Remarks by

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to the

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Good morning. I'd like to begin by thanking Benjamin for that kind introduction and express my appreciation for his advocacy on housing and economic development issues. ANHD has proven itself as a national thought leader, and I also want to give special thanks to Benjamin and the ANHD staff for engaging constructively with the OCC on local community development issues and more broadly on national public policy. ANHD has built this active local coalition of nearly 100 Community Development Corporations and community-based organizations and is a model for strategic community development that is worthy of replication in other cities. It's a pleasure to speak to a group whose members represent such a broad cross-section of community-based organizations here in New York.

I also want to acknowledge the efforts of everyone here today, because I know that revitalizing communities is challenging. In partnership with banks, your collective efforts have built or preserved over 100,000 units of affordable housing in the past 20 years. Your significant efforts and creativity are helping to turn a vision of what our communities can be into reality.

New York City is a prime example of the impact that strategic community development can have. I remember the widespread problems the city faced in the 1970s—the burnt out neighborhoods and unsafe housing conditions. This city has come a long way since then and the organizations here today should be very proud of your contributions to this turnaround.

I would like to use my remarks today to focus on how the Public Welfare Investment authority and the Community Reinvestment Act foster community and economic development. The affordable housing success story here in New York is due in no small part to the role these laws play in encouraging banks to finance affordable housing projects. As many of your organizations expand your activities beyond providing affordable housing into promoting economic development and job creation, banks' CRA activities and public welfare investments can serve as an equally supportive influence in this sphere.

Since the early 1960s, the OCC has focused on finding ways for banks to make equity investments in job-creating projects. Although perhaps less well known than CRA, the Public Welfare Investment authority is a special provision in the banking laws that allows national banks to make equity investments in projects that meet certain criteria. Federal savings associations have similar authority to make community development investments. Under the regulations governing these programs, banks and federal savings associations can invest, up to specified limits, in affordable housing, as well as community and economic development projects that primarily benefit low- and moderate-income individuals or areas.

A recent ANHD report describes examples of inner city projects in which abandoned and underutilized industrial and commercial properties were repurposed into hubs for job creation. The Public Welfare Investment authority may provide a vehicle for national banks to invest in projects that create new jobs and revitalize communities. In fact, last year a number of public welfare investments in New York City involved economic development projects—these bank investments brought new grocery stores to the Bronx and Brooklyn; rehabilitation of a vacant former courthouse in Queens into space for healthcare providers, new construction of an office, retail, and hotel building in the Bronx; and the redevelopment of a large industrial building in Brooklyn into space for 14 small- and mid-sized businesses engaged in small-scale food and beverage manufacturing.

Investments made under the Public Welfare Investment authority have grown from a modest beginning to fairly robust amounts today. Over the past ten years, cumulative public welfare investments have totaled over $70 billion. And last year alone, banks invested $11.4 billion in public welfare investments. The Public Welfare Investment authority enjoys significant public policy support. Several years ago, Congress increased the percentage limit on banks' public welfare investments, and more recently, Congress reaffirmed its commitment in this area by exempting public welfare investments from the Volcker rule in the Dodd Frank Act.

The more well-known Community Reinvestment Act encourages banks to help meet the credit needs in their communities, including low- and moderate-income neighborhoods. Beginning with the first CRA regulations promulgated in 1978, "participation in local community development and redevelopment projects or programs" was included as one of the 12 factors for assessing bank performance in meeting their CRA obligations. The 1995 amendments to the CRA regulations formalized the "Investment Test" for large banks with over $1 billion in assets.[1] As bankers gained experience many started to think more broadly about community development opportunities.

[1] Beginning in 2007, the asset threshold for large banks has been adjusted annually based on the change in the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers. Effective January 1, 2015, the asset threshold for large banks is $1.221 billion.

Banks finance community development projects for many reasons—it makes economic sense, the legal authority to make a loan or investment is clear, and there may be an opportunity for CRA consideration. One message we hear repeatedly from banks is on this third point—they want more clarity regarding CRA consideration for community and economic development activities. We often hear anecdotally that if CRA consideration is uncertain, banks are less likely to test uncharted waters, particularly given the ever-increasing complexity of community and economic development.

Providing well-defined guidance so banks know the rules of the road is one of OCC's goals as a regulator. So the OCC has been working for several years with our sister regulatory agencies to clarify the Interagency Questions and Answers Regarding Community Reinvestment. In late 2013, we finalized new community development guidance, and last September we proposed changes to the CRA guidance focusing on economic development.

The definition of community development in the CRA regulation sets out five types of activities that qualify for consideration, one of which addresses economic development. Currently the CRA Questions and Answers clarify what economic development activities may receive consideration by explaining that the concept of community development involves both a "size" and a "purpose" test. To meet the "size test" a small business must fall within the size eligibility standards of certain Small Business Administration programs or have gross annual revenues of $1 million or less. The CRA Questions and Answers currently go on to explain that activities satisfy the "purpose test" if they support permanent job creation, retention, and/or improvement <u>and</u> the activities benefit either 1) individuals who are <u>currently</u> low- or moderate-income, 2) low- or moderate-income geographies, or 3) areas targeted for redevelopment. In addition, certain categories of loans or investments are presumed to meet the purpose test, such as transactions involving New Markets Tax Credits.

With that explanation as backdrop, let me be a bit more specific about the changes we are considering. We have heard that the current purpose test may stymie economic development activity. In some instances, the phrase "<u>currently</u> low- or moderate-income" has been interpreted as limiting CRA consideration only to economic development activities that support low-wage jobs. Another concern is that our current CRA guidance may inhibit banks from providing financing to micro-lenders and financial intermediaries that assist start-ups. This is because until these entities begin lending to potential new businesses, banks cannot demonstrate that either jobs will be created for individuals who are <u>currently</u> low- or moderate-income, or financing will be provided to businesses located in LMI areas.

To address these concerns, our proposed guidance adds more detail and provides additional examples of activities that "promote economic development." The proposal explains that the creation or development of small businesses, or providing technical assistance or supportive services for small businesses, such as shared space, technology, or administrative assistance may be considered as promoting economic development. Another proposed illustration clarifies that CRA consideration may be available for loans to, or investments in, federal, state, local, or tribal economic development initiatives that create or improve access by low- or moderate-income persons to jobs. The proposal also adds loans to or investments in Community Development Financial Institutions that finance small businesses to the list of activities that are presumed to support economic development.

The agencies are currently reviewing the many public comments we received, including the thoughtful comment letter that ANHD submitted. Our efforts to clarify CRA consideration of economic development activities are intended to encourage bankers to venture beyond their comfort zones and consider investing in more innovative economic development projects. We certainly want to remove ambiguity and offer more precise examples of community and economic development activities wherever we can. Our hope is that by doing so, banks will increase their community development activities, which will, in turn, create jobs and spur economic development in LMI and economically distressed communities in New York City and across the nation.

I would like to close with one more point. To develop the best strategy and bring good ideas to fruition, banks have to appreciate local economic dynamics and understand what their community wants. Consulting local community and governmental leaders to elicit their views on critical community needs may be a helpful first step in a bank's community development planning process.

The CRA evaluation process acknowledges and formalizes the importance of considering community needs. CRA examiners review a broad range of economic, demographic, and institution- and community-specific information to understand an institution's "performance context." ANHD does a very thorough job of describing community development opportunities in its annual report on the "State of Bank Reinvestment in New York City." As OCC examiners prepare for a CRA evaluation, they consult with the OCC District Community Affairs Officer and consider information, like the ANHD report, that can help them to understand the local community development context. The report can also be helpful to bankers who can consider the information compiled there or even meet with ANHD to discuss the report's findings.

As the CRA evaluation process progresses, community input plays an essential role. The OCC's District Community Affairs Officers conduct interviews with local community, civic, and government leaders in order to gain broader knowledge and background regarding the local community, its economic base, and community development initiatives. Community Affairs staff make these community contacts to solicit views on how a bank is meeting community credit needs. In fact, our local District Community Affairs Officer, Denise Kirk-Murray, is here today, so I want to point her out to you. Just last month, Denise co-hosted a listening session in the Bronx along with our fellow bank regulatory agencies, and ANHD members attended and provided their input about local needs and opportunities.

But you don't need to wait to hear from us. Every quarter we post upcoming CRA evaluations on the OCC's Web site. If you have an opinion about how a bank is serving community credit needs, write a letter and request that it be included in the bank's CRA file for the examiner to review at evaluation time. Also, we encourage bank officials to meet and exchange views on critical community needs with local community and governmental leaders as an ongoing part of a bank's community development planning process.

Finally, on a general level, OCC's Community Affairs Department devotes a good deal of energy to developing materials and meeting with bankers to broaden awareness of CRA and the Public Welfare Investment authority. Our publications highlight innovative CRA activities and describe best practices for a wide range of public welfare investments.

In closing, I want to commend ANHD and the groups represented here today for your efforts to spur economic development. Thank you again for this opportunity to speak here today. I would be glad to take questions now.