



MEMO

To: Ann E. Misback, Secretary, Board of Governors of the Federal Reserve System
From: Joaquín Altoro, CEO, Wisconsin Housing and Economic Development Authority
Date: Feb. 16, 2021
Regarding: Comments on proposed changes to the Community Reinvestment Act
Docket #: Docket No. R-1723 and RIN 7100-AF94: Advance notice of proposed rulemaking

The Wisconsin Housing and Economic Development Authority is grateful for the opportunity to respond to the Federal Reserve System Board of Governors' Advance Notice of Proposed Rulemaking and Request for Comment on the Community Reinvestment Act.

For more than 48 years, WHEDA has worked to provide low-cost financing for housing and small business development in Wisconsin. Since 1972, WHEDA has financed more than 78,000 affordable rental units, helped more than 135,000 families purchase a home and provided more than 29,000 small business and agricultural loan guarantees. WHEDA is a self-supporting public corporation that receives no tax dollars for its operations.

The original intent of the Community Reinvestment Act speaks to the heart of WHEDA's mission as we work to cultivate an ecosystem of greater equity in affordable housing and economic opportunity. Through our statewide network of more than 130 lenders that originate our low-cost single family mortgages, small business financing products and agricultural loan guarantees, we have a unique window on the positive impact that community-focused investment can have in rural and underserved communities.

Yet the need for further reform is readily apparent. The striking disparities we continue to see in Wisconsin help explain why. Despite the good work of WHEDA and so many others, Wisconsin bears witness to the tragic legacy of redlining and other discriminatory practices. According to the National Association of Realtors, our state ranks third-worst in the nation for black homeownership. Other racial disparities in health, education and the justice system also speak to the legacy of underinvestment in our communities of color. Data from PolicyMap and the Federal Financial Institutions Examination Council point to home purchase loan denial rates

of more than 20% for African Americans in Wisconsin, more than double the loan denial rate for all loan applicants. Hispanic borrowers also face higher than average denials.

WHEDA supports the Fed's efforts to modernize the CRA regulatory and supervisory framework to better address the needs of our communities and the banks that serve them. Specifically, WHEDA supports establishment of stronger incentives and compliance tools to encourage banks to broaden and deepen their commitment to residents of low-income and underserved communities.

To address the very real disparities seen in Wisconsin and elsewhere, WHEDA supports CRA reform recommendations contained in the comments prepared by the National Council of State Housing Agencies. WHEDA also recommends adoption of the following principles and calls on the board to:

- Eliminate measures that could contribute to “grade inflation” in the CRA, including the current proposal to reduce the number of ratings on a state level and on subtests from five to four. Collapsing the ratings structure would result in fewer distinctions in performance – already an issue given the Fed’s own data showing that about 90% of banks currently receive satisfactory as a final grade.
- Implement greater data collection and transparency requirements to the extent possible, to provide for deeper insights into the disparities facing communities of color and rural residents in loan originations, loan denials, forbearance and foreclosure activities and appraisals.
- Allow banks that achieve a rating of “satisfactory” or better regarding CRA activities in their assessment areas to receive CRA credit for investments in housing credit, bond and housing finance authority mortgage-backed securities outside of their assessment areas. This would help reduce disparities and drive investment outside of CRA “hot spots” to finance the development of affordable housing in rural and other underserved communities.
- Resist increasing asset thresholds dividing small and large banks, which would allow more mid-size banks to escape the more stringent performance requirements of larger institutions. Currently, the threshold for the smallest banks is \$326 million; increasing this level to the \$750 million or \$1 billion now under consideration would not serve rural communities or communities of color well.
- WHEDA’s unique role spanning low- to moderate-income homebuyers and affordable multifamily projects as well as business and ag lending has provided fresh insights into a broad range of financing needs. WHEDA encourages aspects of the Fed proposal that would provide increased flexibility in the size of small business and farm loans beyond the current \$1.65 million and \$800,000 respectively, as well as reconsideration of current business size limits.

WHEDA recognizes the importance of modernization in our financial services sector and appreciates the critical partnerships that have improved the lives of first-time homebuyers, low-income renters and small business owners. To this

end, WHEDA supports next steps by the Fed to strengthen the CRA in ways that address the lasting impacts of outright discrimination and institutionalized indifference that have prevented residents of underserved communities from reaching their full potential.

Thank you for the opportunity to comment.

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