Community Development Bankers Association

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Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 – 17th Street, NW
Washington DC 20429
Email: comments@FDIC.gov

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th and Constitution Avenue, NW
Washington DC 20551
Email: regs.comment@federal reserve.gov

Office of the Comptroller of the Currency
250 E Street SW
Mail Stop 1-5
Washington DC 20219
Email: regs.comments@occ.treas.gov

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Email: regs.comments@ots.treas.gov

RE: Docket No. OP-1248 (Board); 06-10 (OCC); 2006-01 (OTS);
Proposed Commercial Real Estate Lending Guidance

Dear Gentlepersons:

On behalf of the Community Development Bankers Association (CDBA), I wish to thank you for the opportunity to submit comments on the proposed Guidance pertaining to "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" ("Guidance"). CDBA is the national trade association of the Community Development Bank (CDB) sector. CDBs are Federal Deposit Insurance Corporation-insured banks and thrifts that have a primary mission of promoting community development. Our members serve urban and rural communities that lack access to credit and are not adequately served by the traditional banking industry. Currently, there are appropriately 50 CDBs across the nation that are certified by the U.S. Treasury Department's Community Development Financial Institutions (CDFI) Fund.

Our membership commends the Federal banking regulatory agencies for their strong commitment to ensuring the health and vitality of the nation's banking system. We are, however, very concerned about the impact the proposed Guidance may have on our member institutions' ability meet the credit needs of low income communities. Many of our member institutions provide credit to borrowers creating affordable multifamily housing opportunities and small-to-moderate scale commercial real estate projects that act as catalysts in creating jobs and in facilitating the revitalization of economically distressed neighborhoods. The projects financed by CDBs are not the type of large, upscale, speculative commercial real estate projects that have historically proven problematic to the banking industry during general real estate market downturns. Rather, CDBs finance smaller, neighborhood based commercial real estate where demand is stable and the projects less risky.

Many of our members are small banks and thrifts that will be adversely affected by the proposed guidelines due to their strong commitment to serve areas often overlooked by larger, more traditional banks. We are very concerned with the "at risk" guidelines that would apply to banks and thrifts with: (1) total loans in construction, land development or other land that represent 100% or more of capital; or (2) total loans secured by multifamily and nonresidential properties and loans for construction, land development, and other land that exceed 300% of capital. These guidelines, we believe, will further limit access to capital to low income and other already credit-starved communities. As community development finance activity has expanded over the past decade in both the traditional banking sectors, as well as among CDBs, multifamily housing and neighborhood-based commercial real estate projects have proven to perform well financially through several business cycles. These activities have proven to have lower past due and charge-off rates than large, upscale, speculative commercial real estate transactions.

We strongly urge the Federal bank regulatory agencies to amend the proposed guidelines to recognize the inherent differences between serving low income communities and other markets. Specifically, we ask that the revised Guidelines include exemptions that recognize the lower risk profile of community development lending. <u>We recommend the regulators exempt from the guidelines all transactions that qualify as Community Reinvestment Act eligible activities</u>. Alternatively, the regulators could exempt transactions with characteristics that generally describe community development activities (e.g. smaller transaction size, geographic proximity to the bank's headquarters, location of a borrower or project in a census tract that is at or below 80% of the area median income, portion of low-to-moderate income residents). We also strongly disagree with the emphasis the Guidance places on underwriting to secondary market standards. Many of the credit opportunities in low income communities do not meet standardized underwriting criteria. For example, there is little or no secondary market activity for small-to-mid sized multifamily properties or for neighborhood-based commercial properties used for retail, office or manufacturing/distribution businesses. CDBs have a proven track record in serving these nonstandard markets while effectively managing risk. Without the recommended exemptions, we believe the proposed guidelines will strongly undermine CDB's ability to serve low income markets by increasing the amount of capital CDBs must hold and increasing operating and compliance costs, both of which will increase the cost of credit to these customers. We also believe the Guidelines as currently proposed could have the unintended consequence of discouraging traditional banks from engaging in multifamily and neighborhood-based commercial real estate lending in distressed and credit starved communities.

We ask that you take our views into consideration in revising the proposed Guidelines. Without giving consideration to the credit needs of low income communities, we believe the proposed Guidelines will negatively and disproportionately impact the ability of CDBs and traditional banks to serve underserved low income markets.

We thank you for the opportunity to comment on the proposed Guidelines.

Sincerely,

Robert M. McGill
Chairperson, Board of Directors
Community Development Bankers Association