



April 7, 2020

Mr. Robert Feldman, Executive Secretary
Attention: Comments, Federal Deposit Insurance Corporation
550 17th Street NW
Washington DC 20429

Re: FDIC RIN 3064-AF22 Proposed Changes to Community Reinvestment Act

Dear Mr. Feldman:

We appreciate the opportunity to comment on the proposed CRA rule. While the current CRA framework is badly in need of updating, we urge you to ensure that any proposed changes are agreed upon by all regulatory agencies. The Federal Reserve Bank has not yet signed onto this proposed rule. In the interest of being able to adequately compare data to peer groups, the FDIC should refrain from finalizing any rule that will not be adopted by all prudential regulators.

Because the regulation is seriously outdated, some of the proposed changes are needed. We agree that the thresholds for Small Businesses and Small Farms should be increased to \$2 million to keep up with the economic environment.

We agree with the changes to the countable service activities. We applaud the removal of the requirement to lend "financial expertise" in our volunteer activities within the community. Removing this barrier will improve our ability to serve and encourage more service throughout the community where it is needed.

We are also happy that all financial literacy activities will now count, not just those targeted to low- and moderate-income populations. Five years ago, our bank made financial literacy a primary focus to help stabilize the communities that we are involved. With bankruptcies and foreclosures on the rise, the general public, not just the low- and moderate-income populations, need more education and support in financial literacy in order to help prevent poverty. Everyone needs to be better prepared for emergencies, learn how to save, learn how to budget, learn how to use credit wisely, and learn how to build their assets and self-sufficiency.

We strongly support providing a non-exhaustive list of qualifying activities and nonqualifying activities, with special appreciation of the ability to submit additional activities for the agencies' consideration. We believe such a list would be best published as an Appendix to the final rule. The Appendix format should be easier to update for the agencies without constantly revising the main text of the regulation, will leave the main text of the regulation less cluttered, and will

provide a better standalone reference for financial institutions. We believe quarterly updates, as needed, would best suit financial institutions.

One of the proposed changes that we do not agree with is the rule regarding the assessment area configuration. All performance standards are driven by how an assessment area is constructed. The logic supporting the “deposit-based” assessment area in the proposal cites “CRA’s intent to ensure that banks help meet the credit needs where they collect deposits”. Another important aspect to the original CRA legislation is the prevention of “redlining” of disadvantaged communities. If a bank were to obtain significant deposits from communities outside their assessment area(s), we believe it is highly probable that those deposits are coming from the middle- and upper-income census tracts. Generally, the low- and moderate-income tracts are not sources of meaningful deposits. This flow of funds from the higher income neighborhoods to poor neighborhoods is exactly what the current CRA regulation encourages. The CRA forbids “redlining” of poor neighborhoods, but a “deposit-based” assessment area will require banks to lend back into those higher income areas that are the sources of deposits rather than direct the funds into underserved communities. We believe that mandating “deposit-based” assessment areas will promote lending that is opposite of what is intended by the CRA.

Another unfavorable aspect of the proposed changes to the assessment area configuration rule is the restricting the smallest assessment area configuration for deposit-based and facility-based areas to counties. Thus, eliminating the current flexibility for an institution to adjust an assessment area to the area it “reasonably can be expected to serve”. The configuration of an assessment area dramatically and directly affects not only the lender’s performance under the different proposed performance tests, it also determines the standards applied to those tests. Most lenders subject to CRA are likely to be adversely affected by this restriction since their branch networks and resources are much more limited. Banks forced to adopt defined communities far larger than they can realistically serve, or at the very least, be at an extreme competitive disadvantage to serve, will be placed up against performance standards that are based on those unrealistic and unfairly defined assessment areas. Coupled with the proposed “satisfactory” rating requirement that a bank pass all the retail lending distribution test thresholds derived from market demographics or peer lenders active in the assessment area this could potentially lead to CRA “Needs to Improve” performance ratings on many smaller banks.

We are also opposed to how the recommended changes treat all banks over \$500 million the same. We do not think all banks are created equally, so one size does not fit all banks. Products and services are different from institution to institution and are tailored to the needs of our communities. Certainly, customers have some similar basic needs, but they also have different needs from area to area. Not every community is the same, and neither is every bank. Also, the availability of qualified investments is not the same especially if you have a presence in rural areas. The agencies are making the standards and rulings more complex and confusing with all of their formulas and the additional reporting that will be required. There are vague generalities, *such* as the term “significantly” which is used extensively in the proposal but there is no

definition of what "significant" is. Responses from the agencies have been that "significant" will be determined by the examiner. It has been our experience that examiners don't always agree, and when things are not clearly defined in the regulation and are left up to the subjectivity of the examiners, the banks suffer for it.

We believe that the small bank threshold should be increased to \$1 billion in assets. Banks in the asset-size range from \$500 million to \$1 billion do not have the same economies of scale and resources to absorb additional compliance costs as those banks with assets greater than \$1 billion in assets. We feel this level better demarcates the difference between small banks and large banks. The additional data collection requirements and lack of exemption for many banks currently classified as intermediate small banks will likely be overly burdensome and detrimental to earnings. Estimates by the FDIC of \$665,000 per year for \$500 million and over banks. We support the exemption of small banks from all account-level data collection and reporting requirements in the regulation and encourage the same exemptions be extended for banks with assets of \$1 billion or less.

Please consider our comments in your proposal for changing CRA. It is imperative that any changes made to CRA remain true to the heart and the letter of the regulation to help the low- and moderate-income and economically distressed individuals of our communities, regardless of whether they live in a low- or moderate-income census tract.

Respectfully,

Francis G. Mattson
Senior Vice President Compliance and CRA Officer
Citizens Bank & Trust Company