



OFFICE OF THE ILLINOIS STATE TREASURER  
MICHAEL W. FRERICHS

August 5, 2022

James P. Sheesley  
Assistant Executive Secretary  
Attention: Comments RIN 3064-AF81  
Federal Deposit Insurance Corporation  
550 17th Street, NW  
Washington, DC 20429

RE: RIN 3064-AF81

I am writing to provide my perspective as the Illinois State Treasurer on the joint proposed rulemaking put forth by the Board of Governors of the Federal Reserve, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation to modernize the Community Reinvestment Act (the "CRA") regulations (the "Proposed Rule"). I appreciate this unified effort to review how the CRA is being implemented in light of technological advances in the banking industry and an ongoing need to strengthen the core purposes of the statute.

As Treasurer of the State of Illinois, I have committed to ensure my office's investment policies support the goals of the CRA. My office uses CRA ratings as a tool to evaluate partnerships with financial institutions. I recently championed legislation, which is now law in Illinois, that requires public funds to be deposited only in financial institutions that receive "Satisfactory" or "Outstanding" CRA ratings and allows a preference for those that receive "Outstanding" ratings. In addition, my office is in the process of launching a loan guarantee program for underserved small business borrowers by partnering with banks that invest in communities of color and low-income communities. My comments on the Proposed Rule focus on specific aspects of the proposal most relevant to my office's work.

Strengthening the Impact of the CRA

A great deal of work remains to ensure that capital and banking services are available to all people and communities on an equitable basis. Significant disparities in lending and services continue to restrict access to the financial system for communities of color. For example, a national analysis of 2020 Home Mortgage Disclosure Act ("HMDA") data by the National Community Reinvestment Coalition found that the conventional private mortgage market is underserving Latinos, African Americans, and Native

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Americans.<sup>1</sup> These communities' proportionate shares of the home mortgage lending market were each about 50% or less of their demographic representation.<sup>2</sup> In my state, a 2020 investigative report by a Chicago media outlet revealed significant disparities in lending across neighborhoods in the city that were strongly correlated with race.<sup>3</sup>

I echo concerns I have heard from constituent organizations that the Proposed Rule should do more to incorporate race and ethnicity into the CRA examination process. Although the Proposed Rule would require the agencies to publish HMDA data, detailing lending by race and ethnicity in large bank assessment areas, this analysis would not become part of a bank's CRA rating. The agencies should consider ways to account for racial disparities in access to loans and banking services in the exam criteria.

The Proposed Rule takes some important steps to address changes in the banking industry and enhance the examination process. The agencies propose to expand assessment areas to account for large banks that make a significant number of loans outside of areas where they have branches. This change should help to capture more lending activity within the scope of CRA exams.

Additionally, the Proposed Rule enhances the retail lending test component of the large bank CRA exam, including by creating a points system to distinguish between higher performers and lower performers on the exam subtests and incorporating comparisons between a bank's lending activities and market or community benchmarks into the exam. CRA ratings will be a more valuable tool for evaluating a bank's reinvestment in the community if there are greater distinctions between banks that are strong performers and banks that are not. Under the current framework, about 98% of banks pass their CRA exams with almost 90% receiving a rating of Satisfactory.<sup>4</sup> The changes to the retail lending test in the Proposed Rule allow for the community to better distinguish performance between banks. Further enhancements to the community development financing and retail services and products portion of the exam would allow for clearer distinctions to be drawn between banks' performances relative to their peers. This information would be valuable for programs like those in the Illinois State Treasurer's Office that seek to align their activities with banks that are reinvesting in low- and moderate-income ("LMI") communities in an impactful way.

The Proposed Rule also makes changes to the bank asset thresholds, and I am concerned about the effect these changes could have on community development activity. In the Chicago area, the changes under the Proposed Rule would result in one bank being reclassified from large to intermediate, as well as six others being reclassified from intermediate to small. While these may not be large banks overall, this reclassification still means a potential loss of community development and services for already underserved populations, as these banks would have fewer obligations under the CRA.

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<sup>1</sup> See Richardson, Jason, Joshua Devine, Jamie Buell, Dedrick Asante-Muhammad. *NCRC 2020 Home Mortgage Report: Examining Shifts During COVID-19*, NCRC, January 2022, available at <https://ncrc.org/ncrc-2020-home-mortgage-report-examining-shifts-during-covid/>.

<sup>2</sup> See *id.*

<sup>3</sup> See Lutton, Linda, Andrew Fan, Alden Loury. *Where Banks Don't Lend*, WBEZ, 3 June 2020, available at <https://interactive.wbez.org/2020/banking/disparity/>.

<sup>4</sup> See Josh Silver and Jason Richardson, *Do CRA Ratings Reflect Differences in Performance: An Examination Using Federal Reserve Data*, NCRC, May 2020, available at <https://ncrc.org/do-cra-ratings-reflect-differences-in-performance-an-examination-using-federal-reserve-data/>.

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## Targeting Financial Literacy Activities for LMI Communities

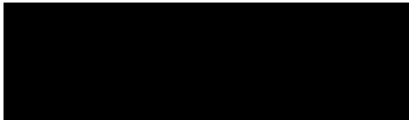
Financial literacy is a key component of expanding access to financial tools and capital. While I support the express inclusion of financial literacy activities among the categories of activities eligible to receive CRA credit, the proposal currently includes all financial literacy activities, without consideration of whether they are specifically targeted to LMI participants or communities. Encouraging banks to engage in financial literacy programming where the primary purpose is to benefit LMI individuals or families would better align with the goals of the CRA.

### Data Collection

Lastly, I support the agencies' proposal to include new data collection requirements in the Proposed Rule, particularly around deposit products. More data will help us to better understand gaps in services; however, the agencies should consider how to make the data publicly available. Collecting this information is a step in the right direction, but transparency will allow the public to play a role in working towards greater progress.

I appreciate the opportunity to provide my perspective on this Proposed Rule. I look forward to continuing to engage with the agencies involved in modernizing the CRA to enhance banking practices and investment in all Illinois communities.

Sincerely,



Michael W. Frerichs  
Illinois State Treasurer

CC: Board of Governors of the Federal Reserve System  
Department of the Treasury, Office of the Comptroller of the Currency

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