IDOBanking
Iowa Division of

KIM REYNOLDS
GOVERNOR
ADAM GREGG
LT. GOVERNOR

JEFF PLAGGE
SUPERINTENDENT

October 20, 2020

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551
Docket No. R-1723
RIN 7100-AF94

Re: Docket No. R-1723, *Community Reinvestment Act Regulations - Request for Public Input*

Dear Sir or Madam,

The Iowa Division of Banking ("IDOB") appreciates the opportunity to comment on the Advanced Notice of Proposed Rulemaking issued by the Board of Governors of the Federal Reserve System ("Board") seeking public comment on the regulations implementing the Community Reinvestment Act. The IDOB appreciates the opportunity to comment and thanks the Board for undertaking the process of reviewing the existing CRA regulations with an eye towards improvement and modernization. The IDOB believes any new or amended rules the Board adopts should include provisions tailored to banks that serve America's rural communities. Specifically, the IDOB recommends that the Board:

1. Revise the existing rules to give CRA credit for the majority of lending in rural communities;
2. Adopt streamlined CRA compliance criteria for rural banks; and
3. Update the CRA asset size threshold for small banks.

The IDOB believes that these recommendations, if adopted, would promote the goals of CRA and provide greater benefit to American's rural communities by ensuring that those communities retain the local banking branches that are crucial to their continued viability and vitality.

Introduction

The IDOB recognizes and appreciates the Board's interest in reviewing existing CRA regulations to reflect changes in the banking landscape while continuing to advance the goals of CRA. Iowa is a state with strong traditions of agriculture and rural banking. As the chartering authority and regulator of Iowa banks, the IDOB is well-acquainted with the issues facing rural banks and communities. Rural communities across the United States have experienced population decline over the last ten years, as well as discouraging trends in housing stock, infrastructure improvements, business development, job opportunities, and income levels. Iowa Governor Kim Reynolds launched the Empower Rural Iowa Initiative in 2018 to begin to address these issues in Iowa, creating task forces that target problems—like housing shortages and limited access to broadband—present in many rural Iowa communities. Iowa's efforts at rural revitalization are ongoing, and banks that are headquartered in or maintain branches in rural communities are a vital piece of this revitalization effort.

But recent national trends in rural banking are not encouraging. According to a 2019 Federal Reserve study that analyzed bank branch access in rural communities, the majority of America's counties lost bank branches from 2012-2017, with a more pronounced decline in some rural communities.[1] Technology may be changing the way people bank and offering alternative (i.e., remote) access to banking services, but when a rural community loses a bank branch, especially its only bank branch, that community loses something indispensable and jeopardizes its future. Bank customers often find substitutes for some, but often not all, of the services the local bank branch used to provide, and bank customers often experience both increased costs and decreased access to banking services.[2] When rural customers visit bank branches, they also frequent the local shops and restaurants. Without a bank branch, those customers and that economic activity shift to other communities. Local small businesses who prefer to frequent a local branch lose a place to make deposits and may be forced to hold otherwise imprudent amounts of cash.[3] In many cases a community that loses its bank eventually loses not only this related economic activity but also its economic engine.

The challenges facing Iowa's rural communities and rural banks are not unique to Iowa, and this review of CRA regulations is a valuable *opportunity to positively impact* the future of America's rural communities and the rural banks that serve those communities. With that goal in mind, the IDOB offers the following comments on how to seize this opportunity by revising the existing CRA rules.

I. Banks located in rural communities should receive CRA credit for lending activity in those rural communities.

Given the investment and economic development needs of America's rural communities, essentially *all* loans banks make in these communities are community investment or community development loans. Whenever a bank makes a loan for housing, infrastructure, main street revitalization, or business and commercial purposes in a rural community, it is meeting the investment and development needs of that community. The IDOB therefore urges the Board to recognize the work, dedication, and effort of banks based in or maintaining branches in rural communities by giving those banks CRA credit for all, or virtually all, lending activity in those communities. Acknowledging the commitment of banks that continue to offer banking services in rural markets by awarding CRA credit for all lending activity in those markets will reward the efforts of banks that provide these needed services. More importantly, it will encourage those banks to maintain that activity and ensure that rural communities retain access to these vital economic resources.

The IDOB recognizes that identifying and evaluating this rural lending activity would require the Board to define rural communities for purposes of CRA. There are many possible ways to determine whether a community is "rural", and it is important to find a definition that captures the reality of America's rural communities. In Iowa, for example, the largest town in 62 of our 99 counties has 10,000 people or fewer, but the majority of Iowa's economic growth since 2008 has occurred in metropolitan areas (counties with a city of at least 50,000 population).[4] These undeniably rural counties are economically tied to a series of smaller trade centers throughout the state. The IDOB therefore suggests the definition of "rural community"

---

[1] BD. OF GOVERNORS OF THE FED. RESERVE SYS., PERSPECTIVES FROM MAIN STREET: BANK BRANCH ACCESS IN RURAL COMMUNITIES 1 (2019), *available at* https://www.federalreserve.gov/publications/files/bank-branch-access-in-rural-communities.pdf.

[2] *Id.* at 2.

[3] *Id.* An illustrative example is the community of Duncan, Arizona, which lost its last bank branch in 2016 and, as detailed by the American Banker, has experienced many of these effects. *See* Kevin Wack, *When A Small Town Loses its Only Bank*, AMERICAN BANKER (Feb. 02, 2020, 9:30 PM), https://www.americanbanker.com/news/when-a-small-town-loses-its-only-bank.

[4] Randy Paulson and Zoe Seiler, *Iowa's Small Towns Struggle to Gain Traction and Grow*, IOWAWATCH.ORG (Apr. 25, 2019), https://www.iowawatch.org/2019/04/25/iowas-small-towns-struggle-to-gain-traction-and-grow/.

might encompass towns with populations of 15,000 or fewer people, and/or towns that are located more than 25 miles from an urban center. The IDOB also recommends that the definition of a rural community should not subject banks in small rural communities that are near larger metropolitan areas to MSA reporting requirements. The MSA requirements do not accurately reflect the conditions in rural towns or rural banks. Even worse, the increased compliance burden associated with the more complicated mortgage rules and HMDA reporting rule that accompany MSA reporting requirements discourage small rural banks from participating in the residential mortgage lending market. As discussed above, residential housing is a crucial area of need for America's rural communities, and the CRA rules should more proactively facilitate this type of lending by rural banks.

II. The Board should develop streamlined CRA compliance criteria for rural banks.

Banks that provide banking services to rural communities also warrant relief from existing CRA reporting and monitoring requirements. Rural banks and branches in rural communities often operate with a very small staff in order to remain profitable and continue to offer banking services in these communities. But when a bank operates with minimal staff those employees are often tasked with fulfilling the bank's regulatory reporting requirements in addition to performing their core job duties. For banks that are already operating with minimal staff, increasing compliance and regulatory reporting can pose serious challenges. The cost of complying with regulations such as the CRA monitoring and reporting requirements can become tipping points for small community banks when deciding whether to stay independent or, in some cases, whether to close branches in smaller rural communities.

CRA compliance costs should not be a factor that contributes to rural banks closing or curtailing their lending activities in rural communities. The IDOB encourages the Board to recognize the constraints rural banks often face and design a simple, 4-part CRA compliance test for America's rural community banks. For instance, this test would consider factors like the bank's loan-to-deposit ratio, the range of loan and deposit products and services offered, community leadership and engagement, and whether 50% or more of the bank's branches are located in rural markets. These components directly assess the community lending activity of banks, the community involvement of banks, and, most importantly, whether a bank is located and active primarily in rural communities.

If a bank passes this test, it should receive a Satisfactory CRA rating by default without having to fulfill burdensome CRA reporting or monitoring requirements or undergo CRA examinations. Under this type of system, a rural bank wishing to obtain a higher Outstanding CRA rating could retain the ability to opt-in to stricter reporting, monitoring, and exam requirements. But banks that are already optimizing their personnel resources to meet the needs of their rural communities could continue to do so without being pushed to the breaking point.

III. The Board should modernize the CRA asset size threshold for small banks to reflect the modern banking industry.

Finally, the CRA asset size threshold for small banks does not begin to reflect the current state of the banking industry. The four largest banks in America each manage over $1 trillion in assets. For comparison, the largest Iowa-chartered bank is $4.9 billion, the smallest is $12.5 million, and the average Iowa-chartered bank has approximately $327 million in assets. When compared to trillion-dollar global banks, the CRA threshold for small banks (below $500 million in assets) is insensitive to and extremely burdensome for rural and community banks, including many Iowa-chartered banks. The IDOB encourages the Board to increase this threshold and suggests that the cutoff for small banks should be substantially increased above the present level of $326 million.

Conclusion

Congress and the federal financial regulators have all expressed concern about the future and the direction of rural America. The Board's present review of CRA regulations presents a real chance for Congress and the federal regulators to take proactive steps to assist both America's rural communities and the banks that serve them. The IDOB appreciates the opportunity to present these comments and urges the Board to seize this valuable opportunity.

Sincerely,

Jeff Plagge
Iowa Superintendent of Banking