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Comments:

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Comments:
Thank you for the opportunity to comment on proposed revisions to the Community Reinvestment Act (CRA). I am writing on behalf of New Jersey Community Capital, New Jersey's only statewide Community Development Financial Institution. New Jersey Community Capital has $160 million of assets under management with a capital base of $18 million. New Jersey Community Capital is the trade name for the Community Loan Fund of New Jersey who is the recipient of many CDFI Fund awards and is capitalized primarily by bank-regulated financial institutions. New Jersey Community Capital opened its doors in 1987 and has consistently been recognized as a leader in providing financing for affordable housing and community services especially, education facilities that serve low- and moderate-income people. New Jersey Community Capital is currently leading an effort to stabilize and preserve New Jersey neighborhoods that have been ravaged by the foreclosure crisis. We encourage and support changes to the
CRA that will support New Jersey Community Capital and the national CDFI industry. The staff, management, and Board of New Jersey Community Capital are a diverse group and consist of bankers, lenders, community leaders, non-profit managers, and academics. These are our collective comments: Background Since its passage in 1977, the Community Reinvestment Act has successfully increased access to needed financial services and products for low- and moderate-income communities throughout the Unites States. In fact, it has largely defined financial institution's community development lending and investment activity. The CRA has supported countless community development organizations, strategies, and initiatives. It has proved to be a remarkably effective law because it has connected opportunity markets to opportunity capital and financial services. However, the banking industry landscape and the issues facing at-risk communities have both changed dramatically since the CRA was passed over
30 years ago. Despite the good intentions and a worthwhile mandate, the shifts

in the marketplace require a new way of looking at the CRA. In this modernized framework, the CRA is no longer a policy for the fringe markets. Instead, it is and should be a core component of economic growth rather than an outlier of economic policy. As a community development financial institution (CDFI) that is mainly capitalized by investments from mainstream financial institutions, the following comments and recommendations are informed by our direct experience as a recipient of CRA investments. The Problem Over the last few years, we have witnessed a waning interest on the part of banks in terms of direct lending and investments in local non-profit organizations. Many of New Jersey's local banks have gone through multiple mergers and now have a national focus. For example, in 1998 a small regional New Jersey-based bank had a staff of seven people devoted to the CRA needs of New Jersey. Through multiple mergers this bank is now part of a national banking organization with one full-time individual devoted to New Jersey's community development needs. As banks have become larger, it has been necessary for them to abandon their local focus and concentrate on national activities. They no longer have the time to evaluate the needs of local non-profits, many of which require special consideration in the credit process. As a result, many local non-profits no longer have access to traditional credit markets. The loss of local lending institutions with a community-based focus has also led to a disconnect between the needs of CRA assessment areas and the CRA investments within these areas. Over the past 30 years, community development financial institutions (CDFIs) have matured into sophisticated lending institutions that serve local non-profits. CDFIs are private-sector, public-purpose financial institutions that combine mission with market discipline and sound lending practices who have successfully executed deals perceived as "high-risk". CDFIs lend and invest in urban, rural, and reservation communities by financing affordable housing, community facilities, and small businesses. CDFIs offer specialized products that meet the needs of local non-profits and ultimately serve low- and moderate-income people and communities. As local nonprofits no longer have access to their banks, they have turned to the CDFI industry. As a result, the demand for our products is growing. However, investments in CDFIs have not kept pace with demand. Simultaneously, any renewals in investment have become less affordable as banks have raised interest rates and increased covenant requirements. However, it remains true that CDFI clients/borrowers cannot afford market rate products. Challenges: Encourage Investment in Local Community Development As national banks acquire regional and other national banks, they have become even larger and their focus hasbecome national. National
banks give adequate to support nationwide nonprofit organizations like NeighborWorks America because these organizations enjoy national profiles and recognition. Through loans and investments to national organizations, banks achieve economies of scale in terms of time, money, and impact. However, many of these dollars do not filter down to local CDFIs and the local nonprofits who work in low- and moderate-income neighborhoods. Banks need to establish CRA targets that reach local markets within each of their CRA assessment areas. Encourage Long Term CRA Investments Similar to the concept of "teaching to the test", many banks manage their CRA activities to earn a satisfactory rating and do not focus on meaningful investments in local community development initiatives. We have been told by our bank investors that they cannot provide us with long-term investments because banks only get credit for new investments or investments that renew annually. This is hard on CDFIs because we are constantly renegotiating investments. This is a long and arduous process and can take up to a year. Even when banks are willing to lend to CDFIs, these facilities are shorter term and less affordable than they have been historically. This constrains our ability to serve our pipeline as we cannot

assume that these short term investments will be renewed. We recommend that: Specific rules be established within the CRA that require banks to invest or lend to qualified CDFIs in each of their CRA assessment areas based on the neighborhoods from which banks obtain a significant amount of business. By lending to or investing in CDFIs, banks can manage their credit risk. CDFIs pool their lending and investment dollars and re-lend them to a variety of non-profit organizations with a variety of collateral. Banks be given extra CRA credit for long-term and affordable investments. Banks be required to set aside dollars for direct lending to local nonprofit community development corporations so that they do not lose touch with the evolving needs of low- and moderate-income neighborhoods. Banks can meet the CRA's "flexible and innovative" criteria by considering government grants such as neighborhood stabilization funds (NSP) to be equity or subordinated debt. Improve the current CRA rating system with qualitative factors by including a community impact rating. Banks and other investors require CDFIs to justify investment renewals by demonstrating impact. This information should be integral to the CRA rating to demonstrate that a bank's investment is thoughtful and meaningful. Revitalize the Affordable Mortgage Program Based on the events over the last 2.5 years it is evident that homeownership can be a double-edged sword. However, it remains important that qualified individuals have access to legitimate affordable mortgage products. In today's environment it is difficult for potential low- and moderate-income homeowners to qualify for mortgages as

banks no longer offer traditional affordable low-cost mortgages. Instead, banks are trying to use FHA products to qualify homebuyers. These programs disqualify buyers who would have been eligible under the affordable mortgage programs that were used until 2008. When home buyers fail to qualify, there is a ripple effect on the community development industry. Local community development corporations (CDCs) who develop affordable housing cannot pay off their construction loans because they are unable to sell their inventory. CDFIs who finance such construction projects experience higher levels of delinquency, tight cash flow, and constrained capital because their CDC clients cannot generate enough cash flow to pay off their loans and support monthly interest payments. The CDCs cannot develop new properties because they are not qualified to borrow if they are seriously delinquent or they have too much inventory on hand. Ultimately, the entire industry stagnates. We recommend that:

The CRA re-emphasize the importance of affordable mortgage programs. Consideration be given to mandating an affordable mortgage product that all banks will be required to offer. This product should be standard so the application process will be easier and less complicated for low- and moderate-income applicants as they would not have to shop for the best mortgage deal. This will hopefully mitigate the ability of unethical realtors to steer potential home-buyers to products they cannot afford in the long term. Consideration be given to funding a non-profit mortgage banking organization that will serve the needs of low- and moderate-income neighborhoods while requiring banks to purchase a targeted number of these mortgages. Consideration be given to mandating the Federal Home Loan Bank in each district to work with its member banks and community groups to develop an affordable mortgage product appropriate for each respective distric. Each mortgage lender within the district

would be required to actively market the product to its low- and moderate-income mortgage applicants. Instead of paying dividends to the member banks, the Federal Home Loan Banks could use all or a portion of the dividends to establish a private mortgage insurance program or loan loss reserve for low- and moderate-income homebuyers. Expand CRA Coverage and Expectations The

testimony offered by the Opportunity Finance Network indicates that less than 20 percent of Americans' long-term savings are now deposited in banks. Over the last 15 years, mortgage borrowers have migrated from banks to mortgage companies for their lending needs. Automobile and insurance companies have established lending affiliates and credit unions have become more prominent. Many low-income families still use check-cashing companies and money transmitters instead of banks. CDFIs and local nonprofits need access to additional sources of capital and grants as bank mergers have reduced the number of large banks
who are required to make community development loans and investments. Small banks, as defined by CRA, are not required to make community development investments. We recommend that: The CRA be expanded to cover all institutions that offer financial services to consumers. Consideration be given to require small banks to make appropriate levels of community development investments. Conclusion The CRA's thirty-year track record proves that community reinvestment and safety and soundness can work together to produce results that are good for financial institutions and for their communities. The broad principle of affirmative obligation to serve communities will continue to serve as a foundation while regulatory and implementation changes update CRA to meet the changed - and still changing - needs of markets and communities. Thank you for the opportunity to provide comment on the future of the CRA. Please do not hesitate to contact me at (if you have questions or need additional clarification.