Testimony of Thomas Bledsoe
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"CRA Rules and Distressed and Underserved Areas"

I want thank you very much for allowing me to testify today on the upcoming effort to modernize the Community Reinvestment Act (CRA). My name is Tom Bledsoe and I am the Chairman and CEO of the Housing Partnership Network (Network).

The Housing Partnership Network is a business collaborative comprised of 99 housing nonprofits located in 33 states and the District of Columbia. The Network is comprised of the nation's leading nonprofit Community Development Financial Institutions; low-income housing developers, owners, and managers; and housing counseling agencies. What distinguishes the members of the Network is their ability to operate at scale. Additionally, most of these successful organizations are built on a "housing partnership" model. They are successful because they work in partnership with the public, private, and civic sectors in their communities. They are also successful because they operate as social enterprises: first, and foremost serving low-income people and communities, but also running their organizations based on business principles. Most of these groups seek to have their new activities pay for themselves and they drive to sustain their operations from earned income over the longer term. My colleague, John O'Callaghan, who is here with me on the panel today, leads the Atlanta Neighborhood Development Partnership. ANDP was a founding member of the Housing Partnership Network and is a stellar example of our partnership-styled organizations.

I am also testifying today as the Chairman of the Board for the Gulf Coast Housing Partnership (GCHP). The Gulf Coast Housing Partnership was formed behind the receding waters of Hurricane Katrina. In response to this incomparable disaster, the members of the Network and the Gulf Coast community saw the need to establish a high-performing non-profit with the ability to make an immediate and significant impact. The model for GCHP came out of the best practices of the Network's members. It is focused on acquiring capital at the Enterprise level that provides the agility needed in the short run while ensuring the sustainability of the organization in the long run. We founded GCHP with a $250,000 working capital grant and a $2 million equity investment from the Housing Partnership Network. These contributions leveraged a $2 million subordinate loan from Enterprise Community Partners, and an additional

$26 million of debt from private financial institutions, including national and regional banks, GSEs, and foundations.

In four short years since its creation in 2006, GCHP has emerged as a strong, regional non-profit development company with net assets exceeding $8.5 million. To date, the GCHP "production-in-partnership" model has:

- Generated a production portfolio representing 1,594 units of housing of which 1,200 units are completed or under construction;
- Created 20 community development partnerships; and,
- Leveraged more than $225 million in Gulf Coast affordable housing and community development project financing resources.

Based on our experience working on the Gulf Coast and in other communities around the nation, I would like to focus on how CRA could work better for underserved or distressed areas, and regions.

The housing and community development field has learned many lessons over the years and continues to learn and evolve. The recent financial crisis has sharpened some of our understandings about what works and what does not work. Some of the most important lessons are now embedded in the business practices of our members. We can no longer ignore the fact that our nation's housing policies overemphasized homeownership and that we need to achieve a better policy balance in our support for homeowners and renters. Most low-income households are renters. We are also learning that successful housing happens in a community context and successful affordable housing developments are critical for the health of a community and its residents. Affordable housing is a platform for the success of low-income people. The members of our Network are working to make sure that low-income housing provides its residents with access to decent jobs, transportation options, and the wide array of other important services in a healthy community – good schools, quality grocery stores, and accessible health care. And, we increasingly understand that we must look at affordable housing and community development on a regional or metropolitan basis. We must develop mechanisms to ensure that affordable and workforce housing are located where the jobs are and/or linked to transportation systems in order to ensure the economic growth of the region and the success of its lower-income residents.

In support of your efforts to revisit the CRA regulations, I would like to suggest several changes that would reflect these insights:

- First, I would like to recommend that the new rules create a Community Development test that would emphasize financial institutions' lending, investments, and services in support of affordable rental housing, community facilities, and other essential community services. In distressed and underserved areas these activities are the building blocks to a better future. It is important that the new test go beyond just measuring the number of loans or dollars invested, but it should also measure the quality of the investment, its relevance to community needs, and its impact in the community.

- Second, I would like to propose that the new regulations provide incentives to financial institutions to address national housing and community development priorities. The responsibility to address these national priorities should fall particularly on the largest financial institutions whose businesses extend well outside those places where they take deposits and on those financial institutions that do not have a bricks and mortar, branch based deposit-taking system.

  How do we create incentives for banks to invest and lend in underserved and distressed places – places like the Gulf Coast or the credit deserts? How do we bring outside capital to those places where the scale of the community development challenges exceeds the capacity of the local financial institutions?

  To start, the regulators could create a mechanism that looks at the geographic coverage of all regulated financial institutions' assessment areas, and use the CRA rules to provide incentives and rewards for those banks that are willing and able to lend, invest, and serve those places where that coverage is limited or nonexistent. There are too many places in America, from the older cities that used to rely on a manufacturing economy to the high-poverty rural areas that are credit and equity starved. CRA can help to encourage greater private investment in these places. These investments will also serve to foster the growth of stronger community development organizations in those same places. We would support some form of extra credit to financial institutions willing to invest in particularly tough places or to take on particularly difficult community development challenges, like the rebuilding of the Gulf Coast.

  CRA should encourage all banks to serve national priorities outside their assessment areas. Apropos of our experience with the Gulf Coast Housing Partnership, CRA should reward a financial institution for stepping up with capital to help rebuild a community after a large scale disaster. We note that the regulators have proposed to give CRA credit to banks that invest in neighborhood stabilization activities – even if these occur outside of the financial institution's assessment area. The foreclosure crisis is a national disaster of a different sort, the response to which is appropriately supported by CRA.

Other national priorities might include bank participating in highly-complicated specialized lending and investment activities such as affordable housing preservation, supportive housing for the homeless, or transit-oriented development. These needs occur all over the country. The complexity of the financing and subsidy mix puts these activities outside the comfort zones of many financial institutions. National banks that do develop this capacity and expertise should be rewarded through CRA.

- Finally, we would like to suggest that in the time since the CRA rules were last updated, the nonprofit sector has grown up considerably. There have emerged a group of high-performing nonprofits who can operate at scale, across the entire country or the region in which they are located. These organizations are mission driven and have developed strong partnership relationships with financial institutions, the business community, and local government. Given their capacity, they can and do serve as strong counterparties to the banks in doing the work in low-income communities that CRA was designed to encourage.

  What these strong nonprofit institutions most need to grow and sustain their businesses, *and increase their impacts*, is access to equity-like capital at the corporate level that they can use to leverage additional private capital for development projects. Investing in these institutions is investing in a more efficient housing and community development delivery system, one that has the scale and ability to tackle increasing tougher challenges that are occurring across regions. We would strongly urge that the final CRA regulations provide banks with full credit for their investments in these nonprofit entities whose missions are to serve low-income populations and low-income communities, and who are, like the Gulf Coast Housing Partnership, making a major contribution toward meeting their communities' needs.

Thank you again for letting me appear before you today; I look forward to your questions.