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Good afternoon, my name is Nancy Andrews, and I am President and CEO of the Low Income Investment Fund (LIIF). Thank you for holding this hearing and for inviting me here today to provide my comments. LIIF is a leading national community development financial institution (CDFI) that invests capital in low income people and communities. Since its founding in 1984, LIIF has invested over $900 million in projects serving highly distressed neighborhoods and people. These investments have supported more than 825,000 people, provided over 72,000 jobs, leveraged $5.4 billion in additional capital, and generated $17 billion in family and societal benefits. Much of this impact can be traced to the innovation and partnerships fostered by the Community Reinvestment Act (CRA) since its inception 33 years ago. Going forward, the community development industry will require a strong, vibrant and up-to-date CRA to continue to support America's communities and economic health, particularly in the context the current financial and economic challenges.

LIIF and several other community development organizations testifying today and at previous hearings sent a joint letter in December requesting that you commence a review to update the CRA regulations. To that end, I want to applaud the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) (collectively "the regulatory agencies") for their consideration in updating the regulations governing procedures for assessing a financial institution's performance under the CRA.

Today, I intend to comment on four aspects in need of reform: the importance of the CRA for America's economic health, strengthening financial institutions' investments in and partnerships with CDFIs, creating a separate "community development test," and increasing the focus on sustainable or "green" investment. In developing these recommendations, we have worked closely with leaders in the community capital industry including the Opportunity Finance Network, Enterprise Community Partners, the

Local Initiatives Support Corporation, the Housing Partnership Network, and others. I strongly believe that a collaborative approach to national public policy on CRA is essential as the regulatory agencies work through the public hearings and rulemaking processes.

General Observations and Recommendations: a Renewed CRA is Important for America's Communities and its Economic Health

In my own experience with community development both in the U.S. and abroad, I have observed the unique and critical role CRA has played in this country to improve the provision of credit and, by extension, the economic health of lower-income American consumers and communities. The impact of community development finance in the U.S. has been truly profound – leveraging trillions of dollars for minority and low-to-moderate-income communities and linking those communities to the broader economy by connecting private financial markets with local needs.

Over the past three decades, the CRA has fostered a robust infrastructure of support for the people and places facing the deepest economic challenges in our country. *It is of vital importance, therefore, to update CRA in light of significant changes in the financial services industry's structure, the lessons from the most recent economic downturn and our understanding of national needs.* With respect to the financial crisis, the community capital industry has watched with deep concern as a widespread tightening of credit has curtailed lending, services and investments in low- and moderate-income communities. In particular, financing for affordable housing, community facilities, small businesses and CDFIs has dropped significantly.

The community development industry faces many challenges, including diminished investor interest in low income housing tax credits and the declining efficacy of CRA to serve disadvantaged people and communities. Although CRA has been instrumental in boosting lending and investing, the neglect of certain parts of the regulation has meant that CRA has not realized its full potential. To those ends, I believe that a regulatory rulemaking should address the following areas:

Strengthening Investments in and Partnerships with CDFIs

The CRA is the lifeblood of the CDFI industry's strategy to engage mainstream banks and thrifts in the work we do. Credit has been unevenly distributed throughout our country's history. Overlooked communities needed alternative credit solutions to traditional financial institutions that often overlooked them. As a result, the current CDFI industry was created out of governmental efforts to address poverty alleviation and racial discrimination. Before the CRA, community development organizations expanded their funding through private sources and federal funds from the Department of Housing and Urban Development, the Economic Development Administration, and the Department of Agriculture. The revised CRA regulations in 1995, which explicitly recognized loans and investments in CDFIs as a qualified CRA activity, led to a dramatic expansion of the industry with a growing record of success. This track record has inspired confidence in the community capital industry and attracted new sources of support and funding.

Investment by mainstream banks and other capital investors in CDFIs has been a consistent success in good and bad economic times. Working with CDFIs has been a win-win strategy for the financial services sector by providing a way for them to reach hard-to-serve market niches and support innovation in the community development sector. A strong CRA is needed to engage mainstream banks and help CDFIs grow and invest in distressed communities, and any revisions to the CRA should support and encourage partnerships with CDFIs.

Regulatory considerations that encourage financial institutions to continue to invest in CDFIs will extend the reach of CRA. Today, CRA-covered institutions get uneven CRA consideration for CDFI-related activity outside of their designated assessment areas and only limited consideration for activities in assessment areas that have not received a full-scope exam. Recent revisions to Interagency Questions and Answers on CRA attempted to update this incongruity by applying a broader geographic standard for minority- and woman-owned depository institutions. However, many CDFIs (particularly national or regional ones) meet the credit needs of people and communities on a state or regional basis. This treatment inhibits mainstream banks from supporting many CDFIs that are not located directly in their markets and/or principally serve the same geography as the bank. To that end, we recommend that *all financial support provided to CDFIs be explicitly eligible for CRA consideration regardless of whether a CDFI is located in and/or serves the same service area as its mainstream bank investor(s)*. This regulatory change would support CDFIs while allowing banks to extend their reach in a broader region and receive appropriate CRA consideration for the investment.

Increase Focus and Importance of Community Development Activities

The community development field has evolved a great deal since the "lending," "service" and "investment" tests for larger banks were created in 1995. Since that time, a whole industry has arisen that successfully provides credit to low-income community projects that are either infeasible for regulated private institutions because of a perception about risk or on more favorable terms than the private market alone could provide. CDFIs, community development credit unions, community development banks, loan funds, CDCs and other socially-motivated investors finance affordable rental housing, economic development projects, community facilities like child care centers, and other projects that bring hope and jobs to low-income communities. CDFIs often enter transactions much earlier than private financial institutions can – for example during the early phase of land assembly and the prefeasibility process – proving out project viability and thus, creating a pathway for private capital to follow.

CRA, in combination with the CDFI statute, tax credits and other policies, has given financial institutions the motive and opportunity to invest in public-private partnerships with local CDCs, CDFIs and, occasionally, local governments. These partnerships then invest in economic development projects that improve the opportunities available to low income families and children. A recent example of this is the development of the Los Angeles County Housing Innovation Fund (LACHIF). LACHIF is a $60 million fund created to provide affordable housing in Los Angeles County. The county's Community Development Commission provided an initial $20 million to three CDFIs to launch the fund. Thanks to the system of carrots and sticks provided by CRA requirements, LIIF and the other fund partners were able to attract Citi Community Capital to invest an additional $20 million in LACHIF. CDFIs also matched this with their own capital, but in a higher risk position than private investors, offering them protection against capital loss. The fund launched in February and has already funded its first project to rehabilitate 45 housing units for low income seniors.

Other programs that encourage public-private partnerships include tax incentives like the Low Income Housing Tax Credit and the New Markets Tax Credit, which only work with private sector investment. Government grant programs like the Treasury's CDFI Fund and the Department of Education's Credit Enhancement for Charter School Facilities program also support these activities.

Currently, evaluation of bank activities in these areas is scattered among the lending, service, and investment tests. The dollar value of one loan to a supportive housing project that involved state and local government and a CDC can be dwarfed by a bank's volume of conventional home mortgage lending in low-and moderate income neighborhoods. Yet by bringing the private and public sectors together, the impact on local communities can be multiplied many times over. The time and complexity required by community development projects should be recognized by a separate test that examines community development as an integrated whole.

This is why *current regulations should be augmented with a new "community development test" that either strengthens or replaces the investment test.* Lending, services and investment activity in affordable rental housing, economic development projects, community facilities like child care centers and charter schools, community loan funds, microfinance loan funds, and other community development activities in low-and moderate- income communities should qualify for this test. Equity investments in CDFIs, as mentioned earlier, should qualify as well. While such activities presently qualify for CRA credit, they are swamped by the easier to make conventional mortgages. A new "community development test" would ensure that these types of high impact (but harder to make) community investments are called out and fully credited. In addition to the dollar value of the activity, how far the institution has stretched to meet community development needs should be considered as well, consistent with safe and sound lending.

Green CRA Investments

Demand for "sustainable" investment opportunities has risen considerably as communities have become more cognizant of the link between environment and health issues. LIIF supports greener facilities as a way to benefit people's health, the environment and the bottom lines of our community development partners. Last year, LIIF launched the Green Opportunity Fund (GO Fund) in the Los Angeles area. To the best of our knowledge, this is the first fund dedicated to financing energy efficiency retrofits and installations for community facilities, such as charter schools, child care centers, health care clinics and senior centers. In addition to the dedicated capital in the GO Fund, LIIF invests in LEED certified building development, transit oriented development (TOD) projects and greener child care centers in underserved communities across California and the East Coast.

Community developers often lack the financing and information to incorporate green elements into projects in low income communities. LIIF efforts aim to address this problem and allow low income neighborhoods to fully participate in the green movement. Through our work and that of many other CDFIs, we intend to demonstrate that green, affordable developments can be created for little, if any, additional development costs than conventional projects without the same benefits.

We recognize that, despite the seemingly simple objective of being more environmentally conscious, defining and quantifying these returns may take time. Therefore, *we recommend the regulatory agencies strongly consider giving CRA-covered institutions extra consideration under the "community development test," if the housing or commercial developments financed in a low- or moderate-income area are energy efficient and built according to green building standards.* Our own experience suggests that adding in an environmental overlay to CRA does not require any dilution of the low- and moderate-income focus of CRA. All lending or investments that receive credit under CRA should serve low- and moderate-income communities. What the GO Fund has taught LIIF is that green and CRA lending can be one and the same, and similar thinking should infuse the creation of a "community development test" that allows for additional consideration for green buildings that serve low- and moderate- income communities.

<u>Other Comments</u>

There are a few other areas where the regulatory agencies have asked for comments. As a member of the Opportunity Finance Network, I would like to add my support for their recommendations and those of other representatives from the community capital industry. In particular, I would like the regulatory agencies to thoughtfully consider making changes with respect to:

- Expand Assessment Areas. The geographical locations covered by CRA exams consist of metropolitan areas or counties that contain bank branches. When Congress enacted CRA in 1977, banks received deposits and made loans through branches. The current use of deposit-based assessment areas, however, has the effect of concentrating CRA's impact in many areas, but leaves other markets underserved. *A more appropriate definition of a financial institution's assessment area would be all communities where that institution offers or provides a significant (for example, at least 5 percent of the market in that area) credit products and services.*

- Inclusion of Affiliates, Particularly Mortgage Company Affiliates, on CRA Exams Today, banks have the option of including their non-depository affiliates, such as mortgage companies, on CRA exams. As such, banks have the option of including affiliates on their CRA exams. They are likely to do so if the affiliates perform admirably, but will opt against inclusion if the affiliates if it will adversely affect their rating. *We believe the agencies have the authority to include all non-depository affiliate lending on CRA exams to ensure that the lending affirmatively responds to credit needs in a safe and sound manner.*

Conclusion

Capital is a powerful engine and famously footloose. Markets are powerful and in the United States, efficient. However, markets in and of themselves do not necessarily produce equitable outcomes. There is ample evidence to show that CRA-motivated loans perform well, are safe and sound and help to soften some of the sharper edges of markets. Even if loans to affordable housing, child care centers and community schools offered commercial rates of return, their relatively small size and considerable complexity can make them unattractive for commercial financiers focused on maximizing shareholder returns and thus, seeking the most profitable portion of business activity.

This is where CRA plays its most vital role: as a bridge between capital markets focused primarily on profits, and continued capital outlays to low income people and communities. Therefore, staunch preservation and continuous regulatory enforcement of the statute in the face of an ever-changing financial services industry is of the highest priority. Doing so will enhance social stability, maximize productivity and encourage full participation of all citizens in the economic mainstream.

This concludes my testimony. Thank you for your efforts to maintain the strength and relevance of CRA. LIIF would be pleased to work with you on these complicated and difficult issues. I would be happy to address your questions.