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Docket Number R-1723 and RIN Number 7100-AF94

To Whom it May Concern:

The Federal Reserve Board must strengthen the requirements and enforcement of the Community Reinvestment Act in order to overcome the historic lender disinvestment in communities of color, and to promote recovery from the COVID-19 pandemic which has likewise disproportionately impacted communities of color. The Fed has described approaches in its Advance Notice of Proposed Rulemaking (ANPR) on CRA that will make CRA exams more objective. Yet, if nearly every bank continues to pass their CRA exams, banks will not engage in serious efforts to more fairly address the needs of communities of color and low- and moderate-income (LMI) neighborhoods as they seek to recover from the historic disinvestment in their communities and the disparate impact of the pandemic.

PathStone Enterprise Center, a CDFI, has a twenty-three year history of making small business loans and second mortgage housing loans to borrowers who have been unable to get credit elsewhere. We have provided loans tied to technical assistance, and in some cases grants which serve as an equity injection into a new or beginning businesses. Once we became an eligible PPP lender, we began making these loans to our clients. However, we know that historic and ongoing discrimination in lending can't be overcome by simply "leveling the playing field." Even in our small geographic area of influence, the cities of Rochester and Buffalo and the southwestern half of Puerto Rico, we know that our efforts are not nearly enough to provide communities of color with equal footing as the residents attempt to start businesses and purchase homes.

The effects of years of institutional racism in the cities as well as natural disasters in Puerto Rico continue to disadvantage the people who are our borrowers and recipients of our technical assistance. NCRC recently released a report finding a strong relationship between redlining and susceptibility to COVID. Redlined neighborhoods have the highest levels of health conditions such as asthma, diabetes and kidney disease, which make residents more susceptible to COVID-19. Life expectancy is almost four years lower in historically redlined communities.

Since the start of the pandemic, about 41% of African American businesses have been closed compared to just 17% of White-owned small businesses. Discrimination in lending contributes to these differences in survival rates. A NCRC investigation found that African Americans applying for Paycheck Protection Program (PPP) loans for their small businesses during the pandemic were likely to receive less information than Whites.

CRA must be strengthened in order to combat discrimination and the historical impacts of racism. 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 LMI borrowers to other lenders. The Fed does not describe in detail the impact of its reforms on CRA ratings except to hint that banks may continue to receive the same grades.

Moreover, the Fed is proposing to reduce the number of ratings on a state level and on subtests from five to four. This proposal would result in fewer distinctions in performance whereas new CRA exams must reveal more distinctions in order to motivate banks to be more responsive to COVID-19 recovery needs. Five ratings must be retained on the state level and on subtests. Even more ratings would be helpful to provide more distinctions between merely adequate activity, reasonably good and truly superior banking efforts.

The Fed asks whether underserved areas should be designated based on high levels of poverty or low levels of retail lending. We note that NCRC has advocated an approach based on low levels of lending which would effectively target redlined neighborhoods and communities of color. We would also say that merely targeting areas of poverty or areas of low levels of lending without also paying attention to whether the people within those communities receive more than tangential benefits of the lending is an important consideration. Simply lending to the owners of a franchise located within an area of poverty but with outside owners is not as helpful as lending to the businesses owned by the people in the community.

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. CRA exams could include performance measures assessing lending, investing, branching and services to people of color and communities of color. 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 Indian reservations and other underserved areas.

In the interest of reaching underserved areas, we strongly support the Fed's proposals to improve data collection including community development financing data, which would better enable stakeholders to determine communities most in need.

We support the Fed's proposals to expand assessment areas, which are geographical 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.

Finally, we applaud the Fed proposal to eliminate distinctions in the rigor of examination among assessment areas that have resulted in banks neglecting smaller cities, rural counties and Native American reservations.

We appreciate the direction the Fed has embarked upon but caution that it must not end up with proposals that replicate existing CRA ratings inflation as this will not help our communities devastated by historic disinvestment and most recently by COVID-19.

Hubert Van Tol
On behalf of PathStone Enterprise Center