CDFI Coalition
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Financial Institutions

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September 10, 2007

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th and Constitution Avenue, NW
Washington, DC 20551
E-mail: regs.comments@federalreserve.gov

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

Office of the Comptroller of the Currency
550 E Street, SW
Mail Stop 1-5
Washington, DC 20219
E-mail: regs.comments@occ.treas.gov

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, Dc 20552
Attn: ID OTS-2007-0030
E-mail: regs.comments@ots.treas.gov

RE: Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment (Docket OP-1290-Federal Reserve; RIN 3064-AC97(FDIC); Docket ID OCC-2007-0012 (OCC); Docket ID OTS-2007-0030 (OTS))

Dear Ms. Johnson:

The Community Development Financial Institutions Coalition (CDFI Coalition) welcomes the opportunity to comment on the proposed Interagency Questions and Answers (Q&A) regarding the Community Reinvestment Act (CRA). The CDFI Coalition was founded in 1992 to advance the interests of the CDFI industry, to facilitate information sharing and joint strategies among the different sectors of CDFIs and to promote federal policies to help expand and strengthen CDFIs across the country.

The CDFI Coalition strongly supports the proposed revisions to the Interagency Questions and Answers. We believe there are many useful additions and clarifications, including in particular those relating to community development services, service to underserved or distressed non-metropolitan middle-income geographies, Individual Development Accounts, New Markets Tax Credit investments, and loans made under the SBA 504 program. We focus our comments on three proposed Q&As of particular importance to Community Development Financial Institutions, proposed sections ___.12(g)-4, ___.12(g)(3)-1, and ___.12(h)-7.

Investments in CDFIs Should Receive the Same Treatment as Investments in Minority- or Women-Owned Financial Institutions and Low-Income Credit Unions

New proposed section ___.12(g)-4 would provide that "capital investments, loan participations, and other ventures" engaged in by a majority-owned institution in cooperation with minority- or women-owned financial institutions and low-income credit unions will be eligible for CRA credit as long as these activities help meet the credit needs of the communities in which the investee institution is chartered, regardless of the geographic focus of the investing majority institution. We applaud this recognition of the important role of minority- and women-owned financial institutions and low-income credit unions in serving the communities in which they are located. For the reasons discussed below, we believe identical treatment should be extended to certified Community Development Financial Institutions.

The Reigle Community Development and Regulatory Improvement Act of 1994 (PL 103-325), which post-dated the 1992 revisions to CRA that added the section concerning minority- and women-owned financial institutions and low-income credit unions, established the Community Development Financial Institutions Fund "to promote economic revitalization and community development through investment in and assistance to community development financial institutions." (12 USC 4701) The statute goes on to define a "community development financial institution" as (among other things) an entity that "has a primary mission of promoting community development," and "serves an investment area or targeted population." An "investment area" is defined as a geographic area that "meets objective criteria of economic distress . . . [and] has significant unmet needs for loans and investments." A "targeted population" is defined as individuals or a group of individuals that "are low-income persons; or otherwise lack adequate access to loans or equity investments." (12 USC 4702 (5), (16), (20)) The application for certification as a CDFI provides that to be certified, at least 60% of an entity's activities must be directed to an "investment area" or "targeted population" as defined in the statute. In other words, by statute a CDFI must serve the very kind of "low- and moderate-income neighborhoods" referred to in the CRA statute.

The entities so certified do in fact provides these services. In fiscal year 2005, the federal government provided CDFIs approximately $51 million. According to the CDFI Data Project, during that year, the 496 CDFIs responding to the Data Project survey (out of approximately 700 certified CDFIs) leveraged that money to make $4.3 billion in investments, including financing and assisting over 9,000 businesses to create or maintain more than 39,000 jobs; facilitated the construction or renovation of over 55,000 units of affordable housing; built or renovated 613 community facilities in economically disadvantaged communities; and provided over 6,000 alternatives to payday loans and helped more than 15,000 consumers open their first bank account. Of CDFI customers in 2005, 52% were female, 58% minority, and 68% low-income.

In summary, certified CDFIs both are chartered to serve—and do serve—the very kinds of communities that minority- and women-owned financial institutions and low-income credit unions serve. Investments in and participations and other ventures with CDFIs should be granted the same treatment under CRA that similar activities with minority- and women-owned financial institutions and low-income credit unions are accorded.

An Investment in A Certified CDFI Should Be Regarded Presumptively As "Promoting Economic Development"

Section___.12(g)(3) relates to the "purpose test" that is part of the definition of "community development." We applaud the proposed additions to this section of loans to or investments in Rural Business Investment Companies and New Markets Tax Credit-eligible Community Development Entities as presumptively promoting economic development. We strongly urge the addition of loans to or investments in certified Community Development Financial Institutions to the list of presumptive economic development activities. As demonstrated above, both the statutory requirements to become a CDFI and the actual performance of those who are certified support the addition of CDFIs to the list.

National, As Well As Statewide or Regional Organizations Should be Eligible to Be Considered as Addressing Assessment Area Needs

Section ___.12(h)-7, in the context of defining "regional area," states that "Community development loans and services and qualified investments to statewide or regional organizations that have a bona fide purpose, mandate, or function that includes serving the geographies or individuals within the institution's assessment area(s) will be considered as addressing assessment area needs" (emphasis added). We urge that either "national" be added after "regional," or that "statewide or regional" be deleted. Many organizations, such as ShoreBank, operate in a limited number of specific geographies in several regions of the country. Such organizations can be at least as effective in serving an investing institution's assessment area that includes one of organization's geographic concentrations as a statewide or regional organization whose activities are more diffuse across a state or region. The Q&A provides that examiners will evaluate "actual or potential benefit to the institution's assessment area" in deciding whether and how much credit to grant. Given this fact-based assessment, there is no reason to exclude loans, services and investments to national organizations from consideration. See ___.12(h)-6, which is silent about the geographic scope of "community development organizations or programs."

Once again, we sincerely appreciate this opportunity to comment on the proposed Interagency Questions and Answers.

Sincerely,

Fred Zeytoonjian
Executive Director
CDFI Coalition