



August 5, 2022

The Honorable Jerome Powell
Chairman
The Board of Governors of the Federal Reserve System
Ann E. Misback, Secretary
20th Street and Constitution Avenue, NW
Washington, D.C. 20551
RE: Docket Number R-1769 RIN 7100-AG29

The Honorable Michael Hsu
Comptroller
Office of the Comptroller of the Currency
Attention: Comment Processing
Chief Counsel's Office
400 7th Street, S.W. Suite 3E-218
Washington, D.C. 20219
RE: OCC Docket ID OCC-2022-0002 RIN1557-AF15

The Honorable Martin Gruenberg
Acting Chair
Federal Deposit Insurance Corporation
Attention: James P. Sheesley, Assistant Executive Secretary
550 17th Street, N.W.
Washington, D.C. 20429
RE: RIN 3064-AF81

Dear Chairman Powell, Comptroller Hsu, and Acting Chair Gruenberg:

We are a diverse and broad coalition of nonprofits, real estate trade groups, lenders, civil rights advocates, and state housing agencies that have been working together to urge Congress to pass the Neighborhood Homes Investment Act. This legislation would create a new tax credit for affordable homeownership in neighborhoods characterized by low home prices, low resident incomes, and elevated poverty. Our goal is Congressional enactment of NHIA the end of this session of Congress. While it seems odd to be writing about it now before it has passed, we wanted to draw your attention to this potential new community development tax credit and ask that the CRA Final Rule accommodate it.

As you well know, a constricted supply of affordable starter homes is thwarting homeownership opportunity, especially for minority families. Moreover, in many communities throughout the country – in both urban and rural areas – the absence of quality homes undermines both neighborhood stability and the opportunity for families to build wealth. Too often the major impediment to building new homes or rehabilitating abandoned or deteriorated ones in these communities is that the cost exceeds the homes' market value upon completion.

NHIA would build and rehabilitate 500,000 homes to address this problem through a tax credit covering a portion of development costs. The new tax credits would be administered by state agencies through annual competitive application rounds. Tax credits would be targeted to modestly priced homes in communities with high poverty, low incomes, and low home values. The credit could be claimed only after the construction is completed and an eligible homeowner occupies the home.

There are three aspects of the proposed new CRA regulatory regime that could impact bank financing of Neighborhood Homes Tax Credits:

- 1.) The balance between the weighting of the Retail Lending Test and the Community Development Finance Test will influence bank willingness to make equity investments. If a bank's performance on the Retail Lending Test drives the CRA rating that the bank receives, then there will be little incentive for a bank to make equity investments in this new tax credit that would get credit under the Community Development Finance test. The tests should have equal weight so that banks have the incentive to make equity investments, which are more complex and less liquid than lending.
- 2.) Equity investments should be recognized as a Community Development Impact Factor so banks receive additional CRA credit for making these crucial investments. As with New Markets Tax Credits and Low Income Housing Tax Credits, Neighborhood Homes Tax Credits will need equity investors to launch projects. Banks are logical candidates to invest in Neighborhood Homes Tax Credits because of their familiarity with single family development and rehabilitation, but without CRA credit for these investments, banks may not be willing to deal with the expense and complexity of setting up new investment funds.
- 3.) While lending to all homeowners in LMI tracts will count under the Retail Lending Test, the proposed rule will only count construction lending and rehabilitation financing if the occupant of the home is LMI. The income limit for homebuyers under Neighborhood Homes is 140% of AMI, so this disconnect could mean that while the lending to the homeowners who purchase the homes would count for CRA credit, financing the construction may not. We would recommend that the agencies allow banks to receive CRA credit for financing homes that are located in LMI census tracts, provided that, consistent with NHIA legislation, the home sale price does not exceed four times the area median family income.

More information is available at neighborhoodhomesinvestmentact.org. Neighborhood Homes Tax Credits are a carefully targeted approach to the problem of neighborhood decline caused by the home valuation gap. The CRA final rule should be flexible and carefully calibrated to allow innovative new tools like this to grow and expand. Please contact Kristin Siglin at ksiglin@stabilizationtrust.org if you need additional information.

Sincerely,

THE NEIGHBORHOOD HOMES COALITION