

February 11, 2021

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Comments in Response to Advance Notice of Proposed Rulemaking for the
Community Reinvestment Act (Docket R-1723; RIN 7100-AF94)

Dear Governors,

Social Finance, Inc. (Social Finance) appreciates the opportunity to contribute our ideas and thoughts for the modernization of the Community Reinvestment Act (CRA) to the Board of Governors of the Federal Reserve System (Board). Social Finance is a nonprofit organization that improves lives by developing financial instruments that generate both social benefit and financial returns.

There is a strong mission alignment between the CRA and Social Finance; both ultimately aim to ensure opportunities for communities to thrive. We applaud the Board's outreach through the Advance Notice of Proposed Rulemaking (ANPR) to solicit feedback on the critical work of modernizing the CRA. Alongside tremendous changes in the banking industry since the 1970s, there have been similar significant changes in impact investing products, data collection and analysis, and community engagement forums. We encourage the Board to take full advantage of deeper opportunities to fulfill the economic development goals of the CRA.

CRA Modernization and Social Finance's Work

Introduction to Key Principles

We employ a set of innovative, outcomes-based financing and funding strategies that directly and measurably improve the lives of people in need by driving resources toward results. These strategies, which include the Social Impact Bond (SIB) and the Career Impact Bond (CIB), center on five core principles: clearly defined outcomes, data-driven decision making, cross-sector partnership, strong governance and accountability, and catalytic capital for impact. Since launching in 2011, Social Finance has mobilized more than \$150 million in capital through SIBs, CIBs, and cross-sector engagements in 28 states across the country. Practitioners across the globe have launched more than 200 SIBs in 35 countries. These projects have deployed over half a billion dollars to address entrenched social issues that are difficult, if not impossible, to address via traditional social program funding approaches.

Through outcomes-based strategies, we often engage with banks and other impact institutions that are guided by the CRA. We are excited to bring forward our core principles, described further below, in support of the thoughtful questions posed in the ANPR by the Board.

Clearly defined outcomes

We have spent the past ten years helping communities define meaningful outcomes and have come to realize that it is critical to expand beyond traditional quantitative

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assessments and prioritize across a wide range of metrics. We highlight the opportunity to:

- Combine quantitative and qualitative measures to understand the impact of financial institutions on community development.
- Identify the most important metrics to track (e.g., community development financing metrics, local and national benchmarks).
- Strengthen the consequences of not meeting each threshold.

Specifically, in response to Question 46, we would be eager to understand the ability to track which individuals are turned down in the lending process, incorporation of additional community demographic information, and how well the composition of bank staff reflects the community served.

Data-driven decisions

As described throughout the ANPR, data is critical to determining the effectiveness of the CRA. We have worked with government agencies at the federal, state, county, and local levels, as well as service providers, to create complex data sets that underpin our analyses and governance decisions. We recommend further:

- Evaluating administrative and other data sources (beyond credit bureaus) to understand which sources provide the most applicable, detailed data in an appropriate time frame to provide evidence of measurable impact.
- Determining how to better collect and act on data, and establishing appropriate data sharing protocols.

We suggest involving experts (e.g., universities or private research institutions) where possible to make data collection more intentional and relevant to the desired outcomes. We believe that the additional effort associated with data collection and reporting is justified (Question 97)—indeed, we would encourage the Board to be expansive and more holistic when determining appropriate community development services. Ideally, analysis of community development services would go a step further beyond outputs and move toward outcomes and impact.

Cross-sector partnerships

Core to our work is the development and strengthening of cross-sector partnerships. Cross-sector partnerships can be an effective way to increase the impact of banks; however, we see a need to ensure that the right types of partnerships are incentivized, with a focus on community outcomes. To that end, we recommend:

- Recognizing the value of banks working with local nonprofits as a catalyst for economic development.
- Engaging state and local governments and employers as key economic partners.

To ensure that volunteer activities and other engagements with local nonprofits have the maximum impact, we suggest considering the measurable impact of community outcomes when deciding whether to offer CRA credit for that activity (Question 50). While recognizing the need for federal oversight on initiatives like the CRA, our experience suggests that by including additional stakeholders, the CRA can help transform local governments and employers from economic actors to economic partners.

Strong governance and accountability

We believe that initiatives are more impactful when they are governed through a series of committees that are responsible for the day-to-day implementation of services, strategic guidance, and accountability to the community. The governance process ensures that all stakeholders remain committed to the shared goals of the project. This starts by establishing clear guiding principles and definitions of success for the project. We encourage reform that:

- Defines what it means to be successful and keeps all stakeholders accountable to success.
- Creates thoughtful incentives, benchmarks, definitions, and ratings for each bank's performance.
- Ensures community input in CRA-related bank activities.

We stress the importance of elevating community input (Question 74) and refining how community service activities are defined and tracked (Question 56). Perhaps banks could use mixed methods of engagement (social media, public forums, webinars) to solicit diverse perspectives from the community, similar to participatory budgeting.

Catalytic capital for social impact

Over the past decade, we have worked with a range of partners, from the federal government to individual donor-advised funds, to braid public and private funding sources towards impact. We support deeper engagement with low- and moderate-income (LMI) communities to:

- Determine the services that will best support LMI communities.
- Increase clarity and accountability to those who benefit from catalytic capital.

One route would be to elevate opportunities to invest in minority-owned deposit institutions, women-owned financial institutions, and low-income credit unions (Questions 64, 65) since they are best-positioned within the community to understand impact-focused investments. Since the inception of the CRA, the investing landscape has dramatically changed; the new configurations of capital and funding, including outcomes-based strategies, should be reviewed for CRA eligibility as part of this modernization effort.

Closing

The CRA was an important step from the federal government to address inequality in banking and lending. The Board has shown through this ANPR that it seeks to better understand the breadth and depth of considerations to meet its goals in today's world. We hope our contribution to this discussion inspires further reflection on the range of possibilities for modernization of this critical regulation.

Sincerely,

Tracy Palandjian
CEO and Co-Founder
Social Finance, Inc.