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Building Homes,
Creating Opportunities

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COMMENTS BY DHIC, INC.
REGARDING COMMUNITY REINVESTMENT ACT REGULATIONS

PREPARED FOR
OFFICE OF THE COMPTROLLER OF THE CURRENCY
FEDERAL RESERVE SYSTEM
FEDERAL DEPOSIT INSURANCE CORPORATION
DEPARTMENT OF TREASURY, OFFICE OF THRIFT SUPERVISION

I am writing today to offer my comments on efforts to modernize elements of the Community Reinvestment Act. For the past 25 years, I have had the pleasure of serving as Executive Director of DHIC, Inc., a non-profit housing development and education group based in Raleigh, North Carolina. DHIC is one of North Carolina's most active non-profit housing development groups with over 30 apartment communities, totaling 1,500 units that we have developed over the years. Last year, even in the depths of the collapse of the housing industry, our Homeownership Center provided education and counseling services to over 150 first time homebuyers, insuring that they procure safe, fixed interest rate mortgages. Since our inception in 1974, DHIC has built or renovated 500 homes for first-time lower income homebuyers.

Given my tenure at DHIC, I have seen firsthand the good that CRA has done to stimulate our partnerships with lenders and banks covered by CRA. There has been a sea change in the commitment and capability among lending institutions to support our work and the credit needs of our lower income clients. I am convinced that much of the motivation among these institutions was driven significantly by CRA requirements. However, in later years it is my belief that most lenders found that community development lending could also serve as a profitable line of business. And certainly some lenders went beyond prudent lending standards in the pursuit of these profits.

We offer to you the following comments regarding the future of Community Reinvestment in the United States.

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NeighborWorks CHARTERED MEMBER

1. It is important to update CRA in light of significant changes in the financial services industry's structure, our learning from the financial crisis, and our understanding of national needs
    a. Most notably, there has been increased concentration in the financial services sector
    b. There are new entrants such as former investment banks who are now covered by the Act and the growth of financial institutions that do not have a links to a specific community (e.g. internet banks) for whom the regulations must be modernized.

2. New rules should reinforce CRA's link to responsible, sustainable homeownership opportunities
    a. CRA did not cause the foreclosure crisis. Irresponsible, fast profit subprime lending did.
    b. For homeownership for low-income families and communities, we have on-the-ground proof in Raleigh of responsible, sustainable homeownership models that include well underwritten loans and counseling support for borrowers.

3. Increase focus and importance of Community Development activities within the CRA structure
    a. Current CRA rules overemphasize single-family mortgage lending to the detriment of other, important community credit and investment needs
    b. New rules should create separate community development test to emphasize lending, investments, and services in support of multifamily and other rental housing, single-family development, economic development and community facilities – service to low-income people and low-income communities

4. New rules should create incentives to financial institutions to address national needs
    a. Regulators should produce objective needs assessments for the top 50 metropolitan areas and the balance of each state.
    b. Financial institution CRA performance should be measured against these needs. Evaluations should include a qualitative component consistent with the extent to which the community development activities meet the identified need.
    c. Financial institutions without bricks and mortar facilities could meet CRA obligations by addressing these national needs.
    d. Top 50 financial institutions would have responsibility to address national needs in addition to meeting their responsibilities to local needs where they have a bricks and mortar presence
    e. All institutions would have the opportunity to achieve an outstanding CRA rating to the extent that they are willing and able to address a national need beyond their regular assessment requirements
    f. These national needs could include:
        i. National problems that are not tied to specific assessment areas that also require a financial institution to develop specialized capacity – such as supportive housing for the homeless, neighborhood stabilization, or affordable housing preservation
        ii. Needs of a scale that potentially exceeds the capital capacity or expertise of local financial institutions – e.g. transit-oriented development, large scale multifamily housing development, or regional economic development strategies

iii. Service to underserved geographies with limited access to credit (e.g. few institutions count these places as assessment areas) – e.g. credit deserts, distressed cities, remote rural or tribal areas, disaster areas, and high poverty census tracts.

5. <u>CRA should give full credit to investments in mission-oriented community development entities</u>
   a. These organizations include those that serve low- and moderate-income communities and populations, serve the financial institution's assessment area, or meet a broader national need.
   b. Mission-oriented community development entities should include community development financial institutions, not-for-profit intermediaries, and not-for-profit, mission-oriented affordable housing or community development organizations
   c. Financial institutions should get full credit for helping to strengthen these institutions, for building effective partnerships with these institutions, and/or for helping to create and build these institutions where the capacity has not yet been realize
   d. CRA should include incentives for equity and equity-like investments in these types of institutions, for longer-term balance sheet support

The severity of the foreclosure crisis would have been substantially lessened if the entire financial industry had an obligation to serve all communities consistent with safety and soundness. We believe that the regulatory agencies can contribute significantly to ensuring sustainable economic recovery by updating the CRA regulation.

In addition, we believe that Congress must do its part and apply CRA to non-bank institutions including mainstream credit unions, independent mortgage companies, insurance firms, and investment banks. A renewed and more sharply focused CRA mandate is critical to our work at the local and regional level and needed more than ever as we face increasingly challenges in our work.

Thank you for your consideration of our comments.

Sincerely,

Gregory F. Warren
President and Executive Director