NATIONAL COMMUNITY INVESTMENT FUND

a certified CDFI and CDE reinvesting in community- and minority-owned financial institutions with a community development focus

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September 10, 2007

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
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Washington, DC 20551
E-mail: regs.comments@federalreserve.gov

Robert E. Feldman, Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
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Comments@FDIC.gov

Office of the Comptroller of the Currency
550 E Street, SW
Mail Stop 1-5
Washington, DC 20219
E-mail:
regs.comments@occ.treas.gov

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
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Attn: ID OTS-2007-0030
E-mail:
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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))

To Whom It May Concern:

National Community Investment Fund (NCIF) welcomes the opportunity to comment on the proposed Interagency Questions and Answers (Q&A) regarding the Community Reinvestment Act (CRA).

NCIF is a non-profit private equity trust fund set up in 1995 and is focused on investing capital in and sharing best practices among community development financial institutions nationally. NCIF is a certified Community Development Financial Institution (CDFI) and a Community Development Entity (CDE). Its current portfolio includes 27 financial institutions – 15 out of 18 banks and thrifts are either minority-owned or minority-focused, all 8 credit unions are low-income credit unions and 21 out of the total 27 institutions are certified CDFIs (there is an overlap in these numbers). Since its inception, it has invested in, lent to or placed deposits worth $23 million in 37 financial institutions and has helped in capitalizing 7 de novo banks and thrifts. NCIF also has an allocation of $38 million of New Markets Tax Credits. Since 1996 NCIF investees have cumulatively lent over $3 billion in approximately 74,000 loans in low to moderate income communities (NCIF collects this information annually from its investees and geocodes them to low-to moderate income census tracts to arrive at this total). NCIF is advised by ShoreBank Corporation, which is a $2.1 billion bank holding company and is the nation's first and leading CDFI. 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.

NCIF targets scarce capital to these financial institutions so that the equity can be leveraged 10 to 20 times, resulting in commensurately leveraged developmental impact that helps bring underserved communities into the financial mainstream and away from alternative and predatory financial service providers.

NCIF supports the growth of financial institutions ***that have a primary mission of community and economic development and meet the definitions of a "CDFI" as defined by the CDFI Fund. While some of these institutions are minority- or women-owned, some of them are not.*** For social investors like NCIF, it is important that those we invest in demonstrate their commitment to community and economic development through (a) lending to or investing in low to moderate income communities; (b) accountability to low to moderate income communities; (c) providing financial services to these areas; and (d) creating partnerships with public, non profit and for profit organizations to generate holistic development in the communities.

The Reigle Community Development and Regulatory Improvement Act of 1994, which post-dated the 1992 revisions to CRA that concern investments in 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." The certification as a CDFI looks at the lending and financial service activities of financial institutions comprehensively and hence achieves the same kind of impact as is referred to in the CRA. Majority- and minority-owned banks and thrifts alike have benefited from certification as CDFIs. Between 1996 (when the CDFI Fund started certifications) and 2006, total assets at CDFI banks and thrifts—of which over 60% are minority-owned—increased from $4.27 billion to $12.7 billion.

While NCIF comments below are focused on minority-owned/focused banks, thrifts and low income credit unions that are CDFIs or have a mission similar to a CDFI, non-bank CDFI loan funds, CDFI Community Development Venture Capital Funds and CDFI Micro-enterprise Funds, are similarly subject to the community-development requirements of the CDFI Fund.

NCIF will focus its comments on three proposed Q&As of particular importance to CDFIs and funds investing in CDFIs and minority/women-owned banks, proposed sections ___.12(g)-4, ___.23(a)(3)-2 and ___.12(g)(3)-1.

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

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 above, we believe identical treatment should be extended to certified CDFIs.

Certified CDFIs 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.

An Investment in A National or Regional Fund that invests in minority, women-owned and CDFI banks, thrifts and credit unions should also receive the same treatment as direct investments in these minority, women-owned and CDFI banks, thrifts and credit unions.

This comment relating to Section ___.23(a)- 2 should be read in two parts.

1. Investments in funds that in turn invest in or lend to minority and women-owned banks, thrifts and low-income credit unions should be treated the same way as direct investments, etc., in such institutions, as provided in Section ___.12(g)-4. This is a logical extension of the proposed Q&A.

   Large investors look to seasoned funds like NCIF to invest their capital into smaller minority and women-owned banks and low-income credit unions. These intermediary funds reduce the cost of servicing the investments and are also able to help in moving the industry forward to generate greater community and economic development. NCIF recommends that investments into funds that invest into such institutions also give CRA credit to investors, irrespective of location of the minority or women-owned banks or low-income credit unions. In case a fund is partially invested in such financial institutions, a pro-rata CRA credit should be available to the investors.

2. Assuming that the regulation is extended to provide a similar treatment to CDFIs (based on the reasons given above) then funds investing in CDFIs should also get the same treatment as in (1) above.

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 addition of loans to or investments in certified Community Development Financial Institutions to the list of presumptive economic development activities. As has been demonstrated by the CDFI Data Project (NCIF provides data on banks and thrifts to this data collection collaborative) the actual performance of those who are certified support the addition of CDFIs to the list.

We greatly appreciate this opportunity to comment on the proposed Interagency Questions and Answers and look forward to discussing this, as needed. Please do feel free to call me on 312 881 5826 or snarain@ncif.org, in case you have any clarifications.

With best regards,

Saurabh Narain
Chief Fund Advisor
National Community Investment Fund