CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Department of Housing
LESLYE KRUTKO, DIRECTOR

August 31, 2010

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave, N.W.
Washington DC 20551

RE: Docket No. R-1386

Dear Ms. Johnson:

On behalf of the City of San José Department of Housing, I am writing to express our support for the Community Reinvestment Act (CRA). In San José, CRA has been an instrumental tool in continuing our efforts to address our community's affordable housing needs.

During these difficult economic times when real estate lending has been less desirable for banks' risk exposures, CRA has been a vitally important driver of lending and investment in financing affordable housing developments. The major commercial banks which specialize in community development finance and work in our area consistently cite their CRA obligations as reasons that they are interested in San José projects. A strong CRA, especially in the past two challenging years, has made a major difference between having multiple institutions interested in projects versus having no interest at all. This is especially true for projects that are harder to finance, because they have less equity due to the use of tax-exempt bonds, or because their rents are very low to accommodate special needs populations. As San José commonly loans 25% to 35% of a project's development cost, usually financing riskier up-front costs and land purchases, it is crucial for our financial health that banks provide debt and equity to these projects. It is also important to local subordinate lenders, such as our Department, that competition exists among financers so as to ensure that a choice of business terms is available to projects, and that our subsidy is therefore minimized.

<u>Restrict CRA Credit to Projects with Long-Term Affordability Restrictions</u>

It is important to note that lending or investment credit should be given only to banks that finance projects with long-term affordability restrictive covenants. Only with these legally-enforceable mechanisms can local communities continue to ensure that they can serve housing needs for residents with a range of incomes, even when market demand strengthens and prices in the market rise. We need to be able to use our very scarce funds to house our low-wage service workers, regardless of the overall market conditions, and impel banks to do the same.

<u>Expand the Definition of "Community Development"</u>

We are glad to see that the regulatory agencies are considering expanding the definition of "community development." The definition should include services, investments, and lending that takes place in low-income communities and provide incentives to banks that participate in these activities. In addition, we support the recent proposal to add loans, investments, and services that support, enable, or facilitate the U.S. Department of Housing & Urban Development's Neighborhood Stabilization Program-eligible activities in designated target areas.

Provide CRA Credit to Banks that Support Financial Intermediary Organizations and Serve Distressed Areas

As the regulatory agencies consider CRA performance tests, we also support regulators to give banks credit for facilities that are made to financial intermediary organizations—such as a line of credit to a Community Development Financial Institution, or to a Redevelopment Agency or City department—thereby getting capital to those institutions so they can lend to individual projects and benefit the local community. In addition, banks that have continued to serve distressed areas during the economic downturn should somehow receive higher CRA ratings for taking on these additional risks at times when flexible capital is most important.

As the Federal Reserve begins deliberations on potential changes to CRA examinations, we want to express our support for a strong CRA which will continue to encourage investment in San José's affordable housing, and for the creation of housing in other communities where demand far exceeds supply. We appreciate your review and consideration of these comments. Please feel to contact me at (408) 535-3851 or Leslye.Krutko@sanjoseca.gov should you have any questions.

Sincerely,

Lesly Krutko

Leslye Krutko
Director