March 4, 2020

United States Office of the Comptroller of the Currency
400 7th St SW
Washington, DC 20219

Re: RIN 3064–AF22 Community Reinvestment Act Regulations

Dear Comptroller Otting,

The Kresge Foundation is a $3.7 billion private, national foundation headquartered in metro-Detroit that works to expand opportunities in America's cities through grantmaking and social investing in arts and culture, education, environment, health, human services and our place-based work in Detroit, Memphis and New Orleans.

We oppose the changes to the Community Reinvestment Act (CRA) regulations proposed by the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC), for the following reasons:

1) <u>In this proposal, banks no longer have an obligation to make mortgage loans in neighborhoods with low and moderate incomes.</u>

   In our hometown of Detroit, this change could be catastrophic. In 2005, Detroit recorded 3,932 new mortgages issued to homeowners. The vast majority to African Americans. In 2018, the city recorded approximately 1,300 new mortgages originations. At least 30% of those mortgages were originated through programs like our own Detroit Home Mortgage program that rely, in-part, on Banks motivated by Community Reinvestment Act lending. Removing this incentive could dramatically reduce home mortgage lending leading to displacement of current residents seeking to refinance their homes, create a new barrier to repopulating the city for families who

want to move in, and reinforce the historic redlining that Detroit continues to suffer from today.

2) The new scoring system would allow banks to completely ignore almost half of the markets where they have branches and still pass their exams,

   This proposed regulation ignores the reality of banking in the modern age and its impact on the populations and cities we serve. In 1977 when the act was first passed, Detroit was home to several major financial institutions including the National Bank of Detroit, Detroit Bank & Trust, and Manufacturers National. This hometown institutions dominated deposit shares locally and robustly reinvested in the Detroit community. Today, not one of the five largest banks by deposit size are headquartered in Detroit. The consolidation in the banking sector has consolidated the centers of influence in banking to a few major cities leaving behind communities like Detroit. We have excellent partners in the banking community locally including large multinational banks. However, the Community Reinvestment Act is a significant tool used to empower local market leadership to deliver the resources of a national bank in a manner that is responsive to community needs.

3) The proposed changes will encourage banks to seek out large dollar community development deals to quickly get to a single total dollar volume metric and discourage loans to people with low- and moderate-incomes LMI and small businesses because the loans are much smaller,

   Our experience funding groups that serve low-income communities has taught us that economies of scale often work contrary to the needs of people living and working in these communities. If economic and regulatory incentives push banks to standardize product delivery to reach greater scale in transactions, those transactions will be less likely to deliver the type of capital needed in the most distressed communities. While cumbersome at times, delivering financial tools that are tailored to the local community context is essential to improving local conditions. While the volume of capital invested matters, it rarely determines success. The purpose of the community reinvestment act is to drive investment to the places where regulated institutions draw deposits. Those customers and their communities have unique challenges that require local understanding and the ability to scale down to the problem.

4) The system that gives credit to banks for having branches in LMI communities is weakened and will likely lead to massive branch loss in communities that are already underserved,

   According to the FDIC's own survey, nearly 50 million people are underbanked in the US. The vast majority of this number are low income with a high concentration of black and Latino households. Black and Latino neighborhoods are already disproportionately affected by branch closure. In 2018 S&P released a study noting that black communities lost roughly 14% of their bank branches compared to the national loss of roughly 9.7%. The loss of those assets correlates highly with the loss in available credit to small businesses (around 13% according to an MIT study published in 2014) along with personal credit and an increase in predatory lending. Branch closures are particularly harmful to rural communities. The Federal Reserve's own research published in 2019 indicated that many rural communities faced significant barriers to accessing affordable credit and saw sharp declines in home and business lending following a branch closure.

5) The proposal redefines community development to include large infrastructure projects like stadium improvements in LMI Opportunity Zones which further encourages banks to seek out larger deals over smaller loans to meet the ratio for the total dollar volume metric,

   It's deeply concerning that the OCC and FDIC would choose to incentivize investments in projects like large stadiums so long as they are located in Opportunity Zones. Opportunities Zones are an entirely unproven tool with shockingly little transparency or accountability built into the incentive. So much so that Congress including the incentive's original co-sponsors, are calling for legislative reform. Without strong and independently evaluated evidence to support the efficacy of Opportunity Zones benefiting LMI communities, it's very unwise and potentially very harmful to incentivize regulated institutions to steer a finite resource into a completely unproven tool and away from proven capital channels that we know directly and verifiably benefit LMI communities.

6) The definition of affordable housing would be relaxed to include middle-income housing in high cost areas,

The affordable housing crisis in the US has reached a crisis point. In a study published by Harvard's Joint Center for Housing Studies, the authors found that nearly one third of US households qualify as "cost burdened" where they are spending 30% or more of their annual income on housing costs. This number is poised to explode over the next decade as the bottom 60% wage earners have seen virtually no increase in household income over the last decade after adjusting for inflation. Rising housing costs, especially in urban centers, will force millions of families into poverty and create a host of long-lasting negative impacts on society. While middle-income housing is crucial to help prevent people from ending up in poverty, there are other avenues of capital available to address this issue. Clean, safe, affordable housing for low-income people is one of the best platforms for social and economic mobility. The production of this housing relies on a very mature and relatively efficient marketplace fueled by CRA motivated capital. Weakening this private market would be catastrophic to the production of low-income units across the country and damaging to the most at-risk families in the US. Again, our experience in Detroit, Memphis, New Orleans, and many other cities tells us that CRA motivated capital is critical to the production of affordable housing. We have worked directly with CRA motivated banks to create investment designed to bolster the production of affordable housing. While the capital was helpful, often times it was the staff dedicated to, in-part, fulfilling a regulatory obligation that was necessary to craft an investment that would be successful. In no small way, CRA motivated capital is partially responsible for the rebirth of Detroit and continues to fuel its recovery, particularly in the affordable housing space.

7) <u>The proposal would lessen the public accountability of banks by not accurately measuring its responsiveness to local needs.</u>

This is perhaps most critical. The existing regulatory mandate creates a strong incentive for regulated institutions to understand local needs. Often times (but not often enough) this leads to staff dedicated to working in community to deploy CRA motivated capital effectively. For most banks, we believe it comes down to "if you're going to do something, do it right". For most institutions (but not all), that regulatory requirement is just the beginning. It's the mandate to deliver something and the business discipline leads most institutions to work hard to deliver the right tool to the right context. Weakening that mandate undermines local market presidents, local

> bankers, credit executives, corporate foundation staffs, and volunteer groups in the face of ever-present shareholder demands to improve earnings. If CRA becomes about the path of least resistance we will lose that local understanding and communities will suffer for it.

It is clear that the proposed rules would weaken CRA. The focus on LMI communities would be lost - the exact intent of CRA when it was signed in 1977. This backtracking would violate the agencies' obligation under the statute to ensure that banks are continually serving community needs. The FDIC and OCC need to discard the proposal, and instead work with the Federal Reserve Board to create an interagency rule that will augment the progress achieved under CRA instead of reversing it.

Aaron T. Seybert

ATSeybert@kresge.org

Troy

MI

Managing Director

The Kresge Foundation

Warm regards,

[Name/Signature]