Illinois Facilities Fund
300 West Adams Street
Chicago, Illinois 60606

Telephone: 312 629 0060
Facsimile: 312 629 0065
Email: iffmail@iffund.org

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IFF

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Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G St. NW
Washington DC 20552
Attention: Docket No. 2001-49

To Whom It May Concern:

The Illinois Facilities Fund (IFF) supports the positive impact that the Community Reinvestment Act (CRA) has had on the Community Development Financial Institution (CDFI) industry and on the low-income communities that CDFIs serve. The CRA has provided banks with incentives to make both investments and grants to CDFIs. The IFF supports vigorous enforcement of the CRA and the strengthening of regulations to facilitate further CRA activity.

The IFF is a nonprofit CDFI that provides below market real estate loans; real estate development and consulting; and management education for nonprofits. The IFF's services also include public policy research and advocacy on behalf of the nonprofit sector. The IFF's market is nonprofits that serve low-income and special needs communities in Illinois. The IFF was founded 10 years ago.

Bank partnerships include loans and investments in the IFF and participation in financing of real estate loans to nonprofit organizations. These collaborations allow the IFF to meet its mission, which is to assist nonprofit agencies to obtain access to capital necessary for long-term stability and program growth. These partnerships assure the financing of projects that would otherwise not be undertaken. CRA provides an incentive for these cooperative efforts.

Since the inception of the IFF, nine banks have invested in our loan program, lending close to $19 million at below market rates. In FY 2000, ten banks made operating grants to the IFF totaling $73,500. In FY 2001, the IFF has received $40,500 from six banks. These grants and investments have assisted the IFF in closing over 200 loans exceeding $40 million. As a result, over 5,500 jobs have been created or maintained, and over 2 million square feet of real estate has been developed serving approximately 250,000 clients. Over the years, the IFF has saved borrowers approximately of $4.2 million in interest and fees.

The Community Reinvestment Act has assisted in the growth of the CDFI industry nationwide, which increases access to capital for low-income communities. CDFIs fill a market gap in communities where capital is scarce. In keeping with the CRA statute, CRA regulators should clearly give weight to bank partnerships with CDFIs.

Investment Test and Lending Test in Large Bank Exams

The IFF believes that the investment test and the lending test under CRA should be retained with community development activities falling under each test. The variety of tests in the exam encourages flexibility and creativity to meet market need in low-income communities. Under the lending test, ratings should emphasize the impact of a loan on the community need, not the complexity or innovativeness of the loan. Banks that consistently provide loans or investments that directly meet a project or community need should not be penalized for lack of innovation or complexity. Our experience has taught us that there are many ways to make high impact investments, not all of them are complex and new, nor do they need to be. It is difficult to evaluate the complexity or innovativeness in the context of community development lending. Lending to a CDFI is innovative by the simple fact that without a CDFI, many loans would not be made.

The quantitative element of the CRA exam is an important component of the exam and should not be weakened; however, qualitative components should also be taken into consideration. While regulators should look at quantity, they must also take into consideration the term, risk and need of the product offered. Currently a bank is receiving the same credit for a three year balloon mortgage as it receives for a 25 year amortized, *fixed-rate mortgage. Clearly, the 25 year amortized, fixed-rate mortgage offers more* stability to the borrower and the community, and represents greater risk to the bank. Finally, regulators should examine the degree to which affordable, fair financing is absent in a community. Because such bank investments are highly responsive to community need (well documented in CDFI operations), such banks should get higher ratings.

Community Development Component in Large Bank Exams

The community development component should be preserved under all three of the large bank tests. The original intent of the CRA statute is to promote bank activity in underserved communities, thereby promoting community development. When assessing community development activities, regulators should recognize that participation with a CDFI fulfills the CRA intent of providing financial services in low– to moderate-income communities. A federally certified CDFI must fulfill two main requirements; it must lend money and its target market must be the low-income population. A CDFI receives ongoing scrutiny by the U.S. Department of the Treasury, CDFI Fund through the certification process. A CDFI must also collect data on the clients they serve to report to the CDFI Fund. A bank may use this data to help strengthen it's CRA reporting. CDFIs are, therefore, a model for accepted community development activities.

Service Test in Large Bank Exams

Allowing banks to receive credit for lending its personnel to CDFIs and nonprofit organizations that serve low-income communities provides human resources that help strengthen and stabilize the organizations. Credit should be received for personnel who serve on a board of directors; provide policy advice and interpretation; serve on a committee, such as a loan committee; and/or participate in seminars. The IFF has benefited from this expertise from bank staff through loan committee participation, product development, and policy advice. Many CDFIs have benefited from these services and are robust as a result of them. We strongly recommend that credit for these activities remain and be reinforced through this rule making process.

Assessment Areas

The financial services industry has changed dramatically since the inception of CRA and the last regulatory updates. Advancements in technology and deregulation under the Gram-Leach-Bliley Act are two important factors that have caused many of these changes. Assessment areas should reflect these changes and be updated to mirror the current banking industry. Assessment areas should be where a bank's customer base lives and works, not just the physical location of a bank, ATMs, or branches.

Small Bank Review

The IFF believes that the definition of small banks should not be expanded or raised to include more banks. A bank with assets of $250 million or more has the resources to offer the range of lending, investment, and service products evaluated on the large bank exam. The Federal banking agencies recently estimated that complying with CRA data collection requirements entails ten hours a year of work by small banks. This is a very low level of regulatory responsibility for over four-fifths of the banking industry. Small banks themselves have commented on the ease of their CRA exams. The IFF believes the small bank test should be made more rigorous. It should include investments in or loans to CDFIs as a CRA eligible activity. In addition, a small bank's partnerships with a CDFI should be given high marks as CRA activity. This would encourage banks to invest in CDFIs to further their goals.

The IFF appreciates the opportunity to comment on the Community Reinvestment Act and would like to reiterate the important role CRA has held in building the CDFI community and organizations like ours. We sincerely hope that this rule making process is used to clarify and strengthen effective regulations.

Sincerely yours,

Trinita Logue
President and CEO