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Administrator of National Banks Supports Increased Authority for Banks to Invest in Housing, Public Welfare Investments

By Michael J. Novogradac, CPA

In a letter to the chairmen and ranking members of the Senate Banking Committee and House Financial Services Committee, Comptroller of the Currency John C. Dugan on June 6 urged Congress to adopt a provision in the House-passed version of the regulatory relief bill (H.R. 3505) that would increase the authority of banks and thrifts to invest in projects that provide housing, community services and jobs for low- and moderate-income communities and families across the country. He also urged the two committees to expand the authority to include all insured banks and savings associations.

The provision in H.R. 3505 would raise the limit on such public welfare investments by federally chartered banks and thrifts from 10 percent to 15 percent of capital and surplus. The Senate-passed regulatory relief bill (S. 2856) does not contain the measure.

In his letter, Dugan noted that community enhancing investments support critically needed urban revitalization, rural development and job creation. "They do so in a manner that is not only beneficial to the communities served, but [these investments enjoy] a solid track record of profitability and safety and soundness," he said.

National banks have made more than $16 billion in public welfare investments since the law was passed in 1992, and some banks are approaching the 10 percent limit. The enhanced authority supported by the Office of the Comptroller of the Currency would make it possible for national banks alone to invest as much as $30 billion to revitalize communities across the nation.

The increased authority, Dugan wrote, is "strongly supported" by the banking industry and community development organizations and has the potential to support the $30 billion in aggregate private investment from national banks thereby helping to revitalize communities throughout the nation. "For this reason, and because the enhanced authority will be supervised and exercised in a safe and sound manner, I strongly support the inclusion of such enhanced authority for national banks and federal savings associations in any final regulatory relief legislation that passes the Congress," Dugan wrote. He also said he supports providing the same enhanced authority to state-chartered banks and savings associations.

Historically, the investments made by banks under the existing authority have provided housing, community services and jobs with many investments made in low-income housing tax credit (LIHTC) projects, historic rehabilitation tax credits and new markets tax credits. As those of us in the industry know, these investments enjoy a solid track record of profitability, safety and soundness and support critically needed urban revitalization, rural development and job creation activities that serve economically disadvantages communities.

Dugan cited the following as some examples of projects supported by national bank investments:

- Birmingham Community Development Corporation that makes loans to and investments in disadvantaged businesses
- Anchorage's Loussac-Sogn Apartments that provide single-room occupancy housing and support services for low-income individuals.
- Arizona MultiBank Community Development Corporation that provides financial and technical assistance for affordable housing, small business development and economic development.
- Little Rock Housing Redevelopment that built a 60-unit mixed-income affordable housing project using LIHTCs that were syndicated through the National Equity Fund 2003.
- Bay Area Smart Growth Fund of San Francisco that invested in 46 low- and moderate-income neighborhoods in the San Francisco Bay Area.
- Denver's Funding Partners for Housing Solutions that helps provide gap financing for affordable housing development projects serving low- and moderate-income individuals.
- Delaware Community Investment Corporation that provides permanent financing and investment equity for affordable rental housing and commercial facilities, as well as bridge loans and site acquisition loans for enterprises that provide services to

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underserved communities.

- CF New Markets Advisors that will use new markets tax credits to provide debt and equity financing to support the development of urban retail, office, industrial, mixed-use, for-sale housing and community facility projects.
- Black Business Investment Fund that operates in eight Florida cities and specializes in aiding minority business owners in building their management capacity and in accessing capital.
- Omni Community Development Corporation of Atlanta that acquires and rehabilitates residential properties in low- and moderate-income areas.
- Great Lakes Capital Fund that invests in LIHTC-funded affordable housing projects.
- Coastal Ventures of Maine is a community development financial institution that provides support in the development of job-creating small businesses, natural resource industries, community facilities and affordable housing.
- Raymond James Native American Tax Credit fund that invests in LIHTC-funded affordable housing projects located on or near Native American reservations, sponsored by Native American tribes or their affiliates.
- Oregon Equity Fund that provides equity for the state's affordable housing projects using the LIHTC.
- Omni Development Corporation that built Waterview Apartments — a 100-unit affordable housing project for senior citizens in Rhode Island using LIHTCs that were syndicated by the National Equity Fund.

Many investments like those listed and that are made under this authority help national banks meet their Community Reinvestment Act obligations. Recently, those banks that have wanted to expand their community development investments and enhance their CRA performance have placed these investments on their books faster than their capital has expanded, thereby, Dugan wrote, causing a number of them to move closer to and in some cases reach the current 10 percent limit.

The issue is also pertinent at the state member bank level. Dugan notes that these banks, supervised by the Federal Reserve Board, operate under comparable statutory authority to make investments designed to promote the public welfare. He writes that in a recent letter Federal Reserve Board Chairman Ben Bernanke stated that the Fed interprets this authority the same way the OCC does and supports increasing the statutory limit on the aggregate amount of public welfare investments that national and state member banks may make. "We agree and we support provisions to expand such public welfare investment authority for all insured banks and savings associations," Dugan wrote.

The LIHTC and community development industries will do well to support the adoption of the language of the House-passed version of the regulatory relief bill (H.R. 3505), which will increase the flow of important and needed community development investments thus benefiting the country's economically disadvantaged communities and families.