NHC
The United Voice for Housing

(16)



October 31, 2003

Office of the Comptroller of the Currency
250 E Street, SW
Public Information Room
Mailstop 1-5
Washington, DC 20219
Attention: Docket No. 03-14

Ms. Jennifer J. Johnson, Secretary
Board of Governors, Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Re: Docket No. R-1154

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

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: No. 2003-27

Dear ladies and gentlemen:

The National Housing Conference (NHC) wishes to submit these comments on the proposed regulations implementing the New Basel Capital Accord, which include the public welfare investments made by banks in compliance with the Community Reinvestment Act (CRA) in the broader risk test for determining capital charges for higher risk, non-CRA investments.

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NHC feels that treating CRA investments as high-risk, and lumping them in more liquid, volatile, and higher yielding holdings, is inappropriate on both technical and policy grounds:

- The Basel II equity definition seeks to capture investment with volatile returns and significant downside. In fact, CRA equity investments (such as LIHTC's) are usually long term, low risk investments, with default/ foreclosure/ failure rates many times lower than other types. (LIHTC equity, for instance, has a historical foreclosure rate of under 0.15% – that is, fewer than 1½ in 1,000 properties.)

- CRA and affordable housing investments are government-enabled, government-encouraged, and government-subsidized, with a combination of mandatory performance evaluations and favorable tax/ reporting treatments (such as those you have recognized in Part 24 Legislated Program Equity Investments). Including these low-risk investments in the category subject to the broader risk test for determining capital charges will simply motivate financial institutions to cease investing, undermining a critical element in our nation's delivery system of multifamily affordable housing.

NHC therefore urges that changes be made to the proposed rule to exempt CRA investments from the test for determining capital requirements for other bank equity holdings.

Sincerely

Conrad Egan

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