NATIONAL MINORITY COMMUNITY REINVESTMENT CO-OPERATIVE

701 S. Howard Ave #106-147 Tampa FL 33606

PUBLIC COMMENT LETTER ON PROPOSED CRA RULE CHANGES BY FEDERAL RESERVE BOARD:

Ann E. Misback
Secretary
The Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

RE: Docket No. R-1723 and RIN 7100-AF94 (CRA Rule Changes)

Dear Ms. Misback:

I submit attached this letter and the letter attached from the National Community Stabilization Trust (NCST) as official public comment on the proposed CRA rule changes by the Federal Reserve System from both NMCRC and FMCRC. In that FRB will certainly receive a vast number of proposed CRA rule changes based on ***quantitative*** data, our public comment is predominately ***qualitative*** in nature so the FRB can better understand the much broader perspective of Black & Latino economics and the lack of impact the Community Reinvestment Act of 1977 has had on our racial communities, as clearly as the Pandemic as unmasked a major socio-economic fault line between white and Black/Latino.

The economic distress of minority communities may be one of the most pressing issues America. The lack of businesses and jobs fuels not only a crushing cycle of increasing poverty but also crippling social problems, such as drug abuse and crime in Black & Latino communities. The establishment of a sustainable economic base together with employment opportunities, wealth creation, role models, and improved local infrastructure is critical to the future well-being of Black & Latino communities, families and small businesses.

There is no doubt that there must be a complete paradigm shift in our view of community revitalization of predominately Black & Latino communities. Data conclusively links the overall economic health of all major metropolitan areas to job creation within the surrounding Black & Latino communities. This is not more evident than in almost every predominate Black & Latino zip code and the lack of effective job creation capital and resources for our Black & Latino communities. The Global economy will forever change the face of this nation. Blacks & Latinos are the future economic soldiers who will serve to continue to ensure that the values of our country are multiplied that will ensure we as a country remain strong and the global economic leader for centuries to come. This point was made relevant in a recent study by the Federal Reserve Bank of San Francisco released a study to find that racial & gender discrimination cost the United States $2.6 trillion in GDP for 2019. Black & Latino economic inclusion is vital to the best interests of the United States, and this begins and ends with modernizing the CRA to make it more racially relevant.

The Racial Wealth Gap should be used as the MRI for racial economic health and equality for America. For the economic data points that make up the Racial Wealth Gap studies, focus on key economic statistics that are the foundation to measuring economic health of our nation. With this being said, a recent study released by the Center for American Progress (Systemic Inequality) showed that in 2016 that "Latino families have only slightly more wealth than Black families. In 2016, the median wealth for Black and Latino families was $17,600 and $20,700, respectively, compared with White families median wealth of $171,000." One not need be an economist to understand the negative economic impact this has on our nation's ability to compete in the rising global economy, but more importantly, the negative impact this has on the "soul" of Blacks and Latinos who are drowning in a vast ocean of economic neglect.

This brings me to the qualitative nature of our public comments. Let us call it as it is and not mince words to be diplomatic or political. The Community Reinvestment Act of 1977 was enacted to address massive racial economic issues and to address the lack of equal access to capital for minorities. But due to congressional hurdles, mostly white congressmembers, the CRA act of 1977 used the words "Low Moderate Income" instead of any racial targeting and relevance to provide the banks "wiggle" room in how and where they infuse bank branches, capital and investments. Needless to say as we now see from this pandemic, this has been an utter failure and needs redressing to ensure that the CRA has racial relevance that can have a true economic impact in Black & Latino communities, families and small businesses. The following are **"qualitative"** recommendations to the proposed CRA rule changes by the Federal Reserve Board to ensure of increased economic impact by the CRA for Blacks & Latinos:

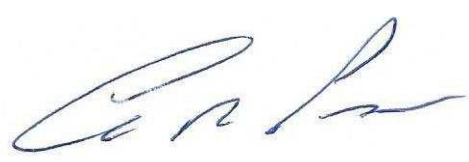
1) First and foremost, the CRA must become "racially sensitive" to truly economically impact Black & Latino communities, families and businesses. The new CRA rules need to be data driven that will include Racial Lending Data such as the impending Section 1071 of Dodd Frank Act, HMDA and SBA small business lending that provides minority lending data. To often financial institutions will "cluster" census tracts in reporting lending data that unfairly draws an inaccurate picture if they are providing access to Blacks & Latinos for home ownership, small business loans or CRA investments that impact predominate Black & Latino census tracts. The CRA bank examination must target high Black & Latino census tracts and allow them to stand alone to determine if the bank is truly providing access to capital into highly populated Black & Latino census tracts.
2) Under modernized CRA rules, the FRB should allow for no less than 20% of the CRA bank examination to be **"qualitative"** in nature to provide the bank examiner with the ability to use their judgement if the "spirit" of the CRA is being adhered to by the financial institution. A case in point is a recent discussion with a major financial institution on Opportunity Fund investments (that are being allowed as CRA credits) and he was concerned how most of the Opportunity Fund investments do not truly economically impact LMI communities, but in particularly Black & Latino families or small business. To often in the past, cities have taken downtown areas and designated them as CRA areas to increase bank investment and capital. By nature, most of these downtown area census tracts are low moderate income. So in the end, the financial institution is given CRA credit for downtown area projects that have marginal impact on LMI families or businesses, but in particular Black & Latino families and small businesses who are not even provided contract opportunities for such projects. The ability for the bank examiner to use "qualitative" judgement in CRA examinations will marginalize the ability of a financial institution to manipulate the "Spirit" of the CRA with marginally impactful investments to Black & Latino communities.
3) The primary driver impacting the Racial Wealth gap is "home equity". According to a study on the composition of household wealth (Edward Wolff, Dept of Economics NY University), home equity accounts for 32% of household wealth with small business equity coming in a far second at 18%. So needless to say, home ownership is absolutely vital if there is a serious intention to address racial inequality. With this being said, NMCRC endorses 100% of the attached National Community Stabilization Trust (NCST) proposed rule changes

that impact minority home ownership. We will provide the following additional recommendations that impact minority home ownership and increasing Black & Latino home equity levels.

4) In a recent meeting with Huntington Bank officials, they presented HMDA lending data in which they "clustered" predominately Black census tracts with city/county LMI census tracts that heavily skewed the reality towards access to home ownership capital for Black families but also the data also miraged overall home lending data. For predominate Black Detroit city census tracts only 6 home loans were made. For a major bank only making 6 home loans for an Black area should not be allowed. CRA rules must incorporate a system that provides for grading of all LMI census tracts independently in order to capture actual home lending to Black & Latino families.
5) Currently, to much weight is provided to financial institutions for tax credit multi family housing projects that is harmful towards any progression for Black & Latino home ownership. Much more weight in CRA grading must be provided for affordable single-family housing development. This includes access to construction lines of credit for nonprofit affordable housing developers that will result in increasing affordable housing inventories.
6) An increased weight be provided for economic development projects in LMI and predominate Black & Latino LMI areas that create jobs and access to home ownership.
7) Increase weight in CRA grading for investments into affordable housing and small business loan funds that impact predominately Black and Latino census tracts.
8) Increase weight in CRA grading towards banks that provide patient capital towards home Black & Latino home and small business ownership.

These are more qualitative "broad strokes" that can economically impact Black & Latino communities. We felt it was important to address more qualitative needs in that you will receive significant quantitative public comments. We thank you for bringing qualitative changes to CRA that can economically impact Black & Latino communities.

Cordially,



"There are those who say thus is the way of the world....I say NO thus we make it"
"It is easy to sing when one sits upon a perch of privilege as compared to those who are drowning in a sea of neglect"

Al Pina
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National Virtual Black & Latino Economic Summit (www.blackandlatino.org) Dec 9-10
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1 attachment: NCST CRA Rule Change Recommendations As Part of NMCR Public Comment

NMCRC (National Minority Community Reinvestment Co-Operative) is an informal national organization made up of Black & Latino led & focused organizations and leaders committed to a co-operative approach to address the socio-economic needs of minority communities through the creation of sustainable community economic development opportunities. The co-operative relies on a dynamic set of Black & Latino networks, relationships, common socio-economic interests and experiences to assist one another for the better good of the overall socio-economic health of all minority communities

February 16, 2021

Ann E. Misback
Secretary
The Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

RE: Docket No. R-1723 and RIN 7100-AF94

Dear Ms. Misback:

The National Community Stabilization Trust appreciates the thoughtful Advanced Notice of Proposed Rulemaking asking for feedback about proposed changes to the Community Reinvestment Act (CRA) regulations published in the October 19, 2021 *Federal Register*. The National Community Stabilization Trust is a nonprofit, non-partisan organization that works to restore vacant and abandoned properties to productive use and to protect neighborhoods from blight.

Some of NCST's past accomplishments include the following:

- Facilitated the transfer of 27,000 1-4 unit homes from lenders to community organizations, with a total value of more than $1.7 billion.
- Transacted with more than 1,000 local partners and developed ongoing relationships with hundreds of community development organizations and single-family developers.
- Resolved a portfolio of more than 1,200 highly distressed mortgages through Project ReClaim (a joint venture with the Housing Partnership Network).

CRA has been essential to the constructive bank-nonprofit partnerships that help NCST buyers improve communities through putting vacant properties back to productive use and increasing affordable homeownership. The homeowners that purchase the renovated homes that NCST sells often work with local banks that offer down-payment assistance through state, local and federal subsidy programs. The for-profit and nonprofit developers that repair and improve the homes we sell are small businesses that sometimes rely on bank lines of credit to do business.

NCST applauds the Federal Reserve's thoughtful and deliberate work in this ANPR about how to best modernize CRA's dated regulations and propose a system suitable for the 21st century. By moving beyond the single metric approach championed by the OCC, the Board has charted a more productive path to making CRA evaluations meaningful, evidence- based and consistent. Thanks to the Federal Reserve's leadership on these questions, there is now an opportunity to consider the complex and knotty questions necessary that must be answered to create a CRA that works for a diverse country with many different type of communities and banks.

To that end, consistency across the entire banking system is important so we encourage you to work with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency to create a modernized CRA framework that applies across the entire banking industry. It is well worth the time to create CRA regulatory regime that achieves the still relevant purpose of the CRA statute in a new century. A new CRA final rule that reflects the consensus among the banking agencies, banks, and community groups and is consistent across all regulators would be an impressive achievement.

In fact, the economic inequality and structural racism that the COVID-19 pandemic have laid bare require not just modernizing CRA but strengthening it to achieve CRA's still relevant purposes. Now is the time to harness the power of this statute to ensure the flow of credit and investment to all communities to create economic opportunities and realize the full potential of people and places. The goal of the modernized regulations should be to ensure significant new access and investment to people and places that have long been overlooked or locked out.

At present, nearly all banks receive a rating of "satisfactory" or better. Given the extent of disinvestment and unmet community credit need, a new CRA framework should raise the bar, not just copy the current standard. Much of the unmet need represents profitable business opportunities, consistent with safe and sound lending requirements. Rather than maintain the status quo, CRA modernization should create a strong incentive for banks to deploy more capital into the communities where it is most needed.

Question 1. Does the Board capture the most important CRA modernization objectives? Are there additional objectives that should be considered?

The Board's proposal is thoughtful and balanced and does not miss any major objectives. The proposal reflects the fact that CRA regulation is complex, nuanced work to judge whether a financial institution is meeting the credit needs of its entire community. There are important values like consistency and certainty that could conflict with the need to meaningfully measure impact. There is a role for examiner judgment in a data-driven system so that community impact can be fairly judged. The Board rightly preserves a role for examiner discretion, which is absolutely necessary, even in the most thoughtfully designed system. In general, the Federal Reserve has done a fine job creating a framework that keeps these tensions in balance. Simplicity should not be the goal – increased investment in communities driven by a transparent and rigorous system should be the goal

Under the current system, about 90% of banks receive a Satisfactory rating. The high percentage of banks that are in the same category suggests that additional gradation should be added to the scale to distinguish the level of bank performance. NCST recommends including final ratings of High Satisfactory and Low Satisfactory in the final grade, both to promote transparency around bank performance and to create incentives for banks to strive for higher ratings.

All in all, the Board's proposal provides a much more appropriate framework for understanding not only the volume and scale of a bank's activities, but also their impact. If done well, enhancing the certainty and clarity of the CRA evaluation system will benefit both bank and community stakeholders. NCST applauds the Board's efforts to apply specific, quantitative metrics where appropriate while also employing qualitative measures where necessary.

Question 2: In considering how the CRA's history and purpose relate to the nation's current challenges, what modifications and approaches would strengthen CRA regulatory implementation in addressing ongoing systemic inequity in credit access for minority individuals and communities?

In the neighborhoods where NCST does the majority of our work, we still see the toxic legacy of redlining – the systematic, government-sanctioned denial of credit to communities inhabited by residents of color. Neighborhoods where banks and FHA did not finance mortgages before 1968 are still plagued by blight and substandard housing. Lack of access to capital for community development or mortgage credit for homeownership continues to fuel a cycle of blight and disinvestment in neighborhoods, which in turn harms families and reduces economic growth. The Community Reinvestment Act was enacted in 1977 precisely because of these concerns, and maintenance of strong CRA obligations will be a critical ingredient in overcoming these challenges.

Unfortunately, the history of redlining echoes still as the benefits of homeownership are not evenly distributed throughout our society. America's growing racial wealth gap and homeownership gap are well documented and interrelated. According to the Urban Institute, while 72.1% of white households own their own home, while only 42% of Black households and 48.1% of Hispanic households are homeowners.[1] This disparity in homeownership rates is then reflected in statistics on household wealth. According to Federal Reserve's Survey of Consumer Finances (Sept. 2020) the median wealth of white households is $188,200 compared to only $24,100 for Black households and $36,200 for Hispanic households.[2] These disparities in wealth and homeownership were caused in large measure by explicit racial discrimination in government neighborhood mapping that directly determined mortgage availability.

The historical ties between race and the redlining that CRA was meant to address cannot be ignored, and NCST encourages the Board to meaningfully include racial indicators in the CRA evaluation framework. Income is an imperfect proxy for race, so numeric evaluation of efforts to increase racial equity should be a prominent part of the CRA's assessment. Banks already report racial data in Home Mortgage Disclosure Act (HMDA) data. This same data reporting should be used in assessing performance and performance context in evaluating CRA ratings as well. The Board could begin with developing a process for collecting and reporting on baseline data on race.

Assessment Areas

[1] *Closing the Gaps*, Alanna McCargo and Jung Hyun Choi, Urban Institute, 2020

[2] McCargo and Choi, page 2

Question 3. Given the CRA's purpose and its nexus with fair lending laws, what changes to Regulation BB would reaffirm the practice of ensuring that assessment areas do not reflect illegal discrimination and do not arbitrarily exclude LMI census tracts?

Question 4. How should the Board provide more clarity that a small bank would not be required to expand the delineation of assessment area(s) in parts of counties where it does not have a physical presence and where it either engages in a de minimis amount of lending or there is substantial competition from other institutions, except in limited circumstances?

Question 5. Should facility-based assessment area delineation requirements be tailored based on bank size, with large banks being required to delineate facility-based assessment areas as, at least, one or more contiguous counties and smaller banks being able to delineate smaller political subdivisions, such as portions of cities or townships, as long as they consist of whole census tracts?

Given the changes to the banking landscape since CRA regulations were last revised in the mid-1990s, it would be impossible to consider appropriate reforms without also revisiting how Assessment Areas (AAs) are designated. NCST is encouraged by the Board's efforts to ensure that any reforms to AAs do not arbitrarily exclude LMI areas or embed illegal discrimination. When delineating AAs, large banks should not be permitted to exclude portions of counties. Small banks that do not have the capacity to serve an entire county, particularly in parts of the country where counties are very large, should be allowed to serve only a portion of a county or counties. However, AAs that do not include a full county should be subject to examiner review to ensure that the geographic bounds appropriately reflect the community of borrowers and depositors served by the bank, and that the boundaries do not unreasonably exclude minority communities.

Ratings

Question 23. Should adjustments to the recommended conclusion under the performance ranges approach be incorporated based on examiner judgment, a predetermined list of performance context factors, specific activities, or other means to ensure qualitative aspects and performance context are taken into account in a limited manner? If specific kinds of activities are listed as being related to "outstanding" performance, what activities should be included?

NCST comes down on the side of qualitative factors being considered, even at the cost of consistency. When human judgement is involved there always could be inconsistency, but that danger is outweighed by the benefits of thoughtful consideration of impact. Given the acknowledged limitations of some of the quantitative methods, the CRA framework must maintain significant discretion for an examiner to adjust outcomes, either up or down, in instances where the numbers do not tell the whole story. Examiners should be empowered to make adjustments on the basis of their judgment, though clear guidance will be essential to creating consistency.

Effective CRA evaluation is dependent on the presence of adequately staffed, sufficiently trained, and experienced examiners, who bring exercise sound and expert judgement to an exam with both quantitative and qualitative elements. Accordingly, we urge that the Board and other financial regulators regard investing in this workforce and enhancing its career value as a foundational element of CRA modernization.

We strongly support the development of transparent performance context factors and/or specific activities that an examiner would take into account when considering adjustments to the recommended conclusion under the performance ranges. We suggest, however, that it be illustrative and non-exhaustive. We are concerned, more fundamentally, that the very phrasing of the question "..or other means to ensure qualitative aspects and performance context are taken into account in a *limited* manner" might imply the Board is inclined to give less weight to the qualitative and performance context elements of the evaluation than they receive currently. A CRA modernization regime will most effectively increase bank lending to LMI households and communities while providing increased clarity, consistency and predictability if both quantitative and qualitative factors are considered.

Retail Test

As NCST noted during the OCC's rulemaking, it is important to focus on the number of loans being made, not simply the total dollar volume of lending. By proposing a retail lending test based on the number of loans made, the Board has avoided creating the disincentives to small dollar lending created by a single metric approach. NCST, which works in many markets plagued by low property values commends you for this. The Board's proposal captures the importance and responsiveness of smaller dollar loans to the needs of lower-income borrowers and smaller businesses and farms and does not provide an incentive to make only larger loans to reach performance levels. Under the OCC structure, rural communities and markets with low property values will suffer most, as obtaining smaller loans and investments, which are less profitable for banks, is a serious and chronic challenge for these communities.

In addition to the metrics laid out in the ANPR, NCST recommends that the Board include a metric measuring the racial distribution of loans. Careful consideration should be given to how to structure such a metric, and we encourage the Board to engage stakeholders in a conversation about how best to do so. However, we believe that disparities in lending along racial lines are too significant to not be examined in an intentional, transparent way.

Question 38. Should the Board provide CRA credit only for non-securitized home mortgage loans purchased directly from an originating lender (or affiliate) in CRA examinations? Alternatively, should the Board continue to value home mortgage loan purchases on par with loan originations but impose an additional level of review to discourage loan churning?

We recommend that full credit be provided for: 1) origination and whole loan purchase; and 2) first bank purchase of home mortgage-backed securities (MBS). An additional level of review should be applied to subsequent bank-to-bank purchases of MBS with presumption that they not receive CRA credit.

Question 39: Are there other alternatives that would promote liquidity by freeing up capital so that banks and other lenders, such as CDFIs, can make additional home mortgage loans to LMI individuals?

Current CRA exams rarely discuss whether banks are purchasing loans from CDFIs that are particularly responsive to local needs. NCST recommends examiners should review purchased loans separately from loan originations on CRA exams to determine the concentration of bank activity in loan purchases. This method of examination would allow banks to offer greater detail on their loan purchases. Activities that provide liquidity to CDFIs or other mission lenders could be considered particularly responsive or impactful and receive additional consideration. (ADD MORE ON LOW BALANCE MORTGAGES AND THE NEED FOR CDFIS TO DO THESE LOANS.)

Community Development Test

CD Financing

Question 42. Should the Board combine community development loans and investments under one subtest? Would the proposed approach provide incentives for stronger and more effective community development financing?

NCST applauds the creation of a unified Community Development test. We support a CD test that combines loans, investments and services. Separating investments from CD loans places the form of an activity ahead of its function, thereby reducing responsiveness to CD needs and obscuring evaluation of a bank's overall CD activities. That said, it is vitally important to CD that special consideration be provided within the CD test for *equity* investments, including those for LIHTCs, NMTCs, CD REITs, unsubsidized affordable housing, MDIs, and equity-equivalent investments in CDFIs. These activities expose banks to higher risk than loans, require higher capital reserves, tend to be illiquid, are often technically and financially complex, and – most important – are generally catalytically responsive to community needs. This could be accomplished through more nuanced scoring than the impact scoring approach the Board proposes.

This could be a good place to discuss DASH – which needs equity investments

The modernized CRA assessment should encourage patient capital, increase clarity, consistency, and transparency of performance expectations, and provide stronger incentives to serve underserved areas. To that end, we support basing the CD financing test on the combined loans and investments held on balance sheet. By including everything on the balance sheet, not just new originations, the test would remove the current incentive to provide artificially short terms for CD activities. Furthermore, by combining loans and investments the Board would avoid privileging one over the other, allowing the needs of the project to dictate the financing vehicle. However, examiners should review the mix of loans and investments to ensure that there are not extremes in terms of reliance on only one .

Question 47. Should the Board use impact scores for qualitative considerations in the Community Development Financing Subtest? What supplementary metrics would help examiners evaluate the impact and responsiveness of community development financing activities?

As we previously commented during the OCC's rulemaking, a responsive CRA framework must be calibrated on the relative impact of different activities. NCST is very supportive of the Board's proposal to assign an individual impact score to each activity, though we encourage the Board to consider a larger scale than the proposed 1-3 in order to create greater differentiation between those projects which are only minimally impactful and those that have tremendous impact. This approach is much more promising than the multiplier-based approach proposed by the OCC.

We support the ANPR's proposed approach, under which examiners will judge activities based on responsiveness. We recommend that "innovation" and "complexity" be taken into account as well, as under the current evaluation system. One of NCST's nonprofit buyers when speaking of his partnerships with banks says "Terms are everything." In the context of CRA evaluations, this means qualitative considerations of how banks stretched to be responsive to community need to play a significant role in the calculation of scores.

We support the Board's proposal to assign an impact score to each grant, loan, or investment (which banks should be required to report separately). The impact score should be explained clearly in exam narrative and accompanying tables.

Given the need for substantially more and better community development financing data, the Board should consider requiring banks to report supplemental data currently provided only when they seek higher ratings (e.g., affordable housing units, jobs created). The Board should streamline data submission through a standardized template.

Eligible Activities

Question 54. Should the Board specify certain activities that could be viewed as particularly responsive to affordable housing needs? If so, which activities?

Access to capital is a perennial challenge for nonprofit housing developers, and some bank activities are more responsive to meeting these needs than others. Enterprise-level investments are powerful tools to help spur larger development activities, while equity investments and below-market loans play very important roles in the capital stack for affordable housing development.

NCST recommends the Board publish a list of illustrative activities that could be viewed as particularly responsive to affordable housing needs. The list should be non-exclusive (i.e., failure of a particular activity on the list should not prevent a bank from receiving extra credit if that activity is particularly responsive to the housing needs of the AA in which it takes place). Particularly responsive activities might include:

- Lending for homeowner repair to benefit existing residents on homes in areas suffering from valuation gaps where repair costs exceed home values or in danger of gentrification.
- Providing capital to nonprofit housing developers working in LMI communities and relying on collateral rather than recourse to the nonprofit's balance sheet to ensure safety and soundness
- Expanding the supply of affordable homeownership
- Creating or preserving affordable housing near transit (TOD).
- Lending on an adaptive re-use of commercial or other property in communities struggling with blight or vacancy.

- Preserving LMI affordability in a census tract at high risk of gentrification coupled with involuntary displacement of LMI families.
- In "designated areas of need."
- ADD unsubsidized homeownership here – like INHP's nontraditional underwriting?
- ADD DASH here??

Revitalization and Stabilization

Question 60. Should the Board codify the types of activities that will be considered to help attract and retain existing and new residents and businesses? How should the Board ensure that these activities benefit LMI individuals and communities as well as other underserved communities?

It would be helpful if the Board created a list that was illustrative, but not exclusive. Revitalization and stabilization activities are an important part of the community development eco-system within our communities. They should be given priority, and many would not be financed without the incentives created by compliance with the CRA. Currently, because of uncertainty around these activities, banks will often take the easier route of focusing on specifically qualifying affordable housing activities.

There is an important geographic lens that should be considered when considering the illustrative list of revitalization and stabilization activities. NCST is working with a group of neighborhoods nationally often called "Middle Neighborhoods". Please see middleneighborhoods.org.

These are neighborhoods on the edge of growth and decline, and without continued reinvestment they can de-stabilize. Many middle neighborhoods may not qualify as LMI census tracts (although many do.) Nevertheless, they also do not have a fully functioning market, so they are not attracting market driven capital. Without the market or regulatory incentive, these neighborhoods often struggle and can decline further. The proper approach would be to incentivize interventions before these neighborhoods slipped into heavier concentrations of poverty and experienced further disinvestment.

There is precedent for the Board extending its CRA approach to include non-metropolitan middle neighborhoods, and NCST strongly recommends extending revitalization and stabilization to include Metropolitan "Middle Neighborhoods" as well. The Middle Neighborhoods community of practice, as identified on the website cited above, can help put controls and definition around those neighborhoods in urban areas that should qualify, but also see: http://middleneighborhoods.org/2020/10/29/defining-middleneighborhoods-a-map-based-tool/

Question 61. What standards should the Board consider to define "essential community needs" and "essential community infrastructure," and should these standards be the same across all targeted geographies?

It seems problematic to define "essential community needs" and "essential community infrastructure across all targeted geographies. While rural and distressed communities often struggle to secure financing for infrastructure projects, these resources are more readily available in urban and suburban areas. Such standards may not be necessary since there is already a definition for community development activities that would suffice.

Question 62. Should the Board include disaster preparedness and climate resilience as qualifying activities in certain targeted geographies?

LMI communities are particularly vulnerable to climate-related disasters, and history shows that these communities disproportionately struggle to access resources for prevention and resilience as well as for recovery. NCST supports providing CRA consideration for activities related to preparedness and resilience but emphasizes the importance of limiting these activities to those that have a clear, direct, and targeted benefit specifically to LMI people or communities. Activities that are generically responsive to climate change, such as wind farms or carbon capture efforts, while beneficial to all people, should not be eligible for CRA consideration.

Question 63. What types of activities should require association with a federal, state, local, or tribal government plan to demonstrate eligibility for the revitalization or stabilization of an area? What standards should apply for activities not requiring association with a federal, state, local, or tribal government plan?

This is an area where examiner discretion makes sense. NCST recommends that association with a federal, state, local, or tribal government plan should confer eligibility, unless the government plan is designed to exclude low income people. For example, if a locality instituted exclusionary zoning intended to increase home values, those home loans should not necessarily count for CRA.

It should not be a requirement for any particular activity to qualify for revitalization or stabilization activity to be part of a government plan. Sometimes local, state, and federal governments are not the drivers of highly impactful revitalization activities. Sometimes nonprofits or anchor institutions take the lead. The responsiveness to local needs should drive the designation for CRA credit, not the nexus to a government plan.

MDIs, CDFI and other Mission-Oriented Financial Institutions

Question 64. Would providing CRA credit at the institution level for investments in MDIs, women-owned financial institutions, and low-income credit unions that are outside of assessment areas or eligible states or regions provide increased incentives to invest in these mission-oriented institutions? Would designating these investments as a factor for an "outstanding" rating provide appropriate incentives?

NCST supports providing CRA credit providing CRA credit for investments and other financial support in MDIs, women-owned financial institutions and low-income credit unions outside of a bank's AA or outside of broader statewide or regional areas. The pandemic has revealed the importance of these institutions as financial "first responders" in LMI areas, particularly communities of color. Yet their assets remain low relative to many other financial institutions.

We further support designating these investments as a factor for an "outstanding "rating" to incentivize them, but only in the context where the final rule maintains High and Low

Satisfactory subtest ratings and comprehensively evaluates bank community development financing inside and outside AAs.

Question 67. Should banks receive CRA consideration for loans, investments, or services in conjunction with a CDFI operating anywhere in the country?

NCST supports banks receiving CRA consideration for loans, investments, or services in conjunction with a CDFI operating anywhere in the country. Accordingly, we also recommend the following:

- Bank examiners should include in assessment of qualitative factors, including performance context and impact scores, banks' responsiveness to the needs of CDFIs headquartered or operating primarily within their AAs or eligible states/regions.
- The Board should consider providing additional credit for loans, investments or services in conjunction with a CDFI operating anywhere in the country where said activity involves a commitment by the national CDFI to partner with one or more local/regional CDFIs (e.g., joint loan participation in individual projects, co-administration of local/regional loan funds, provision of 'back office'/'shared services' support, etc.)

Question 69. Should the Board expand the geographic areas for community development activities to include designated areas of need? Should activities within designated areas of need that are also in a bank's assessment area(s) or eligible states and territories be considered particularly responsive?

NCST supports Board's inclusion of designated areas of need to expand the geographic areas in which a banks community development activities would be eligible for credit. We recommend that activities within designated areas of need that are also in a bank's assessment area(s) or eligible states and territories be considered particularly responsive. We support Board's proposal that these designated areas of need must be updated on short, regular intervals (such as on a biennial basis as proposed in the ANPR). (REVIEW AGAIN AND ADD MORE)

Question 70. In addition to the potential designated areas of need identified above, are there other areas that should be designated to encourage access to credit for underserved or economically distressed minority communities?

We encourage the Board to consider providing additional credit for community development activities in especially vulnerable census tracts within designated areas of need (e.g., particularly low income, highly segregated, distressed housing stock, significantly lower levels of community development financing than other areas within designated area of need). (REVIEW AGAIN AND ADD MORE)

Options to Provide Additional Certainty About Eligible Activities

Question 71. Would an illustrative, but non-exhaustive, list of CRA eligible activities provide greater clarity on activities that count for CRA purposes? How should such a list be developed and published, and how frequently should it be amended?

NCST supports the development and publication of illustrative, but non-exhaustive, list of CRA eligible activities provide greater clarity on activities that count for CRA purposes. We recommend the list be developed in consultation with CRA stakeholders and be updated periodically. New activities should be added to the list as innovations in the banking industry emerge, and activities should also be removed or refined as circumstances warrant.

Question 72. Should a pre-approval process for community development activities focus on specific proposed transactions or on more general categories of eligible activities? If more specific, what information should be provided about transactions?

NCST would support a pathway for banks to seek pre-approval of activities prior to fully underwriting a project. This pre-approval mechanism would provide added certainty that can allow banks and nonprofits to work together more efficiently and effectively.

Conclusion

NCST applauds the Federal Reserve's careful, balanced, evidence-approach to CRA modernization and we look forward to serving as a partner in this effort to modernize the Community Reinvestment Act regulations. Please contact me at ksiglin@stabilizationtrust.org if you wish to discuss these comments. Thank you for your consideration of NCST's views.

Sincerely,

Kristin Siglin
Vice President of Policy & Partnerships