Beyond CRA: Community Lending as Much About Profits as Compliance

By Jerry Ascierto, Affordable Housing Finance Magazine, February 8, 2012

For many banks, affordable housing finance is not just about compliance anymore.

The Community Reinvestment Act (CRA) was signed into law 35 years ago to ensure that banks would lend in the lowest income neighborhoods. Before then, some banks would draw a red line around the worst areas of town on a map, and refuse to lend within that circle. CRA eliminated "redlining" with a simple premise: If banks are taking deposits from an area, they have an obligation to lend there too.

But as the low-income housing tax credit (LIHTC) industry matures, community development has become more of a business decision than a regulatory consideration. Many large banks, whose affordable housing strategy had been driven by compliance in the past, are now stepping outside of their CRA footprints to reap greater profits.

"The business has proven out to be successful, and one that has opportunity to grow. But to grow the business, we need to move outside of our footprint states," says Ed Sigler, head of community development real estate at New York-based JPMorgan Chase Bank. "There are places like Boston, Minneapolis and Nashville where we're not currently active, because they're not part of our footprint, but we think they're good markets and there are good deals there."

The bank grew its affordable housing volume by more than 11 percent last year, recording about $1.19 billion in new originations, up from $1.06 billion in 2010. And a stream of new products has fueled that trajectory. In mid-2010, JPMorgan Chase rolled out its first construction-to-permanent loan program for 9 percent LIHTC deals, and last year it began offering a similar product on taxable and tax-exempt bond deals as well.

The bank is happy with its penetration in the CRA hot spots in which it lends. But those same major metros don't have an endless well of good affordable housing deals—prompting the firm's wandering eye.

"We have a decent share of the pie within our markets, and so rather than go too far down the market, it might be a better strategy from a business point of view to look outside of the market," says Sigler.

Like Chase, U.S. Bank is hoping to increase its community development lending operations—not because it has to, but because it wants to. The bank has been actively marketing a joint debt and equity execution outside of its existing CRA footprint.

"Meeting and exceeding our CRA goals will always be important," says Kyle Hansen, executive vice president of Minneapolis-based U.S. Bank. "But we're a healthy institution that's very interested in increasing our lending activities broadly, and if we can do that profitably out of footprint, then we're going to actively do that."

U.S. Bank isn't specifically targeting certain metro areas, though. Rather, its expansion is customer-driven, "either following an existing relationship or targeting a handful of relationships that we want to do business with, and specifically going after those customers," says Hansen. "They may be located in any one of a number of states, so pretty much it really spans the continent."

Last year, U.S. Bank's community development operations lent out about $725 million to affordable multifamily housing, up from about $690 million in 2010. And this year, it intends to grow some more.

Both U.S. Bank and JP Morgan Chase recently rolled out new bridge loan programs for affordable housing developers, and each hopes that a combination of the new program and new markets will keep their CRA lending volume—and the bank's profits—growing.