April 8, 2020

Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

Docket ID OCC-2018-0008

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

RIN 3065-AF34

RE: Joint Notice of Proposed Rulemaking on Community Reinvestment Act Regulations

Dear Comptroller Otting and Chairman McWilliams:

The Mortgage Bankers Association (MBA)\(^1\) appreciates the opportunity to submit comments on the joint notice of proposed rulemaking (NPR)\(^2\) issued by the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) (jointly, the Agencies) to modernize and improve upon the regulatory framework implementing the Community Reinvestment Act (CRA). Our comments focus principally on the impacts of the proposal on single-family and commercial/multifamily mortgages, but we also share our members’ views on certain other aspects of the proposal as well.

I. EXECUTIVE SUMMARY

MBA shares the goals of the Agencies to improve clarity, consistency and transparency in implementation of the CRA. In particular, we support the Agencies’ approach of providing an illustrative list of qualified CRA activities, establishing a consistent mechanism for providing updates (on qualifying activities), and providing a framework for updating assessment areas. Furthermore, we appreciate the efforts in the NPR to incorporate objective metrics for evaluating CRA performance, provide clarity and transparency in the CRA ratings process, and to revise the record keeping and reporting requirements of the regulations.

\(^1\) The MBA is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation’s residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,300 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA’s Web site: www.mba.org.

While MBA supports the intended goals of the NPR, which according to the Agencies, “would encourage banks to serve their entire communities, including LMI neighborhoods, more effectively … and would provide clarity for all stakeholders,” we believe that some of the provisions in the NPR should be refined, while others should be extensively re-worked to better reflect and promote the purposes and intent of the CRA. If the Agencies aim to ensure that CRA implementation leads to better outcomes for the communities that the rule was designed to serve, it is imperative that the Agencies also ensure that the banks that are required to meet these obligations have the tools and incentives to do so using objective and workable rules that do not create undue burdens and costs. Thus, we strongly urge the Agencies to work with the industry and other stakeholders to re-tool the provisions in the NPR prior to implementation in order to better achieve the Agencies’ stated goals.

In general, while we support the expansion of the range of multifamily lending that would receive CRA recognition, we are concerned about the proposed constriction of the range of consumer mortgages that would count for CRA purposes. In addition, we are very concerned that the proposal would have the effect of “devaluing” secondary market activities for banks with the dramatic discounting of CRA credit for mortgage loans sold on the secondary market while the same loan held on a bank’s balance sheet would receive roughly 80 times the CRA credit).

II. BACKGROUND

The CRA, which was enacted in 1977 to encourage banks to invest in low to moderate-income communities, has been subsequently amended several times - in 1989, 1991, 1994 and 1999. In an attempt to ensure that the act continues to reflect the intent of Congress, the federal banking agencies charged with implementing CRA (OCC, FDIC and the Federal Reserve Board) first promulgated regulations to implement the CRA in 1978, and then amended the regulations several times, most significantly in 1995. Additional non-significant amendments have been completed since then through informal published guidance, most recently in 2016. These various modifications to the CRA framework have largely focused on the process by which bank CRA ratings are calculated, reported, and used.

The NPR, previous publications by the federal banking agencies as well as numerous comments by the banking industry and other stakeholders all recognize and agree that, at a higher level, the CRA framework may be in need of a more fundamental recalibration to reflect the significant changes in the banking industry—changes that encompass both the ways that banks undertake business operations and the ways that consumers utilize banking services. The federal banking agencies have engaged in numerous activities intended to culminate in rules that will modernize and improve the CRA regulatory framework.

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3 Fundamentally, the CRA represents an affirmative responsibility of private entities to serve a diverse population of consumers in exchange for access to certain public benefits, such as federal deposit insurance. Conversely, one of the significant consequences for failing to meet CRA requirements is the limitation on the ability of an institution to grow—and thereby engage in additional publicly-supported activity—until it meets this obligation to its community to the satisfaction of its regulators.

4 As the Agencies acknowledge, since 1995, technology and the expansion of interstate banking have transformed the financial services industry, how banks deliver their services, and how customers choose to bank; and communities’ needs for community development (CD) lending and investment have evolved.

It is important to note that a central goal of reforming or modernizing these processes should be to improve the ability of banks to meet the needs of their communities under the CRA, while at the same time ensuring that the rules and regulations governing the processes are not unduly onerous, burdensome or confusing – resulting in non-effective or non-functional rules that make it difficult for banks to comply and difficult for the regulators to implement. Thus, a modernized regulatory framework should largely focus on improved compliance processes for banks, with the major components addressing certainty in the administration of the rules by the regulators and greater flexibility in the rules on the delivery of services to the community. These components - compliance certainty and flexibility in the delivery of services – should, therefore be developed in a manner that encourages, and in fact, facilitates innovation by banks, as such innovation would certainly inure to the benefit of the communities they serve.

MBA believes that it is the intention of the Agencies to develop rules that improve upon the current regulatory framework in a manner that would continue to encourage banks to meet the goals and original intent of the CRA. This is evident in some areas of the NPR where the proposals at intended to provide clarity and certainty. However, several areas of the proposal undercut these objectives and, in effect, disadvantage the intended beneficiaries of the CRA. Our comments below address these concerns, and we urge the Agencies to seriously consider our recommendations on these issues.

III. COMMENTS

MBA believes that there are numerous parts of the NPR that require extensive modification prior to finalization. Therefore, MBA’s comments not only focus on elements of the NPR that we believe directly impact MBA’s single family residential and commercial multifamily members and their real estate mortgage finance activities, but we also address several other concerns our members have raised with the proposal.

A. Clarifying and Expanding What Qualifies for CRA Credit

The NPR aims to improve upon current rules by proposing to (i) create more descriptive and expansive criteria for the types of activities that qualify for CRA credit; (ii) require the Agencies to periodically publish a list of non-exhaustive, illustrative examples of qualifying activities; and (iii) establish a process for stakeholders to seek a determination from the Agencies on whether an activity is a qualifying activity prior to engaging in such activity. MBA supports this proposal and agrees that “[b]y providing clear standards and an illustrative list of qualifying activities, the proposed rule would reduce uncertainty regarding what counts for CRA credit and give banks and stakeholders greater ability to plan reinvestment activities without the risk of activities not receiving credit.” Furthermore, by allowing banks receive confirmation on whether an activity qualifies for CRA credit prior to engaging in such activity, MBA agrees that most of the uncertainty in the current rules that potentially limit the type and scope of CRA activities the bank could engage in – for the benefit of the community, and especially LMI individuals – would be
essentially eliminated. This is a welcome improvement on current rules as it provides a good measure of certainty in the process for banks (as well as the communities they serve).

B. Revised Qualification for CRA Credit Activities

While MBA supports the NPR’s broadening of the range of multifamily lending activities that would qualify for CRA credit under the proposal, we are concerned about the severe constricting of consumer mortgage activities that would receive CRA recognition.

Multifamily rental housing

Under the proposal, naturally occurring affordable rental housing would qualify for CRA credit (e.g., unsubsidized rental housing with rents that are affordable to LMI individuals and families). This expansion of multifamily lending recognized for CRA purposes would appropriately incentivize institutions to, for example, finance workforce housing that would allow public employees, such as teachers, police officers, and firefighters, to live close to the communities they serve. Making such loans results in a substantial benefit to the development of those communities, and so is deserving of CRA recognition. As a result, we support this proposed expansion.

Home mortgage lending

As a way to help maintain focus on LMI individuals under the CRA, the NPR proposes to define a “qualifying CRA activity” to include home mortgage loans made to an LMI individual, while excluding mortgage loans to high-income individuals living in a low-income census tract. According to the Agencies, this new emphasis on lending and services provided to, or benefiting LMI individuals, would help avoid giving credit for activities that may contribute to “displacement” and refocus CRA lending on LMI borrowers.

Mortgage lending is a cornerstone to the development and stability of communities. Therefore, we are troubled that the proposal would dramatically narrow the scope of CRA credit that would be applicable to home mortgage loans. Current rules provide CRA credit for mortgage loans made in LMI communities, and especially to LMI borrowers. While we understand that this focus on LMI individuals appears to be aimed at reducing displacement, we believe that extremely narrowing the scope home mortgage loans eligible for CRA credit is unnecessary, and in fact, would be counterproductive to the goals of the CRA. There is no question that these loans help support LMI communities, and thus, banks should continue to be evaluated for CRA performance based on a distributional analysis of home mortgage loans made in LMI communities, rather than only on such loans made to LMI borrowers under the proposal. Accordingly, we recommend that home mortgage loans provided in LMI communities continue to receive CRA credit.

C. Updating list of Qualifying CRA Activities

The NPR seeks input on the process for updating the illustrative list of qualified CRA activities based on stakeholder requests for confirmation on whether an activity would qualify for the credit. According to the NPR, the Agencies are considering a process where an agency would aggregate all requests received, publish them in the Federal Register for public comment and feedback, and thereafter, update the list once every six months.
We strongly support the approach of requiring the agencies to post a non-exhaustive list of illustrative examples of activities that qualify for CRA credit. This would provide a welcome increase in transparency as to how institutions might meet their CRA requirements, including transparency as to qualifying mortgage finance activities. We would encourage the Agencies to consider instituting such transparency even under current CRA regulations.

Furthermore, MBA supports the approach of having a process under which institutions can submit proposed activities for confirmation as to whether they would qualify for CRA credit, as well as a presumption of confirmation if a response is not received within a certain period of time (i.e., six months). However, we do not support the proposed “six-month” waiting period for Agency response. In the business of banking, six months is a very long time to wait for a determination on whether to engage in an activity. Accordingly, we recommend that the final rules establish a clear 60-day Agency response period for requests for determination of CRA activity qualification. We acknowledge that this would require the Agencies to allocate sufficient resources and infrastructure to reasonably ensure adherence to this 60-day response time frame. Also, we believe it would be in the best interest of the Agencies to run a test of this 60-day response program prior to the implementation of any final rules.

Finally, MBA recommends that the Agencies work jointly to establish a system for publishing a single multi-agency list of illustrative CRA qualifying activities as well as a single response on requests for CRA activities’ determination. In effect, all banks would be subject to a uniform OCC/FDIC set of published lists, as well as a single OCC/FDIC response on CRA activity determination – rather than having banks being subject to different activity lists or agency response that would be based on which agency regulates the bank. This would not only create an unlevel playing field but would also create a complicated and non-uniform set of procedures within a uniform set of rules.

D. CRA Performance Evaluation

MBA supports the goal of providing an objective metric for measuring CRA performance. However, we believe that the metric outlined in the NPR needs to be considerably re-tooled. Specifically, the proposed approach would not only undercount the significance of mortgage loans sold on the secondary market but it also would reduce the incentive to engage or invest in impactful and useful affordable housing projects, including Low-Income Housing Tax Credit (LIHTC) projects.

\textit{Impact on banks’ secondary market activities}

Under the proposal, a bank would receive only 25 percent CRA credit for a mortgage loan sold within 90 days of origination and would receive no credit for that loan thereafter. In contrast, the same bank would receive full credit for the loan balance so long as the loan remained on the bank’s balance sheet. If the retained loan were on the bank’s balance sheet for a full five years assessment period, the retained loan would receive full credit for all 20 quarters (reduced by amortization), which would be roughly 80 times the CRA value of the same loan if it were sold on the secondary market.

According to the Agencies, the rationale for this differential treatment is that, by focusing on the banks’ on balance-sheet activities, the proposed rules seek to “reduce the current churn and short-term focus of CRA activities, [and provide] banks more incentive to engage in long-term investments and loans, which would, in turn, provide community developers and advocates greater stability and more incentive to engage in longer term strategic initiatives.” MBA does not agree with this conclusion. In fact, we believe that a focus
on balance-sheet activities, which gives greater CRA credit for how long an activity stays on the banks’ books and the total dollar amounts of the banks’ lending and investment activities, rather than the importance or community impact of an activity, would seriously undermine the stated goal of incentivizing banks to serve/meet the credit needs of their communities, including LMI borrowers.

A mortgage loan that is sold on the secondary market has exactly the same impact on the community it would have if the bank had retained it. While it is beneficial for banks to serve as a source of capital for lending in a community, and it is appropriate to provide CRA recognition of that, the transaction itself has lasting impact the proposal would not recognize.

Moreover, the sale of the loan in the secondary market provides the institution with fresh capital that can be reinvested in the same community. By discounting CRA credit for loans sold to the secondary market the rule actually discourages banks from continually redeploying available capital by taking advantage of secondary markets. It would seem to be better for CRA purposes to recognize the impact of a bank that lends and sells on the secondary market, at least as much as a bank that lends and ties up available capital by holding that loan on the balance sheet. We recommend that CRA measures be revised to fully count loans sold into the secondary market in the year of origination.

The approach of heavily discounting loans sold on the secondary market appears to incorporate the skin-in-the-game-related concept embodied in some provisions of the Dodd-Frank Act with CRA and community impact. However, the community impact of new mortgage loans originated in CRA communities is the same, regardless of who bears the credit risk. There is no need in CRA to use skin-in-the-game to incent certain behavior. Moreover, the extent that the Agencies believe that there is a concern about the kinds of problems that skin-in-the-game requirements could address, those problems are already addressed by other regulatory requirements, including the Ability-to-Repay and Qualified Mortgage provisions of Dodd-Frank. If the concern is gaming, we recommend exploring ways to address that concern without discounting loans sold to the secondary market.

Hence, while we understand the need for, and support an objective performance evaluation metric, MBA strongly recommends that the Agencies re-evaluate and revise some of the components of the proposed performance evaluation metrics, including the reduced CRA credit for home mortgage loans sold within 90 days of origination and the flawed focus on the balance sheet alone. We do not believe that these elements further the Agencies’ goals of providing clarity or improving upon current performance evaluation rules. Accordingly, we recommend revising elements of the proposed performance evaluation metric as follows:

- Mortgages made in LMI neighborhoods and to LMI borrowers should continue to receive full CRA credit without regard to how long the bank holds the loan;
- Undercounting of CRA credit for loans sold to the secondary market should be eliminated; and
- Measurements should be focused on the number of loans, rather than the dollar value of a bank’s lending.

Impact on LIHTC activity

The Department of Housing and Urban Development (HUD) describes the Low-Income Housing Tax Credit (LIHTC) program as “the most important resource for creating affordable housing in the United
States today.” While banks may invest in LIHTC projects, banks also serve a critical function with respect to the LIHTC program by sponsoring and syndicating LIHTC. This involves considerable efforts in working with developers, the IRS, state housing finance agencies, and investors, and monitoring and managing the fund. The same is true with respect to new market tax credit (NMTC) projects.

Consistent with the importance of the contribution to the LIHTC and NMTC programs, banks receive CRA credit for syndication activity under current CRA regulations. Under the proposal, however, banks would no longer receive CRA credit for syndicating activity, because that activity is largely not reflected on the bank’s balance sheet. As a result, the proposed measure of CRA performance would largely ignore this critical contribution to the development of affordable housing in many communities.

To more accurately capture the impact of, and to incentivize, this activity going forward, we recommend that the Agencies revise the proposed performance measurement approach also to provide substantial CRA credit for non-balance sheet LIHTC and NMTC syndication activity.

E. Reporting and recordkeeping burdens

Based on feedback from our members, their greatest concern with the proposal is the reporting burden it would impose on banks. Any approach to establishing objective metrics for evaluating CRA performance (an objective we support) must balance the benefit of establishing an objective measure against the regulatory burden of establishing and maintaining the processes and infrastructure necessary to measure performance against that measure.

As proposed, the regulatory burden outweighs the benefits. Fundamentally, bank call reports were not designed with CRA reporting in mind. As a result, there would be both a substantial one-time transition cost and burden, as well as a substantial ongoing burden of reporting and the operation of all associated controls. Moreover, the substantial reporting burden that follows from the proposed balance-sheet measure of CRA performance would add a substantial CRA reporting compliance burden to the bank’s burden of substantive compliance with CRA. These burdens are not balanced by corresponding benefits.

Accordingly, we recommend that the Agencies reconsider and revise this approach to establishing objective metrics for evaluating CRA performance, which relies so heavily on balance sheet loan balances, in favor of an alternative measure that bank systems and processes can more readily support.

F. Assessment areas

The NPR adds a new requirement that would expand the number of assessment areas a bank may be required to delineate. Under this proposal, in addition to current rules that require a bank to delineate assessment areas around its main office, branches, and non-branch deposit-taking facilities (now termed “facility-based assessment areas), a bank is now also required to delineate what is called “deposit-based assessment areas”, which essentially includes areas where a bank collects a substantial portion of its deposits, regardless of physical presence. According to the Agencies, by delineating assessment areas that extend beyond the immediate areas surrounding a bank’s physical location, is the Agencies seek to encourage greater CRA

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6 Low-Income Housing Tax Credits, HUD Office of Policy Development and Research (revised May 24, 2019); https://www.huduser.gov/portal/datasets/lihtc.html
activities in rural areas and to ensure that banks are serving their entire communities, including those outside areas where they are physically located.

To determine whether a bank must delineate this additional deposit-based assessment area, the bank would need to engage in certain calculations that take into account geographies where it originated or purchased a substantial portion of its loans, and also whether a substantial portion of its retail domestic deposits are outside of its facility-based assessment areas, as whether the concentration of retail domestic deposits in any given area meets a certain threshold.

While we understand the need to update the definition of “assessment area” to keep up with changes in the banking industry - including the increasing number of banks that operate primarily through the internet or otherwise serve customers located far from the banks' physical locations - and to ensure that the CRA’s goal of obligating banks to reinvest in the communities where they collect deposits continue to be maintained, we believe that the proposed methodology for delineating deposit-based assessment areas would lead to burdensome and costly results for banks - especially small banks that would need to manage increased assessment areas under the CRA.

Under this methodology, the NPR establishes an initial 50 percent threshold for a bank to delineate a deposit-based assessment area, and another 5 percent threshold for a bank to delineate additional deposit-based assessment areas. In effect, a bank with very limited footprints could be subject to up to 20 deposit-based assessment areas in a situation where more than 50 percent of the bank’s retail domestic deposits are outside of its facility-based assessment area, and in addition, the bank receives 5 percent of its retail domestic deposits in several (different) geographies. While it might seem a bit far-fetched that a bank would receive an even 5 percent of its retail domestic deposits in different geographies, and thus, be required to delineate 20 additional deposit-based assessment areas, the fact that this rule creates that possibility necessitates a review and reconsideration of this rule.

MBA strongly recommends that the Agencies re-evaluate and revise this provision in a manner that will ensure that banks have the necessary tools and incentives to meet their CRA obligations using objective and workable rules that do not create undue burdens and costs. In effect, a revised threshold for delineating deposit-based assessment areas (based on industry recommendation) would help provide the necessary flexibility in the rules and avoid an unworkable one-size-fits-all approach in this area.

Moreover, our members have expressed concerns that the use of this deposit-based assessment area methodology would exacerbate the CRA “hot spot” and “desert” problems that the proposal seeks to avoid. In their experience, deposits that come from outside of their facilities-based assessment areas will tend to come from individuals located in wealthier areas. The deposit-based assessment area therefore would create intense competition by banks across the nation for CRA activities in the areas of the country that are the least in need of community development. In effect, this approach would create even hotter CRA hot spots where they are least necessary and would do nothing about CRA deserts, and we do not believe that changing the percentages in the proposal would make deposit-based assessment areas appropriate for CRA measurement purposes.

Accordingly, we strongly encourage the Agencies to reconsider the proposed approach of creating deposit-based assessment areas.
G. Affiliate Activities

Under current CRA regulations, banks have the option of receiving consideration for activities conducted by an affiliate, and the resulting CRA credit may apply only to a single affiliated bank. Under the proposal, the Agencies would consider all activities done in the name of another party, such as an affiliate, where a bank is “substantively engaged” in that activity.

MBA does not support this proposed change. It is unclear and disruptive, reduces flexibility, and is unsupported by CRA policy considerations. The term “substantively engaged” is not clear, and we understand from members that the proposed change would require substantial and burdensome business changes that would disrupt established and effective approaches to community development. In fact, the disruption and reduction in flexibility arising from the proposed change could ultimately result in a net reduction in the level of CRA activity and community development impacts for some institutions. This clearly is not the Agencies’ intent.

Accordingly, we recommend that the Agencies revise their proposed CRA regulation to maintain the current CRA treatment of activities conducted by affiliates.

IV. ADDITIONAL COMMENTS

1. Pause timeline for release of final rules and subsequent implementation

In addition to providing comments below, MBA strongly urges the Agencies to pause implementation of any final rule for a period that would allow both industry and the Agencies to further study the full implication of the changes being proposed. The proposed changes need to be tested and all the many implications properly understood by the Agencies as well as the banks that would be required to implement them. Moreover, with the current situation in the economy caused by the novel COVID-19, which no doubt will interfere in many bank activities for many months to come, there is now even more of a need for the Agencies to and the Agencies to pause before releasing final rules and requiring banks to implement such rules. MBA joins other stakeholders that are recommending that the Agencies pause the release of final rules as well as any requirements to implement such rules.

2. Agency coordination

Another reason to pause on implementing a final CRA rule based on this proposal is the possibility of substantially different CRA regulatory regimes across different federal banking regulators, which is a cause for serious concern for our members. In addition to the potential for creating non-uniform rules that result in unnecessary complexities and confusion for banks, it creates significant complicating issues for the communities and individuals that are the beneficiaries of the CRA, as they would need to always have to first figure out under which agency rules a bank is operating for CRA purposes before proposing various projects or initiatives.

All three federal agencies (FDIC, OCC and the Board) are in agreement on the need to improve the CRA regulatory framework, and have been working collaboratively on this endeavor for the last few years, including conducting reviews of the CRA regulations, meeting with stakeholders, and issuing reports on their findings and making recommendations to on how to improve the regulations. Although the OCC, on its own, issued an advanced notice of proposed rulemaking (ANPR) requesting public comments on various aspects of the current regulations, comments received in response to the ANPR were shared with both the FDIC and the Board.
While it is still unclear whether the OCC and FDIC will continue to push towards final rules without the participation of the Board, MBA strongly encourages all the three agencies to work together on this important issue. The CRA is a vital tool for both banks and their communities, and we believe that operating under uniform or consistent rules is an important part of ensuring that banks continue to meet their CRA obligations and the intended beneficiaries obtain the benefits.

V. CONCLUSION

MBA appreciates efforts that have been made by all the federal banking agencies to modernize and improve the CRA regulatory framework to make it more reflective of the original intent of the statute. We support the Agencies’ objectives of making the benefits of the CRA more effectively targeted for the communities that need them and the regulatory framework less burdensome and costly for the banks that are required to deliver the benefits. Hence, we continue to urge the Agencies to work with industry and stakeholders to ensure that these objectives are met.

If you have questions, require any additional information, or wish to discuss these comments, please contact Fran Mordi (fmordi@mba.org) at (202) 557-2860 or Bruce Oliver (boliver@mba.org) at (202) 557-2840.

Sincerely,

Mike Flood
Senior Vice President, CMF Policy & Member Engagement
Mortgage Bankers Association

Pete Mills
Senior Vice President
Residential Policy & Member Engagement
Mortgage Bankers Association