Housing
Action
Illinois

A stronger Illinois begins at home

January 28, 2020

Comptroller Joseph M. Otting
Comptroller of the Currency
Comp 400 7th Street, SW
Washington, D.C. 20219

Chair Jelena McWilliams
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Docket No. OCC-2018-0008

Dear Comptroller Otting & Chair McWilliams:

Housing Action Illinois opposes most of the proposed changes to the Community Reinvestment Act (CRA) regulations because they will - on the whole - subvert the purposes of the CRA instead of strengthening them. We are submitting these brief comments today to enable the House Financial Services Committee to know our concerns in advance of the hearing on January 29, 2020, titled “The Community Reinvestment Act: Is the OCC Undermining the Law’s Purpose and Intent?” We will be submitting a more detailed comment on or before the March 9, 2020 deadline.

Housing Action Illinois is a statewide coalition formed to protect and expand the availability of quality, affordable housing. Our 160+ member organizations provide a wide range of housing-related services to low- and moderate-income (LMI) households in urban, suburban, and rural communities throughout Illinois. Many of them rely on CRA and bank partnerships to meet local community needs and to increase housing and economic opportunities for LMI clients.

Our overall concern is that the proposed rule change submitted by the OCC and FDIC would lessen the public accountability of banks to their communities by enacting unclear performance measures on CRA exams that would not accurately measure a bank’s responsiveness to local needs.

We are also concerned that proposed changes such as having a list of CRA approved activities and a bank’s ability to broaden its assessment area will actually result in significantly less investment in LMI communities because banks will be incentivized to go with only what is on the pre-approved list and in easier to serve communities. This is particularly true given that, under the proposed rule change, the definition of affordable housing would be relaxed to include middle-income housing in high cost areas.

312.939.6074
housingactionil.org

67 E. Madison Street, Suite 1603
Chicago, IL 60603

All of this is alarming in that it could lead to a modern-day redlining – the activity that the CRA was enacted to stop.

In addition, moving to a purely quantitative assessment renders local community needs practically irrelevant. Under the proposed rule change, if an activity cannot be converted into a dollar amount, it does not count. With a focus on dollars, the proposed framework would encourage banks, in an effort to limit overhead expenses, to satisfy their CRA obligations by reducing the number of CRA-qualifying projects and focusing on projects with a big price tag. The incentive to engage in smaller, more targeted community development loans, investments, and grants would disappear. This may have a particularly harmful effect on rural communities, many of which continue to be underserved. In addition, regulators would no longer have a reason to engage with community stakeholders to determine community needs, as they do now.

The agencies propose an evaluation system that would further inflate ratings while decreasing the responsiveness of banks to local needs. The agencies propose a one ratio measure that would consist 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. 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 would increase. Also, the proposal would relax requirements that banks serve areas where they have branches first before they can seek deals elsewhere.

Finally, we are concerned that the proposed rule change, if approved, will cause confusion because some financial institutions would be subject to the revised rule and others by the current regulatory regime. We believe that CRA modernization must involve all three regulatory agencies, not just two, and have the support of the community-based organizations that are working to address the legacy of redlining and discriminatory lending. Local community needs are at the heart of the CRA. Instead of weakening CRA, the agencies must enact reforms that would increase bank activity in underserved neighborhoods that address those community's needs.

Sincerely,

Sharon Legenza
Executive Director
Housing Action Illinois