Charleston, SC 29413-0577
T: 843.579.9855
F: 843.579.0232
www.SCACED.org

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SCACED Comments on 2022 CRA Proposed Rulemaking

The South Carolina Association for Community Economic Development (SCACED), a 28 year old statewide coalition of individuals and organizations who support the development of healthy and economically sustainable communities throughout South Carolina, appreciates the opportunity to comment on the Notice of Proposed Rulemaking (NPR) regarding updating the Community Reinvestment Act (CRA). This NPR represents the most significant changes to the CRA regulation and exams in 27 years, and we commend the OCC, FDIC, and Federal Reserve coming together to bring CRA into the 21st century.

CRA will be more effective in bolstering bank reinvestment activity in underserved communities, the more rigorous CRA exams and ratings are. The NPR proposed some significant improvements in test rigor but the improvements are not across the board on all aspects of exams. The items listed below are areas SCACED believes the agencies should reexamine.

The NPR does not go far enough to explicitly consider race and ethnicity of bank customers and communities. Persistent racial disparities in lending should compel the agencies to incorporate race and ethnicity in CRA exams. A recent national level analysis showed continuing disparities in loan denials by race and when people of color received home loans, their equity accumulation was less. The National Community Reinvestment Coalition (NCRC) had asserted in a paper that it is possible for changes to CRA to comply with legal standards if CRA examined lending by race and ethnicity in geographical areas experiencing ongoing discrimination. By including race and ethnicity, CRA can identify and address persistent racial disparities that have direct impacts on quality of life and health outcomes.

The asset categories for banks as proposed (large, intermediate, small) will notably reduce community development financing, particularly in rural areas and small cities. The proposed bank asset sizes move about 900-1000 banks into a lower asset category than they would occupy under the status quo. And regulators have chosen to reduce community development responsibilities for banks in smaller asset categories. Research from NCRC estimates that well over $1 billion in community development financing could be lost as a result. If that estimate proves to be anywhere close to accurate, it would be a significant failure for the regulating agencies.

The newly formed "Retail Lending Assessment Areas (RLAA)" must be subject to a community development test. We strongly urge regulators to reconsider community development responsibilities in RLAAs. The NPR outlines how RLAAs would be formed in entire MSAs or the non-MSA area of a state. Those area sizable chunks of geography for which banks should have some level community development responsibility, even if only a version of the status quo community development test.

The community development financing test for intermediate banks must be required, not optional. Under the proposal, intermediate banks are subject to a status quo community development test or the option for the new community development finance test. SCACED urges regulators to make all intermediate banks subject to the community development finance test. Subjecting both large and intermediate banks to the new test creates consistency among banks and examiners, and it provides others in the community development industry (non-bank investors, funders, community development nonprofits, public officials, researchers, and others) with a consistent understanding of how banks are regulated on their community development activity.

Assessment areas are expanded to include online lending but performance in smaller areas needs to be considered more carefully. For several years, advocates have urged the agencies to examine lending that occurs online. The agencies proposed to create retail assessment areas where a large bank does not have branches when a bank has issued 100 home loans or 250 small business loans This proposal would result in the great majority of total lending being incorporated on exams and would therefore hold non-traditional banks more accountable for serving LMI communities.

Enhancements to community development definitions will increase responsiveness of banks to community needs. The agencies proposed refinements to the definitions of affordable housing, economic development, climate resiliency and remediation, community facilities and infrastructure that we believe will more effectively target revitalization activities to communities such as persistent poverty counties and Native American communities.

Data improvements will help hold banks accountable but all new data should be publicly available. The agencies correctly proposed to include new data collecting requirements for deposits, community development activities and automobile lending. Some of this data such as deposit and automobile lending would not be publicly available, which limits the extent to which the public can hold banks accountable for reaching underserved communities. We ask the agencies to reconsider this decision and also to expand data collection to all large banks instead of just banks with assets of more than $10 billion in the case of deposits and automobile lending. Finally, CRA exams should not only analyze access to deposits accounts for LMI communities but also affordability by comparing and refining, if necessary, fee information collected in call report data.

As stated, the more rigorous the CRA exams and ratings are, the more effective reinvestment into low wealth communities will be. The NPR is a good start, and we applaud the 3 bank regulators for moving collaboratively in developing these proposed rule changes. But we encourage the agencies to go beyond the status quo to make a generational impact on the communities that continue to be underserved. Thank you for the opportunity to submit commentary.

Sincerely,

[redacted]

Kate Pratt,
Vice President for Operations
SC Association for Community Economic Development

Providing innovative and sustainable solutions for low-wealth communities in South Carolina