NATIONAL COMMUNITY REINVESTMENT COALITION

NCRC

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August 13, 2013

Re: Proposed Changes to Interagency Q&A

OCC: Docket ID OCC-2013-0003
Federal Reserve: Docket No. OP-1456
FDIC: Attention: Comments on CRA Interagency Q&A

To Whom It May Concern:

Although the National Community Reinvestment Coalition (NCRC) submitted a comment letter in May on the proposed revisions to the Interagency Question and Answer (Q&A), NCRC is offering this additional comment on earmarks and national funds because we believe that the agencies' dismissal of earmarks would subvert the original intention of CRA of banks to serve the local communities in which they are charted to do business. The groundless assertion that earmarking is burdensome is being offered as a justification to further loosen the responsibilities that banks have to their assessment areas (local areas in which they conduct business). The agencies must not repeat these assertions anywhere in their revised Q&A like they have in their proposed changes to the Q&A.

In our May letter on the proposed Interagency Q&A, NCRC offered support for allowing banks to engage in community development activities in statewide or regional areas provided that the banks have exhausted opportunities in their assessment areas. We supported the "in lieu of" language because it was coupled with an emphasis on performance context analysis assessing if a bank has comprehensively addressed needs in its assessment areas. In addition, allowing banks to participate in national funds would be contingent on their first serving their assessment areas.

Not allowing earmarking would frustrate the ability of banks who want to participate in national funds from serving their assessment areas. Under earmarking, managers of national funds would assign specific projects in specific geographical areas to specific banks. Banks request specific projects in specific geographical areas that are their assessment areas. Managers of national funds are therefore helping banks provide community development financing to projects in their assessment areas. Not allowing or discouraging earmarks frustrates the ability of banks to finance projects in their assessment areas!

The claim that earmarking is burdensome is specious. Managers of national funds can readily develop databases that allocate specific projects to specific banks. The assignment of specific projects to specific banks also prevents "double counting" or two banks claiming the same project. Earmarking thus preserves the integrity of CRA and ensures that communities are receiving real funding for community development, not inflated funding amounts that actually finance much fewer projects than reported.

The alternative to earmarking, a pro rata system, does not appear to make sense for regional and local banks. Why would a bank located in the Midwest and whose funding equals 10 percent of the total fund, want to claim 10 percent of each project, many of which might be on the coasts and are far away from the bank's assessment area. The opponents of earmarking extol the virtues of a pro rata system, but we fail to see how it helps regional or local banks or achieves any level of precision in allocating projects. Pro rata systems may work for the largest banks in the country that have assessment areas in several states, but pro rata systems should not be extolled over earmarks (the word "burden" next to earmarks in your proposed changes elevates pro rata over earmarks).

The opponents of earmarking also state that earmarking subverts the benefits of diversification. A core principle of national funds is its ability to reduce exposure to risk and the economic uncertainties of any one region by pooling national projects together in one fund. Yet, earmarking is consistent with diversification. Fund managers inform NCRC that while the projects are earmarked for CRA exam purposes, all investors in a national fund share the profits and risks on a national level.

In addition to the issue of earmarking, the agencies ask whether CRA exams should report a special category of national level investments. NCRC believes this would be a serious mistake. National funds are neither inherently good nor bad. Their virtues depend on their level of innovation and responsiveness to needs. Thus, CRA exams should judge investments in national funds on the criteria of innovation and responsiveness to needs. Creating a separate category of investments elevates the importance of national funds and may give banks the impression that the agencies accept further straying from banks' assessment areas.

In conclusion, NCRC requests that the agencies re-insert the example of earmarking in the Interagency Q&A on national funds (Q&A §__.23 (a)–2) and that no special treatment or category be accorded to national funds on CRA exams. While NCRC has supported community development financing in a statewide or regional area provided assessment areas are met, these proposed changes to the Q&A needlessly and unjustifiably divert banks' attention from serving the local communities in which they conduct business.

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NCRC appreciates the opportunity to comment on this important matter. If you have any questions, please contact myself or Josh Silver, Vice President of Research and Policy, on 202-628-8866.

Sincerely,

John Taylor
President and CEO
National Community Reinvestment Coalition