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November 10, 2014

Mr. Robert deV. Frierson
Secretary, Board of Governors
Federal Reserve System
20th St. And Constitution Ave., NW
Washington, DC 20551

Dear Mr. Frierson:

Please find below the comments of the Hope Enterprise Corporation / Hope Credit Union (HOPE) in response to the notice and request for comment on the Interagency Questions and Answers Regarding Community Reinvestment. HOPE is a 30,000 member credit union, community development financial institution, intermediary and policy center that provides affordable financial services; leverages private, public and philanthropic resources, and engages in policy analysis in order to fulfill its mission of strengthening communities, building assets, and improving lives in economically distressed parts of the Mid South (AR, LA, MS and West TN). Over the last 20 years, HOPE has generated over \$2 billion in investments that have benefitted more than 500,000 individuals.

Access to Banking Services

Proposal to delete language that states "performance standards place primary emphasis on full service branches"

We have significant concerns that the deletion of a standard that places primary emphasis on full service branches will harm low- and moderate income communities. While technological advances have contributed to alternative delivery channels for conducting banking transactions, these are not a substitute for a full service branch. In many low-income communities throughout HOPE's service area, particularly in rural areas, the bank branch is often the most prominent and best maintained private sector building in the town. It serves as an anchor for other redevelopment activities. When a community loses a branch, other disinvestment often follows, such as the closure of local grocery stores and pharmacies. We believe that the deletion of the emphasis on full service branches will accelerate the exit of bank branches from low-income communities and subsequent economic decline. Furthermore, branch closings often have a disparate impact on elderly residents and blue collar workers, who are less able to travel substantial distances to another branch.

Additionally, in the current Q&A regarding how examiners evaluate the availability and effectiveness of an institution's systems for delivering retail banking services, the answer notes that an institution is not required to expand its branch network or operate unprofitable branches. Examiners should explore the effort that goes into making branches in low-income communities profitable or unprofitable. Over the last several years, HOPE has acquired several branch facilities closed by banks in small communities. In

nearly every case, HOPE learns that the bank had 1) not been making loans to people that HOPE found creditworthy for long periods of time; and 2) booking loans and accounts at other locations, thus making the branch targeted for closure look less profitable.

Finally, the manner in which banks have exited communities varies widely. Over the last year, HOPE and other credit unions have experienced a continuum of responses from banks when closing branches. On one end of the spectrum, upon exiting the community, a bank donated its facility to a community development credit union, provided operating support, and assisted with transitioning local customers from the bank to the credit union. In sharp contrast, when another bank closed a small town's only branch, it sold the facility to a nonprofit organization, inserting a restrictive covenant that prohibited the use of the facility by another financial institution. The CRA should create more incentives for the first scenario and significant disincentives to prevent the second scenario from occurring. Our concern is that the second scenario is much more likely if the emphasis on full service branching is watered down or eliminated.

Alternative Systems for Delivering Retail Banking Services

"Factors listed for consideration when examiners evaluate the availability and effectiveness of alternative delivery systems"

As stated above, alternative delivery systems should not be considered as an equal substitute for a full service branch. In HOPE's experience with alternative delivery systems, the technology compliments branch activities. Online applications and mobile banking extend the capabilities of HOPE's branches – particularly with its members that are very low-income (over half of HOPE's members have household incomes below \$35,000). Therefore, within the service test, alternative delivery channels should be reviewed as a product or service, not as a replacement for a branch.

One reason to exercise caution in the consideration of alternative delivery systems in place of a branch – particularly mobile banking – includes the evidence that most people with mobile banking use it to check balances – not to conduct financial transactions. Far and away, the most actively used feature on HOPE's mobile platform is the balance inquiry. The frequency with which users login and check their balance or transaction history is nearly three to four times as large as the next most used features - which are to view and make internal transfers from one account to another. Only a fraction of the registered users rely on mobile banking to make a remote deposit. HOPE's mobile banking usage data are consistent with other studies on mobile banking habits that underscore high levels of balance inquiry activity and low levels of actual transactions that would also take place in a bank.

"Information that may be used to demonstrate that an institution's alternative delivery system is available to, and used by, low- and moderate-income individuals"

One way to examine the use and adoption of online and mobile technology in low-income communities is to geocode the locations of customers / members that use the technology and reference the locations to census tract information. For example, HOPE knows that approximately half of its members that have registered for mobile banking live in communities where poverty rates exceed 20% - an indicator of economic distress according to the U.S. Treasury CDFI Fund. To generate this type of information, HOPE internally pulled the address information of all of its members, geocoded the information using mapping

software and imported census tract information. Once joined, HOPE could calculate the percentage of mobile banking users that lived in high poverty communities. This methodology could be used to figure out online and mobile banking penetration, use, and adoption levels within banks. Only alternative delivery systems that demonstrate a track record of accessibility and use in low-income communities should be considered positively in the overall exam grade.

Innovative or Flexible Lending Practices

“expanding the list of innovative or flexible lending practices including small dollar loan programs that are offered in conjunction with outreach initiatives that include a financial literacy or savings component”

The inclusion of small dollar loans that also include an outreach and savings component is a positive development – especially within the context of serving as an alternative to high cost predatory loans. At the same time, the mere existence of such programs should not be sufficient. Safe, sound, alternatives to high cost, predatory small dollar loans should be buttressed by robust, targeted marketing to ensure that people in low- and moderate-income communities know that such alternatives exist and take advantage of them.

“the utilization of alternative credit histories that would benefit low- or moderate-income individuals”

HOPE fully supports the addition of alternative credit history language into the innovative and flexible lending practice section. Since HOPE began making mortgages in 1999, it has successfully used bill payment histories for utilities, rent and cell phones to inform its mortgage underwriting process. This practice has been an essential component in HOPE’s ability to extend mortgage credit to low-income borrowers and borrowers that live in low-income communities.

Community Development

“proposal to include Community Development Financial Institutions that finance small businesses or small farms in the list of entities for which the Agencies will presume that any loan to or investment in promotes economic development”

HOPE fully supports the expansion of the list of entities for which any loan to or investment will be scored as promoting economic development to include Community Development Financial Institutions. As a CDFI that operates in the Delta states, nearly all of HOPE’s small business lending occurs in communities of economic distress. For example, in 2013, 86 cents of every commercial dollar lent by HOPE was to a business located in a census tract where the poverty rate exceeded 20%. CRA facilitated investment in CDFI’s like HOPE would serve the intended purpose of expanding access to capital to small businesses that create jobs in low- and moderate-income communities.

Proposed New Questions and Answers Responsiveness and Innovativeness

Responsiveness

On matters of responsiveness, the suggestion that examiners may consider external analysis, public comments, information from community leaders, or an assessment of credit needs within an assessment area represents an important step in the right direction – particularly when measuring

effectiveness. It could be further improved by requiring examiners to review information provided by all of the sources.

Innovativeness

On matters of innovativeness, innovation remains an essential element of remaining competitive in a rapidly evolving financial services environment – particularly for low-income individuals and communities. As innovation is evaluated, it is important to ensure that innovative products and services are actually being used and benefitting members of low- and moderate-income communities at high levels for the purposes of receiving CRA credit.

While it is not in the scope of this review, I strongly urge your agency to modify the outdated practice of using branch locations to determine a bank's primary CRA assessment area. The disproportionate closing of branches in low-income communities, combined with the fact that banks increasingly derive profits from non-branch sources, requires that assessment areas be updated to reflect these new realities.

Thank you for the opportunity to share our comments and experience on the important matter of the Community Reinvestment Act. Should you have questions or require follow-up information, please contact Ed Sivak, our Chief Policy and Communications Officer at esivak@hope-ec.org or 601 944-4174.

Sincerely,



William J. Bynum
Chief Executive Officer