June 4, 2020

VIA ELECTRONIC FILING

Mr. Ivan Hurwitz
Senior Vice President
Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

Dear Colleague:

On behalf of the members of the Community Development Bankers Association (CDBA) and National Bankers Association (NBA), we respectfully submit the enclosed comments in response to the Federal Reserve Bank of New York's review of the pending acquisition by Morgan Stanley, New York, NY of E*Trade Financial Corporation and by extension, E*Trade Bank and E*Trade Savings, all of Arlington, VA.

The merger of Morgan Stanley and E*Trade is significant on a national and a local level. Morgan Stanley is already the sixth largest Financial Holding Company (FHC) in the United States[1] by assets, and a globally systemically important bank (GSIB).[2] As a major participant in the global financial markets, the proposed entity should be held to a high standard with respect to meeting the credit and financial service needs of Low- and Moderate-Income communities within its new, larger geographic footprint and expansion of products and services to include a wider range of retail consumers.

Under the Bank Holding Company Act, the Bank Merger Act, and the Home Owners Loan Act, the Board is required to review the competitive effects of bank mergers and acquisitions.[3] Without proper oversight, any merger of this size could have significant and negative impact on economically disadvantaged areas. Specifically, such a merger could "affect the competitive environment in retail banking markets and that in some cases may raise competitive concerns."

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[1] https://www.ffiec.gov/npw/Institution/TopHoldings
[2] https://www.fsb.org/2019/11/2019-list-of-global-systemically-important-banks-g-sibs/
[3] https://www.federalreserve.gov/bankinforeg/competitive-effects-mergers-acquisitions-faqs.htm

To mitigate potential negative impacts, we strongly encourage the merged institution to develop a robust community development program to ensure that Low- and Moderate-Income communities are well served. A key component of such a program should include initiatives that support depository Community Development Financial Institutions (CDFIs), such as CDFI banks, and Minority Depository Institutions (MDIs). Morgan Stanley itself estimates that the asset size of the new firm will be $3.2 trillion,[4] larger by approximately *$500 billion* than the current largest holding company, J.P. Morgan Chase at $2.7 trillion.[5] The new firm should develop CDFI and MDI initiatives that are at least comparable in size and scope as those of its peer group, rather than rely on a definition of peer group which is limited to those of the distinct banks which are currently evaluated under the Community Reinvestment Act (Morgan Stanley Bank, N.A., Morgan Stanley Private Bank, National Association, E*Trade Bank and E*Trade Savings Bank). J.P. Morgan Chase, Bank of America, Citigroup, and Wells Fargo are the next most comparable in asset size to that of the proposed merged bank and their CDFI initiatives can serve as models.

In particular, we strongly encourage the new bank to entirely revamp and strengthen its community development programs in response to the new asset base and business model of the institution. Morgan Stanley currently operates its CRA program for both OCC regulated banks under the CRA Strategic Plan option. Further, both Morgan Stanley banks' CRA Strategic Plans were approved recently (June and December 2019), suggesting that they have a range of at least two, and probably more, years beyond the effective date of the proposed merger. Given the monumental change in the character of the combined institutions, both in asset size and business model, *both banks' CRA Strategic Plans should be re-opened and reconfigured to appropriately redirect the combined resources to the new and expanded range of communities served.*

In particular, none of the most recent CRA Public Evaluations, or a canvas of our members, reveal that any of the regulated bank subsidiaries of the Morgan Stanley or E*Trade holding companies place deposits in CDFI or MDI banks that primarily lend or facilitate lending in low- and moderate-income areas, or to low- and moderate-income individuals, in order to promote community development. We strongly recommend that Morgan Stanley undertake a program to introduce such a deposit placing program, given its proven impact and effectiveness, strong need, and relative ease (please see the Certificate of Deposit Account Registry service as an example).

In its merger application, Morgan Stanley states that it "looks forward to continuing its record of strong CRA performance and firm-wide dedication to CRA," and that "The integration of the E*TRADE Banks into Morgan Stanley's CRA program will take place in line with Morgan Stanley's growth initiatives and will be designed to meet the evolving needs of the communities

[4] https://www.morganstanley.com/press-releases/morgan-stanley-to-acquire-e-trade
[5] https://www.ffiec.gov/npw/Institution/TopHoldings

Morgan Stanley and E*TRADE serve."[6] This statement suggests a continuance of existing strategies based on "growth initiatives" that were designed separately, and prior to the announcement of this merger, for much smaller individual banks with more limited business models. It is insufficient to continue old CRA practices at activity levels which are based on stale growth projections within the context of this proposed larger bank, which will have an expanded retail customer base and be outsized in proportion to its new peer group.

In summary, we strongly encourage the Federal Reserve to ensure that the new bank created by the merger of Morgan Stanley and E*Trade has robust community development performance appropriate for its size, scope complexity and expanded retail customer base. As part of such an effort, we recommend that the new bank embrace the opportunity to work with and support regulated depository CDFIs and MDIs within their markets.

Thank you for the opportunity to comment on this important issue.

Sincerely,

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[6] Notification to the Board of Governors of the Federal Reserve System by Morgan Stanley for prior approval to acquire by merger E*Trade Financial Corporation, pursuant to Sections 4(j) and 4(k) of the Bank Holding Company Act and Section 225.15 of Regulation Y.