NATIONAL COMMUNITY REINVESTMENT COALITION

NCRC

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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

To Whom It May Concern:

On behalf of the National Community Reinvestment Coalition (NCRC), a coalition of over 600 member organizations, I am pleased to provide comments in response to the Advanced Notice of Proposed Rulemaking on the proposed Risk-Based Capital Rules, published on August 4, 2003.

NCRC's mission is to increase fair access to credit, capital and financial services. Since 1990, NCRC has spearhead the community movement to end discriminatory banking practices and increase the flow of private capital and credit into the low to moderate, minority, and traditionally underserved communities. With a network of over 600 organizations and thousands of individuals, throughout rural and mainstream America, NCRC supports and monitors enforcement of the Community Reinvestment Act (CRA), the law that bans redlining and requires banks to serve all communities from which they draw deposits. Additionally, NCRC seeks long term solutions that provide resources, knowledge and skills to build communities across the U.S. and the world.

NCRC and its 600 member organizations however are concerned about the dire consequences of the proposed rules that could affect adversely the amount of equity capital flowing into investments under the CRA. CRA equity investments may sometimes provide lower yield than other investments, but they also have lower default rates and volatility of returns than other equity investments. A good example is demonstrated by CDFIs in the network which have cumulative default rates of less than 2.3%, comparable to major banks.

Specifically, the "materiality" test of the proposed rules 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, such as venture funds, equities and some convertible debt instruments. This calculation also includes CRA investments that are specifically excluded from the new capital charges.

To include these CRA investments with their extremely different risk/reward profile, in the "materiality" category of more liquid, higher-yielding, many more volatile equity exposures could have an unintended "chilling effect" on the flow of equity capital to communities in need. CDFIs and their bank partners have invested substantially in affordable housing and economic development that currently approach, or even exceed the 10 percent threshold from CRA-qualified investments alone. Examples of these include the Low Income Housing Tax Credits (LIHTC) or New Markets Tax Credits (NMTC). If the materiality test is adopted as proposed, it could discourage banks from making CRA investments. We understand that these higher capital charges could be twice as much on publicly-traded equities, and three times as much on non-publicly traded ones.

Affordable housing, community revitalization and economic development have been supported positively by financial institutions and are well established public policy in the United States. Congress and bank regulators have encouraged equity investments, and both the LIHTC and NMTC program incentives. Also, the Federal Reserve released a study in 2000 confirming that CRA related investing is profitable and palatable socially and financially with minimum risk to investors. Along with these facts, the remarkable performance record of CRA-related investments and more than $1 trillion invested to date, provide a strong rationale to exclude CRA investment from the materiality test calculation.

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

Therefore, we respectfully submit these comments for your consideration in deliberation on these proposed rules.

Sincerely,

John Taylor
CEO and President
National Community Reinvestment Coalition (NCRC)