April 7, 2020

Comments regarding "Reforming the Community Reinvestment Act Regulatory Framework"

RE: RIN 1557-AE34, Federal Register Number 2019-27940, Docket ID OCC-2018-0008

My name is Hope Knight and I am the President and CEO of the Greater Jamaica Development Corporation (GJDC). GJDC is a non-profit that works to plan, promote, coordinate, and advance responsible development to revitalize Jamaica, New York and Southeast Queens.

I am writing regarding the OCC and FDIC's Notice of Proposed Rulemaking (NPR) seeking input on proposed changes to the Community Reinvestment Act (CRA).

As the leader of an economic development organization in a formerly redlined community, the CRA is foundational to my work. I have studied the NPR in detail, and had the honor of helping to lead a tour of Jamaica for Comptroller Otting and the OCC.

I strongly oppose the ideas presented in the NPR that would significantly weaken the CRA, leading to less investment in formerly redlined communities like Jamaica.

The CRA had helped Jamaica, Queens Recover from Disinvestment

Jamaica, Queens shares a similar history with many other urban communities of color across the United States. Redlined in the 1930s, Jamaica struggled to attract private investment for over half a century. In the 1960s and 1970s, Jamaica's economic base further eroded as white flight to the suburbs drained the downtown core of residents and businesses. The culminating disinvestment left Jamaica in a vicious economic cycle: a structural impediment to attracting private capital prevented Jamaica's residents from getting loans to buy homes and start businesses, which limited opportunities to build wealth and grow jobs and, as a result, created an additional economic barrier to attracting private capital.

Targeted federal programs, like the CRA, have helped to start a reversal of this cycle in Jamaica. Recently, and owing in part to their interest in securing CRA credit, banks financed transformative development in Jamaica, including projects that will bring more affordable housing and good jobs to residents of Southeast Queens. As a Community Development Financial Institution, GJDC has been able to lend to small businesses with help from banks' contributions, often given to meet CRA obligations. This work on responsible development and small business assistance has helped grow Jamaica's economy and attract the kind of private capital it once lacked.

However, despite this progress, Jamaica still bears the legacy of redlining, suburban flight, and disinvestment. Many areas of Jamaica remain banking deserts. On our tour with Comptroller Otting, we passed miles long stretches in densely populated corridors with no bank branches. With few bank branches, Jamaica's residents rely on expensive bank alternatives like check cashers and high-fee ATMs at corner stores. Potentially catalytic projects—like efforts to build hotels and other businesses to support the nearby JFK International Airport—struggle to secure financing. Low-income residents have difficulty accessing loans. Jamaica also remains vulnerable to economic crises. For instance, community members were hit hard by the Great Recession. If changes are made to the CRA that dilute its impact, Jamaica will struggle against such economic headwinds and the recent progress growing Jamaica's economy will be put at risk.

Given the current Covid-19 pandemic and the crippling effect it is having on small businesses, particularly those in communities of color, we cannot afford any other threats to Jamaica's economic progress.

The Proposed CRA Reform Will Hurt Jamaica, Queens and Other Similarly Situated Communities

With regard to the NPR, I am particularly concerned by several proposals, including those that will broaden assessment areas, redefine what activities count for CRA credit, increase the maximum size of the small business loans, and decrease the focus on bank branches. Additionally, I believe that the uncertainty and lack of clarity caused by two competing sets of CRA regulations will decrease lending activity and put a burden on the kind of financial institutions best suited to serve communities like Jamaica: small Minority Depository Institutions (MDIs).

Assessment areas: The proposal greatly expands where banks can get CRA credit, allowing banks to investment more outside of local assessment areas, which minimizes local community needs and partnerships. Under the new proposal, banks can get a low or failing grade in half of their assessment areas and still pass their CRA exam if they meet their target dollar goals for the entire bank. The bank-level evaluation combines CRA-qualified dollars loaned invested in all the assessment areas combined, as well as qualified activities anywhere, regardless of assessment area. While some of these areas may need investment, that investment cannot come at the expense of the obligation to meet local needs. Further, all investments, regardless of location, should be analyzed for their impact on historically redlined communities.

Activities that garner CRA credit: The proposal expands what counts for CRA credit with activities that help larger businesses and higher-income families, as well as activities that barely benefit lower-income people or communities and others that could displace these communities.

Size of small business loans: The proposed regulation raises the maximum size of a small business loan from $1 million to $2 million. For purpose of obtaining CRA credit, large deals are likely more attractive to banks. However, in Jamaica, Queens many small businesses that need financing would not be able to accommodate a loan of $2 million. Increasing the size of small business loans may freeze out small businesses from financing they need to grow.

Bank branches: Retail banking is of paramount importance to neighborhoods like Jamaica. However, and as Comptroller Otting mentioned after his tour of Jamaica, there are areas in Jamaica served by few or no bank branches. Without branches, many Jamaica residents depend on high cost of physical alternatives like corner store ATMs and check cashing services. Although there has been a proliferation of e-banking and other online fintech services, the nation's persistent "digital divide" creates a barrier to accessing such e-services for those in low-income census tracks. Additionally, low- and moderate-income (LMI) individuals benefit from the kind of person-to-person financial services offered at banks. The NPR eliminates the current large bank service test and examination of basic banking accounts for LMI customers instead of making the service test better. Bank branches in LMI communities are also devalued considerably under the one ratio approach. For example, a bank with a high 30% of their branches in LMI census tracts, would only receive an addition of .3 percentage points in the one ratio. Moving to this approach will greatly diminish the importance of bank branches in CRA compliance, which will likely lead to significant branch loss in LMI communities and a decrease in lending.

Regulatory clarity: By moving ahead on proposed regulatory changes without the Federal Reserve Board, the OCC and the FDIC would create a two-tier regulatory system that adds complexity and confusion to an already complicated sector. While larger money center banks may be able to navigate this added burden of complexity without too much difficulty, smaller financial institutions may be hit hard. Small MDIs—which, in my experience, are particularly well suited to helping LMI people and districts—tend to put a premium on local customer service while having less internal infrastructure to handle regulatory confusion and uncertainty.

Conclusion

The banking industry has changed since the 1970s and it is reasonable that regulations will also need to change to meet new realities. In my experience, I have been fortunate to work with many banks on CRA eligible projects and have often found our partners to be good-faith actors. We would be happy to support changes to CRA regulations that allow for banks to have more creativity in working with communities to meet changing needs—such as giving CRA credit for capitalizing MDIs or offering pre-development financing to non-profits. However, the changes to CRA regulations currently proposed by the OCC and FDIC will hurt economic progress in LMIs areas and undermine the anti-redlining intent of the CRA. As such, I opposed the changes described in the NPRM and ask the OCC and FDIC to reconsider their proposed regulatory overhaul.

Sincerely,

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