November 14, 2018
Joseph M. Otting
Comptroller of the Currency
400 7th Street, SW
Washington, D.C. 20219

RE: Comments on the Proposed Rule on "Reforming the Community Reinvestment Act Regulatory Framework" (Docket ID OCC-2018-0008)

Dear Comptroller Otting:

As a leading representative of the 28 million small businesses in America, Small Business Majority is writing in response to the OCC's proposed rule on "Reforming the Community Reinvestment Act Regulatory Framework."

Small Business Majority is a national small business advocacy organization, founded and run by small business owners to ensure America's entrepreneurs are a key part of a thriving and inclusive economy. We actively engage our network of more than 58,000 small business owners in support of public policy solutions, and deliver information and resources to entrepreneurs that promote small business growth and drive a strong, sustainable job-creating economy.

Access to capital has been a persistent problem for entrepreneurs, particularly since the recession. Indeed, our scientific opinion polling found 90% of small business owners nationwide believe the availability of credit for small businesses is a problem, and 61% agree it is harder to get a loan now than it was in 2008. And, while it has eased in some parts of the small business community, there are significant gaps that remain in critical areas, especially for women and people of color, and in rural communities. For example, according to the 2016 Federal Reserve Small Business Credit Survey, only 40% of minority-owned firms seeking funding received the full amount sought, compared to 68% of non-minority owned firms.[1]

The Community Reinvestment Act (CRA) has been an important policy tool in stimulating investment in small business lending, particularly in low- and moderate-income (LMI) areas. According to an FDIC report from 2016, 71% of all small business loans originate from a bank subject to CRA reporting requirements.[2] However, the Federal Reserve found that small business lending by CRA respondents dropped more than half between 2007 and 2019.[3] While there have been some increases in this activity since 2010, small business lending by CRA respondents has not returned to pre-recession levels, and lending is increasingly concentrated outside of banks' assessment areas. Indeed, origination of small business loans outside of assessment areas increased by 68% between 2010 and 2016, while lending inside assessment areas increased just 21% in this time period. In other words, lending to the most underserved communities has struggled to rebound to pre-recession levels.

These statistics illustrate the importance of the requirements under the CRA to small businesses. Indeed, our recent opinion polling found nearly two-thirds of small business owners (62%) support

[1] Federal Reserve Bank of Cleveland, 2016 Small Business Credit Survey: Report on Minority-Owned Firms," https://www.opportunityfund.org/assets/docs/sbcs%20minority-owned%20businesses%20report%202016.pdf
[2] Federal Deposit Insurance Corporation, "Findings from Analysis of Nationwide Summary Statistics for 2016 Community Reinvestment Act Data Fact Sheet," https://www.fdic.gov/news/news/press/2017/pr17088a.pdf
[3] Federal Reserve, "Recent Trends in Small Business Lending and the Community Reinvestment Act," https://www.federalreserve.gov/econres/notes/feds-notes/recent-trends-in-small-business-lending-and-the-community-reinvestment-act-20180102.htm

the CRA and its role in requiring that banks make investments in low-income communities.[4] Any reform to the CRA must strengthen and expand small business lending, especially to LMI borrowers. That's why we're concerned about proposed rule changes to CRA regulations that would undermine assessment areas and potentially allow banks to receive CRA credit for any lending, regardless of the location or the size of the businesses receiving funding.

This would drastically decrease lending to LMI borrowers and hinder growth of small businesses in underserved areas. The National Community Reinvestment Coalition estimates small business lending in LMI communities could decrease by between $8 billion and $16 billion over a five-year period if current assessment areas are weakened.[5] That means fewer small businesses started, fewer employees hired and fewer communities benefiting from strong entrepreneurial activity. This is why the OCC must maintain banks' requirement to lend in their assessment areas and protect lending to LMI individuals.

We are also concerned with the OCC's suggested move to using the so-called "one ratio" in evaluating banks, using a simple calculation of taking the dollar amount of a bank's CRA activities and dividing by the bank's assets to assess if it is meeting its CRA requirements. While clarification of CRA evaluation is a good thing, the one ratio calculation would make it harder to assess if a bank is truly responding to local communities' needs. While we are supportive of changes to CRA evaluation that would result in banks receiving credit for lending to LMI borrowers beyond their assessment areas, the one ratio diminishes the value of lending in local communities where they currently operate branches. Instead of changing assessment areas or using the one ratio, the OCC should consider establishing new, additional assessment areas where banks may not have physical branches but have a significant amount of business.

Finally, changes to the types of lending activities that qualify for CRA credit should only be implemented if they truly align with the CRA's purpose—to increase lending in low- and moderate-income neighborhoods. The OCC should not allow for activities in higher-income areas or nontraditional CRA activities, like a major real estate development outside a designated LMI zone, to fulfill CRA requirements as they do not directly stimulate lending to underserved populations. Rather, changes to CRA regulations should strengthen requirements for banks to invest in lower-income communities and to entrepreneurs of color.

Small businesses play tremendous roles in driving economic activity and supporting job creation. The CRA is overdue for reform, but changes to CRA regulations must further encourage small business lending, especially to underserved entrepreneurs. Changes must address the credit and funding gaps of low- and moderate-income borrowers and entrepreneurs of color, not further reduce their ability to find much needed capital or credit. We strongly encourage the OCC to revise its proposed rule in line with the above feedback and are appreciative of the opportunity to comment on this important topic for our nation's small business owners.

Sincerely,

John Arensmeyer
Founder and CEO

[4] Small Business Majority, "Small business owners support policies promoting access to responsible lending," http://smallbusinessmajority.org/our-research/access-capital/small-business-owners-support-policies-promoting-access-responsible-lending

[5] National Community Reinvestment Coalition, "NCRC forecast: Weakening the Community Reinvestment Act would reduce lending by hundreds of billions of dollars," https://ncrc.org/ncrc-forecast-weakening-the-community-reinvestment-act-would-reduce-lending-by-hundreds-of-billions-of-dollars/