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September 10, 2007

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th and Constitution Avenue, NW
Washington, DC 20551

Via E-mail: regs.comments@federalreserve.gov

RE: Community Reinvestment Act; Interagency Questions and Answers Regarding
Community Reinvestment (Docket OP-1290-Federal Reserve; RIN 3064-AC97(FDIC);
Docket ID OCC-2007-0012 (OCC); Docket ID OTS-2007-0030 (OTS))

Dear Ms. Johnson:

ShoreBank Corporation welcomes this opportunity to submit comments on the proposed Interagency Questions and Answers Regarding Community Development, referenced above. With assets of \$2.1 billion, ShoreBank Corporation is the nation's first and leading community development bank holding company. During its more than 30-year history, ShoreBank has made over \$2.3 billion in mission investments in lower income communities in the urban Midwest, the Upper Peninsula of Michigan and the Pacific Northwest. In 2006 alone, we loaned \$365 million for community development purposes, primarily in lower income neighborhoods in Chicago, Detroit and Cleveland.

The holding company, the lead bank (ShoreBank, based in Chicago, with branches in Detroit and Cleveland), and its non-profit affiliates in the Upper Peninsula (Northern Initiatives) and Pacific Northwest (ShoreBank Enterprise Cascadia) are also certified Community Development Financial Institutions (CDFIs). This comment is submitted on behalf of those four organizations (collectively "ShoreBank"). ShoreBank Corporation also serves as the Fund Advisor for the National Community Investment Fund (NCIF), a \$21 million fund that makes equity and debt investments in community development banking institutions. Of NCIF's 27 current portfolio companies, 15 are minority-owned or minority-focused banks or thrifts and 8 are low-income credit unions. 21 of the 27 portfolio companies are certified CDFIs. NCIF is itself a certified CDFI.

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ShoreBank strongly supports the proposed revisions to the Interagency Questions and Answers. We believe there are many useful additions and clarifications, including in particular those relating to community development services, service to underserved or distressed non-metropolitan middle-income geographies, Individual Development Accounts, New Markets Tax Credit investments, and loans made under the SBA 504 program. We focus our comments on four proposed Q&As of particular importance to Community Development Financial Institutions, proposed sections __.12(g)-4, __.12(g)(3)-1, __.12(h)-7, and __.23(a).

Investments in CDFIs Should Receive the Same Treatment as Investments in Minority- or Women-Owned Financial Institutions and Low-Income Credit Unions

New proposed section __.12(g)-4 would provide that “capital investments, loan participations, and other ventures” engaged in by a majority-owned institution in cooperation with minority- or women-owned financial institutions and low-income credit unions will be eligible for CRA credit as long as these activities help meet the credit needs of the communities in which the investee institution is chartered, regardless of the geographic focus of the investing majority institution. We applaud this recognition of the important role of minority- and women-owned financial institutions and low-income credit unions in serving the communities in which they are located. For the reasons discussed below, we believe identical treatment should be extended to certified Community Development Financial Institutions.

The Reigle Community Development and Regulatory Improvement Act of 1994 (PL 103-325), which post-dated the 1992 revisions to CRA that added the section concerning minority- and women-owned financial institutions and low-income credit unions, established the Community Development Financial Institutions Fund “to promote economic revitalization and community development through investment in and assistance to community development financial institutions.” (12 USC 4701) The statute goes on to define a “community development financial institution” as (among other things) an entity that “has a primary mission of promoting community development,” and “serves an investment area or targeted population.” An “investment area” is defined as a geographic area that “meets objective criteria of economic distress . . . [and] has significant unmet needs for loans and investments.” A “targeted population” is defined as individuals or a group of individuals that “are low-income persons; or otherwise lack adequate access to loans or equity investments.” (12 USC 4702 (5), (16), (20)) The application for certification as a CDFI provides that to be certified, at least 60% of an entity’s activities must be directed to an “investment area” or “targeted population” as defined in the statute. In other words, by statute a CDFI must serve the very kind of “low- and moderate-income neighborhoods” referred to in the CRA statute.

The entities so certified do in fact provide these services. In fiscal year 2005, the federal government provided CDFIs approximately \$51 million. According to the CDFI Data Project, during that year, the 496 CDFIs responding to the Data Project survey (out of approximately 700 certified CDFIs) leveraged that money to make \$4.3 billion in investments, including financing and assisting over 9,000 businesses to create or maintain more than 39,000 jobs; facilitated the

construction or renovation of over 55,000 units of affordable housing; built or renovated 613 community facilities in economically disadvantaged communities; and provided over 6,000 alternatives to payday loans and helped more than 15,000 consumers open their first bank account.¹ Of CDFI customers in 2005, 52% were female, 58% minority, and 68% low-income.² In 2006, ShoreBank (including banks and affiliates) made \$161 million in residential real estate loans, \$129 million in small business loans and \$71 million in loans to faith-based and non-profit institutions—almost entirely within the lower income communities we target in Chicago, Cleveland and Detroit, and in low-income communities in the Upper Peninsula and Pacific Northwest.

In summary, certified CDFIs both are chartered to serve—and do serve—the very kinds of communities that minority- and women-owned financial institutions and low-income credit unions serve. Investments in and participations and other ventures with CDFIs should be granted the same treatment under CRA that similar activities with minority- and women-owned financial institutions and low-income credit unions are accorded.

Investment in a Fund that Invests in Minority- or Women-Owned Financial Institutions, Low-Income Credit Unions or Certified CDFIs Should Explicitly Be Treated the Same as Direct Investment in Such Entities

Proposed section __.23(a) provides that investment in a fund, the purpose of which is community development, will receive consideration for CRA credit “provided the investment benefits one or more of the institution’s assessment area(s) or a broader statewide or regional area(s) that includes one or more of the institution’s assessment area(s).” Because proposed section __.12(g)-4 removes the assessment area limitation for investments in minority- or women-owned financial institutions and low-income credit unions, logic compels that investment in a fund that invests in such entities be considered for credit without regard to the assessment areas of the investing institution, so long as the entities in which the fund invests serve the credit needs of the communities in which those entities are chartered. We urge the agencies to make this clear in sections __.12(g)-4, __.23(a)-1 and __.23(a)-2, and to also make such treatment applicable to funds that invest in certified CDFIs.

An Investment in A Certified CDFI Should Be Regarded Presumptively As “Promoting Economic Development”

Section __.12(g)(3) relates to the “purpose test” that is part of the definition of “community development.” We applaud the proposed additions to this section of loans to or investments in Rural Business Investment Companies and New Markets Tax Credit-eligible Community Development Entities as presumptively promoting economic development. We strongly urge the

¹ “Providing Capital, Building Communities, Creating Impact, The CDFI Data Project,” FY 2005 Data, Fifth Edition, www.opportunityfinance.net/store/product.asp?pid=81&c=34715.

² Ibid.

addition of loans to or investments in certified Community Development Financial Institutions to the list of presumptive economic development activities. As demonstrated above, both the statutory requirements to become a CDFI and the actual performance of those who are certified support the addition of CDFIs to the list.

National, As Well As Statewide or Regional Organizations Should be Eligible to Be Considered as Addressing Assessment Area Needs

Section __.12(h)-7, in the context of defining “regional area,” states that “Community development loans and services and qualified investments to statewide or regional organizations that have a bona fide purpose, mandate, or function that includes serving the geographies or individuals within the institution’s assessment area(s) will be considered as addressing assessment area needs” (emphasis added). We urge that either “national” be added after “regional,” or that “statewide or regional” be deleted. Many organizations, such as ShoreBank, operate in a limited number of specific geographies in several regions of the country. Such organizations can be at least as effective in serving an investing institution’s assessment area that includes one of organization’s geographic concentrations as a statewide or regional organization whose activities are more diffuse across a state or region. The Q&A provides that examiners will evaluate “actual or potential benefit to the institution’s assessment area” in deciding whether and how much credit to grant. Given this fact-based assessment, there is no reason to exclude loans, services and investments to national organizations from consideration. See __.12(h)-6, which is silent about the geographic scope of “community development organizations or programs.”

Once again, we sincerely appreciate this opportunity to comment on the proposed Interagency Questions and Answers.

Sincerely,



Ronald Grzywinski
Chairman