



The Honorable Joseph M. Otting
Comptroller
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

March 11, 2020

Re: Comments on OCC Notice of Proposed Rulemaking, Community Reinvestment Act Regulations, Docket ID OCC-2018-0008

Dear Comptroller Otting:

Formed in January 2016, Expanding Black Business Credit Initiative (EBBC) is comprised of seven Community Development Financial Institutions (CDFIs) that are Black-led, or focused on financing Black-owned business. Within the consortium are three non-profit loan funds, a for-profit mezzanine fund, two regulated depositories, and one fund management company. Collectively, EBBC members are long-standing, highly respected organizations that manage \$795 million in combined assets, and operate across the U.S. in markets home to 74% of the nation's Black businesses.

Investing in Black businesses and the CDFIs supporting them is vital to the prosperity of our nation. As described below, not only is the potential economic and social gain for Black communities and the nation significantly high, strengthening Black businesses helps mitigate generations of oversight, underinvestment, and some intransigent racial perception issues.

Unfortunately, the proposed changes to the CRA will increase the likelihood that the capital needed to support Black entrepreneurs will be even harder to reach than it is today, thus perpetuating historic exclusion and underinvestment for Black businesses.

The CRA proposal falls short in two significant ways:

- **By creating a framework that as a whole incentivizes larger transactions.** The flawed framework consists of, but is not limited to: the proposed general performance standard, using dollar value rather than quantity as the unit of measurement, allowing banks to fail in half of their assessment areas while still receiving a passing grade, and expanding qualifying CRA activities to those well beyond those aligned with the CRA's original intent. Within this structure, Black small businesses and Black-led CDFIs that serve them will be left behind.
- **By increasing the loan size and revenue thresholds for small business from the current \$1 million to \$2 million, plus an index for inflation.** As explained further herein, this proposed increase, along with the other changes, will lead bank CRA investments to bypass the types of small loans to small business that could best fuel the growth of Black entrepreneurs.

Our concerns about the OCC and FDIC's proposed CRA changes are rooted in our knowledge about what small businesses mean to the health and future of our communities. Small business growth and formation is critical to increasing wealth in communities, particularly in Black communities and other communities of color. The most efficient ways to increase wealth in a community is to support entrepreneurship.¹ Without adequate wealth – particularly intergenerational wealth – communities stagnate and economic prospects diminish.

The OCC and FDIC CRA proposal risks diminishing the economic prospects of Black communities by diminishing the prospects for the ability to access capital for Black-owned small businesses and Black-led CDFIs best positioned to serve them.

Impact on Black-owned businesses

Today, there are 2.58 million Black-owned businesses, generating \$150 billion in revenue and supporting 3.56 million jobs.² They are the fastest growing segment of the nation's small business owners. In spite of these significant achievements, there are wide gaps between Black and white business ownership. The current CRA proposal exploits these gaps, rather than using it as an opportunity to close them.

In terms of revenue (as measured by annual receipts) white owned business, have over \$640,000 in annual receipts, dwarfing that of businesses of color (\$160,000) and Black-owned businesses (\$73,000).³ In some states, the disparity is jaw-dropping, such as in Texas where the average white-owned business earns over \$839,000 in annual receipts, compared with \$69,999 for Black businesses, or in Louisiana where these numbers are \$800,000 and \$34,000 respectively.⁴

Compounding these disparities is the fact that Black entrepreneurs have difficulty accessing credit and receive often less credit than their white peers. The median loan amounts to Black businesses (\$25,000) is less than half of the median loan amount extended to whites (\$58,000).⁵ The average loan to Black SBA 7(a) borrowers (\$300,000) is half the average loan to white SBA 7a borrowers.⁶ The gap in the SBA 7(a) program is particularly concerning given that it is designed to help lenders provide credit to businesses with weaknesses in their loan applications. Due to the wealth gap, Black-owned businesses are more likely to need programs like the 7(a) program – yet approval rates do not follow.

Any move to incentivize larger loans to larger businesses, as the proposal does, will disproportionately benefit white-owned businesses over Black-owned businesses. This is troubling on its own, but even more so considering in light of two other trends: The percentage of bank commercial loans under \$1 million is already shrinking, from the mid-30s in the 1990s to now less than 20% of total outstanding commercial loans.⁷ In addition, the current credit gap in the Black business community is between \$7 and \$8.5 billion, the highest in the nation on a population-adjusted basis.⁸

Impact on Black-led CDFIs

CDFIs, particularly Black-led CDFIs, are well-positioned to serve as critical link to close the credit gap for Black businesses. Black-led CDFIs, as Black small businesses themselves, are particularly adept navigating these challenges, and have deep knowledge about what it takes to lend to Black businesses. As a group, EBBC organizations' loans have an average charge-off rate

of 1.0%, lower than the 1.47% for their peer group average. In 2018, EBBC members originated \$34 million in loans to Black-owned businesses.

CDFIs that are successful at lending to Black businesses in their respective markets across the country are simply too small in comparison to the size of the credit gap and advisory needs of borrowers. Bank investments into CDFIs focused on lending to Black borrowers is a significant source of capital to scale up the activities, and CRA credit ought to be a significant motivator for doing so. However, the proposed CRA changes will increase the chances that banks will overlook such opportunities in favor of receiving CRA credit for far less work and with a far smaller impact.

For these reasons, the Expanding Black Business Credit Initiative urges the FDIC and OCC to withdraw its current proposal, and for any proposal in the future keep the current small business loan and size thresholds at \$1 million. Additionally, CRA should be strengthened to include HMDA-like reporting of small business lending by race.

Sincerely,

William J. Bynum, CEO, Hope Credit Union / Hope Enterprise Corporation (HOPE) and
Chair, Expanding Black Business Capital Initiative

Alfredo V. Martel, President and CEO, Metropolitan Economic Development Association

Connie Evans, President and CEO, Association for Enterprise Opportunity

Brian Argett, President and CEO, City First Bank

Daniel Betancourt, President and CEO, Community First Fund

Gary L. Cunningham, President and CEO, Prosperity Now

Inez Long, President and CEO, BBIF Florida

Kurt Chilcott, President and CEO, CDC Small Business Finance

Saurabh Narain, President and CEO, National Community Investment Fund

Victor J. Elmore, President and CEO, Texas Mezzanine Fund



¹ Expanding Black Business Credit Initiative. Creating Viral Impact in Black Communities Through Small Business Expansion,

https://static1.squarespace.com/static/5952b19678d171c0e45d31e5/t/595e9b8b9f7456eb904f1694/1499372432807/EBBC_Report.pdf (Accessed Mar. 2, 2020).

² Association for Enterprise Opportunity. Tapestry of Black Business Ownership in America: Untapped Opportunities for Success. February 2017.

https://www.aeoworks.org/images/uploads/fact_sheets/AEO_Black_Owned_Business_Report_02_16_17_FOR_WE_B.pdf (Accessed Mar. 2, 2020).

³ Prosperity Now. Prosperity Now Scorecard: Business Ownership by Race.

<https://scorecard.prosperitynow.org/data-by-issue#jobs/outcome/business-value-by-race> (Accessed Mar. 2, 2020).

⁴ Ibid.

⁵ Association for Enterprise Opportunity. Tapestry of Black Business Ownership in America: Untapped Opportunities for Success. February 2017.

https://www.aeoworks.org/images/uploads/fact_sheets/AEO_Black_Owned_Business_Report_02_16_17_FOR_WE_B.pdf (Accessed Mar. 2, 2020).

⁶ SBA Performance Report (FY 2019).

⁷ FDIC Quarterly Banking Profile, Loans to Small Businesses and Small Farms,

<https://www.fdic.gov/bank/analytical/qbp/> (Accessed Mar. 2, 2020).

⁸ Association for Enterprise Opportunity. Tapestry of Black Business Ownership in America: Untapped Opportunities for Success. February 2017.

https://www.aeoworks.org/images/uploads/fact_sheets/AEO_Black_Owned_Business_Report_02_16_17_FOR_WE_B.pdf (Accessed Mar. 2, 2020).