Red River Valley Habitat for Humanity®

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Office of the Comptroller of the Currency (OCC)

RE: Docket ID OCC-2018-0008 (Community Reinvestment Act Regulations)

To Whom It May Concern:

The Red River Valley Habitat for Humanity appreciates the opportunity to share its perspective on how proposed changes to the Community Reinvestment Act (CRA) as outlined in the OCC and FDIC's Notice of Proposed Rulemaking would impact access to homeownership, credit, and financial services for the lower-income families and communities we serve. While we appreciate the need to modernize the CRA, we have strong concerns about several proposed changes, as described below.

The Red River Valley Habitat for Humanity serves Grand Forks, ND. The median cost of housing in Grand Forks, ND is $172,700 (2016), but almost 20% of Grand Forks residents are living in poverty (Census, 2017). Using the 2019 Office of The Assistant Secretary for Planning and Evaluation poverty guidelines, a family of four in Grand Forks, ND earning $25,750 annually would pay, for a 30 year 3% interest rate mortgage, about $730 per month for a house selling at the median cost. That's 34% of their total monthly income, leaving little room for utilities, transportation, childcare, education, nutritious food or healthcare. It's also important to take into consideration that many low-income residents may have lower credit scores if they've had to apply for credit multiple times and may not qualify for a low interest rate of 3%. A higher interest rate would mean higher monthly payments, forcing the household to stretch their limited budget even further. Habitat for Humanity is able to offer affordable housing to partner families without having to compromise on the condition of the house. This allows partner families to focus on education and wealth accruement and gives them an opportunity to pull themselves out of poverty and find economic opportunities that allow them to utilize their skills in a beneficial capacity for the community.

In our service community, we find that most financial assistance for non-profit organizations comes from bank grants and CRA credits. Our affiliate has used Wells Fargo recently to rehabilitate a water damaged home for an immigrant family of six who are currently living in a two bedroom, low-income, dilapidated apartment while they wait for their house to be completed for move-in. Wells Fargo granted us $8,500 for the repairs and sent a group of volunteers to assist with the removal and clean up of water damaged sheetrock. Because of the assistance from the volunteers, an 8-10 hour work day turned into a 5 hour day. Because of the awarded money, new sheetrock can be installed and the house prepped for sale. Allowing those credits to be used for superficial charitable purposes is disrespectful to the LMI communities that need it the most.

The Community Reinvestment Act was created in 1977 to ensure that banks meet the credit and banking needs of the entire communities in which they are located. While Habitat recognizes the need to modernize the CRA, any changes made to the Act must ensure that there remains a consistent and transparent system that meets the credit needs of low- and moderate-income people. Several proposed changes threaten this core objective:

Proposed Single-Ratio Metric

The proposed "single-ratio" metric for assessing CRA compliance raises significant concerns for Habitat. Under this proposal, a bank's lending, investment, and financial service performance would be assessed primarily by the overall dollar volume of CRA activities as a percentage of total bank deposits. This represents a significant shift away from the current practice of assessing the number of loans originated and evaluating performance based on the relationship of investment and lending activities to local credit needs. Emphasizing dollar volume, without regard to type of investments, will favor larger and easier loans at the expense of lower-value loans, such as mortgages used by lower-income homebuyers to purchase a home. This new assessment metric could also lead to large national banks focusing their activities in neighborhoods with higher property values given that mortgages in these areas would more quickly generate the volume needed to reach an adequate ratio of CRA activities to deposits. Accordingly, the proposed single-ratio metric could have a significantly negative impact on Habitat's ability to extend affordable homeownership opportunities to partner families, especially in under-served communities.

Habitat is also concerned that the proposed single-ratio metric significantly reduces the importance of placing bank branches in low- and moderate-income communities. Currently, bank branch locations and local volunteering make up one-quarter of a bank's overall assessment score. The new, proposed single ratio metric applies a factor of .01 to local financial service performance, reducing bank presence and activities in LMI neighborhoods to a tiny factor in achieving a passing grade. By our calculations, a bank with a quarter of its branches currently in LMI communities that decides to close all of those branches would only reduce its ability to achieve a passing assessment grade by 4%. We believe this will likely lead to significant branch loss in LMI communities, a decrease in lending to small businesses if not also to local homebuyers, and more unbanked residents in LMI communities.

Passing Grade Only Needed in 51% of Assessment Areas

Proposed changes to the CRA will allow banks to receive a strong overall rating with a passing grade in only 51% of their assessment areas. This is deeply concerning, as it could mean that a bank could choose to ignore the credit needs of half of its assessment areas, and still receive an outstanding rating.

Giving Banks Credit for CRA Activity Located Outside of their Assessment Areas

Habitat for Humanity is concerned that the Proposed Rulemaking would allow credit for CRA activity outside of banks' assessment areas regardless of performance in their assessment areas. We believe this will further enable and encourage banks to shop nationally for the largest possible deals in which to focus their CRA activities, at the expense of smaller loans and investments that are more responsive to local needs, including those of lower-income homebuyers.

Changes to Eligible Activities

Lastly, Habitat for Humanity is troubled that the Proposed Rulemaking significantly expands the list of activities that would be eligible for CRA credit, including such uses as athletic stadiums and bridges that are not directly related to lending to low-income homebuyers or small businesses or to ensuring the availability of financial services in low- and moderate-income communities. Of further concern are eligibility changes that involve:

· Relaxing the definition of affordable housing to include middle-income housing in high-cost areas;

· Granting CRA credit to financial education services for middle- or high-income individuals;

· Eliminating neighborhood stabilization as part of the definition of community development;

· No longer requiring eligible activities to primarily benefit low- and moderate-income communities; and

· Assuming housing to be affordable if lower-income people can afford to pay the rent, even if it is not actually available or occupied by lower-income people.

These eligibility changes stray far from the CRA's original purpose and will likely draw lending capital away from the lower-income homebuyers with whom we partner—especially if coupled with a shift to a dollar-volume-based metric that favors large single loans over smaller-value loans.

Grand Forks, ND has a high immigrant population, people who traveled a long way from conflict to the land of opportunity. Those communities are at risk of being ignored by banks under the proposed changes. America will have the opportunity to revert to Redlining under the proposed changes. The burden non-profit organizations already feel will double and their funding will be reduced.

Habitat for Humanity is deeply concerned that the Proposed Rulemaking would significantly reduce access to credit for qualified, low- and moderate-income homebuyers in the communities we serve, while reversing progress made to revitalize historically under-served and distressed communities.

The combined effect of: 1) measuring CRA activity primarily by total dollar volume; 2) allowing banks to ignore virtually half of their assessment areas and still receive outstanding performance ratings; and 3) expanding eligible activities to include stadiums, bridges, middle-income housing, and other activities that do not primarily benefits LMI communities or residents, will significantly undermine banks' incentives to meet the credit needs of every low-income community in which they take deposits, and to make capital available to the lower-income homebuyers with whom we partner.

We call on the OCC and FDIC to revise its Proposed Rulemaking—or to start over if necessary—to ensure that any modernization of the Act will not reduce the availability of lending, investments, and financial services for low- and moderate-income homebuyers, small businesses, and communities. The OCC, FDIC, and Federal Reserve’s revised rulemaking should increase bank activity in underserved neighborhoods, not reduce incentives for banks to invest in distressed markets. Any changes to the CRA need to ensure continued availability of credit to all areas and all members of LMI communities, including lower-income homebuyers with smaller-dollar mortgages.

Thank you for your attention to these concerns.

Sincerely,

Marisa Sorensen
Executive Director
Red River Valley Habitat for Humanity