February 16, 2021

Docket Number R-1723 and RIN Number 7100-AF94

To Whom It May Concern:

The Federal Reserve Board has described approaches in its Advance Notice of Proposed Rulemaking on CRA that will make CRA exams more objective and transparent. Yet, we remain concerned.

The Delaware Community Reinvestment Action Council, Inc., founded in 1987 has been working within the Community Reinvestment Act framework in areas such as financial capability (Money School), wealth preservation (Nonprofit Law), access to banking (Stepping Stones Community Federal Credit Union) and advocacy (Consumer Finance). We are members of the National Community Reinvestment Coalition and fully support their thoughtful comments on this proposal.

Throughout our history, governmental attempts to bring back our economy and communities through downturns excluded neighborhoods that had a large **minority population, poorer homeowners, and older houses**. As we work to modernize the CRA, it MUST focus on neighborhoods that have **minority populations, poorer homeowners, and older houses**. The current focus is on income; it must explicitly include race and housing stock.

CRA has been with us for a little over 43 years. Here are some pre-pandemic realities:

1. 40% of adults would not be able to cover an unexpected $400 expense[1].
2. Over the past 30 years, the median wealth of white households has consistently dwarfed that of Black households—ranging from a gap of $106,900 in 1992 to $185,400 in 2007 (both adjusted for inflation to 2019 dollars)[2]
3. In 1976, 68 percent of white families owned their home, compared with 44 percent of black families. By 2016, the homeownership gap had widened for Black families[3].
4. It will take 228 years for the average Black family to reach the level of wealth White families own today.[4] This fact is as unconscionable as it is unacceptable.

---

[1] https://www.federalreserve.gov/publications/2019-economic-well-being-of-us-households-in-2018-dealing-with-unexpected-expenses.htm

[2] https://www.brookings.edu/blog/up-front/2020/12/08/the-black-white-wealth-gap-left-black-households-more-vulnerable/

[3] https://apps.urban.org/features/wealth-inequality-charts/

[4] https://ips-dc.org/wp-content/uploads/2016/08/The-Ever-Growing-Gap-CFED_IPS-Final-2.pdf

Wilmington, Delaware, communities have not fared too well over the years either:[5]

1. Households with zero net worth: White 14.9% Black 32.6%
2. Business value: White $1,022,674 Black $62,127
3. Homeownership rate White 58.2% Black 40.5%
4. Median property value: White $189,000 Black $125,000
5. Cost burdened renters: White 47.8% Black 60%
6. Cost burdened homeowners: White 27.8% Black 40.4%

How does the new CRA better meet its core purpose of addressing inequities and ensure an inclusive financial service industry?

The Black Lives Matter movement is as much about police reform as it is about community reinvestment. Our disinvested communities NEED investments. The new CRA can do so by providing CRA consideration for lending, investing, branching, and servicing people and communities of color. DCRAC agrees with NCRC's approach of identifying tracts as underserved based on low levels of retail lending; this approach includes several majority minority tracts and tracts on Native American reservations as underserved.

- Access to banking[6]: According to the FDIC, 5.4 percent of households are unbanked, meaning they do not have a bank account at all. In 2017, about 19 percent of U.S. households were underbanked, which means they have a checking or savings account but also use financial products and services outside the banking system.
- Costly options[7]: U.S. consumers paid $34.3 billion in overdraft fees in 2017. As banks disinvest or raise the cost of basic financial services, many Americans rely on expensive and often predatory check-cashing businesses, payday lenders and pawnshops. Check-cashing businesses process $150 million checks a year and generate about $790 million in fees. Average payday loan is offered at an interest rate of 322%.
- Discriminatory access[8]: Community Banks in Black neighborhoods require an average minimum opening deposit of $81 compared to $61 in white neighborhoods.
- The poor are yet to benefit from the mobile revolution[9]. Roughly, three-in-ten adults with household incomes below $30,000 a year (29%) do not own a smartphone.

[5] https://prosperitynow.org/resources/racial-wealth-divide-wilmington
[6] https://www.fdic.gov/analysis/household-survey/index.html
[7] https://www.huffpost.com/entry/bank-fees-high-cost-low-income_l_5c5ccfd9e4b03afe8d65f468
[8] https://atlantablackstar.com/2018/06/24/study-black-consumers-are-paying-an-average-of-20-more-just-to-open-a-checking-account/
[9] https://www.pewresearch.org/fact-tank/2019/05/07/digital-divide-persists-even-as-lower-income-americans-make-gains-in-tech-adoption/

More than four-in-ten do not have home broadband services (44%) or a traditional computer (46%).

- While the article addresses employment, it is equally applicable to banking.[10] Fringe finance thrives in our community where neighbors lack transportation and the nearest bank is 20 minutes away.

The above communities are ideal CRA assessment areas.

CRA exam reliance on low- and moderate-income (LMI) census tracts alone does not benefit the communities in need. Here, in Wilmington, DE, our underserved neighborhoods cannot compete with the Riverfront—in an Opportunity Zone and LMI tract but benefits do not flow to LMI communities—for CRA credits. Delaware has two large rural counties with only one LMI census tract, yet numerous disinvested neighborhoods. A category of undeserved tracts based on the NCRC definition should be included on the subtests. For example, the retail lending test would assess the percent of loans in underserved tracts. This would help increase lending and investing in tracts in disinvested areas beyond the downtowns and riverfronts.

How to provide certainty, consistency, and minimum burdens?

When neighborhoods are left unchanged over 40 years and banks receive satisfactory ratings, it informs them that they do not need to be concerned. We submit that a presumption of satisfactory rating already exists given that nearly 90% of banks ace their CRA exams. The Board should not reduce subtest ratings from five to four; five ratings on the subtests must be retained in order to provide more distinctions in CRA performance. Moreover, the final four ratings should be accompanied by a point scale to reveal meaningful distinctions in performance. It is not meaningful to have such high passing rates accompanied by 90% of banks receiving a Satisfactory rating. Within that 90% bucket, a point scale would reveal more distinctions in performance.

So, the question really is, what do banks and regulators do to get a ratings upgrade or downgrade?

---

[10] https://www.businessinsider.com/lack-of-transport-is-a-major-obstacle-to-employment-for-americas-poor-2018-1

A few thoughts on ratings downgrade:

1. Predatory lenders claim they meet a critical community credit need.
    a. Banks that directly or indirectly support such wealth stripping products and services (through subsidiaries, investments, and capital) should be downgraded.
    b. Prevalence of these toxic providers in a bank's assessment area should be a reason to receive a ratings downgrade.
2. Where there is discrimination on the basis of race—such as higher minimum opening balance, higher interest rates, larger denial disparity—there should be consequences greater than mere lowering a CRA rating.

A few thoughts on ratings upgrade that involve strategic deployment of resources that work to:

1. Reduce the unbanked/underbanked.
2. Increase homeownership opportunities—Most Americans have 25% of their wealth tied into home equity.
    a. support of housing counseling, foreclosure prevention counseling, financial education counseling, etc.;
    b. stronger mortgage modification/home preservation programs;
3. Address the perpetuation of racial and economic inequities through support of affordable estate planning[11]—education, legal services, and help stand them up where they don't exist.
    a. Home equity accounts for about 25% of wealth. For Black homeowners it is 54% and low income homeowners it is 65%.
    b. 60% of adults do not have a will; 70% of households with incomes below $30,000 & 72% nonwhites do not have a will.
4. In the long term, improve a neighborhood's prospects.
    a. Opportunity Atlas can pinpoint an address and the potential for someone from that address to make it or not.
    b. Create a separate business lending framework for mom and pop/schedule C/gig worker/1099 businesses and support technical assistance including legal services.
5. Invest in minority led nonprofits.
6. Invest in MDIs, CDFIs, and Low-income community federal credit unions. These institutions need long term investments to match their lending—say a 5-year CD. Banks want equal CRA credit each year. Moreover, they should receive it and it

---

[11] https://www.google.com/amp/s/shelterforce.org/2019/03/01/can-estate-planning-preserve-economic-assets-in-low-income-communities/amp/

should be weighted for the risk—often these are the safest investments a bank makes—in a federally insured depository institution. They should also make additional new investments annually.

A few thoughts on ratings upgrade that involve delivery channels for the right product, service, and investment and have the right delivery system

1. Lower cost ATMs in neighborhoods and corner stores will reduce the cost of access to funds for the residents.
2. If a bank relying on internet to meet the needs of the target community, they should support the internet infrastructure for the neighborhood at optimal speed and cost. They should also support education on how to use internet banking safely.
3. Apps or mobile site usage by zip code and income level, online enrollment by zip code, community banking/offsite sign up events in LMI communities would show efforts to reach the community.

As a stark reminder that racial inequities continue, NCRC reports that since the start of the pandemic, more than 440,000 African American businesses have been closed or 41% compared to just 17% of White-owned small businesses.

As we conclude, we want to reiterate that at a minimum, CRA should:

- Provide equal access to banking. Not $81 minimum deposit in Black neighborhoods and $61 in White neighborhoods. Nor replacing branch networks with internet banking for those who do not have home broadband services or a traditional computer.
- Provide equal access to credit. Not predatory lenders who provide a credit starved community with access to harmful credit.
- Ensure economic inclusion. Bank On has recommendations for banking products that meet the needs of the target community. One that requires a minimum balance of $400 does not consider the reality that 40% of Americans are $400 away from a crisis.

We appreciate the direction the Federal Reserve has embarked in its ANPR. We believe that this proposal serves as an important starting point towards more financially resilient communities.

Thank you for this opportunity.

Sincerely,

Rashmi Rangan

Rashmi Rangan