



1259 Aala Street, Suite 201
Honolulu, Hawai'i 96817
Phone: (808) 523-9500
Fax: (808) 523-9502
www.hihomeownership.org

March 2020

Ms. Jelena McWilliams, Chairperson
Federal Deposit Insurance Corporation
550 17th St. NW
Washington, DC 20429

RE: Proposed Rule – Community Reinvestment Act Regulations [85 FR 1204, RIN 3064- AF22]

Dear Chair McWilliams,

Hawaii HomeOwnership Center (HHOC) opposes the proposed changes to the Community Reinvestment Act (CRA) because this proposal would allow banks to avoid investment in low-income and minority neighborhoods would result in significantly fewer loans, investments and services to low- and moderate-income (LMI) communities. Also, it would make banks far less accountable to the communities they are responsible to serve.

HHOC is a chartered affiliate of the Neighborhood Reinvestment Corp. dba NeighborWorks America and is a 501(c)3. We were organized in 2003 to provide education, information and support to create successful first-time homeowners in Hawaii. By addressing barriers and increasing rates of homeownership, HHOC aims to build stronger families and communities throughout the State of Hawaii. To date, we have assisted over 2,300 families in achieving their dreams of homeownership.

CRA Eligible Activities

The proposal dramatically and irresponsibly expands what activities would be eligible for CRA credit. CRA serves my community by driving resources we otherwise could not access, providing for the financial and community development needs our community identifies and prioritizes. Switching to a “non-exhaustive list” of eligible activities developed in Washington, DC, to include infrastructure, transportation and even athletic stadiums, does a disservice to our communities in need. This will encourage banks to gravitate to the largest deals anywhere in the country instead of executing smaller deals that are more responsive to local needs.

We also recognize that banking is evolving with more of it taking place online. The proposal to establish new assessment areas (AAs) for banks with significant levels of deposits outside of their branch networks but lack of data for this makes it difficult to project banks' impact in these new geographical areas.

We are concerned that this poor source of information, lack of capacity and awareness of the issues, will result in a skewed body of public comments that does not paint a full and complete picture of the interests of LMI people and places. HHOC encourages the OCC and its fellow regulators to consider the barriers and challenges to representation that are inherent in a formal rulemaking process and consider appropriate adjustments, such as community hearings or meetings, to balance these limitations.



Assessment Areas

The proposed changes allow for credit to be given for CRA activity outside of a bank's assessment area regardless of where the activity took place. Although much has changed about the way in which many of us bank, bank branches continue to play a key role in bringing financial services to many populations, including LMI people. As Federal Reserve Governor Lael Brainard said, "...branches and deposit-taking ATMs remain an important way that banks engage with a community. Branches and ATMs are still necessary for depositing and withdrawing cash. Branches also provide personal service and assistance to consumers and business customers. They provide a presence for lenders to get to know borrowers and the communities in which they live, lend, and invest."

While bank branches continue to play a key role, so, too, does the service they provide to the community. Community based organizations are able to build meaningful banking relationships at branches through remote banking. For this reason, HHOC continues to support the use of assessment areas that include the area around each branch, as required by the CRA statute. All banks with branches should be required to serve their AA(s) at a satisfactory level in order to achieve an overall satisfactory CRA rating. In addition, given the current activities and structure of banks operating across broad geographies, banks should be assessed on their CRA investments in areas where the institution does business and delivers services, not just deposit taking, in a concentrated manner. Implementing CRA in the digital environment warrants an evaluation that captures business activities beyond a bank's AA.

True community banks that operate within one state should have community development responsibilities where they have branches. Larger institutions with branches in multiple states should have community development responsibilities where they have physical presence, but should also receive CRA consideration for lending and investments in nonprofit mission-oriented community development conduits like CDFIs or community development credit unions that operate outside of their geography, as long as these institutions are meeting legitimate community development needs.

Metrics-Based Assessment

The proposed rule institutes a single ratio to assess how banks serve communities. HHOC is deeply concerned about the proposal to base assessments on a single ratio intended to reflect the total universe of a bank's CRA-related activities as a percentage of some larger whole. Even if the proposal were to be scaled back to include several different metrics instead of the single ratio, it would still be extremely problematic. Combining dollar volume of lending and community development in order to reach a rating largely based on dividing CRA activity by deposits will encourage banks to seek out largest deals and discourage smaller dollar loans and investments. While the concept is clearly motivated by efforts to provide simplicity and clarity, the risks, as discussed below, far outweigh these goals.

Further, the rule proposes that a bank must meet investment benchmarks in only a "significant portion" of its assessment areas in order to receive a satisfactory or outstanding rating. The rule suggests that a "significant portion" be defined as something more than 50 percent. Letting banks pass their CRA exams while failing in half of their assessment areas, for activities done anywhere, will lead banks to dramatically cut back CRA activity in many of their assessment areas.

This approach would legalize and encourage redlining. Permitting such behavior would bring us back to an era where financial institutions had the option to draw red lines around—and deny financial services to—poor neighborhoods and all neighborhoods of color. We need to acknowledge the progress towards equity that the current CRA regulations have made possible and continue these efforts instead of reverting back to the negative scenario of the past.

Community Development Test

A revised CRA must incentives continue for banks to participate in complex projects with significant impact, rather than focusing solely on simple transactions. For example, the dollar value of a loan on a supportive housing project that requires involvement of state and local government and a Community Development Corporation can be overshadowed by a bank's volume of conventional home mortgage lending in low-and moderate income neighborhoods, yet that community development loan can have a larger impact on the neighborhood. Banks must be incentivized to continue to pursue these kinds of projects—an incentive that could easily be lost in a move to a ratio-based system.

In assessing community development activities, volume is undoubtedly important, but so is an understanding of how they address community needs. The time and complexity required by community development projects needs to be recognized by a separate test that looks at community development as an integrated whole. In addition to the activity's dollar value, how far the institution has stretched to meet community development needs while implementing consistent, safe and sound lending should be considered. If not considered separately, community development activities will lose attention, even if an adjustment is made in the scoring system. With a single ratio approach, a bank may be able to meet its CRA obligations without undertaking highly impactful activities that are complex and high-touch. CRA assessments should place additional value on activities that are especially responsive to local, regional or national needs, complex, innovative, feature non-standard terms, or involve multiple financing sources. Such qualitative factors are particularly important to evaluating community development activities.

A separate community development test could include all forms of participation including loans, investments, credit enhancements, services and support for nonprofit partners. If a bank is serving their assessment areas satisfactorily, community development activities benefiting LMI people should be eligible for CRA credit regardless of whether they are located in a banks' assessment area. A particular benefit of this approach could be channeling community development investment to areas of great need, including rural communities, areas of persistent poverty, and target income families, which are often outside of banks' assessment areas.

Conclusion

Hawaii Homeownership Center is grateful for the opportunity to offer our comments as the OCC considers changes to the Community Reinvestment Act. While we have serious concerns about some of the reforms proposed in the Advance Notice of Proposed Rulemaking, we stand ready to work with the OCC, as well as the Federal Reserve and FDIC, on a process to modernize the Community Reinvestment Act to ensure that it meets the needs of communities for many years to come.

The OCC and FDIC acting without the participation of the Federal Reserve risks producing three separate sets of CRA regulations my organization would have to learn in order to leverage resources to my community. That makes everyone's job more complicated, less transparent, and results in confusion. On behalf of the low and moderate-income families and the communities HHOC serves, I ask that you please re-consider this proposal.

Thank you for your consideration of my above statements.

Sincerely,