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IFF

November 3, 2003

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

Dear Ms Johnson:

The Illinois Facilities Fund (IFF) is submitting comments in response to the Advance Notice of Proposed Rulemaking on the proposed Risk-Based Capital Rules, published on August 4, 2003.

As a statewide, nonprofit community development financial institution (CDFI), the IFF provides real estate loans, real estate planning and development, management education and public policy to nonprofits throughout Illinois. Since 1989, the IFF has made 260 loans totaling more than $65 million to help 183 Illinois nonprofits such as child care centers, youth shelters and community health clinics, to buy, expand, or renovate their facilities. The IFF has also provided real estate services, including real estate consulting, development, and project management services to over 45 nonprofit organizations.

As a federally certified CDFI, the IFF works with nonprofits serving low-income and special needs populations. IFF offers a wide range of programs which help build and maintain financially sound nonprofits, revitalize communities, and bring services to people in need. The IFF has a track record of helping to create or maintain 6,600 jobs and developing over 3 million square footage of new real estate in traditionally underserved markets.

The Community Reinvestment Act (CRA) has promoted investments by traditional financial institutions in CDFIs. For instance, since the inception of the IFF, nine banks have invested in our loan program, lending over $26 million at below market rates. With these investments, CDFIs have the resources to specialize in providing financial services and capital to individuals, small businesses, religious or nonprofit community-based organizations in low-income or economically under-invested markets. By focusing on underserved markets, CDFIs fill financial gaps and stimulate economic revitalization by offering services with rates and terms structured and products tailored to meets the needs of their customers. In addition to financial services, CDFIs provide extensive training and technical assistance services for free or below market rates to ensure clients succeed.

The IFF applauds regulators for recognizing the vital role of Community Reinvestment Act (CRA) investments in the U.S., and negotiating for a special rule for "Legislated

Program Equity Exposures." This section wisely preserves the current capital charge on most equity programs made under legislated programs that involve government oversight. CRA-related investments are generally held harmless under the proposed rule. The fact is CRA equity investments may sometimes provide lower yields than other investments, but they also have lower default rates and volatility of returns than other equity investments. For example, the IFF's default rate is less than one percent.

However, the IFF is concerned that the proposed rules will negatively affect the ability of the IFF, CDFIs and other community and economic development organizations from receiving investments under CRA. Specifically, the "materiality" test of the proposed rules requires institutions that have, on average, more than 10 percent of their capital in equity investments, to set aside much higher amounts of capital on their non-CRA investments. As drafted, this calculation includes even CRA investments that are specifically excluded from the new capital charges.

Having to include CRA investments, with their very different risk/reward profile, in the "materiality" bucket of more liquid, higher-yielding, more volatile equity exposures could have an unintended effect on the flow of equity capital to communities in need. CDFIs and their bank partners have invested substantially in community economic development (for example, through Low Income Housing Tax Credits (LIHTC) or New Markets Tax Credits (NMTC)) that currently approach, or even exceed, the 10 percent threshold just from CRA-qualified investments alone. If the materiality test is adopted as proposed, it could discourage banks from making CRA investments to avoid triggering the higher capital charges on non-CRA investments.

The IFF appreciates the opportunity to comment on the New Basel Capital Accord and reiterate the importance of CRA for our organization and other community development organizations throughout the country. Thank you for your consideration.

Sincerely yours,

Elizabeth A. Evans
Director of Public Policy and Communications