

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

Description:

Comment ID: 138035

From: Community Economic Development Assistance Corporation, Bill Brauner

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Subject: R-1723 Community Reinvestment Act

Comments:

NONCONFIDENTIAL // EXTERNAL

February 16, 2021

Board of Governors of the Federal Reserve System

Sent via email to regs.comments@federalreserve.gov

RE: Community Reinvestment Act Proposed Rulemaking

Docket Number (R-1723) and RIN (7100-AF94)

Dear Governors:

Community Economic Development Assistance Corporation greatly appreciates the Federal Reserve's (Fed) thoughtful and inclusive approach to modernizing the Community Reinvestment Act (CRA) regulations. CRA is a critical tool to meet the credit needs of low income communities and communities of color in Massachusetts and throughout the country. In addition, CRA plays a critical role in the development of affordable rental housing by incentivizing banks both to lend on preferred terms and to invest in the Low Income Housing Tax Credit (LIHTC). Indeed, the LIHTC finances the majority of new affordable rental housing nationwide, with CRA motivating the vast majority of these investments. In 2019, one estimate showed that 73% of all LIHTC investment came from banks motivated by CRA requirements. Strengthening the CRA regulations will improve on these outcomes.

Community Economic Development Assistance Corporation (CEDAC) is a public-private community development finance institution that provides flexible early stage capital financing and technical expertise for community-based and other non-profit organizations engaged in effective community development in Massachusetts. Established in 1978 under Chapter 40H of the Massachusetts General Laws, CEDAC's work supports two key building blocks of community development: affordable housing and early care and education. CEDAC is also active in state and national housing preservation policy research and development and is widely recognized as a leader in the non-profit community development industry.

We support the proposal to establish a separate community development (CD) test but oppose the proposal that the CD lending and CD investments tests be combined. We are very concerned that doing so would disfavor LIHTC investments, which can be complex and expensive for banks to transact and therefore may provide a lower return than CD lending. The Fed also proposes to encourage patient CD lending, which could further favor CD lending over CD investing. Both lending and investment are critical to the affordable housing ecosystem, and the ability to produce new housing would be dramatically diminished if banks are allowed to substitute lending for investing. For this reason, lending and investing must be examined separately, even if they are eventually combined into a single CD rating. In addition, the rules should prioritize annual investments and lending, with patient lending garnering higher impact scores.

The Fed recognizes the importance of addressing racial inequities. It asks the public whether underserved areas should be designated based on high levels of poverty or low levels of retail lending. We support National Community Reinvestment Coalition's designation of underserved census tracts based on low levels of lending which would effectively target neighborhoods redlined because of the historic HOLC classifications.

We also ask the Fed to consider explicitly including race on CRA exams. The agencies have hesitated to do so but we believe that the CRA statute allows this since the law emphasizes banks meeting credit needs in all communities, but particularly underserved ones. CRA exams could include performance measures assessing lending, investing, branching and services to people of color and communities of color. In addition, CRA exams can include racial and ethnic demographic data in performance context analysis and require banks to affirmatively include communities of color in their assessment areas. The Fed could also provide CRA consideration for lending and investing in majority minority census tracts outside of assessment areas just as the Fed is considering for Indian reservations and other underserved areas. Data show that discrimination in lending contributes significantly to racial disparities in small business survival rates

We commend the Fed for proposing data collection on community development activity as current data is insufficient. Standards regarding affordability should not be relaxed and at least 50% of units in a building should be deed restricted at prices that are affordable to low- or moderate-income households in order for a CD loan to qualify for CRA credit for creating affordable housing.

Thank you for the opportunity to comment and for all the Fed's efforts to modernize and improve the CRA regulations in a responsible manner.

Sincerely,

Bill Brauner
Director of Housing Preservation and Policy
Community Economic Development Assistance Corporation