From:	AZ Housing Alliance
To:	Comments
Subject:	Proposed Rule CRA Regulation AD60
Date:	Tuesday, August 31, 2010 4:34:40 PM
Attachments:	image002.png

ARIZONA HOUSING ALLIANCE

101 North First Avenue, #900
Phoenix, AZ 85003
August 31, 2010

Sheila C. Bair
Chairman
Federal Financial Institutions Examination Council
Chairman
Federal Deposit Insurance Corporation

John E. Bowman
Acting Director
Office of Thrift Supervision

Daniel Tarullo
Member
Board of Governors of the Federal Reserve System

John C. Dugan
Chairman
Office of the Comptroller of the Currency

Dear Members of the FFIEC:

Arizona Housing Alliance is a statewide coalition that supports and advocates for quality housing that Arizonans can afford. For the past year, we have watched with deep concern as a widespread tightening of credit has curtailed lending, services and investments in low- and moderate-income communities. In particular, financing for affordable housing, community facilities, small businesses, CDFIs, and CDCs, and the amount of responsible lending to low- and moderate-income consumers appear to have dropped significantly in Arizona.

The same communities whose revitalization exemplified the success of the Community Reinvestment Act (CRA) are those first and hardest hit by the current economic crisis—a crisis caused by irresponsible lending, not CRA. Credit tightening has compounded the challenges these communities face and is impeding their recovery. Vulnerable families cannot buy or refinance homes, small businesses have difficulty accessing the capital they need to maintain their companies, and community institutions struggle with stalled development projects and reduced funding. Where CRA should be alleviating the situation, the obsolescence of some of CRA's fourteen year old regulatory regime is hindering its effectiveness.

We are writing to urge the Federal Financial Institutions Examinations Council to send a clear message that CRA-related lending, services and investments are a core responsibility, consistent with the safe, sound, and responsible operation of financial institutions. Particularly in these challenging times, access to responsible capital can make or break fragile community markets. In keeping with the intent of CRA and in line with its successful 30-year history, the FFIEC and the regulators must make clear that financial institutions expecting an Outstanding or Satisfactory CRA rating must demonstrate that they are maintaining a commitment to lending, investment and services in the low- and moderate-income markets they serve.

This renewal of attention to CRA responsibilities requires both immediate and longer-term action.
In the short term, these intense pressures demand urgent action through adoption of an interim final rule for comment that would, effective immediately:

- Clarify the Interagency Questions and Answers on bank participation on multi-investor, multi-state funds that invest based on the Low Income Housing Tax Credits (LIHTC) or New Markets Tax Credits (NMTC) and bank lending to Community Development Financial Institutions (CDFIs) that benefit broader regions that include a bank's assessment areas. It has become especially difficult to attract bank participation in these activities in midsized and smaller metropolitan areas and rural areas. Multi-investor funds give banks with limited specialized expertise a vehicle through which to make complex investments, and thus spur investments in community development that otherwise would not occur in places that are not being served currently. Funds serving multi-state areas are often necessary to achieve scale, efficiency, workability, and risk diversification. Investments in CDFIs can serve the same function.

  The Q&As should state that a bank will receive full and undiscounted credit for these investments or loans if the bank's most current CRA exam shows a satisfactory record overall in the assessment area for which the bank wants to count the investment or loan. In cases where the bank's CRA rating is more than three years old, the bank should have to seek regulatory approval to receive CRA credit for these investments or loans, based on evidence that the bank has continued to address the credit needs in the assessment area.

- Banks should be allowed to choose to have community development lending considered as part of the investment test or to continue to be considered under the current system. Low-volume but high-impact community development lending currently receives little consideration on the lending test, where high volume home mortgage and small business lending claim most of the attention.

- Credit enhancements that support community development financing, including guarantees and letters of credit, deserve similar consideration as equivalent loans or investments. In many cases, credit enhancement is the most appropriate way to address a community need, but the current policy offers only marginal consideration to the bank that provides them.

We also encourage all of you to work together to rethink CRA's regulatory scheme to ensure the maximum effectiveness of CRA. In the longer term, the decline of community reinvestment began before the current crisis and will continue well beyond it without reconsideration of portions of the CRA regulations that have not been substantially revised since 1995, well before the extensive restructuring and consolidation of the industry. Many of the concerns these changes raise are of a regulatory, rather than a statutory, nature. These include, for example, the manner in which responsibility for meeting local needs is evaluated for institutions that effectively have no geographic footprint or, alternatively, a nation-wide service area; and providing additional focus on quality non-credit consumer products and services such as transactions and savings.

As part of this broader reconsideration of the CRA regulations, we also strongly urge you to consider the creation of a community development test for large retail banks and thrifts to replace the investment test and complement the core lending and services tests. We also recommend broader community development data disclosure requirements to facilitate the implementation of the community development test for large banks. Considering community development lending, investment, and services together would foster more integrated bank responses to community needs. The current community development tests for wholesale and limited purpose banks and for intermediate small banks provide clear precedents for this approach.
Lastly, we request that you consider supplier diversity and minority representation on the board of directors of these institutions as an integral part of CRA.

In three decades, CRA has stimulated hundreds of billions of dollars in new private financing, fostered innovative products and partnerships, and advanced savings, homeownership, and business starts. Banks, thrifts, and their partners have achieved these ends while maintaining safe and sound operations—in fact, studies show CRA lending is profitable. Continued attention to CRA, including these proposed emergency rules, is good business and critically important to the economic recovery that community development organizations, banks and thrifts, as well as the regulatory agencies are all working toward.

Thank you for your consideration.

Sincerely,

Valerie A. Iverson
Executive Director