

From: "Joseph L. Flatley" <flatley@mhic.com> on 11/03/2003 04:11:05 PM
Subject: Basel Accord II

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., NW
Washington, DC 20551

RE: Docket No. R-1154 (“Proposed Risk-Based Capital Rules”)

Board of Governors of the Federal Reserve System:

The Massachusetts Housing Investment Corporation (MHIC) is a non-profit dedicated to financing quality affordable housing and community development throughout Massachusetts. MHIC is a Community Development Financial Institution (CDFI) with 25 corporate investors including banks, insurance companies and government-sponsored enterprises. Since MHIC began operations in 1990, the corporation has provided more than \$650 million to finance over 9,500 housing units in 220 projects.

MHIC appreciates the opportunity to comment on the proposed Risk-Based Capital Rules, commonly known as the Basel proposals.

MHIC strongly supports the provision of the proposed special rule for “Legislated Program Equity Exposures” that preserves the current capital charge on most equity investments made under legislated programs that involve government oversight. These include public welfare investments made by banks in compliance with Community Reinvestment Act (CRA) Regulations, such as investments in CDFIs and Low Income Housing Tax Credits (LIHTC). CRA investments by banks are crucial sources of private sector financing that serve economically distressed communities by providing credit, capital and financial services for affordable housing and other community development needs. In addition, investments by banks and other corporations account for about 98 percent of the equity capital generated by the LIHTC, which produces virtually all of the country’s affordable rental housing and 40% of all multifamily housing starts.

It is especially important that these provisions recognize the fact that these investments not only serve important policy goals but also represent very low risks for the investors. MHIC’s track record over the last 13 years is indicative of that risk profile. With over \$650 million in financing, MHIC has experienced *zero loan losses* – a record that any conventional commercial lender would envy. National statistics on investments in the Low Income Housing Credit reflect the same low risks – with credit risk approximately *100 times lower* than commercial real estate.

As you can see, therefore, treating these CRA-related investments differently makes not only good public policy sense but also good business sense.

It is on that basis that we are deeply troubled with the proposed “materiality” test. Under the

provision as currently drafted, such CRA investments would be included in the materiality test for banks that have more than 10% of (Tier 1 plus Tier 2) capital in ALL equity investments. As proposed, this provision would have the unintended consequence of discouraging banks with substantial investments in CDFIs and housing tax credit projects from maintaining the same level of CRA investments so as not to trigger higher capital charges on non-CRA investments. In point of fact, we have heard just this argument from some of the largest national investors in CDFIs and housing credits.

Given the very different risk and return profiles of CRA investments compared with non-CRA investments, we urge you to exclude CRA-related investments from the materiality test calculation to ensure the continued flow of equity capital for meeting the affordable housing needs of our nation's poorest families and for building sustainable communities.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Flatley". The signature is fluid and cursive, with a large loop at the beginning and a long, sweeping tail.

JOSEPH L. FLATLEY
President and CEO

cc: The Honorable John D. Hawke, Jr., Office of the Comptroller of the Currency
Robert E. Feldman, Federal Deposit Insurance Corporation
Chief Counsel's Office, Office of Thrift Supervision