

Docket Number R-1723 and RIN Number 7100-AF94

To Whom it May Concern:

The Federal Reserve Board (Fed) must strengthen the rigor of CRA exams to promote recovery from the COVID-19 pandemic. The Fed has described approaches in its Advance Notice of Proposed Rulemaking (ANPR) on CRA that will make CRA exams more objective and transparent. Yet, questions remain about whether the Fed's approach will reduce the high rate of CRA inflation. If nearly every bank continues to pass their CRA exams, banks will not engage in strenuous efforts to help communities of color and low- and moderate-income (LMI) neighborhoods recover from the pandemic's devastation.

The undersigned organizations support the views of this letter. We work daily in promoting reinvestment and fair lending in underserved communities across the country.

### **Strengthening CRA is a critical component of a just recovery**

The National Community Reinvestment Coalition (NCRC) recently released a [major report](#) finding significant correlations between redlining and susceptibility to COVID-19. In the 1930s, the Home Owners Loan Corporation (HOLC) created maps that rated neighborhoods based on the risk of lending in them. Working-class neighborhoods and communities of color usually received the riskiest designation of hazardous. The designations subsequently facilitated redlining and discrimination against these neighborhoods, which remain starved of credit and are predominantly lower-income and minority. These neighborhoods also have the highest incidence of health conditions such as asthma, diabetes, kidney disease and stroke, which make residents more susceptible to COVID-19. Life expectancy is almost four years lower in the redlined communities than the neighborhoods not designated as hazardous by HOLC.

Since the start of the pandemic, the number of [Black business owners dropped by 440,000](#), or 41%, compared to just a 17% decline in white small business owners. Discrimination in lending contributes significantly to racial disparities in small business survival rates. An NCRC [investigation](#) found that African American testers applying for Paycheck Protection Program (PPP) loans for their small businesses during the pandemic were likely to receive less information or encouragement to apply than white testers. CRA must be strengthened considerably to combat discrimination and help our communities recover from the pandemic.

### **The Federal Reserve proposal must be strengthened to prevent grade inflation**

However, it is unclear if the Fed's ANPR proposals will address CRA ratings inflation. The Fed emphasizes improving the performance measures on CRA exams, including those used on the lending test that compare a bank's percent of loans to LMI borrowers and communities to other lenders. However, the Fed proposes thresholds that appear to reproduce the high ratings on CRA exams. The Fed does not describe in any detail the impact of its initial thresholds on CRA ratings and hints the thresholds replicate the current CRA ratings distribution.

Moreover, the Fed is proposing to reduce the number of ratings on a state level and on subtests from five to four. This proposal would result in fewer distinctions in performance, whereas a new CRA exam system must reveal more distinctions in performance in order to motivate banks to be more responsive to COVID-19 recovery needs. Five ratings must be retained on the state level and on subtests. In addition, a point scale that can reveal more distinctions in performance should supplement the overall ratings.

### **The Federal Reserve proposal should be strengthened to increase lending to people of color**

The Fed recognizes the importance of addressing racial inequities. It asks the public whether underserved areas should be designated based on high levels of poverty or low levels of retail lending. We support NCRC's designation of underserved census tracts based on low levels of lending, which would effectively target neighborhoods redlined because of the HOLC classifications.

We also ask the Fed to consider explicitly including race on CRA exams. The agencies have hesitated to do so, but we believe that the CRA statute allows this since the law emphasizes banks meeting credit needs in all communities, particularly underserved ones. CRA exams could include performance measures assessing lending, investing, branching and services to people of color and communities of color. In addition, CRA exams can include racial and ethnic demographic data in performance context analysis and require banks to affirmatively include communities of color in their assessment areas (geographical areas on CRA exams). The Fed could also provide CRA consideration for community development lending and investing in majority minority census tracts outside of assessment areas, just as the Fed is considering for Indian Country and other underserved areas.

### **Assessment areas must support and reflect a commitment to local lending, investments and services**

We support the Fed's proposals to expand assessment areas on CRA exams. In addition to areas around branches, assessment areas must also include areas outside of branches with significant amounts of bank lending or deposit-taking. We do not support the idea of a national assessment area for internet banks that the Fed discusses. Instead, we believe that data analysis can designate areas where high numbers of retail loans or deposits are located. Because redlining is a local phenomenon, banks, including branchless banks or those that have online and branch operations, must have local assessment areas for evaluating their performance.

We applaud the Fed proposal to eliminate distinctions between full-scope and limited-scope assessment areas. Full-scope assessment areas, which are usually the largest cities, count more on current CRA exams than limited-scope areas that generally are smaller cities and rural counties. Often, communities of color, Native American communities, and other underserved communities continue to receive less CRA-related loans and investments because they are in limited-scope areas.

### **CRA modernization must maintain its focus on lower-income communities and better target communities of color**

Unlike the Office of the Comptroller (OCC), the Fed generally does not stray away from the focus on LMI communities in its ANPR proposals. However, we do not support expanding financial education for clients of any income level as suggested by the Fed since low- and moderate-income (LMI) consumers and people of color are most likely to be unbanked or underbanked, as revealed by [surveys](#) conducted by the Federal Deposit Insurance Corporation (FDIC).

The Fed can designate additional subgroups in the population such as people of color, people with disabilities or older adults for whom CRA credit for financial education or other community development activity can be earned instead of opening it up to everyone regardless of need. Likewise, the Fed should further develop its procedures for awarding CRA credit for financing affordable housing that is not subsidized so that such financing actually serves LMI tenants.

### **Collecting improved community development and deposit data**

Finally, the Fed should pursue its proposals to collect improved community development and deposit data. Community development and deposit data should be collected on a census tract level or at least on a county level so that CRA exams can better target community development financing to areas of need.

### **Conclusion**

We are appreciative of the direction the Fed has embarked on its ANPR, but caution that the Fed must not end up with a set of proposals that replicate existing CRA ratings inflation as this will not help our communities devastated by COVID-19. We believe that this proposal serves as an important starting point for an interagency rulemaking that will strengthen CRA and take a critical step towards more financially resilient communities and an equitable recovery.

Sincerely,

### **National Groups**

#### **National Community Reinvestment Coalition (NCRC)**

Better Markets

Center for Community Progress

Community Reinvestment Fund, USA

Consumer Action

Consumer Federation of America

Families USA

NAACP

NAACP Legal Defense and Educational Fund, Inc. (LDF)

National Association for Latino Community Asset Builders

National Association of Real Estate Brokers (NAREB)

National Consumer Law Center (on behalf of our low-income clients)

National Housing Resource Center  
National NeighborWorks Association  
National Urban League  
Opportunity Finance Network  
Public Citizen  
Small Business Majority  
The Leadership Conference on Civil and Human Rights  
U.S. Conference of Mayors  
U.S. PIRG Education Fund

## **State Groups**

### **Arizona**

Arizona Housing Coalition

### **California**

Build Healthy Places Network  
CAARMA  
California Reinvestment Coalition  
CDC Small Business Finance  
EAH Housing  
FACES Family Assessment Counseling & Education Services Inc  
Grounded Solutions Network  
Pacific Community Ventures  
Peoples' Self-Help Housing  
The Greenlining Institute  
United Way of Kern County  
Vermont Slauson Economic Development Corporation

### **Colorado**

Mi Casa Resource Center

### **Delaware**

Delaware Community Reinvestment Action Council, Inc.

### **Florida**

Affordable Homeownership Foundation, Inc.  
Community Reinvestment Alliance of South Florida  
H.E.L.P. Community Development Corp  
Metro North Community Development Corp.  
New Urban Development LLC

### **Georgia**

Georgia Advancing Communities Together, Inc.

**Hawaii**

Hawai'i Alliance for Community-Based Economic Development

**Illinois**

American Muslim Health Professionals

Brighton Park Neighborhood Council

Housing Action Illinois

The Resurrection Project

Universal Housing Solutions CDC

Woodstock Institute

Continuum of Care Network NWI, Inc..

**Indiana**

Lafayette Neighborhood Housing Services, Inc. dba

HomesteadCS

Northwest Indiana Reinvestment Alliance

Prosperity Indiana

**Massachusetts**

Massachusetts Communities Action Network

**Maryland**

Housing Options & Planning Enterprises, Inc.

Maryland Consumer Rights Coalition

**Missouri**

Consumers Council of Missouri

Metropolitan St. Louis Equal Housing and Opportunity Council

R.A.A. - Ready, Aim, Advocate

**Mississippi**

Covenant Faith Outreach Ministries Inc./Covenant CDC

**North Carolina**

Centre for Homeownership & Economic Development

Henderson and Company

Kingdom Community Development Corporation

Rebuild Durham Inc

Reinvestment Partners

The Collaborative of NC

**New Jersey**

New Jersey Citizen Action

**New Mexico**

Southwest Neighborhood Housing Services

**New York**

Association for Neighborhood and Housing Development

Fair Finance Watch

Fifth Avenue Committee, Inc.

Neighborhood Housing Services of Queens CDC

Neighbors Helping Neighbors, Inc.

Rural Housing Opportunities Corp.

**Ohio**

City of Toledo

Home Repair Resource Center

Homes on the Hill, CDC

Maumee Valley Habitat for Humanity

Perfecting Saints Heart to Heart Ministries, INC

Village Capital Corporation

**Oregon**

CASA of Oregon

Housing Oregon

**Pennsylvania**

BLWDC

Ceiba

Coalition of African Communities (AFRICOM)

Community Action Committee of the Lehigh Valley

Community Legal Services of Philadelphia

Lower Marshall-Shadeland Development Initiative

Pennsylvania Home Lending Collaborative, INC

**Rhode Island**

HousingWorks RI

**Tennessee**

United Housing

Our Casas Resident Council Inc.

**Texas**

Southern Dallas Progress Community Development Corporation

**Wisconsin**

Cassandra M Flagg Consulting Services LLC  
Community Advocates, Inc.  
Disability Justice  
Foxy Locs LLC  
Greater Milwaukee National Association of Hispanic Nurses  
Green Homeowners United  
Harambee Neighborhood Improvement District #7  
Havenwoods EDC  
KLD Construction Management Services, LLC  
Lloyd Consulting, Inc.  
Metropolitan Milwaukee Fair Housing Council  
Milwaukee Christian Center  
Milwaukee Habitat for Humanity  
Milwaukee Muslim Women's Coalition  
MKE United - Housing Committee  
Prism Economic Development Corporation  
Safe & Sound  
SecureFutures Foundation, Inc.  
The Greater Milwaukee Foundation  
The Milwaukee Christian Center  
Urban Economic Development Association of Wisconsin(UEDA)  
Wisconsin Faith Voices for Justice