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INVESTMENT PARTNERS

- AXA Community Investment Program
- Bank of America
- The Annie E Casey Foundation
- Morgan Chase & Company
- Deutsche Bank
- Fannie Mae Foundation
- Robert Wood Johnson foundation
- W.K. Kellogg Foundation
- John S. and James L. Knight Foundation
- John D. and Catherine T. MacArthur Foundation
- The McKnight Foundation
- Metropolitan Life Insurance Company
- The Office of Community Services of the U.S. Department of Health & Human Services
- Prudential Financial
- The Rockefeller Foundation
- Surdna Foundation
- United States Department of Housing & Urban Development

CHIEF EXECUTIVE OFFICER

Reese W. Fayde

February 26, 2004

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: Pocket 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
ents@ots.treas.gov

Attention: No. 2003-27

Dear Ladies and Gentlemen:

As Co-Chairs of *Living Cities: The National Community Development Initiative*, we are writing regarding the Interagency Advance Notice of Proposed Rulemaking on Implementing the New Basel Capital Accord in the United States. We appreciate and share your interest in the potential effects of this proposal on community development in distressed urban neighborhoods.

***Living Cities* is a nonprofit consortium of 17 major financial, philanthropic, and public sector organizations committed to improving the vitality of cities and urban neighborhoods. For more than a decade, our organization has worked with the Local Initiatives Support Corporation (LISC) and The Enterprise Foundation to make strategic investments of \$254 million in the work of nonprofit community development corporations in 23 cities across the country.**

We are optimistic about the future of America's cities, given the very real progress we see. In the past decade, the population of the nation's largest 50 cities grew by nearly 10 percent. This was accompanied by a rise in city incomes that outpaced the national average (seven percent versus four percent, respectively) and an increase in housing units, homeownership and mortgage lending. At the same time, concentrated poverty fell 24 percent in the last decade and urban crime decreased. Central cities have also become hubs of economic activity, with annual retail spending power of \$85 billion or the equivalent of seven percent of

U.S. retail spending. Business investment **has** returned to some **urban** markets, bringing **goods, services and job opportunities.**

This progress confirms **our** experience that urban neighborhoods have **untapped human, economic, and physical assets** ready to be unleashed through a combination of public and private investments. That is why **our** collaborative **is** doubling **its** investment to half a billion dollars **in** the decade **ahead.** However, for **that** investment to yield **results,** the **partnership with** government must continue, staying **the course with federal resources** that have proven critical such as **Section 4, HOPE VI, the Low Income Housing Tax Credit, Community Development Block Grants, the Community Reinvestment Act, and others.** It will **take a concentrated national effort, but** we **are** determined to see cities across the country reach and sustain healthy status **in** our time, a level **that** is **worthy** of the **richest society in the history of humankind.**

Banks participating in *Living Cities* have made **significant** investments **in** the creation of **affordable housing** in urban neighborhoods, **especially** through the **Low Income Housing Tax Credit Program.** These **are** sound investments that play a pivotal role **in** the **revitalization of** low-income communities. **Our** participating banks hope to **continue as** major investors **in** the **future,** but they stand to be **affected by** the proposed rulemaking.

The New Basel Capital Accord has **the goal of contributing** to a safe and sound banking system here and abroad. The proposed rulemaking **would** require a bank to set aside substantially higher **reserves** when its **total equity** investments exceed 10% of its capital. Under the proposal, **equity** investments include both **community** development investments – which generally bear **low risks** and generate **low returns** – and **higher-yield, higher-risk equities** such as **stocks** and venture capital. Although the **higher reserve** requirements would **not** apply **directly** to most community development investments, holding such investments at a **significant** level could **push a** bank's overall **equity** holdings over the 10% threshold. That **would** trigger higher capital reserves on corporate **stock, venture capital, and convertible debt** holdings.

We are concerned **that** by including community development investments in calculating the **10% threshold,** the proposed rulemaking could discourage some banks **from** making equity investments in community development, an **unintended** result **that** would have negative effects on low-income communities. ***Living Cities*** recommends **that** investments in community development corporations, investments in **community** and economic development entities, and **equity investments based on** legislated community development programs be **exempted in** calculating the 10% threshold. **This** could take **the form of an** exemption for **such** investments **from** the advanced internal ratings-based approach for credit **risk** and the advanced measurement approaches for **measuring** operational **risk.**

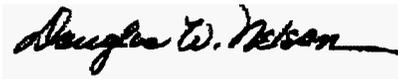
Investments in community development are **low risk.** In 2002, Ernst & Young published a report entitled, *Understanding the Dynamics: A Comprehensive Look at Affordable Housing Tax Credit Properties.* Of the **7,824** properties surveyed between 1987 and 2000, **only 10** had either **been foreclosed** upon or **bad** tendered a deed **in** lieu of foreclosure to their lender. **Thus,** only **0.14%** of these properties had been lost to **foreclosure, or 0.01% on an annualized basis.** While bank investments in community development have proven to be **low risk, they** also produce relatively low returns. **We** believe the proposed rulemaking **is** setting up an **unfair** competition, **setting** low-risk, **low-yield** community development investments against the higher yields of **conventional** equity investments such as **stock, venture capital, and convertible debt, investments that** are accompanied by higher risks.

We believe that by creating an exemption for community development investments from the calculations for the 10% threshold, the proposed rulemaking will not threaten the continued availability of capital in urban neighborhoods while accomplishing the goals of the New Base1 Capital Accord.

We will be glad to provide further information about the implications for community development that are raised in the proposed rulemaking. If you think we can be helpful with more information, please do not hesitate to contact our Chief Executive Officer, Reese Fayde, at 646-442-2201 or fayde@livingcities.org.

We appreciate opportunities to be involved in the discussion of the proposed rulemaking.

Sincerely,


Douglas W. Nelson
Co-Chair
Living Cities, Inc.


Mark Willis
Co-Chair
Living Cities, Inc.