

March 4, 2020

RE: Notice of Proposed Rulemaking, Community Reinvestment Act Regulations

To Whom It May Concern:

My name is Jaidan Pattermann and I am writing on behalf of Justine PETERSEN to express our opposition to the proposed changes to the Community Reinvestment Act (CRA) set forth by the OCC and FDIC agencies. Despite declarations from the agencies that the proposed changes would enhance CRA activity as well as clarity in CRA exam standards and performance measurements, we firmly believe these changes would effectively decrease the ability to publicly hold banks accountable and ensure they are meeting the credit needs of low- and moderate income (LMI) communities. The guiding intent of CRA law is to expand access to and the availability of mainstream banking services and products in LMI communities, a lack of which has systematically plagued communities across the country, including St. Louis. The consequences of these changes would undermine both the letter and spirit of the CRA and would mean substantial decreases in financial services to LMI communities that have historically been excluded from these financial resources and institutions.

Justine PETERSEN is a nonprofit organization that strives to provide people with financial empowerment. This is accomplished by giving individuals opportunities to create new futures for themselves and their families by helping them become and stay homeowners, start and run successful businesses, access education, and begin and manage personal savings programs. Justine PETERSEN serves community members in the St. Louis area, but also partners with other organizations to connect individuals outside the service area to appropriate resources.

Justine PETERSEN helps unbanked and underbanked individuals establish strong credit profiles so they can graduate to mainstream financial services and create better lives for themselves and their families. The organization has helped thousands of low-wage individuals achieve life-changing goals since it was founded in 1997, in honor of the late Justine M. Petersen, a pioneer in community reinvestment in St. Louis.

Furthermore, Justine PETERSEN has very recently launched a Gateway Neighborhood Fund which removes barriers caused by the appraisal gap by providing loans to qualified borrowers to purchase and renovate homes in communities with depressed home values in the city of St. Louis.

The proposed changes from the OCC and FDIC would significantly reduce the ability for Community Development Financial Institutions, including Justine PETERSEN, to utilize the CRA in their mission to revitalize communities through reinvestment. Because the CRA and Justine PETERSEN's supposed goals are so closely aligned, it is concerning that the proposed changes seem detrimental to those goals.

## **One-Ratio**

One of the proposed changes that leaves our organization immensely concerned is the single metric assessment approach, referred to as the “one ratio”, which would strictly look at CRA dollars spent as the method of assessing banks’ CRA performances. This approach would encourage banks to take the largest and easiest deals in order to meet the ratio, at the risk of neglecting smaller and more complex deals that address specific local needs. Banks may neglect partnerships between nonprofit and public sector entities since they may feel that they can more easily meet CRA obligations with a few large deals in each Assessment Area. This appears as a loophole for banks to meet CRA requirements with little effort in revitalizing low income areas.

For example, Justine PETERSEN partners with many banks when it comes to credit building products including secured credit cards and small loans. We are concerned that the single metric approach disincentives banks from engaging with community partners like ours to address real community needs through innovative and responsive work. This clearly does not align with Congress’ intentions, when they passed the CRA. As it currently stands, 98% of banks already pass CRA exams. Implementing this one ratio approach, while also expanding CRA eligible activities, would simply just increase the probability and ease with which banks can meet these standards, but not how they are serving local community needs.

## **Expansion of CRA Eligible Activities**

The NPRM broadens what bank activities are CRA eligible in such a way that is counter to the spirit and intent of the CRA, meeting the credit needs of low- and moderate-income individuals and communities. For instance, under these proposed rules, banks could receive CRA credit for financing athletic stadiums in Opportunity Zones or providing financial education for any income level, which includes middle- and upper- income levels. Furthermore, the redefining of affordable housing to include middle-income housing in high-cost areas will be a large disadvantage when it comes to meeting our goal of reinvesting in low-income neighborhoods. If funds are consistently being utilized to build in already high-cost areas, this further depresses lower-income neighborhoods making it even harder for our clients to locate housing loans in these areas. Affordable housing for LMI people is a critical need in our community. The OCC and FDIC should not expand the definition of affordable housing to include middle-income housing, nor loosen the standard for verifying that housing is being used by LMI tenants. This would mean that activities and services not specifically targeted to meeting the needs of LMI communities, which is the true purpose of CRA law, would qualify as CRA activities. Broadening the eligibility of CRA activities would not increase actual community reinvestment to LMI communities, but would instead dilute the focus of CRA and shift away from responding to local community needs.

## **Retail Lending Test**

An additional concern is the proposed changes to CRA examination procedures that make the retail lending test pass or fail. In contrast, the current retail test has ratings that count for much more of the overall rating, including home mortgage lending. The elimination of criterion and

implementation of a pass or fail rating system would set the bar for lending to LMI borrowers extremely low. This would result in less loans and access to credit for LMI borrowers despite a huge need for more LMI lending, and would also deemphasize the need for mortgage lending, an essential tool for wealth-building in LMI communities. Additionally, eliminating the service test that scrutinizes bank branching and provision of deposit accounts to LMI customers would likely result in branch closures in many LMI areas where they are already numbered. Physical bank branches are still a high need, especially in St. Louis where many LMI communities are still located in banking deserts.

Furthermore, the examination system proposed in the NPRM would afford banks the ability to fail in almost half of all assessment areas while still receiving a passing CRA grade overall. In regions like St. Louis where the rate of growth is smaller in comparison to other regions such as Kansas City, this could present adverse impacts on the decisions banks make in choosing to invest in certain areas over others. It would give banks incentives to invest in bigger and easier areas, versus LMI communities thus doing nothing to advance growth where it is desperately needed in our area. This disappearance or lack of bank investment would compromise the community development work in LMI and communities of color and dramatically lessen the CRA's focus on LMI communities in contradiction to the intent of the law to address redlining. This new examination system would detract investment in LMI neighborhoods and allow banks to instead invest in community development initiatives in more affluent neighborhoods and still receive passing grades. Along with the proposed changes, those that are recognized as "Outstanding" in meeting CRA requirements will be able to go five years until their next CRA exam, instead of 2-3 years as it currently stands. This would likely cause banks to delay engagement in CRA and community development activities until the latter portion of the five-year timeline. As a result, Justine PETERSEN would see a reduction in financial assistance from banks which is essential for meeting the needs of our clients.

### **Small Business**

Along with credit-building services and home-ownership counseling, Justine PETERSEN also provides comprehensive micro-enterprise lending and training. This service is meant to empower individuals through entrepreneurship and is a popular option for those with poor credit along with returning citizens who are often unable to locate steady employment. If the revenue size for defining a small business was to be raised from \$1 million to \$2 million as the proposed changes suggest, this would reduce the funds available to our clients who are truly starting small businesses from the ground up. Competition for funds would be even tighter if family farms were included as CRA beneficiaries as proposed as revenues of those farms can be as high as \$10 million.

In St. Louis alone, it is predicted that these changes would result in St. Louis City and suburban St. Louis County losing as much as \$382 million in annual lending activity. LMI and communities of color within St. Louis have historically suffered from discriminatory lending practices and inability to access assets and credit building products. Potential homebuyers and small business owners already face a myriad of hurdles to access capital for investments in the region's majority-minority neighborhoods. Losing access to this lending could have a devastating impact on neighborhoods and both increase disinvestment that the CRA was enacted

to counter. Additionally, these changes will also encourage investments in areas that don't face the credit market limitations that the CRA was enacted to counteract.

In conclusion, we believe that this misconceived and flawed proposal would result in undercutting the efforts made since the 1977 passage of the Community Reinvestment Act to increase lending, community development, and investment in LMI communities and communities of color. The FDIC and OCC are obligated under the CRA to ensure that banks are held accountable and equitably serving community needs. After careful review of the proposal, we can only conclude that implementing the NPRM would go against the obligations of these agencies under the CRA.

Sincerely,

Jaidan Pattermann



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