Changes to the Community Reinvestment Act

Ways to Bolster Affordable Housing Production

Respectfully Submitted for Consideration to

The Federal Reserve Bank of Atlanta

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Louisiana's Unique Context—

The Community Reinvestment Act was originally intended to encourage depository institutions to help meet the lending needs of the communities in which they operate, especially low and moderate income neighborhoods that had suffered from long-term disinvestment from redlining. While the CRA has certainly increased lending in these communities, anyone working in community development today knows that there is still much work to do and that low income communities, and in particular communities of color, still do not have access to a full range of banking services.

In Louisiana, we are not only suffering the impact of the larger national tightening of credit and financial services, but our communities are still recovering from four hurricanes and now a disastrous oil spill in the Gulf of Mexico. While these disasters impacted many communities across the Gulf region, those with the fewest resources have experienced the greatest difficulty recovering.

In Louisiana, more than 122,000 homeowners and 82,000 renters suffered major or severe damage to their homes in the wake of Hurricanes Katrina and Rita. In addition to a shortage of construction materials, construction workers and insurance premium increases, the rebuilding of rental units has been stalled by the lack of equity investors in LIHTC and by the inability of smaller landlords to obtain construction loans due to stricter underwriting requirements.

Although over 150,000 homeowners received funds to rebuild, many homeowners are woefully short of funds to complete their rebuilding efforts and are unable to obtain lines of credit to finish the job. First-time homebuyers also struggle to find properties priced within their purchasing power; and blight is at an all time high, especially in New Orleans where so much of the damage was concentrated. In the city, over 60,000 properties are blighted and in need of conversion back into viable housing units or turned into other community uses.

And while the southern part of the state may have somewhat escaped the foreclosure crisis, a meticulous risk assessment has not been released on persons with mortgages affected by the BP oil spill, the rest of the state did not. Vacancy and blight are contributing to neighborhood deterioration in metropolitan and rural areas throughout the state. Even though the state has received NSP funds in round 1 and 3 to help bring these properties back into commerce, traditional down payment and underwriting requirements are hampering efforts to sell homes to the targeted population. So, although the foreclosure crisis has not hit Louisiana as hard as other places, we certainly can relate to the blight that is an unfortunate but ultimate outcome.

Finally, Louisiana has one of the lower homeownership rates in the country. This is partially due to a lack of available product for lower income families. There is a large need for single family homes to meet buyers who are in the 80-120% AMI bracket. Also, nearly every week the LHFA is approached by a local jurisdiction or non-profit looking for up front dollars to get affordable homes built either through rehabilitation of blighted properties or new construction.

Other Critical Issues—

With Fannie and Freddie affectively sidelined, the global financial crisis has raised the CRA need bar significantly higher; especially given the disastrous BP oil spill. Provided investors can be found, developers are struggling to complete projects with 40% less equity. With fewer healthy investor institutions in the market, banks that have invested are concerned about the loss-risk associated with the concentration of their investments in the Gulf region. Hence investor appetite has waned;

and national and multi-regional banks are focusing on major metropolitan areas and not small, rural markets like Louisiana.

To add to the problem of finding viable investors, there is a lack of construction financing for single family homes. First time home buyers continue to lack sufficient credit history to obtain mortgage loans. Consumer credit scores are lower for those unfortunate enough to have gotten behind on installments loans. The required minimum 620 FICO score has locked modest-income buyers out of the current low interest rate environment. Purchase and refinance options are limited; and first-time homebuyers are struggling to find properties priced within their purchasing power. The biggest heartbreaker of all is that GO Zone and disaster credits are not yet eligible for exchange under section 1602 of ARRA.

While we applaud Congress for allocating $170 million in Gulf Opportunity Zone LIHTC to Louisiana to help rebuild much of the lost rental housing stock post-Katrina, the scarcity of investors caused by the global capital market crisis has made rebuilding even more difficult. We are experiencing difficulty attracting investors because few major banks need CRA credit in the Gulf region. Moreover, the special guidance issued to allow banks nationwide to receive CRA credit for GO Zone tax credit investments did not result in the greater syndication of credits. There are still $40 million in GO Zone credits in need of equity investors.

In the current LIHTC market, without the presence of Freddie and Fannie, whose share was nearly 40 percent, national and multi-regional banks have been left to fill the void. Unfortunately, most of these institutions focus their investments in major metropolitan areas and not markets such as smaller metropolitan and rural areas as is found in Louisiana. Moreover, the institutions which have invested are no longer investing due to risk-based market saturation concerns.

Extend CRA Requirement to certain non-bank industries—

There are a few basic changes to CRA regulation that could help boost investment in our markets. Overall CRA reform needs to help regional and large local banks make LIHTC investments. These institutions do not have the capacity to directly invest in a LIHTC development and must be part of a larger fund. Due to uncertainty around how CRA credits will be apportioned to investors in such funds, however, regional and local banks are hesitant to join in. Accordingly, greater clarity needs to be brought to the policies surrounding this issue.

Additionally, consideration should be given to encouraging regulated institutions to invest in areas outside of their markets and greater CRA credit given to those institutions that do; especially if such investments are made in rural and disaster areas of the state.

Another way to help address these needs is to expand CRA requirements beyond depository banks. For example, by including insurance companies, credit unions, investment banks and broker-dealers, community development finance would benefit from new products available from these institutions. Just as CRA has encouraged other banking institutions to develop products that help meet the needs of low-income consumers and communities, extending CRA to investment banks and broker-dealers could help toward the invention of innovative community lending products. For example, financial products and services could be developed to help non-profits and businesses better deliver their unique services to low income neighborhoods.

Also, while outside of the current regulatory parameters of CRA, consideration should be given to extending CRA requirements to heavy industries such as oil and natural gas producers, refineries, chemical plants, forestry industry, ports and mega farming and food producers. Given the impact that the current oil leak in the Gulf has had on Gulf Coast communities, it is time to take a proactive stand in requiring industries which exploit the nation's natural resources, earn huge profits from such exploitation, and place communities at risk, to invest in their host communities. As the majority of heavy industry is located in rural areas, extending CRA requirements to such businesses can secure and bridge the LIHTC investment gap in difficult to finance rural communities; purchase single and multifamily mortgage revenue bonds and invest in State and local Housing Trust Funds.

Recommendations to Enhance CRA—

In general, CRA requirements should be extended to: (a) non-bank industries; (b) provide a greater range of investment opportunities for earning CRA credit; and, (c) support our national fiscal and job growth recovery efforts.

In this regard, CRA credit should be given to banks whose lending and investment supports the following: (1) new ARRA programs; (2) non-profits and small businesses working toward returning foreclosed properties to commerce; (3) the offset of legal costs associated with fair housing litigation; (4) fair housing centers in areas where NIMBYism is on the rise; and, (5) blight mediation and the return of properties to commerce.

In addition to extending the CRA regulatory requirements to heavy industry, insurance companies, credit unions, investment banks and broker-dealers, reform needs to focus on encouraging regional and large local banks to invest in (1) 4- and 9 percent LIHTCs; (2) single family MRB transactions for persons with FICO scores that range from 540 to 620; (3) single family home construction loans; (4) small businesses and nonprofits delivering rebuilding or counseling services to home buyers and special needs populations earning less than 60% of AMI; (5) the variety of new programs flowing from ARRA, such as the NSP, energy efficiency and weatherization programs; and (6) helping state and local jurisdictions to establish Green industries.