PARTNERS FOR RURAL TRANSFORMATION

• eliminating persistent poverty, advancing prosperity & economic justice •

Three Essential Changes to CRA to Move the Need in Persistently Poor, Rural Places in America

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Perhaps nowhere else in the United States is the structural exclusion by place and race more self–evident than in persistent poverty America.[1] Of the 395 persistent poverty counties, 8 out of 10 persistent poverty counties are non-metro—home to nearly seven million people. Additionally, every rural majority black and Native American county is also persistently poor. Notably, regions of deep persistent poverty were created by design, formed by policy choices that facilitated the acquisition of wealth through slavery in the Mississippi Delta and Black Belt, the taking of land and life from Native and Latino people, and the extraction of natural resources and inexpensive labor from Appalachia. Today, the consequences of this history are apparent in other forms of distress and structural exclusion—high unemployment, a lack of access to banking services, a paucity of quality affordable housing and safe drinking water, and lack of venture capital critical to the formation of small businesses—all of which contribute to higher rates of premature death and lower health outcomes. In places of great need, financial capital serves as a critical intervention. In 2018, six Community Development Financial Institutions came together to form the Partners for Rural Transformation (PRT) to become a joint voice for rural people living in persistent poverty and expanding strategic investments to counteract the above trends. Small business loan programs coupled with technical assistance create jobs to address unemployment and opportunities for wealth building by local entrepreneurs. Affordable housing programs offer opportunities for individuals and families to build assets through home purchase.

When available, capital increases access to financial services that establish credit pathways and savings. Infrastructure development provides clean drinking water and safe disposal of wastewater. Collectively, these strategies create wealth that stays in communities. Unfortunately, the average urban citizen facing persistent poverty receives $400 of capital investment, while comparatively, a rural inhabitant receives $40. Despite the well-documented benefits of capital investment, particularly when deployed by CDFIs, regions with large concentrations of persistent poverty lag large urban areas in implementing strategies to address unemployment, gaps in affordable housing, access to financial services and community infrastructure development. Due to structural deficiencies in the Community Reinvestment Act (CRA) tying qualifying investments to branch locations, bank investment in rural CDFIs lag behind investment in CDFIs serving urban areas. In 2017, for example, only 27 cents of every dollar borrowed by rural CDFIs was from a bank in contrast to over half of funds borrowed by urban CDFIs.

[1] The US Treasury CDFI Fund defines persistent poverty as an area with a poverty rate of 20% or higher for 30 years in a row.

In a November 2019 report, Transforming Persistent Poverty in America, Partners for Rural Transformation provided solutions to increase bank investment in rural communities, particularly those in persistent poverty. The banking sector is a critical community development investor. The CRA is a crucial driver for bank partnerships with CDFIs. 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 in CDFIs, people's ability to start a small business, purchase a home, or build one's credit is limited. For these reasons, Partners for Rural Transformation push for a strengthened CRA that moves banks to do more and do better to promote prosperity in rural communities throughout the country.

The Partners for Rural Transformation has identified three key areas in the proposed rule governing the Community Reinvestment Act that could direct more critical CRA resources to persistently poor communities we serve. These include: 1) prioritization of CDFI investments in the most underserved areas and to the most underserved borrowers, 2) the treatment of small and intermediate sized banks, and 3) the impact criteria for CRA investments in specially designated geographies.

Prioritize CDFI investments in the most underserved areas

CDFIs in some of the most economically distressed regions of the country have been successfully meeting the needs of local communities and people. 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 assistance available to local people in places with limited access to branches.

Proposed changes to the Community Reinvestment Act recognize the importance of the work of CDFIs by specifically highlighting bank investments in CDFIs in several places throughout the proposed rule. However, it also proposes removing some evaluation requirements on the types of investments in CDFIs that are counted toward a bank's CRA requirement. While this change may remove some barriers to CDFI investments, PRT requests it should be paired with either scoring or impact evaluation criteria that give greater weight to investments in CDFIs serving the most underserved areas.

CDFIs are required to serve low-income areas, yet this expectation is not enough to guarantee CDFI lending reaches communities of color and rural, persistent poverty areas. The new CRA regulations must create incentives to reward banks that invest in CDFIs facilitating deep impact in the most underserved areas. One way to do this would be to distinguish investments in CDFIs who participate in Deep Impact Lending.

Deep Impact Lending is a distinction already used by the U.S. Department of Treasury to recognize the most impactful lending to the most underserved communities and constitutes a subset of the "qualified lending" criteria for lending in low income, rural areas, and lending to targeted populations, including communities of color, as well as other criteria. Deep Impact

Lending was most recently used to direct the deployment of the CDFI Fund's $9 billion dollar Emergency Capital Investment Program.

CDFI investments are critical to bringing capital to communities and regions that otherwise suffer from disinvestment; strengthening local economies and entrepreneurs, improving housing and access to safe drinking water, and empowering local people to determine their desired destiny. The CRA final rule must prioritize investment in deep impact lending CDFIs working in the most underserved areas and to underserved borrowers.

Create greater accountability for small and intermediate banks, particularly those serving rural areas

As the agencies move to strengthen the CRA, local banks with a rural presence should not be able to bypass accountability. Increasing carve-outs will make it harder to close existing gaps in these regions, particularly for communities of color in rural areas.

Many of the proposed updates to the CRA providing greater accountability in rural areas only apply to the large and, in some cases, intermediate banks. Further, the proposal would increase the threshold for large, intermediate, and small banks, lowering the number of banks that would be subject to those measures. However, underserved rural areas are more likely to be served by smaller and intermediate size banks not impacted by these new accountability measures. The proposed rule would increase the small bank threshold from $330 million to $600 million in assets, increasing the number of banks considered small by 779 banks nationally. Banks from $600 million to $2 billion would be considered intermediate banks resulting 217 fewer large banks.

This means more banks would not be required to be evaluated on their community development financing or be subject to the new retail services and products test. There will be less accountability for and less capital flow to rural regions, communities of color, and persistent poverty areas (PPAs). The agencies rule must strengthen, not exempt, small banks' community development investments in rural communities, particularly in communities of color and persistent poverty communities.

While prioritizing the impact of investments in certain geographic areas, examiners should consider multiple factors, including communities with a low level of lending activity and capital investment

Under the proposed rule, in addition to evaluating banks on the dollar value of community development financing, examiners will consider several factors to identify projects that are particularly impactful. PRT supports the proposed inclusion of factors identifying geographic areas that are particularly in need of community development investment, including not only persistent poverty areas, but also areas with a low level of community development financing, and Native communities.

The need for the inclusion of these geographic factors is made evident by the implementation of the New Markets Tax Credit program. Between 2003 and 2017, 65% of NMTC allocations in persistent poverty areas have been concentrated in six urban communities. By contrast, just 5% of NMTC allocations during this time were invested in rural, persistent poverty counties.

Finally, CRA credit for investments in certain designated geographic areas like persistent poverty areas and census tracts must be given enough weight within the CRA evaluation to incentivize concrete investments.

The banking sector is a critical community development investor. The 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 even more limited. For these reasons, Partners for Rural Transformation push for a strengthened CRA that moves banks to do more and do better to promote prosperity in rural communities throughout the country.

In May, the Federal Reserve, the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) jointly issued a proposed rule for comment that would update many aspects of the regulations governing the Communities Reinvestment Act.

We at PRT encourage the reader to submit public comments http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm.

All public comments are due August 5, 2022.