHC recommends leaving the current asset thresholds for defining small banks ($326 MM) because if increased to the proposed $750 MM or $1 billion, an increased number of banks would be exempted from full CRA requirements. This change could have the unintended consequence of negatively impacting minority and rural communities (Q13).

Retail Services

We agree with the Board's assessment that local bank branches are critically important in low-income communities. Local branches provide a physical presence for areas without reliable internet access and local banking personnel gain an increased understanding of a community's small business and housing needs to craft specific solutions that meet unique local needs. We recommend factoring in a bank's efforts to operate retail locations in Native lands, banking deserts, and areas of extreme poverty into qualitative metrics (Q32).

LMI communities often lack access to smaller loans and investments, activities that are less profitable for banks. CHC supports the Board's proposal to replace the single metric approach with a CD financing test based on the number of loans made instead of total dollar volume, eliminating incentives to focus on high-value markets or activities without assessing their impact.

Conclusion

We are confident that a modernized CRA framework will continue to be a driving force behind incentivizing financial institutions to focus their activities where they can do the most good. We are proud of the role that CDFIs play in "getting capital where capital doesn't go," but we rely on the CRA to create a playing field where racial equality and financial justice thrives.

Sincerely,

Cindy Holler
President and CEO
Community Housing Capital