

November 3, 2003

68

Mr. John D. Hawke, Jr.
Office of the Comptroller of the Currency
250 E Street, SW, Washington, DC 20219
Fax: (202) 874-4448 regs.comments@occ.treas.gov.
Attention: Docket No. 03-14

Ms. Jennifer J. Johnson, Secretary,
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW, Washington, DC 20551
Fax: (202) 452-3819 regs.comments@federalreserve.gov
Attention: Docket No. R-1154

Mr. Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429
Fax: (202) 898-3838 comments@FDIC.gov.
Attention: Comments, FDIC

Regulation Comments, Chief Counsel's Office,
Office of Thrift Supervision
1700 G Street, NW, Washington, DC 20552
Fax: (202) 906-6518 regs.comments@ots.treas.gov
Attention: No. 2003-27

To Whom It May Concern:

I appreciate the opportunity to comment on behalf of the Coalition of Community Development Financial Institutions (CDFI) on the proposed Risk-Based Capital Rules. The CDFI Coalition is the lead national organization in the United States promoting the work of community development financial institutions. CDFIs serve low-wealth communities across the nation. They are a critically important complement to more conventional financial institutions in ensuring that all America's communities have access to credit, capital and financial services.

The CDFI Coalition strongly supports the special provision for "Legislated Program Equity Exposures" included in the proposed rule. This section wisely preserves the current capital charge on most equity programs made under legislated programs that involve government oversight. Investments qualifying for credit under the Community Reinvestment Act (CRA) are generally held harmless under the proposed rule. Insured depository institutions investing in such programs therefore would set aside, by and large, the same amount of capital for CRA investments under the new rules as they do now - about \$8.00 for every \$100 of capital invested.

At the same time, the Coalition is concerned that the proposed “materiality” test could adversely affect the amount of equity capital flowing into CRA-related investments that benefit low-wealth communities and the families that live in them. This could diminish the interest of banks and bank holding companies in investing in community development financial institutions or the communities CDFIs serve. The proposed “materiality” test requires institutions that have, on average, more than 10 percent of their capital in all equity investments, to set aside much higher amounts of capital on their non-CRA investments. As drafted, this calculation includes even CRA investments that are specifically excluded from the new capital charges.

Having to include CRA investments - with their very different risk/reward profile - in the same “materiality” pool with more liquid, higher-yielding, more volatile equity exposures could have a chilling effect on the flow of equity capital to communities in need. CRA investments in community development and affordable housing have a very different risk/return profile than other equity investments. While they may offer lower yields, CRA investments also have much lower default rates and volatility of returns than other equity investments. Many bank partners of CDFIs have invested substantially in affordable housing and economic development (for example, through Low Income Housing Tax Credits or New Markets Tax Credits) that currently approach, or even exceed, the 10 percent threshold just from CRA-qualified investments alone. If the materiality test is adopted as proposed, it could have the unintended result of discouraging banks from making CRA investments to avoid triggering the higher capital charges on non-CRA investments. The CDFI Coalition recommends that CRA-related equity investments be excluded from the materiality test calculation.

The United States has a long and established history of public policies aimed at promoting private investment in community revitalization. The Community Reinvestment Act, the law creating the CDFI Fund, numerous provisions in the US tax code and other initiatives of the federal government encourage financial institutions to invest in affordable housing and community development activities. These federal initiatives have yielded impressive results in communities across the nation. This national commitment to encouraging community development investments must not be undermined by any negotiated international agreement.

Thank you for your consideration.

Sincerely,

Jennifer A. Vasiloff
Executive Director

Attachment: Members of the Coalition of Community Development Financial Institutions

CDFI Coalition Member Organizations and Board of Directors

Association for Enterprise Opportunity *Michelle Levy-Benitez, Research and Policy Manager*
Arlington, VA

The national trade association representing microenterprise development programs.

Community Capital Bank *Gina Bolden Rivera, Senior Vice President* *Brooklyn, NY*
A New York City-wide community development bank.

Community Development Venture Capital Alliance *Kerwin Tesdell, President* *New York, NY*

A certified CDFI intermediary that serves community development venture capital funds through training, financing, consulting, research, and advocacy.

First Nations Oweesta Corporation *Elsie Meeks, Executive Director* *Kyle, SD*
A national program of private Native American and reservation-based CDFIs.

National Community Capital Association *Mark Pinsky, President and CEO*
Philadelphia, PA

A national membership network that finances, trains, consults with, and advocates for CDFIs.

National Community Investment Fund *Lisa Richter, Fund Advisor* *Chicago, IL*
A certified CDFI channeling equity, debt and information to locally-owned banks, thrifts and selected credit unions with a primary purpose of community development.

National Congress for Community Economic Development *Carol Wayman, Policy Director*
Washington, DC

A national group representing community development corporation-based lenders and investors.

National Federation of Community Development Credit Unions *Cliff Rosenthal, Executive Director*
New York, NY

A certified CDFI intermediary that serves more than 200 low-income credit unions across the USA

Self-Help *David Beck, Policy Director* *Durham, NC*

A non-profit organization affiliated with a community development credit union and loan fund.

Shorebank Corporation *Fran Grossman, Executive Vice President* *Chicago, IL*
The holding company for community development finance interventions in Chicago, Cleveland, Detroit, Upper Peninsula Michigan, and the Pacific Northwest which provides, on a domestic and international basis, advisory relationships.

Southern Development Bancorporation *Joe Black, Program Director* Arkadelphia, AR
A community development bank holding company servicing rural Arkansas and the Mississippi Delta.

Woodstock Institute *Malcolm Bush, President* Chicago, IL
A policy, research, and technical assistance organization specializing in community development lending, community reinvestment and economic development.

Evans, Sandra E

From: Jordan Hamory [hamory@cdfi.org]
Sent: Monday, November 03, 2003 4:26 PM
To: regs.comments@ots.treas.gov
Subject: Comment Letter, Attn: No. 2003-27, proposed Risk-Based Capital Rules

Please accept the following comment letter. A copy on our letterhead is attached.

November 3, 2003

Mr. John D. Hawke, Jr.
 Office of the Comptroller of the Currency
 250 E Street, SW, Washington, DC 20219
 Fax: (202) 874-4448 regs.comments@occ.treas.gov.
Attention: Docket No. 03-14

Ms. Jennifer J. Johnson, Secretary,
 Board of Governors of the Federal Reserve System
 20th Street and Constitution Avenue, NW, Washington, DC 20551
 Fax: (202) 452-3819 regs.comments@federalreserve.gov
Attention: Docket No. R-1154

Mr. Robert E. Feldman, Executive Secretary
 Federal Deposit Insurance Corporation
 550 17th Street, NW, Washington, DC 20429
 Fax: (202) 898-3838 comments@FDIC.gov.
Attention: Comments, FDIC

Regulation Comments, Chief Counsel's Office,
 Office of Thrift Supervision
 1700 G Street, NW, Washington, DC 20552
 Fax: (202) 906-6518 regs.comments@ots.treas.gov
Attention: No. 2003-27

To Whom It May Concern:

I appreciate the opportunity to comment on behalf of the Coalition of Community Development Financial Institutions (CDFI) on the proposed Risk-Based Capital Rules. The CDFI Coalition is the lead national organization in the United States promoting the work of community development financial institutions. CDFIs serve low-wealth communities across the nation. They are a critically important complement to more conventional financial institutions in ensuring that all America's communities have access to credit, capital and financial services.

The CDFI Coalition strongly supports the special provision for "Legislated Program Equity Exposures" included in the proposed rule. This section wisely preserves the current capital charge on most equity programs made under legislated programs that involve government oversight. Investments qualifying for credit under the Community Reinvestment Act (CRA) are generally held harmless under the proposed rule. Insured depository institutions investing in such programs therefore would set aside, by and large, the same amount of capital for CRA investments under the new rules as they do now - about \$8.00 for every \$100 of capital invested.

At the same time, the Coalition is concerned that the proposed "materiality" test could adversely affect the amount of equity capital flowing into CRA-related investments that benefit low-wealth communities and the families that live in them. This could diminish the interest of banks and bank holding companies in investing in community development

11/03/2003

financial institutions or the communities CDFIs serve. The proposed "materiality" test requires institutions that have, on average, more than 10 percent of their capital in all equity investments, to set aside much higher amounts of capital on their non-CRA investments. As drafted, this calculation includes even CRA investments that are specifically excluded from the new capital charges.

Having to include CRA investments - with their very different risk/reward profile - in the same "materiality" pool with more liquid, higher-yielding, more volatile equity exposures could have a chilling effect on the flow of equity capital to communities in need. CRA investments in community development and affordable housing have a very different risk/return profile than other equity investments. While they may offer lower yields, CRA investments also have much lower default rates and volatility of returns than other equity investments. Many bank partners of CDFIs have invested substantially in affordable housing and economic development (for example, through Low Income Housing Tax Credits or New Markets Tax Credits) that currently approach, or even exceed, the 10 percent threshold just from CRA-qualified investments alone. If the materiality test is adopted as proposed, it could have the unintended result of discouraging banks from making CRA investments to avoid triggering the higher capital charges on non-CRA investments. The CDFI Coalition recommends that CRA-related equity investments be excluded from the materiality test calculation.

The United States has a long and established history of public policies aimed at promoting private investment in community revitalization. The Community Reinvestment Act, the law creating the CDFI Fund, numerous provisions in the US tax code and other initiatives of the federal government encourage financial institutions to invest in affordable housing and community development activities. These federal initiatives have yielded impressive results in communities across the nation. This national commitment to encouraging community development investments must not be undermined by any negotiated international agreement.

Thank you for your consideration.

Sincerely,

Jennifer A. Vasiloff
Executive Director

Attachment: Members of the Coalition of Community Development Financial Institutions

CDFI Coalition Member Organizations and Board of Directors

Association for Enterprise Opportunity *Michelle Levy-Benitez, Research and Policy Manager*
Arlington, VA

The national trade association representing microenterprise development programs.

Community Capital Bank *Gina Bolden Rivera, Senior Vice President* *Brooklyn, NY*
A New York City-wide community development bank.

Community Development Venture Capital Alliance *Kerwin Tesdell, President* *New York, NY*
A certified CDFI intermediary that serves community development venture capital funds through training, financing, consulting, research, and advocacy.

First Nations Oweesta Corporation *Elsie Meeks, Executive Director* *Kyle, SD*
A national program of private Native American and reservation-based CDFIs.

National Community Capital Association *Mark Pinsky, President and CEO* *Philadelphia, PA*
A national membership network that finances, trains, consults with, and advocates for CDFIs.

11/03/2003

National Community Investment Fund *Lisa Richter, Fund Advisor Chicago, IL*

A certified CDFI channeling equity, debt and information to locally-owned banks, thrifts and selected credit unions with a primary purpose of community development.

National Congress for Community Economic Development *Carol Wayman, Policy Director Washington, DC*

A national group representing community development corporation-based lenders and investors.

National Federation of Community Development Credit Unions *Cliff Rosenthal, Executive Director New York, NY*

A certified CDFI intermediary that serves more than 200 low-income credit unions across the USA

Self-Help *David Beck, Policy Director Durham, NC*

A non-profit organization affiliated with a community development credit union and loan fund.

Shorebank Corporation *Fran Grossman, Executive Vice President Chicago, IL*

The holding company for community development finance interventions in Chicago, Cleveland, Detroit, Upper Peninsula Michigan, and the Pacific Northwest which provides, on a domestic and international basis, advisory relationships.

Southern Development Bancorporation *Joe Black, Program Director Arkadelphia, AR*

A community development bank holding company servicing rural Arkansas and the Mississippi Delta.

Woodstock Institute *Malcolm Bush, President Chicago, IL*

A policy, research, and technical assistance organization specializing in community development lending, community reinvestment and economic development.