REGIONS

Via Electronic Mail

February 16, 2021

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

Re: Community Reinvestment Act; Docket No. R-1723, RIN 7100-AF94

Ladies and Gentlemen:

Regions Financial Corporation[1] ("Regions") appreciates the opportunity to comment on the Advanced Notice of Proposed Rulemaking ("ANPR") issued by the Board of Governors of the Federal Reserve ("Federal Reserve") to modernize the Community Reinvestment Act ("CRA") regulations.

The banking industry has changed considerably since CRA was passed in 1977, especially when one considers the dramatic changes in online technologies and mobile banking capabilities. We commend the Federal Reserve and all of the agencies' extraordinary efforts over the last several years to modernize the regulations to reflect 21st century banking practices. We appreciate the difficulty of the task the agencies have undertaken and applaud their efforts. The comments below represent Regions' responses to the questions posed as well as our recommendations for additional enhancements.

EXECUTIVE SUMMARY

Regions is committed to the goals of CRA and to meeting the credit and financial needs of our customers and the communities we serve, and we value our work with the community groups in our footprint who help us identify community needs. We support a regulatory framework that establishes clear goals aligned with the original intent of CRA and defines which community development lending, investment, and service activities qualify as CRA activities. We appreciate the efforts the Federal Reserve has made in drafting this ANPR to clarify which activities will qualify for CRA credit and to increase transparency in the process.

[1] Regions Financial Corporation (NYSE:RF), with $147 billion in assets, is a member of the S&P 500 Index and is one of the nation's largest full-service providers of consumer and commercial banking, wealth management, and mortgage products and services. Regions serves customers across the South, Midwest and Texas, and through its subsidiary, Regions Bank, operates approximately 1,400 banking offices and 2,000 ATMs. Regions Bank is an Equal Housing Lender and Member FDIC. Additional information about Regions and its full line of products and services can be found at www.regions.com.

1900 5th Avenue North
Birmingham, AL 35203

We also support rules that are consistent across all supervisory agencies and among different examination teams. We believe this type of framework would not only better serve communities, but also would provide banks more certainty regarding the CRA rating they can expect to receive based on the quantity and quality of CRA activities they submit during exams. We applaud the aspects of the proposal that further these goals.

JOINT AGENCY ACTION

We participated in the Office of the Comptroller of the Currency's ("OCC") rulemaking process and were disappointed that a consensus among the agencies was not reached at that time. As we noted in our comments to the OCC, we were concerned this lack of consensus would result in different CRA rules for banks based on their prudential regulator. We believe divergent rules among regulators will create an unlevel playing field and is not in the best interests of the banking industry or the communities we serve. Thus, we are pleased the Federal Reserve is moving forward with its rulemaking and has indicated its desire to continue to work with the other agencies. We urge the agencies to continue working together in the hopes of reaching consensus on CRA reform.

MODERNIZING ASSESSMENT AREAS

While we appreciate the ongoing conversation and questions posed related to assessment areas, Regions agrees with the Federal Reserve that bank branches are important in a modernized CRA framework. We support continuing to designate assessment areas around deposit-taking facilities for large branch-based banks, while also allowing consideration for other methods of delivering services to our customers, such as through digital and mobile channels. Consequently, we continue to support taking entire counties where banks have branches to keep from arbitrarily excluding low- to moderate- income ("LMI") census tracts. However, we respectfully disagree with the notion that assessment areas in non- metropolitan statistical areas ("MSAs") should be required to be designated as contiguous counties, which have at least one branch in each county. In the alternative, Regions recommends large banks be allowed to designate non-MSA assessment areas as combinations of counties in close proximity that have similar economic and demographic attributes. Regions also has concerns about creating a separate assessment area in a geography based on a single Loan Production Office location because we believe it would run counter to the original goals of CRA.

In the ANPR, one question posed asked about delineating assessment areas around deposit-taking ATMs. Regions believes this should be an option but not mandatory. Deposit-taking ATMs can provide an efficient means of servicing customer needs within existing assessment areas and can also be a means to serve customers in rural areas near existing geographies/counties. However, requiring a geography with only deposit-taking ATMs be treated as an assessment area could have the perverse effect of causing banks to remove or refuse to install deposit-taking ATMs in remote areas.

Due to the migration to more online transactions, activity conducted outside of a bank's facility-based footprint is often not given proper CRA consideration in the current framework.

We encourage the Federal Reserve to adopt a regime that encourages banks to seek out those areas with the most need for CRA activity (so-called CRA deserts). While we do not support deposit or lending-based assessment areas, we do think activities outside assessment areas should be considered at a nationwide level or state level.

Regions supports a nationwide assessment area approach for branchless banks and banks that derive a majority of their deposits outside of their assessment area, as opposed to deposit or lending-based assessment areas, because we believe that structure would only make CRA hot spots worse. Branchless banks and those that derive their deposits from across the country often have a large concentration of deposits in large cities that are already the focus of extensive CRA activity. Adopting a deposit or lending-based assessment area regime would only intensify the CRA activity in those major cities.

Determining how to weigh the retail lending and community development activities in nationwide assessment areas when evaluating an internet bank's overall CRA performance is a challenging question. With regard to the community development ("CD") expectation, we would recommend developing a metric using total bank deposits outside of assessment areas and a national benchmark as factors with the resulting product being the CD responsibility of the bank in dollars. The banks could loan or invest those dollars in CD-qualified activities across the nation, with impact points given for investing in rural, underserved, and banking desert areas.

RETAIL TEST

Regions agrees the retail lending screen is an appropriate metric for assessing the level of a bank's lending because we believe it is the most straightforward approach. As long as the threshold for the screen is set appropriately and is not too high, we believe it will provide an adequate measure for allowing a bank to be evaluated using a metrics-based approach. We also agree that, when calculating the retail lending distribution metrics, the presumption of "Satisfactory" should combine LMI categories, which will reduce overall complexity. In addition, we support the Federal Reserve's proposed presumption of "Satisfactory" approach for the Retail Lending Subtest because we believe it will increase clarity, consistency, and transparency. Finally, Regions believes the Federal Reserve should give more weight to delivery system components than the deposit products component for large banks to provide a Retail Services Subtest conclusion for each assessment area.

When evaluating consumer lending levels, Regions recommends the Federal Reserve use standardized community and market benchmarks due to the increased transparency they provide. However, Regions respectably urges the Federal Reserve to use caution when using different datasets when determining community and market benchmarks. Non-bank lenders continue to increase their market-share of mortgage and consumer lending activity without CRA obligations and including them in these datasets may distort the actual activity in an area. By limiting the data to only that collected from deposit-taking institutions, the Federal Reserve will help ensure that benchmarks are set appropriately in underserved and smaller markets.

Regions agrees with the Federal Reserve's approach to setting the threshold levels. We also agree that a potential threshold level set at sixty-five percent of the community benchmark and at seventy percent of the market benchmark is appropriate for a presumption of "Satisfactory" performance based on the analysis done on past CRA performance evaluations. In order to reduce complexity, we also recommend setting the metric ranges for all performance ratings and not returning to assessing performance separately for low- and moderate-income borrowers, which would add additional complexity.

With regard to the question posed about adjustments to the recommended conclusion, Regions believes examiner judgement using performance context is appropriate. Notwithstanding, to retain transparency, it would be helpful to understand what activities will be taken into account and how they impacted the overall rating, if applicable. We believe the activities listed in the ANPR are appropriate. We also would encourage the Federal Reserve to provide a list of qualifying activities, with the understanding that the list may change over time, because it would be a mechanism for banks to seek confirmation that a new activity will qualify and would increase transparency.

When determining how examiners should evaluate a bank's branch distribution, we believe the discussion around assessment areas with a limited number of branches is an important one. The way in which banking customers are transacting business with banks is changing rapidly and is only expected to accelerate. Transactions occurring in the branches continue to decline each year and will likely continue to decline as technology is improved and adopted at a higher rate. Deposit-taking ATMs and VTMs can handle ninety-two percent of transactions that are completed in branches today. Thus, greater consideration for ATM and VTM distribution may be appropriate within facilities-based assessment areas.

RETAIL LENDING SUBTEST DEFINITIONS AND QUALIFYING ACTIVITIES

As we noted in response to the OCC's Notice of Proposed Rulemaking, we have concerns with including certain consumer loans -- for example student loans and credit cards -- under a retail lending test and question whether giving credit for those loans is beneficial to LMI communities because those types of loans do not really help develop communities. However, if the Federal Reserve decides to establish major product line approach, we believe the threshold should be higher than fifteen percent, and it should not include additional consumer loan categories besides the ones listed. If additional categories of loans are included, banks would be subject to an increased regulatory burden and the additional cost of collecting, geocoding, verifying accuracy, and analyzing data related to those consumer products.

We believe it would be simpler if the Federal Reserve defined the small business and small farm loan thresholds independently, but we do not believe the call report definitions create significant concerns. We do support adjusting the thresholds for inflation but would recommend they be adjusted no more than once every three years and every five years would be preferable.

COMMUNITY DEVELOPMENT TEST

Regions is encouraged by the ANPR's proposed community development metrics and believe they are an improvement on the existing framework. First, we agree that the community development loans and investments should be combined under one subtest. We believe this approach would give banks an opportunity to be more creative in CD financing, which also could benefit Community Development Financial Institutions ("CDFI") that tend to use both loan and equity capital. We believe combining loans and investments into one test would give banks more flexibility to structure a deal in the best interest of the customer.

Second, we believe the Federal Reserve should use the ratio of CD financing activities dollars to deposits to measure large retail banks' level of community development financing activities relative to its capacity to lend and invest within an assessment area. Regions currently uses the Federal Deposit Insurance Corporation's ("FDIC") Summary of Deposits ("SOD") reports to measure investments to deposits and to set goals and track performance against those goals. The same calculation -- goal setting and performance tracking – could be done for CD loans. We would recommend using the FDIC SODs as the data source for the denominator since it is readily available and would provide a standard measurement across all institutions.

Third, we agree the Federal Reserve should use local and national benchmarks in evaluating large bank community development financing performance. We believe the use of benchmarks would provide banks the ability to set goals for CD financing activities that take into consideration the opportunity for CD financing in the area along with the bank's capacity for participating in CD financing. We also believe further analysis will be necessary when determining the thresholds for the community development financing metric, which can be refined as needed data points become available. Regions believes the community development financing metric should be based on market opportunity as defined by the aggregate level of activity in an assessment area. However, performance context may need to be applied in very small rural markets where one large CD financing activity could create a benchmark that is unattainable in most years.

Fourth, Regions thinks impact scores could be used for qualitative considerations in the Community Development Financing Subtest, but the Federal Reserve should include a list of known activities and should define in advance what their respective scores would be.

Fifth, Regions believes it would be helpful and add transparency if banks knew the expected level of service activities needed for "Satisfactory" and "Outstanding" performance ratings. To that end, it would be helpful if the Federal Reserve developed quantitative metrics for evaluating community development services that were clear, predictable, and accurately captured the impact of the service. Both the number of activities and the hours provided are important but requiring a level of detail about the service also should be necessary to determine a rating. For example, a bank could have 1000 people participate in a school based financial education activity that took five hours for each person. That activity would result in a high number of services but would have a relatively low impact. That same bank also could have 100 people serving on non-profit boards and committees and spending an average of fifty hours each annually. While that service would have a significantly lower number of activities in the same number of hours, the service would have a much greater impact in the community. In order to determine what level of activity is adequate for an individual bank, some metric, for example one based on the number of associates, would be useful.

Finally, we believe volunteer activities unrelated to the provision of financial services, or those without a primary purpose of community development, should receive CRA consideration for banks in rural assessment areas. Many rural assessment areas only have one or two branches with very few branch employees, which makes it difficult for them to leave the branch to conduct financial literacy courses or other traditional community development financial services activities that occur during business hours. Expanding volunteer activities outside the scope of the provision of financial services might help increase the volunteer activities captured in those rural assessment areas. Relatedly, we believe volunteer activities unrelated to the provision of financial services that specifically benefit LMI individuals should be considered across the banks' entire assessment area.

COMMUNITY DEVELOPMENT TEST QUALIFYING ACTIVITIES AND GEOGRAPHIES

Regions is encouraged by the questions the Federal Reserve poses in this section and believes they could bring much needed clarity in defining what qualifies as community and economic development. For example, we believe the Federal Reserve should include naturally occurring (unsubsidized) affordable housing for CRA consideration. This consideration should include not only rental affordability, but also construction of affordable single-family housing that would be at a price point that a 30-year mortgage payment would be affordable at an LMI level. When considering housing affordability, we believe the Federal Reserve should determine affordability for single-family developments based on a thirty percent of income towards housing calculation. We believe this is the most straightforward approach and is the easiest to apply.

In addition, we support the Federal Reserve providing pro rata share consideration for mixed income housing, whether it is adopting a straight pro rata calculation or adopting a bright line calculation where a 20-50% affordability ratio would receive 50% consideration and a 51-100% would result in 100% consideration. However, if pro rata consideration is adopted, it would be helpful if the Federal Reserve would provide some clarity as to how pro rata consideration will be calculated as the loan seasons if the rule allows for life of loan consideration for CD loans. Would the pro rata share at origination remain or would banks have to review periodically and change pro rata based on new rent rolls and median income changes? Either way, we believe pro rata consideration should be applied to both subsidized and unsubsidized affordable housing.

When considering whether a community development service activity is targeted to low- or moderate- income individuals, Regions supports both geographic proxy and other proxies as well. Other proxies could include government programs or grant funding purposes such as those mentioned in the ANPR, including Medicaid and Pell Grants. We also suggest that the mission of the organization be considered.

We would suggest the Federal Reserve consider aligning any revision to the economic development definition to the size and revenue definitions of the CRA small business and farm thresholds to provide incentives for engaging in activity with smaller businesses and farms and/or minority-owned businesses. We also would respectfully suggest the Federal Reserve modify the requirement that banks demonstrate LMI job creation, retention, or improvement in the economic development activities definition and allow for a broader range of activities. For example, the current definition often excludes working capital loans even though these loans provide liquidity and allow small businesses to meet payroll when cash is low. Small businesses often face liquidity concerns and the pandemic has only exacerbated that need. We would suggest that working capital loans should be included since they provide small businesses with that much needed liquidity.

We also believe the Federal Reserve should consider workforce development that meets the definition of "promoting economic development" without a direct connection to the "size" test. In addition, we believe listing the types of activities that will be considered to help attract and retain existing and new residents and businesses would bring needed transparency to the process. Finally, we think the Federal Reserve should include disaster preparedness and climate resilience as qualifying activities in certain targeted geographies.

We believe CD loans and investments should receive CRA consideration regardless of whether such activities take place in an area that is designated for community or economic development by federal, state, local, or tribal governments. Consideration should be given based on the current socioeconomics of an area instead of being linked to specially designated zones whose designations could be outdated and might not accurately reflect an area's status. For example, in our exam experience, two similar agricultural loans with the same purpose, same number of jobs created, and same income-level demographics are treated differently. One loan qualifies because it is in a USDA StrikeForce Initiative for Rural Communities-designated county and the other loan does not qualify because it is not in a StrikeForce-designated county. All such loans should qualify for CRA consideration because they meet a specified CRA purpose.

Regions is supportive of the Federal Reserve providing CRA credit at the institution level for investments in Minority Depository Institutions, women-owned financial institutions, and low-income credit unions that are outside of assessment areas or eligible states or regions because it would increase the incentives to invest in these mission-oriented institutions. We also believe it would be appropriate to designate these investments as a factor for an "Outstanding" rating to provide appropriate incentives.

Regions believes banks should receive CRA consideration for loans, investments, or services in conjunction with a CDFI operating anywhere in the country, but only at the enterprise level. We further believe supporting CDFIs within the assessment area should still be encouraged and supported. Often, CDFI partnerships have multiple levels of support, which can include loans, EQ2 investments, contributions, board service, and financial education. The relationship truly becomes a partnership when there are multiple levels of support, and this partnership would be more difficult to achieve if the CDFI is outside of the bank's assessment area.

Regions fully supports the approach of considering activities in "eligible states and territories" and "eligible regions" and believe it will provide greater certainty and clarity regarding the consideration of activities outside of assessment areas, while maintaining an emphasis on activities within assessment areas via the community development financing metric. This approach would allow banks to invest in rural areas that are close to their assessment areas and need the investments to provide jobs, housing, and economic development, when investments opportunities are not available inside the assessment area. If these activities could be considered at the statewide level, it would increase investments in many CRA deserts.

We also support expanding the geographic areas for community development activities to include designated areas of need and to consider those activities to be particularly responsive if the designated areas of need are within the banks' assessment area. If the Federal Reserve does include designated areas of need, we would recommend publishing a clearly defined list of area designations. The Federal Reserve also could consider adding counties with majority minority populations that are also persistent poverty counties to the list.

Finally, we support the establishment of an illustrative qualifying activities list, which would be a helpful mechanism for banks to confirm that a new activity will qualify. We would recommend updating the list every two to four years and allowing banks to present activities for approval.

RATINGS

Regions believes eliminating the limited-scope assessment area examinations and using the assessment area weighted average approach would provide greater transparency and give a more complete evaluation of a bank's CRA performance. We also favor a metrics-based approach. However, we are concerned with the suggestion that the Federal Reserve might limit how high a rating can be for the state or multistate MSA if there is a pattern of persistently weaker performance in multiple assessment areas. We believe that limitation could be harmful to banks in states with numerous rural assessment areas where there is little available CRA activity. We believe the weighted average approach should stand alone without additional factors and the Federal Reserve should focus on strengthening the other incentives in the ANPR for activities in rural and underserved areas.

Regions believes the Federal Reserve should provide more specificity when downgrading an institution's performance from "Needs to Improve" to "Substantial Non-Compliance" and should more clearly define "appreciable improvement" before proceeding with this course of action. We also recommend the Federal Reserve provide more clarity and transparency about the performance required to receive an "Outstanding" rating. If a bank knows what is required to obtain an "Outstanding" rating, there is greater incentive to achieve that rating, which leads to more CRA activity. Further, including "high" and "low" satisfactory ratings also helps banks better analyze performance trends and compare themselves to their peers.

We believe the use of a standardized approach, such as the weighted average approach and matrices presented in the ANPR, increase transparency in developing the Retail and Community Development Test assessment area conclusions and should allow banks to better track their performance and expected rating.

DATA COLLECTION

Regions believes the certainty of accurate community development financing measures using bank collected retail deposits data is a worthwhile tradeoff for the burden associated with collecting and reporting this data for all large banks with two or more assessment areas. We do not believe it will greatly increase banks' regulatory burden. We also agree that the community development financing data points proposed for collection and reporting are appropriate.

We also recommend the Federal Reserve issue standardized, universal templates for collecting and reporting all data required under CRA because standardized templates would improve consistency among reporters.

CONCLUSION

Regions strongly supports efforts to modernize the CRA to better reflect how banking services are delivered today and will be in the future. We appreciate the Federal Reserve's efforts to further this goal and the suggested changes that will provide more transparency and clarity to the CRA process.

We appreciate the opportunity to share our comments on this ANPR. Thank you for your consideration and please do not hesitate to contact me if you would like to discuss these comments further.

Sincerely,

Elizabeth H. Taylor

Elizabeth H. Taylor
EVP & Assistant General Counsel
Head of Government Affairs
Regions Financial Institution