Re: Comments to proposed implementing regulations for the Community Reinvestment Act (CRA)

OCC Docket ID OCC-2022-0002;
FDIC RIN 3064-AF81;
Federal Reserve Docket No. R-1769 and RIN 7100-AG29

To Whom It May Concern:

The Akron Summit Community Reinvestment Coalition, Inc. would like to thank you for this opportunity to comment on the proposed Community Reinvestment Act (CRA) regulations. The Akron Summit Community Reinvestment Coalition, Inc. (ASCRC) established in 2016 (and incorporated in 2017) brought together a coalition of Akron and Summit County (Ohio) area community organizations and entities. As stated in our bylaws, "(t)he Coalition advocates for, facilitates, uplifts, and strengthens economic, social and business opportunities and projects that promote financial services, investment and economic opportunity in the low and moderate income neighborhoods and the historically disadvantaged neighborhoods of the greater Akron and Summit County area." Based on the adverse impact resulting from the discriminatory practice of redlining, the CRA was adopted in significant part to help build and support LMI communities and neighborhoods through the kind of credit, investment and services that local banks can provide in a manner consistent with their safe and sound operation.

The proposed changes are, in many material respects, a significant improvement over the existing regulations. They come much closer to the letter, the spirit and the intent of the CRA. At the same time, there are some areas upon which we would like to comment in an effort to promote further understanding and improvement.

CRA Performance Ratings: Racial & Ethnic disparities

In order to rate the CRA performance of a bank/financial institution, the CRA requires the designated supervisory agency to prepare a written evaluation of the bank/financial institution's record for meeting the credit needs of its entire community, including low and moderate-income neighborhoods. The written evaluation must include a discussion of the facts and data that support the bank/financial institution's performance rating. In other words, a careful, thoughtful and in-depth consideration of the relevant facts and circumstances is not just anticipated, it is specifically required by the CRA statute. 12 USC 2903 [Financial institutions; evaluation] and 12 USC 2906 [Written evaluations].

With this in mind, it is curious that the exam process does not specifically include race as a factor upon which the performance rating is based when, in fact, factors of race and ethnicity were at the heart of the problems (e.g., redlining) that led to the need for the CRA in the first place. HMDA race data is included in the information collected but it is not factored into the final examination process. If negative HMDA lending data is reported for a particular financial institution, but the regulator believes that there are "facts and data" that demonstrate good and sufficient reasons for this, then this can be explained in the "discussion" section of the written evaluation in support of a final favorable recommendation. 12 USC 2906 [Written evaluations].

It is counterproductive to disregard a bank/financial institution’s "institutional record" with respect to race when rating the performance of the bank/financial institution. The bank/financial institution’s knowledge that its’ record (e.g., a record indicating a high percentage of loan denials for persons of color) will be not only scrutinized, but
also discussed by the regulator in a written performance evaluation will better guarantee the bank/financial institution's CRA performance going forward with respect to lending, investment and services. If a bank/financial institution knows it can avoid the application of this information to its CRA rating, this will contribute to a potential pattern (i.e., institutional record) of bad or lackluster conduct.

It would constitute a weakness in the system, and provide "cover" (i.e., a satisfactory rating) to banking/financial institutions that are actually in fact operating on a less than satisfactory basis with respect to their lending practices, including either loan denials or providing loan terms that appear to have potentially racial overtones. See e.g., Harvard University Center for Housing Studies, High-Income Black Homeowners Receive Higher Interest Rates Than Low-Income White Homeowners [February 16, 2021]. The practice of discriminatory loan terms (e.g., higher interest rates to persons of color) contributes to the potential for a default and/or problems with respect to future creditworthiness.

It is no secret that LMI communities of color have historically borne the brunt of the lack of bank branches, services and products that are needed to bank, build credit, and build wealth (e.g., homeownership). In 2016, the median net worth of white families was 8 to 9.7 times higher than Hispanic families and Black families, respectively. (See e.g., FEDS Notes: Recent Trends in Wealth-Holding by Race and Ethnicity: Evidence from the Survey of Consumer Finances [September 27, 2017]. Black and Hispanic households are 5 to 6 times more likely to be unbanked than white households. (See e.g., 2017 FDIC National Survey of Unbanked and Underbanked Households).

Low-income communities of color disproportionately do not have the banking products they need to build wealth - affordable mortgages or checking and savings accounts. By not requiring banks to be more attuned to and creative when addressing the needs of LMI communities and neighborhoods, this creates the potential for increased predatory lending and reverse-redlining practices in mortgage and consumer lending. These type of practices lead to a loss of wealth in the community and the neighborhoods. A more deliberate consideration of the bank/financial institution's treatment of race when rating CRA performance will help reduce conduct that contributes to these type of bad outcomes.

**Small Business Lending: Race & Gender**

In this same regard, a consideration and analysis of small business lending by the race and gender of the business owner, and the application of that information to the bank's CRA performance is also essential. As with individual lending as discussed above, race and gender data needs not only to be collected, it needs to be applied when it comes to a CRA performance rating. The CRA, in fact, requires a discussion of "the facts and data" governing the assessment which is in support of the rating. 12 USC 2906 [Written evaluations]. It goes without saying that "race and gender" are historically (and as reflected in fair housing law) the type of key "facts and data" that are essential for making a proper determination with respect to evaluating CRA performance.

**Affordable Housing: Rental Housing**

Housing costs are generally the most significant costs in a household budget. As such, the need to address the affordable housing needs of the LMI community is the only way to realistically have a meaningful impact on improving LMI access to credit opportunities. The availability of affordable housing has been challenging for
some time. However, in recent times, it is at a critical stage. Rents have sky-rocketed --- in some cases, the rent increases are justified. However, in many cases, rent increases have been demanded without any meaningful justification. “Rent gouging” has become increasingly commonplace, and it is a “drag” on the overall financial health of a community. Although a clear definition of “affordable” is necessary, the regulations need to do more to make it clear that banks and financial institutions who contribute to increasing the amount of the affordable housing stock (i.e., increasing the number of available housing units) will be rewarded in a manner commensurate with their efforts.

The practice of banks/financial institutions purchasing high volumes of mortgage-backed securities shortly before their CRA examinations in order to “boost” or to support a favorable CRA performance rating should be addressed in a way that does not unduly reward the practice unless it can be clearly shown that the bank/financial institution is otherwise engaging in substantial and meaningful local CRA activities that demonstrate a commitment for meeting its statutory 12 USC 2901(a)(3) “affirmative obligation” to meet the credit needs of the community, including the LMI community.

In answer to Question 9, the proposed approach for mortgage-backed securities should definitely be modified to ensure that the activity is aligned with the CRA’s purpose of strengthening credit access for low or moderate-income individuals. Without a CRA connection, no CRA credit should be provided. The proportional value of the affordable loans should only be considered. Absent significant and special circumstances, CRA credit should only be one-time and not more long-term.

Providing CRA credit for the financing of rental housing in High Opportunity Areas is concerning to the extent this can limit housing availability in areas where locating affordable housing is of a greater need. Absent the ability to use a Section 8 voucher, housing in these areas may effectively exclude low-income persons from rental access since existing, current residents in these areas will generally have higher incomes. Developing a method that requires that prospective tenant families be able to use a Section 8 voucher as part of the overall development plan and package would minimally be necessary before CRA credit can be sought.

Homeownership & Supporting Activities

For Question 8, with respect to affordable low- or moderate-income homeownership, CRA credit should only be assigned to the extent that either the property is specifically reserved for a low or moderate income family to purchase; or, in fact, a low or moderate income family purchased the property. Building a home that is affordable to LMI individuals but is purchased by a family with higher income does not benefit LMI families. In fact, the purchase hurts LMI families since it removes from the affordable low- or moderate-income housing stock a home that would otherwise have been available to them for purchase. A higher income family purchase also builds wealth in the higher income family at the expense of an LMI family that would have otherwise directly benefitted from the purchase. The LMI family’s ability to build wealth will be deferred and potentially denied.

The same principle applies when financial literacy services are opened up to all without regard to income. Resources are limited and providing these services free to those who can afford them make it more likely that there will be those who cannot afford them who will not have a financial services program that is available.
Making publicly available the results of data collected concerning deposit accounts and automobile lending will improve LMI access to credit

Under the current proposed regulations, only banks with assets of more than $10 billion will have their information publicly reported concerning their deposit accounts and auto loans. For LMI populations within a community, it would benefit them if large banks of less than $10 billion in assets also had this data publicly available. For example, meeting transportation needs for employment and other purposes can be particularly challenging for LMI individuals. A “$10 billion dollar” public reporting exemption is a large gap in reporting. We believe the public reporting exemption (or at least the amount associated with the exemption) should be reconsidered. A “$10 billion dollar” gap in the public reporting responsibility is excessive, and it is calculated to lead to less access to credit by members of the LMI community and less competition among lenders.

In this same regard, the public reporting of access to deposit accounts (and, equally important, the costs associated with them) will potentially significantly help LMI communities in terms of the access to, the choice of and the affordability of deposit accounts. Having deposit accounts also helps LMI individuals with developing and building relationships with their local banks and financial institutions.

On behalf of the Akron Summit Community Reinvestment Coalition, and with ASCRC Board review and the Board’s approval of these comments, we respectfully submit them for your consideration.

Sincerely,

Malcolm Costa, Chair
Akron Summit Community Reinvestment Coalition

John Williams, Vice-Chair
Akron Summit Community Reinvestment Coalition

Gregory Sain, Secretary
Akron Summit Community Reinvestment Coalition