Chief Counsel's Office
Office of the Comptroller of the Currency
Attn: Comments Processing
400 7th Street SW, Suite 3E-218Washington, DC 20219
Docket ID OCC-2022-0002

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Docket No. R-1769 and RIN 7100-AG29

James P. Sheesley
Assistant Executive Secretary
Attention: Comments RIN 3064–AF81
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
RIN 3064-AF81

August 5, 2022

To whom it may concern:

Alliant Capital, Ltd. (Alliant), a Walker & Dunlop Company (NYSE: WD), appreciates the opportunity to comment on the Community Reinvestment Act (CRA) Notice of Proposed Rulemaking (NPR) issued by the Federal Reserve Board of Governors (Federal Reserve), Office of the Comptroller of the Currency (OCC), and Federal Deposit Insurance Corporation.

Founded in 1997, Alliant is a leading low-income housing tax credit (Housing Credit) syndicator. Since its inception, Alliant has developed over 1,000 properties and raised over $9 billion in capital to support the development of affordable renting housing nationally. With nearly $14 billion of assets under management, we have proudly played a role in the Housing Credit's significant positive impact on families nationwide.

In the US, housing costs are increasing, households are rent burdened and affordable housing supply is low. Through our mission to create and maintain affordable communities, we hope to improve the quantity and quality of our nation's affordable housing stock. A critical component of thriving communities is ensuring that people of all income levels have access to decent, high-quality, and safe housing.

The Housing Credit is integral to the nation's affordable housing delivery system and provides far-reaching impacts for low-moderate income (LMI) households and communities. As a result, over 8 million low-income households, including veterans, seniors, low-wage workers, people with disabilities, and people who were formerly homeless, have benefited from safe, decent, and affordable rental housing. [1] The households served by the program have a median annual income of just $18,200 and over half of households make at or below 30% of Area Median Income (AMI). [2] If forced to pay market-rate rent, many would be just one unforeseen expense away from being unable to pay rent and facing eviction.

Living in affordable housing contributes to improved physical, mental, and economic benefits—the housing stability that is provided with having affordable rents helps low-income individuals gain and keep employment, while also leading to better health outcomes and reductions in domestic violence and substance abuse.[3] Housing Credit properties are also associated with educational success; for each additional year a child lives in a Housing Credit property, his or her chance of attending college for four years or more increases by 4.3%, and future earnings increase by 5.7%.[4]

The Housing Credit is also transformative for the broader communities in which properties are located. Since its inception, Housing Credit development has supported nearly 5.7 million jobs, and generated $223 billion in tax revenue and $643 billion in wages and business income.[5] By devoting less income to rent, residents have more to spend in support of the local economy – one study shows that Housing Credit properties boost local purchasing power by one-third, contributing to the retail vitality of the neighborhood and the availability of goods and services to residents.[6] Another study found that the introduction of affordable housing into a low-income neighborhood is also associated with lower crime rates, decreased segregation, and a 6.5% increase in the area's property values.[7] Additional regional studies have found that the introduction of affordable housing – and Housing Credit properties in particular – increases property values.[8]

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[1] ACTION Coalition, "The Low-income Housing Tax Credit's Impact in the United States," (2020). *Retrieved from:* https://static1.squarespace.com/static/566ee654bfe8736211c559eb/t/5f49371ab849107398486479/1598633756198/ACTION-NATIONAL-2020.pdf

[2] U.S. Department of Housing and Urban Development, "2019 LIHTC Tenant Tables," (2021). Retrieved from: https://www.huduser.gov/portal/sites/default/files/pdf/LIHTC-TenantReport-2017.pdf

[3] Center on Budget and Policy Priorities, "Research Shows Housing Vouchers Reduce Hardship and Provide Platform for Long-Term Gains Among Children," (2015). Retrieved from: https://www.cbpp.org/sites/default/files/atoms/files/3-10-14hous.pdf

[4] Elena Derby, "Does Growing Up in Tax-Subsidized Housing Lead to Higher Earnings and Educational Attainment?," (2020). Retrieved from: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3491787

[5] ACTION Coalition, "The Low-income Housing Tax Credit: Impact in the United States," (2022). Retrieved from: https://rentalhousingaction.org/wp-content/uploads/2021/10/ACTION-NATIONAL-2021-NEW-LOGO-01-2.pdf

[6] Enterprise Community Partners and Local Initiatives Support Corporation, "Affordable Housing for Families and Neighborhoods: The Value of Low-Income Housing Tax Credits in New York City," (2010). Retrieved from: https://www.enterprisecommunity.org/download?fid=8099&nid=3831

[7] Rebecca Diamond and Tim McQuade, "Who Wants Affordable Housing in their Backyard? An Equilibrium Analysis of Low Income Property Development," (2015). Retrieved from: https://www.journals.uchicago.edu/doi/abs/10.1086/701354?af=R&mobileUi=0&

[8] Richard Voith, Jing Liu, et. al., "Effects of concentrated LIHTC development on surrounding house prices," (2022). Retrieved from: https://www.sciencedirect.com/science/article/pii/S1051137722000134?via%3Dihub

Christina Plerhoples Stacy and Christopher Davis, "Assessing the Impact of Affordable Housing on Nearby Property Values in Alexandria, Virginia," Retrieved from: https://www.urban.org/research/publication/assessing-impact-affordable-housing-nearby-property-values-alexandria-virginia

As the nation's affordable housing crisis continues to grow, it is increasingly essential that any changes to CRA do not decrease the incentive to invest in the Housing Credit. As our nation's primary tool to finance the development of affordable rental housing, the Housing Credit has played an integral role in the production and preservation of 3.6 million affordable homes across the country since its inception in 1986.[9]

The Role of CRA

The Housing Credit finances virtually all new affordable housing, and CRA motivates the vast majority of these investments.[10] Today, Housing Credit pricing, which determines the amount of equity invested into Housing Credit properties, can vary by $0.20 for each $1.00 of Housing Credit between areas with the highest CRA demand and those with the lowest.[11] In other words, properties with the least CRA demand receive 20% less equity for the same amount of Housing Credits as properties with the highest CRA demand, rendering many properties with low pricing financially infeasible. With such a sizable portion of Housing Credit investment impacted by CRA, and to such a considerable extent, our nation's ability to address the growing affordable housing crisis is closely tied to CRA regulations.

The presence of strong CRA Investment Test requirements has played an essential role in creating an efficient Housing Credit program; investors provided developers with an average of $0.90 for each dollar of Housing Credit in April of 2022.[12] This strong pricing is not only important because it results in higher amounts of equity for affordable housing production and preservation, but also because it results in a strong federal subsidy program that uses taxpayer dollars efficiently. While the federal government has created many affordable housing initiatives over the past decades, the Housing Credit has stood out as its most effective, in part due to this efficiency. However, Housing Credit demand hangs in a delicate balance.

Demand for the Housing Credit, or the amount of equity that investors will provide developers for Housing Credits, is closely tied to CRA. Housing Credit demand is higher in areas where several major banks must meet CRA Investment Test requirements (a.k.a., CRA "hotspots"), and demand is lower where banks do not have Investment Test obligations (a.k.a., CRA "deserts"). Today, this differential commonly reaches $0.20, equating to 20% of the equity available for a property in a CRA desert.[13]

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[9] National Council of State Housing Agencies, "State HFA Factbook: 2019 NCSHA Annual Survey Results," (2020). *Retrieved from:* https://www.ncsha.org/resource/state-hfa-factbook/

[10] CohnReznick, "Housing Tax Credit Monitor," (2022). *Retrieved from:* https://www.cohnreznick.com/-/media/resources/2022_housing-tax-monitor_march_2022.pdf

[11] CohnReznick, "Housing Tax Credit Monitor," (2022). Retrieved from: https://www.cohnreznick.com/-/media/resources/2022_housing-tax-monitor_august_2022.pdf

[12] Novogradac & Co., "LIHTC Equity Pricing Trends," (2022). Retrieved from: https://www.novoco.com/resource-centers/affordable-housing-tax-credits/lihtc-equity-pricing-trends

[13] CohnReznick, "Housing Tax Credit Monitor," (2022). Retrieved from: https://www.cohnreznick.com/-/media/resources/2022_housing-tax-monitor_august_2022.pdf

The higher Housing Credit pricing offered in CRA hotspots helps to ensure the financial feasibility of developments in those areas. However, lower pricing in CRA deserts may render properties infeasible. Thus, the regulations impacting the Housing Credit must be stronger than ever.

While we believe some elements of the NPR will strengthen Housing Credit investment, we are concerned that on balance the NPR will substantially reduce the incentive that CRA currently provides to invest in affordable housing, at a time when it is needed most. Most notably, we are concerned about (1) the proposed removal of the separate Investment Test, which currently drives Housing Credit investment, and 2) the higher weighting of the Retail Test over the Community Development Test, which may unintendedly reduce the incentive to perform highly on the Community Development Test.

To help ensure that CRA modernization does not significantly reduce the nation's ability to produce and preserve affordable housing by diminishing the incentive to invest in the Housing Credit, we recommend the following changes be incorporated into the final CRA framework:

1. Evenly weight the Retail and Community Development Tests and modify the community development subtests, for which we proposed two alternatives:
    - Include an Investment Subtest weighted at 20%, a Lending Subtest weighted at 25%, and a Services Subtest weighted at 5%.
    - Weight the proposed Community Development Financing Subtest at 35% and proposed the Community Development Services Subtest at 15% and modify the Services Subtest to include a responsiveness assessment.
2. Require at least a Low Satisfactory Community Development Test conclusion for a Satisfactory rating.
3. Include an institution-level Equity Metric and Benchmark.
4. Include the Housing Credit as an Impact Review Factor and include a High-Impact Metric and Benchmark.
5. Continue allowing allocation letters to allocate credit for Housing Credit funds.
6. Provide comprehensive evaluator training focused on community development.

The connection between CRA and Housing Credit pricing makes clear that CRA strongly impacts the Housing Credit market and the nation's ability to produce and preserve affordable homes. Especially in this volatile period with dramatically increasing land, labor, and building costs, and inflation rates, we urge the banking agencies to protect the incentive to invest in the Housing Credit that CRA currently provides.

Impact of Eliminating the CRA Investment Test

The current CRA Investment Test is the primary driver of Housing Credit investment nationwide. With 84.8% of all Housing Credit investment in 2021 coming from banks motivated by CRA requirements, the Investment Test largely determines the demand for the Housing Credit, its pricing, and ultimately, the amount of equity provided for affordable housing development.[14]

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[14] CohnReznick, "Housing Tax Credit Monitor," (2022). Retrieved from: https://www.cohnreznick.com/-/media/resources/2022_housing-tax-monitor_march_2022.pdf

The NPR proposal to eliminate the separate Investment Test with 25% weighting and replace it with a combined Community Development Financing Subtest with just 30% weighting – only a slightly higher weight, while adding all community development loans to the pool of qualifying activities will decrease the incentive for banks to invest in the Housing Credit, reducing affordable housing production nationwide. This view is supported by a July 2022 survey of Affordable Housing Investors Council (AHIC) members, which was jointly administered by AHIC, the Affordable Housing Tax Credit Coalition (AHTCC), and National Association of Affordable Housing Lenders (NAAHL). Twenty-four large banks, all with assets over $10 billion, provided feedback on the expected impact of the NPR. **Forty-two percent of respondents** – representing $2.4 billion in yearly Housing Credit investment – **believed the removal of the separate Investment Test would have a negative impact on their bank's appetite to invest in the Housing Credit, potentially resulting in decreased Housing Credit investments in favor of eligible community development loans.**[15]

Under a combined test, banks would weigh the benefits of long-term equity investment against debt in determining which community development activities to pursue. In general, debt financing takes place over a shorter duration and is lower risk, less complex, and more liquid than tax credit investments, making it a more desirable alternative. As a result, the proposed methodology is likely to initiate a substitution effect of loans, which are often less impactful on capital charges, over other types of CRA activities. As demand for the Housing Credit declines, so too will pricing and the equity available for affordable housing development, putting the Housing Credit program at risk and stalling efforts to address the affordable housing crisis.

If it is not possible to retain a separate Investment Test in the new CRA structure, we urge that strong mitigating factors be put in place to prevent a reduction in the incentive to invest in the Housing Credit, which would ultimately reduce affordable housing production and preservation and stall efforts to address the affordable housing crisis. Our proposed mitigating factors are:

1. Include an Investment Subtest under the Community Development Test
    - If an Investment Subtest is not included, then create an institution-level Equity Metric and Benchmark
2. Measure new institution-level equity investments over time to identify reductions
3. Include the Housing Credit as an Impact Review Factor, and create a High-Impact Metric and Benchmark

Areas of Support

We support the NPR proposal to allow banks to receive consideration for the full amount of a loan or investment for a Housing Credit-financed project, regardless of the share of units that are considered affordable. We agree this is the correct approach due to the significant role of the Housing Credit in achieving the goals of CRA and the Housing Credit's strong statutory and regulatory restrictions, which make it unnecessary to issue additional CRA-specific guidance.

[15] Affordable Housing Investors Council 2022 Member Survey

We also support the NPR proposal to allow consideration of community development activities outside of facility-based assessment areas. Currently, Housing Credit demand and pricing are highest in areas with a concentration of large bank CRA assessment areas due to overlapping Investment Test requirements. This has long created a dynamic where underserved communities outside of bank assessment areas may remain unserved because Housing Credit pricing is not high enough to make the development of affordable housing financially feasible. In fact, one study found that 76% of Housing Credit properties are in zip codes where at least one branch of a top 20 bank (by total assets) is located.[16] While the proposed flexibility to receive consideration outside of assessment areas would be a positive change, on the whole we are deeply concerned that the removal of the separate Investment Test will counteract these advantages.

Conclusion

We appreciate the work of the Federal Reserve, OCC, and FDIC to issue an interagency proposal with the goal of expanding access to investment, as well as credit and basic banking services, in low- and moderate-income (LMI) communities and for LMI individuals. In pursuit of this goal, the banking agencies should ensure that CRA continues to provide at least as strong of an incentive to invest in the Housing Credit as it does today.

Sincerely,

[redacted]

Shawn Horwitz, CEO
Alliant Capital

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[16] CohnReznick, "The Community Reinvestment Act and Its Effect on Housing Tax Credit Pricing," (2013). Retrieved from:
https://ahic.org/images/downloads/Research_and_Education/the_community_reinvestment_act_and_its_effect_on_housing_tax.pdf