



**Social Mission.**  
**Private Enterprise.**

July 8, 2016

*Transmitted by e-mail*

The Honorable Janet Yellen  
Chair, Board of Governors of the Federal Reserve System

The Honorable Martin Gruenberg  
Chair, Federal Deposit Insurance Corporation

The Honorable Thomas Curry  
Comptroller of the Currency

Dear Madam and Sirs:

We are writing to encourage you to use your existing authority to improve and update the administration of the Community Reinvestment Act (CRA). We applaud you for moving forward with updates to the CRA Questions and Answers (Qs and As) in recent years and hope that you will continue this process of modernizing CRA administration. As your 2013 proposed revisions to the CRA Qs and As noted, "This notice addressing several community development issues is intended to be the Agencies' first step to addressing substantive and significant issues raised by commenters." We propose changes to align CRA better with changes in the economy and the banking system that do not require you to reopen the regulations or the statute.

Housing Partnership Network (HPN), a business collaborative of high-performing nonprofits that develop, own, manage and finance affordable housing and community development. Our members include CDFIs, multifamily housing developers, single family developers, and housing counseling agencies. HPN operates businesses that help improve the efficiency and impact of our members, such as property and casualty insurance company that insures their apartments, a group buying business that helps them purchase the supplies and materials they need to build and renovate housing, and a social purpose Real Estate Investment Trust that purchases naturally occurring affordable housing. HPN is a social enterprise – we use private sector business practices to create and preserve stable homes and vibrant communities that offer an improved quality of life for residents.

HPN members have had robust discussions with bankers who are members of the National Association of Affordable Housing Lenders (NAAHL) about the need to update and streamline CRA. Both the HPN members and the NAAHL members are community development

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practitioners and the discussions revealed substantial agreement on noncontroversial ways to maximize CRA's effectiveness. HPN members support the following proposals described in NAAHL's October 16, 2015 paper "CRA Policy Guidance on Community Development."

### **Clarify treatment of community development**

Existing Qs and As allow banks to invest in community development "in a broader statewide or regional area" outside of Assessment Areas and receive CRA credit if they are adequately meeting the needs inside their assessment areas. This is a helpful clarification, but would benefit from further definition:

- A.) Regulators should more clearly define "broader statewide or regional area" to include all adjacent states and publish lists of approved regional areas so banks can have more certainty.
- B.) Community development activity in limited scope review areas should be aggregated and considered as part of the state rating rather than being ignored.

### **Ability of wholesale and internet banks to invest in community development**

As more deposits are gathered outside of traditional deposit-taking branches of retail banks, CRA needs to be updated to reflect this reality. Designating Assessment Areas only around the headquarters' of specialized banks does not take advantage of the true capacity of these institutions to invest in community development more broadly. It makes sense to allow wholesale, limited purpose and internet banks to get credit for CD investments nationwide commensurate with their nationwide deposit taking. For example, if a bank gets less than 10% of its deposits from inside of its assessment area, then it should get credit for 90% of its total community development investments nationwide.

### **Investment in naturally occurring affordable housing**

Affordable rental housing without government assistance and income restrictions should be given favorable CRA treatment based on rent levels after renovation, rather than verification of tenant incomes. Preserving naturally occurring affordable housing can be a way to protect residents of rapidly changing neighborhoods from displacement. If the naturally occurring affordable housing is in "high opportunity" areas, it would harmonize CRA with other government housing policies to encourage banks to finance this housing stock. It is appropriate to give CRA credit for naturally affordable housing in LMI areas if the majority of the units have affordable rents and in middle or upper income geographies if at least 80% of the units have affordable rents. Adding CRA qualitative consideration for investments in naturally affordable housing done in conjunction with mission-oriented entities like social purpose REITs or nonprofit developers or loan funds that are committed to longer term affordability also makes sense.

### **Mixed income developments**

Loans and investments in developments financed under local, state, or federal affordable housing or community development programs should receive full credit if at least 20% of the beneficiaries are low- or moderate-income people. This standard makes CRA policy consistent with federal affordable housing policies like the Low Income Housing Tax Credit, tax exempt

multifamily bonds, and the HOME program. Given how intense opposition can be to the siting of affordable housing in high opportunity communities, it is reasonable to give banks every incentive to finance this affordable housing.

### **Letters of Credit**

Letters of credit (LOCs) should receive full recognition and credit as loans since LOCs require the banks to reserve capital and assume credit risk. There are some structures like the CDFI Bond Guarantee Program that can require LOCs, and banks should get full credit for this sort of innovation.

### **Incentives for superior CRA performance**

It would be helpful for banks to have a reason to strive for an “Outstanding” rating rather than “Satisfactory”. As the number of bank mergers have declined, banks have less incentive to improve their CRA performance. The regulators should reward banks with Outstanding ratings with expedited processing on other types of applications.

Again, thank you for your consideration of our views. I would be happy to meet with you or your staff to discuss this in greater detail. If you have any questions about these comments, or wish to set up a meeting please contact me at [siglin@housingpartnership.net](mailto:siglin@housingpartnership.net).

Sincerely,

Kristin Siglin  
Senior Vice President, Policy