boc|network
What's your next step?
Business Outreach Center Network

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3/30/2020,

Comments regarding "Reforming the Community Reinvestment Act Regulatory Framework"

RE: RIN 1557-AE34, Federal Register Number 2019-27940, Docket ID OCC-2018-0008

To Whom It May Concern:

I am writing regarding the OCC and FDIC's Notice of Proposed Rulemaking (NPR) seeking input on proposed changes to the Community Reinvestment Act (CRA). I am Executive Director of a non-profit community economic development organization, Business Outreach Center Network that provides needs-based assistance to underserved entrepreneurs and small business owners throughout the New York City metropolitan area. We operate through local offices that serve diverse NYC LMI communities.

Innovative and collaborative, the BOC Network works to close the credit and technical-assistance gap limiting the growth potential and job-creation capacities of microentrepreneurs and small businesses—of hard-working men and women who operate in isolation from the mainstream market and whose businesses are an important source of jobs in their largely minority and immigrant communities. By stimulating the growth of profitable enterprises, the BOC Network helps to recirculate capital through neighborhood economies, and so to revitalize whole communities.

Individually and in concert, the BOC Network's growing alliance of Business Outreach Centers, or BOCs, connect local entrepreneurs to the full complement of business assistance services, as well as to financial, legal, and other

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resources. In the process, they successfully guide them through the process of starting and developing their enterprises, and then follow-up with them as they progress and their needs evolve.

Speaking the languages of the communities they serve, individual BOCs have proven to be ideally suited to reach and extend a guiding hand to local entrepreneurs whose challenges are many and resources few. BOC business counselors provide one-on-one needs assessment, business planning, marketing and management guidance, as well as access to resources through the BOC Network's extensive linkages with the full spectrum of public and private business assistance sources.

The proposed changes to CRA would negatively impact our work and the communities we serve.

I strongly oppose much of the ideas presented in the NPR that would significantly weaken the CRA, leading to less investment, fewer loans and bank branches, and less meaningful investments that would benefit the very people the law was designed to help: low-income people, people of color and communities of color.

The CRA is one of the major civil rights laws that were passed in response to discriminatory policies and practices that locked people of color out of banking, credit, housing, employment, and education. It is one of the most important laws we have that holds banks accountable to local communities. It has led to trillions of dollars reinvested nationwide, and billions each year here in New York City for affordable housing, small business supports, daycares, schools, and local businesses. The CRA has also fostered small business loans and supports, bank branches, and commitments to responsible multifamily lending.

Despite progress, the situation remains dire for women and minority entrepreneurs who typically face limited access to capital, thus limiting their business development and success. Too many low-income people, immigrants,

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and people of color in New York City still lack sufficient access to loans to purchase homes, improve their homes, and start and maintain businesses**.** Smaller nonprofits struggle to access grants and loans to build and preserve much-needed deep and permanent affordable housing and to support community development. **15% of Black households and 18% of Hispanic households in the NY region are completely unbanked, which is over 5 times the rate of white households**.

All of this underscores the need to *preserve and strengthen* the CRA, making sure that the right priorities are reflected. **In that context, we have deep concerns about much of the proposal:**

1. **The proposal maintains a one-metric / one-ratio approach which ignores a more qualitative approach.** It values dollars over impact, quantity over quality, thus **minimizing the role of community input and community needs and incentivizing larger deals over smaller, more impactful ones**. This approach blinds banks CRA initiatives and weakens its impact. T

   The one-ratio approach and the absence of qualitative analysis will diminish the impact of the CRA legislation and defeats its primary purpose. Indeed, the proposed approach does not include community input and does not take into account local needs. By looking solely at dollar value, banks CRA initiatives will not be assessed on-the-ground impact. It will likely distort CRA activity in a way that is not responsive to local needs. In order to meet their CRA requirements, Banks will favor larger deals while small transactions, although most needed, will receive less attention.

   While keeping in mind the need for understandable metrics, an alternative CRA grading approach is needed:
   - CRA performance could be assessed on multiple metrics (not only one)
   - The metric could be based on counts (impact-oriented) instead of dollar amounts

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- A more subjective approach could be favored over a metric-based approach

Moreover, current technology offer a wide range of data collection and exploitation solutions that could make CRA actions ever more impactful.

Adding to the existential risk this approach poses to communities, this approach is likely to encourage banks to “simplify” their CRA staff, thus destroying the CRA and Community Engagement expertise they have built over the years.

2. The proposal greatly expands where banks can get CRA credit, allowing banks to investment more outside of local assessment areas, which minimizes local community needs and partnerships.

The current proposal suffers several flaws:

- **Extension of Qualifying Products:** It counts as qualifying activities high-interest rate/subprime loans while these loans are potentially harmful to the economic health of communities. Moreover, lending product to underserved communities must go hand-in-hand with adequate technical assistance, a fact not reflected in the current proposal.
- **Absence of strong geographical requirements:** It does not include any geographical area in the assessment. The bank-level evaluation combines CRA-qualified dollars loaned invested in all the assessment areas combined, as well as qualified activities anywhere, regardless of assessment area. While some of these areas may need investment, that investment cannot come at the expense of the obligation to meet local needs.
- **Lack to Community input and impact measurement:** the Proposal lacks any measurement of impact in its qualifying activities. The branch test should be combined with a product test to make sure that products distributed by the bank are adequate to local needs.

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3. The proposal expands what counts for CRA credit with activities that benefit larger businesses and higher-income families, as well as activities that barely benefit lower-income people or communities and others that could displace these communities. By creating arbitrary numerical goals to reach and by expanding the universe of CRA qualified activities, banks will have no incentive to put the time and effort it takes to reach lower-income borrowers and small businesses, or to work with local nonprofit developers who are doing the more complex, more impactful projects. Worse, banks can get credit for activities that could harm or displace LMI communities, such as opportunity zone financing for athletic stadiums or luxury housing; high-cost credit card loans to LMI borrowers; and the long-standing practice of financing bad-acting landlords who harass and displace tenants. This means less affordable housing for very low-income New Yorkers who already lack sufficient housing; fewer loans to small businesses that already struggle to access financing; fewer home loans to low- and moderate-income borrowers.

This is the wrong approach.

Any reform must include OUR principles to preserve and strengthen the CRA.

1. Banks should be evaluated on the quantity, quality and impact of their activities within the local communities they serve and based on the needs of these local communities. This cannot be done with a one-ratio evaluation that simply looks at dollars invested.

- Incentivize high quality, responsive activities that lift historically redlined people – **people of color and low- and moderate-income people** – out of poverty and help reduce wealth and income disparities.
- Downgrade banks that finance activities that cause displacement and harm.

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2. Community input and community needs must be at the heart of the CRA. Strong community needs assessment and community engagement should inform community needs and how examiners evaluate how well banks are meeting those needs.

3. Assessment areas must maintain local obligations. The CRA must maintain the current place-based commitment banks have to local communities. Banks should have additional assessment areas where they do considerable business (make loans / take deposits) outside of their branch network. These types of reforms must maintain or increase quality reinvestment where it is needed, including high need "CRA hot spots" such as New York City, while also directing capital to under-banked regions.

Conclusion

Meaningful CRA reform could boost lending and access to banking for underserved communities by incentivizing high quality, high impact activities based on local needs, while discouraging and downgrading for displacement and activities that cause harm. Transparent and consistent exams would support these goals.

The proposal does the opposite of what it claims to do for banks or the community: It is **less transparent, more complicated, and will ultimately lead to less investment and less meaningful investment**. The formula to calculate the target metric is complicated and relies upon data banks don't currently collect. Further, it no longer uses publicly available data for home lending, small business lending, and deposits, thus reducing the ways the public can verify and provide feedback on bank performance in those categories.

The OCC and FDIC should abandon this proposal and go back to the table with the Federal Reserve to come up with a plan that preserves the core of the CRA,

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truly addresses its shortcomings, and modernizes it to incorporate today's banking world.

Thank you for your attention to our comments.

Sincerely,

Nancy Carin

Executive Director