

April 6, 2020

RE: Notice of Proposed Rulemaking, Community Reinvestment Act Regulations

To Whom it May Concern:

I, Corey Leon, oppose the proposed changes to the Community Reinvestment Act (CRA) regulations. I live in a city with a vast majority of its census tracts occupied by low- and moderate-income households. I also work in Community Development Finance and see the impact of the lack of investment in underserved communities every day. I totally agree with dissenting FDIC Board member Martin Gruenberg that the FDIC's and OCC's Notice of Proposed Rulemaking (NPRM) on the Community Reinvestment Act (CRA) "is a deeply misconceived proposal that would fundamentally undermine and weaken the Community Reinvestment Act."

The agencies would lessen the public accountability of banks to their communities by enacting unclear performance measures on CRA exams that would not accurately measure bank's responsiveness to local needs. Public input into this obtuse evaluation framework would be more difficult and limited. Despite the agencies' assertions that their proposal would increase clarity and bank CRA activity, the result would be significantly fewer loans, investments and services to low- and moderate-communities (LMI). If it were not for the CRA, many, if not most, of the real estate projects that I work on in Detroit's, Cincinnati's and Cleveland's neighborhoods would not get any attention from the banks. These projects are not easy to finance because of their complexity and need for multiple sources of finance. Only because of the CRA will banks take the time and attention to understand that a viable project is hidden behind their perception of the neighborhood.

The agencies would dramatically lessen CRA's focus on LMI communities in contradiction to the intent of the law to address redlining in and disinvestment from LMI and communities of color. The definition of affordable housing would be relaxed to include middle-income housing in high-cost areas. In addition, the NPRM would count rental housing as affordable housing if lower-income people could afford to pay the rent without verifying that lower-income people would be tenants. As someone who works on affordable housing projects, allowing this without verification will be abused in my experience. Income verification may not be easy, but it is vital to make sure the benefit is going to a truly in-need household.

Under the NPRM, financing large infrastructure such as bridges would be a CRA eligible activity, which would divert banks' attention from community development projects in LMI communities. Even financing "athletic" stadiums in Opportunity Zones would be an eligible activity. Small businesses and farms that could benefit from CRA would have higher revenues, increasing from \$1 million to \$2 million for small businesses and as high as \$10 million for family farms. The agencies are drastically diluting the emphasis, established in the 1995 regulatory changes to CRA, of revitalizing LMI communities with affordable housing, small business development and community facilities.

While the NPRM recognizes changes in the banking industry such as the increased use of online banking, the NPRM's reforms to the geographical areas on CRA exams are problematic and would reduce transparency. The agencies propose to establish new areas on exams that are outside of branch networks but where banks collect a significant amount of deposits. However, the deposit data collected now does not include customer geographical locations when customers open accounts via the internet. Thus, neither the agencies nor the public can assess the impacts of this proposal by estimating the numbers of banks with new areas and what parts of the country would have increased attention. The public does not have a fair chance to offer comments on the effectiveness of significant proposed changes whose impacts are unknown.

The proposed changes are likely to divert attention from areas served by branches since the agencies propose to make it easier for banks to engage in CRA-qualified activities outside of areas with branches. Currently, banks can engage in community development activities beyond areas with branches only after satisfactorily serving them. Under the NPRM, there would be no such restriction, allowing banks to find the easier places anywhere in the county to engage in community development without first responding to needs in the communities with branches. This will adversely impact those highly distressed communities in places like Flint and Detroit that critically need community development but where it is harder to engage in CRA-qualified activities. This is just a terrible idea!

The agencies propose an evaluation system that would further inflate ratings while decreasing the responsiveness of banks to local needs. Now, 98% of banks pass CRA exams; the proposal would likely push this up to 100%. The agencies propose a 'one ratio' measure that consists of the dollar amount of CRA activities divided by deposits. This ratio measure would likely encourage banks to find the largest and easiest deals anywhere in the country as opposed to focusing on local needs, which are often best addressed with smaller dollar financing for small businesses or homeowners. Since banks could fail in one half of the areas on their exams and still pass under the proposal, the likelihood of banks seeking large and easy deals anywhere but the harder hit communities increases. Neighborhoods like Avondale in Cincinnati, Fairfax and Hough in Cleveland, Krainz Woods and Grixdale Farms in Detroit and the Civic Park neighborhood in Flint are not likely able to compete with up-coming neighborhoods in those cities, let alone compete with stronger market cities such as Chicago, Brooklyn (NYC) and Los Angeles. This evaluation system will create winning areas and losing areas – just like red-lining did!

The proposal would retain a retail test that examines home, small business and consumer lending to LMI borrowers and communities but this retail test would be only pass or fail. In contrast, the retail test now has ratings and counts for much more of the overall rating. Moreover, the proposal would eliminate the service test that scrutinizes bank branching and provision of deposit accounts to LMI customers. Replacing this test is a formulaic measure that would result in branches in LMI areas counting for very little in the one ratio and hence would encourage banks to close them. With the closure of real banking, non-bank service providers such as check cashing stores will have no cost-reasonable competition in whole neighborhoods of our cities.

The agencies establish numerical targets under the one ratio exam for banks to hit in order to achieve Outstanding or Satisfactory ratings. However, the agencies base the targets on their

research, which the agencies do not reveal in the NPRM. The public, therefore, cannot make informed judgements about whether the numerical targets would result in increases in activity, stagnant levels or decreases. The agencies have violated a basic premise of rulemaking, which is to enable the public to assess the impacts of a vitally important rule to communities. You are not Coca-Cola that can protect the secret recipe! This is supposed to be a public process where the public has access to the information directly informing your rulemaking.

The agencies also propose to allow banks that receive Outstanding ratings to be subject to exams every five years instead of the current two to three years. This stretch out reneges on the agencies' statutory duties to ensure banks are continuing to respond to community needs. Banks with a five-year exam cycle would likely relax their efforts in the early years of the cycle. Banks would also have less accountability to maintaining acceptable recent CRA performance when they seek permission to merge with other banks.

Under the NPRM, small banks with assets less than \$500 million could opt for their existing streamlined exams instead of the new exams. The new exams would require banks to engage in community development financing while the existing small bank exams do not. A significant subset of these banks which are now required to engage in community development finance would not be required to continue to do so, another loss for the community that is not justified (the NPRM says that small banks may actually perform better on the new exams than their larger counterparts).

Instead of weakening CRA, the agencies must enact reforms that would increase bank activity in underserved neighborhoods. The agencies do not address persistent racial disparities in lending by strengthening the fair lending reviews on CRA exams or adding an examination of bank activity to communities of color in CRA exams. At the very least, the agencies could add a category on CRA exams of underserved census tracts (as measured by loans per capita), which would likely include a high number of communities of color. The agencies also require banks to collect more data on consumer lending and community development activities but do not require banks to publicly release this data on a county or census tract level. Finally, the agencies do not require mandatory inclusion on exams of bank mortgage company affiliates, many of whom engaged in abusive lending during the financial crisis.

This deeply flawed proposal would result in less activity for communities most in need that were the focus of Congressional passage of CRA in 1977. The changes – less focus on people that are LMI, a simplistic one ratio, a bank could fail in one half of its areas and retail lending and branching would count for less of the rating – would increase grade inflation accompanied by a decrease in lending, investing and bank services to LMI consumers and LMI communities. This backtracking will violate the agencies' obligation under the statute to ensure that banks are continually serving community needs.

The agencies violate cardinal principles of rulemaking in terms of fulfilling their statutory responsibilities under CRA and not proposing a rule based on clear and transparent data analysis about the rule's impacts. The FDIC and OCC need to discard the NPRM and instead work with the Federal Reserve Board and propose an interagency rule that will augment the progress

achieved under CRA in terms of reinvesting in LMI communities, not halting or reversing this progress.

I have been in Community Development Finance for over 20 years and strongly believe that the current CRA system is already too easy to get Satisfactory ratings. The CRA system needs an update to consider internet banking but this NPRM is deeply flawed.

Corey Leon