

The Community Reinvestment Act and Economic Development in  
Jamaica, New York

Written Testimony of

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Before the United States House of Representatives Financial Service Committee,  
Subcommittee on Consumer Protection and Financial Institutions

January 14, 2020

Good afternoon. Chairman Meeks, Ranking Member Luetkemeyer and Members of the Subcommittee thank you for the opportunity to testify today. My name is Hope Knight and I am the President and CEO of the Greater Jamaica Development Corporation (GJDC). GJDC is a non-profit that works to plan, promote, coordinate, and advance responsible development to revitalize Jamaica, New York and Southeast Queens.

This hearing is on the Office of the Comptroller of the Currency (OCC) and Federal Deposit Insurance Corporation's (FDIC) Notice of Proposed Rulemaking (NPRM) on proposed changes to the Community Reinvestment Act (CRA).

As the leader of an economic development organization in a formerly redlined community, the CRA is foundational to my work. I have studied the NPRM in detail, and had the honor of helping to lead a tour of Jamaica for Comptroller Otting and the OCC.

I am here today to discuss the significant concerns I have about ideas presented in the NPRM that I believe would significantly weaken the CRA and lead to less investment, fewer loans and banks, and less meaningful investment in the neighborhood I serve. I am also very concerned that the OCC and FDIC are moving forward without the cooperation of the Federal Reserve Board, which will create regulatory uncertainty. Moreover, the short, 60-day, comment period is insufficient to collect adequate public feedback on this important but complex regulatory change. We request that the comment period be extended to total at least 120 days.

### **The CRA had helped Jamaica, Queens Recover from Disinvestment**

Jamaica, Queens shares a similar history with many other urban communities of color across the United States. Redlined in the 1930s, Jamaica struggled to attract private investment for over half a century. In the 1960s and 1970s, Jamaica's economic base further eroded as white flight to the suburbs drained the downtown core of residents and businesses. The culminating disinvestment left Jamaica in a vicious economic cycle: a structural impediment to attracting private capital prevented Jamaica's residents from getting loans to buy homes and start businesses, which limited opportunities to build wealth and grow jobs and, as a result, created an additional economic barrier to attracting private capital.

Targeted federal programs, like the CRA, have helped to start a reversal of this cycle in Jamaica. Recently, and owing in part to their interest in securing CRA credit, banks financed transformative development in Jamaica, including projects that will bring more affordable housing and good jobs to residents of Southeast Queens. As a Community Development Financial Institution, GJDC has been able to lend to small businesses with help from banks' contributions, often given to meet CRA obligations. This work on responsible development and small business assistance has helped grow Jamaica's economy and attract the kind of private capital it once lacked.

However, despite this progress, Jamaica still bears the legacy of redlining, suburban flight, and disinvestment. Many areas of Jamaica remain banking deserts. On our tour with

Comptroller Otting, we passed miles long stretches in densely populated corridors with no bank branches. With few bank branches, Jamaica's residents rely on expensive bank alternatives like check cashers and high-fee ATMs at corner stores. Potentially catalytic projects—like efforts to build hotels and other businesses to support the nearby JFK International Airport—struggle to secure financing. Low-income residents have difficulty accessing loans. Jamaica also remains vulnerable to economic crises. For instance, community members were hit hard by the Great Recession. If changes are made to the CRA that dilute its impact, Jamaica will struggle against such economic headwinds and the recent progress growing Jamaica's economy will be put at risk.

### **The Proposed CRA Reform Will Hurt Jamaica, Queens and Other Similarly Situated Communities**

With regard to the NPRM, I am particularly concerned by several proposals, including those that will broaden assessment areas, redefine what activities count for CRA credit, increase the maximum size of the small business loans, and decrease the focus on bank branches. Additionally, I believe that the uncertainty and lack of clarity caused by two competing sets of CRA regulations will decrease lending activity and put a burden on the kind of financial institutions best suited to serve communities like Jamaica: small Minority Depository Institutions (MDIs).

*Assessment areas:* From my work in economic development, it has become clear that, to be effective in spurring equitable economic development, regulations must have clear and well-defined geographic targets. Instead of focusing on a clear geography, the proposed regulation greatly expands where banks can get CRA credit, allowing for investment in areas outside of local assessment areas. Without clear geographic direction, it is less likely that financial assistance will flow to communities that need it the most.

*Activities that garner CRA credit:* Formerly redlined communities need more private investment. That investment must also be targeted at effective projects. The proposed reform will reduce the need to specifically target investment toward community-supporting projects. As one example, under the rules in the NPRM any investment in an Opportunity Zone would be an eligible activity without any consideration of the economic development benefits or community needs.

*Size of small business loans:* The proposed regulation raises the maximum size of a small business loan from \$1 million to \$2 million. For purpose of obtaining CRA credit, large deals are likely more attractive to banks. However, in Jamaica, Queens many small businesses that need financing would not be able to accommodate a loan of \$2 million. Increasing the size of small business loans may freeze out small businesses from financing they need to grow.

*Bank branches:* Retail banking is of paramount importance to neighborhoods like Jamaica. However, and as Comptroller Otting mentioned after his tour of Jamaica, there are areas in Jamaica served by few or no bank branches. Without branches, many Jamaica residents depend on high cost of physical alternatives like corner store ATMs and check cashing services. Although there has been a proliferation of e-banking and other online fintech services, the

nation's persistent "digital divide" creates a barrier to accessing such e-services for those in low-income census tracts. Additionally, low- and moderate-income (LMI) individuals benefit from the kind of person-to-person financial services offered at banks. As such, I am very concerned by the proposed regulatory changes that eliminate the current large bank service test and examination of basic banking accounts for LMI customers.

*Regulatory clarity:* By moving ahead on proposed regulatory changes without the Federal Reserve Board, the OCC and the FDIC would create a two-tier regulatory system that adds complexity and confusion to an already complicated sector. While larger money center banks may be able to navigate this added burden of complexity without too much difficulty, smaller financial institutions may be hit hard. Small MDIs—which, in my experience, are particularly well suited to helping LMI people and districts—tend to put a premium on local customer service while having less internal infrastructure to handle regulatory confusion and uncertainty.

*Comment period:* The CRA is complex. Changes to the regulation will have far-reaching impacts. The short, 60-day, comment period does not allow enough time for reflection and thoughtful comment on the proposed changes. We request that the comment period be extended to total at least 120 days.

### **Conclusion**

The banking industry has changed since the 1970s and it is reasonable that regulations will also need to change to meet new realities. In my experience, I have been fortunate to work with many banks on CRA eligible projects and have often found our partners to be good-faith actors. We would be happy to support changes to CRA regulations that allow for banks to have more creativity in working with communities to meet changing needs—such as giving CRA credit for capitalizing MDIs or offering pre-development financing to non-profits. However, the changes to CRA regulations currently proposed by the OCC and FDIC will hurt economic progress in LMI areas and undermine the anti-redlining intent of the CRA. As such, I opposed the changes described in the NPRM and ask the OCC and FDIC to reconsider their proposed regulatory overhaul.