



Comments for Notice of Proposed Rulemaking (NPR) for CRA Reform 2022

Purpose

The purpose of this paper is to provide a collective Operation HOPE (HOPE) response to the 2022 Notice of Proposed Rulemaking (NPR) for Community Reinvestment Act (CRA) Reform framework presented by the Office of the Comptroller of the Currency (OCC), the Federal Reserve Board (Board) and Federal Deposit Insurance Corporation (FDIC). The concepts presented in this document represent the synthesized ideas of HOPE partners, sponsors, staff, volunteers, and employees. This collective commends the efforts of the OCC, the Board, and the FDIC to address the reforms necessary to increase and improve the breadth and effectiveness of the CRA.

Innovative CRA Change

To help level the economic playing field, reduce the growing wealth disparity and address the increasing needs of low-and moderate-income (LMI) individuals and communities, now is the time to update and expand CRA. HOPE and its financial services partners recognize and applaud the recent efforts of the OCC, the Board and the FDIC and its proposed framework for change.

The CRA began with the concept that banks should lend in their communities, but over the decades the original intent has been over-burdened with complexity in its application, reporting and measurement. From Operation HOPE's perspective, the question remains simply, "Are the banks making strategic and impactful investments to underserved communities and empowering low- and moderate-income (LMI) individuals and communities by enhancing financial literacy and improving access to the financial system?" To help answer that question, HOPE and its partners believe that more types of activities should count toward CRA, such as investments in:

- Developing, distributing, and updating Mobile applications and web-based technology programs that deliver financial coaching, financial education, and entrepreneur training programs that can be readily understood by a wide-range of individuals in several languages regardless of their formal educational level.
- Supporting the delivery of financial coaching services for both individuals and small businesses to ensure that they are financially literate and have the basic knowledge and tools to participate in the financial community intelligently and actively by making informed decisions for themselves, their families, and their businesses.
- Supporting the delivery of financial coaching services for survivors of natural disasters – which recently and steadily increase with climate change including individuals, families, and small business owners in LMI communities across the country.

- Providing disaster preparedness programs that help prevent families from experiencing financial catastrophe in the event of a natural disaster.

CRA Background

The Community Reinvestment Act was enacted to encourage banks to meet the credit and deposit needs of the communities that they served. Passed into law in 1977, the CRA was enacted to expand opportunity to all Americans, recognizing that the national banking system, as private enterprises, enjoyed the distinct and unique advantages of being FDIC-insured. Implemented as a response to concerns surrounding redlining and disinvestment, CRA guidelines ensured that banks provided services to all communities, including low- and moderate-income (LMI) communities. Banks are assigned a CRA rating by one of the primary regulators based on the bank's performance under the appropriate CRA tests or because of an approved strategic plan. CRA was also enacted to have financial institutions provide the "capital required for local housing and economic development needs."

CRA has helped revitalize communities in historically underserved zip codes through loans, investments and philanthropy. Since 1996, banks covered by the CRA have invested more than \$980 billion to support affordable housing developments, small business development, job creation, social services, and neighborhood stabilization. By incentivizing financial inclusion, CRA makes homeownership, entrepreneurship and even basic banking services more accessible to underserved communities, and thereby narrows the racial wealth gap.

The Community Reinvestment Act has encouraged banks to lend fairly and responsibly for over 30 years. To receive a high CRA rating, banks must meet the financing needs of as many members of their community as possible and must not discriminate against racial and ethnic groups or certain neighborhoods. However, a bank cannot receive a high rating unless it also maintains "safe and sound banking practices" [Community Reinvestment Act]. In other words, the CRA requires banks to lend to working-class families and people of color, but only when those people have been deemed credit-worthy. Most participants in the CRA process (lenders, regulators, and community groups) have come to interpret the law as imposing an affirmative obligation on lenders to provide credit to residents throughout their business service area.

Specific Recommendations for Community Development Services Test

The combination of the historic growing wealth divide, the disproportionately negative financial impact caused by the pandemic, the increase in the number and severity of natural disasters and challenging current economic conditions, have all taken a devastating toll on low- and moderate-income individuals across the US.

In addition, the expansion of digital financial services, has significantly altered the geographic distribution of physical banking locations. All these factors, highlight the need for new approaches for determining and calculating CRA credit for financial institutions. HOPE and its partners strongly support the proposed revisions for the broadening of the Community Development Services Test provisions and believe that a number additional services and

products should be considered for inclusion in the calculation of a financial institution's Community Development Services Test score. These would include:

- 1) Any contributions towards broadly enhancing financial literacy programming including, but not limited to, creating digital programs, in-person programs, and volunteer hours to help individuals of all ages in LMI communities on the importance of financial literacy to as a way to enhance their ability to understand and participate in the US economy.
- 2) Providing direct financial support to non-profits or other organizations who are creating such financial literacy products and services to serve LMI communities (so that banks do not have to create their own competing programs de novo).
- 3) Providing financial support and technical expertise to assist with financial disaster recovery efforts not only in the banks' geographic areas of service but also and especially in LMI communities that are impacted by natural disasters across the country whether the financial has a physical location that geography, or not.
- 4) Making strategic investments in disaster preparedness programming either by the bank itself or those programs developed by recognized and reputable non-profits who create such financial well-being and financial resiliency programming to help LMI individuals and communities be better prepared for natural disasters.
- 5) Permitting financial institutions seeking CRA credit to provide employees to volunteer in efforts to promote financial literacy disaster preparedness and response and have those hours directly count as a contribution to LMI communities.

Operation HOPE has been providing these types of services to LMI communities for over 30 years and intimately understands the importance and impact that these services can have on LMI communities across the country. HOPE's impact includes:

- 1,642,987 adult clients served through 2021 (all programs including credit, small business, homeownership/foreclosure, disaster preparedness and disaster recovery)
- 984,174 youth served with financial literacy education and youth entrepreneur programs
- 75% of HOPE clients received credit and money management coaching and education
- 11% of HOPE clients received small business and entrepreneur training coaching and education
- 11% of HOPE clients received homeownership and/or foreclosure coaching and education
- 37% of HOPE clients received disaster preparedness education
- 9% of HOPE clients received disaster recovery coaching and education

Despite these impressive accomplishments, Operation HOPE and other organizations like ours face the constant struggle of having adequate financial resources to be able to provide programming to all of the LMI individuals in need across the United States.

By permitting banks of all sizes to obtain CRA credit for their commitments of money and time to address this systemic financial inequity issues facing the LMI communities through partnering with not-for-profit organizations, like Operation HOPE, a significantly larger proportion of the community in need could be reached much more quickly, consistently, and cost-effectively.

Operation HOPE and our coalition of partners strongly believe that “a rising tide floats all boats” and therefore strongly encourage that a bank’s efforts to support the financial advancement of LMI individuals, communities, and businesses across the country should be recognized regardless of the bank’s geographic location.

In an age, especially post pandemic, where more people are looking to do interactions online for health, safety, convenience and economic reasons (e.g. increasing gas prices), we believe that every effort should be made and investments encouraged to promote digital learning around financial education, disaster preparedness, and disaster recovery.

We do recognize, however, that there is no substitute for in-person coaching and mentorship and therefore strongly recommend that banks who encourage their employees to volunteer in providing financial literacy, and disaster financial preparedness and recovery skills to LMI individuals and communities, be given CRA credit under the Community Development Services Test standard. Bank employees with their variety of talents from traditional retail banking and lending expertise to marketing, IT, accounting, and other skills, represent a vast reservoir of knowledge that would be beneficial to LMI communities and that they should be strongly encouraged to share their skills with those in LMI communities as volunteers.

Conclusion

We applaud the FDIC, OCC, and Federal Reserve Board for their forward-thinking efforts to expand the CRA program and believe that the new rules as proposed will go a significant way towards helping to address the financial inequities that have plagued the LMI community for years and limited LMI individuals and businesses from making a larger and more significant contribution to the US economy. In addition, we believe that stronger and more widely available financial literacy, financial disaster preparedness and financial disaster recovery programs specifically focused on the unique needs and challenges of the LMI community, will also help decrease the unbanked and underbanked population, improve credit scores, decrease debt, increase savings, and improve access to homeownership with the broader goals of increasing financial security, enhancing financial dignity, and improving inter-generational wealth transfer, all factors which can result in broader participation in the US economy, enhanced educational attainment, increased homeownership, and the development and expansion of small businesses across the US, which have a beneficial impact on driving America’s future financial growth.