Habitat for Humanity® Chicago

April 8, 2020

Office of the Comptroller of the Currency (OCC)

RE: Docket ID OCC-2018-0008 (Community Reinvestment Act Regulations)

To Whom It May Concern:

Habitat for Humanity Chicago appreciates the opportunity to share our perspective on how proposed changes to the Community Reinvestment Act (CRA) as outlined in the OCC and FDIC's Notice of Proposed Rulemaking would impact access to homeownership, credit, and financial services for the lower-income families and communities we serve. While we appreciate the need to modernize the CRA, we have strong concerns about several proposed changes, as described below.

Habitat for Humanity Chicago (Habitat Chicago) is committed to investing in Chicago neighborhoods by providing affordable homeownership and neighborhood investments in key communities. We have a multi-year commitment to West Pullman and Greater Grand Crossing, two Southside neighborhoods that have struggled due to lack of investment that is mirrored in so many communities on Chicago's South and West sides. Our programs include:

- **Affordable Homeownership**: Lending program to buyers with incomes between 40-80% AMI who qualify for affordable mortgages.
- **Neighborhood Grants Initiative**: Small-grants program awarding direct funding to resident-led projects.
- **Home Care Workshops**: Series of workshops covering topics related to home maintenance, repair, and renovation to increase owners' ability to successfully care for their home.
- **Homebuyer University**: Education program taught by experts in the financial and real estate fields addressing the path to homeownership, including creating a personal action plan

Habitat Chicago has benefitted from the current CRA rules by providing mortgage leveraging opportunities through partnering with local banks. We, in turn, use the loan funds to provide an infusion of funds for construction allowing us to generate more affordable homes for buyers with low incomes. These bank partnerships have been critical to our growth and ability to serve more buyers who are now creating generational wealth through homeownership <u>and</u> through our strategic investment in specific underinvested neighborhoods.

Review any of the literature on the history of redlining to de jure segregation to the mortgage crisis in 2008 and you'll find common themes: racism, devaluation of low- and moderate-income neighborhoods, and greed. Together these actions collectively make it harder for good people and good neighborhoods to stay financially and physically healthy. Our society pays a cost for this; Chicago most certainly pays a high price for this.

To make matters more challenging, the impact of these actions are generational and take generations to undo. The Community Reinvestment Act was put in place to reverse years of disinvestment by incentivizing financial institutions to get involved with low- and moderate-income communities. This work is far from done as our neighbors continue to struggle. We should be bold in our actions to modernize the CRA in ways that create further incentives for financial institutions, not relax rules or make bigger deals possible.

The Community Reinvestment Act was created in 1977 to ensure that banks meet the credit and banking needs of the entire communities in which they are located. While Habitat recognizes the need to modernize the CRA, any changes made to the Act must ensure that there remains a consistent and transparent system that meets the credit needs of low- and moderate-income people. Several proposed changes threaten this core objective:

Proposed Single-Ratio Metric

The proposed “single-ratio” metric for assessing CRA compliance raises significant concerns for Habitat. Under this proposal, a bank’s lending, investment, and financial service performance would be assessed primarily by the overall *dollar volume* of CRA activities as a percentage of total bank deposits. This represents a significant shift away from the current practice of assessing the *number* of loans originated and evaluating performance based on the relationship of investment and lending activities to local credit needs. Emphasizing dollar volume, without regard to type of investments, will favor larger and easier loans at the expense of lower-value loans, such as mortgages used by lower-income homebuyers to purchase a home. This new assessment metric could also lead to large national banks focusing their activities in neighborhoods with higher property values given that mortgages in these areas would more quickly generate the volume needed to reach an adequate ratio of CRA activities to deposits. Accordingly, the proposed single-ratio metric could have a significantly negative impact on Habitat’s ability to extend affordable homeownership opportunities to partner families, especially in under-served communities.

Habitat is also concerned that the proposed single-ratio metric significantly reduces the importance of placing bank branches in low- and moderate-income communities. Currently, bank branch locations and local volunteering make up one-quarter of a bank’s overall assessment score. The new, proposed single ratio metric applies a factor of .01 to local financial service performance, reducing bank presence and activities in LMI neighborhoods to a tiny factor in achieving a passing grade. By our calculations, a bank with a quarter of its branches currently in LMI communities that decides to close all of those branches would only reduce its ability to achieve a passing assessment grade by 4%. We believe this will likely lead to significant branch loss in LMI communities, a decrease in lending to small businesses if not also to local homebuyers, and more unbanked residents in LMI communities.

Passing Grade Only Needed in 51% of Assessment Areas

Proposed changes to the CRA will allow banks to receive a strong overall rating with a passing grade in only 51% of their assessment areas. This is deeply concerning, as it could mean that a bank could choose to ignore the credit needs of half of its assessment areas, and still receive an outstanding rating.

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Giving Banks Credit for CRA Activity Located Outside of their Assessment Areas

Habitat for Humanity is concerned that the Proposed Rulemaking would allow credit for CRA activity outside of banks' assessment areas regardless of performance in their assessment areas. We believe this will further enable and encourage banks to shop nationally for the largest possible deals in which to focus their CRA activities, at the expense of smaller loans and investments that are more responsive to local needs, including those of lower-income homebuyers.

Changes to Eligible Activities

Lastly, Habitat for Humanity is troubled that the Proposed Rulemaking significantly expands the list of activities that would be eligible for CRA credit, including such uses as athletic stadiums and bridges that are not directly related to lending to low-income homebuyers or small businesses or to ensuring the availability of financial services in low- and moderate-income communities. Of further concern are eligibility changes that involve:

- Relaxing the definition of affordable housing to include middle-income housing in high-cost areas;
- Granting CRA credit to financial education services for middle- or high-income individuals;
- Eliminating neighborhood stabilization as part of the definition of community development;
- No longer requiring eligible activities to primarily benefit low- and moderate-income communities; and
- Assuming housing to be affordable if lower-income people can afford to pay the rent, even if it is not actually available or occupied by lower-income people.

These eligibility changes stray far from the CRA's original purpose and will likely draw lending capital away from the lower-income homebuyers with whom we partner—especially if coupled with a shift to a dollar-volume-based metric that favors large single loans over smaller-value loans.

Reducing incentives for banks to invest in neighborhoods that are low income and provide capital to buyers with low incomes will negatively impact communities with whom we work. Our reality in Chicago is that we are trying to attract new investments and new buyers to West Pullman and Greater Grand Crossing. The CRA is a most important tool in this effort and we need ways to increase its effectiveness, not divert resources to those who are already well resourced. The proposed regulatory changes will shift focus away from neighborhood stabilization and further increase neighborhood inequality. Further, we need investment to build the market. Middle- and high-income markets are doing fine; low-income markets need investment and the CRA should be a tool for this type of change.

Habitat for Humanity is deeply concerned that the Proposed Rulemaking would significantly reduce access to credit for qualified, low- and moderate-income homebuyers in the communities we serve, while reversing progress made to revitalize historically under-served and distressed communities.

The combined effect of: 1) measuring CRA activity primarily by total dollar volume; 2) allowing banks to ignore virtually half of their assessment areas and still receive outstanding performance ratings; and 3) expanding eligible activities to include stadiums, bridges, middle-income housing, and other activities that do not primarily benefits LMI communities or residents, will significantly undermine banks' incentives to

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meet the credit needs of every low-income community in which they take deposits, and to make capital available to the lower-income homebuyers with whom we partner.

We call on the OCC and FDIC to revise its Proposed Rulemaking—or to start over if necessary—to ensure that any modernization of the Act will not reduce the availability of lending, investments, and financial services for low- and moderate-income homebuyers, small businesses, and communities. The OCC, FDIC, and Federal Reserve's revised rulemaking should increase bank activity in underserved neighborhoods, not reduce incentives for banks to invest in distressed markets. Any changes to the CRA need to ensure continued availability of credit to all areas and all members of LMI communities, including lower-income homebuyers with smaller-dollar mortgages.

Thank you for your attention to these concerns.

Sincerely,

[redacted]

Jennifer L. Parks
Executive Director