National Community Stabilization Trust

February 16, 2021

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

RE: Docket No. R-1723 and RIN 7100-AF94

Dear Ms. Misback:

The National Community Stabilization Trust appreciates the thoughtful Advanced Notice of Proposed Rulemaking asking for feedback about proposed changes to the Community Reinvestment Act (CRA) regulations. The National Community Stabilization Trust is a nonprofit, non-partisan organization that works to restore vacant and abandoned properties to productive use and to protect neighborhoods from blight.

Some of NCST's past accomplishments include the following:

- Facilitated the transfer of 27,000 1-4 unit homes from lenders to community organizations, with a total value of more than $1.7 billion.
- Transacted with more than 1,000 local partners and developed ongoing relationships with hundreds of community development organizations and single-family developers.
- Sponsored the REO Capital Fund to lend to single family developers renovating homes acquired through NCST. Currently working to launch a new type of capital fund in Baltimore that will lend to small developers that renovate houses for low- and moderate-income homeowners.

The NCST has also announced the formation of the Homeownership Alliance, which will advocate for more resources and better policies to increase affordable homeownership opportunities for American families. The Homeownership Alliance's members comprise some of the leading nonprofit, mission-focused homeownership developers and lenders from across the country. These organizations prepare families to become successful homeowners and finance, renovate, and develop affordable homes that are assets for communities and the families that live in them.

CRA has been essential to the constructive bank-nonprofit partnerships that help NCST buyers improve communities through putting vacant properties back to productive use and increasing affordable homeownership. The homeowners that purchase the renovated homes that NCST sells often work with local banks that offer down-payment assistance through state, local and federal subsidy programs. The for-profit and nonprofit developers that repair and improve the homes we sell are small businesses that rely on bank lines of credit to do business.

NCST applauds the Federal Reserve's thoughtful and deliberate work about how to best modernize CRA's dated regulations and propose a system suitable for the 21st century. By moving beyond the single metric approach championed by the OCC, the Board has charted a more productive path to making CRA evaluations meaningful, evidence- based, and consistent. Thanks to the Federal Reserve's leadership on these questions, there is now an opportunity to consider the complex and knotty questions that must be answered to create a CRA that works for a diverse country with many different types of communities and banks.

To that end, consistency across the entire banking system is important so we encourage you to work with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency to create a modernized CRA framework that applies across the whole banking industry. It is well worth the time to create CRA regulatory regime that achieves the still relevant purpose of the CRA statute in a new century. A new CRA final rule that reflects the consensus among the banking agencies, banks, and community groups and is consistent across all regulators would be an impressive achievement.

In fact, the economic inequality and structural racism that the COVID-19 pandemic have laid bare require not just modernizing CRA but strengthening it to achieve CRA's still relevant purposes. Now is the time to harness the power of this statute to ensure the flow of credit and investment to all communities to create economic opportunities and realize the full potential of people and places. The goal of the modernized regulations should be to ensure significant new access and investment to people and places that have long been overlooked or locked out.

At present, nearly all banks receive a rating of "satisfactory" or better. Given the extent of disinvestment and unmet community credit need, a new CRA framework should raise the bar, not just copy the current standard. Much of the unmet need represents profitable business opportunities, consistent with safe and sound lending requirements. Rather than maintain the status quo, CRA modernization should create a strong incentive for banks to deploy more capital into the communities where it is most needed.

Question 1. Does the Board capture the most important CRA modernization objectives? Are there additional objectives that should be considered?

The Board's proposal is thoughtful and balanced and does not miss any major objectives. The proposal reflects the fact that it is complex, nuanced work to judge whether a financial institution is meeting the credit needs of its entire community. There are important values like consistency and certainty that could conflict with the need to meaningfully measure impact. There is a role for examiner judgment in a data-driven system so that community impact can be fairly judged. The Board rightly preserves a role for examiner discretion, which is absolutely necessary, even in the most thoughtfully designed system. In general, the Federal Reserve has done a fine job creating a framework that keeps these tensions in balance. Simplicity should not be the goal – increased investment in communities driven by a transparent and rigorous system should be the goal

Under the current system, about 90% of banks receive a "satisfactory" rating. The high percentage of banks that are in the same category suggests that additional gradation should be added to the scale to distinguish the level of bank performance. NCST recommends including final ratings of High Satisfactory and Low Satisfactory in the final grade, both to promote transparency around bank performance and to create incentives for banks to strive for higher ratings.

All in all, the Board's proposal provides a much more appropriate framework for understanding not only the volume and scale of a bank's activities, but also their impact. Enhancing the certainty and clarity of the CRA evaluation system will benefit both bank and community stakeholders. NCST applauds the Board's efforts to apply specific, quantitative metrics where appropriate while also employing qualitative measures where necessary.

Question 2: In considering how the CRA's history and purpose relate to the nation's current challenges, what modifications and approaches would strengthen CRA regulatory implementation in addressing ongoing systemic inequity in credit access for minority individuals and communities?

In the neighborhoods where NCST does the majority of our work, we still see the toxic legacy of redlining – the systematic, government-sanctioned denial of credit to communities inhabited by residents of color. Neighborhoods where banks and FHA did not finance mortgages before 1968 are still plagued by blight and substandard housing. Lack of access to capital for community development or mortgage credit for homeownership continues to fuel a cycle of blight and disinvestment in neighborhoods, which in turn harms families and reduces economic growth. The Community Reinvestment Act was enacted in 1977 precisely because of these concerns, and maintenance of strong CRA obligations will be a critical ingredient in overcoming these challenges.

Unfortunately, the history of redlining echoes still as the benefits of homeownership are not evenly distributed throughout our society. America's growing racial wealth gap and homeownership gap are well documented and interrelated. According to the Urban Institute, while 72.1% of white households own their own home, while only 42% of Black households and 48.1% of Hispanic households are homeowners.[1] This disparity in homeownership rates is then reflected in statistics on household wealth. According to Federal Reserve's Survey of Consumer Finances (Sept. 2020) the median wealth of white households is $188,200 compared to only $24,100 for Black households and $36,200 for Hispanic households.[2]

These disparities in wealth and homeownership were caused in large measure by explicit racial discrimination in government neighborhood mapping that directly determined mortgage availability. The historical ties between race and the redlining that CRA was meant to address cannot be ignored, and NCST encourages the Board to meaningfully

[1] *Closing the Gaps*, Alanna McCargo and Jung Hyun Choi, Urban Institute, 2020

[2] McCargo and Choi, page 2

include racial indicators in the CRA evaluation framework. Income is an imperfect proxy for race, so numeric evaluation of efforts to increase racial equity should be a prominent part of the CRA's assessment. Banks already report racial data in Home Mortgage Disclosure Act (HMDA) data. This same data reporting should be used in assessing performance and performance context in evaluating CRA ratings as well. The Board could begin with developing a process for collecting and reporting on baseline data on race.

There is an urgency to address these longstanding disparities. 2019 represented the eighth consecutive year that the median home sale price increased faster than household income while the for-sale home inventory stood at its lowest level since 1982[3]. This supply-demand mismatch must be addressed. It threatens to become a structural, permanent obstacle to the American Dream for millions.

Assessment Areas

Question 3. Given the CRA's purpose and its nexus with fair lending laws, what changes to Regulation BB would reaffirm the practice of ensuring that assessment areas do not reflect illegal discrimination and do not arbitrarily exclude LMI census tracts?

Question 4. How should the Board provide more clarity that a small bank would not be required to expand the delineation of assessment area(s) in parts of counties where it does not have a physical presence and where it either engages in a de minimis amount of lending or there is substantial competition from other institutions, except in limited circumstances?

Question 5. Should facility-based assessment area delineation requirements be tailored based on bank size, with large banks being required to delineate facility-based assessment areas as, at least, one or more contiguous counties and smaller banks being able to delineate smaller political subdivisions, such as portions of cities or townships, as long as they consist of whole census tracts?

Given the changes to the banking landscape since CRA regulations were last revised in the mid-1990s, it would be impossible to consider appropriate reforms without also revisiting how Assessment Areas (AAs) are designated. NCST is encouraged by the Board's efforts to ensure that any reforms to AAs do not arbitrarily exclude LMI areas or embed illegal discrimination. When delineating AAs, large banks should not be permitted to exclude portions of counties. Small banks that do not have the capacity to serve an entire county, particularly in parts of the country where counties are very large, should be allowed to serve only a portion of a county or counties. However, AAs that do not include a full county should be subject to examiner review to ensure that the geographic bounds appropriately reflect the community of borrowers and depositors served by the bank and that the boundaries do not unreasonably exclude minority communities.

Ratings

Question 23. Should adjustments to the recommended conclusion under the performance ranges approach be incorporated based on examiner judgment, a predetermined list of performance context factors, specific activities, or other means to ensure qualitative aspects and performance context are taken into account in a limited manner? If specific kinds of

[3] Harvard Joint Center for Housing Studies, State of the Nation's Housing 2020, 11

activities are listed as being related to "outstanding" performance, what activities should be included?

NCST comes down on the side of qualitative factors being considered, even at the cost of consistency. When human judgement is involved there always could be inconsistency, but that danger is outweighed by the benefits of thoughtful consideration of impact. Given the acknowledged limitations of some of the quantitative methods, the CRA framework must maintain significant discretion for an examiner to adjust outcomes, either up or down, in instances where the numbers do not tell the whole story. Examiners should be empowered to make adjustments on the basis of their judgment, though clear guidance will be essential to create consistency.

Effective CRA evaluation is dependent on the presence of adequately staffed, sufficiently trained, and experienced examiners who bring exercise sound and expert judgement to an exam with both quantitative and qualitative elements. Accordingly, we urge that the Board and other financial regulators regard investing in this workforce and enhancing its career value as a foundational element of CRA modernization.

We strongly support the development of transparent performance context factors and/or specific activities that an examiner would take into account when considering adjustments to the recommended conclusion under the performance ranges. We suggest, however, that it be illustrative and non-exhaustive. We are concerned, more fundamentally, that the very phrasing of the question "…or other means to ensure qualitative aspects and performance context are taken into account in a *limited* manner" might imply the Board is inclined to give less weight to the qualitative and performance context elements of the evaluation than they receive currently. A CRA modernization regime will most effectively increase bank lending to LMI households and communities while providing increased clarity, consistency and predictability if both quantitative and qualitative factors are considered.

Retail Test

As NCST noted during the OCC's rulemaking, it is important to focus on the number of loans being made, not simply the total dollar volume of lending. By proposing a retail lending test based on the number of loans made, the Board has avoided creating the disincentives to small-dollar lending created by a single metric approach. NCST, which works in many markets plagued by low property values, commends you for this. The Board's proposal captures the importance and responsiveness of smaller loans to the needs of lower-income borrowers and smaller businesses and farms and does not provide an incentive to make only larger loans to reach performance levels. Under the OCC structure, rural communities and markets with low property values will suffer most, as obtaining smaller loans and investments, which are less profitable for banks, is a serious and chronic challenge for these communities.

In addition to the metrics laid out in the ANPR, NCST recommends that the Board include a metric measuring the racial distribution of loans. Careful consideration should be given to how to structure such a metric, and we encourage the Board to engage stakeholders in a conversation about how best to do so. However, we believe that disparities in lending along racial lines are too significant to not be examined in an intentional and transparent way.

Question 39: Are there other alternatives that would promote liquidity by freeing up capital so that banks and other lenders, such as CDFIs, can make additional home mortgage loans to LMI individuals?

NCST recommends that examiners should review purchased loans separately from loan originations on CRA exams to more accurately evaluate bank performance. Current CRA exams rarely discuss whether banks are purchasing loans from CDFIs that are particularly responsive to local needs. CDFIs can be more flexible to meet credit needs in ways that are difficult for conventional lenders. If CRA examiners looked at where banks purchased loans they could be more discerning about the impact of the activity. Loan purchases that that provide liquidity to CDFIs or other mission lenders could be considered particularly responsive or impactful and should receive additional consideration.

An example of the sort of loan purchase activity that deserves CRA credit is the work of an NCST nonprofit partner in Indianapolis. The Indianapolis Neighborhood Housing Partnership (INHP) is experimenting with nontraditional underwriting to expand the number of minority homeowners. INHP has a pilot loan program that addresses higher levels of mortgage denials for minority borrowers by using rental payment history as the primary credit criteria in loan underwriting. Rental payments are not generally reported to the credit bureaus, and therefore are not reflected in consumers' credit scores but can be a good indicator of capacity to make mortgage payments. After the loans are seasoned for 12-18 months, thus proving a successful transition from renter to homeowner, the loans are sold to banks and the funds recycled.

Community Development Test

CD Financing

Question 42. Should the Board combine community development loans and investments under one subtest? Would the proposed approach provide incentives for stronger and more effective community development financing?

NCST applauds the creation of a unified Community Development test. We support a CD test that combines loans, investments and services. Separating investments from CD loans places the form of an activity ahead of its function, thereby reducing responsiveness to CD needs and obscuring evaluation of a bank's overall CD activities. That said, it is vitally important to CD that special consideration be provided within the CD test for *equity* investments, including those for LIHTCs, NMTCs, CD REITs, unsubsidized affordable housing, MDIs, and equity-equivalent investments in CDFIs. These activities expose banks to higher risk than loans, require higher capital reserves, tend to be illiquid, are often technically and financially complex, and – most important – are generally catalytically responsive to community needs. This could be accomplished through more nuanced scoring than the impact scoring approach the Board proposes.

Currently, NCST is working to launch a new type of capital fund aimed at supporting small developers in distressed markets that offers a better rate than private lenders, can serve developers with lower FICOs, and that does not require up-front cash. The structure leverages an experienced and efficient private lender platform but is specifically designed to serve developers of color and others who do not fit into the current private lender credit box. This fund, entitled DASH (Developing Affordable Starter Homes), is relying on equity from the city of Baltimore as well as some private individuals and organizations, without any bank participation (although most banks that serve Baltimore would say they support the DASH mission). If CRA credit were available for this type of equity investment, this fund could have been launched more easily and with more capacity.

The modernized CRA assessment should encourage patient capital, increase clarity, consistency, and transparency of performance expectations, and provide stronger incentives to serve underserved areas. To that end, we support basing the CD financing test on the combined loans and investments held on balance sheet. By including everything on the balance sheet, not just new originations, the test would remove the current incentive to provide artificially short terms for CD activities. Furthermore, by combining loans and investments the Board would avoid privileging one over the other, allowing the needs of the project to dictate the financing vehicle. However, examiners should review the mix of loans and investments to ensure that there are not extremes in terms of reliance on only one.

Question 47. Should the Board use impact scores for qualitative considerations in the Community Development Financing Subtest? What supplementary metrics would help examiners evaluate the impact and responsiveness of community development financing activities?

As we previously commented during the OCC's rulemaking, a responsive CRA framework must be calibrated on the relative impact of different activities. NCST is very supportive of the Board's proposal to assign an individual impact score to each activity, although we encourage the Board to consider a larger scale than the proposed 1-3 in order to create greater differentiation between those projects which are only minimally impactful and those that have tremendous impact. This approach is much more promising than the multiplier-based approach proposed by the OCC.

We support the ANPR's proposed approach under which examiners will judge activities based on responsiveness. We recommend that "innovation" and "complexity" be taken into account as well, as they are under the current evaluation system. One of NCST's nonprofit buyers when speaking of his partnerships with banks says "Terms are everything." For example, a bank loan that requires a nonprofit to pledge recourse to a significant portion of its balance sheet does far less to enable an institution to grow its lending capacity than one without such requirements. We recommend that qualitative considerations of whether how banks stretched to be responsive to community needs should play a significant role in the calculation of CRA scores.

We support the Board's proposal to assign an impact score to each grant, loan, or investment (which banks should be required to report separately). The impact score should be explained clearly in exam narrative and accompanying tables.

Given the need for substantially more and better community development financing data, the Board should consider requiring banks to report supplemental data currently provided only when they seek higher ratings (e.g., affordable housing units, jobs created). The Board should streamline data submission through a standardized template.

Eligible Activities

Question 54. Should the Board specify certain activities that could be viewed as particularly responsive to affordable housing needs? If so, which activities?

Access to capital is a perennial challenge for nonprofit housing developers, and some bank activities are more responsive to meeting these needs than others. Enterprise-level investments are powerful tools to help spur larger development activities, while equity investments and below-market loans play very important roles in the capital stack for affordable housing development.

NCST recommends the Board publish a list of illustrative activities that could be viewed as particularly responsive to affordable housing needs. The list should be non-exclusive (i.e., failure of a particular activity on the list should not prevent a bank from receiving extra credit if that activity is particularly responsive to the housing needs of the AA in which it takes place). Particularly responsive activities might include:

- Lending for homeowner repair to benefit existing residents on homes in areas suffering from valuation gaps (where repair costs exceed home values) or areas in danger of gentrification.
- Providing capital through loan funds or other vehicles to nonprofit housing developers working in LMI communities, especially when such lending relies on collateral rather than recourse to the nonprofit's balance sheet to ensure safety and soundness
- Expanding the supply of affordable homeownership through preservation or new development
- Creating or preserving affordable housing near transit (TOD).
- Lending on an adaptive re-use of commercial or other property in communities struggling with blight or vacancy.
- Preserving LMI affordability in a census tract at high risk of gentrification coupled with involuntary displacement of LMI families.
- In "designated areas of need."
- Mortgage lending with nontraditional underwriting
- Small-dollar mortgage lending

Revitalization and Stabilization

Question 60. Should the Board codify the types of activities that will be considered to help attract and retain existing and new residents and businesses? How should the Board ensure that these activities benefit LMI individuals and communities as well as other underserved communities?

It would be helpful if the Board created a list of revitalization and stabilization activities that was illustrative, but not exclusive. Revitalization and stabilization activities are an important part of the community development eco-system within our communities. They should be given priority, and many would not be financed without the incentives created by compliance with the CRA. Currently, because of uncertainty around these activities, banks will often take the easier route of focusing on specifically qualifying affordable housing activities. In addition, NCST strongly recommends that the Federal Reserve include investments in metropolitan "middle neighborhoods" on its illustrative list of revitalization and stabilization activities.

Middle neighborhoods are a category of neighborhoods that are neither clearly healthy and thriving, nor overtly distressed. NCST coordinates a national initiative that calls attention to middle neighborhoods and the need to invest in them.[4] We also help convene a Community of Practice that documents interventions in these neighborhoods and connects neighborhood practitioners and city officials to each other and to regional and national organizations interested in these efforts.

Long seen as stable communities for middle and working class families, today many middle neighborhoods are at risk of disappearing. In regions with strong economies, middle neighborhoods confront challenges such as the displacement of long-term residents and businesses and the loss of affordable housing. More commonly, middle neighborhoods are faltering in their ability to successfully compete for today's homebuyers, retail shoppers, and responsible landlords – and therefore are at risk of falling into decline or distress. The fate of middle neighborhoods has serious consequences for the long-term fiscal health of towns and cities, the quality of life for current residents, and the ability of current and prospective residents to build wealth and access opportunity.

Some middle neighborhoods qualify as LMI census tracts, although many do not. For example, in cities where incomes are generally lower than that of the surrounding area, residents with incomes between 80 and 120 percent of the *city* median do qualify as low or moderate income under area-based standards. However, our Community of Practice has observed that across the country many neighborhoods with household incomes between 80 and 120 percent of the area median face decline and disinvestment, and would benefit from revitalization and stabilization activities. These neighborhoods do not have a fully functioning market, so they are not attracting market driven capital. Without regulatory incentives or other interventions, these neighborhoods often struggle and can decline further. The proper approach would be to incentivize interventions before these neighborhoods slip into heavier concentrations of poverty and experience further disinvestment.

Our recommendation would mirror the current approach of allowing revitalization or stabilization activities in distressed or underserved non-metropolitan middle-income geographies to receive consideration under the community development definition. We recognize that the current methodology for determining distressed or underserved non-metropolitan middle-income geographies may not apply to metropolitan areas, and that it will require additional analysis to determine which metropolitan middle neighborhoods should be eligible for credit. NCST and the Middle Neighborhoods Community of Practice would be happy to engage further to refine this methodology. As a starting place, we

---

[4] For more information, please see middleneighborhoods.org

suggest NCST's map-based tool, which examines a number of different income-based definitions of middle neighborhoods at the census-tract level.[5]

Question 61. What standards should the Board consider to define "essential community needs" and "essential community infrastructure," and should these standards be the same across all targeted geographies?

It is problematic to define "essential community needs" and "essential community infrastructure" the same way across all targeted geographies. While rural and distressed communities often struggle to secure financing for infrastructure projects, these resources are more readily available in urban and suburban areas. Such standards may not be necessary since there is already a definition for community development activities that would suffice.

Question 62. Should the Board include disaster preparedness and climate resilience as qualifying activities in certain targeted geographies?

LMI communities are particularly vulnerable to climate-related disasters, and history shows that these communities disproportionately struggle to access resources for prevention and resilience as well as for recovery. NCST supports providing CRA consideration for activities related to preparedness and resilience but emphasizes the importance of limiting these activities to those that have a clear, direct, and targeted benefit specifically to LMI people or communities. Activities that are generically responsive to climate change, such as wind farms or carbon capture efforts, while beneficial to all people, should not be eligible for CRA consideration.

Question 63. What types of activities should require association with a federal, state, local, or tribal government plan to demonstrate eligibility for the revitalization or stabilization of an area? What standards should apply for activities not requiring association with a federal, state, local, or tribal government plan?

This is an area where examiner discretion makes sense. NCST recommends that association with a federal, state, local, or tribal government plan should confer eligibility, unless the government plan is designed to exclude low income people. For example, if a locality instituted exclusionary zoning intended to increase home values, those home loans should not necessarily count for CRA.

It should not be a requirement for any particular activity to qualify for revitalization or stabilization activity to be part of a government plan. Sometimes local, state, and federal governments are not the drivers of highly impactful revitalization activities. Sometimes nonprofits or anchor institutions take the lead. The responsiveness to local needs should drive the designation for CRA credit, not the nexus to a government plan.

MDIs, CDFI and other Mission-Oriented Financial Institutions

Question 64. Would providing CRA credit at the institution level for investments in MDIs, women-owned financial institutions, and low-income credit unions that are outside of assessment areas or eligible states or regions provide increased incentives to invest in these

[5] See National Community Stabilization Trust, "Defining Middle Neighborhoods: A Map-Based Tool," (October 2020), http://middleneighborhoods.org/defining-middle-neighborhoods-a-map-based-tool/

mission-oriented institutions? Would designating these investments as a factor for an "outstanding" rating provide appropriate incentives?

NCST supports providing CRA credit providing CRA credit for investments and other financial support in MDIs, women-owned financial institutions and low-income credit unions outside of a bank's AA or outside of broader statewide or regional areas. The pandemic has revealed the importance of these institutions as financial "first responders" in LMI areas, particularly communities of color. Yet their assets remain low relative to many other financial institutions.

We further support designating these investments as a factor for an "outstanding "rating" to incentivize them, but only in the context where the final rule maintains High and Low Satisfactory subtest ratings and comprehensively evaluates bank community development financing inside and outside AAs.

Question 67. Should banks receive CRA consideration for loans, investments, or services in conjunction with a CDFI operating anywhere in the country?

NCST supports banks receiving CRA consideration for loans, investments, or services in conjunction with a CDFI operating anywhere in the country. Accordingly, we also recommend the following:

- Bank examiners should include in assessment of qualitative factors, including performance context and impact scores, banks' responsiveness to the needs of CDFIs headquartered or operating primarily within their AAs or eligible states/regions.
- The Board should consider providing additional credit for loans, investments or services in conjunction with a CDFI operating anywhere in the country where said activity involves a commitment by the national CDFI to partner with one or more local/regional CDFIs (e.g., joint loan participation in individual projects, co-administration of local/regional loan funds, provision of "back office"/"shared services" support, etc.)

Question 69. Should the Board expand the geographic areas for community development activities to include designated areas of need? Should activities within designated areas of need that are also in a bank's assessment area(s) or eligible states and territories be considered particularly responsive?

The perennial problem of how to encourage bank financing in geographies with persistent poverty and disinvestment that are not part of any institution CRA footprint needs a solution. NCST supports Board's inclusion of designated areas of need to expand the geographic areas in which a bank's community development activities would be eligible for CRA credit. We support Board's proposal that these designated areas of need must be updated on short, regular intervals (such as on a biennial basis as proposed in the ANPR). The Federal Reserve should study the impact of these designations over time and make adjustments as appropriate. If there are unintended consequences and these designations do not have positive impacts on the areas designated, or they cause other areas to be neglected, the policy can be revised based on evidence.

Question 70. In addition to the potential designated areas of need identified above, are there other areas that should be designated to encourage access to credit for underserved or economically distressed minority communities?

NCST encourages the Board to consider providing additional credit for community development activities in especially vulnerable census tracts within designated areas of need. For example, the Board could use Census data to identify tracts with particularly low income, highly segregated, distressed housing stock, and significantly lower levels of community development financing than other areas. CRA activity in these areas should be eligible for extra credit to impact an institution's rating.

Options to Provide Additional Certainty About Eligible Activities

Question 71. Would an illustrative, but non-exhaustive, list of CRA eligible activities provide greater clarity on activities that count for CRA purposes? How should such a list be developed and published, and how frequently should it be amended?

NCST supports the development and publication of illustrative, but non-exhaustive, list of CRA eligible activities to provide greater clarity on activities that count for CRA purposes. We recommend the list be developed in consultation with CRA stakeholders and be updated periodically. New activities should be added to the list as innovations in the banking industry emerge, and activities should also be removed or refined as circumstances warrant.

Question 72. Should a pre-approval process for community development activities focus on specific proposed transactions or on more general categories of eligible activities? If more specific, what information should be provided about transactions?

NCST would support a pathway for banks to seek pre-approval of activities prior to fully underwriting a project. This pre-approval mechanism would provide added certainty that can allow banks and nonprofits to work together more efficiently and effectively.

Question 78. Would eliminating limited-scope assessment area examinations and using the assessment area weighted average approach provide greater transparency and give a more complete evaluation of a bank's CRA performance?

NCST supports the Board's proposal because the current practices with limited-scope assessment areas can result some geographies having no meaningful CRA examination.

Question 79. For a bank with multiple assessment areas in a state or multistate MSA, should the Board 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?

Yes.

Question 80. Barring legitimate performance context reasons, should a "needs to improve" conclusion for an assessment area be downgraded to "substantial non-compliance" if there is no appreciable improvement at the next examination?

Yes.

Question 81. Should large bank ratings be simplified by eliminating the distinction between "high" and "low" satisfactory ratings in favor of a single "satisfactory" rating for all banks?

NCST strongly recommends that the Board retain High and Low Satisfactory differentiation in the ratings. A single Satisfactory rating takes away any incentive for additional efforts by banks. Since the vast majority of banks receive this rating, this is a consequential diminution of the power of CRA.

Conclusion

NCST applauds the Federal Reserve's careful, balanced, evidence-approach to CRA modernization and we look forward to serving as a partner in this effort to modernize the Community Reinvestment Act regulations. Please contact me at ksiglin@stabilizationtrust.org if you wish to discuss these comments. Thank you for your consideration of NCST's views.

Sincerely,

Kristin Siglin
Vice President of Policy & Partnerships