CAP SERVICES
Transforming People and Communities
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RE: Notice of Proposed Rulemaking, Community Reinvestment Act Regulations

Greetings,
CAP Services, Inc., and its wholly-owned CDFI subsidiary, Community Assets for People, LLC, wish to express opposition to the proposed changes to the Community Reinvestment Act (CRA) regulations. We agree with dissenting FDIC Board member Martin Gruenberg, that the FDIC's and OCC's Notice of Proposed Rulemaking on CRA "is a deeply misconceived proposal that would fundamentally undermine and weaken the Community Reinvestment Act."

These changes would lessen the public accountability of banks to their communities by enacting unclear performance measures on CRA exams that would not accurately measure bank's responsiveness to local needs. Public input would be more difficult and limited. Despite assertions that their proposal would increase clarity and bank CRA activity, we believe the result would be significantly fewer loans, investments and services to low- and moderate-communities (LMI).

CAP Services, Inc. is a private nonprofit formed in 1966 to create opportunities for people experiencing poverty. We serve Marquette, Waushara, Portage, Waupaca, and Outagamie counties in Central/East Central Wisconsin. The service area covers 3,277 acres and is home to 347,535 people, more than half of which live in Outagamie County, the home of the City of Appleton. The poverty rate ranges from 11-14% in these counties and at the same time, nearly 40% meet United Way's definition of ALICE (Asset Limited, Income Constrained and Employed).

CAP Services serves nearly 10,000 people each year through programming in seven interconnected areas:

- job skills and economic security
- business coaching and lending
- community and real estate development
- housing and transportation
- child and family development
- health, wellness and safety
- advocacy and community engagement

CAP Services works to create permanent, positive change in our region. Our mission is to transform people and communities to advance social and economic justice. CAP Services has a strong track record of success. CAP Services received an award by the Annie Casey Foundation for its premier workforce training program (the Skills Enhancement Program) and the 2017 Governor's Award for Excellence in Community Action.

Founded in 1991, Community Assets for People LLC (CAfP), is a certified community development financial institution (CDFI), delivering responsible, affordable loan products to low-income, low-wealth, and other disadvantaged people who would otherwise have no access to capital. Specifically, CAfP provides residents with capital for businesses, housing, auto and consumer needs throughout six central Wisconsin counties – Marquette, Portage, Outagamie, Waupaca, Waushara and Wood.

The agencies would dramatically lessen CRA's focus on LMI communities in contradiction to the intent of the law to address redlining in and disinvestment from LMI and communities of color. The definition of affordable housing would be relaxed to include middle-income housing in high-cost areas. In addition, the NPRM would count rental housing as affordable housing if lower-income people could afford to pay the rent without verifying that lower-income people would be tenants. CAP has over 725 units of affordable housing in its portfolio and we barely address the need. We need continued investment.

Under the NPRM, financing large infrastructure such as bridges would be a CRA eligible activity, which would divert banks' attention from community development projects in LMI communities. Even financing "athletic" stadiums in Opportunity Zones would be an eligible activity. Small businesses and farms that could benefit from CRA would have higher revenues, increasing from $1 million to $2 million for small businesses and as high as $10 million for family farms. The agencies are drastically diluting the emphasis, established in the 1995 regulatory changes to CRA, of revitalizing LMI communities with affordable housing, small business development and community facilities.

While the NPRM recognizes changes in the banking industry such as the increased use of online banking, the NPRM's reforms to the geographical areas on CRA exams are problematic and would reduce transparency. The agencies propose to establish new areas on exams that are outside of branch networks but where banks collect a significant amount of deposits. However, the deposit data collected now does not include customer geographical locations when customers open accounts via the internet. Thus, neither the agencies nor the public can assess the impacts of this proposal by estimating the numbers of banks with new areas and what parts of the country would have increased attention. The public does not have a fair chance to offer comments on the effectiveness of significant proposed changes whose impacts are unknown.

The proposed changes are likely to divert attention from areas served by branches since the agencies propose to make it easier for banks to engage in CRA-qualified activities outside of areas with branches. Currently, banks can engage in community development activities beyond areas with branches only after satisfactorily serving them. Under the NPRM, there would be no such restriction, allowing banks to find the easier places anywhere in the county to engage in community development without first responding to needs in the communities with branches. CAP's footprint is rural. We find banks not always willing to invest in rural areas but rather look for opportunities in more urban areas.

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 up to 100%. The agencies propose a one ratio measure that consists of the dollar amount of CRA activities divided by deposits. 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 or homeowners. Since banks could fail in one half of the areas on their exams and still pass under the proposal, the likelihood of banks seeking large and easy deals anywhere increases.

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 test now has ratings and counts for much more of the overall rating. Moreover, the proposal would eliminate the service test that scrutinizes bank branching and provision of deposit accounts to LMI customers. Replacing this test is a formulaic measure that would result in branches in LMI areas counting for very little in the one ratio and hence would encourage banks to close them.

The agencies establish numerical targets under the one ratio exam for banks to hit in order to achieve Outstanding or Satisfactory ratings. However, the agencies base the targets on their research, which the agencies do not reveal so the public 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 stretch diminishes the duty to ensure banks are continuing to respond to community needs. Small banks with assets less than $500 million could opt for their existing streamlined exams instead of the new exams. A significant subset of these banks which are now required to engage in community development finance would not be required to continue to do so, resulting in another loss for the community.

The agencies should institute reforms that increase bank activity in underserved neighborhoods with an eye on persistent racial disparities and examination of bank activity to communities of color in CRA exams. You could add a category on CRA exams of underserved census tracts (as measured by loans per capita), which would likely include a high number of communities of color. Any new requirement of banks to collect more data on consumer lending and community development activities should include public release of this data on a county or census tract level. And mandatory inclusion on exams of bank mortgage company affiliates, many of whom engaged in abusive lending during the financial crisis, should be required.

We fear this flawed proposal would result in less activity for communities most in need that were the focus of CRA in 1977. The changes – less focus on people that are LMI, a simplistic one ratio, a bank could fail in one half of its areas and retail lending and branching would count for less of the rating – would increase grade inflation accompanied by a decrease in lending, investing and bank services to LMI consumers and LMI communities. This backtracking will violate the agencies' obligation under the statute to ensure that banks are continually serving community needs.

We encourage the agencies work with the Federal Reserve Board and propose an interagency rule that will augment the progress achieved under CRA in terms of reinvesting in LMI communities, not halting or reversing the progress made.

Thank you,

[redacted]

Mary Patoka
President & CEO