MaineHousing
Maine State Housing Authority

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Docket ID OCC-2010-0011

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OTS-2010-0019

Dear Community Reinvestment Act Regulators:

MaineHousing is pleased to provide comments on the Community Reinvestment Act in response to your June 17th request. MaineHousing is the State of Maine's housing finance agency. In addition, we administer a number of federal and state housing and energy programs and are the allocating agency for the federal Low Income Housing Tax Credit program. We offer three comments for your consideration.

CRA Credit for Low Income Housing Tax Credit Investments in Rural States

You have received in depth written comments and oral testimony in Chicago from the Northern New England Housing Investment Fund regarding the regulations covering investments in Low Income Housing Tax Credit projects in rural states. We support that written and oral testimony as does Housing Vermont, the New Hampshire Housing Finance Authority, and the Vermont Housing Finance Agency. In it, we offered the following comments:

Our overall goal is to ensure that you, as regulators, consider the impact that any proposed changes could have on smaller markets. *We must keep the "community" in the Community Reinvestment Act.* Therefore, we seek to ensure that the CRA regulations require banks to provide resources to the communities in which they do business, while also maintaining enough flexibility to allow CRA dollars to work within the existing integrated housing finance system.

We make the following specific recommendations:

- The CRA regulations should clearly allow full CRA credit for state-level Tax Credit investments. This would mean that banks doing business within a given state would know that they will receive full credit for their in-state CRA investments, regardless of where those investments occur within the state and even if the investments are outside the bank's particular assessment area.

- CRA credit for investments beyond state boundaries should not be allowed. We oppose the regionalization of CRA because such an approach does not ensure that local needs are being met and would lead to capital flowing from smaller markets to larger markets.
- Incentives should be considered to encourage banks to invest in smaller markets or underserved areas.

Concerns about the Current Trends in Equity Equivalent Investments

The use of Equity Equivalent (EQ2) Investments has grown over the last decade. We are concerned that what was a low-interest, unsecured loan is becoming an increasingly higher interest, safer loan product. According to *Community Investments* (FRBSF, March 2002), EQ2 interest rates in 2002 were in the two – four percent range. Today, with the cost of capital at an all time low, we recently saw an EQ2 loan at five percent. Even more troubling, EQ2 loans are dictating not only general financial standards for the not-for-profit borrowers but are tied to project specific performance standards and even to specific projects. This, in turn, impacts financing public purpose projects by institutions like MaineHousing. In this way, EQ2 loans have become less of a method for a not-for-profit to raise critical equity and more of a second loan in almost every way.

We find this drift of the instrument to be an increasing problem. The CRA is intended to ensure that financial institutions serve underserved communities. One would expect these investments to provide a community benefit by either taking more risk or offering a reduced interest rate. The more EQ2 investments become in effect a basic loan product, the less they should be valued under the Community Reinvestment Act. We urge you to consider this shift and adopt stricter standards for receiving CRA credit.

Little or No CRA Credit for RD, VA, and FHA Loans that are Sold to GSEs or HFAs

Financial institutions are encouraged to originate mortgage loans using Rural Development, Veterans Administration, and Federal Housing Agency products. Usually these loans are promptly sold on the secondary market to state housing finance agencies or to GSEs. At that point there is no risk to the financial institution. These loans are extremely safe for the lender and any risk is assumed by the HFA or GSE. We appreciate that using CRA credit may encourage financial institutions to offer these government products, but the amount of credit should be more in line with the risk taken by the institutions.

We appreciate the opportunity to comment and hope you will consider our concerns.

Sincerely,

Dale McCormick
Director