NATIONAL COMMUNITY INVESTMENT FUND

a certified CDFI and CDE reinvesting in community- and minority-owned financial institutions with a community development focus

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November 3, 2003

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

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

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

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

To Whom It May Concern:

The National Community Investment Fund (NCIF) is pleased to submit comments on the proposed Risk-Based Capital Rules.

The National Community Investment Fund is an independent nonprofit trust and certified Community Development Financial Institution (CDFI) and Community Development Entity (CDE) intermediary that invests equity and debt in banking institutions with a primary mission of community development. With almost $20 million of investments in 27 development banks and credit unions, NCIF is the nation's third largest private sector investor in development banking institutions, after Fannie Mae and the Ford Foundation.

The vast majority of NCIF's investment capital--$22 million out of $23 million total—was placed by bank investors and included by them in their CRA reporting. The banks in which NCIF invests have also been frequent beneficiaries of equity investments by regional and national banks that are fulfilling their obligations under the CRA Investment Test.

NCIF supports the special provision for “Legislated Program Equity Exposures” included in the proposed rule. We are pleased that this section preserves the current capital charge on most equity programs made under legislated programs that involve government oversight. Since investments qualifying for credit under the Community Reinvestment Act (CRA) are generally held harmless under the proposed rule, insured depository institutions investing in such programs would generally set aside the same amount of capital for CRA investments under the new rules as they do now - about $8.00 for every $100 of capital invested.

NCIF shares the concern of many industry practitioners that the proposed “materiality” test could diminish the interest of banks and bank holding companies in investing in CDFIs or the communities CDFIs serve, and could adversely affect the amount of equity capital flowing into these specialized intermediaries and low wealth communities. The proposed “materiality” test requires institutions that have, on average, more than 10 percent of their capital in all equity investments, to set aside much higher amounts of capital on their non-CRA investments. As drafted, this calculation also includes CRA investments that are specifically excluded from the new capital charges.

CRA investments in community development and affordable housing have a very different risk/return profile than other equity investments. While they may--but do not always--offer lower yields, CRA investments also have much lower default rates and volatility of returns than other equity investments. Many bank partners of CDFIs have invested substantially in affordable housing and economic development (for example, through Low Income Housing Tax Credits or New Markets Tax Credits) that currently approach, or even exceed, the 10 percent threshold just from CRA-qualified investments alone. Having to include CRA investments - with their very different risk/reward profile - in the same “materiality” pool with more liquid, higher-yielding, more volatile equity exposures could have a chilling effect on the flow of equity capital to communities in need. If the materiality test is adopted as proposed, it could have the unintended result of discouraging banks from making CRA investments to avoid triggering the higher capital charges on non-CRA investments. NCIF strongly suggests that CRA-related equity investments be excluded from the materiality test calculation.

CRA has spawned billions of dollars of investment in low income communities and yet has barely scratched the surface of the reinvestment needed in these income communities. We believe that the necessary continued flow of capital will not occur if increased capital requirements are enforced. We also suggest that, based upon past performance of CRA investments, increased capital requirements do not appear to be called for.

We thank you for your consideration and urge you to call us if you have additional questions.

Sincerely,

Lisa Richter
Fund Advisor