NCIF NATIONAL COMMUNITY INVESTMENT FUND

LEVERAGING CAPITAL FOR CHANGE℠

May 17, 2013

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
Mail Stop 9W-11
400 7th Street, SW
Washington DC 20219
Docket ID OCC-2013-0003

Mr. Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington DC 20551
Docket No. OP-1456

Mr. Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington DC 20429

Re: Interagency Questions and Answers Regarding Community Reinvestment

Dear Sir or Madam:

The National Community Investment Fund (NCIF) would like to thank you for the opportunity to provide comments on the revised "Interagency Questions and Answers Regarding Community Reinvestment" published in the Federal Register on March 18, 2013. The financial markets landscape has transformed over the last 36 years since the Community Reinvestment Act was enacted. While a small number of financial institutions have become large and control a substantial amount of deposits and assets, most institutions continue to have assets less than $1 billion. In addition, new non-depository financial services providers have proliferated in serving customers and technology advancements have fostered an increase in the geographic reach and service provision options for all financial service providers. As a result, provisions of CRA need to evolve to take into account these trends. Our comments should be read in this broad context and in the context of mission-oriented banking sector.

<u>About National Community Investment Fund ("NCIF"; www.ncif.org)</u>
NCIF is a national non-profit private equity trust fund set up in 1996 to invest capital in CDFI banks around the country. It has $195 million of assets under management including $173 million in new markets tax credits allocations. Over the years, it has lent to or invested

capital in 45 financial institutions (banks and credit unions) that have generated approximately $5.8 billion in loans in LMI communities. Today, NCIF is the largest investor in the CDFI banking community with investments in 17 out of a total of 88 certified CDFI banks. Apart from investing, NCIF helps these financial institutions raise deposits from mainstream and socially responsible investors. It also runs 'The NCIF Network' which is a national network of CDFI banks, Minority Depository Institutions ("MDI") and some low income credit unions. This network provides best practices to strengthen and grow the sector, thereby aligning NCIF's mission with that of the CDFI Fund. Finally, NCIF pioneered its Social Performance Metrics that are now being used by some investors and other stakeholders for supporting CDFI and other banks.

As a social investor, NCIF has extensive knowledge of the needs of, and the work done by, the CDFI/MDI banks and their investors as well as expectations of regulators relating to "safety and soundness" and consumer protection. NCIF was a member of the Consumer Advisory Council of the Federal Reserve Board and the Minority Depository Institution Advisory Council of the Office of Thrift Supervision.

NCIF is on the Board of the CDFI Coalition and partners with the Opportunity Finance Network. In this context, we substantially support their perspectives as it relates to some of the proposed changes in the Q&A.

<u>About CDFI and Minority Banks</u>

CDFI banks serve the toughest markets in the country and are affected by the growing wave of foreclosures and deep recession in these areas. As is evident from Table 1 below, the median home lending by CDFI banks in low- and moderate-income areas (Development Lending Intensity-HMDA[1]) is 2.5-times that of the median home lending by all banks in the country (49.72% vs. 16.38%); similarly the median number of branches located in these areas (Development Deposit Intensity[2]) is 4.5-times that of all banks (66.67% vs. 14.55%). CDFI banks and mission-focused MDI banks continue to make responsible loans to consumers and small businesses despite the adverse impact that the crisis has had on their financial condition.

[1] Development Lending Intensity –HMDA ("DLI-HMDA") is the percentage of HMDA reported loans purchased or originated in LMI areas as a ratio of total HMDA reported loans purchased or sold by the institution during the year. HMDA data used in this analysis is as of 12/31/11.

[2] Development Deposit Intensity ("DDI") is the percentage of branches located in LMI areas as a ratio of total branches of the institution. Branch data provided by FDIC is as of 6/30/2011.

Table 1: 2011 NCIF Social Performance Metrics for Bank Subsectors (Median)

Peer Group	#	DLI-HMDA	DDI
CDFI Banks	88	47.10%	66.67%
All Domestic Banks	7,092	16.30%	16.67%
"Top-Ten" Banks by Assets	10	14.40%	30.50%
Banks ≤$2 Billion	6,687	16.60%	14.30%
Minority Depository Institutions	184	44.00%	50.00%

Due to their impact in LMI communities along with their inherent ability to leverage capital, providing equity capital to the CDFI Banking sector is crucial to the long-term health of distressed communities. Unlike other organization types, each dollar of equity capital invested in CDFI Banks will be leveraged eight to ten times with customer deposits to maximize the community development potential. As a result, $1 of equity invested becomes $9-$11 of loanable funds directed towards small businesses and nonprofits commercial real estate loans, other commercial and industrial loans, agricultural loans and/or loans to individuals in LMI communities.

Proposed Revisions to Interagency Q&As on CRA

Community Development Activities Outside of an Institution's Assessment Area(s) in the Broader Statewide or Regional Area that Includes the Institution's Assessment Area(s)

In general, NCIF is in favor of changes that promote community development lending and services in underserved markets nationally. We do believe that statewide, regional and national community development organizations/CDFIs play an important role in reaching and serving underserved communities. However, we propose retaining the current language rather than adopting the proposed language "in lieu of, or to the detriment of, activities in the institution's assessment areas" to ensure that these products and services continue to be focused on assessment areas.

It is a different matter that the definition of assessment areas may need to be reconsidered given the substantial changes in the banking and financial services industry. We applaud the agencies in beginning to think about these changes and modifying the rules such that they adequately address the needs of communities.

Investments in Nationwide Funds

NCIF believes CRA should be applied to all geographies where a financial institution does significant business and the focus of CRA must remain on seeing that all communities within the institution's service area have access to credit, financial services and capital. National CDFIs and CDFI intermediaries have a unique ability to reach and address the capital, financial services and/or credit gaps in underserved low income communities and we support efforts to facilitate bank lending and investing in these nationwide institutions.

In addition, NCIF supports including a special category for investments in nationwide funds as part of each institution's CRA evaluation. We believe that this level of transparency will result in increased understanding of the role that Nationwide Funds play in community and economic development.

Community Services Targeted to Low and Moderate Income Individuals
NCIF is in favor of these changes and has no further comment.

Service on Board of Directors of an Organization Engaged in Community Development Activity
NCIF is in favor of this change and has no further comment.

Proposed New Interagency Q&As on CRA
Qualified Investments
NCIF has no comment on the proposed Q&A revision.

Community Developing Lending in the Lending Test Applicable to Large Institutions
NCIF supports the Agencies in proposing a new Q&A to clarify that community development ending performance is always a factor that is considered in an institutions lending test rating.

Activities with Minority- and Women-Owned Financial Institutions and Low Income Credit Unions (Redesignation of Existing Q&As)
Current Interagency guidance materials state that, investments and deposits in minority- and women-owned banks and thrifts, and low income credit unions as eligible CRA activities without regard to the geography were these institutions work. NCIF applauds the regulatory agencies for recognizing the important contributions of these financial institutions.

However, NCIF strongly believes that this treatment needs to be extended to cover not only these institution types, but all certified CDFIs. This includes CDFI Banks, loan funds, credit unions and venture capital funds. Due to the established mission orientation of CDFIs, any investment in these institutions should be identified as a CRA eligible activity irrespective of the geographic area of operation. Investments in CDFIs will, in turn, be re-lent to borrowers in low and moderate income areas consistent with the intention of CRA, and this work should be supported as strongly as possible.

<u>Other recommendations for consideration</u>
We request that the Agencies consider and support the following recommendations even though some will require legislation by the Congress:

1. **Reward Equity Investments:** Greater consideration should be given to equity investments rather than quasi-equity investments under the investment test. True investments of Tier 1 equity capital into CDFI and other mission oriented banks, grants and net assets of loan funds should be given higher credit to the covered

institutions relative to short term investments in projects funded by tax credits etc. This will encourage increased, longer term investment in LMI areas.

2. **Greater coverage**: Given the substantial changes in the landscape of financial services providers, we urge the Agencies to consider creating CRA obligations on all institutions – as opposed to it being applicable only to large banks and small CDFI banks as a cohort - that provide financial products and services to consumers and small businesses. This should include loan funds, credit unions, other asset management companies, alternative financial services providers and perhaps even some insurance companies.

   In addition, assessment area considerations should be expanded to keep in mind the fact that place-based obligations are no longer sufficient.

3. **Greater Data Disclosure**: The Home Mortgage Disclosure Act of 1975 has been very successful in providing greater transparency to activities of home lenders around the country. Historically, this information has been mined by stakeholders to ensure that there is no resurgence of 'redlining' in the country. Over the last 7-8 years, NCIF has mined this data to also provide positive incentive to institutions that have an *ex ante* or *ex post* mission of working in LMI areas. The resultant Social Performance Metrics methodology is being used by stakeholders in identifying and supporting high impact financial institutions. Please see appendix and www.ncif.org to learn more about the metrics and to use our free database tool.

   We would encourage the regulators and Congress to obtain and make publicly available granular information around other forms of lending (commercial real estate, commercial and industrial, small business), services and investments.

Once again, we thank you for the opportunity to provide comments in the context of CDFI, MDIs and other mission-oriented financial institutions that work in low- and moderate-income communities.

With best regards,

Saurabh Narain
Chief Executive