



March 2, 2020

RE: Notice of Proposed Rulemaking, Community Reinvestment Act Regulations

To Whom It May Concern:

I am writing on behalf of the Board and staff of the North Carolina Institute for Minority Economic Development (the Institute) to oppose 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 over three decades, the Institute has pursued its mission to strengthen the asset base of diverse populations by reducing systemic barriers to opportunity. We do so with programs that educate and train aspiring and current small business owners, including two SBA-funded Women's Business Centers and the South Atlantic Regional Small Business Transportation Resource Center; through technical assistance to public agencies and for-profit companies that are seeking greater vendor diversity; and through education and advocacy at the local, state and federal level to improve the ecosystem for small business ownership, particularly in low-income communities and communities of color.

Among the Institute's key constituents are the 16,432 minority and women-owned businesses entities (MWBES) and other aspiring business owners we serve each year across the state of North Carolina, most of whom live or work in low to moderate income (LMI) communities. We know from these constituents that access to fair, affordable capital and credit is among the most difficult systemic barriers to their entrepreneurial efforts, business growth, and self-sufficiency.

The Community Reinvestment Act has been a critical means to level the playing field for constituents like ours, and in fact multiple local and national banks support the Institute on an annual basis and are represented on our Board of Directors. Our concern is that the proposed rules will significantly diminish capital for our constituents, who still under current rules have difficulty finding support from mainstream banking system. Specifically:

The proposed changes would encourage banks to seek out large dollar business loans and disadvantage small business owners with smaller needs.

- First, the proposal would raise the revenue limits that define small businesses and family farms for the purposes of qualified CRA activity. Limits would increase from \$1 million to \$2 million for small businesses and as high as \$10 million for family farms. We believe this will reward banks for their bias toward larger-dollar loans and for lending to businesses that already have good access to lending relative to their smaller peers.

- Second, the proposal will allow financing for “athletic stadiums” and other infrastructure in LMI communities and Opportunity Zones to qualify for CRA credit without across-the-board requirements for LMI employment and supplier diversity goals. This also will encourage banks to seek larger deals to meet their threshold tests, rather than to meet the community-based outcomes that CRA is intended to catalyze.

The proposal will encourage further erosion of bank branch infrastructure and lending in LMI communities.

By eliminating the current large bank service test and examination of basic banking accounts for LMI customers, banks are off the hook for serving communities who need them most. In addition, the proposed “one ratio” approach devalues bank branches in LMI communities significantly. A bank with a high 30% of their branches in LMI census tracts, would only receive an addition of .3 percentage points in the one ratio. Moving to this approach will greatly diminish the importance of bank branches in CRA compliance, which will likely lead to significant branch loss and a decrease in lending in LMI communities. On-line banking is not enough for our constituents, who benefit considerable from the personal relationships with local banking personnel.

The proposal reduces scrutiny on retail lending, letting banks off the hook for serving striving families and small business owners.

Homeownership and access to business credit are intricately tied, as many small business loan programs require personal guarantees collateralized by real estate. Under the proposed rules, home mortgage lending in LMI communities is eliminated as an exam criterion. Furthermore, the lending test that looks at home mortgage, small business and consumer lending would be pass/fail and would count for much less towards the rating in each Assessment Area and overall. In this way, banks can fail their retail lending test in half of their assessment areas and still pass. That is to say, banks could refuse to make critical consumer, homeownership, and business credit available in 50% of LMI Assessment Areas without penalty. This is unacceptable and would erode opportunity for our constituents to build the assets and credit they need to start and build economically viable businesses in their communities.

The Institute respectfully appeals to both agencies to go back to the drawing board and design CRA reforms that would increase bank activity in underserved neighborhoods and reduce persistent racial disparities in lending. Unfortunately, the proposed rules would weaken CRA, reducing its focus on real and persistent community needs. The Institute would welcome the opportunity to offer further input in such future discussions.

Sincerely,



Lewis H. Myers
Acting CEO

CC: Rep. David Price, Rep. G.K. Butterfield, Sen. Richard Burr, Sen. Thom Tillis
Board of Directors, NC Institute of Minority Economic Development