LivingCities
THE NATIONAL COMMUNITY DEVELOPMENT INITIATIVE

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February 26, 2004

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

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

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

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

Dear Ladies and Gentlemen:

As Co-Chairs of ***Living Cities: The National Community Development Initiative,*** we are writing regarding the Interagency Advance Notice of Proposed Rulemaking on Implementing the New Basel Capital Accord in the United States. We appreciate and share your interest in the potential effects of this proposal on community development in distressed urban neighborhoods.

Living Cities is a nonprofit consortium of 17 major financial, philanthropic, and public sector organizations committed to improving the vitality of cities and urban neighborhoods. For more than a decade, our organization has worked with the Local Initiatives Support Corporation (LISC) and The Enterprise Foundation to make strategic investments of $254 million in the work of nonprofit community development corporations in 23 cities across the country.

We are optimistic about the future of America's cities, given the very real progress we see. In the past decade, the population of the nation's largest 50 cities grew by nearly 10 percent. This was accompanied by a rise in city incomes that outpaced the national average (seven percent versus four percent, respectively) and an increase in housing units, homeownership and mortgage lending. At the same time, concentrated poverty fell 24 percent in the last decade and urban crime decreased. Central cities have also become hubs of economic activity, with annual retail spending power of $85 billion or the equivalent of seven percent of

U.S. retail spending. Business investment has returned to some urban markets, bringing goods, services and job opportunities.

This progress confirms our experience that urban neighborhoods have untapped human, economic, and physical assets ready to be unleashed through a combination of public and private investments. That is why our collaborative is doubling its investment to half a billion dollars in the decade ahead. However, for that investment to yield results, the partnership with government must continue, staying the course with federal resources that have proven critical such as Section 4, HOPE VI, the Low Income Housing Tax Credit, Community Development Block Grants, the Community Reinvestment Act, and others. It will take a concentrated national effort, but we are determined to see cities across the country reach and sustain healthy status in our time, a level that is worthy of the richest society in the history of humankind.

Banks participating in ***Living Cities*** have made significant investments in the creation of affordable housing in urban neighborhoods, especially through the Low Income Housing Tax Credit Program. These are sound investments that play a pivotal role in the revitalization of low-income communities. Our participating banks hope to continue as major investors in the future, but they stand to be affected by the proposed rulemaking.

The New Basel Capital Accord has the goal of contributing to a safe and sound banking system here and abroad. The proposed rulemaking would require a bank to set aside substantially higher reserves when its total equity investments exceed 10% of its capital. Under the proposal, equity investments include both community development investments – which generally bear low risks and generate low returns – and higher-yield, higher-risk equities such as stocks and venture capital. Although the higher reserve requirements would not apply directly to most community development investments, holding such investments at a significant level could push a bank's overall equity holdings over the 10% threshold. That would trigger higher capital reserves on corporate stock, venture capital, and convertible debt holdings.

We are concerned that by including community development investments in calculating the 10% threshold, the proposed rulemaking could discourage some banks from making equity investments in community development, an unintended result that would have negative effects on low-income communities. ***Living Cities*** recommends that investments in community development corporations, investments in community and economic development entities, and equity investments based on legislated community development programs be exempted in calculating the 10% threshold. This could take the form of an exemption for such investments from the advanced internal ratings-based approach for credit risk and the advanced measurement approaches for measuring operational risk.

Investments in community development are low risk. In 2002, Ernst & Young published a report entitled, *Understanding the Dynamics: A Comprehensive Look at Affordable Housing Tax Credit Properties.* Of the 7,824 properties surveyed between 1987 and 2000, only 10 had either been foreclosed upon or had tendered a deed in lieu of foreclosure to their lender. Thus, only 0.14% of these properties had been lost to foreclosure, or 0.01% on an annualized basis. While bank investments in community development have proven to be low risk, they also produce relatively low returns. We believe the proposed rulemaking is setting up an unfair competition, setting low-risk, low-yield community development investments against the higher yields of conventional equity investments such as stock, venture capital, and convertible debt, investments that are accompanied by higher risks.

We believe that by creating an exemption for community development investments from the calculations for the 10% threshold, the proposed rulemaking will not threaten the continued availability of capital in urban neighborhoods while accomplishing the goals of the New Basel Capital Accord.

We will be glad to provide further information about the implications for community development that are raised in the proposed rulemaking. If you think we can be helpful with more information, please do not hesitate to contact our Chief Executive Officer, Reese Fayde, at 646-442-2201 or fayde@livingcities.org.

We appreciate opportunities to be involved in the discussion of the proposed rulemaking.

Sincerely,

Douglas W. Nelson
Co-Chair
Living Cities, Inc.

Mark Willis
Co-Chair
Living Cities, Inc.