



The Honorable Steven T. Mnuchin
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Ave NW
Washington DC, 20220

Secretary Mnuchin:

This letter is in response to regulatory changes we anticipate to the Community Reinvestment Act (CRA), as the U.S. Treasury Department undertakes a review of the legislation. The Greenlining Institute and our Coalition submit this letter in support of preserving and strengthening the CRA in solidarity with hundreds of organizations across the United States dedicated to building an inclusive, prosperous economy with opportunity for all.

The Greenlining Institute was established as a direct response to redlining. We are a racial equity and policy advocacy organization working to address the effects of redlining in communities of color through wealth-creation. The Greenlining Institute supports the CRA because it is one proven antidote to redlining, and has proven critical to ensuring fair access to credit for all. In fact, since 1996 banks covered by the CRA have invested more than \$980 billion in historically underserved zip codes. Fair access to credit is especially critical for people of color, as studies show they face unique challenges and discrimination¹ when applying for small business loans and mortgages.

Small Business Lending

In small business lending, studies indicate that credit denial rates for entrepreneurs of color - especially Blacks and Latinos – are disproportionately higher than for their White counterparts, even after controlling for variables such as business credit scores, personal wealth, and revenue.² Moreover, the number and volume of Small Business Administration's (SBA) loans issued to diverse entrepreneurs is deeply concerning given that these government-insured loans are intended to serve those experiencing barriers to mainstream credit.

For context, in 2012 Black entrepreneurs received only 3% of the SBA's flagship 7a loans, and Latinos received just 7%. According to the most recent data from the SBA's Office of Advocacy, in 2012 Black businesses comprised 9.5% (2.6 million) of all U.S. small businesses, and Latino businesses comprised 12.2% (3.3 million).³ SBA data shows growth in number of diverse businesses greatly outpaced their population growth, with Black business ownership exploding by 34.5% and Latino businesses by 46.3%. Despite this faster than average growth, in 2017 African Americans only received 4% of SBA 7a loans, while Latinos received just 8%.⁴

Given this disparate access to both conventional and government-insured small business credit, The Greenlining Institute also supports Section 1071 of the Dodd-Frank Wall Street Reform and Consumer

¹ https://econpapers.repec.org/article/eeejuecon/v_3a63_3ay_3a2008_3ai_3a2_3ap_3a467-497.htm

² <https://www.mbda.gov/sites/mbda.gov/files/migrated/files-attachments/rs419tot.pdf>

³ <https://www.sba.gov/sites/default/files/advocacy/Minority-Owned-Businesses-in-the-US.pdf>

⁴ https://www.sba.gov/sites/default/files/aboutsbaarticle/WebsiteReport_asof_20161230.pdf

Protection Act. Section 1071 is critical to ensuring fair lending and access to capital for small businesses because it amends the Equal Credit Opportunity Act (ECOA) to require financial institutions to compile, maintain, and report information on credit applications submitted by women-owned, minority-owned, and small businesses.

Mortgage Lending

In home mortgage lending, people of color fare no better. Greenlining's recent HMDA report shows Latinos and Blacks particularly under-represented in home purchase and refinance loans.⁵ Concerning findings include:

- Home purchase loans in LMI tracts across California far exceed loans to LMI borrowers, suggesting displacement patterns associated with gentrification.
- Non-bank lenders⁶ have developed a significant lending presence in California, even dominating certain regional markets.

Recommendations

In light of these research findings, below are a few recommendations to bolster the CRA to better meet the credit needs of people of color and low-income communities. Building off NCRC's suggestions in a recent letter to Treasury, "*Letter to Treasury: Strengthening the Community Reinvestment Act*," we suggest the following reforms to modernize the CRA and deliver on its original promise of expanding access to credit in historically underserved neighborhoods.⁷

- **Adopt a race equity lens:** Although the CRA was a direct response to redlining and housing discrimination, the law is colorblind. Racialized public policies led to a need for CRA, so a race lens in CRA is necessary to genuinely address decades of race-based disinvestment.
- **Expand CRA to non-banks:** As mentioned above, online lenders have assumed an increasingly large presence in lending, and we must ensure online transactions operate in a safe and sound manner as the marketplace matures. Expanding CRA requirements to non-banks would help enforce responsible lending from all lenders (thereby lowering the chance of delinquency and defaults across the market), as well as encourage lenders to compete in delivering safe and sound products. In addition to FinTech and online lenders, credit unions and non-depository mortgage companies should also be assessed in their lending. There is precedent for this in Massachusetts, where the state CRA applies to both credit unions and mortgage lenders.⁸
- **Assessment areas:** Currently, CRA assessment areas are tied to locations where banks have physical branches. However, due to the expansive reach of bank capital and wave of bank branch closures, assessments must expand to areas outside of branch networks where significant lending is made. The expansion of assessment areas would benefit both banks, regulators, and consumers, as studies show that loans originated within bank assessment areas are less likely to result in foreclosure, as opposed to loans made outside of assessment areas.⁹ Next, regarding the assignment of full and partial scope assessment areas, all small and regional banks should have full scope assessments given their limited geographical reach. Due to their extensive size and reach, the largest banks should experience a rotation of full and limited scope areas every three to

⁵ <http://greenlining.org/publications/2017/state-of-gentrification-lending-to-people-of-color-in-california/>

⁶ "Non-bank" is used here to refer to any lender that does not offer traditional banking services such as savings and checking accounts.

⁷ <https://ncrc.org/letter-to-treasury/>

⁸ <https://www.mass.gov/massachusetts-community-reinvestment-act-cra>

⁹ https://www.frbsf.org/community-development/files/cra_lending_during_subprime_meltdown11.pdf

four years, as was originally intended. It is incumbent on regulators to push for this rotation, as it will provide a clearer picture of lending activity across urban and rural regions.

- **Account for gentrification and displacement:** Currently, financial institutions receive Community Reinvestment Act credit for extending loans in LMI census tracts regardless of the income level of the borrower. In California, especially in markets experiencing rapid gentrification such as Long Beach and Oakland, home purchase loans in low- to moderate-income census tracts across California vastly exceeded loans to low- to moderate-income borrowers – creating a statistical portrait of gentrification. CRA examiners should not reward banks for extending home loans to upper income borrowers in low- and moderate-income neighborhoods, as these loans simply accelerate the gentrification and displacement that long-term low- and moderate-income residents face. The CRA should consider each assessment area's state of gentrification and assess home loans accordingly.
- **Timely exams and Fair Lending compliance reviews:** According to NCRC's study, *CRA Exams and Geography*, the largest banks are the most likely to miss being examined within a two to three-year time cycle. The study determined that for the 100 largest banks by asset size, only 65 percent had been evaluated in the last three years. Among the largest five banks, none had undergone CRA exams in the last five to seven years. More time and resources must be devoted to ensuring timely evaluations, and coordination among regulators is necessary to ensure fair lending reviews are a core component of CRA exams.
- **Community engagement:** Regulators must be more thorough in building relationships with community groups and the public, and in gathering comments and feedback from them regarding an institution's CRA performance. It is common for longtime consumer advocates to say they are not contacted during a bank's CRA evaluation. Finally, community engagement must extend to robust community needs discussions with community groups, banks, and regulators in the room.
- **Standardizing bank evaluation metrics and limiting grade inflation:** Variations in CRA exam methodology and performance metrics within and across regulating agencies makes it challenging to compare banks to their peers and contribute to grade inflation.
- **Definition of community development:** Community development – including community development services – must remain focused on low-and-moderate income consumers. Next, CRA credit for community development should be given for impactful activities that best allocate bank employee's talent and expertise. Finally, small business lending should remain under the retail portion of the lending test, not community development. Changing the categorization of small business lending would lead to double-counting and grade inflation.
- **Merger application processing:** The merger application process must emphasize due diligence to ensure proper managing of banks, safe and sound lending, compliance with consumer protections, and a public benefit. Application processing time has decreased, and consumer advocates caution against shorter processing timelines. Adequate time must be allocated for regulators to review a bank's performance over time across communities and regions, and to allow for engagement between merging banks and community groups. Ultimately, mergers must demonstrate a public benefit, and critical tools to ensure this are CRA plans and/or community benefit agreements between banks and community groups. The Greenlining Institute believes all banks should have a substantial and robust CRA plan in place. During mergers and acquisitions, banks must adjust and strengthen their CRA plan in response to community stakeholders who have provided feedback on how a bank can best meet its community obligations.

It is abundantly clear to The Greenlining Institute and consumer advocates that the forty-year-old Community Reinvestment Act is in need of modernization. The CRA has not kept pace with the banking industry's dynamic changes, and - despite driving impactful investments - in many ways the CRA has fallen short of meeting its mission: reaching communities historically marginalized from economic opportunity. To build on its successes, the CRA must be strengthened and improved - not weakened - to

achieve its purpose of building an inclusive economy. In that spirit, we strongly urge Treasury to consider the suggestions above as it contemplates recommendations to improve the CRA's implementation.

Best regards,

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cc: Joseph M. Otting, Comptroller of the Currency, Department of the Treasury; Craig S. Phillips, Counselor to the Secretary, Department of the Treasury; Kipp Kranbuhl, Deputy Assistant Secretary, Department of the Treasury

The Greenlining Coalition

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