

February 16, 2021

RE: Docket Number R-1723 and RIN Number 7100-AF94

To Whom it May Concern:

We believe strongly that the Federal Reserve Board must strengthen CRA exams in order to promote recovery from the COVID-19 pandemic. The approaches described by the Fed in its Advance Notice of Proposed Rulemaking (ANPR) on CRA purports to make CRA exams more objective. But The Neighbor Project and the overwhelming majority of our colleague organizations that are part of the NeighborWorks Network, are concerned about whether the Fed's approach will take important steps to make grading tougher. If nearly every bank continues to pass their CRA exams, banks will not engage in serious efforts to help communities of color and low- and moderate-income (LMI) neighborhoods recover from the pandemic.

In the greater Aurora (IL) area where The Neighbor Project serves a five-county region of nearly 2.5 million people (in Kane, DuPage, Will, Kendall & DeKalb counties), grants and loans for which banks received CRA credit have been one of the most crucial sources of funding for our operations and it will be critical to our recovery efforts to have continued access to capital for the work we are planning in low to moderate income census tracts. By way of illustrating this concern, I'd like to share an experience that we had following the last housing-related economic crisis. Our organization was faced with paying off a balloon loan on a multi-unit (100%) affordable housing property that was significantly underwater. Despite a perfect track-record of on-time payments, a location within a low/mod census tract and serving 100% low-income tenants, we would not have been able to find refinancing through a traditional bank. We would have lost the property and had to displace dozens of people if it had not been capital made available through the CRA to a local CDFI. But it should not be this hard to find re-financing for a creditworthy organization doing exactly the type of work in exactly the types of communities that the C.R.A. envisioned. In our experience, we were able to get a loan when times were good, but when times were tough, our bank called our note and was insufficiently motivated to continue to invest as the C.R.A intended. And our fear is that if it is too easy for banks to pass their CRA exams there will continue to be insufficient motivation for banks to lend to important grass-roots community development work precisely when it is needed the most.

Since the start of the pandemic, about 41% of African American businesses have been closed compared to just 17% of White-owned small businesses. Discrimination in lending contributes to these differences in survival rates. A NCRC investigation found that African Americans applying for Paycheck Protection Program (PPP) loans for their small businesses during the pandemic were likely to receive less information than Whites. CRA must be strengthened in order to combat discrimination. The Fed emphasizes improving the performance measures on CRA exams including those used on the lending test that compare a bank's percent of loans to LMI borrowers to other lenders. The Fed does not describe in detail the impact of its reforms on CRA ratings except to hint that banks may continue to receive the same grades.

Moreover, the Fed is proposing to reduce the number of ratings on a state level and on subtests from five to four. This proposal would result in fewer distinctions in performance whereas new CRA exams must reveal more distinctions in order to motivate banks to be more responsive to COVID-19 recovery needs. Five ratings must be retained on the state level and on subtests.

The Fed asks whether underserved areas should be designated based on high levels of poverty or low levels of retail lending. NCRC advocated an approach based on low levels of lending which would effectively target redlined neighborhoods and communities of color. We also ask the Fed to consider explicitly including race on CRA exams. These exams could include performance measures assessing lending, investing, branching and services to people of color and communities of color. The Fed could also provide CRA consideration for lending and investing in majority minority census tracts outside of assessment areas just as the Fed is considering for Indian reservations and other underserved areas. In the interest of reaching underserved areas, we strongly support the Fed's proposals to improve data collection including community development financing data, which would better enable stakeholders to determine communities most in need.

We support the Fed's proposals to expand assessment areas, which are geographical areas on CRA exams. In addition to areas around branches, assessment areas must also include areas outside of branches with significant amounts of bank lending or deposit taking.

We do not support expanding financial education to any income since LMI consumers and people of color are most likely to be unbanked as revealed by surveys of the Federal Deposit Insurance Corporation (FDIC). Likewise, the Fed should further develop its procedures for awarding CRA credit for financing affordable housing that is unsubsidized so that such financing actually serves LMI residents.

Finally, we applaud the Fed proposal to eliminate distinctions in the rigor of examination among assessment areas that have resulted in banks neglecting smaller cities, rural counties and Native American reservations. We appreciate the direction the Fed has embarked upon but caution that it must not end up with proposals that replicate existing CRA ratings inflation as this will not help our communities devastated by COVID-19.

Thank you in advance for your consideration!

Sincerely,



Rick Guzman, Executive Director