

November 10, 2014

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Robert E. Feldman,
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Attention: Comments
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RE: Interagency Questions and Answers Regarding Community Reinvestment (OCC Docket ID OCC-2014-0021, Federal Reserve Docket No. OP-1497)

This comment is submitted by the Center for American Progress (CAP), a progressive, nonpartisan think tank dedicated to improving the lives of Americans through ideas and action. As part of its activities in developing policies to reduce poverty and ensure a stable middle class, CAP considers public issues that concern the financial well-being of low- and moderate-income households, and promotes a financial system that works for all Americans.

CAP appreciates the opportunity to comment on the Agencies' proposed changes to the Community Reinvestment Act Q&As. We consider the Community Reinvestment Act one of the most critical tools in the policy arsenal for ensuring that financial institutions serve all communities, and we share your desire to make it as effective as possible. Overall, we support the proposed changes to the Q&A, but we do have some suggestions and concerns we hope you will consider as you move forward in this process.

1. Recognize the Appropriate Balance Between Bank Branches and Alternative Services Delivery

With the advent of new technologies, the role of bank branches is changing. Branches are shrinking across the board, with an increased focus on automated services and technology rather than teller windows, and in nine states and the District of Columbia, it is estimated that more adults have cell phones than bank accounts.¹ It is clear that new platforms, including mobile banking, will be necessary as part of financial inclusion efforts.

The increased role of technology has the potential to expand, rather than reduce, financial access even in branches' absence. For example, prepaid card provider NetSpend has reported that 40 percent of its consumers load funds onto their cards outside of traditional banking hours, which reaffirms that branches alone do not create an integrated delivery system.²

Notwithstanding technological advances, branches are important community anchors, and the proposed guidance must strike a fine balance between encouraging alternatives and accelerating the abandonment of branches. The fact that the overwhelming majority of recent branch closings have been in low- and moderate-income communities does exacerbate long-standing concerns about the availability of affordable banking services in distressed communities.³ Indeed, a recent geographic analysis of bank branch locations by the Pew Charitable Trusts estimated that 3.5 million Americans live in Census tracts more than ten miles away from a branch, and within densely-populated areas, over 3 million Americans do not have a branch within one mile of their Census tract.⁴

For this reason, we recommend that the proposal strike a more nuanced balance between branches and alternative delivery systems. Below, we outline some suggestions for doing so.

- a. **Apply alternative service delivery measurement factors to branch services as well.** The factors identified by the Agencies to measure the usefulness of alternative delivery systems—ease of access, cost to consumers, range of services delivered, ease of use, rate of adoption, and system reliability—are sound. Yet these same factors could equally be applied to branch activities in order to assess delivery platforms on a more equal footing, particularly given the trend toward greater automation in branches. High-cost or otherwise inconvenient branch services are not more beneficial to consumers than poorly utilized alternative delivery platforms; both should be subject to scrutiny. The objective of this effort should be to encourage high-quality service delivery through both branch-based and alternative approaches.
- b. **Require rigorous external validation of alternative service adoption in addition to financial institutions' internal data.** The Agencies propose assessing the success of alternative service delivery options by relying on internal data from financial institutions on customer use of these services. While these data provide valuable information about customers, they do not provide insights into the usage patterns of noncustomers in the community and as a result, they do not reflect the entire underserved population. As part of examiners' assessment of community outreach, bank findings of financial services usage by customers should be validated by experiences of the broader community.

- c. **Appropriately count alternative service delivery through intermediaries, such as community-based organizations, that provide person-to-person interaction akin to branch activity.** In underserved communities intermediaries can expand financial access. While these intermediaries cannot provide all of the services that a branch would, they provide an alternative delivery channel that offers the aspect of face-to-face engagement and education of the customer that a branch would ideally include. Such intermediaries represent an opportunity to ensure that low- and moderate-income people can appropriately access and use new technologies. We recommend expanding and rewarding collaborative efforts that provide this type of personal engagement.

2. Support the Development of Flexible, Innovative Small-Dollar Credit Alternatives

We appreciate the efforts made by the Agencies to support innovative or flexible lending programs, especially those that act as small-dollar loan alternatives. The definitions in the new Q&As that include incorporating financial counseling, tying borrowing to linked savings accounts, and using alternative credit histories in underwriting are all positive steps, and we expect that these definitions may expand the supply of new and innovative products in this market.

We have previously asked for expanded CRA consideration of bank alternatives to high-cost, predatory payday and auto title loans and firmly believe—as the FDIC has tested through its small-dollar credit pilot—that financial institutions have an obligation to provide affordable, responsible credit to the extent possible.⁵

In terms of credit reporting, it is absolutely the case that traditional credit reporting often fails to capture successful long-term financial behaviors. Due to long-standing structural inequities, many consumers, especially people of color, have credit scores that do not accurately reflect their willingness and ability to make timely payments. We support looking to alternative data points such as rent payments when developing a credit score or engaging in loan underwriting. However, we strongly caution against the use of alternative data sources such as social media activity that may have potential correlates to financial behavior on a macro level, but that will serve to perpetuate structural inequities and potentially penalize consumers based on their social group or family of origin.

3. Encourage Better Jobs and Prevent Displacement

In many instances, CRA has spurred community development activities that have ultimately resulted in job creation and revitalized communities. However, given increasing concern about the growing wage gap, future actions under CRA should encourage the creation of quality jobs and not merely low-wage jobs. Job growth should reflect the potential not just for employment per se, but for wages adequate to allow employees the economic mobility to escape poverty and enter the middle class.

The proposed Q&As take a valuable first step in supporting the creation of quality jobs through the revisions to the economic development test. Two additional actions would further this goal. First, job creation and job quality measures should be considered throughout all job-related community development activities undertaken under CRA, regardless of business size. Employers that expand access to living wage jobs for low- and moderate-income individuals should be rewarded. In addition, development efforts should not result in displacement. Consequently, we recommend that the assessment of CRA community development activities also consider the possibility of displacement and the likelihood of new jobs being filled by local residents.

4. Revisit the Geographies of Assessment Areas

We recommend that future efforts consider that while CRA is designed to benefit distressed locations and underserved populations, these benefits may currently flow disproportionately to some distressed communities and leave out others. Financial institutions and community development advocates alike have noted that the location of deposits no longer accurately reflects the full scope of a financial institution's activities, yet the Community Reinvestment Act continues to assess banks based on deposit-taking and, by extension, the presence of branch locations. Despite the importance of branches, as mentioned above, lending increasingly takes place outside of the areas where an institution has branches, particularly as the mortgage and small-business credit markets have become more national in reach and the Internet has facilitated the availability of financial services regardless of physical location.

Conclusion

Thank you again for the opportunity to comment on this proposal. If you have any questions or would like to discuss anything in this letter in more detail, please contact Joe Valenti, Director of Asset Building, at jvalenti@americanprogress.org, or Julia Gordon, Director of Housing Finance and Policy, at jgordon@americanprogress.org.

Sincerely,

Center for American Progress

Endnotes

¹ Joe Valenti and Deirdre Heiss, “Financial Access in a Brave New Banking World” (Washington: Center for American Progress, 2013), available at <http://www.americanprogress.org/issues/economy/report/2013/10/16/77016/financial-access-in-a-brave-new-banking-world/>; Joe Valenti, “Expanding Financial Access Through Mobile Banking” (Washington: Center for American Progress, 2014), available at <https://www.americanprogress.org/issues/economy/report/2014/06/13/91727/expanding-financial-access-through-mobile-banking/>.

² Bailey Reutzell, “Prepaid Card Use Shows More Differences From Bank Habits,” *American Banker*, April 9, 2013, available at http://www.americanbanker.com/issues/178_68/prepaid-card-use-shows-more-differences-from-bank-habits-1058162-1.html.

³ Frank Bass and Dakin Campbell, “Bank Branches Disappear From Poor Neighborhoods Like Longwood, Bronx,” *Bloomberg BusinessWeek*, May 9, 2013, available at <http://www.businessweek.com/articles/2013-05-09/bank-branches-disappear-from-poor-neighborhoods-like-longwood-bronx>.

⁴ Pew Charitable Trusts, “The Geography of Banks and Post Offices,” presentation during July 16, 2014 forum on Financial Services and the Post Office, available at http://www.pewtrusts.org/~media/Assets/2014/07/FIN_Presentation-of-Pew-Research--The-Geography-of-Banks-and-Post-Offices.pdf.

⁵ Joe Valenti, “Encouraging Responsible Credit for Financially Vulnerable Consumers” (Washington: Center for American Progress, 2014), available at <https://www.americanprogress.org/issues/economy/report/2014/07/10/93459/encouraging-responsible-credit-for-financially-vulnerable-consumers/>; Federal Deposit Insurance Corporation, “A Template for Success: The FDIC’s Small-Dollar Loan Pilot Program,” *FDIC Quarterly* 4 (2) (2010): 28-41, available at http://www.fdic.gov/bank/analytical/quarterly/2010_vol4_2/FDIC_Quarterly_Vol4No2_SmallDollar.pdf.