

**Remarks by
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Before the
National Community Investment Fund's Annual Development Banking Conference
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Thank you, Saurabh, for that very kind introduction. I'm delighted to be back in Chicago today to participate in your 10th Annual Development Banking Conference.

Since its inception, the National Community Investment Fund has brought together leaders in the arena of community development finance to discuss promising ideas and best practices. In the 10 years you have been holding this conference, assets of banks and thrifts that have CDFI Fund certification – institutions that I will refer to collectively as community development banks – have grown 170 percent to \$16.2 billion. Today, 63 banks and thrifts – and hundreds of other organizations – are certified as CDFIs¹ — quite an achievement considering that the concept of a certified CDFI didn't even exist until 15 years ago.

I would like to spend a few minutes discussing your industry's many accomplishments and the challenges that lie ahead. I also want to highlight some of the federal resources available to help you serve economically distressed communities by providing much needed banking products and services.

Community development banks are working to help revitalize communities and I am keenly aware of the vital role that you play in building the financial and economic infrastructure that supports more vibrant, sustainable communities.

- You mobilize capital to rehabilitate affordable rental properties, construct community facilities, and tackle the more complex tasks of partnering with public and private sector entities to finance and develop subsidized projects.
- You provide savings and credit products to previously unbanked and underbanked customers and offer financial services to help people purchase homes and start or expand their businesses.
- You combine innovative products and services with passion and commitment to help your communities and make a real impact in neighborhoods across the country.

Clearly, you are making a difference to low-income communities. The National Community Investment Fund reports that 58 percent of the home lending of the average community development bank was in low-income communities² and an impressive 72 percent of deposit-taking branches were in low-income communities.³

The OCC continuously highlights your good work and the success of community development banks. Our print publications and online resources inform national banks about how to collaborate with community development banks. But the best way for bankers, investors, and your other potential partners to understand your success and the impact your industry is having on communities nationwide is to see your work firsthand. The East of the River community in Southeast Washington is just a few miles from the OCC's headquarters near the U.S. Capitol building. Over several decades, this community suffered as many businesses and residents moved away and property values declined.

A local community development bank recently stepped in to help stabilize the area, using New Markets Tax Credits to help finance a world-class education, arts, and recreation campus that serves as an anchor for redevelopment throughout the community. This bank also used these credits to help finance a badly needed shopping center built on the site of a closed U.S. Army base. In partnership with Washington, D.C.'s Site Acquisition Funding Initiative, which allows small nonprofits to secure control of rental properties that need rehabilitation, the bank loaned money to nonprofits using Low-Income Housing Tax Credits to redevelop rental properties.

Together, these efforts have significantly contributed to the rebirth of this community while helping to improve the bank's bottom line.

The community development bank working to revitalize the East of the River community relies heavily on partnerships with other financial institutions — in the same way you rely on partnerships to help your own communities. These partnerships provide direct capital investment and indirect financial support through your New Markets Tax Credit deals or the Low-Income Housing Tax Credit projects you finance. Unfortunately, the current economic downturn has had a negative impact on these sources of funding and investment capital for all community development financial institutions.

Previously, larger financial institutions, including Fannie Mae and Freddie Mac, were major purchasers of tax credits. However, many companies have recently reduced or curtailed tax credit investments because of diminished anticipated taxable income against which to offset these credits. As a result, Low-Income Housing Tax Credit volume in 2009 is estimated to be half the level it was three years ago.⁴

Recently issued CDFI Fund data indicates that investments in New Markets Tax Credit allocations are also slowing. In 2007, about one-third of that year's New Markets Tax Credits monies were invested in transactions within nine months of being allocated by the CDFI Fund. Last year, only 18 percent of the 2008 round of New Markets Tax Credits had been invested in transactions within the same nine-month time frame.⁵

Fortunately, Congress has taken several important steps to address some of the difficulties in the tax credit market. In August 2008, Congress enacted a number of provisions in the Housing and Economic Recovery Act to increase the program's appeal to investors by changing the tax rules governing Low-Income Housing Tax Credits. These changes allow the credit to be claimed against the IRS's Alternative Minimum Tax. In addition, these revisions eliminate the requirement of posting a bond with the IRS when credits are transferred, making it easier to buy and sell these credits in the secondary market.

In addition, the American Recovery and Reinvestment Act of 2009 provided approximately \$5 billion in funding to help restart stalled Low-Income Housing Tax Credit projects through the Tax Credit Exchange and Tax Credit Assistance programs. The Exchange Program provides cash that can be infused directly into developments, while the Assistance Program provides grants to housing finance agencies that require additional funding to complete their unfinished tax credit projects.

On the capital side, in order to increase the lending capacity of all types of CDFIs, Congress increased the appropriation for CDFI awards to \$160 million and temporarily waived the matching funds requirement for CDFI Financial Assistance monies. In addition, 14 community development banks have utilized \$110 million of TARP Capital Purchase

Program funds to strengthen their capital positions and their capacity to lend to businesses and consumers.

Also, the President recently announced a new program to provide low-cost capital for CDFI Fund certified community development banks and credit unions to expand capital for small business lending and economic development targeted to low-income communities or underserved populations. Applicants may request capital infusions that would require dividend payments at a two percent rate for up to eight years, after which the rate rises to nine percent. Community banks with assets less than \$1 billion that submit plans to increase small business lending are also eligible to apply for this new capital at an initial dividend rate of three percent, compared to the five percent dividend available under the original Capital Purchase Program. The dividend rate on capital infusions for these community banks would rise to nine percent after five years.

The Treasury Department will also be considering options for current Capital Purchase Program participants who may want to replace existing capital with investments under the new program. Treasury will consult with stakeholders in the banking and small business communities to finalize program terms and make sure the final program design produces the desired result — fostering more lending to small businesses.

The OCC and other bank regulators have also taken several steps over the past few years that we believe will help increase the flow of capital to CDFI banks and support the market for tax-credit transactions.

One area of particular interest for me has been the expansion of the national bank public welfare investment authority, which has helped national banks make more than \$25

billion in public welfare investments over the past decade. Under this authority, banks can make loans and equity investments in community and economic development projects. These public welfare investments can include capital stock purchases in community development banks, as well as a range of tax-credit investments, including the New Markets and Low Income Housing Tax Credits. These investments benefit low- and moderate-income individuals or areas and areas targeted for redevelopment by a governmental agency.

In 2005, some national banks making these investments approached the statutory cap limiting such activities to 10 percent of a national bank's capital and surplus. The OCC strongly supported a change in the law that increases national banks' public welfare investment authority from 10 percent to 15 percent of a national bank's capital and surplus. Congress approved this in the 2006 financial institution regulatory relief legislation.

The OCC and the other bank regulatory agencies also have taken a number of steps under the Community Reinvestment Act to encourage community development investments. As you know, the CRA rules provide that banks that make tax-credit investments, including the New Markets and Low Income Housing Tax Credits, or that make loans to or investments in CDFIs, may receive CRA consideration for these activities. To encourage broader community development activity, the rules also provide that banks may receive favorable CRA consideration for community development loans and investments that benefit a statewide or regional area that includes the bank's assessment area.

Demonstrating the benefit to these areas can sometimes pose a challenge to banks, particularly when the investment is in a nationwide fund. So, the agencies recently clarified the Interagency CRA Questions and Answers to provide banks with several options for how to show that an investment in a nationwide fund meets the geographic requirements in the rules, including best efforts documentation, and earmarking. Most important, we explained that the agencies will employ great flexibility in reviewing information provided by banks to support this determination.

Some have suggested that as a way of expanding community development activities during this time of economic stress, bank regulators go even further by giving banks CRA consideration for community development investments and loans made in distressed areas, even if they are outside the banks' traditional statewide or regional area that includes its assessment area.

A core principle of the Community Reinvestment Act is that banks lend, invest, and provide financial services in the areas where they take deposits. These areas are a bank's CRA assessment areas. Thus, under current law, finding a basis to provide CRA consideration for out-of-assessment area loans, services and investments is very challenging.

In the aftermath of the 2005 Katrina and Rita hurricanes, the regulatory agencies recognized the widespread impact of those natural catastrophes and allowed CRA consideration for bank investments in designated disaster areas, even for areas outside of banks' assessment areas or a broader statewide or regional area that includes the assessment

area — provided banks adequately met the CRA needs of their assessment areas.

Regulators allowed this special consideration until 2008, then extended it until 2011.

Is the situation today comparable in low – and moderate- income areas hard-hit by current economic conditions with widespread impact? Could a similar approach be used to encourage capital flows into community development activities in those areas, even if they are outside banks’ currently allowable geographic limits? How could such an approach help address temporary economic distress and further buttress community and economic development efforts that are underway using the tools provided in the stimulus bill and other recent legislation? We are very interested in your thoughts on how such an approach could be crafted.

I would like to conclude by commending the National Community Investment Fund for your efforts to advance the professionalism and capacity of all community development organizations. Your work demonstrates that mutually beneficial community development partnerships can result in good, safe, and sound business transactions that are sustainable and profitable.

Thank you once again for inviting me to be with you today.

¹ National Community Investment Fund and Community Development Financial Institutions Fund (data as of June 30, 2009).

² “The CDFI Banking Sector: 2008 Annual Financial and Social Performance,” National Community Investment Fund, 2009.

³ National Community Investment Fund and FDIC Summary of Deposits database (data as of June 30, 2008).

⁴ “Low Income Housing Tax Credit Investment Survey Prepared for Enterprise Community Partners, Inc. and Local Initiatives Support Corporation,” Ernst and Young, October 2009.

⁵ “NMTC Qualified Equity Investment Report,” Community Development Financial Institutions Fund.