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July 28, 2022

Acting Comptroller Michael J. Hsu
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

Acting Chair Marin J. Gruenberg
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Chair Jermone H. Powell
Board of Governors of the Federal Reserve Bank
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

RE: Community Reinvestment Act [Docket ID OCC-2022-0002; Docket No. R-1769 and RIN 7100-AG29; RIN 3064-AF81]

To Whom It May Concern:

This letter is in response to the release of the Interagency Notice of Proposed Rulemaking (NPR) by the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Commission (FDIC) and the Federal Reserve Board regarding the Community Reinvestment Act (CRA). The California Association of Microenterprise Opportunity (CAMEO) appreciates this opportunity to comment on the Federal Interagency Rulemaking Proposal to the Community Reinvestment Act.

CAMEO is the statewide network of entrepreneurial training programs and small business microlenders in California. CAMEO is California's statewide network made up of over 300 organizations, agencies, and individuals dedicated to furthering microbusiness development in the state. Annually, CAMEO members serve about 84,000 very small businesses with training, business and credit assistance and loans. These firms – largely start-ups with less than five employees – support or create 101,000 new jobs in California and generate a total of $7.5 billion in economic activity. We appreciate efforts by federal agencies to make thoughtful changes to the Community Reinvestment Act through this proposed rulemaking. However, we believe that this was a missed opportunity to address racial inequities that persist in our communities. Federal regulators must adopt explicit race-based criteria that holds banks accountable to serving communities of color.

The rule explicitly references the practice of redlining and emphasizes the lasting impact of redlining on communities of color, including a persistent racial wealth gap. The proposed rule states that "even with the implementation of the CRA and the other complementary laws, the wealth gap and disparities in other financial outcomes remain persistent. For example, 'data from the 2019 Survey of Consumer Finances (SCF) show that long-standing and substantial wealth disparities between families in different racial and ethnic groups were little changed

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since the last survey in 2016; the typical White family has eight times the wealth of the typical Black family and five times the wealth of the typical Hispanic family.'

In 1968, a decade prior to the enactment of the CRA, a typical middle-class Black household had $6,674 in wealth, contrasted to a typical middle-class white household which had $70,786 in wealth. Data from 2016 shows that the racial wealth gap is actually ***expanding***: a middle-class Black family has $13,024 in wealth, in comparison to a middle-class white family's $149,703 in wealth.

Racist public policies led to a need for CRA, so explicitly race-based criteria that hold banks accountable to serving communities of color is necessary to genuinely address decades of race-based disinvestment. Right now, the proposed rule lacks a proper consideration of race.

CAMEO proposes the following ways to include race analysis in CRA exams:

1. Assessing bank performance through percentage of home lending to Black, Indigenous, and people of color borrowers,
2. Use race to determine additional assessment areas,
3. Analyze lending by race and ethnicity in underserved neighborhoods in all CRA exams (including community development financing and retail lending),
4. Considering a bank's creation and deployment of Special Purpose Credit Programs,
5. Use Section 1071 race data on small business lending in CRA exams.

These recommendations should both increase transparency of the context in which banks are doing business, and reward or penalize banks for failing to meet the needs of communities of color.

Economic inequities persist among communities of color: The last time the CRA was substantially updated was in 1995. Since then, the financial system has changed, with expanded online banking and interstate lending, while racial disparities in lending and wealth creation have persisted or worsened. The modern day impacts of redlining on communities of color are visible in the continued denial of home mortgage loans, higher interest rates and fees, predatory lending, higher home insurance rates, and lower home appraisals. These racial disparities point to a need to implement bold changes to the CRA that target increasingly overburdened communities. This is the time to ensure that underserved communities are accessing the investments and capital they need to build wealth and financial security.

Currently, women of color account for 89% of new businesses opening every day; Black women are more likely to launch a new business than a white person, but Black entrepreneurs are twice as likely to be denied a bank loan than a white entrepreneur. The COVID-19 pandemic accelerated the wealth gap. Prior to the pandemic, Black entrepreneurs were more commonly rejected from formal financial banks loans. During the pandemic, Black entrepreneurs were systematically left out of PPP loans. In addition, 41% of Black-owned businesses, 36% of Latinx-owned businesses, and 25% of AAPI-owned businesses went under in the first three months of the pandemic.

The racial wealth gap is also present in homeownership. In the second quarter of 2020, the U.S. Census Bureau shows data that Black Americans have the lowest rate of homeownership. Black Americans have a 47% rate of homeownership, compared to white Americans having a

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rate of 76%. Data from the Home Mortgage Disclosure Act (HMDA) shows that in 2020, lenders denied mortgages for Black applicants at a rate 80% higher than white applicants. Home equity is often used as a means for small businesses to access capital. If they don't own homes, they don't have home equity.

The Community Reinvestment Act has been effective: The CRA was conceived as a direct response to redlining, and has proven critical to ensuring fair access to credit for all. In fact, since 1996 banks covered by the CRA have invested more than $980 billion in historically underserved zip codes. The CRA has served as a public accountability and powerful motivator for banks to increase their reinvestment activities over the years.

A whopping $728.5 billion in mortgage lending went to LMI borrowers in the Los Angeles, San Diego, San Jose, and San Francisco areas with $21.6 billion going to businesses and $78.8 billion going to small businesses.

Community Benefits Agreements are a tangible way banks can make an impact in our communities, and are incentivized to do so by receiving CRA credit for their investments. A vast majority of CAMEO members are funded by banks under the CRA investments in business assistance and capital. As mentioned above these investments generate real economic activity and jobs.

Other suggestions are as follows:

Since CRA requires banks to meet the needs of communities, the agencies must elevate the importance of public comments regarding the extent to which banks meet needs. The agencies proposed to continue the current practice of sending any comments on CRA performance to banks and are also considering publishing comments received on agency websites. We urge the agencies to post comments on their websites and also to establish a public registry for community organizations to sign up if they wish to comment on CRA performance. In addition, we ask that the agencies publish a list of organizations that comment and that the agencies identify those led by people of color and women in an effort to seek input from a diverse range of organizations.

The agencies bolstered the rigor on the large bank retail lending test by introducing performance ranges for comparisons among a bank's lending and demographic and market benchmarks. This approach would decrease ratings inflation and result in more failing and low satisfactory ratings on the lending test. As a result of this proposed reform, several banks would likely respond by boosting their retail lending to underserved communities. The other large bank tests such as community development finance and services include improvements but need to be further developed to guide examiners against inflating ratings.

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. We ask the agencies to reconsider this decision and also to expand this data collection to all large banks.

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Advocates have urged the agencies to examine lending that occurs online. The agencies proposed to create 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 banks more accountable for serving low- and moderate-income communities. However, the agencies must further ensure that exams do not overlook assessment areas containing smaller metropolitan areas and rural counties.

The agencies proposed to eliminate certain subtests for about 1,000 medium-sized and smaller banks that would eliminate their accountability for providing community development finance and branches in underserved communities. These changes lack justification since these banks have been successfully performing these activities for several years. We urge the agencies to eliminate this aspect of the NPR since it would reduce reinvestment activity.

The last time the CRA was substantially updated was in 1995. Since then, the financial system has changed, with expanded online banking and interstate lending, while racial disparities in lending and wealth creation have persisted or worsened. Women of color are 89% of the new small business owners. Black entrepreneurs are twice as likely to be denied a loan by a bank. These data points show the importance of the CRA, and if enacted properly can be a major boon to entrepreneurs of color. These racial disparities point to a need to implement bold changes to the CRA that target increasingly overburdened communities. If we don't have this data, the Federal Reserve does not have this data, and the banks don’t have this data how can we make strides to economic improvement for entrepreneurs of color? This is the time to ensure that underserved communities are accessing the investments and capital they need to build wealth and financial security.

Questions regarding this letter and our support may be addressed to my attention.

Most Sincerely,

[redacted]

Heidi Pickman
VP, Engagement and External Relations