From: Calvin L. Holmes [mailto:cholmes@cclfchicago.org]
Sent: Tuesday, August 31, 2010 4:34 PM
To: Comments
Subject: Community Reinvestment Act Regulation Hearings-Docket ID OCC-2010-0011, Docket No. R-1386, RIN 3064-AD60, Docket ID OTS-2010-0019

Dear Sir/Madam:

RE: Docket R-1386 - CRA Regulation Hearings

My name is Calvin Holmes, and I am the Executive Director of the Chicago Community Loan Fund, a mid-size certified CDFI serving the 6-county Chicagoland region. We are a very flexible community development lender supporting primarily housing, community facilities, and commercial retail real estate production and preservation, but we are best known for our predevelopment lending that has leveraged over $900M in additional public and private financing. I thank you for that the opportunity to submit comments on your efforts to modernize the rules guiding the Community Reinvestment Act (CRA). CCLF stands with the testimony of our partners Opportunity Finance Network, National Community Reinvestment Coalition, Woodstock Institute, Community Reinvestment Fund, Housing Partnership Networks, and others, specifically regarding the need to redefine and expand the CRA assessment areas and community development test as well as apply the law to bank holding company affiliates. I would like to specifically address how enhanced CRA implementation can help CDFIs serve their customers and our communities at a time when many have far less access to capital.

As you know, CRA has worked fairly well for over thirty years. The CRA managers at the banks that we work with have been fine supporters in facilitating this work and CDFIs have proven over the years to be sound and profitable partners for banks. However, market conditions and competing corporate objectives have recently resulted in a less-than-ideal situation for CDFIs working with banks. I tender three recommendations. None of them are easy, but they are critical.

A midsize CDFI like CCLF survives on its ability to attract investors with low pricing. I don’t think I can call it “below market” anymore because we are told that our new higher rates ARE below-market. In the current economic climate, CDFIs throughout the country are seeing the cost of our available capital rise to an unsustainable level. Going forward, we need CRA application to encourage banks to offer low-interest, long-term investments for CDFIs, so we can continue to offer flexible, technical-assistance-supported community development loans.

In addition, CCLF and other CDFIs have in the past been able to grow our lending capacity through Equity Equivalent Investments, commonly referred to as EQ2s. Unlike for-profit corporations that can raise equity by issuing stock, nonprofits need to build their capital base through contributions, philanthropic sources, or retained earnings. An EQ2 is a long-term, deeply subordinated loan with features that make it function like equity. This is a very important type of investment as Ellen Siedman and Warren McLean noted in their testimony in Chicago on August 12. EQ2s can benefit CDFIs by strengthening capital structures, leveraging additional debt capital, and protecting senior lenders from losses -- making CDFIs even more attractive for new non-bank investors. Simply, the price and terms CDFIs receive from banks really matter. Banks should be discouraged from pricing (and setting terms) according to perceived risk and instead be rewarded for below-market pricing (and favorable terms) that reflects the less than 2% cumulative default rate that CDFIs have maintained for decades.

Finally, regulators should explore ways to encourage banks to offer credit enhancements to CDFIs, including guarantees and letters of credit, by counting these enhancements in their CRA performance evaluations.

By encouraging banks to offer truly low-cost investments, subordinated investments, and credit enhancements to CDFIs, we can greatly increase our ability to increase lending and investing in economically disadvantaged communities. CDFIs help to fill in lending gaps in the community development marketplace as they arise, often making the critical difference in moving a community development project forward, and we still need affordable, patient investments to do so.

In closing, I thank you for your effort to make CRA more effective and relevant; encourage you to step up you enforcement of CRA, now, in this risk-averse time; and look forward to working with you to that end.

Thank you.

Regards,

Calvin L. Holmes
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