



February 16, 2021

The Honorable Board of Governors of the Federal Reserve System,

DreamSpring appreciates the opportunity to comment on Docket R-1723 and RIN numbers 7100-AF94, the “Advanced Notice of Proposed Rulemaking (ANPR) on Reforming the Community Reinvestment Act Regulatory Framework.” DreamSpring strongly supports a Community Reinvestment Act that effectively addresses systemic inequities in access to credit and expands financial inclusion. Our comments reflect a commitment to a community development finance industry in which banks and Community Development Financial Institutions (CDFIs) are important partners in expanding access to capital and credit, particularly for historically underserved populations.

Striving to exist at the intersection of compassion and capitalism, DreamSpring is a nonprofit organization that believes human potential is unleashed when all people have the opportunity to shape their own future. We exist to break down systemic barriers that inhibit that reality. We provide small business loans, personalized assistance, and a source of ongoing support and encouragement to people who build businesses that strengthen communities.

With a high-tech, high-touch approach, DreamSpring delivers capital and counsel to help underserved entrepreneurs realize their American Dream. To date, DreamSpring has provided more than 17,250 small business loans totaling over \$210 million to fuel the dreams and success of entrepreneurs across 685 communities. DreamSpring is certified by the U.S. Department of the Treasury as a Community Development Financial Institution (CDFI) and is one of only 3% of charitable organizations in the U.S. to receive 10 consecutive four-star ratings from Charity Navigator. DreamSpring has twice been the recipient of the national Access to Capital award from the Minority Business Development Agency of the U.S. Department of Commerce.

DreamSpring would like to provide the following comments on the ANPR:

Section I. Introduction: Request for Feedback, Objectives, and Overview

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

DreamSpring agrees with the Board that to “more effectively meet the needs of LMI communities and address inequities in credit access” is the core purpose of the CRA statute and must remain the focus of reform efforts. However, increasing lending, investing and services in communities of color and LMI communities should be listed as an explicit objective of the reform effort. One of the most important ways to determine the success of the efforts should be meaningful increases in bank lending, investing and services in LMI communities and communities of color. The new evaluation framework must be meaningful enough to encourage additional investments in low-wealth communities. The Federal Reserve’s proposal is a step in the right direction, but some aspects must be strengthened to encourage the heightened investment needed to meet our nation’s challenges.

Section II – Background

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?

DreamSpring appreciates the Board seeking feedback on this critical aspect of CRA. The law’s history as civil rights legislation to address the impacts of racial discrimination in banking is highly relevant to the nation’s current challenges. The CRA is rooted in addressing systemic inequity, and it is important that the Board’s proposal focus on increasing lending and investment in communities of color.

Efforts to truly address the racial wealth gap require regulators to meaningfully assess how banks are meeting the financial needs of communities of color. The inclusion of race in the CRA evaluation should not be relegated to “extra credit” or optional as the current proposal largely has it structured. The proposed remedies of considering underserved areas on exams and encouraging more financing to minority depository institutions are insufficient to address systemic inequities.

To ensure capital is flowing to communities of color, at a minimum, lending to people and communities of color should be included in the quantitative evaluation for both the retail and community development financing subtests. On the community development subtest, a performance measure could be the number and percent of community development loans and investments in communities of color.

Section III - Assessment Areas and Defining Local Communities for CRA Evaluations.

Question 9. Should nationwide assessment areas apply only to internet banks? If so, should internet banks be defined as banks deriving no more than 20 percent of their deposits from branch-based assessment areas or by using some other threshold? Should wholesale and limited purpose banks,

and industrial loan companies, also have the option to be evaluated under a nationwide assessment area approach?

DreamSpring shares the concern of Opportunity Finance Network (OFN) that a national assessment area for online banks might leave communities of color or severely economically distressed areas underserved. A national assessment area for online banks would leave open the possibility of service gravitating to areas in which it is easiest to conduct CRA activities rather than areas most in needs of credit and capital. Using a hybrid deposit or lending-based assessment area approach to create local assessment areas for online banks would better mitigate for this possibility.

IV. Tailoring Evaluations Based on Bank Size and Business Model

Question 37. Should the Board continue to define small business and small farm loans based on the Call Report definitions, or should Regulation BB define the small business and small farm loan thresholds independently? Should the Board likewise adjust the small business and small farm gross annual revenues thresholds? Should any or all of these thresholds be regularly revised to account for inflation? If so, at what intervals?

DreamSpring supports the continued delineation of small business and small farm loans based on Call Report definitions of \$1 million or less. This is aligned with the well-documented need for smaller dollar lending for business owners. Increasing the dollar threshold would allow banks to obtain CRA credit for making larger loans likely to have been made in the normal course of business.

VII. Community Development Test: Evaluation of Community Development Financing and Community Development Services Performance

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?

DreamSpring supports evaluating all community development financing under one test. However, it is critical banks report and be evaluated on community development lending and investment activities separately to avoid banks shifting more activity into lending at the expense of critical community development investments.

Question 50. Should volunteer activities unrelated to the provision of financial services, or those without a primary purpose of community development, receive CRA consideration for banks in rural assessment areas? If so, should consideration be expanded to include all banks?

No. Banks should only receive CRA credit for volunteer activities directly related to the provision of financial services or that have a community development purpose. Community development services should be related to financial services or the

regulatory definition of community development (including affordable housing and economic development).

Question 51. Should financial literacy and housing counseling activities without regard to income levels be eligible for CRA credit?

While DreamSpring supports making financial literacy and housing counseling services widely available to the general population, making such activities eligible for CRA credit without regard to income level does not align with the core purpose of the CRA to “more effectively meet the needs of LMI communities and address inequities in credit access.”

Section VIII. Community Development Test Qualifying Activities

Question 57. What other options should the Board consider for revising the economic development definition to provide incentives for engaging in activity with smaller businesses and farms and/or minority-owned businesses?

DreamSpring agrees with the Board that community development activities that support minority-owned, women-owned and other small businesses with revenues of less than \$1 million should receive CRA credit. To encourage additional activity with the smallest businesses, the Board should remove requirements that the businesses create jobs for people residing in a LMI household. Sole proprietorships make up more than three quarters of all small businesses – and businesses owned by people of color are more likely to be sole proprietors.

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

Yes, DreamSpring supports the Federal Reserve’s proposal to allow automatic CRA credit for qualified activities in conjunction with certified CDFIs located anywhere in the country, even outside of the bank’s assessment area. However, the current placement in the evaluation framework is not necessarily sufficient to motivate investment. Activities undertaken in conjunction with a CDFI should count as part of the Community Development Test – not just receive qualitative consideration for moving from satisfactory presumption to outstanding rating.

Similar to the recommendations for MDIs, investments into CDFIs must be meaningful to ensure they reach historically overlooked communities. Banks should get additional credit for working with CDFIs based in or serving designated areas of need and CDFIs serving communities of color, and for providing equity or equity equivalent investments.

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 the transactions?

Both. The Board should provide guidance on broad categories of eligible activities but also, where possible, include examples of specific transactions within those categories. For example, the Board could pre-approve pandemic related small business lending activities as eligible for CRA credit, and then provide the specific example of banks providing lines of credit to CDFIs to make Paycheck Protection Program loans as an eligible community development activity.

Question 88. Should consideration for an outstanding rating prompted by an investment or other activity in MDIs, women-owned financial institutions, and low-income credit unions be contingent upon the bank at least falling within the “satisfactory” range of performance?

Yes, as well as activities undertaken with CDFIs.

DreamSpring is a member of OFN and our comments draw significantly from OFN’s insight and recommendations. We would like to thank OFN for providing a collaborative framework to support its member organizations in the comment process.

DreamSpring deeply appreciates the Board of Governors’ commitment to addressing inequities in credit access and ensuring an inclusive financial services industry. Thank you for this opportunity to provide comment on the ANPR on Reforming the Community Reinvestment Act Regulatory Framework.

Sincerely,
Marisa Barrera
Chief Impact Officer
DreamSpring