SHOREBANK CORPORATION

58

Draft of October 6, 2003
Comment Letter
Basel Proposals
National Association of Affordable Housing Lenders

November 3, 2003

Regulations Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, D.C. 20552

Att: No. 2003-27

Dear Sir:

The ShoreBank Corporation ("ShoreBank") appreciates the opportunity to comment on the proposed Risk-Based Capital Rules, commonly known as the Basel proposals. We would like to draw your attention to a potential unintended consequence of the proposed regulations that would adversely affect the amount of equity capital available to support investments in low income and distressed communities by banks and bank holding companies. In particular, the proposed regulation would negatively impact "investments in community development corporations (CDCs) and economic development entities (CEDEs) that promote the public welfare," including qualified Community Reinvestment Act (CRA) investments.

As the country's first, and largest, community development financial institution (CDFI), ShoreBank has benefited greatly from equity investments by several large banking companies that would be subject to the new regulations. These investments have enabled ShoreBank to deliver over $1.5 billion dollars in loans and investments to disadvantaged communities throughout the United States. ShoreBank's investments have resulted in the rehabilitation of tens of thousands of affordable housing units and the growth of thousands of small businesses.

Our concern with the proposed rules relates to the "materiality test" used to determine the capital requirements for equity investments. The proposed regulations state that in the event a bank's (including a consolidated bank holding company's) equity investments

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exceed 10% of total tier 1 and tier 2 capital, equity investments, other than public welfare investments, will be assessed significantly increased capital charges. Although the increased charge would not be assessed against public welfare investments, such investments are included in the calculation of total equity investments. Consequently, banks would have a strong disincentive to make public welfare investments if they boosted the capital requirements of other holdings. This is contrary to public policy as expressed not only in the Community Reinvestment Act but also in the federal programs that are referenced in the proposed regulation, such as the Low Income Housing Tax Credit.

We believe the unintended result of this regulation would be a sharp reduction in the number of investments made by banks in low income and distressed communities. To avoid such an outcome, we respectfully request that CRA-qualified investments be excluded from the "materiality" test.

ShoreBank also is concerned that regulators may be inclined to interpret the proposed regulation so that only tax-advantaged and government-guaranteed equity investments are excluded from the A-IRB equity capital charge. Such an interpretation would severely disadvantage other public welfare investments in CDCs and CEDEs. We urge that the exclusion apply to all public welfare investments in CDCs and CDEDs. These institutions are a critical complement to more conventional banking organizations in ensuring that all America's communities have access to opportunities for economic growth.

ShoreBank believes that should the regulations be implemented as written and the exclusion be limited to tax-favored or subsidized equity investments, future CRA-qualified equity investments in the communities we serve would be jeopardized. Fewer Americans would have opportunities to purchase homes, accumulate assets, start small businesses and participate in the American Dream.

Thank you for your consideration. Should you have any questions, please feel free to call me at 773-420-4903 or my colleague Joel Freehling at 773-420-4953.

Sincerely,

Fran Grossman

Fran Grossman
Executive Vice President