PARTNERS FOR RURAL TRANSFORMATION

Partners for Rural Transformation
www.ruraltransformation.org

April 8, 2020

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

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

Dear Comptroller Otting:

The Partners for Rural Transformation is a national coalition of organizations committed to serving rural communities in persistent poverty. Collectively, we serve the vast majority of people living in persistently impoverished places, the majority of which are rural, with a significant presence in the Mississippi Delta, Appalachia, Indian Country, the Black Belt, and communities along the U.S. / Mexico Border.

The Partners for Rural Transformation submits this comment in opposition to the proposed changes to the Community Reinvestment Act (CRA). The proposed changes will result in the nation's economically-distressed rural communities being further excluded from opportunities for economic investment. Two main themes of concern are present throughout the proposal:

- Banks will move to larger, easy-to-do transactions and away from the smaller, more innovative investments rural communities often need.
- Banks will be able to receive CRA credit without serving low-income communities or the people who live there.

The CRA serves as a critical, though imperfect, tool to ensure investment resources flow to the nation's most economically distressed areas. Even as currently structured, rural communities receive far less investment than urban counterparts. As such, the Partners for Rural Transformation has been pushing to strengthen the existing CRA framework in at least two key ways:

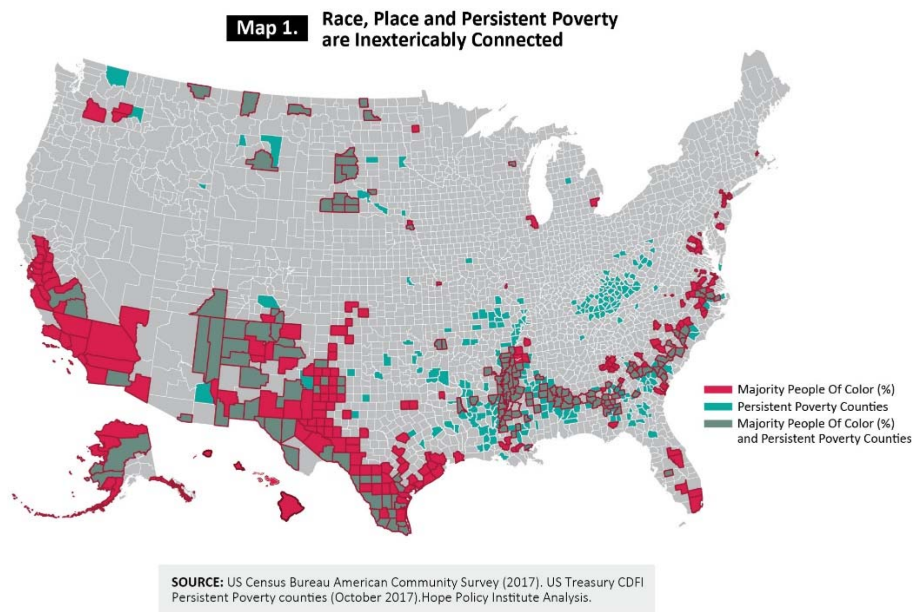
- CRA investment requirements in areas of greatest need should be increased, and the definition of CRA assessment areas should be expanded to include rural persistent poverty places where banks lend and take deposits from consumers. Assessment areas should not be limited to where banks have branches or ATMs.

- To expand economic opportunity in persistent poverty areas, CRA incentives should be created to make equity and debt available for CDFIs located in and with long track records of serving rural persistent poverty regions.

Unfortunately, the OCC and FDIC proposed changes to the CRA will move this tool further out of reach for our nation's rural communities. This comment serves to highlight the fundamental flaws of the proposed CRA structure, as well as to put forward solutions that ought to be considered instead.

Setting the Context for Our Concerns

We raise these concerns against the backdrop of the existing underinvestment and economic disparities facing rural America, particularly persistent poverty areas. As defined by the U.S. Treasury CDFI Fund, persistent poverty is defined as an area with a poverty rate of 20% or higher for 30 years in a row. Of the country's 395 persistent poverty counties, eight out of ten are nonmetro (rural) and the majority (60%) of people living in persistent poverty counties are people of color. See Map 1.



Despite evidence of success, philanthropic, bank and federal investment in community and economic development in regions of persistent poverty dramatically lags behind investment in places with significantly more resources, perpetuating and exacerbating inequity. For example, rural persistent poverty communities are not targets for bank branch location, and in fact, are frequently casualties of optimization strategies resulting in branch closures. The Housing Assistance Council reports that three out of four counties that lost at least 10% of a county's branches are in rural areas.[1]

As a result, in persistent poverty places, CDFIs often provide the only access to affordable financial services. Either through branches operated by CDFI depositories or through the provision of mortgages and small business loans, CDFIs expand the continuum of responsible financial services available to local people in places where limited access to branches exist. Even here, investment in rural communities lags: In 2017, only 29 cents of every dollar borrowed by rural CDFIs was from a bank. In contrast, over half the borrowed funds for urban CDFIs came from banks.[2] While the CRA could be used as a critical tool to increase the flow of investment to persistently poor rural communities, this proposal is likely to have the opposite effect.

Proposed CRA Structure Will Push Rural Communities Further Behind

While there are many parts of the proposal that merit concern and reconsideration, the following three areas are ones of particular importance. Each of them on its own is troubling, but combined the effect will be a decline in the smaller more complicated investments our communities need while rewarding larger less targeted transactions with questionable benefit to low income people or communities.

We urge the OCC and FDIC to withdraw their proposal due to the following structural flaws:

- Proposed Evaluation Measure: The formulaic, highly-quantified, dollar-dominated "general performance standard," will not adequately ensure hard to reach rural communities are appropriately served. The use of the dollar amount rather the number of CRA qualifying activities creates a misguided incentive for larger, easier activities, potentially reducing the smaller, more intensive and innovative investments that rural communities typically need. Among other problematic features is the equal weighting of loans and investments, effectively disincentivizing equity investments in tax credit projects critical to spurring economic investments in rural areas.

- Changes to Assessment Areas: There are a number of proposed changes to the assessment areas that will be problematic for rural communities. These include allowing banks to fail in half of their markets, but still receive a passing grade; using only bank deposits to determine banks' assessment areas; and allowing bank investments in areas outside of their assessment areas to count towards their CRA requirements without ensuring that those investments are targeted to economically distressed communities. These changes mean that very poor regions like the Mississippi Delta, Appalachia, the Black Belt, Indian Country, and Colonias will continue to be the least prioritized. While we are glad to see the proposal recognize the need for banks to have CRA obligations in other areas in addition to where their branches are located, the proposal misses the mark for benefitting poor rural communities.

- Elimination of the Retail Services Test: The decimation of the retail services test will greatly diminish the incentives for banks to help ensure the presence of depository institutions to low-income communities. This is troubling for individuals who need

access to safe, affordable financial services in their communities, and has broader community development ripple effects. As the number of bank branches increases in a place, poverty decreases.[3] This OCC and FDIC proposal's diminutive treatment of bank branches in low-income rural communities will further fuel their decline.

The following troubling provisions within this flawed framework also support the request for OCC and FDIC to withdraw their proposal:

- Increasing the small business size and revenue limits to $2 million, adjusted for inflation: Entrepreneurs in our regions are generally smaller with lower revenues and rely on smaller loans to spur their growth. The increase in these thresholds combined with the other changes in this proposal, such as measuring activities in dollar units, will increase the likelihood that banks will meet requirements without taking much risk by investing in larger firms while bypassing the small business needs of America's rural communities.

- The multiplier for activities to support CDFIs and other community development activity: While this provision acknowledges the important role of CDFIs and their impact in communities, the structural flaws outlined in the section above raise questions as to whether or not investments in CDFIs will even be motivated by CRA at meaningful levels in the future with or without a multiplier.

- The overall expansion, and therefore dilution, of activities qualifying as community development activities: The expanded list of activities, from stadiums to volunteer hours, allows CRA credit for activities not aligned with the CRA original mission, such as home mortgage and small business lending, which our communities still so sorely need. CRA credit should not be given for lending activities such as credit cards, auto loans, and poor quality consumer loans, as these loans do not add value to struggling communities.

Solutions to Strengthen Existing CRA Framework to Serve Persistently Poor Communities

Rather than moving forward as outlined in the proposal, the OCC and FDIC should instead improve on the existing CRA framework in a way that would actually strengthen how the CRA can work for rural communities. In our November 2019 report, *Transforming Persistent Poverty in America*, Partners for Rural Transformation provided solutions to increase bank investment into rural communities, particularly those in persistent poverty.[4]

Towards this end, the Partners for Rural Transformation provides the following recommendations to strengthen the CRA under its existing framework:

- CRA investment requirements should be increased and the definition of CRA assessment areas should be expanded to include rural persistent poverty places where banks lend and take deposits from consumers. Assessment areas should not be limited to where banks have branches or ATMs.

- To expand economic opportunity in persistent poverty areas, CRA incentives should be created to make equity and debt available for CDFIs located in and with track records of

serving rural persistent poverty regions. Such incentives could take the form of favorable treatment of such investments by banks when undergoing the CRA examination by the bank regulator.
- To improve the identification of CRA gaps, develop a CRA assessment area map of the United States. Several years ago, the Federal Reserve Bank of Atlanta created a mapping tool to illustrate the network of branches for the twenty largest banks in the Southeast region.[5] A similar analysis covering the various regions of the country could provide a proxy overview of potential CRA gaps in persistent poverty areas nationwide.

The banking sector is a critical community development investor. CRA is a key driver for bank partnerships with CDFIs and it serves as an impetus for funding CDFIs to expand access to capital to people and places beyond the boundaries of a bank's business model. In the absence of bank investment, particularly into CDFIs, people's ability to start a small business, purchase a home or to begin building one's credit is limited. For these reasons, the Partners for Rural Transformation is deeply concerned that the OCC and FDIC proposals will cause bank investments into the communities we serve to dry up, and thus reducing economic opportunity in our nation's persistently poor rural areas.

Thank you for the opportunity to comment on this important matter. For more information or questions about this comment, please contact Jose Quinonez, Partners for Rural Transformation, at (859) 756-6256 or via e-mail at info@pfrt.org.

Respectfully submitted,

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Communities Unlimited

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First Nations Oweesta Corporation

HOPE (Hope Enterprise Corporation/Hope Credit Union/Hope Policy Institute)

Opportunity Finance Network

Prosperity Now

RCAC

RCAP, Inc.

Rural LISC

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[1] Lipsetz, David. "CRA in Rural America" presented at the NCRC Just Economy Conference 4/2018. https://ncrc.org/wp-content/uploads/2018/06/RuralCRADavid.pptx.pdf. (Accessed Feb. 12, 2020)
[2] Bank Investment Falls Short in Rural Areas. Opportunity Finance Network. February 2019. https://ofn.org/sites/default/files/resources/PDFs/Policy%20Docs/2019/OPP_054%20-%20One%20Pager%20Handout%20CRA_FINAL%20Feb%202019.pdf (Accessed Feb. 12, 2020)

[3] Josh Silver and Archana Pradhan, "Why Branch Closures Are Bad for Communities" (Washington, DC: National Community Reinvestment Coalition, 2012), https://ncrc.org/wp-content/uploads/2012/05/issuebrief_bank%20branches_april%202012.pdf (Accessed Feb. 25, 2020)
[4] Transforming Persistent Poverty in America: How Community Development Financial Institutions Drive Economic Opportunity. Partners for Rural Transformation. November 2019. https://fahe.org/wp-content/uploads/Policy-Paper-PRT-FINAL-11-14-19.pdf (Accessed Feb. 12, 2020)
[5] Federal Reserve Board of Atlanta, "Community Reinvestment Act: Geographies and Strategies in the Southeast," https://www.frbatlanta.org/community-development/publications/partners-update/2015/04/150824-cra-geographies-and-strategies-in-southeast.aspx (Accessed Feb. 21, 2020)