NEIGHBORHOOD HOUSING SERVICES OF CHICAGO, INC.

Rebuilding Chicago's Neighborhoods

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April 7, 2020

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Washington, DC 20219

RE: Notice of Proposed Rulemaking, Community Reinvestment Act Regulations
(85 FR 1204-1265); Docket ID OCC-2018-0008

To Whom It May Concern:

Neighborhood Housing Services of Chicago (NHS) is submitting this letter to state our opposition to critical components of the proposed Community Reinvestment Act (CRA) rules published by the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC). While the current CRA system is not perfect, the complete overhaul outlined in the Notice of Proposed Rulemaking (NPR) is unjustified, abolishes the community-oriented goals of the original statute, and could exacerbate disinvestment in low-moderate income (LMI) areas. In short, the proposed system has the potential to worsen the very problem that the CRA was designed to address.

With the birth of redlining as federal policy in the 1930's, the federal government used race-based criteria to deny mortgage insurance to communities of color and banks were allowed to avoid lending to households in those neighborhoods. This contributed to institutionalized racial segregation and widespread disinvestment in low-income neighborhoods and communities of color. The CRA was designed to promote investment and economic development by ensuring that banks provide access to credit equally in all areas where they provide deposit services. The partnerships that NHS has made with banks under the CRA have allowed the agency to continue its 45-year mission revitalizing neighborhoods through homeownership on the South and West sides of Chicago and in the South Suburbs – areas where the legacy of redlining still lives on today. NHS has utilized CRA investments to create more than 5,500 new homeowners through lending, counseling, and education. Neighborhood Lending Services, NHS's lending entity, is one of the largest nonprofit mortgage lenders in

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Illinois, providing mortgages for new homes and purchase-rehab loans at fair and affordable rates. Ninety-three percent of our borrowers are people of color and ninety-seven percent are first-time homebuyers. It is the CRA that has empowered us to use our capital to drive equitable and inclusive community development in the Chicago area.

Still, black homeownership rates are descending to an all-time low, an alarming trend that requires a strong response from both private industry and nonprofits across the country. Cross-sector partnerships, between banks and community development groups, for example, are exactly what the CRA was designed to encourage. The CRA system is not perfect, but NHS is confident it can be strengthened to promote equitable development in communities of color, ensuring the community voice is heard, and balance it with the creation of rich investment opportunities and streamlined impact measurement processes for the banks. The proposed regulations, however, are designed to weaken the CRA and hurt communities.

First, the proposed rule removes the focus on the quality of CRA-qualifying activities. Whereas existing CRA regulations favor innovative products and investments that are responsive to community needs, the proposed rule favors simpler activities in its new ratio-based CRA Evaluation Measure. Under this system, it would be more appealing for a bank to make investments in large organizations or projects, than to invest in unique deals and small, long-term loans. Equitable and inclusive community development relies on small scale investments like these. The proposed rule could lead to a lack of access to credit for LMI homebuyers and small business owners – exactly the problem that the CRA was originally created to solve. In this aspect, the proposed rule works against the spirit of the statute and would hurt neighborhoods that need community development investments most.

Similarly, the Qualifying Activities Illustrative List removes the incentive for banks to consult with communities to serve their unique needs. Existing CRA regulations necessitate partnerships and create accountability between banks and the communities they serve, but the proposed rule changes would upend this relationship and eliminate community input. Instead of consulting with a community to determine how to serve their unique needs, a bank could simply select a generic project from a menu, regardless of whether or not there is demand for such a

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project or whether it would help LMI communities in a meaningful way. Under the proposed rule, the accountability relationship would be between the bank and the regulators, with no consideration of community needs or how well a bank's CRA-qualifying activities serve those needs.

The NPR would also fundamentally change the relationship between banks and their assessment areas (AAs). Under the proposed rule, the Retail Lending Distribution Test acts as a supplement to the CRA Evaluation Measure and it only suggests that a bank pass the test in at least fifty percent of its AAs. This would mean that a bank could overlook half of its AAs and only do the work necessary to pass the Distribution Test in the other half. This suggestion in the proposed rule was alarming and it may be those communities with more unique or complex needs that would be passed over. Existing CRA regulations consider a bank's activities in all of its AAs more holistically, and the human element of the current evaluation process is critical in this regard. NHS has had productive partnerships for decades with CRA professionals at its partner banks, and their perspective and expertise on community development should not be discounted in modernizing the CRA.

Finally, the proposed rule effectively removes the incentive to open and maintain bank branches in LMI areas. While expanding access to online banking is important, brick-and-mortar branches still provide key services and value to communities that cannot be fully replaced by online banking. Various studies have shown that online banking is only used by about half of U.S. consumers who already own a cell-phone, Without access to physical bank branches, borrowers are more likely to turn to suspect brick-and-mortar businesses for financial services that fill the void in their community, such as payday lenders with exponentially higher interest rates, check-cashing stores, or even loan sharks. Bank branch personnel are also involved in their communities; they often provide services or meeting space to local community groups or make available financial literacy and homebuyer education, sit on resident advisory boards, and partake in neighborhood events, all to help the community grow and thrive.

Under current regulations, the Service test strongly considers a bank's physical presence in LMI areas, but the score boost added to the CRA Evaluation Measure is so small

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that it is not meaningful. Under the proposed regulations, a bank with thirty percent of its branches in LMI areas – which would be exceptionally high-performing by industry standards – would only receive a 0.3 percentage point boost to its CRA Evaluation Measure score, which would do little to help the bank reach the six percent minimum score required to pass. Instead, the incentive to maintain bank branches in LMI areas should be strengthened to expand access to financial services in communities that need them.

In summary, the CRA regulations outlined in the proposed rule would undermine the spirit of the original statute by removing the community from the Community Reinvestment Act. The new CRA Evaluation Measure reduces all of a bank's community development activity to a single ratio that would discourage innovation while the Qualifying Activities Illustrative List would severely limit banks' accountability to communities. Finally, the Retail Lending Distribution Test's low passing score and the weak incentive to maintain bank branches in LMI areas make it much less likely that a bank will serve LMI communities in a meaningful way. The OCC and FDIC have an obligation to uphold the original intent of the CRA and ensure that banks are serving communities in an equitable manner. The agencies should discard the proposed rule outlined in the NPR and instead work with the Federal Reserve to create new regulations that will modernize the CRA and strengthen its commitment to uplifting disinvested communities.

Sincerely,

[redacted]

Donna Clarke
Interim President / Chief Operating Officer
Neighborhood Housing Services of Chicago

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About Neighborhood Housing Services

Neighborhood Housing Services of Chicago (NHS) is a nonprofit neighborhood revitalization organization committed to helping homeowners and strengthening neighborhoods throughout Chicago and South Suburban Cook County.  It is one of the largest nonprofit lenders in the state of Illinois, a Community Development Financial Institution, Redevelopment Corporation, and HUD-Certified Housing Counseling Agency. NHS serves families interested in pursuing their dream of homeownership, no matter where they fall on the spectrum of mortgage readiness. Ninety-three percent of our clients are people of color, and 58% are female head of households. NHS primarily serves families with household incomes ranging from 30% of the City of Chicago area median income up to 120%.