CDFI COALITION
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August 30th, 2010

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
Re: Docket ID OCC-2010-0011

Robert E. Feldman
Executive Secretary
Attention: Comments,
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Re: RIN 3064-AD60

Jennifer J. Johnson
Secretary, Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Re: Docket No. R-1386

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: OTS-2010-0019

Dear Sir or Madam:

Re: Community Reinvestment Act Regulation Hearings

The Community Development Financial Institution (CDFI) Coalition is pleased to submit this comment letter in response to the Community Reinvestment Act Regulation Hearings. The CDFI Coalition is the united national voice of community development financial institutions and those who support the CDFI field. Members include every type of CDFI including CDFI banks, credit unions, loan funds, venture capital funds, financial intermediaries and microloan funds, including those working on tribal lands, as well as research and community development policy organizations.

Nationwide, over 850 certified CDFIs serve economically distressed communities by providing credit, capital and financial services to individuals, small businesses and to finance real estate developments that improve housing and community services. CDFIs must ensure that at least 60% of their activities are directed to low-income communities or undeserved populations. CDFIs have developed the market and lending expertise to serve such borrowers well and have loaned and invested billions of dollars in our nation's most distressed communities. CDFIs are needed now more than ever to help these communities recover from the current economic recession and sustain quality jobs into the future, and CDFIs need the investment encouraged by the Community Reinvestment Act (CRA) to leverage their expertise and capital with the types of loans, deposits and investments banks subject to CRA can provide.

CRA has been the mechanism that has created a partnership between CDFIs and mainstream banks and thrifts, and as a result, CDFIs are now an integral component of the delivery of financial services to low income communities across the country. Providing deposits and loans to CDFIs has been a win-win strategy for mainstream banks because it enables the banks to work through responsible CDFI lenders to serve borrowers outside a bank's normal customer profile. Mainstream banks also provide CDFIs with equity in the form of grants and as shareholders. Without CRA, the CDFI industry today would be a fraction of its current size and the scale of its lending and impact correspondingly reduced. This investment by mainstream banks in CDFIs has been consistently successful and, in the case of debt, repaid according to its terms.

We make the following recommendations to strengthen the CRA and boost lending in our country's underserved areas:

All financial support provided to CDFIs by banks should be explicitly eligible for CRA consideration regardless of geographic coverage.

Current Interagency guidance materials state that, investments and deposits in minority- and women-owned banks and thrifts, and low income credit unions are eligible CRA activities without regard to the geography of the investing institutions. We applaud the regulatory agencies for recognizing the important contributions of these specialized financial institutions. CDFIs need to be on an equal footing with such institutions. We believe investment in CDFIs should be identified as a CRA eligible activity because investments in CDFIs will, in turn, expand the capacity of CDFIs to lend to borrowers in low and moderate income areas consistent with the intention of CRA.

Favorable consideration should be afforded to bank investments made to CDFIs even if the CDFI is located in or serves a different assessment area as the investing bank's assessment area. This is also consistent with the treatment of investments and deposits in minority- and women-owned banks. Currently, banks receive minimal CRA consideration for investments in CDFIs outside of their designated assessment area and this treatment dissuades banks from lending to CDFIs that are not located in the market the bank principally serves – leaving entire communities that could benefit from affordable business loans, housing financing and community development activity at a disadvantage. CRA responsibilities should no longer be limited to a depository institution's geographic area, but rather be counted so long as the entity in which the investment is made is a certified CDFI. In addition, de-linking the assessment area from the location of the CDFI would allow depository institutions that do not serve a traditional geographic assessment area(s), such as large national wholesale banks or internet-based banks, to participate.

Banks should receive a pro-rata share of CRA credit for their purchase of interest in a loan pool of CDFI originated loans regardless of geographic coverage.

Portfolio liquidity is something CDFIs are working to enhance through loan syndications and secondary market sales, yet efforts to sell securities backed by pools of CDFI originated loans to banks seeking CRA credit has proved challenging. Examiners and regulators to date have been inconsistent with providing proportional treatment of bank investment in loan pools, particularly when a specific loan within a pool is one outside of a particular bank's assessment area. It is often the case that several banks purchase interest in a CDFI loan pool, and this type of community development loan pool often consists of loans made in low and moderate income communities in geographically diverse urban and rural areas, sometimes in different states. CDFI loan pools should be deemed eligible for CRA credit regardless of assessment area so that each bank participating in the loan can receive their pro-rata share of CRA credit for the amount of their investment, not the location of the community where that investment was made.

Similarly, banks that invest, participate in cooperative ventures, or engage in loan participations with a CDFI should receive CRA credit regardless of where the CDFI is located because those activities are integral to community development goals of CRA. The community development test can be strengthened by including these types of investments with CDFIs as eligible for CRA credit.

Reward banks that make longer term loans to CDFIs and engage in other innovative activities with high community impact.

Current regulations reward banks for meeting targets of number of loans and dollar amount of loans and thus short-term loans that match the CRA examination cycle are rated more favorably. This timeframe and the terms of the loans in question, however, are not consistent with the timeframe of the loan capital that CDFIs need to make meaningful investments in distressed communities. CRA should reward banks that provide concessionary pricing, longer term support, or other favorable terms on deposits and investments in and loans to CDFIs.

Similarly, banks that work with CDFIs to develop innovative products and services for low and moderate-income (LMI) markets should be recognized more explicitly in the evaluation process. While the regulations state that "innovative or complex" activities will receive consideration, implementation of this recognition has not been adequate or consistent from region to region and between the various regulators. For the most part regulators focus on measuring the number and dollar amount of CRA transactions with significantly less attention given to the "innovative or complex" nature of a banks products or services. This focus has the unintended consequence of creating disincentives for mainstream banks to: (1) provide longer term financing, which would reduce liquidity risk and asset-liability management challenges for CDFIs with demand for long term loans, but only short term money to lend; or (2) engage in transactions that are highly impactful, but may take years to put together and involve multiple financing sources.

The CRA regulations should reward banks that help to build the capital base of CDFIs, and regulators should consider providing extra credit or greater weight in the CRA examination and rating process for grants, equity or equity equivalent investments in CDFIs.

Thank you for the opportunity to discuss the important role of the Community Reinvestment Act in the ability of CDFIs to serve the nation's low and moderate income communities.

Sincerely,

Jeannine Jacokes

Jeannine Jacokes
Chair
CDFI Coalition