

Proposal: 1723 (AF94) Reg BB - Community Reinvestment Act

Description:

Comment ID: 137554

From: Lindsey Haines

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Subject: R-1723 Community Reinvestment Act

Comments:

Dear Federal Reserve System,

I appreciate the Federal Reserve Board encouraging public input on ways to modernize and improve the Community Reinvestment Act (CRA).

An updated CRA that responds to changes in the banking sector-such as the decrease in community-based banks and the evolving ways in which consumers use banks-will have a modest impact unless the evaluation process for banks awards "outstanding" and "satisfactory" grades less frequently than in the past. The current rating system suggests that the banking system is doing a good job meeting the CRA's goals, which is clearly not the case.

We need an evaluation process that more meaningfully addresses systemic inequities in access to credit, expands financial inclusion, and combats redlining, particularly for communities of color and rural communities. Access to credit includes affordable mortgage and home equity loans for sustainable homeownership, as well as affordable and flexible small business credit, savings, and loan products that create a foundation for sustainable small businesses.

Considering how important home ownership is to creating household wealth and the long-standing disparities in home ownership rates by race and ethnicity, the CRA evaluation process should include a core component that examines whether banks are providing mortgage and home equity loan that offer a path to affordable, sustainable home ownership. Banks need to do better in overcoming barriers to home ownership caused by overly stringent underwriting criteria, appraisal bias, lack of down payment assistance, and other factors. Moreover, promoting home ownership is a strategy for revitalizing communities suffering from disinvestment in their single-family housing stock.

Providing CRA credit for financing naturally-occurring affordable housing is a worthwhile idea; however, it is key to ensure that such housing actually increases the overall long-term housing affordability in a community and does not promote gentrification and displacement. Often, only rental housing subsidized through project- or tenant-based funding actually meets the needs of people with the lowest incomes. Affordable rental housing also will complement local community businesses that provide reasonably priced goods and services for diverse households.

This means a CRA that includes an explicit focus on racial equity. Data consistently shows that if income is controlled for as a variable, loan denials correlate to race. Examiners should downgrade bank ratings when persistent disparities are found in lending or banking services, including for small business loans.

Sincerely,
Lindsey Haines