Indianapolis Neighborhood Housing Partnership

February 16, 2021

Ann E. Misback

Secretary

Board of Governors of the Federal Reserve System

20th Street and Constitution Avenue NW

Washington, DC 20551

Re: Docket No. R-1723 and RIN 7100-AF94 (Advanced Notice of Proposed Rulemaking Community Reinvestment Act)

To Whom It May Concern:

Thank you for the opportunity to comment on the notice of proposed rulemaking (ANPR) regarding modernizing the Federal Reserve Board's Community Reinvestment Act regulatory and supervisory framework.

Throughout its 32-year history, INHP has been dedicated to helping people who are working and have Low-to-Moderate incomes (LMI) achieve long-term, successful homeownership, build generational wealth, and contribute to stabilizing and revitalizing distressed neighborhoods. INHP achieves its mission through three principal interventions:

1. Delivering comprehensive development services aimed at preparing families and individuals for homeownership – Over the last 20 years, INHP has served nearly 30,000 individuals through financial literacy and homeownership education classes, over 4,600 individuals with post-purchase counseling, and over 3,300 families qualify for a mortgage through one-on-one housing counseling.
2. Providing affordable mortgage products to families who are unable to qualify for mortgage funds from traditional lending institutions or in need of a unique products tailored to specific challenges of targeted populations – Since 1988, INHP has closed over $76M in home purchase and home repair mortgages.
3. Financing and developing the supply of affordable homes for ownership - Since 2018, INHP has financed expanded, preserved or upgraded more than 2,100 affordable housing units through lending, grants, and direct investment.

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INHP can tackle tough affordable housing challenges because we are disciplined in our approach and have developed strong public/private partnerships that provide maximum impact to the families we serve and neighborhoods in which they choose to live. Banks work with INHP by providing critical and strategic grants, low-cost debt, equity and expertise on a wide range of affordable housing and community development projects. CRA has been indispensable to our work and the partnerships we have formed.

The Community Reinvestment Act (CRA) was enacted in 1977 to prevent redlining and to encourage banks to help meet the credit needs of all segments of their communities, including low- and moderate-income neighborhoods and individuals. The CRA extended and clarified the long-standing expectation that banks will serve the convenience and needs of their local communities. Over the years, CRA has given banks the incentive to engage with nonprofits such as INHP to improve the lives of LMI people and the neighborhoods in which they choose to live and has been an enormously successful public policy.

We agree with the objective outlined in the ANPR "to more effectively meet the needs of low- and moderate-income (LMI) communities and address inequities in credit access." Over the past 40 years, CRA has helped bring affordable housing, small businesses, jobs, and banking services to underserved communities. Any modernization must build on this successful record.

INHP urges the Federal Reserve Board (the Board) to do the following.

1) Work with the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) to adopt a consistent CRA regulatory framework;

2) Recognize the original intent of the CRA and ongoing racial inequality by including race as an explicit factor for CRA evaluations;

3) Ensure that CRA modernization encourages continued investment in effective community development activities.

Importance of a Consistent CRA Framework

INHP agrees with the Board's stated goal of "increasing clarity, consistence and transparency of supervisory expectation and of standards" and do not think this can be achieved without a consistent CRA regulatory framework agreed to by the Board, the OCC and the FDIC. Consistency across bank charter type, size and business model is key to achieving uniform application of the CRA obligation. In the Board's "Fact Sheet on the Community Reinvestment Act Advanced Notice of Proposed Rulemaking", the Board stated its desire to have this ANPR "provide a foundation for the agencies to converge on a consistent approach that has broad support among stakeholders." INHP applauds this goal and welcomes continued opportunities to engage with the Board and the other agencies during the CRA modernization process.

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

INHP agrees with the Board the main objective of CRA is to “more effectively meet the needs of LMI communities and address inequities in credit access”. We believe this must remain the focus of reform efforts. We would like to see consistency across banking regulators and recommend increasing lending, investing and services in communities of color and LMI communities to be added as an explicit objective of the reform.

Recognizing Racial Equity as a Core Purpose of CRA

As the ANPR states “Congress enacted the CRA in 1977 primarily to address economic challenges in predominantly minority urban neighborhoods that had suffered from decades of disinvestment and other inequities. Many believed that systemic inequities in credit access—due in large part to a practice known as “redlining” –along with a lack of public and private investment was at the root of these communities’ economic distress.” INHP appreciates the Boards inclusion of this critical context in the ANPR along with the recognition that addressing systemic racial inequities in the banking system was the core purpose of the CRA legislation. The systemic inequities CRA was designed to address are still with us today. INHP urges the Board to consider race in all aspects of CRA modernization.

Question 2: In considering how the CRA’s history and purpose related 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?

The CRA was created to address the impacts of racial discrimination in banking. It is rooted in addressing systemic inequity. However, all too often CRA has used income as a proxy for race, which is insufficient when the goal is to address deeply entrenched systems of racial inequity. It is imperative the Board’s proposal focus on increasing lending and investment in communities of color.

To effectively combat lending inequities, regulators must be able to track and assess how banks are meeting the financial needs of communities of color as a central purpose of CRA and not simply as extra credit. INHP suggests providing CRA credit for banks that invest in CDFI products that directly address racial inequity.

III. Continued Investment in Effective Community Development

CRA has encouraged investments that can transform communities. Absent the affirmative obligation in the statute those investments would not have happened. INHP appreciates the importance the Board has placed on these activities by creating a separate community development test. In rewriting the CRA rules, the Board should be careful not to rewrite in such a way as to unintentionally discourage community development investment and innovation.

Question 13. Is $750 million or $1 billion an appropriate asset threshold to distinguish between small and large retail banks? Or should this threshold be lower so that it is closer to the current small bank threshold of $326 million?

INHP opposes the ANPR's proposal to increase the threshold for small banks from those under $326 million in assets to either $750 million or $1 billion since the community development test would apply only to large retail banks and wholesale and limited purpose banks. The increase in small bank threshold would serve to increase the number of banks exempt from the community development test, which will almost certainly result in a decrease in community development investment across all areas including communities of color.

Question 42: Should the Board combine community development loans and investments under one subtest?

INHP believes there is a risk of removing any incentive for a bank to participate in proven community development equity investments, which includes the Low-Income Housing Tax Credit, New Markets Tax Credit and grants to community-based organizations by combining under one subtest. It is critical any new community development test be designed so banks are not encouraged to favor community development debt products over community development equity products. The impact measurements proposed in the ANPR should be used to ensure banks continue to invest and lend to community development activities at least equal to current levels of investment. Any new evaluation framework must be meaningful enough to continue to encourage impactful investments and innovation.

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?

INHP experience is that some activities have more benefits for communities than others. Accordingly, INHP supports providing an impact score for each community development loan and investment individually. Impact scores should be used to account for responsiveness, innovation and complexity. The ANPR recommends a scale of one to three to measure impact but does not provide sufficient detail about which activities would qualify for a one, two, or three as an impact score.

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

Because of the core importance of housing to the purpose of CRA and the racial inequality, the Board should require banks to maintain a certain minimum level of new lending and investment in affordable housing. Examples of activities that could qualify include LIHTC equity investments and investments in and/or loans to housing-focused CDFIs.

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

INHP supports the Board'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, activities undertaken in conjunction with a CDFI should count as part of the community development test and not simply receive qualitative consideration for moving from satisfactory presumption to outstanding rating. Banks should also get additional credit for working with CDFIs based in or serving designated areas of need, predominately communities of color, and for providing equity or equity equivalent products.

IV. Conclusion

As the economic uncertainty brought on by the pandemic continues to plague our country, the role of CRA investments in vulnerable communities is more important than ever. If you wish to discuss any points in this letter further please contact Rob Evans, Executive Vice President of Homeownership Initiatives at revans@inhp.org. Thank you for your consideration of our comments.

Sincerely,

Rob Evans
Executive Vice President, Homeownership Initiatives