Board of Governors of the Federal Reserve System,
20th Street and Constitution Avenue NW,
Washington, DC 20551
Submitted electronically: regs.comments@federalreserve.gov

February 15, 2021

Re: Advance Notice of Proposed Rulemaking, Community Reinvestment Act Regulations, Docket No. R-1723 and RIN 7100-AF94

To Whom it May Concern:

The Partners for Rural Transformation is a national coalition of organizations committed to serving rural communities in persistent poverty. Collectively, we serve the vast majority of people living in persistently impoverished places, the majority of which are rural, with a significant presence in the Mississippi Delta, Appalachia, Indian Country, the Black Belt, and communities along the U.S. / Mexico Border. Together, we have records of accomplishment spanning decades. In the last 10 years alone, we have deployed over $2 billion reaching millions of people who reside in persistent poverty communities. The Partners for Rural Transformation submits this comment in hopes of strengthening the Community Reinvestment Act (CRA).

The Federal Reserve's proposal is a promising opportunity to ensure CRA works for our communities. The framework recognizes important considerations for reaching historically overlooked communities, including persistent poverty areas and communities of color. We appreciate that it does not take the same one-size-fits all approach and other harmful components of the rule finalized by the Office of the Comptroller of the Currency last summer.[1]

We applaud the Federal Reserve's explicit recognition that racial equity is inextricable from the CRA's history, purpose, and the "ongoing systemic inequity in credit access for minority individuals and communities." Race should be included in the specific metrics by which banks are evaluated for CRA purposes.

Even in light of this promising framework, the proposal must be improved in key areas in order to achieve the intent and purpose of the CRA. As an overarching matter, the proposal must be strengthened to improve banks' current practices. It is not clear how the current CRA proposal will do so. Currently, over 98% of banks have a passing CRA grade, yet, our communities face persistent disinvestment and lack of access to banking services, including loans. As the Federal Reserve moves to the rulemaking phase, it must ensure both that banks do more and do better to ensure these investments actually reach rural communities, particularly communities of color and persistent poverty areas.

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As currently structured, rural communities receive far less investment than urban counterparts. As such, the Partners for Rural Transformation has been pushing to strengthen the existing CRA framework in at least two key ways:

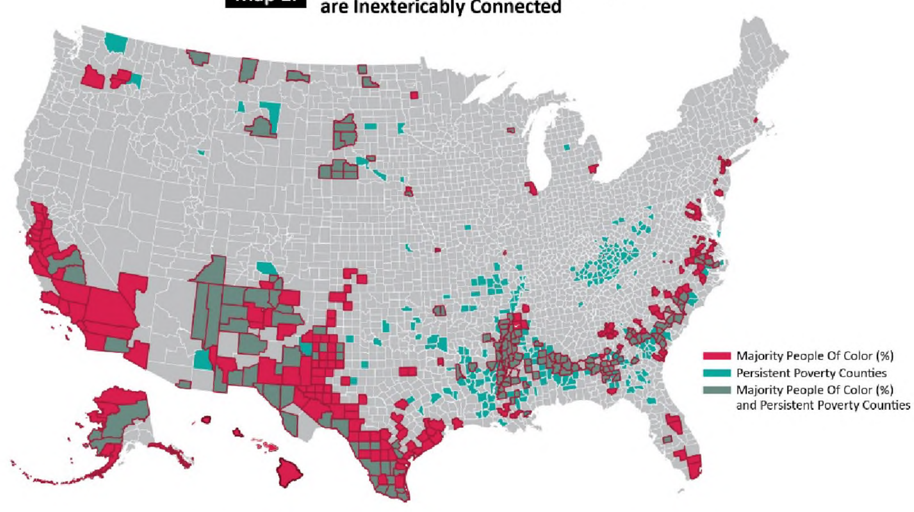
- CRA investment requirements in areas of greatest need should be increased, and CRA assessment areas should be expanded to reach rural persistent poverty places where banks lend and take deposits from consumers.
- To expand economic opportunity in persistent poverty areas, CRA should provide incentives to make equity and debt available for CDFIs located in and with long track records of serving rural persistent poverty regions.

This comment provides context about rural, persistent poverty areas and specific recommendations to inform how the Federal Reserve's proposal may be strengthened to reach these goals.

Setting the Context for Our Concerns

We submit these comments against the backdrop of the existing underinvestment and economic disparities facing rural America, particularly persistent poverty areas. As defined by the U.S. Treasury CDFI Fund, persistent poverty is defined as an area with a poverty rate of 20% or higher for 30 years in a row. Of the country's 395 persistent poverty counties, eight out of ten are nonmetro (rural) and the majority (60%) of people living in persistent poverty counties are people of color. See Map 1.

Map 1. Race, Place and Persistent Poverty are Inextericably Connected



SOURCE: US Census Bureau American Community Survey (2017). US Treasury CDFI Persistent Poverty counties (October 2017).Hope Policy Institute Analysis.

Despite evidence of success, philanthropic, bank and federal investment in community and economic development in regions of persistent poverty dramatically lags behind investment in places with significantly more resources, perpetuating and exacerbating inequity. For example, rural persistent poverty communities are not targets for bank branch location, and in fact, are frequently casualties of optimization strategies resulting in branch closures. The Housing Assistance Council reports that three out of four counties that lost at least 10% of a county's branches are in rural areas.[2]

As a result, in persistent poverty places, CDFIs often provide the only access to affordable financial services. Either through branches operated by CDFI depositories or through the provision of mortgages and small business loans, CDFIs expand the continuum of responsible financial services available to local people in places with limited access to branches. Even here, investment in rural communities lags: In 2017, only 29 cents of every dollar borrowed by rural CDFIs was from a bank. In contrast, over half the borrowed funds for urban CDFIs came from banks.[3]

Recommendations for Strengthening the Federal Reserve Proposal

The CRA must be strengthened to increase the flow of investment to persistently poor rural communities, particularly communities of color in these areas. In this comment, we provide the following recommendations:

1. Assessment areas beyond bank branches should be based on a mix of lending and deposit activity.
2. Investments in designated areas of need must be meaningful and targeted to communities with low-level of lending activity.
3. Investments in CDFIs serving persistent poverty areas, communities of color, and designated areas of need should be meaningful and prioritized.
4. Ensure greater accountability for small banks, particularly those serving rural areas.
5. Do not increase the small business threshold for loan size and revenue.

Each of these recommendations are discussed in detail below.

1. Assessment areas beyond bank branches should be based on mix of lending and deposit activity

We strongly support the Federal Reserve's proposal for banks to have CRA obligations in other areas in addition to where their branches are located. However, the final rule must ensure the new assessment areas, and the investments that flow from banks as a result, also benefit poor, rural communities.

To this end, we oppose the use of deposit-only assessment areas. A deposit-only evaluation as a way to determine assessment areas beyond bank branch locations will not reach already underserved communities. By their very nature, low-income communities have very little money and therefore very few deposits. To gauge how the deposit-only concentration would affect low-income communities and communities of color throughout the country, HOPE analyzed data from the FDIC deposit database.[4] The data allows for an examination of deposit-levels in certain communities, and whether they might comprise five percent of a bank's total deposits. In this analysis of 2019 data, 71% of branches in persistent poverty counties had deposits totaling less than five percent of their bank's deposits.

We also oppose the use of a national assessment area for internet banks, and/or hybrid banks. Simply providing a national assessment area with no assessment of other considerations such as banking activity and/or economic condition, will likely mean that our communities will continued to be overlooked.

Rather, Partners for Rural Transformation recommends that non-facility based assessment areas be determined based on a mix of lending and deposit activity. In refining the details of assessment areas based on the mix, the Federal Reserve should examine which variations maximize reach to people and communities in rural, persistent poverty areas. The Partners for Rural Transformation would welcome the opportunity to be a resource of feedback and guidance on this inquiry.

2. Investments in designated areas of need must be meaningful and targeted to communities with a low-level of lending activity

We are generally supportive of the Federal Reserve's proposal to allow banks to receive CRA credit for community development investments outside of their assessment areas, and the inclusion of a "designated areas of need" construct to target those investments in underserved areas. However, more is needed to ensure these investments are actually made and reach these communities.

To ensure this proposal has its intended effect, we make the following recommendations:

- CRA credit for investments in "designated areas of need" must be given enough weight within the CRA evaluation to actually incent investments;
- The designated areas of need must be correctly defined to ensure investments reach the most underserved communities;
- The type of investments must be meaningful, specifically prioritizing equity, secondary capital, and equity equivalent; and
- CRA credit for investments in designated areas of need must take into account both people and place – ensuring the investments actually reach low-income people and people of color living in these designated areas.

Defining Designated Areas of Need

The proposed list of criteria for designated areas of need are too broad to ensure distressed communities benefit. For example, the HUD-designated Colonias is under-inclusive, and often outdated based on the reality of Colonias neighborhoods. The Appalachian Regional Commission designations often include higher income areas, thus creating an opportunity for banks to bypass lower income Appalachian communities. In addition, designating all persistent poverty counties as a designated area of need for the purposes of incenting additional investment may bypass more rural and harder to serve persistent poverty areas. An examination of the New Market Tax Credit (NMTC) program is an informative example. From FY 2003 to FY 2017, 75% of NMTC investments in persistent poverty counties were in metro areas.[5]

Rather, Partners for Rural Transformation is generally supportive of the option provided in the Federal Reserve's proposal to identify designated areas of need based on "areas that have low levels of home mortgage or small business loans as identified by lending data." We are generally supportive of NCRC's proposed approach of defining "designated areas of need" as underserved areas based on low-levels of per capita home lending and small business lending in those areas. Based on our analysis of NCRC's data, the two lowest quintiles of counties reach over 75% of persistent poverty counties, including communities of color in rural areas that tend to be most overlooked by other types of designations. As such, based on our analysis a possible framework the Federal Reserve should consider for identifying designated areas of need include areas in the two lowest quintiles, plus areas in the 3rd quintile that are also persistent poverty and over 85% people of color.

The Federal Reserve should examine whether areas should be defined by tracts or counties. It is likely that tracts will be a more precise measure, particularly in identifying pockets of underserved areas in larger counties.

Finally, we support incentivizing investments in designated areas of need that are both inside and outside of banks' assessment areas.

3. Investments in CDFIs serving persistent poverty areas, communities of color, and designated areas of need should be meaningful and prioritized.

While Partners for Rural Transformation is generally supportive of the Federal Reserve's proposal to allow CRA credit regardless of whether CDFIs' are located in a bank's assessment area, more must be done to ensure these investments reach communities of color and other historically overlooked communities. Further, the amount of investments must be meaningful in size and in type. Specifically, the types of investments that must be prioritized are: equity, secondary capital, equity equivalents, and others such as donations of bank branches.

The Federal Reserve should prioritize investments into CDFIs that demonstrate a strong track record of serving both people and communities in persistent poverty areas, designated areas of need, and/or communities of color. The Federal Reserve should base the determination on CDFIs' track record of lending in these areas and to the people who live there, rather than on whether the CDFI is located there.

Partners for Rural Transformation also supports proposals to increase investments into minority depository institutions, and CDFIs that are designated as minority lending institutions as defined by the Consolidated Appropriations Act of 2021.[6]

4. Ensure greater accountability for small banks, particularly those serving rural areas.

While appreciative of the proposal's attention to rural communities, the proposal tends to use the rural designation in many instances to provide unnecessary exemptions for smaller banks most often found in these areas. These carve-outs will make it harder to close existing gaps, particularly for communities of color in rural areas.

To ensure greater accountability for small banks serving rural communities, Partners for Rural Transformation makes the following recommendation:

- Preserve the existing threshold for small bank designation, rather than increasing to either $750 million or $1 billion in assets. Given that small banks are exempt from the community development services test, and that rural communities and persistent poverty areas have a dearth of national banks, this increased threshold and the exemptions that flow from it will significantly reduce small banks' obligations to serve the very areas in which they are located.

- Preserve the requirement that community development services, such as volunteering time, have to be primarily focused on financial services. Banks, particularly small banks in rural areas, should not be able to count general volunteering in place of meaningful lending activities or even volunteer activities related to providing financial services.
- PRT has concerns about allowing small banks to opt-in to the community development subtest to supplement its retail lending test, particularly in light of the weakened definition it's considering for community development services. When you combine these two changes, a bank in a rural area that is not doing well in lending in rural areas, can make up for it by serving on the board of the local chamber of commerce.
- Do not allow small banks to carve out from their assessment areas parts of a county in which they are located, even if there is de minimus lending and/or competition. For rural areas, what it may often mean is that a bank located in a town/city area of a rural county may carve out communities of color in the county outskirts.

Finally, as an overarching assessment to the Federal Reserve's proposal components related to rural communities, Partners for Rural Transformation challenges the Federal Reserve's justification for some of these changes based on a lack of capacity for community development in rural areas and thereby its proposed solution of reducing community development requirements in these communities. Rural leaders have demonstrated time and time again the capabilities to do more with less, reaching people in the hardest to reach corners of this country. They do this work, however, against a consistent backdrop of underfunding. For example, from 2010-2014, grant making in Appalachia, the Mississippi Delta and the Rio Grande Valley was around $50 per person – well behind the national average of $451 and $4,096 in San Francisco.[7] The Fed should strengthen, not exempt, banks' community development investments in rural communities, particularly communities of color and persistent poverty communities.

5. Do not increase the small business threshold for loan size and revenue, even to account for inflation.

Entrepreneurs in our regions are generally smaller with lower revenues and rely on smaller loans to spur their growth. The increase in these thresholds will increase the likelihood that banks will meet requirements without taking much risk by investing in larger firms while bypassing the small business needs of America's rural communities.

In addition to the above recommendations, to improve the identification of CRA gaps, the Federal Reserve should develop a CRA assessment area map of the United States. Several years ago, the Federal Reserve Bank of Atlanta created a mapping tool to illustrate the network of branches for the twenty largest banks in the Southeast region.[8] A similar analysis covering the various regions of the country could provide a proxy overview of potential CRA gaps in persistent poverty areas nationwide.

Conclusion

The banking sector is a critical community development investor. In our November 2019 report, *Transforming Persistent Poverty in America*, Partners for Rural Transformation provided solutions to increase bank investment into rural communities, particularly those in persistent poverty.[9] CRA is a key driver for bank partnerships with CDFIs and it serves as an impetus for funding CDFIs to expand access to capital to people and places beyond the boundaries of a bank's business model. In the absence of bank investment, particularly into CDFIs, people's ability to start a small business, purchase a home or to begin building one's credit is limited.

For these reasons, the Partners for Rural Transformation is thankful for the Federal Reserve's first steps towards modernization of this important tool. We hope these suggestions will ensure the CRA is strengthened to move banks to do more and do better to promote prosperity in rural communities throughout the country.

Respectfully submitted on behalf of Partners for Rural Transformation,

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[1] Partners for Rural Transformation, "Comments on OCC Notice of Proposed Rulemaking, Community Reinvestment Act Regulations, Docket ID OCC-2018-0008," https://www.ruraltransformation.org/wp-content/uploads/2020/04/PRT_FINAL_OCC_LETTER_4.7.2020.pdf

[2] Lipsetz, David. "CRA in Rural America" presented at the NCRC Just Economy Conference 4/2018. https://ncrc.org/wp-content/uploads/2018/06/RuralCRADavid.pptx.pdf. (Accessed February 5, 2021)

[3] Bank Investment Falls Short in Rural Areas. Opportunity Finance Network. February 2019. https://ofn.org/sites/default/files/resources/PDFs/Policy%20Docs/2019/OPP_054%20-%20One%20Pager%20Handout%20CRA_FINAL%20Feb%202019.pdf (Accessed Feb. 12, 2020)

[4] Hope Policy Institute analysis of data from FDIC Summary of Deposits/Branch Office Deposits https://www7.fdic.gov/sod/dynaDownload.asp?barItem=6 calculating the percent of institutional deposits represented by each bank branch located in Persistent Poverty Counties (data from the CDFI fund).

[5] Sara Miller, Hope Policy Institute, Analysis of NMTC data from the U.S. Treasury CDFI Fund

[6] "Minority lending institutions" are defined as CDFIs "where a majority of both the number and dollar volume of arm's-length, on-balance sheet financial products of the CDFI are directed at minorities or majority minority census tracts or equivalents; and is (1) an MDI as defined by FDIC or NCUA or (2) meets other standards of accountability to minority populations as determined by the Fund." Sec. 523(c)(4) of the Consolidated Appropriations Act of 2021.

[7] National Committee for Responsive Philanthropy and Grantmakers for Southern Progress. As the South Grows. 2016 – 2017

[8] Federal Reserve Board of Atlanta, "Community Reinvestment Act: Geographies and Strategies in the Southeast," https://www.frbatlanta.org/community-development/publications/partners-update/2015/04/150824-cra-geographies-and-strategies-in-southeast.aspx (Accessed Feb. 5, 2021)

[9] Transforming Persistent Poverty in America: How Community Development Financial Institutions Drive Economic Opportunity. Partners for Rural Transformation. November 2019. https://fahe.org/wp-content/uploads/Policy-Paper-PRT-FINAL-11-14-19.pdf (Accessed Feb. 5, 2021)

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