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February 16, 2021

Re: Docket R-1723, RIN: 7100-AF94

Dear Board of Governors of the Federal Reserve System,

Business and Professional People for the Public Interest (BPI) submits these comments in response to the Federal Reserve Board's Advance Notice of Proposed Rulemaking regarding the Community Reinvestment Act (CRA). BPI supports an updated CRA that responds to changes in the banking sector. The existing rating system frequently awards "outstanding" and "satisfactory" grades, and yet the current banking system fails to adequately meet the CRA's goal of addressing persistent systemic inequity in the financial system for low- and moderate-income individuals and communities and for people and communities of color. The evaluation process must more meaningfully address systemic inequities in access to credit, expand financial inclusion, and combat redlining, and must ensure that community development financing activities increase the overall long-term housing affordability without promoting gentrification and displacement.

BPI is a public interest law and policy center that strives to resolve compelling issues of social justice and quality of life in the Chicago region, and is the home of the landmark Gautreaux public housing desegregation lawsuit. In this context, BPI works to increase the availability of affordable housing, transform segregated public housing, and revitalize communities. In the many under-resourced communities in which BPI works, a wide range of investments are necessary to counter the decades-long impacts of segregation and disinvestment. Banks and community development financial institutions (CDFIs) are key investors needed to provide the financing for affordable housing, community facilities, small business loans and many other small projects and products to revitalize communities. For example, in communities in which we work, banks and CDFIs have provided key financing for historically preserved affordable rental housing, as well as a new Arts and Recreation Center, a much-needed new grocery store in a public housing redevelopment area, and more. The comprehensive community development efforts underway require a broad range of community inputs in order to be successful. In this context, we provide the following comments.

Explicitly Focus on Racial Equity

Data consistently shows that if income is controlled for as a variable, loan denials correlate to race. The CRA evaluation process should include an explicit focus on promoting racial equity. For example, CRA exams could include performance measures assessing services to people of color and communities of color, such as services that improve the financial outcomes and wealth generation of households of color. In addition, scoring on exams should separate and heavily weight findings from fair lending analysis of disparate lending patterns. When banks are found to have a pattern of racially disparate lending in consumer and small business banking, their scores should be lowered. When banks participate in activities that proactively address racial disparities in lending (e.g., working with community lenders to create mortgage products that increase home ownership rates among low- and moderate-income people of color), that bank should see an increased score.

Reduce the Racial Wealth Gap by Supporting Home Ownership and Small Business Ownership

Home ownership can be an important component of creating household wealth, and promoting home ownership can be a strategy for revitalizing communities suffering from disinvestment in their single-family housing stock. Yet, long-standing disparities in home ownership rates by race and ethnicity illustrate that communities of color have been denied meaningful access to this resource. The CRA evaluation process should include a core component that examines whether banks are providing mortgage and home equity loans that offer a path to affordable, sustainable home ownership. Banks need to be more effective in overcoming barriers to home ownership caused by overly stringent underwriting criteria, appraisal bias, lack of down payment assistance, and other factors. Small business ownership is also an important means to create household wealth. It is important that the CRA evaluation process take into account whether banks are providing affordable and flexible small business credit, savings, and loan products that create a foundation for sustainable businesses to earn healthy profit margins.

Support Affordable Rental Housing That Promotes Long-Term Affordability

Providing CRA credit for financing naturally occurring affordable housing is a constructive idea that could help expand the affordable rental housing stock. This affordable rental housing will also complement local community businesses that provide reasonably priced goods and services for diverse households. However, there must be measures in place to ensure that community development financing activities increase the overall long-term housing affordability in a community and do not promote gentrification and displacement.

BPI applauds the Federal Reserve Board's efforts to update the CRA and encourages the agency to further the goals of the CRA by adopting rules that specifically address racial inequities and support long-term housing affordability.

Sincerely,



Cara Hendrickson
Executive Director



Julie Elena Brown
Senior Staff Counsel