Community Reinvestment Act Joint Public Hearing, August 12, 2010
Panel Three: Ignatius MacLellan

Elizabeth Duke:
Mr. MacLellan.

Ignatius MacLellan:
Good afternoon. I'm Ignatius MacLellan, Vice President of Public Affairs at the Northern New England Housing Investment Fund. We are a nonprofit syndicator of low income housing tax credits for Maine and New Hampshire. Our testimony today is supported also by Housing Vermont, which is the Vermont nonprofit syndicators. Together, we are the primary equity providers for tax credits in our three states.

Our testimony is also supported by the three housing finance agencies in Maine, Vermont, and New Hampshire; and they're the agencies that run the tax credit programs. And, finally, our testimony is supported by the three affordable housing coalitions in Maine, Vermont, and New Hampshire.

I want to begin with the confession that we are not expert in the technical aspects of the Community Reinvestment Act. And so we ask your expert staff to consider how the CRA regulations can promote bank investments in tax credits consistent with the needs of various sized markets across this country and in accord with the decisions made by federal and state policymakers.

Our plea: Please do not forget the smaller markets and the impact that the Community Reinvestment Act has in smaller markets. I must begin by thanking our investors. From the local community banks to the regional banks to the large national banks, their financial commitment and their community commitment to our communities is spectacular, and we're very appreciative. And I want to quickly give you a context just to tell you the type of housing that we build, describe our banking environment, and tell you why CRA is the component that keeps it all together. And we have a few very specific recommendations. As everyone knows, the tax credit program is the principal affordable rental housing production program in America. The type of housing deals, however, will vary based on the geography in which that is located. In our three states, the average tax credit property that we're building today is thirty units; total development cost of $6 million with the tax credit equity being about two and a half million; and they're generally built by smaller but experienced nonprofits. The good news: We're able to provide decedent, affordable housing that is a solid and safe investment. The bad news: Our deals do not fit banks' preferred business models. Our deals are generally too small for large banks and too large for small banks.

Let me just quickly tell you about our banking environment. So, in Maine and New Hampshire, four large banks hold about 68 percent of our total deposits. Community banks also have a strong presence. In Vermont, the banks fall into two categories. Two regional banks hold about 42 percent of the deposits; and there's a plethora of smaller community banks, but none of them has more than 10 percent. No large national bank has a significant presence in Vermont. I just want to make sure you know, we do reach out to non-CRA motivated investors. The problem is, on the deal size, even if funds have non-CRA dollars, our deals are too small. On the fund size, we're just not big enough, even though we do the outreach. So, generally, they don't play a role.

So how does the housing we build fit in with the bank business models, and what role does CRA play? Larger banks have certain business model goals for tax credits investments. Larger deal size; well-capitalized developers; and they would also like to get other business from their tax credit investments, such as loans and deposits. And so while the housing we produce is a solid investment, it doesn't fit that business model. Yet, in our states, the larger banks account for about 75 percent of the tax credit equity that we raise. Community banks play a significant role, but they cannot fill the equity need. They often lack the expertise; or, if they're willing to make an investment, they'll make one investment and then they don't return on a yearly basis. What the CRA does, it brings banks of all sizes to tax credit housing. CRA-motivated banks, especially large national and regional banks are and will be the primary source of tax credit equity in our states. The CRA is the tether to the local community and the counterweight to the business practices that could otherwise leave communities behind.

Our recommendations: The CRA regulations should allow a statewide approach to better align with state allocation decisions. The current regulatory practice of microscopic targeting of CRA to specific assessment areas has had negative consequences in our states. This statewide approach would align with the tax credit allocation process which is done on a state level. Number two, CRA should not encourage regionalization. Regional funds will hurt smaller markets. If you decide to go with regional funds, we would ask to make sure that the tax credit needs are being met in those communities already and the regional funds actually invest in these smaller, harder to reach markets. Third, the CRA should provide clear incentives to banks to make investments in smaller deals in smaller markets. On behalf of our housing finance agencies; our housing developers and investors; and, most importantly, the families who rely on us to meet their critical housing needs, thank you for your time and attention to this important subject.