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RE: Community Reinvestment Act Regulations
RIN 3064-AF22: Notice of Proposed Rulemaking,
Docket ID OCC-2018-0008

To Whom It May Concern:

I am writing as a public interest attorney who has worked on housing-related issues for our most vulnerable and marginalized community members for my entire career. I strongly oppose the proposed changes to the Community Reinvestment Act (CRA) regulations. According to FDIC Board member Martin Gruenberg, the FDIC's and OCC's Notice of Proposed Rulemaking (NPRM) on the Community Reinvestment Act (CRA) "is a deeply misconceived proposal that would fundamentally undermine and weaken the Community Reinvestment Act." The CRA is an essential Act that provides necessary protections for local communities regarding their credit needs, particularly those who are low and moderate income (LMI). The proposed changes to the CRA would substantially weaken the protections in place and have devastating consequences.

As noted above, I have spent my career-to-date addressing housing-related issues faced by LMI communities in particular. I work for a non-profit fair housing organization located in northern California that provides foreclosure prevention counseling and education to homeowners experiencing mortgage distress as well as pre-purchase counseling to first-time homebuyers, often individuals who are racial/ethnic minorities, have disabilities in the household, and/or are LMI. We also provide direct client counseling to renters and homeowners alleging discrimination in housing based on their membership in a protected class, such as their race, color, national origin, disability, familial status, religion, and/or sex/gender. We also advocate regarding the duty to affirmatively further fair housing, meaning taking proactive steps to address the barriers in housing and segregated living patterns we see today. We are also currently involved in a number of lawsuits related to banks' failure to properly maintain and market REO properties in communities of color. In sum, our day-to-day work and the clients we serve would suffer tremendously should the proposed changes to CRA's regulations go forward.

The protections provided by the current CRA rules help promote new homeownership for first-time homebuyers, increase the development and preservation of affordable housing – which is a dire need – and increase consumer access to bank branches and affordable banking products for these LMI communities who are generally provided unequal access and need such protections in place. The changes proposed would cause such protections to deteriorate at a time when they are needed the most. We are currently in the midst of a pandemic (COVID-19),

which affects all communities regardless of wealth, race, national origin, location, and so forth; however, it is clear that marginalized communities will suffer a greater consequence. The full scope of this pandemic and its effects are unknown at this time but we have already seen a concentration of issues from LMI communities and homeowners/tenants who are people of color. The negative consequences following the pandemic are certainly going to affect local communities in different ways and will fall disproportionately on LMI communities, requiring that banks continue to assess and meet local community needs, particularly the needs of LMI communities for homeownership, affordable rental housing, and branches and affordable bank accounts that can help keep families away from predatory services. However, the proposed changes to CRA rules will weaken these protections in alarming ways, removing the focus on local communities and needs of those who are LMI.

Please end this rulemaking. Please end this rulemaking for the sake of the low income communities and communities of color that we serve and that are what CRA is all about.

Less accountability, less public input, less clarity, less investment.

Moving away from a core CRA principle, less focus on LMI. The agencies would dramatically lessen CRA's focus on LMI people and communities in contradiction to the intent of the law to address redlining in and disinvestment from LMI and communities of color. The NPRM proposal would expand what counts to allow bank CRA credit for things like financial literacy classes geared towards upper income people. Even though 95% of businesses have less than \$1 million in revenue, and need financing under \$100,000, the proposal would double existing thresholds, allowing banks to get even more CRA credit for loans of up to \$2 million to businesses with up to \$2 million in revenue. And banks could get credit for loans as high as \$10 million for family farms, even though the vast majority of family farms are much smaller.

Moving away from a core CRA principle, less focus on local communities.

Acknowledging displacement, but worsening the problem. The proposed rule purports to address displacement, but only exacerbates it. The definition of affordable housing would be relaxed to include middle-income housing (for people with incomes up to 120% of area median income) in high-cost areas. In addition, the NPRM would count rental housing as affordable housing if LMI people could afford to pay the rent, even if the actual tenants are not low or moderate income. Worse still, banks would get credit for financing athletic stadiums, storage facilities, and luxury housing in Opportunity Zones, which will only fuel gentrification in the very communities vulnerable to it.

Weakening CRA's emphasis on branches and deposit products. CRA has rightly maintained a focus on whether banks have a branch presence in LMI communities, and whether banks make their products accessible to all consumers. But this proposal provides almost no incentive for banks to maintain and open LMI branches, and it seems to do away entirely with any consideration of whether banks are offering affordable bank account and other consumer products, such as payday alternative small dollar loans and age friendly account products,

which are needed by LMI and senior communities. The result of this proposal will be fewer bank branches in LMI and rural communities, and LMI consumers turning more to predatory check cashers and payday lenders.

Failing to downgrade banks for harm. Sadly, redlining and discrimination are still with us. But this proposal does nothing to address this fact, and may very well lead to more redlining as banks are allowed to fail to serve some of their assessment areas. OCC policies provide more excuses than the other regulators for banks that show evidence of discrimination, discourage double CRA rating downgrades for violations of law, and allow banks that discriminate and redline to still pass their CRA examinations. CRA rules should provide greater scrutiny of, and punishment for, evidence of discrimination, and provide CRA rating downgrades for other forms of harm to the community, such as the financing of displacement. Under this proposal, if regulators are to consider giving banks positive credit for the activities of their affiliated companies, they must scrutinize the affiliated companies for evidence of discrimination, displacement and harm, and downgrade CRA ratings accordingly.

Developing a complicated and weaker evaluation system. The agencies propose an evaluation system that would further inflate ratings while decreasing the responsiveness of banks to local needs. Now, 98% of banks pass CRA exams; the proposal would likely push this higher. The agencies propose a version of the one ratio measure that consists of the dollar amount of CRA activities divided by deposits. This approach is made even more bank-friendly by not only dramatically increasing the activities and the places banks can receive credit (increasing the numerator), but at the same time also decreasing what are considered deposits by excluding brokered and municipal deposits (shrinking the denominator).

This ratio measure would likely encourage banks to find the largest and easiest deals anywhere in the country as opposed to focusing on local needs, which are often best addressed with smaller dollar financing for small businesses, homeowners and projects. Banks, for example may move away from important Low Income Housing Tax Credit investments in favor of simpler and easier investments.

Further, the proposal would actually allow banks to FAIL in half of the areas on their exams and still get a passing grade. Rural areas and low income neighborhoods of color that are perceived of as harder to serve will no doubt be more likely to be ignored by banks that can meet their CRA obligations elsewhere.

The proposal would retain a retail test that examines home, small business and consumer lending to LMI borrowers and communities, but this retail test would be only pass or fail. In contrast, the retail lending test now has ratings and counts for much more of the overall rating. Banks should be required to exceed benchmarks in lending compared to both area demographics and compared to peers, not either or, and the goals should be strong.

The agencies establish numerical targets under the one ratio exam for banks to hit in order to achieve Outstanding or Satisfactory ratings. These targets appear both arbitrary and low. Banks

may be able to achieve Outstanding ratings in reliance on large subprime credit card lending, even if that does not well serve LMI consumers. The agencies base the targets on their research, which the agencies do not reveal in the NPRM. The public, therefore, cannot make informed judgements about whether the numerical targets would result in increases in activity, stagnant levels or decreases.

The agencies also propose to allow banks that receive Outstanding ratings to be subject to exams every five years instead of the current two to three years. This aspect of the proposal deviates from the agencies' statutory duties to ensure banks are continuing to respond to community needs. Banks with a five-year exam cycle would likely relax their efforts in the early years of the cycle. Banks would also have less accountability to maintaining acceptable CRA performance when they seek permission to merge with other banks.

Reducing community input. This proposal appears designed to weaken community input and participation. Why else would such a complicated and substantial change to the rules implementing the nation's redlining law come with a mere 60 days for public comment?

Inviting regulatory arbitrage.

What we need. Real CRA reform would include:

- A retained focus on low and moderate income people and communities.
- A focus on lending that meets community needs, prioritizing loan originations, not purchases of loans that were made by other banks or for-profit companies. Mortgage lending should focus on owner occupants (not investors), and small business lending should focus on smaller loans and smaller businesses. The Consumer Financial Protection Bureau should finalize a strong small business data collection rule so that the bank regulators and the public can clearly see which banks are serving, which banks are harming, and which banks are ignoring LMI communities and communities of color.
- A hybrid approach to assessment areas that ensures that traditional banks and modern branchless banks are actually serving communities. Banks with retail branch presence should service those areas where they operate. Banks without retail branch presence should have reinvestment obligations that consider where deposits are from, and where loans and profits are made. Non retail bank reinvestment obligations should be developed with an eye towards increasing reinvestment in bank deserts, which this proposal does not do.
- A qualitative and quantitative analysis. Homeowners, small businesses, and impactful community development projects often require smaller loans and investment. Innovation and impact should be valued under CRA. A proposal that only considers what is easily monetized does not have community needs at its center.
- An end to CRA grade inflation. 98% of banks do not deserve to pass their CRA exams. This proposal will only make the problem worse. The goal should be to increase LMI lending and investment from current, inadequate levels, not to devise a system that counts more things in more places and will lead to larger numbers while actually resulting in less lending, less investment, less impact, and less community benefit.

- More scrutiny of reinvestment in rural areas. More rural counties should be designated as “full scope review” areas subject to greater oversight and scrutiny as is generally the case for urban counties. This will immediately result in rural areas being better served, which will not happen under this proposal.
- A greater emphasis on the service test, not the elimination of it, so that branches in LMI communities retain their importance in CRA, as they have retained their importance to communities. The CRA statute references deposit products and banks should ensure that affordable and accessible bank account and consumer products are available to LMI, of color and immigrant communities (including language translation and interpretation services) so that everyone can build wealth and avoid predatory alternative financial providers.
- Downgrading of CRA ratings for discrimination and harm. Evidence of redlining or discrimination should result in a Needs to Improve or Substantial Noncompliance rating. The agencies should bolster fair lending exams which currently can consist of a mere one or two sentences in a performance evaluation. The CRA should focus on race as well as income. CRA grades should also be lowered for violation of consumer protection laws, and for other harm to LMI people and communities. This includes downgrades for bank financing of displacement, which clearly worsens households’ community credit needs by creating economic destabilization, evictions, ruined credit histories and decreased ability to be able to qualify for home and small business loans and build wealth.
- Greater community input, not less. The CRA requires that the starting point for reinvestment decisions should be community needs, not a list from a federal banking regulator or the desires of big banks. Performance context, transparency of data regarding bank performance to enable better community input, public hearings during mergers, and the development of Community Benefits Agreements should all be encouraged and bolstered.

This deeply flawed proposal would result in LESS lending and investment in the very communities that were the focus of CRA when passed by Congress in 1977. This proposal will make things easier for banks, all the while retreating from key statutory and regulatory core principles of CRA, such as a focus on low and moderate income people and communities, a focus on banks meeting local community credit needs, and active community participation to ensure that communities, not big banks, benefit.

The OCC should share the data behind its assumptions and analysis, and end this rulemaking process so that CRA reform can proceed in a more thoughtful way that will actually benefit the communities CRA was designed to build up and better reflect the new facts and realities of our landscape, post COVID-19.

Thank you for your consideration of my views.

Casey Epp

cc: California Reinvestment Coalition
National Community Reinvestment Coalition