NCIF NATIONAL COMMUNITY INVESTMENT FUND

LEVERAGING CAPITAL FOR CHANGE

Saurabh Narain
Chief Fund Advisor
(312) 881 5826/ snarain@ncif.org

August 31, 2010

Honorable Ben S. Bernanke
Chairman
The Federal Reserve Board
20th Street and Constitution Avenue NW
Washington, DC 20551

Honorable Sheila C. Bair
Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Honorable John E. Bowman
Acting Director
Office of Thrift Supervision
1700 G Street NW
Washington, DC 20552

Honorable John G. Walsh
Acting Comptroller
Officer of the Comptroller of Currency
250 E Street SW
Washington, DC 20219

Dear All:

We would like to thank you for the opportunity to provide comments in response to the Hearings for Community Reinvestment Act Regulations.

The financial markets landscape has transformed over the last 33 years since the Community Reinvestment Act was enacted. While a small number of financial institutions have become very large and control a substantial amount of deposits and assets, most institutions (over 91% of banks and thrifts) continue to have assets less than $1 billion but are very locally focused. New intermediaries (mortgage lenders) have thrived in providing loans to retail customers; securitization and participation mechanisms have increased the ability for banks to transform and diversify risk; and technology advancements have fostered a development of new delivery channels and increase in speed of delivery. These innovations have increased our ability to provide financial services to a greater section of society at a lower cost.

2230 SOUTH MICHIGAN AVENUE, SUITE 200 CHICAGO, ILLINOIS 60616 (T) 312.881.5826 (F) 312.881.5801 WWW.NCIF.ORG

Yet, it is a fact that alternative and unregulated financial services providers continue to thrive despite providing services at a very high cost. Unfortunately, these alternative financial services providers serve a sizable customer base that are unbanked, underbanked or never banked. Issues relating to *access to credit* of the 1970s continue to persist; additionally in the current context we are also facing significant issues relating to uneven *access to transactional financial services* and uneven *access to responsible financial services (both credit and transactional financial services).* It is almost a moral imperative that in a developed society responsible financial services are made available to all.

<u>About CDFI Banks</u>
As of July 31, 2010, there are 66 banks and thrifts that are certified as CDFIs by the CDFI Fund (Department of Treasury) out of a total of approximately 7,900 banks and despite the fact that approximately 40% of the census tracts in the US are considered to be low- and moderate-income census tracts. As of 12/31/2008, the CDFI banks controlled approximately $16 billion in assets comprising over 55% of the total CDFI industry (even though they represent less than 10% of the industry by numbers). NCIF via its work with the Social Performance Metrics[SM] believes that there are likely to be another 300-500 other such institutions that 'walk, talk and act' like certified CDFI banks even though they may not be currently certified. NCIF uses the term Community Development Banking Institutions ("CDBI") to denote these institutions. NCIF has a mission of strengthening and growing the asset class of certified CDFI banks.

As you know, CDFI banks have a stated mission of economic development and help provide mainstream financial services to the most economically vulnerable sections of society in their local markets. These banks anchor economic activity in rural and urban America and have created and retained jobs in the most highly-distressed neighborhoods. As demonstrated by the NCIF Social Performance Metrics[SM] - see chart in Appendix – in percent terms, CDFI Banks generated approximately 4-times the dollar value of HMDA loans in LMI areas relative to the "All Bank" peer group in 2008 (58.98% vs 16.15%) and have 5-times as many branches located in LMI areas (76.79% vs. 14.29%).

CDFI banks (and the CDFI industry in general) continue to rely heavily on the CRA act to attract scarce funding, services and capital. CRA has fostered partnerships between CDFIs and mainstream banks and thrifts, and as a result, CDFIs are now an integral component of the delivery of financial services to low income communities across the country.

The comments below are written specifically on behalf of the CDFI banking industry that we represent and, in general, on behalf of the overall CDFI industry (NCIF is also a CDFI). We do realize that some of these changes may be beyond the scope of changes in regulation and may require legislative changes but are pointing them out for consideration as we contemplate the modernization of CRA.

2230 SOUTH MICHIGAN AVENUE, SUITE 200 CHICAGO, ILLINOIS 60616 [T] 312.881.5826 [F] 312.881.5801 WWW.NCIF.ORG

Our comments are focused on the following five broad areas.

1. **Expand the Scope of CRA**: We believe that the applicability of the Community Reinvestment Act should be expanded significantly on the following three counts:

    a. All banks and non-bank affiliates of bank holding companies should be tested for compliance with the CRA: The concept that an institution can provide services via a separate subsidiary under a bank holding company rather than the bank itself and yet choose to not have it be covered under the CRA is fundamentally flawed and hence should be corrected.

    b. All providers of financial services should be tested for compliance under the CRA including banks, thrifts, investment banks, limited purpose banks, credit unions, loan funds, and insurance companies among others. An increasing number of non-bank financial services providers, technology companies and industrial loan companies are able to provide financial services via new channels but are not covered by any regulations. We encourage the Regulators and the Congress to be cognizant of this trend.

    c. All financial services need to be included in the testing of CRA compliance - this includes lending, savings, remittances, insurance products and other services. Additionally, delivery of 'high impact' products and services needs to be emphasized in CRA examinations. For example, if a bank or thrift dedicates limited resources in creating home loan modification programs they get CRA credit under the services test but that credit is a very small proportion of the overall credit. Hence it does not provide adequate incentive to the institution for aggressively building such programs. These unintended anomalies need to be corrected.

    This expansion in the scope of CRA will assist the flow of capital into LMI areas especially via the CDFI sector.

2. **Reward Equity Investments:** Greater weighting should be given to equity investments rather than quasi-equity investments under the investment test: An example are investments in tax credit instruments that receive credit under the investment test even though the return is virtually guaranteed by the federal government subject to compliance with program rules and hence may behave like debt instruments rather than as pure equity. This steers scarce capital away from real tier 1 capital for smaller banks (especially CDFI banks) and EQ2 instruments to credit unions, loan funds and other non-profits working in the toughest markets. If greater CRA credit were to be given to institutions providing longer term, subordinated debt and equity to smaller institutions, it will encourage increased, longer term investment in LMI areas.

2230 SOUTH MICHIGAN AVENUE, SUITE 200 CHICAGO, ILLINOIS 60616 [T] 312.881.5826 [F] 312.881.5801 WWW.NCIF.ORG

3. **Investments in CDFIs should Count:** Irrespective of the location of the CDFI, investments in CDFIs should be awarded CRA credit.

   Current Interagency guidance materials state that investments and deposits in minority- and women-owned banks and thrifts, and low income credit unions a eligible CRA activities without regard to the geography were these institutions work. We applaud the regulatory agencies for recognizing the important contributions of these financial institutions.

   CDFIs need to be on an equal footing with such institutions. We believe investment in CDFIs should be identified as a CRA eligible activity irrespective of the geographic area of operation of the CDFI because investment in CDFIs will, in turn, be re-lent to borrowers in low- and moderate-income areas, consistent with the intention of CRA.

4. **Greater Data Disclosure**: The Home Mortgage Disclosure Act of 1975 has been very successful in providing greater transparency to activities of home lenders around the country. Historically, this information has been mined by stakeholders to ensure that there is no resurgence of 'redlining' in the country. Over the last 3-4 years, NCIF has used this data to also provide positive incentive to institutions that have a track record of working in low- and moderate-income areas. The resultant Social Performance Metrics℠ methodology is being used by stakeholders in identifying and supporting high impact financial institutions. Please see appendix and www.ncif.org to learn more about the metrics and to use our free database tool.

   We would encourage the regulators and the Congress to expand data collection and publication to include granular information around other forms of lending (commercial real estate, commercial and industrial, small business), services and investments.

5. **Establish Performance Incentives and Disincentives:** NCIF is a proponent of providing incentives to financial institutions that provide responsible financial services into LMI areas. An example of incentives that have been contemplated include a reduction in cost of deposit insurance. As we think about providing greater incentives, we also encourage the regulators to think of a 'claw-back' mechanism that will be a disincentive to institutions providing irresponsible services. For example, if an institution engages in activities that result in foreclosure across communities as is being witnessed in the current financial crisis, they should be penalized in subsequent CRA examinations.

2230 South Michigan Avenue, Suite 200 Chicago, Illinois 60616 [T] 312.881.5826 [F] 312.881.5801 www.ncif.org

NCIF NATIONAL COMMUNITY INVESTMENT FUND

LEVERAGING CAPITAL FOR CHANGE℠

About National Community Investment Fund ("NCIF"; www.ncif.org)
NCIF is a non-profit private equity trust and a Community Development Financial Institution ("CDFI"). NCIF has a mission of investing private capital into and strengthening banks, thrifts and credit unions that have a mission of community and economic development in low and moderate income communities. NCIF is the largest single investor and network of CDFI banks (many of which are also minority banks and thrifts) having invested in 44 such institutions (banks, thrifts and credit unions) since inception. This gives us a unique understanding of the capital and funding needs and the constraints that these under-resourced institutions operate under while creating outstanding impact in low- and moderate-income areas.

NCIF is represented on the Consumer Advisory Council of the Federal Reserve Board and the Minority Depository Institutions Advisory Council of the Office of Thrift Supervision.

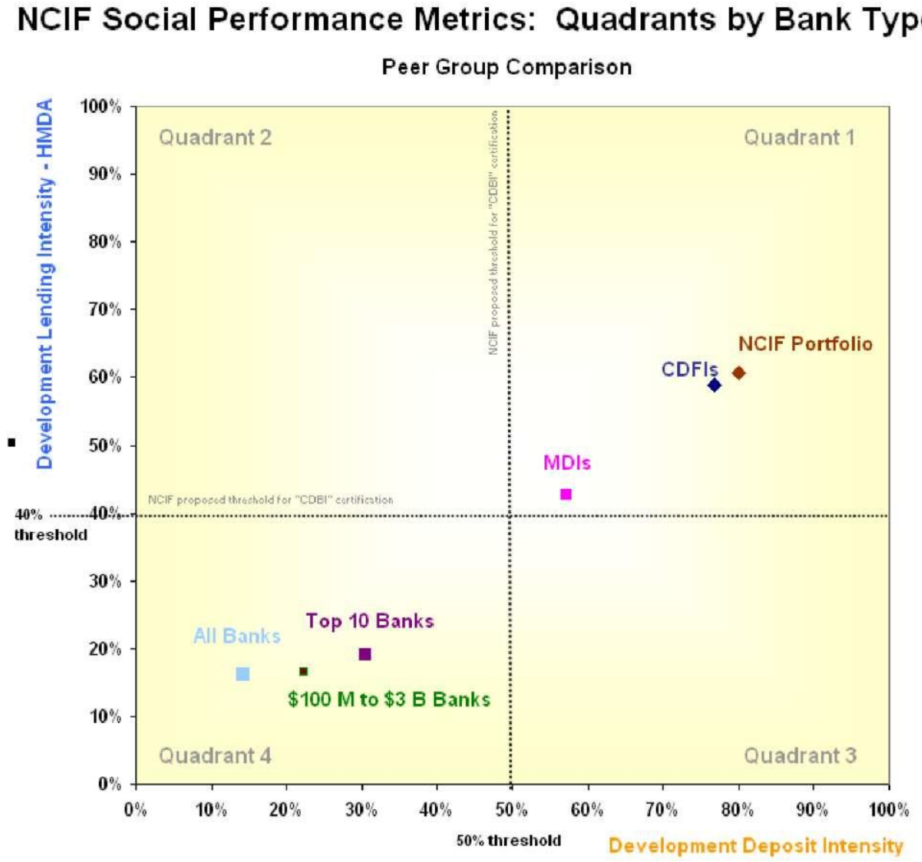
We look forward to discussing these ideas in detail with you.

Sincerely,

2230 South Michigan Avenue, Suite 200 Chicago, Illinois 60616 [T] 312.881.5826 [F] 312.881.5801 www.ncif.org

Leveraging Capital for Change℠

Appendix: Relative Social Performance of CDFI Banks



	Peer Group	#	DLI-HMDA	DDI
	CDFI Banks	62	58.98%	76.79%
1	All Domestic Banks	8,179	16.15%	14.29%
2	"Top-Ten" Banks by Assets	10	19.25%	30.47%
3	$100 Million to $3 Billion	4,916	16.63%	22.22%
4	Minority Depository Institutions	203	42.80%	57.14%
5	NCIF Portfolio Institutions	11	60.62%	80.00%

Definitions

- DLI- HMDA or Development Lending Intensity - HMDA: this is the percentage of dollar value of HMDA reported loans originated or purchased by a bank during the year that are located in low- and moderate-income census tracts as per the CDFI Fund and based on 2008 reported HMDA data.
- DDI or Development Deposit Intensity: this is the percentage of branches of banks that are located in low- and moderate-income census tracts as per the CDFI Fund. Based on June 30, 2008 reported data as per the FDIC Summary of Deposits database.
- NCIF has compiled and mined information on all 8,000 banks in the country since 1996 to evaluate the social performance outputs of the sector.

2230 South Michigan Avenue, Suite 200 Chicago, Illinois 60616 (T) 312.881.5826 (F) 312.881.5801 www.ncif.org