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

Description:

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From: Paul Nasman

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Subject: R-1723 Community Reinvestment Act

Comments:

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Your comment:Thank you for the opportunity to submit comments on proposed revisions to the Community Reinvestment Act [R-1723].

Although my professional background includes a previous position in the credit department of a major bank, my first real attempt at interpreting CRA ratings occurred recently while undertaking an independent research project on the status of Black-owned banks in the United States. What does it mean, for example, when two intermediate small institutions with similar statements of commitment to the community achieve significantly different CRA ratings? Do these ratings really indicate a differential impact on the community? How effective and appropriate are CRA-related incentives? And what should CRA ratings mean to a potential depositor or investor interested in the survival of these institutions?

With reference to these and other questions, the reforms described in the Federal Reserve's Fact Sheet on the Community Reinvestment Act seem appropriate and well-timed.

These areas are of obvious importance:
- Consistent standards and methodologies among regulatory agencies.
- Reduction of the administrative burden on small institutions for data collection and reporting.

In addition, I would encourage attention to the following issues:
- Risk Concentrations. To serve the needs of surrounding communities, smaller banks may seek niche markets where they can be successful. Regulators may require reduction of these concentrations, reducing profitability and capital strength.
- Response to economic downturns. For example during the 2008 housing crisis, community banks were required to get nonperforming loans off the books at a substantial cost to the institution and its ability to support the surrounding community. A structure that would have allowed conversion to rental properties rather than destruction of housing and displacement of families might have benefitted all parties.
- Sensitivity to geographic variation. Due to industry consolidation, small institutions may now maintain a presence in multiple states, and even on both coasts.
- Broadening of services. Retail products can be revamped to support borrower and saver

relationships that more closely meet the everyday needs of their communities. Examples include products that give fraud victims a "second chance" at a checking account, or provide a credit line that advances payroll funds a day or two early. These may provide alternatives to loan sharking and promote banking relationships tailored to customers with limited resources.
- Technical support. Provision of technical support can improve service levels, making community banks more competitive and reducing dependency on multiple branch locations.
- Stories. Community banks have stories. Many of them are readily available and make instructive reading. I suggest this one: One Small Project At A Time'
The former CEO of Chicago's last black-owned bank describes how they built African American wealth, loan by loan.   http ://ec2-204-236-225-241 .compute-1.amazonaws .com/2020/banking/banker/