EAST WEST BANK

February 12, 2021

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

Re: Public Comment on Proposed Rulemaking for Regulations Under the Community Reinvestment Act; Docket No. R-1723; RIN 7100-AF94

Ladies and Gentlemen:

East West Bank appreciates the opportunity to provide comments to the Federal Reserve Board on their proposal to modernize the regulations implementing the Community Reinvestment Act of 1977 ("CRA").

East West Bank is one of the largest minority-operated banks in the United States. We were founded in 1973 in the Chinatown District of Los Angeles. Since then, we have grown in size with over 120 branches in seven states across the United States. Over the past four decades, we have helped many families realize the American dream of home and business ownership without ever engaging in predatory lending practices. Our continued commitment to lending and investment in local communities has secured employment for thousands of people.

We agree with the need to modernize CRA regulations. The current regulations and guidance do not recognize the wide diversity in business practices of banks or the changes in the financial services industry that have occurred since the CRA was enacted in 1977. Specifically, we would like to offer some suggestions regarding your questions 64, 65 and 66 on the application of the CRA to minority depository institutions.

Minority banks were started to meet the personal and business banking needs of minorities that were not being met by other banks. Minority banks have always had a focus on small business loans and home loans that worked for their communities. Minority banks were CRA-focused even before there was a CRA. Unfortunately, the number of minority banks is declining.

Federal regulators and Congress have recognized that MDIs play an important role in addressing the need for financial services in minority communities. Regulators have been charged by Congress to regulate in a way to promote and sustain MDIs. This is done as a way to help remedy past practices by the banking industry and the Federal government that have made it more difficult for minorities to achieve financial success. Yet CRA rules as currently written can sometimes be applied in a way that puts MDIs at a disadvantage compared to mainstream banks. Some examples are provided below in this letter.

We recognize and appreciate the efforts of the FRB to consider new approaches to implementing the CRA in order to recognize the diversity of banks and in particular of MDIs. Our suggestions are as follows:

CRA Credit for Investing or Providing Assistance to MDIs – Investing in Yourself

The CRA regulations should not impose more stringent qualification criteria on MDIs than it does on other banks. Something that is CRA qualifying at a mainstream bank should also be CRA qualifying at an MDI.

If a mainstream bank invests some of its earnings and capital in an MDI instead of paying it as dividend to shareholders, it receives CRA credit. But if an MDI retains some of its earnings and invests in itself instead of paying that portion of earnings as a dividend to shareholders, it does not receive credit.

Similarly, a mainstream bank can get CRA credit for buying or selling participation interests in loans to or from MDIs. But MDIs routinely buy and sell loan participations among one another in order to increase our lending and reduce risk, but MDI banks do not get CRA credit for this. The reason that has been given is that this is business as usual for an MDI and not a CRA initiative. But should a bank not get CRA credit for building CRA goals into its core business model and only get credit if, as with mainstream banks, it is something only done through the CRA Department of the bank.

Another example of MDI status being disregarded under the current CRA rules is that an outreach program by a large mainstream bank to a particular ethnic group may receive CRA credit, but a program by a minority bank aimed at the same ethnic group might not receive positive mention because it is viewed as part of their business as usual and not part of their specific CRA program.

We do not believe these results are mandated by the current CRA law or rules but that is how they are often implemented. An MDI, where CRA is business as usual, should get the same CRA credit for the same activities as a mainstream bank where the activity is done through the CRA Department.

Innovative Services

The CRA encourages "innovative" service. For the groups served by MDIs, however, there is a need not just for novel products and services but a real customer need for basic services at a fair price. MDIs typically offer fairly priced loans and services. For example, at East West Bank, we offer one pricing on home loans instead of risk-based pricing. MDIs know that minority and lower income individuals that have had not had the same opportunities for consistent credit performance can be as good a credit risk as a high-FICO score person in a high-income area; MDIs know this because they are part of these communities. The fair pricing model of an MDI should be viewed as innovative when it is delivering non-high-priced products to minority communities. I have heard of mainstream banks being praised for innovative methods of delivering small business loans with double-digit interest rates. I have never heard of an MDI being praised or getting CRA credit for innovate lending when it is delivering small business loans with single digit interest rates.

CRA Investment Costs

It is expensive to be an MDI. An MDI has higher costs as part of its mission to serve a minority community. If the task were easy, it would be done by the mega banks and there would be no need for MDIs.

For all MDIs, these costs include the higher cost of doing smaller loans and of not doing automated in the box underwriting. For some, it includes the need for more multi-lingual staff and more foreign language translations. For others, it means longer office hours or branches being open on Sunday to accommodate customer desires. Many MDIs are in higher cost areas. Most mainstream banks have moved the majority of their back-office operations to lower cost states as they grow; MDIs, however, generally do not do this and hire from the communities they serve. A mainstream bank might get CRA credit for providing Spanish, Chinese, or Korean translations; for an MDI this is viewed as business as usual and the same credit might not be provided.

We would suggest that another way of encouraging and sustaining MDIs is that a portion of these costs should also be viewed as an investment in the community and qualify under the CRA for credit.

Definition of Minority Depository Institution

We are glad that you refer to "minority depository institution" as a bank that is owned by *or* is operated by members of minority groups. Although this is the intent of laws about MDIs, it is not always clear in banking laws and regulations when references are sometimes made to minority owned institutions.

Minority banks play an important role in the communities they serve. It is widely recognized that MDIs serve historically underserved communities by providing financial services and loans.

It is less widely discussed that MDIs also help minority communities by providing career opportunities for minorities that might not be as available at other banks. The financial industry is traditionally not a diverse one, especially at the higher levels. It is only at MDIs where the proportion of directors, C-Suite officers, department heads and officers in general is as high as the proportion of minorities in the general population (and it is, of course, usually much higher). Providing career opportunities for historically disadvantaged groups is certainly within the intent of the CRA.

At East West for example, while we are publicly traded, 74% of our employees are Asian or Asian-American, 15% are other minorities of color, and 11% are Caucasian. Nearly two-thirds of our employees are female. Our managers are equally as diverse as our associates: 75% of our managers are Asian or Asian-American and 11% are other minorities of color, and 57% of our managers are women. Of our eight directors, six are minorities, representing four ethnic groups, and three are women. We believe we have provided opportunities to disadvantaged groups that might not be as available at mainstream banks. As a side note, we provide direct stock grants to all of our employees, regardless of title or part-time/full-time status, every year. The fact that each of our employees is also an owner is a source of pride for East West. To some extent, just being an MDI serves a CRA purpose.

A focus on leadership rather than ownership is also important if MDIs are to grow and be able to serve its mission even better. A bank that is successful and is growing needs to raise outside capital, which usually comes from institutional investors. Thus, if a successful MDI raises outside capital, it would no longer be viewed as an MDI if the focus were only on ownership. This would have the unintended consequence of keeping minority banks small and unable to grow large enough to compete with larger banks in addition to fulfilling its mission as an MDI.

The heart of a minority bank is its Board and its employees. These two groups are the ones who know the communities and will bank them. Accordingly, we recommend that minority banks be defined as banks where a majority of the Board of Directors and a majority of the senior officers (for example, the Named Executive Officers as defined by SEC rules) are minorities.

Loans in Low to Moderate Income Areas

CRA rules should be updated to allow for greater CRA credit for alternative credit criteria. A goal of the CRA is to help low to moderate income borrowers, but the CRA should recognize that alternative credit criteria that do not measure income can also help low to moderate income borrowers. East West Bank, as well as several other MDIs and banks, have home lending programs in which borrowers can qualify based on assets or other criteria instead of only on income. This is a benefit to many LMI persons who may not be able to show current income to support a home loan, but who have shown the ability to save and together with extended families can qualify based on outside assets or on other criteria, such as proven ability to make payments on other loans. These may be persons with unpredictable income who do not meet the Fannie Mae checklist of a steady income over multiple years, such as owners of a small business or persons with multiple and varying part time or independent contractor jobs; others may be families or extended families where the sources of income vary but they are able to provide loan payments as best they can. In addition, some LMI communities have more cash-based economies due to a lack of access to banking, so community members do not have documented income. These loans should be presumed to be to low to moderate income persons if the value of the home being financed is less than the average price of a house in a metropolitan area. Similarly, a loan to a no-income "trust fund baby" to purchase a high price home should not qualify as it would under current CRA regulations.

Designating Assistance to MDI's as being a Factor in Obtaining an Outstanding Rating.

We do not disagree with the proposal of designating assistance to MDIs as a factor in getting an outstanding rating, but we do not think this is a meaningful change in the CRA or that it will be something impactful for MDIs.

The reason is that there is not any meaningful incentive for a bank to have an outstanding CRA rating. The practical reality is that CRA ratings are only used as one factor to consider when evaluating applications for new branches, branch relocations and mergers. The ratings only become important to a bank only if it is planning to submit an application. This is not an effective way to apply the ratings, especially because the reality is that a merger is rarely if ever stopped for CRA reasons. We note also that banks with good CRA programs can still face CRA delays in getting an application approved and that banks without a consistently good CRA program can skate through the application process by making one-time pledges to do better in the future.

We would suggest that the FRB also consider changing the ineffective enforcement-by-application process that now exists. CRA ratings should be designed to incentivize banks to make the meeting of CRA goals a sustained, continuous effort. We are not proposing a specific way to do this but as one example of a different approach, one could look at FDIC insurance assessment rates. The rationale behind CRA being an obligation of banks but not other businesses is that banks benefit from having

FDIC insurance and the CRA is a way to ensure that some of these insured deposits are used to assist underserved communities. A more direct and possibly more effective way to encourage a strong CRA program is to use CRA ratings as part of calculating a bank's FDIC assessment rate. The rate would be increased if its CRA rating is not satisfactory, just as it is done now when a bank's composite CAMELS rating is less than satisfactory. And the assessment might be reduced for an outstanding rating.

Most banks do make good faith efforts both to have good CRA programs and to help the communities they serve. But banks are for-profit entities. A pat on the back for an outstanding rating is not an effective incentive. If incentives for good CRA ratings were changed to be more meaningful, we would have a different view and would anticipate that this CRA proposal would turbo-charge assistance to MDIs as well as incenting other community development activities.

Our Thanks to the FRB for this Initiative

One of the reasons for the steadily shrinking number of banks, and in particular of MDI banks, is the relentless and increasing focus over the years by regulations and examiners to make all banks look the same and have the same metrics. This is done with the good intent of treating all banks fairly and equally. However, regulations and examiner handbooks for CRA and other areas that do not take account of the customer base and mission of the MDI where relevant do not further the goal of promoting and sustaining MDIs. The regulatory pressure felt by some MDIs to be within the statistical norms of mainstream banks can result in homogenization and a "whitewashing" of MDIs to look like big banks but only smaller. This can sometimes create additional burdens for an MDI and pushes MDIs to lose some of the aspects that make them successful to assisting the minority groups that they set out to serve.

We are glad that the FRB recognized this and is considering how to implement the CRA law in a way to be more effective to encourage diversity of bank business models and in particular to encourage the diversity of MDIs.

Very truly yours,

DocuSigned by:
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Douglas P. Krause
Vice Chairman
Chief Corporate Officer