

WOCSTAR[★]

August, 3, 2022

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

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

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

Via Email: regs.comments@federalreserve.gov
cra.reg@occ.treas.gov
comments@fdic.gov

Re: Community Reinvestment Act Regulations
Docket ID R-1769 and RIN 7100-AG29

Regulation BB: Community Reinvestment Act [R-1769]

The Board, FDIC, and OCC propose to amend their regulations implementing the Community Reinvestment Act of 1977 (CRA) to update how CRA activities qualify for consideration, where CRA activities are considered, and how CRA activities are evaluated.

To Whom It May Concern:

Wocstar Capital LLC and its affiliate Wocstar Fund I, LP (“Wocstar”), a Black, Indigenous, and People of Color (BIPOC) female-led venture capital firm and fund that invests in women of color technology companies in communities of color across the country, is pleased to submit these comments to the Federal Reserve, Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) (together, the “Agencies”) in response to the Notice of Proposed Rulemaking (NPR) with proposed revisions to the Agencies’ Community Reinvestment Act (“CRA”) regulations.

WOCSTAR★

Wocstar is committed to building wealth in communities of color by storytelling, investing, and championing/training both investors and entrepreneurs. Our work centers on 1) Wocstar Fund, which invests in early-stage women of color and inclusive tech startups across the country and 2) Wocstar Academy, which delivers training and technical assistance to growing companies, founders and investors and 3) Wocstar Foundation to support the BIPOC creative economy of filmmakers, playwrights, etc.

Our mission is to actively invest in companies and technologies that are redefining how we will consume content and resources, transact commerce, and create a sustainable world. These companies are creating jobs, employing people in local economies and bringing new innovations to market across a variety of sectors that such as climate change/cleantech, agricultural technology, fintech, edutech, media and data.

Wocstar supports the goals of the Community Reinvestment Act (CRA) and has witnessed its positive impact on the allocation of capital and investment to underrepresented and undercapitalized communities. Specifically, as a result of CRA, Wocstar has been able to attract financial intermediaries/ U.S. banks as investors into our first fund which has in turn allowed Wocstar Fund to secure to other investors that range from individuals, family offices and foundations. With such funds we have made over ten (10) and counting investments in BIPOC-led companies across the country.

The ability for banks to invest in Wocstar and other the first-time and emerging fund managers, particularly women and people of color is catalytic in our ability to raise funds. Historically, less than 2% of venture capital has been invested in companies led by diverse, BIPOC entrepreneurs¹. Several funds including the Wocstar Fund were launched to address the issue of providing meaningful capital to promising companies that are often overlooked, undercapitalized and in communities overlooked by the mainstream venture capital firms. However, raising funds to invest in the community continues to be challenging and will be severely hindered based on the **proposed changes to CRA related to the elimination size and purpose tests, which has provided an avenue for non-SBIC emerging-fund managers, such as Wocstar, to receive Bank investment incentivized by economic development provisions of the CRA.**

Wocstar applauds the Agencies for their leadership and commitment to addressing the capital needs of businesses in underrepresented, LMI communities and the fund managers on the ground who know these entrepreneurs best. However, we are concerned about the NPR's proposal to dramatically change CRA's ability to support financial intermediaries. The proposed elimination of the "size test" and "purpose test" ("size and purpose test"²) will

¹ <https://news.crunchbase.com/venture/something-ventured-funding-to-black-startup-founders-quadrupled-in-past-year-but-remains-elusive/>

² The "size" and "purpose" tests are set forth in Interagency Questions & Answers Regarding CRA at Section 12(g)(3)-(1); the "purpose" test specifically includes activities that either: (1) "support permanent job creation, retention, and/or improvement" (a) for low- or moderate-income (LMI) persons, (b) in LMI geographies, (c) in areas targeted for redevelopment by federal, state, local, or tribal government, (d) by financing intermediaries that lend to, invest in, or provide technical assistance to start-ups or recently formed small businesses, or (e) through technical assistance or supportive services for small businesses or farms, such as shared space, technology, or administrative assistance; or (2) that support Federal, state, local, or tribal economic development initiatives that include provisions for creating or improving access by LMI persons to jobs or job training or workforce development programs.

WOCSTAR★

eliminate the ability of banks to receive CRA credit for lending to or investing in equity and debt venture capital funds that finance small businesses with revenue greater than \$5M.

Wocstar respectfully submits that the Agencies maintain CRA credit for the **“size and purpose test” to qualify economic development activity related to support for small businesses with gross annual revenues of more than \$5 million.** The test allows for sufficient flexibility to support transparent, equitable, and innovative economic development activity related to financing small businesses by requiring that the small businesses:

1. meet the “size” eligibility standards of the SBDC or SBIC Programs, and
2. meet the “purpose” test by supporting job creation, retention, and/or improvement for LMI people, in LMI communities, in redevelopment areas, or by financing intermediaries that invest in or lend to start-ups or recently formed small businesses.

The unintended consequence of removing the “size and purpose tests” will be the loss of a major source of capital for first-time and emerging fund managers, especially female and people of color fund managers. Historically BIPOC first-time and emerging fund managers have been the least capitalized fund managers in the industry. Thankfully, CRA is an important means by which banks can be a part of the solution to address racial and economic disparity and can invest in funds which ultimately invest in businesses in communities of color, LMI areas and that are providing jobs in local communities.

The Agencies must also maintain CRA credit for the “size and purpose test” because the majority of first-time and emerging fund managers are not able to secure Small Business Investment Companies (SBICs) licenses. Thus, despite CRA credit being preserved for bank investments in Small Business Investment Companies (SBICs) licensed by the SBA, it will exclude the majority of BIPOC first-time and emerging fund managers are non-SBIC funds, such as Wocstar, which is investing in the same types of investments that SBIC funds make in small businesses

Given the size of Wocstar fund (i.e. assets under management), our small team, operations and early stage as a first-time fund we are not in a position to perform SBA’s license approval process. The barriers to entry are time and capital intensive and put undue strain and burden on first-time emerging fund managers. Thus, it is imperative to preserve the “size and purpose tests” which allows Wocstar and funds like ours to have access to catalytic CRA capital and institutional investors.

Eliminating CRA credit for non-SBIC funds would continue the systematic, racial, and economic exclusion of first-time and emerging fund managers, particularly women and BIPOC funds and access to capital for minority or women-led or owned small businesses.

Specific to Question 13 in the Notice of Proposed Rulemaking, Wocstar believes that the CRA regulations should continue to allow banks to receive CRA credit for investments into funds, like ours, that support job creation, retention, and/or improvement in LMI communities.

WOCSTAR★

Further, acknowledging the vast landscape of companies owned by people of color, we urge the regulators to allow non-SBIC financial intermediaries to support businesses with gross annual revenues of greater than \$5 million, but consistent with the size eligibility standards of the SBDC and SBIC programs.

We believe the CRA plays an unrivaled role in incentivizing banks to support more diverse and emerging managers such as Wocstar. The CRA must continue to support the flow of capital from banks supporting the new majority of fund managers and also empower these funds to support businesses of all sizes, particularly those that primed for growth in terms of revenue AND job creation. Aligned to the original intent of the CRA as well as the renewed focus on racial equity, the provisions related to economic development through small businesses and job creation, retention, and improvement play a critical role in supporting economic opportunity and wealth creation within our communities of color, **and must be retained.**

Wocstar Capital sincerely appreciates the Agencies' efforts to modernize CRA regulation so that it may continue to address barriers that perpetuate the racial wealth gap and equal economic opportunity across communities.

Thank you for the opportunity to share our comments regarding NPR. We would be pleased to answer any questions and to participate in any further efforts to improve CRA.

Sincerely,



Gayle Jennings-O'Byrne
Chief Executive Officer
Wocstar Capital, LLC
www.wocstar.com