Strategies for **Community Banks** to Develop Partnerships with **Community Development Financial Institutions**

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FDIC

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EXECUTIVE SUMMARY

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by Congress to maintain stability and public confidence in the nation's financial system by: insuring deposits, examining and supervising financial institutions for safety and soundness and consumer protection, and managing receiverships. In support of that mission, the FDIC conducts an array of outreach activities to help banks enhance Community Reinvestment Act (CRA) performance and promote community development activities. The purpose of this guide is to provide information that will help community banks identify and evaluate opportunities to partner with community development financial institutions (CDFIs).

CDFI Types and Community Focus

CDFIs are specialized financial institutions that provide financial products and services to populations and businesses located in underserved markets. These institutions have community development missions and a reputation for lending responsibly in low-income communities. CDFIs include banks and bank holding companies, as well as credit unions, loan funds, and venture capital funds.

CDFIs fill a niche in the nation's financial services system by specializing in providing credit to borrowers and communities that may be difficult for traditional banks to serve. Many borrowers may be creditworthy but often lack credit history, or have a poor past experience with alternative or predatory credit providers or a minimal amount of personal savings. To accommodate this market, CDFIs offer products with more flexible underwriting standards, combine a range of below-market financing with their own resources, and provide technical assistance with their lending activities to help ensure that borrowers use credit and capital effectively.

Regulatory Context: Community Reinvestment Act, Public Welfare, and Safe and Sound Banking Practices

In some instances, the most effective and efficient way for a traditional financial institution to meet the market needs of low-income borrowers in their assessment areas may be through investments in, loans to, or other collaboration with a CDFI. In addition to helping traditional banks reach underserved, low-income communities in their assessment areas, loans to and investments in qualifying CDFIs may be useful in helping banks meet their CRA obligations.[1] Under the CRA, community development activities can be delivered directly through, or in cooperation with, a CDFI partner that serves an area which includes the bank's assessment area. Banks evaluated under the large, intermediate-small, or small bank examination standards may receive consideration for activities in collaboration with CDFIs.

To be eligible for CRA consideration, community development investments must be qualified investments. A qualified investment is a lawful investment, deposit, membership share, or grant with a primary purpose of community development. The U.S. Department of the Treasury certifies CDFIs under its CDFI Certification Program. CDFI certification is formal acknowledgement from the CDFI Fund that a financial institution has a primary mission of promoting community development. Because CDFIs certified by the CDFI Fund are required

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1. Office of the Comptroller of the Currency, Treasury; Federal Reserve System; Federal Deposit Insurance Corporation; and Office of Thrift Supervision. "Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment," 75 Federal Register 11648, 11652. (March 11, 2010). Available at: ***http://www.ffiec.gov/cra/pdf/2010-4903.pdf***.

primarily to serve a community development purpose, the Interagency Questions and Answers Regarding Community Reinvestment (Q&As, the guidance on CRA issued by federal regulators) explicitly recognize loans to and investments in CDFIs as examples of community development loans and qualified investments.[2]

Banks making investments to CDFIs should be aware of the laws, regulations and guidance applicable to public welfare investments: for national banks, 12 USC §24(Eleventh) and 12 CFR 24; for state member banks, 12 USC § 338a and 12 CFR 208; for state nonmember banks, 12 USC 1831a and 12 CFR Part 362. All state banks are also subject to Section 24 of the Federal Deposit Insurance Act.[3] Section 24 of the Federal Deposit Insurance Act generally permits state banks to make the same types of investments or engage in the same types of activities as national banks. State banks, if permitted by state law, may invest in public welfare investments that are permissible for national banks under 12 CFR 24. CDFIs with active certifications from the CDFI Fund are considered to be public welfare investments according to 12 CFR 24.[4] Other CDFIs may also meet these requirements for public welfare investments. However, state nonmember banks investing in non-certified CDFIs should consult with the FDIC regional or area office that oversees the bank's headquarters to make sure they are within the scope of permissible investments.[5]

As with any investment, banks are expected to carefully evaluate CDFI financing opportunities.

This guide is organized in the following sections:

Section I, Introduction, describes the purpose of the guide and provides a historical overview of the CDFI industry.

Section II, CDFI Organizational Structures, examines key characteristics, including legal structure, regulatory oversight, and lending and investment opportunities, associated with CDFI banks and bank holding companies, credit unions, loan funds, and venture capital funds. Each CDFI type has a different legal structure and different investment opportunities.

Section III, Financing Approaches, describes the types of investments that can support CDFIs.

Section IV, Evaluation of Bank/CDFI Partnership Opportunities, discusses the steps that might be considered in assessing a bank/CDFI partnership. Any investment in or loan to a CDFI should be predicated on appropriate due diligence and in accordance with prudent banking principles.

Section V, Regulatory Context and Bank/CDFI Partnerships, explains possible ways that CDFIs may be a useful tool or means to help banks meet the CRA lending, investment, and service test criteria. It also provides information on the requirements for "qualified investments" under CRA, particularly guidance on public welfare investments.

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2 Office of the Comptroller of the Currency, Treasury; Federal Reserve System; Federal Deposit Insurance Corporation; and Office of Thrift Supervision. "Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment," 75 Federal Register 11648, 11652. (March 11, 2010).

3 The definition of a state bank as used in this document can be found in Section 3 of the FDI Act.

4 12 C.F.R. Part 24. Community Development Corporations, Community Development Projects, and Other Public Welfare Investments. Office of the Comptroller of the Currency. 61 Federal Register 49660, (September 23, 1996). Available at ***http://www.occ.gov/news-issuances/federal-register/12cfr24.pdf***

5 Section 24 of the Federal Deposit Act, 12 USC 1831a. FDIC Law, Regulations, Related Acts. 1000-Federal Deposit Insurance Act. (July 31, 1997). Available at ***http://fdic.gov/regulations/laws/rules/1000-2600.html.***

Section VI, Case Examples of Partnership Options, highlights bank/CDFI partnerships gathered from a review of recent CRA evaluations. The case examples illustrate some of the most common types of partnership arrangements, but they do not cover the full range of bank/CDFI partnerships. The particular form a bank/CDFI partnership takes depends on a bank's business strategy, market needs, capacity of the CDFI partner, and partnership goals. In addition, depending on its business strategy and market needs, a bank can elect to engage in a range of relationships with multiple CDFIs or have several types of relationships with one CDFI.

Bank/CDFI partnership options described in this section include:

Providing equity capital using traditional equity instruments. Banks can make various types of investments to build the equity capital of CDFIs. Depending on the CDFI type, the qualified investments can take many forms, including stock purchases, grants, and ownership interests in CDFI venture capital funds.

Providing equity equivalent investments, or EQ2s, to enhance the CDFI's lending flexibility. Banks can make EQ2s in nonprofit CDFIs as permitted by law and regulation and in accordance with safety and soundness standards. EQ2s are long-term, fully subordinated debt instruments with features, such as rolling terms, that allow them to function in a manner similar to equity. EQ2 capital makes it easier for CDFIs to offer more responsive financing products with longer loan terms.

Providing funds for lending using traditional debt instruments. Community banks can extend loans through various debt instruments to CDFIs for relending to low-income borrowers. Interest rates and length of investment terms can vary. Investors who choose a lower rate of return and longer investment terms help CDFIs provide less costly and more responsive financing to low-income borrowers. By providing a lower cost of funds to the CDFI, these investments may enable CDFIs to offer lower loan rates or to pay for services such as technical assistance to help borrowers use their financing effectively.

Providing deposits. Banks can make deposits in CDFI depositories to provide funds for lending to low-income borrowers. Deposits in FDIC-insured CDFI banks are insured by the FDIC up to the maximum allowed by law. The National Credit Union Administration (NCUA) provides similar coverage for deposits in NCUA-insured CDFI credit unions.

Providing capital for loans or investments using New Markets Tax Credits. Community banks can make qualified equity investments in Community Development Entities (CDEs), which are intermediary groups certified by the CDFI Fund to participate in the New Markets Tax Credit Program. In return for the equity investment, the CDE provides the investor bank with federal tax credits. The CDE uses the qualified equity investments made by the investors to make qualified low-income community investments.

Providing technical assistance. Community banks can provide technical assistance to CDFIs, such as the volunteer service of a bank officer as a CDFI board director or member of an advisory board or credit review committee. Technical assistance can also include product development, strategic and financial planning, and professional development of CDFI staff.

Collaborating with banks to invest in loan pools and consortiums. Two or more financial institutions can participate in a loan to a CDFI for a larger amount than either bank may have been willing or able to make independently. The funds can be organized as a lending consortium in which the participating banks pool their funds as investments in a consortium.

Collaborating with CDFIs in loan participations. Community banks and CDFI partners can collaborate on loans, which are serviced by either the traditional bank or CDFI, to a specific borrower. Loan participations can help traditional banks diversify their lending portfolios and reduce credit risks.

Providing loan servicing. Community banks can service the loans of CDFIs that have limited capacity to process and service loans. Alternately, CDFI depositories and loan funds can service the community development loans of traditional banks, thereby helping lower operating costs for banks and providing additional resources for CDFIs.

Providing bank services. Community banks can provide a variety of banking services, such as deposit accounts, to CDFIs.

This guide does not substitute for the legal, tax, and accounting advice that banks may need when evaluating investment options. All FDIC-supervised institutions should be aware of and follow fair lending, fair housing, and other applicable lending and civil rights laws and regulations, and nothing in this guide is intended or should be interpreted to suggest otherwise.

The programs referenced in the guide are current as of the date of the publication and may change.

I. INTRODUCTION

The purpose of this guide is to provide information that will help community banks identify and evaluate opportunities to partner with CDFIs. CDFIs are specialized financial institutions that provide financial products and services to populations and businesses located in underserved markets. These institutions have community development missions and a reputation for lending responsibly in low-income communities.

Many traditional community banks have exceptional records in serving the credit needs of low- and moderate-income communities in their market areas. In recent years, however, economic problems in these markets and challenges in the economy have caused home mortgage and small business lending in these communities to decline. In addition, there are particular challenges in serving the unbanked, and many low- and moderate-income people are either unbanked or underbanked, which means that they rely on cash transactions or nontraditional providers for financial services. An estimated 34 million U.S. households are unbanked or underbanked, and depend on alternative financial services to meet all or some of their credit needs.[6]

Barriers to Serving Low- and Moderate-Income Borrowers and Communities

Some community banks may face significant barriers to serving low- and moderate-income borrowers and communities in their market areas. Banks may have concerns about risk and profitability or limited resources to sustain effective marketing to reach low- and moderate-income households. Some banks may lack the knowledge about creditworthy borrowers in these communities or the expertise to lend to low-income borrowers. The inability of some banks to serve certain geographies may result from market failures, such as inaccurate or incomplete information about these communities. Information externalities, which prevent banks from recapturing the costs of gathering market information and developing expertise in providing financial services to low-income borrowers, may have impeded the formation and full development of credit markets in low- and moderate-income communities.[7]

CDFIs Designed to Address Barriers

CDFIs fill a niche in the nation's financial services delivery system by specializing in providing credit to borrowers and communities that may be difficult for some traditional banks to serve. Many borrowers may be creditworthy but lack credit history, or have a poor past experience with alternative or predatory credit providers or a minimal amount of personal savings. To address the credit needs of this market, CDFIs offer products with tailored but prudent underwriting standards, combine a range of below-market financing with their own resources, and offer technical assistance with their lending activities to help make sure that financial resources are effectively managed. CDFIs are familiar with the local market and skilled in using a variety of risk-mitigating programs, such as guarantees, subordinated loans, low-cost funding, and pooled risks to lower costs and increase the chances of success for a borrower.

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6 Federal Deposit Insurance Corporation, 2011 FDIC National Survey of Unbanked and Underbanked Households. Washington, DC: Federal Deposit Insurance Corporation, September 2012. Available at ***http://www.fdic.gov/householdsurvey/2012_unbankedreport.pdf.***

7 Michael S. Barr, "Credit Where it Counts: The Community Reinvestment Act and its Critics," New York University Law Review, Vol. 80 (May 2005), p. 513. Available at ***http://papers.ssrn.com/sol3/papers.cfm?abstract_id=721661.***

Evolution of the CDFI Industry and Bank/CDFI Partnerships

CDFIs emerged in response to the lack of access to responsible credit and capital in minority and economically distressed communities. Community development investment activity originated after the Civil War with the establishment of mutual institutions that were, in part, dedicated to serving immigrant and minority populations,[8] and credit unions that originated early in the 20th century.[9] In the late 1960s and early 1970s, nonprofit community development corporations were established to promote economic development in inner-city and poor rural areas. During this same period, federal and state-funded revolving loan funds were created to provide financing for small businesses in these areas. The modern CDFI industry began to take shape in the 1970s with the passage of the CRA, the growing concern about the social consequences of investment decisions in low-income communities, and the establishment of community development credit unions and banks.

In the 1990s, the CDFI industry grew significantly following the establishment of the CDFI Fund as a new agency within the U.S. Department of the Treasury to provide financial assistance to CDFIs and their partners. Another major catalyst to the rapid growth of CDFIs in the 1990s was the federal government's decision to strengthen the criteria for bank evaluations under the CRA.[10] In particular, the 1995 CRA regulations, which explicitly emphasized community development loans, services, and investments as important CRA activities, increased investor interest in CDFIs. Subsequently, formal CRA interpretations specifically referenced support for CDFIs as examples of qualified community development activities.

Benefits of Bank/CDFI Partnerships

Many CDFIs partner with traditional financial institutions to help expand the bank's lending and services to underserved markets. In addition to CRA consideration, bank/CDFI partnerships benefit banks by providing them an opportunity to expand their markets to reach low- and moderate-income communities and other underserved areas without the need for additional operational support. CDFIs bring specialized skills and experience in serving markets and borrowers in low- and moderate-income communities that many banks, particularly small banks or those with a specialized product focus, may not have the necessary expertise or resources to provide.

Through partnerships with CDFIs, banks can expand their ability to meet the capital and credit needs in low- and moderate-income communities within a bank's assessment area. CDFIs may allow banks to pool the risks and costs of serving markets that banks are not familiar with or believe to be too risky or costly to serve themselves. The pooling of risks and costs occurs when CDFIs assemble the funds and resources from various investors, multiple banks, government, and foundations.[11] Over time, CDFIs support the growth of small companies and the economic health of households to help them benefit fully from access to conventional credit and deposit services offered by partner banks.

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8 Board of Governors of the Federal Reserve System, "Partnership for Progress - Minority Banking Timeline." Available at: ***http://www.fedpartnership.gov/minority-banking-timeline/.***

9 J. Carroll Moody and Gilbert Fite, The Credit Union Movement: Origins and Development, 1850-1980, 2nd Edition, Kendall/Hunt Pub. Co, Dubuque, Iowa (1984).

10 CDFI Coalition of Community Development Financial Institutions, "What are CDFIs?" Available at ***http://www.cdfi.org/about-cdfis/what-are-cdfis/***.

11 Mark Pinsky, "Growing Opportunities in Bank/CDFI Partnerships," Community Developments, (Summer 2002). Available at ***http://www.occ.gov/static/community-affairs/Summer-01.pdf.***

II. CDFI ORGANIZATIONAL STRUCTURES

This section describes the organizational structures and characteristics of CDFIs. It provides information that can assist financial institutions and community leaders in identifying and evaluating partnership opportunities.

There are four types of CDFIs: banks and bank holding companies, credit unions, loan funds, and venture capital funds. CDFI banks, bank holding companies, and credit unions are depository institutions regulated by federal and state agencies. CDFI loan funds and venture capital funds are not federally insured financial institutions and therefore are not subject to oversight by the federal banking regulators. Each of the four types of CDFIs has a different legal structure and unique investment opportunities, and provides a different mix of financial products and services to reach specific customers in low-income communities.

As of March 31, 2014, there were 831 certified CDFIs: 84 community development banks, 51 depository institution holding companies, 190 credit unions, 493 loan funds, and 13 venture capital funds[12]. CDFI certification is a designation conferred by the CDFI Fund.

CDFI certification is formal acknowledgement from the CDFI Fund that a financial institution meets certain community development finance criteria. To become certified, a financial institution must apply to the CDFI Fund and meet the following criteria:

- Have a primary mission of community development;
- Be a financing entity;
- Serve one or more target markets;
- Provide development services to borrowers in conjunction with financing activities;
- Maintain accountability to a target market; and
- Be a nongovernmental entity.[13]

Certification by the CDFI Fund is not an indication of a CDFI's financial performance or soundness, or a measure of its effectiveness in achieving its mission. Many community development lenders provide financial and technical assistance services but do not meet the CDFI Fund's criteria or have chosen not to pursue certification.

The information in this guide is applicable to both CDFIs that have received certification under the U.S. Department of the Treasury program and those that have not. Implications for an institution's CRA evaluation may exist, depending on the certification status of a CDFI partner. These considerations are considered in Section V of this guide.

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12 U.S. Department of the Treasury CDFI Fund, "Community Development Financial Institution Fund – List of Certified Community Development Financial Institutions (CDFIs) with Contact Information as of March 31, 2014. Available at *http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=9*.

13 Riegle Community Development and Regulatory Improvement Act of 1994, Public Law 103-325, 108 Stat. 2160 (1994). Available at *http://www.gpo.gov/fdsys/pkg/BILLS-103hr3474enr/pdf/BILLS-103hr3474enr.pdf*.

A. CDFI Banks

1. Key Characteristics

CDFI banks are federally insured and regulated depository institutions with a primary mission of community development. These FDIC-insured banks are organized like traditional banks and offer a wide range of banking services. What distinguishes CDFI banks from other financial institutions is their community development mission and the requirement that at least 60 percent of their financing activities be targeted to one or more low- and moderate-income or underserved communities.[14]

Of the 84 CDFI banks, approximately 50 percent are Minority Depository Institutions (MDIs). The FDIC publishes on a quarterly basis a list of MDI banks at *www.fdic.gov/mdi*. The list includes FDIC-supervised banks that meet either of the following two definitions: federally insured depository institutions in which (1) 51 percent or more of the voting stock is owned by minority individuals, or (2) the majority of the board of directors is minority and the community that the institution serves is predominantly minority.[15] The FDIC's list of MDI banks also includes FDIC-insured minority depository institutions that are supervised by the Office of the Comptroller of the Currency (OCC) and the Federal Reserve. Each of those agencies has its own definition of MDIs. FDIC publishes the names of MDIs supervised by the OCC and Federal Reserve that are consistent with the MDI categories defined by Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.[16] Participating in the MDI program is voluntary and some institutions meeting the above definitions choose not to be included on the list.

2. Borrowers

Borrowers of CDFI banks include individuals, businesses of all sizes, nonprofit community organizations, and real estate developers.

3. Ownership

CDFI banks are for-profit corporations with a community and economic development mission and community representation on their board of directors or advisory board.

4. Regulation

Depending on their individual charter, the primary federal regulator for CDFI banks is the FDIC, the Federal Reserve, or the OCC. State-chartered institutions are also regulated by state banking agencies. Deposits in these institutions are insured by the FDIC up to the maximum amount allowed by law.

5. Lending and Investment Opportunities

The most common type of investment that banks make in CDFI banks are loans, which the CDFI bank in turn uses to make loans directly to low- and moderate-income borrowers. These may be structured as lines of credit or term loans.

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14 Khanh Vuong and Dianne Goodheart, "Rating U.S. CDFI Banking Organizations," A.M. Best Company (January 8, 2009). Available at *http://www.ambest.com/ratings/methodology/RatingUSBankingOrgs.pdf*.

15 Federal Deposit Insurance Corporation, Policy Statement Regarding Minority Depository Institutions, April 9, 2002. Available at *http://www.fdic.gov/regulations/resources/minority/policy.html*.

16 Federal Deposit Insurance Corporation, Policy Statement Regarding Minority Depository Institutions. Federal Register Vol. 67, no. 73 (April 16, 2002), 18618. Available at. *http://www.fdic.gov/regulations/laws/federal/02sopMINOR.pdf.*

Banks also can participate in loans with CDFI banks in a safe and sound manner.[17] Loan participations can help traditional banks diversify their lending portfolios and manage risk. Loan participations can help CDFI banks originate larger loans while remaining within their legal lending limits. They can also help CDFI banks keep customers who may need a broader range of services.

Under some circumstances, banks may be permitted to buy the stock of CDFI banks, but they must be mindful of any legal and regulatory constraints including, but not limited to, Section 3 of the Bank Holding Company Act. Banks can also deposit funds in CDFI banks, which would be insured by the FDIC up to the maximum allowed by law.

B. CDFI Credit Unions

1. Key Characteristics

CDFI credit unions are federally insured financial cooperatives that are designed to provide financial services to individuals who are members of the credit union. The National Credit Union Administration (NCUA, an independent federal agency) charters, supervises, and insures federal credit unions, and insures the majority of state-chartered credit unions. The deposits in these institutions are insured by NCUA up to the maximum allowed by law.

The majority of CDFI credit unions have sought and received designation as "low-income" credit unions by NCUA.[18] This designation allows these institutions to accept nonmember deposits and secondary capital, which is an uninsured, fully subordinated debt instrument that enhances a credit union's net worth.[19] The low-income designation means that more than half of a credit union's membership earns 80 percent or less than the median family income for the metropolitan area where they live or the national median family income for all metropolitan areas, whichever is greater. For members living outside a metropolitan area, low-income members are those who earn 80 percent or less than the median family income for the statewide or national nonmetropolitan area, whichever is greater.[20]

2. Borrowers

CDFI credit union borrowers are members of the credit union. Depending on their charter, some CDFI credit unions may grant loans to businesses as well.

3. Ownership

CDFI credit unions are owned by members of the credit union through shares of the cooperative. The policies of credit unions are governed by a board of directors that is elected by and accountable to the membership.

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17 FDIC Advisory on Effective Credit Risk Management Practices for Purchased Loan Participations, FDIC FIL-38-2012, September 12, 2012. Available at *http://www.fdic.gov/news/news/financial/2012/fil12038.html.*

18 National Credit Union Administration, Designation of Low-Income Status; Acceptance of Secondary Capital Accounts by Low-Income Designated Credit Unions – Final Rule. Federal Register Vol. 78, No. 13 (January 18, 2013). Available at *https://www.federalregister.gov/articles/2013/01/18/2013-00859/designation-of-low-income-status-acceptance-of-secondary-capital-accounts-by-low-income-designated.*

19 As permitted under state and federal law or regulation.

20 National Credit Union Administration, "The Low-Income Designation," Federal Register Vol. 75, no. 246 (December 23, 2010), 80677. Available at *www.ncua.gov/Legal/Documents/Regulations/FIR20101216LowIncome.pdf*.

4. Regulation

Federal credit unions are regulated by NCUA, and state-chartered credit unions are regulated by state agencies.

5. Lending and Investment Opportunities

Banks can make nonmember deposits to CDFI credit unions. Deposits are insured by the NCUA up to the maximum allowed by law. Banks can also provide donations, grants, and secondary capital, which would be considered investments for the bank under the CRA.

Banks can provide or participate in loans to CDFI credit unions, which would receive consideration under the lending test for CRA.

Banks can invest indirectly in CDFI credit unions through the National Federation of Community Development Credit Unions, which then passes the funds on to a credit union in the bank's geographic area. Additional information on this intermediary is provided in Section IV.C. of this guide.

C. CDFI Loan Funds

1. Key Characteristics

CDFI loan funds, which represent the largest percentage of CDFIs, are nondepository financial institutions that are generally not subject to federal banking regulations. Their borrowers are small businesses, nonprofit organizations, charter schools, individuals, and organizations involved in affordable housing and community development, including healthy food financing initiatives.

CDFI loan funds often have more flexible lending policies than regulated CDFI banks and traditional banks. Because CFDI loan funds manage risk in a variety of ways—for example, by providing multiple layers of financing, guarantees, matched funds, peer lending, pooled risk, borrower education, and ongoing technical assistance—they can finance development projects more easily than many other lenders. CDFI loan funds provide intensive financial education and counseling to individual and business borrowers.

CDFI loan funds lend independently, with other nonprofit partners, and in partnership with traditional and CDFI banks, which provides traditional banks the opportunity to participate in loans that may not meet their underwriting requirements. CDFI loan funds may also take a subordinate position when lending in partnership with traditional banks.

Almost all CDFI loan funds are organized as nonprofit organizations. Nonprofit CDFI loan funds can raise equity from government funding, social investments, and philanthropies.

2. Borrowers

CDFI loan funds often specialize in financing certain types of borrowers: housing (affordable housing developers), business, microenterprise (very small businesses), and community service organizations (nonprofits).

3. Ownership

Most CDFI loan funds are structured as nonprofit organizations.

4. Regulation

CDFI loan funds are subject to the state laws in which they operate. Almost all CDFI loan funds obtain independent third-party audits conducted by certified public accountants; follow

General Accepted Accounting Principles (GAAP); and operate under agreed-upon financial covenants by various funding sources, such as philanthropic funds, that impose operational safeguards and guidance.

5. Lending and Investment Opportunities

As permitted by law and regulation, banks can provide equity to CDFI loan funds through grants. Banks may provide equity-equivalent investments, which are subordinated debt instruments with features such as rolling terms and limited right-to-accelerate payments that enable them to function in a manner similar to equity. Banks also can provide conventional loans directly to CDFI loan funds.

Banks can structure loans to provide financing in conjunction with a CDFI loan fund. For example, a bank can make a loan that is senior to CDFI subordinated debt. Such financing structures may reduce costs and increase access to credit for bank borrowers who fit the CDFI lending parameters. Even without subordination, the bank can co-lend and limit exposure to the risk of a larger loan, while the customer benefits from additional financing. Banks can participate in the loans originated by the CDFI loan funds and buy seasoned CDFI loans.

D. CDFI Venture Capital Funds

1. Key Characteristics

CDFI venture capital funds make equity investments, equity-like investments, and below-market loans to businesses in underinvested markets, and to companies, in any location, that will provide jobs and training opportunities to low- and moderate-income people. The businesses targeted for investment by CDFI venture capital funds have the potential to create quality jobs, wealth, and entrepreneurial capacity for low-income people. The funds invest in companies in different industries and stages of development. Unlike traditional venture capital funds, which have a primary objective of financial returns for their investors, community development venture capital funds promote social and financial returns.[21]

CDFI venture capital funds provide intensive managerial and entrepreneurial assistance to the businesses in which they invest. This technical assistance has often proven to be just as important as the financing support to the companies in which a venture capital fund invests.

CDFI venture capital funds typically take seats or observer rights on the boards of their portfolio companies. Some CDFI venture capital funds become part-owners of the companies in which they invest. Others use warrants, success fees, royalty arrangements, participation agreements, and similar financial incentives to secure their influence over the owners.[22]

A CDFI venture capital fund typically has a 10- to 13-year lifespan.[23]

2. Borrowers

Recipients of CDFI venture capital funds are for-profit, small, and medium-sized businesses in markets that typically do not attract traditional venture capital, and have the potential for

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21 Community Development Venture Capital Alliance, "CDVC Funds." Available at *http://www.cdvca.org/index.php?option=com_content&view=article&id=52&Itemid=58.*

22 Community Investments, "Venture Capital for Communities" (Federal Reserve Board of San Francisco: March 2002), p. 24. Available at *http://www.frbsf.org/community-development/files/community_investments_March_2002.pdf.*

23 Financial Strategies and Research, Three-Year Trend Analysis of CDFI Awardee Report Data: 2006-2008, CDFIs Reporting Data to the Community Investment Impact System (CIIS). (Washington DC: U.S. Department of the Treasury CDFI Fund, October 2010).

rapid growth, market-rate financial returns, and the creation of good jobs, community wealth, and entrepreneurial capacity.[24]

3. Ownership

CDFI venture capital funds can be organized as for-profit or nonprofit entities. Most for-profit CDFI venture capital funds are organized as limited partnerships or limited liability companies. Of the 13 CDFI Fund-certified venture capital funds, 4 are organized as for-profit institutions and 9 as nonprofits.[25]

4. Regulation

CDFI venture capital funds are not subject to federal banking regulations. However, they are subject to state securities regulations and Securities and Exchange Commission reporting requirements for disclosures to investors.

5. Lending and Investment Opportunities

An investor in a qualifying for-profit CDFI venture capital fund can buy stock in a corporation or the interests in a limited partnership or limited liability company, as permitted by law and regulation. Capital is invested in the form of equity, and the investor's return on investment depends on the success of the fund's underlying investment in the businesses.[26]

In qualifying nonprofit CDFI venture capital funds, bank investors can provide grants, equity equivalent investments, and conventional loans as permitted by law and regulation and in accordance with safety and soundness standards.[27]

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24 Community Development Venture Capital Alliance, "CDVC Funds."

25 U.S. Department of the Treasury CDFI Fund, "Community Development Financial Institution Fund – List of Certified Community Development Financial Institutions (CDFIs) with Contact Information as of March 31, 2014.

26 Center for Community Development Investments, "Community Development Venture Capital," CRA Investment Handbook (Federal Reserve Bank of San Francisco: March 2010), pp. 24-26. Available at ***http://www.frbsf.org/community-development/files/CRAHandbook.pdf.***

27 The investment would have to be permissible as a public welfare investment as defined in 12 U.S.C. Section 24(Eleventh) (or otherwise permissible for a national bank), a qualified investment for CRA purposes, an investment in qualified housing projects as defined in the FDIC's regulations at 12 CFR § 362.3(a)(2)(ii), or deemed permissible following application to the FDIC and a finding by the FDIC that the state bank met (and continued to meet) applicable capital standards and that the proposed investment would pose no significant risk to the deposit insurance fund. Interests in a limited partnership or LLC would be evaluated by the FDIC to ensure that the bank would not subject itself to unlimited liability and that the organizational documents satisfied applicable state law.

III. FINANCING APPROACHES

CDFI financing support from banks can be classified in three forms: equity investments, which represent capital arising from investment in CDFIs; debt, which represents funds loaned to CDFIs; and deposits, which are funds placed in CDFI depository institutions, typically earning interest and insured by a federal governmental agency.

Investment activities for banks must be consistent with the regulatory guidance and requirements as discussed in Section V. For consideration under the CRA, a bank's investment activities must serve community development purposes and be consistent with safe and sound banking requirements. Also, as discussed further in Section V, for most community banks and large retail institutions, the CDFI's purpose and activities should cover their assessment area or the statewide or regional area that includes the assessment area.

A. Equity

Equity capital is a resource that enables CDFIs to raise additional funds through debt in order to lend to low- and moderate-income borrowers. Equity capital acts as a cushion to protect senior debt investors from losses and increase the earnings of CDFIs. It also enhances CDFIs' financing flexibility.

Equity investments cover a wide array of capital source types, including the following:

Grants

Grants are charitable, philanthropic financial awards to nonprofit CDFIs. Banks can provide capital grants to build the equity capital of qualifying nonprofit CDFIs. Restricted grant funding can be specifically targeted for predefined activities. Common categories of grants are capital for a CDFI loan pool and operating grants, which underwrite the costs to administer the loan pool and provide technical assistance to borrowers.

Equity Equivalents (EQ2s)

Equity equivalent investments, or EQ2s, are long-term, fully subordinated debt instruments with features such as rolling terms and limited right-to-accelerate payments that allow them to function in a manner similar to equity. CDFIs can leverage these instruments with senior debt to build their lending capacity. Only nonprofit CDFIs use EQ2s.

An EQ2 is generally defined by the following six attributes:

1. It is carried as an investment on the investor's balance sheet in accordance with GAAP.
2. It is a general obligation of the CDFI that is not secured by any of the CDFI's assets.
3. An EQ2 is fully subordinated to the right of repayment of all the CDFI's other creditors, current and future.
4. It does not give the investor the right to accelerate payment unless the CDFI ceases normal operations.
5. It carries an interest rate that is not tied to any income received by the CDFI.

6. An EQ2 has a rolling term without a specified maturity.[28]

Regulators may view instruments with these six attributes similar to other preferred stock investments and, therefore, may consider them as equity investments. CDFI investors have used a variety of instruments. Not all are the same with respect to subordination, maturity, or other key terms. If any of the six attributes above is missing, the financial instrument would be treated as subordinated debt under banking regulatory requirements.[29]

Bank investors should consider the following options when discussing the investment with regulators for purposes of the CRA and be able to provide supporting documentation of the following:

1. *CRA consideration under the lending test if the EQ2 activities are categorized as lending activities.*
   The investing bank may claim a pro rata share of the incremental community development loans made by the CDFI in which the bank has invested, provided these loans benefit the bank's assessment area(s) or a broader statewide or regional area that includes the assessment area(s). The bank's pro rata share of loans originated should generally be equal to the percentage of equity capital (permanent capital and EQ2s) provided by the bank investor.

2. *CRA consideration under the investment test if the EQ2 is accounted for as an investment.*
   The amount of the qualified investment is the total amount of the institution's investment in the CDFI at the time of the investment. After the examination where the full amount of the initial investment was considered, the book value would continue to be considered in future examinations as long as the investment is held.[30]

3. *Consideration under the lending test and investment test if the EQ2 supports lending and investment activities.*
   The amount attributed to the lending test would equal the bank's pro rata share of community development loans originated by the CDFI during the period under review. The amount of the bank investment not allocated to the lending activities would be considered under the investment test at the time of the investment and in the future as long as it is held.[31] There can be no "double counting."

Ownership Interest in For-Profit Limited Partnership or Limited Liability Company

Some for-profit CDFI venture capital funds raise equity through limited partnerships or limited liability corporations that issue ownership interests. Of the 13 certified CDFI venture capital funds, 4 are for-profit institutions.[32]

28 Center for Community Development Investments, "Equity Equivalent Investments," CRA Investment Handbook (Federal Reserve Bank of San Francisco: March 2010), pp. 30-33.

29 Community Investments, "Equity Equivalent Investments," (Federal Reserve Board of San Francisco, March 2002), p. 10. Available at *http://www.frbsf.org/community-development/files/community_investments_March_2002.pdf*.

30 Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Reserve Board, Office of Thrift Supervision. "Interpretive Letter #784, 12 U.S.C. 2901. June 1997. Available at *http://www.occ.gov/static/interpretations-and-precedents/jun97/cra784.pdf*.

31 Center for Community Development Investments, "Equity Equivalent Investments," CRA Investment Handbook (Federal Reserve Bank of San Francisco: March 2010).

32 U.S. Department of the Treasury CDFI Fund, "Community Development Financial Institution Fund – List of Certified Community Development Financial Institutions (CDFIs) with Contact Information as of March 31, 2014.

In qualifying for-profit CDFI venture capital funds, the investor receives a return on investment that is dependent on the returns from the fund's underlying investments in small businesses. At closing, some CDFI venture capital funds will distribute invested capital plus earnings over time to investors. Other CDFI venture capital funds will distribute earnings as they accrue rather than wait for the fund to reach its completion.[33]

Stocks

A share of stock is an instrument that signifies an ownership interest in a corporation. CDFI banks and some CDFI venture capital funds raise equity capital by issuing stock.

B. Debt

CDFIs often rely on loans from banks and other investors. Debt financing can be structured to earn interest at either a below market or market rate. As long as the geographic requirements of CRA are met, and the loan is made in a safe and sound manner, community banks may receive CRA consideration for loans to or in collaboration with CDFIs that primarily serve a community development purpose.

Line of credit

A line of credit is an arrangement in which the bank investor extends a specified amount of unsecured credit to a CDFI for a specified period of time. The CDFI can borrow as it needs from the line of credit, up to the established limit.

Loans

Community banks can provide CDFIs short- and long-term loans, which can be secured or unsecured. Interest rates and length of the investment terms can vary. Investors who choose a lower rate of return and longer investment terms help CDFIs provide less costly and more responsive financing to low-income borrowers, and pay for services such as technical assistance to help borrowers use their financing effectively. The types of technical assistance provided by a CDFI depend on the needs of its market. Technical assistance can include credit counseling, business training, homebuyer education, consumer education and financial literacy, and savings programs.

Secondary Capital

Secondary capital is an uninsured, subordinated debt instrument that offers investors an opportunity to invest in CDFI credit unions. The instrument is subordinate to all other claims on the net worth of the credit union and may not be pledged by investors as security on another obligation. Secondary capital has a five-year minimum maturity and is not redeemable prior to maturity. The instrument acts like equity and enhances the net worth of credit unions, which improves their ability to absorb losses.

The only credit unions permitted to accept secondary capital are those that have been designated "low-income" credit unions by the NCUA. The majority of CDFI certified credit unions have been approved by NCUA to accept secondary capital.

Asset-Backed Securities

Asset-backed securities are financial securities whose value and income payments are derived from and collateralized by a pool of loans with similar characteristics. A CDFI bundles a group

33 The FDIC may review the limited liability corporation or limited partnership structure to ensure that the bank is insulated properly against unlimited liability.

of its community development loans and sells shares in the repayment stream to investors. The pooling of loans with one or more layers of credit enhancement into securities spreads credit risk across multiple loans and reduces each investor's exposure.

The Community Reinvestment Fund, a national CDFI and financial intermediary, pioneered this structure with its securitizations of community development loans. The organization buys community development loans from CDFIs and other community development lenders and pools them into asset-backed securities. The securities feature credit enhancements and are split into tranches with different risk classes and sold to investors through private placement.[34]

Guarantees

Guarantees are instruments guaranteeing the payment of a CDFI's debt obligations. Guarantee options include letters of credit, which are used to enhance the creditworthiness of a CDFI borrower receiving a loan from a third-party lender. Letters of credit are considered community development lending-related activity for CRA purposes if the institution provides information on the activity that documents its purpose.

C. Deposits

Deposits are funds placed in interest-bearing accounts in CDFI depositories. Deposits in FDIC-insured CDFI banks are insured up to the maximum allowed by law. NCUA provides similar coverage for deposits in insured CDFI credit unions.

CDFI depositories offer various types of deposits at market rates, including certificates of deposit, Money Market Deposit Accounts, and savings accounts. Certificates of deposit are offered at various maturities.

Deposits can receive consideration as a community development investment.

Nonmember Deposits

Nonmember deposits are instruments that pay a fixed amount of interest in CDFI credit unions. These deposits are made by individuals and organizations that are not members of the institution. These deposits do not confer ownership rights of the CDFI credit union to the depositor.

A CDFI credit union must have a low-income designation from NCUA to be eligible to receive nonmember deposits.

34 Community Reinvestment Fund, "Capital for Communities – Opportunities for People." Available at ***http://www.crfusa.com***.

IV. EVALUATION OF BANK/CDFI PARTNERSHIP OPPORTUNITIES

Banks should carefully review prospective relationships with CDFIs. In particular, they should evaluate the CDFI's service area relative to the bank's CRA assessment area(s) and perform appropriate due diligence to address potential risks and maximize the economic outcomes.

Legal, tax, and accounting advisors should be consulted when evaluating CDFI investment opportunities.

A. Identifying Potential CDFI Partners

Community banks interested in partnering with a CDFI often take important steps to help make sure that the partnership will be valuable to their organization, first considering their business strategy and target geographic area.

To help identify CDFIs serving their assessment area(s) or the broader statewide or regional area that includes their assessment area(s), institutions can reference the list of certified CDFIs by type and state that is available on the CDFI Fund's website. These certified CDFIs meet the standards set by the CDFI Fund and are eligible for CDFI programs. Certification is not an indication of their financial performance or credit soundness. Direct consultation with potential CDFI partners is also generally a critical part of the identification process.

A bank may consider whether to partner with a CDFI that can support a bank's business lines. For example, a commercial bank may partner with a CDFI that specializes in microloans, expecting that the CDFI may help to grow businesses that could later become commercial borrowers of the bank.[35] Another strategy is for a bank to seek a CDFI partner to help satisfy lending needs that the bank does not generally meet. For example, a commercial bank that does not make personal loans may invest in a CDFI that makes small-dollar loans to consumers.[36]

In addition, banks take into consideration that different CDFI lending structures are appropriate to different market contexts. For example, CDFI banks or credit unions may be the appropriate CDFI vehicles in areas where there is a large unbanked population or a large proportion of low-income borrowers who need basic financial services. CDFI credit unions may be a good fit in very low-income areas, where there is a high demand for small loans. CDFI loan funds may be the appropriate partner in areas where there is a need for financial products and services for small businesses, affordable housing, community facilities, commercial developers, nonprofits, and social service providers.[37]

35 Center for Community Development Investments, "Collaborators or Competitors? Exploring the Relationships between the Community Development Financial Institutions and Conventional Lenders in Small Business Finance" (Federal Reserve Bank of San Francisco: March 2009). Available at *http://www.frbsf.org/community-development/files/wp2009-02.pdf.*

36 John Olsen, "Using CDFIs to Reach the Unbanked," Community Investments Volume 11 Number 2 (September 2000), p. 7. Available at *http://www.frbsf.org/community-development/files/community_investments_September_2000.pdf*.

37 Bob Bidal, "Bank of America's Strategic Approach to Investing in CDFIs," Community Developments (Summer 2002). Available at *http://www.occ.gov/static/community-affairs/Summer-11.pdf.*

Banks should assess the risks and determine acceptable financial returns when considering potential CDFI partnerships. CDFIs offer a variety of investment opportunities, ranging from options that generate little financial return to options that are expected to provide market rates of return. Some investment options are insured by federal agencies or have credit enhancements from other sources. The bank can balance these investment options within the bank's overall community development strategy.

B. Evaluating Potential Partners

1. Credit and Performance Review

As with any investment, a credit review of the potential CDFI partner is an important factor in the partnership decision. There is no mandatory reporting or federally coordinated rating system of all CDFIs that allows investors or others to uniformly evaluate their credit soundness or financial performance.

CDFI depositories are subject to oversight by federal financial institution regulators. Nondepository CDFIs are subject to the laws of the states in which they operate, but they are not federally regulated.

In most cases, financial reports provided by the CDFI organization and meetings with management will be required to help evaluate the performance of a CDFI. The credit review process can include an evaluation of a CDFI's risk management systems, credit underwriting and approval processes, and portfolio management practices. The credit review process can also include an assessment of the CDFI's organizational capacity and experience in community development lending, or in the case of venture capital funds, experience in managing and investment in venture capital funds.[38] In addition, the review can cover an analysis of the financial performance of loans or investments, and the organization's effectiveness in delivering community development benefits.

2. Sources of Information for Analysis

To help evaluate the capacity of CDFIs, a prospective investor bank may use financial ratios and information developed by the CDFI industry.

a. Financial Ratios

Due diligence can include the same types of financial and ratio analysis of third parties that the bank uses in other types of situations. The analysis of a CDFI's financial statement is similar to the analysis of a traditional bank's financial statement. The principles and ratios are similar, but the norms are different, owing to the CDFI mission and business model. For this reason, financial ratios should be compared to a peer group of similar CDFIs over time. Such a ratio analysis is not intended to provide definitive answers as to the financial soundness and safety of a CDFI, but to raise questions for discussion with the CDFI's management.

The Consolidated Reports of Condition and Income and the Uniform Bank Performance Reports available from the FDIC and Federal Financial Institutions Examination Council websites can be used to review the financial condition and performance metrics of CDFI banks. The NCUA provides Quarterly Call Reports and Financial Performance Reports for all federally insured credit unions.

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38 "Community Development Financial Institutions – A Unique Partnership for Banks." Community Development (Special Issue 2011). Available at *http://www.richmondfed.org/community_development/resource_centers/cdfi/pdf/cdfi-special-2011.pdf.*

For nondepository CDFIs, banks can request financial information from those institutions and develop their own ratios or performance measures for analysis purposes.

b. CDFI Technical Assistance Providers

As part of their review of potential CDFI partners, banks should also consider information provided by one or more CDFI technical assistance providers. The information obtained from these sources can be helpful but should not substitute for a bank's own analysis of the potential opportunity. These CDFI technical assistance providers include (but are not necessarily limited to) the following:

- The National Community Investment Fund – This certified, national CDFI can provide financial and social performance data on all community development banks in the United States. Investors can use the organization's Community Development Banking Institution Analysis to identify CDFI banks that are providing services to low-income and underserved communities and make targeted investments based on geographic need. The analysis includes an evaluation of the financial performance of community banks. The analysis also includes an assessment of the development and social impacts of these institutions through metrics that measure the percentage of a bank's home loan originations and purchases and its bank branches that are located in low- and moderate-income communities. The database tool is located on the National Community Investment Fund's website and is available to the public.
- Opportunity Finance Network – Opportunity Finance Network is a national CDFI that provides training and technical assistance to CDFIs. It is currently providing training nationwide to CDFIs through the CDFI Fund's Capacity Building Initiative. CDFIs that are members of this organization's network have been evaluated by the organization based on its criteria.
- NeighborWorks America – NeighborWorks America is a congressionally chartered, nonprofit organization and national CDFI that supports affordable housing and community development through its network of more than 200 community development organizations, many of which are certified CDFIs. The organization provides technical assistance to CDFIs through the CDFI Fund's Capacity Building Initiative, and to CDFIs and other nonprofits through its national training institute.

C. Risk Mitigation

In its evaluation of CDFIs, community banks should consider risks associated with CDFI partnership activities and how the risks can be mitigated. Depending on the investment option, risk mitigation techniques can include credit enhancements or indirect investing through intermediaries.

1. Credit Enhancements

Banks interested in partnering with CDFIs should confirm that the CDFI has taken steps to manage losses, either out of income or from an external source. Loan loss reserves are funds set aside by the CDFI in the form of cash reserves that serve as a cushion to protect an investor for losses up to the amount allocated for the reserve. These funds are not available for lending purposes.

Loan guarantees are made by a government agency or nonprofit organization, such as a foundation. Guarantees ensure that a financial obligation of a CDFI will be honored, even if the CDFI is unable to pay its debt. Also, loan guarantees or partial guarantees on CDFI loans help traditional banks reduce some of the risks on loans they make to CDFIs. In some cases, the guaranteed portion of the loan can be resold in the secondary market.

2. Investing Through an Intermediary

As permitted by law and regulation, community banks can invest in CDFIs indirectly through an intermediary. Intermediary organizations allow investors to invest in a pool of community investments. Pooled investments have some advantages over direct investments, including greater portfolio diversity and cost-effective due diligence and monitoring.

National intermediaries include:

- Opportunity Finance Network – This CDFI certified national network of CDFIs has a Financing Fund that provides banks and other investors the opportunity to invest in CDFIs that are members of the organization's network. CDFIs that are members of the network are high-performing CDFI loan funds that have been evaluated based on the Opportunity Finance Network's criteria.

- National Federation of Community Development Credit Unions – This organization is the national association of community development credit unions and a certified CDFI. Banks can invest indirectly in CDFI credit unions through the National Federation of Community Development Credit Unions, which offers a secondary capital program, a nonmember deposits program, and a grant program to facilitate investment in credit unions.

- Community Development Venture Capital Alliance – This organization is a national network of community development venture capital funds and a CDFI. The Community Development Venture Capital Alliance Central Fund can accept capital in the form of grants and debt, which is passed through for CDFI venture capital funds.

- National Community Investment Fund – The National Community Investment Fund is a CDFI that helps banks and other investors underwrite and structure their investment in CDFIs. This organization has designed a Community Development Banking Institution Analysis to identify community development banks that provide financial services to low-income and underserved communities and fund investments based on the credit and capital needs of particular areas. The Community Development Banking Institution Analysis includes an evaluation of the financial and social performance of community development banks using an internal CAMELS analysis. The organization's website outlines criteria for institutions in which it will invest.

- Oweesta – This certified, national Native American CDFI and subsidiary of First Nations Development Institute provides technical and financial support to Native CDFIs and Native organizations seeking to become CDFIs. Banks can invest indirectly in Native CDFIs through Oweesta. The organization can accept capital in the form of grants and debt.

- Calvert Foundation – The Calvert Foundation, an affiliate of the Calvert Social Investment Fund, is a certified CDFI and financial intermediary that helps banks find CDFI partners in areas that banks want to target. The Calvert Foundation matches CDFIs to the bank's criteria and carries out the necessary due diligence to ensure high quality investments. An investor committed to a minimum $50,000 investment can buy a community investment note, which is a financial instrument that pays a fixed, below market rate of return from one to ten years. The foundation matches or exceeds the bank's financing in the CDFI.

D. Leveraging Partnership Resources

As part of its strategy to maximize economic development outcomes for its bank/CDFI partnership, community banks can take advantage of public and private sector programs that support bank/CDFI partnership activities. These programs can provide equity, grants, loans, and loan guarantees to support lending in target communities, and technical assistance to help build the capacity to deliver financial services effectively in low-income communities.

Leveraging partnership resources with government funding allows banks the opportunity to make a greater community development impact than their investment dollars could provide on their own. Government or public funding partners also help spread the credit risk of investing in low-income and underserved communities.

To leverage partnership resources at the local level, banks can work with a few CDFI partners in targeted neighborhoods and focus investments and activities.

1. Federal Funding Programs to Support Bank/CDFI Partnerships

Depending on eligibility requirements of the various programs, a bank or its CDFI partner may be eligible to apply for financial or technical assistance awards. Many of these programs require the recipient to match the federal funding with nonfederal dollars. In cases where the CDFI is the applicant, banks may elect to help smaller CDFIs meet the federal match for financial assistance awards as part of its partnership agreement.

a. CDFI Fund

The U.S. Department of the Treasury's CDFI Fund promotes economic and community development through investment in and assistance to CDFIs. The CDFI Fund's award programs are the largest source of funding designed specifically for certified CDFIs and financing entities planning to become certified within three years. The CDFI Fund estimates that certified CDFIs leverage each dollar of financial assistance from the CDFI Fund with an average of $20 in private and other non-CDFI Fund dollars.[39] The CDFI Fund's monetary award programs are funded through an annual appropriation from Congress.

- Bank Enterprise Award Program – The purpose of the Bank Enterprise Award Program is to provide incentives for FDIC-insured banks to invest in certified CDFIs and increase their lending, investment, and services in low-income communities. All FDIC-insured depository institutions, even if they do not have the CDFI designation, are eligible to apply for an award.

  Awards are based on activities within three categories (in order of funding priority):

  1. CDFI-Related Activities (incentives for banks to invest in certified CDFIs)
     - Equity investments
       * Grants
       * Stock/share purchases
       * Purchase of partnership interests or limited liability company membership interests in CDFI venture capital funds[40]

39 Donna Fabiani, Office of Financial Strategies and Research, "CDFIs Leverage CDFI Program Awards Nearly $20 to $1!" (Washington DC: U.S. Department of the Treasury CDFI Fund, 2004). Available at ***http://www.cdfifund.gov/impact_we_make/Leverage.pdf***.

40 The limited liability corporation or limited partnership structure should not subject the bank to unlimited liability.

- Equity-like loans
- CDFI Support Activity
    * Loans to CDFIs
    * Deposits in CDFI depositories
    * Technical assistance to certified CDFIs

2. Distressed Community Financing Activities (incentives for banks to expand their community development lending and investments in low-income communities)
    - Small business loans
    - Home improvement loans
    - Education loans
    - Commercial real estate loans
3. Service Activities (incentives for banks to expand their financial services in low-income communities)
    - Deposits
    - Financial services (check-cashing, money-orders, certified checks, electronic transfer accounts, and individual development accounts)
    - Community services

Priority in all categories is given to CDFI bank applicants. Small banks have priority over large banks.[41] For the Bank Enterprise Award Program, asset size classes (i.e., small banks, intermediate-small banks, and large banks) correspond to the CRA asset size classes set by the federal bank regulatory agencies and that were effective at the end of the assessment period.[42]

The CDFI Fund determines the award amounts based on increases in qualified activities from one annual reporting period to the next, an applicant's priority ranking, and the availability of funds. To calculate Bank Enterprise Award Program amounts, the CDFI Fund counts the amount a bank applicant expects to disburse for an activity within one year from the end of the assessment period. For purposes of this calculation, the total amount of equity investments, debt financing, and commercial real estate loans must be $10 million or less to be considered a qualified activity. On a case-by-case basis, the CDFI Fund may consider transactions with a total principal value of more than $10 million.

- New Markets Tax Credit Program – The purpose of the New Markets Tax Credit Program is to spur revitalization in low-income communities by incentivizing private sector equity investments in these communities through federal tax credits. Tax allocation authority is granted to certified Community Development Entities (CDEs), which are intermediary groups that are certified by the CDFI Fund to participate in the program.

  Certified CDFIs automatically qualify for certification as CDEs and must complete a short application to receive this designation. Insured depository institutions, governmental entities, and community development corporations can be certified as CDEs. Once

41 U.S. Department of the Treasury CDFI Fund, Bank Enterprise Award Program FY2012 Application. Washington, DC: U.S. Department of the Treasury CDFI Fund, 2012. Available at *http://www.cdfifund.gov/docs/bea/2012/BEA%202012%20Application%20and%20Instructions.pdf.*

42 Department of the Treasury, "Community Development Financial Institutions Fund," Federal Register Vol. 77, no. 121 (June 22, 2012), 37742. Available at: *www.cdfifund.gov/docs/bea/2012/BEA%20NOFA.pdf.*

designated by the CDFI Fund as a CDE, an organization can apply for tax credit allocation authority.

CDEs provide the tax credits to banks and other investors in exchange for cash. The tax credit is worth 39 percent of the investment made in the CDE. The credit is a dollar-for-dollar reduction in federal tax liability, and the value of the credit is spread over seven years.

The CDE uses the capital generated from the tax credits to make equity investments and below-market loans in low-income communities. The four types of qualified low-income community investments are equity investments or loans to low-income community businesses, equity investments or loans to other CDEs, loans purchased from other CDEs, and financial counseling to businesses in low-income areas.

Community banks can participate in the program by:

- Investing in a CDE that has been awarded New Markets Tax Credit authority – The CDFI Fund publishes a list of CDEs that have received New Markets Tax Credit allocation authority and the markets they serve on its website.
- Establishing a CDE and applying for an allocation of New Markets Tax Credit authority – In this case, the bank uses a subsidiary, such as a bank community development corporation, to establish a limited liability corporation as the vehicle to obtain CDE status and apply for an allocation of New Markets Tax Credit authority from the CDFI Fund. After receiving a New Markets Tax Credits allocation, the bank can invest directly in low-income communities and businesses in low-income areas, all of which must be qualified, and manage its New Markets Tax Credits portfolio through its subsidiary CDE. Through the CDE, the bank receives tax credit benefits as well as a return on investment from the qualified low-income equity investments and loans made to eligible businesses.
- Participating as a lender through the New Markets Tax Credit leveraged loan structure – The bank would provide debt, in addition to the equity capital either provided by the bank or another investor, to an intermediary entity between the bank and the CDE. This intermediary entity is structured as a limited liability corporation or limited partnership. All of the capital (debt and equity) is invested in the CDE as a qualified equity investment. The CDE acts as a flow-through entity to pass the tax credit to the equity investor, which receives the full stream of tax credit benefits. The Internal Revenue Service requires that equity and debt capital in this investment structure be treated as equity investments in the CDE.[43]

- CDFI Fund Program – Through this program, the CDFI Fund provides equity investments, grants, and loans to support the overall operations of individual, certified CDFIs. These funds can be used for financing capital, loan loss reserves, capital reserves, or operations. The CDFI is required to match the award dollar-for-dollar with nonfederal funds. This program also offers technical assistance grants to certified CDFIs and organizations seeking to become CDFIs. Grants can be used for equipment, materials, supplies, salaries, or training.

43 Internal Revenue Bulletin, Rev. Rul. 2010-17 (Internal Revenue Service: June 28, 2010). Available at ***http://www.irs.gov/irb/2010-26_IRB/ar05.html***.

Community banks can seek to partner with certified CDFIs that are applying and/or have received a financial assistance award from this program to leverage the public funds in their assessment areas. In support of their CDFI partner, banks may elect to provide the federal match for the financial assistance award as part of their partnership agreement. The CDFI Fund provides a list of certified CDFIs that have been awarded financial assistance from this program and profiles of the CDFI awardees on its website.

- Native Initiatives – The CDFI Fund's Native Initiatives Program was designed to help overcome barriers to financial services in Native American, Alaskan Native, and Native Hawaiian communities through the creation and expansion of CDFIs. These barriers were identified in a study completed by the CDFI Fund in 2001. Major barriers cited in the study included the following: the limited number of banks on reservations or near Native communities, tribal governance and regulatory constraints on reservations and trust land that increase the risk of providing financial services to Native communities, insufficient access to affordable credit paired with technical assistance for Native households, and insufficient access to investment capital for Native owned or tribal businesses. According to the study, the investment gap between Native communities and the rest of the United States totaled more than $44 billion. In response to the findings, the study recommended the expansion of Native CDFIs to meet the demand for credit and capital in these areas.[44]

  In the Native Initiatives, Native CDFIs are those that direct at least 50 percent of their activities toward serving Native Americans, Alaskan Natives, or Native Hawaiians. The Native Initiatives is composed of the following:

  - Native American CDFI Assistance Program – This program provides financial and technical assistance to increase the number and capacity of existing and developing Native CDFIs. Financial assistance awards are made to certified Native CDFIs to support financing activities. The awards are in the form of loans, grants, deposits, and equity investments, and they require a dollar-for-dollar match by a nonfederal source.

    Technical assistance grants can be awarded to certified Native CDFIs, organizations that plan to become CDFIs, and tribes or tribal entities that plan to create a separate legal entity that will become a CDFI. These funds can be used to increase the capacity to serve Native communities or to become a Native CDFI. Eligible activities include hiring staff, acquiring products or services, providing technology services, and training.

    Community banks can partner with certified Native CDFIs that are applying and/or have received financial assistance from the Native American CDFI Assistance Program to leverage the public funds in their assessment area. Banks may elect to help Native CDFIs meet the federal match for the financial assistance awards as part of their partnership agreement. A list of certified Native CDFIs that have received assistance from this program and profiles of the certified Native CDFIs are available on the CDFI Fund website.

  - Native Opportunities – Through this initiative, the CDFI Fund administers training to help tribes and tribal organizations develop Native CDFIs and help Native CDFIs create financial products and services to serve Native communities.

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44 Sarah Dewees and Stewart Sarkozy-Banoczy. "Investing in Native Community Change: Understanding the Role of Community Development Institutions." (U.S. Department of the Treasury, CDFI Fund – Research Initiative: October 2008). Available at *http://www.cdfifund.gov/impact_we_make/research/rural-and-underserved-markets/reports/Investing%20in%20Native%20Community%20Change%20-%20Understanding%20the%20Role%20of20Community%20Development.pdf.*

- Capacity Building Initiative – The Capacity Building Initiative provides technical assistance and training opportunities to build the capacity of certified CDFIs to deliver financial services. One example of a training opportunity is a series to support CDFIs in providing loans and services to small and medium-sized businesses.
- CDFI Bond Guarantee Program – This program, created in the Small Business Jobs Act of 2010, provides federal guarantees for the full amount of bonds or notes, including the principal and interest, issued by Qualified Issuers (which may include CDFIs) to finance loans for eligible community development projects. The Secretary of the U.S. Department of the Treasury may guarantee up to 10 bonds per year, each at a minimum of $100 million. The bonds will support CDFI lending and investment by providing a source of low-cost, long-term (up to 30 years) capital to CDFIs to support their lending and investment activities. Eligible uses for such loans include financial support for commercial facilities, housing, and businesses that promote revitalization and job creation in low-income communities. Other eligible uses include community development in low-income and underserved rural areas, and the provision of basic financial services. The program is authorized through fiscal year 2014.
- CDFI Certification – CDFI Certification is the CDFI Fund's assessment of financing entities seeking certification as CDFIs. Traditional community banks that are certified as CDFIs may take advantage of various governmental programs that support community development lending activities.
- CDE Certification – This is the CDFI Fund's assessment of financial entities seeking CDE designation and authority to allocate New Markets Tax Credits. A CDE must have a primary mission of community development and a governance structure that assures accountability to the low-income communities it serves. Certification lasts for the life of the organization as long as it submits an annual update to the CDFI Fund. CDFIs, banks, bank consortiums, and government entities can be certified as CDEs.

The CDFI Fund provides a full description of these programs, along with timelines, application materials, supplemental resources, past awards, and program materials archives, on its website at *www.cdfifund.gov*.

b. Other Federal Agencies

Federal government programs for economic and community development can provide equity, loans, loan guarantees, and other credit enhancements to help reduce the risk of lending in community bank/CDFI partnership target areas. Most of these programs are designed to target low-income populations and communities. These programs emphasize leveraging and flexibility, and encourage public/private partnerships. Community banks can use these programs to help mitigate the risk in bank/CDFI partnerships. Government financial assistance can provide a cushion for lenders and an incentive for bank/CDFI partners to make larger loans and expand lending in very low-income areas.

For most programs, either the bank or CDFI partner can be the recipient of the financial assistance. Some programs are specifically targeted to nonprofits. Because federal agencies encourage public/private partnerships, the application of the CDFI nonprofit can be strengthened by the bank/CDFI partnership.

CDFIs have expertise in securing and using these funds. They also have expertise in the program administration requirements of the federal government programs.

Some of the federal government programs that may be beneficial to a community bank/CDFI partnership include the following:

U.S. Department of Commerce – Economic Development Administration

- Revolving Loan Fund Assistance Awards – As part of the Economic Adjustment Program, the Economic Development Administration's regional offices award competitive grants to establish revolving loan funds for small business loans at interest rates that are at or below market rate. Revolving loan fund awards can be used by bank/CDFI partners to support loan pools and consortiums. Applications to establish a revolving loan fund are handled by the Economic Development Administration's six regional offices, each of which has a designated revolving loan fund administrator.

U.S. Department of Housing and Urban Development

- Community Development Block Grant (CDBG) Program – This program provides annual grants to local and state governments to carry out eligible community development activities that primarily benefit low- and moderate-income people, eliminate or prevent slum and blight conditions, or address health and safety problems. The program is flexible and relies on local and state governments to identify local needs and find local public/private solutions. Eligible cities and towns develop their own programs and funding priorities for organizations to apply for CDBG grants.

U.S. Department of the Treasury - Internal Revenue Service and State Housing Finance Agencies

- Low-Income Housing Tax Credit Program – This program offers federal tax credits to private investors, including banks, in return for their providing equity for the development of affordable rental housing. The tax credits are allocated by the Internal Revenue Service to state housing finance agencies, which in turn award the tax credits to developers of qualified projects. A tax credit property can offer lower, more affordable rents because the debt burden for owners is lower. Investors, including banks, obtain a dollar-for-dollar reduction in their federal tax liability.

U.S. Department of the Interior – Indian Affairs

- Loan Guaranty, Insurance, and Interest Subsidy Program – This program provides guarantees of up to 90 percent of a loan made to a federally recognized American Indian tribe or Alaska Native group, an individual enrolled in such a tribe or group, or a business with no less than 51 percent ownership by American Indians or Alaska Natives. The maximum loan that can be guaranteed is $500,000 for individuals and $12 million for tribes and tribal enterprises.

U.S. Small Business Administration

- Intermediary Lending Pilot Program – This program provides loans to eligible nonprofit intermediaries, including CDFIs, for making small business loans of up to $200,000.

- Microloan Program – This program provides funding to community-based microlenders, including CDFI loan funds, to finance small loans to eligible small businesses.

- Community Advantage – U.S. Small Business Administration 7A Loan Program – This loan program provides partial guarantees on loans for small businesses to invest in working capital, machinery and equipment, and real estate.

U.S. Department of Agriculture

- Intermediary Relending Program – This program provides loans for revolving loan funds for financing businesses that create or maintain jobs in remote, disadvantaged communities. Eligible recipients of funding from this program are private, nonprofit entities that are eligible for U.S. Department of Agriculture intermediary lender status.

- Rural Business Enterprise Grants Program – This program provides grants for rural projects that finance businesses, business incubators, and employment-related adult education programs.

U.S. Department of Health and Human Services – Office of Community Services

- Community Economic Development Program – This program provides funding for the start-up and expansion of businesses or commercial projects that create or maintain jobs for low-income people and communities.

2. Federal Home Loan Bank Programs to Support Bank/CDFI Partnerships

The Federal Home Loan Banks (FHLB) are 12 regional cooperative banks that financial institutions use to finance mortgages and community lending in their communities. Community banks and CDFIs are eligible for membership in the FHLB system. With FHLB membership, community banks and CDFIs can access long-term, low-cost funding for home mortgage loans and other economic development-related lending activities. Members can also apply for community development grant funds.

FHLB programs that may be beneficial to a community bank/CDFI partnership include:

- Affordable Housing Program – This program provides grants for the purchase, construction, and rehabilitation of housing for low-income households. Member lending institutions partner with developers and community organizations to build housing for low-income households. The program is the largest source of private sector grant funding for housing and community development in the country. The program is flexible, and grant funding can be used in combination with other programs and funding sources.

- Community Investment Program –This community development lending program provides below-market loans to members for the long-term financing of housing and economic development that benefits low-income borrowers and communities.

The Affordable Housing and Community Investment Programs are managed by the Community Investment Office of the FHLB's regional banks. Contact information for the regional banks is available on the FHLB's website.

3. Focusing Partnership Activities

Some financial institutions choose primarily a place-based strategy for their activities, meaning they concentrate their community development resources on a specific community or other geography to promote a significant, measurable impact. Other institutions choose a more diversified approach to meeting community development needs across different markets where they do business. Still others may emphasize a particular type of community development, such as supporting microenterprise finance across a broad geographic area. To maximize the impact of their partnership activities and investments, banks can work with one or a few CDFI partners that serve their assessment area(s) in targeted neighborhoods or in a specialized program activity, such as microenterprise. Focusing on place-based strategies by directing investments in the context of specific neighborhoods may strengthen the economic productivity of those areas and enable partners to better measure the impact of their partnership initiatives.

As community leaders, community bank officials can work to gain the support of regional, state, and local government leadership for their bank/CDFI partnerships. Banks can encourage these and other economic development stakeholders to support bank/CDFI partnerships by directing resources to the partnerships' targeted areas. The local government may be helpful in providing financing tools, such as credit enhancements for loan pools to support bank/CDFI partnership activities. In rural areas, regional councils of government, state agencies, and some utility companies can provide support for bank/CDFI partnerships and other community development activities.

Bank/CDFI partnerships, with local government support, can work to link partnership activities to the broader economic development initiatives. This may result in positioning the bank/CDFI partnership's targeted area for additional public funding.

V. REGULATORY CONTEXT AND BANK/CDFI PARTNERSHIPS

The Community Reinvestment Act (CRA) encourages commercial banks and savings associations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods, in a manner consistent with safe and sound banking practices. Three federal regulatory agencies—the FDIC, the OCC, and the Federal Reserve Board—conduct regular CRA examinations and develop performance evaluations based on performance tests that vary by institution size and type. However, regardless of the size or type of covered depository institution, loans to and investments in qualifying CDFIs may be useful in helping community banks meet their CRA obligations.

CRA regulations for all insured depository institutions encourage lending activities that benefit a bank's CRA assessment area, including low- and moderate-income census tracts, low- and moderate-income borrowers, and small businesses. The regulations also encourage community development lending, investment, or services activities that benefit the bank's assessment area or the statewide or regional area that includes the assessment area.

Community development is defined in the CRA regulations to include (1) affordable housing (including multi-family rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) promotion of economic development by financing or investing in small businesses or farms; (4) revitalization and stabilization of low- or moderate-income geographies or underserved and distressed middle-income geographies; (5) community development activities that revitalize or stabilize federally designated major disaster areas; and (6) eligible activities that support areas designated under the federal Neighborhood Stabilization Program, which targets communities with high foreclosure levels.

Because CDFIs certified by the CDFI Fund are required primarily to serve a community development purpose, the Interagency Questions and Answers Regarding Community Reinvestment (Q&As, the guidance on CRA issued by federal regulators) explicitly recognize loans to and investments in CDFIs as examples of community development loans and qualified investments.[45]

A. Public Welfare Investments

Banks making investments, as opposed to loans consistent with their regular lending authority, to CDFIs should be aware of the laws, regulations and guidance applicable to public welfare investments: for national banks, 12 USC §24(Eleventh) and 12 CFR 24; for state member banks, 12 USC § 338a and 12 CFR 208; for state nonmember banks, 12 USC 1831a and 12 CFR Part 362. All state banks—state member and state nonmember banks—also are subject to Section 24 of the Federal Deposit Insurance Act. Section 24 of the Federal Deposit Insurance Act generally permits state banks to make the same types of investments or engage in the same type of activities as national banks. Because public welfare investments are permissible for national banks, a state bank would be permitted to make public welfare investments if permitted by its governing state law.

45 Office of the Comptroller of the Currency, Treasury; Federal Reserve System; Federal Deposit Insurance Corporation; and Office of Thrift Supervision. "Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment," 75 Federal Register 11648, 11652. (March 11, 2010). Available at *http://www.ffiec.gov/cra/pdf/2010-4903.pdf.*

According to the OCC's regulation found at 12 CFR 24, a permissible public welfare investment for a national bank would be one that primarily benefits the public welfare by providing or promoting housing, services, or jobs. Specifically, under 12 CFR 24.3, a national bank or national bank subsidiary may invest directly or indirectly if the investment primarily benefits low- and moderate-income individuals, low- and moderate-income areas, or other areas targeted by a governmental entity for redevelopment, or else the investment would receive consideration as a "qualified investment" under 12 CFR 25.23 of the CRA.

Under their public welfare investment authority, national banks may invest in community and economic development entities (CEDEs) and projects that are designed primarily to promote the public welfare, as specified in 12 USC 24 (Eleventh) and in the OCC's regulations found at 12 CFR 24. 12 CFR 24.2 defines CEDEs, in part, to include CDFIs that are certified by the CDFI Fund, CDEs that are eligible to receive New Markets Tax Credits, and minority- and women-owned depository institutions that help meet the credit needs of the communities in which they are chartered.

Proposed investments outside of the scope of the National Bank Act, the OCC's implementing regulations, official bulletins and circulars, and other written interpretations would require application to and the approval of the FDIC before a state nonmember bank could engage in the activity. Therefore, while an equity or debt investment in CDFI Fund-certified CDFIs would normally qualify as a public welfare investment and likely be viewed as a permissible investment for a state nonmember bank, investments in other CDFIs would require review and approval by the FDIC if the activity has not been approved previously by the OCC. For state chartered institutions regulated by the Federal Reserve, public welfare investments are governed by their Regulation H (12 CFR Part 208). For bank holding companies and financial holding companies regulated by the Federal Reserve, public welfare investments are governed by Regulation Y (12 CFR 225) and the Bank Holding Company Act (12 USC 1843).

Under 12 CFR 24.4, a national bank's aggregate public welfare investments and outstanding commitments cannot exceed 15 percent of its capital and surplus. The OCC must approve a national bank's aggregate public welfare investment of over 5 percent of capital and surplus. Furthermore, a national bank's public welfare investments may not expose the bank to unlimited liability. Each subordinate entity's specific organizational documents are reviewed to make sure that adequate limitations of liability are in place and that the entity is permitted to engage only in permissible activities.[46] Permissible investments by state nonmember banks are not subject to these investment limits. The FDIC would establish investment limits for each applicant state nonmember bank according to the FDIC's safety and soundness standards.

In considering the permissibility of public welfare investments, a state bank must also comply with state law governing investment limits and the organizational structure of the investing entity. In addition, banks must be mindful of safety and soundness concerns based on factors such as undue concentrations in investments or loan exposures to a single entity or a group of single-purpose entities. Banks should have systems and controls in place to monitor and control their loan participations with and investments in CDFIs.[47]

46 12 C.F.R. Part 24. Community Development Corporations, Community Development Projects, and Other Public Welfare Investments. Office of the Comptroller of the Currency. 61 Federal Register 49660, (September 23, 1996).

47 Section 24 of the Federal Deposit Act, 12 USC 1831a. FDIC Law, Regulations, Related Acts. 1000-Federal Deposit Insurance Act. (July 31, 1997).

B. CRA Consideration of Bank/CDFI Partnerships

Under the CRA, community development activities can be delivered directly through, or in cooperation with, a CDFI partner that serves an area which includes the bank's assessment area. Banks of all sizes that invest in and collaborate with CDFIs may receive CRA consideration in the lending, investment, and service components of their performance evaluation.

Large Banks

The CRA evaluation of large banks is composed of three tests: lending, investment, and service. The lending test considers a bank's record of helping to meet the credit needs of its assessment area(s) through its lending activities by considering its home mortgage, small business, small farm, and other lending activities requested by the institution.[48] Community development loans, such as those with a primary purpose of community development and that do not qualify as mortgage, small business, small farm, or consumer loans, are also considered. Community development loans include, but are not limited to, loans to financial intermediaries, such as CDFIs, that lend to promote community development.

The investment test evaluates a bank's record of helping to meet the credit needs of its assessment area(s) through qualified investments that benefit its assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).[49] The investment test considers "qualified investments," which are lawful investments, deposits, membership shares, or grants with a primary purpose of community development. CRA-qualified investments include equity investments, deposits, membership shares, grants, and in-kind contributions in or to financial intermediaries such as CDFIs. CDFIs are among a number of organizations in which banks may invest and for which they may receive CRA consideration.

The service test evaluates a bank's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of a bank's systems for delivering retail banking services, and the extent and innovativeness of its community development services.[50] Community development services include the provision of technical assistance to CDFIs engaged in community development and lending bank executives as volunteers for a specified time to these organizations. Community development services should be related to the provision of financial services.[51]

Intermediate-Small Banks

The CRA performance evaluation of intermediate-small banks is composed of a lending test and a community development test. The community development test evaluates the amount and responsiveness of an intermediate-small bank's community development lending, investments, and services.

Small Banks

Small banks are evaluated primarily on their lending activity and must achieve a satisfactory rating on this activity to receive an overall CRA evaluation of satisfactory.[52] Any community

48 Federal Deposit Insurance Corporation, FDIC Law, Regulations, Related Acts, Part 345 – Community Reinvestment. (Washington DC: Federal Deposit Insurance Corporation). Available at ***http://www.fdic.gov/regulations/laws/rules/2000-6500.html***.

49 Ibid.

50 Ibid.

51 2010 Interagency Questions and Answers Regarding Community Reinvestment at 11650

52 Ibid.

development loans and lending-related qualified investments may be considered under the lending-related criteria of the small bank CRA performance test. In addition, the bank may opt to have their other qualified community development investments and services reviewed for consideration for an outstanding CRA rating.

Wholesale and Limited Purpose Banks

Banks with limited purpose and wholesale designations are evaluated under the community development test, which assesses the bank's community development lending, qualified investments, and community development services.

The CRA regulations offer a different evaluation for wholesale and limited purpose banks, a designation that must be requested from and approved by their supervisory agency. These banks are not in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers. Instead, they offer only a narrow product line (such as consumer credit cards or automobile loans) to a regional or broader market. Lending tests are not applicable to these institutions because many of them do not accept consumer deposits or make home loans.[53] The CRA regulations for wholesale and limited purpose banks focus on community development lending, investments, and services.

Wholesale and limited purpose banks may receive consideration on their CRA evaluation for community development loans, investments, and services made across the country. However, these banks must adequately address the community development needs within their assessment areas and the statewide and regional areas that include the assessment area before examiners will consider other community development activities.

Strategic Plan Option

Any bank can choose to have their CRA performance evaluated under the strategic plan option, which allows banks to tailor their CRA goals to address market needs consistent with their business strategy and operational focus. The strategic plan option allows community banks to collaborate with CDFIs, local government, and other community partners to develop a comprehensive reinvestment plan for the area and to incorporate community development activities into their performance goals. An institution's plan must be approved in advance by its regulatory agency.

According to CRA rules, lending-related activities should generally be emphasized. However, the strategic plan option allows for flexible emphasis on plan elements. A higher level of community development lending compared to retail lending activities may be appropriate for an institution that does not make a significant number of mortgage or small business loans. For example, wholesale or limited purpose banks can focus on other activities since these banks do not offer direct lending services. The bank's lending, investment, and service goals must have annual targets during the years the plan covers. After the plan is reviewed and approved by the bank's federal regulator, the agency evaluates the extent to which the bank has met its goals.[54]

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53 2010 Interagency Questions and Answers Regarding Community Reinvestment at 11652.

54 Federal Deposit Insurance Corporation, Community Reinvestment Act: Guide to Developing the Strategic Plan. (Washington DC: Federal Deposit Insurance Corporation, 1998). Available at ***http://www.fdic.gov/news/news/financial/1998/fil9826b.pdf***.

C. CRA Consideration of CDFI Investments and Lending Activities

Bank loans to and investments in effective CDFIs provide an opportunity to leverage public and other private resources to meet community development needs. Community banks may receive CRA consideration for qualifying loans and/or equity investments as permitted by law and regulation.

Loans made directly to a CDFI to carry out its community development mission may receive consideration as a community development loan. These loans may be considered favorably under the lending test for a large institution, the community development test for an intermediate-small institution, and as lending-related activities under the performance factors for a small institution.

Bank equity investments and grants to a CDFI may be considered under the investment test for large institutions and the community development test for intermediate-small institutions. For small institutions not routinely evaluated for community development performance, such investments would support a satisfactory lending test rating when the investment supports lending-related activities and an outstanding CRA performance rating once the lending test factors are considered satisfactory.

If a CDFI's primary purpose is community development in one or more of the categories described above, the entire investment or loan that supports its programs qualifies for CRA consideration. In addition, regulators will consider the qualitative aspects of the program including, for all institutions, responsiveness to community credit needs and, for large institutions, the innovation and complexity of the program.

Moreover, when investments support a CDFI intermediary and that intermediary in turn makes loans to small businesses or low- and moderate-income individuals or in low- and moderate-income areas, the institution may choose to have its investment considered in three ways:

1. The total amount of the bank's community development investment in the CDFI may be considered under the investment or community development test as a community development investment.
2. A pro rata share (based on the bank's share of CDFI equity) of loans made by the CDFI to the ultimate small business or low- and moderate-income borrowers or areas can be considered under the bank's lending performance test.
3. An institution may choose to allocate a share of its investment amount for consideration under the investment or community development test and allocate the remainder for consideration under the lending test.

Any amount considered under the lending test would equal the bank's pro rata share, based on its equity investment of community development loans made by the CDFI during the period under review, provided these loans benefit the bank's assessment area or a broader statewide or regional area that includes the assessment area. (See the Interagency Q&A at Section 12_.23(b) for the complete agency interpretation of dividing the funding consideration between tests.)

The investor bank may receive credit each year for its share of the CDFI's new lending while the equity investment is in effect.[55] Also, a qualified investment will be favorably considered throughout the period of continued investment. Institutions should keep in mind that the qualitative and quantitative factors for any one investment or lending activity will not guarantee a particular rating. The entire record of an institution's performance and the performance context must be evaluated by the regulatory agency responsible for a CRA evaluation.

Any investment in or loan to a CDFI should be predicated on appropriate due diligence and in accordance with prudent banking principles. Favorable CRA credit is considered only when investments or loans are consistent with safety and soundness standards.

D. CRA Consideration of CDFI Partnerships and Community Development Services

Providing technical assistance to a community development organization, such as a CDFI, may be considered a community development service. Examples of qualifying technical assistance include serving on a board of directors; serving on a loan review committee; developing loan application and underwriting standards; developing loan-processing systems; assisting in marketing financial services; providing financial services training to staff; helping with fundraising; providing bookkeeping services; and providing services reflecting financial institution employees' areas of expertise at the institution, such as information technology and legal services.[56]

Also, at an institution's option, the agencies will consider services performed by a third-party CDFI partner on the institution's behalf, if the services enable the institution to help meet community development services and lending needs. However, if grant funding is available for these activities, that funding can be considered a community development investment or the services provided can be considered community development services, but not both.

E. CRA Consideration for Investments in CDFIs that Serve Areas Broader than a Bank's Assessment Areas

A financial institution may receive CRA consideration for investments in CDFIs that serve a statewide or regional area that includes the bank's assessment area. A regional area is generally an intrastate area or multi-state area that includes the bank's assessment area(s).

For example: a bank's activity may receive consideration as a community development loan or service or a qualified investment if it supports a CDFI that covers a state or regional area that is larger than, but includes, the bank's assessment area(s). The institution's assessment areas need not receive an immediate or direct benefit from the institution's participation in the CDFI if the purpose, mandate, or function of the organization includes serving geographies or individuals located in the institution's assessment areas. The institution will receive CRA consideration for these activities even if they do not benefit the institution's assessment area, as long as the

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55 2010 Interagency Questions and Answers Regarding Community Reinvestment at 11659.

56 Office of the Comptroller of the Currency, Treasury; Board of Governors of the Federal Reserve System; and the Federal Deposit Insurance Corporation. "Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment," 78 Federal Register 69678, 69679 (November 20, 2013), (§__.12(i)–3) . Available at *http://www.federalregister.gov/articles/2013/11/20/2013-27738/community-reinvestment-act-interagency-questions-and-answers-regarding-community-reinvestment-notice.*

institution has been responsive to community development needs and opportunities in its assessment area.[57]

The regulatory agencies recognize that CDFIs are efficient and effective ways for banks to meet local credit needs. In many instances, the best way for a bank to meet the market needs of low-income borrowers and communities may be through a CDFI. Most CDFIs are structured to serve geographical areas that may be wider than a community bank's assessment area. In many cases, the best way for CDFIs to make credit available to low-income borrowers and communities is through a statewide or regional organization that can generate a sustainable amount of business by serving a wide territory.[58]

In addition, a financial institution that has been responsive to the community development needs and opportunities in its assessment area(s) will receive CRA consideration for other community development activities in collaboration with a statewide or regional CDFI. These activities only need to benefit geographies or individuals located in the broader statewide or regional area that includes the institution's assessment areas; they do not have to benefit the institution's assessment areas. Consideration for the community development activities under any relevant performance test may be enhanced when they are particularly responsive to a bank's assessment area needs.

Wholesale and limited purpose organizations (as designated by their regulatory agency) will receive CRA consideration for investments, loans, or services conducted with CDFIs nationwide once they adequately address the community development needs of their assessment areas.

Other institutions may receive CRA consideration for activities conducted with CDFIs nationwide provided that the community development activities benefit individuals and geographies located in the institution's assessment area. Financial institutions may also receive CRA consideration for these investments that benefits the broader statewide or regional area that includes the institution's assessment area(s), as long as the institution has been responsive to the community development needs and opportunities in its assessment area(s).[59]

F. CRA Consideration for Investments in Minority- and Women-Owned Financial Institutions and Low-Income Credit Unions

The CRA generally provides that a financial institution's CRA lending, investment, and service activities must benefit an institution's assessment area or, for community development activities, a broader statewide or regional area that includes the assessment area. However, under the regulations, banks may receive CRA consideration for capital investments, loan participations, and other ventures undertaken by minority- or women-owned financial institutions and low-income credit unions, as long as these activities help to meet the credit needs of local communities in which the minority- or women-owned institutions or low-income credit unions are located or chartered.

A financial institution's investments in a minority- or women-owned financial institution or low-income credit union, including one designated as a CDFI, will receive favorable CRA

57 Ibid at 69678,(§__.12(h)–6).

58 2013 Interagency Questions and Answers Regarding Community Reinvestment at 69679, 69680, _.23(a)-2.).

59 Ibid.

consideration even if the CDFI is not serving the assessment area of the investing institution or the broader statewide or regional areas that include the investing institution's assessment area. The CRA does not restrict consideration of these activities to those that benefit the investing bank's assessment area.[60] CRA ratings are determined based on the bank's overall performance in its assessment area(s) together with the bank's activities in partnership with minority- and women-owned financial institutions and low-income credit unions.[61]

Of the 84 CDFI banks, approximately 50 percent are Minority Depository Institutions (MDIs). The FDIC publishes on a quarterly basis a list of MDI banks at *www.fdic.gov/mdi*. The list includes FDIC-supervised banks that meet either of the following two definitions: federally insured depository institutions in which (1) 51 percent or more of the voting stock is owned by minority individuals, or (2) the majority of the board of directors is minority and the community that the institution serves is predominantly minority.[62] The FDIC's list of MDI banks also includes FDIC-insured minority depository institutions that are supervised by the OCC and the Federal Reserve. Each of those agencies has its own definition of MDIs. FDIC publishes the names of MDIs supervised by the OCC and Federal Reserve that are consistent with the MDI categories defined by Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.[63] Participating in the MDI program is voluntary and some institutions meeting the above definitions choose not to be included on the list.

Most CDFI credit unions have sought and received designation as low-income credit unions by the National Credit Union Administration.

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60 Stephanie Caputo, "Encouraging National Bank Investments in Minority-Owned Financial Institutions," Community Developments (Winter 2007). Available at ***http://www.occ.gov/static/community-affairs/community-developments-newsletter/Winter06/cd/encouragingnational.html***.

61 2013 Interagency Questions and Answers Regarding Community Reinvestment at 69679 (§__.21(f)–*1*).

62 Federal Deposit Insurance Corporation, Policy Statement Regarding Minority Depository Institutions, April 9, 2002.

63 Federal Deposit Insurance Corporation, Policy Statement Regarding Minority Depository Institutions. Federal Register Vol. 67, no. 73 (April 16, 2002), 18618.

VI. CASE EXAMPLES OF PARTNERSHIP OPTIONS

Community banks have many opportunities to partner with CDFIs to support community credit needs and community development. As discussed earlier, under the CRA regulations, community development and other lending-related activities undertaken with these partners can be considered under the performance tests applicable to the full range of depository institutions, from small to intermediate-small to large or limited purpose. Moreover, community benefits can be delivered through a CDFI partner that serves a broader statewide or regional area that includes a financial institution's assessment area.

This section provides case examples of bank/CDFI partnerships gathered from a review of CRA evaluations prepared by the FDIC. The featured banks are different sizes, and some are wholesale banks for CRA purposes. The bank/CDFI partnerships have been long-term, with support and collaboration at multiple levels. The full CRA performance evaluations that include these bank activities can be found at *http://www.ffiec.gov.*

Bank/CDFI partnership options described in this section include:

- Providing equity capital using traditional equity instruments
- Providing equity equivalent investments to enhance CDFIs' lending flexibility
- Providing funds for lending using traditional debt instruments
- Providing funds for lending using deposits
- Providing capital for loans or investments using New Markets Tax Credits
- Providing technical assistance
- Collaborating with banks to invest in loan pools and consortiums
- Collaborating with CDFIs in loan participations
- Providing loan servicing
- Providing bank services

The bank/CDFI partnership options illustrated in this section are not exhaustive of the types of partnership opportunities that are eligible for CRA consideration. Banks can consult with their regulators to further evaluate how a CDFI partnership is likely to be considered under the applicable performance standards.

A. Providing Equity Capital Using Traditional Equity Instruments

Community banks can make various types of investments to build the equity capital of CDFIs. Depending on the CDFI type, these investments can take many forms, including stock purchases, grants, and ownership interests in CDFI venture capital funds.

CASE EXAMPLE: BATH SAVINGS INSTITUTION, BATH, MAINE, AND MULTIPLE CDFIs

Bath Savings Institution is a mutual savings bank located in Bath, Maine. The bank offers a variety of traditional financial services. Its assessment area is composed of all or part of Cumberland, Sagadahoc, and Lincoln Counties, which are situated along the southeast coast of Maine. The assessment area also includes the cities of Bath and Portland. In March 2012, the bank had $647 million in total assets and its CRA performance was evaluated under intermediate-small bank standards.

To support affordable housing in the state of Maine, including the bank's assessment area, Bath Savings Institution made qualified community development investments in the Genesis Community Loan Fund, Inc., a statewide CDFI that provides resources to affordable housing entities in Maine. The Genesis Community Loan Fund supports community development corporations, community land trusts, housing authorities, and social agencies in developing housing for low-income families and individuals.[64] Bath Savings Institution renewed four $100,000 investments in the Genesis Community Loan Fund in 2012, renewed four $100,000 investments in 2011, and renewed three $100,000 investments and made one new $100,000 investment in 2010. From 2010 to 2012, the total equity investment in the Genesis Community Loan Fund was $1.1 million. The investments have one-year terms, with an interest rate of 2.25 percent, and renew annually.[65]

To promote small business development in the state of Maine and the bank's assessment area, Bath Savings Institution made qualified community development investments in Coastal Enterprise Ventures, Inc. Coastal Enterprise Ventures, Inc. is a venture capital fund in Portland, Maine, and a for-profit subsidiary of Coastal Enterprises, Inc., a CDFI loan fund. The investments in the CDFI venture capital fund were used to make equity investments in small businesses and start-ups in the state of Maine and northern New England. Thefunded businesses showed the potential to generate high financial returns and meet social goals.[66] In 2012, the Bath Savings Institution advanced a $10,000 investment in Coastal Ventures, III, LLC, and advanced a $15,000 investment in 2011. Most recently, in October 2012, the bank made a commitment to an additional $120,000 investment in Coastal Ventures III, LLC. In 2001, the bank had two investments in Coastal Ventures II, LLC totaling $117,772, which had carried over from prior years. These investments reduce annually and currently have a combined balance of $52,669. There is no maturity date on these investments.[67]

Bath Savings Institution made the qualified community development investments in the Genesis Community Loan Fund, Inc. and Coastal Enterprise Ventures, Inc. to promote affordable housing and small business development in Maine and their assessment area and have an opportunity for consideration under its CRA standards. These investments also earn a rate of return for the bank.

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64 Federal Deposit Insurance Corporation, Public Disclosure Community Reinvestment Act Performance Evaluation – Bath Savings Institution, Bath, Main, June 25, 2012. Available at *http://www2.fdic.gov/crapes*.

65 John C. Marsh Jr. (Bath Savings Institution), email message, November 14, 2012.

66 Federal Deposit Insurance Corporation, Public Disclosure Community Reinvestment Act Performance Evaluation – Bath Savings Institution, Bath, Main, June 25, 2012.

67 John C. Marsh Jr. (Bath Savings Institution), email message.

In regard to risk mitigation, the bank took the necessary steps to collect financial information and documentation to make sure the investments were safe and that they met the definition of community development for CRA purposes. The investments met critical community development needs in the state and the bank's assessment area. The level of qualified community development investments by Bath Savings Institution was considered excellent given the needs and opportunities of the area and the total dollar investment.

Exhibit I

BATH SAVINGS INSTITUTION AND GENESIS COMMUNITY LOAN FUND

COASTAL KIDS PRESCHOOL EXPANSION

Bath Savings Institution and Genesis Community Loan Fund, in partnership with U.S. Department of Agriculture Rural Development, provided financing for the expansion of the Coastal Kids Preschool in Damariscotta, Maine. Coastal Kids Preschool is operated by Lincoln County Children's Services, a private, nonprofit organization that provides education and child care services for Lincoln County's preschool-aged children.

Before its expansion, the school operated from a converted house. The new state-of-the-art facility provides increased teaching and office space, and increased access and facilities for special education students and students with disabilities. Coastal Kids Preschool is now able to offer 49 placement slots per day, compared to the 28-slot capacity in the old facility. Sixteen of the placement slots (one-third of the total enrollment) are reserved for/held by children with special needs.

The project was funded through a U.S. Department of Agriculture Rural Development Community Facility Direct Loan of $529,200 and a U.S. Department of Agriculture Rural Development Guaranteed Loan in partnership with Bath Savings Institution of $189,800. Additional financing of $281,000 came from the Genesis Community Loan Fund. The school's board of directors conducted a capital campaign that raised over $150,000 from local businesses, foundations, and individuals.

The project was completed in January 2012.

Photo Credit: Courtesy of Bath Savings Institution, Genesis Community Loan Fund, and Coastal Kids Preschool

CASE EXAMPLE: FIRSTBANK, LEXINGTON, TENNESSEE, AND SOUTHERN APPALACHIAN FUND, LP

FirstBank is a state-chartered commercial bank headquartered in Lexington, Tennessee. FirstBank offers a full line of loan products, deposit accounts, and other financial services. The bank's assessment area is composed of 20 counties in Tennessee. As of December 31, 2013, FirstBank had $2.2 billion in total assets.[68] The bank's CRA performance is evaluated using large bank standards.

From 2006 to 2008, FirstBank kept a prior period investment of $100,000, with a current book value of $86,649, in a limited partnership interest in the Southern Appalachian Fund, LP, a CDFI venture capital fund. The Southern Appalachian Fund, LP provides equity capital and operational assistance to qualifying businesses in southern Appalachia. The CDFI venture capital fund invests in small businesses in Tennessee, Kentucky, and the Appalachian counties in Georgia, Alabama, and Mississippi. The Southern Appalachian Fund is one of the nation's six New Market Venture Capital Companies, which were formed by the U.S. Small Business Administration as for-profit venture capital funds. The Southern Appalachian Fund, LP is also a community development entity (CDE) that received an allocation of New Markets Tax Credits. FirstBank received New Markets Tax Credits to enhance its investment in the partnership, which facilitates its investment in areas that benefit the regional area and the bank's assessment area.[69]

The Southern Appalachian Fund, LP used the funds generated from private investors, including FirstBank, and U.S. Small Business Administration debt to make loans and purchase equity in eight small businesses. As of December 31, 2011, a total of 265 people were employed by the Southern Appalachian Fund's portfolio companies, representing 189 jobs created and 76 jobs retained. Forty-seven percent of the total number of employees hired by the portfolio companies resided in low-income areas. In 2011, the wages paid to these employees totaled more than $13.1 million. Eighty-eight percent of all full-time employees were offered health insurance, and 74 percent were offered retirement plan benefits. On December 31, 2011, the average wage for the 254 full-time portfolio company employees was $23.44 per hour, or approximately $49,000 annually. In addition to the direct benefits to those employed, the jobs provided by the Southern Appalachian Fund portfolio companies indirectly benefit other businesses in these low-income communities.

FirstBank limited its investment in the Southern Appalachian Fund to $100,000, which was the minimum investment allowed. The investment was long-term (over 10 years) and complex. Although investors receive tax credits equal to 39 percent of their investment, there is no guarantee that the bank will earn any return on their investment or the principal repaid. U.S. Small Business Administration debentures have to be repaid before any profit is distributed to FirstBank and other private investors.

FirstBank's primary deposit and loan market is rural west Tennessee, and the bank has a presence in practically every major city in the state along with other offices in rural middle and east Tennessee. The bank's management reported that it believed the investment in the Southern Appalachian Fund, LP was an opportunity to potentially benefit all of these areas by helping to provide good jobs in low-income areas, as well as a way to help meet their CRA goals.

For CRA purposes, FirstBank's investment in the Southern Appalachian Fund, LP was considered innovative and not routine. FirstBank showed a willingness to try an alternative investment to meet community development needs.

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68 Federal Financial Institutions Examination Council, Consolidated Reports of Condition and Income for a Bank With Domestic Offices Only – FFIEC 041
. Available at *https://cdr.ffiec.gov/Public/ViewFacsimileDirect.aspx?ds=call&idType=fdiccert&id=8663&date=12312013*.

69 Federal Deposit Insurance Corporation, Public Disclosure Community Reinvestment Act Performance Evaluation – First Bank, Lexington, Tennessee, July 17, 2008. Available at *http://www2.fdic.gov/crapes*.

B. Providing Equity-Equivalent Investments to Enhance CDFIs Lending Flexibility

Community banks can make equity-equivalent loans and investments (EQ2s) in CDFIs. EQ2s are long-term, fully subordinated debt instruments that function like equity in key respects. These low-interest loans have rolling terms, with intermediate maturities, as long as CDFIs carry out their community development purposes. EQ2 capital makes it easier for CDFIs to offer more responsive financing products, with longer loan terms.

CASE EXAMPLE:

WEST BANK, WEST DES MOINES, IOWA, AND NEIGHBORHOOD FINANCE CORPORATION

West Bank, a subsidiary of West Bancorporation Incorporated, is a commercial bank headquartered in West Des Moines, Iowa. The bank offers a full line of deposit and loan products. Its customer base consists of consumers and small and medium-sized businesses. As of December 2012, the bank had total assets of $1.434 billion.[70] West Bank's CRA performance is evaluated using large bank standards.

From 2006 to 2009, the bank's community development investments included a $300,000 EQ2 to the Neighborhood Finance Corporation, a CDFI loan fund. The Neighborhood Finance Corporation was established by the City of Des Moines and Polk County to provide lending programs and related services to neighborhoods designated by the city and county as revitalization areas. The Neighborhood Finance Corporation is the only CDFI in the Des Moines and Polk County area. The CDFI used the EQ2 to provide nonconforming purchase-rehabilitation loans for multi-family properties and commercial real estate mortgages for distressed properties. The EQ2 had an interest rate of 3 percent, with interest paid to June 2009, and a maturity date of June 2019.[71]

Exhibit II

Stephany Avery, West Bank's Vice President of Residential Mortgages and member of the Board of Directors for Neighborhood Finance Corporation (seated), and Holly Olson, CPA, Neighborhood Finance Corporation's Executive Director, review plans for a home in Des Moines, Iowa, to be improved using Neighborhood Finance Corporation funding.

Photo Credit: West Bank

West Bank made the equity investment primarily to support the Neighborhood Finance Corporation, which it considers a valuable resource in the community, and to show its commitment to help local businesses. For CRA purposes, the investment was considered innovative and flexible given the scarcity of these types of qualified investments in Iowa.

70 Carol Stone (West Bank), email message, August 15, 2013.

71 Federal Deposit Insurance Corporation, Public Disclosure Community Reinvestment Act Performance Evaluation – West Bank, West Des Moines, Iowa, April 20, 2011. Available at *http://www2.fdic.gov/crapes*.

Since 2006, a West Bank official has served as a member of the Neighborhood Finance Corporation's board of directors, which helps the bank stay informed of bank/CDFI partnership activities. West Bank lending officers also serve as members of the Neighborhood Finance Corporation's residential and commercial loan committees. The bank received CRA consideration under the service test for the service of its officers to the Neighborhood Finance Corporation's board of directors and loan committees.

West Bank also invests in the Neighborhood Finance Corporation by purchasing loan participations in loan pools funded by banks, foundations, and government entities. The loan pools are used by the Neighborhood Finance Corporation to fund forgiveable loans, which are used for home improvement, closing cost assistance, loan guarantees, and construction loans in areas in Des Moines identified as needing revitalization.[72] In December 2012, the bank had a total of $1.6 million in Neighborhood Finance Corporation loan participations on its books.[73]

C. Providing Funds for Lending Using Traditional Debt Instruments

Community banks can extend loans through various debt instruments to CDFIs for relending to low-income borrowers.

CASE EXAMPLE: COMMUNITY SAVINGS BANK, CHICAGO, ILLINOIS, AND MULTIPLE CDFIs

Community Savings Bank is a mutual savings bank located in Chicago, Illinois, that offers a variety of financial products and services. The bank's assessment area is Cook County, Illinois, and its CRA performance is evaluated according to intermediate-small bank criteria. Community Savings Bank had total assets of $414 million as of June 2013.

In 2007, Community Savings Bank renewed and restructured a $100,000 loan to Accion Chicago, a CDFI loan fund. Accion Chicago provides micro-loans and financing to small businesses that do not have access to traditional sources of financing. The CDFI makes loans for as low as $500 to a maximum of $20,000 for start-up businesses and $50,000 for established businesses. Accion Chicago also provides credit builder loans between $500 and $2,500 to help small business owners build or repair their credit while growing their business. The loan from Community Savings Bank to Accion Chicago was restructured from a 2 percent annual percentage rate to 0 percent annual percentage rate and extended to a 50-year term. The loan has been used by Accion Chicago for making microfinance small business loans to small business owners.[74]

Community Savings Bank has invested $1 million in certificates of deposit, which automatically renew, in six CDFI banks located in the bank's assessment area. The CDFIs and investment breakdowns include Urban Partnership Bank - $150,000 (2013) and $100,000 (2013); Pan American Bank - $100,000 (2013); Seaway Bank and Trust Company - $100,000 (2013); Illinois Service Federal Savings and Loan - $100,000 (2013) and $150,000 (2013); Austin Bank of Chicago - $200,000 (2013); and International Bank of Chicago - $100,000 (2013). The certificates of deposit made

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72 Carol Stone (West Bank), email message, June 14, 2012.

73 Carol Stone (West Bank), email message, August 15, 2013.

74 Federal Deposit Insurance Corporation, Public Disclosure Community Reinvestment Act Performance Evaluation – Community Savings Bank, Chicago, Illinois, September 13, 2010. Available at *http://www2.fdic.gov/crapes*.

up approximately 25 percent of the bank's overall qualified community development investments.[75]

To support affordable housing in its assessment area, Community Savings Bank partners with the Neighborhood Lending Services, Inc., a CDFI loan fund and affiliate of the Neighborhood Housing Services of Chicago, a community development organization. The Neighborhood Lending Services, Inc. is the largest nonprofit lender for affordable home loans in Illinois. In 2009, Community Savings Bank increased its commitment in the CDFI's Mortgage Loan Participation Program from $1 million to $1.5 million. In the program, loans originated by the CDFI are funded by Community Savings Bank and other investors through periodic capital calls.[76] In 2013, Community Savings Bank funded three draws on the Mortgage Loan Participation Program for a total of $334,153 and funded three draws for a total of $285,025 in 2012.[77] The president/ chairperson of Community Savings Bank serves as a trustee committee member for the Neighborhood Housing Services, and the bank's vice president/chief lending officer serves as the president of the board of the CDFI Neighborhood Lending Services.

The bank received CRA community development test consideration for its loan to Accion Chicago and investments in the various CDFI banks and loan fund. The investments were considered responsive to community credit needs.

Exhibit III

Girmai Lemma, owner of Demera Ethiopian Restaurant, used a loan from Accion Chicago, a CDFI loan fund, to renovate space for his restaurant and order supplies. Accion Chicago's loan fund is funded through funds borrowed from Community Savings Bank and other traditional lenders.

Photo Credit: Courtesy of Betsy Sikma

Two entrepreneurs who benefitted from Accion Chicago's microloan fund are Lucero Martinez, owner of Lucero Chicago, a catering business that specializes in Caribbean food; and Anthony Waller, owner of Catering Out the Box, a lunch box catering service. The entrepreneurs share a space at a local commercial kitchen.

Photo Credit: Courtesy of Betsy Sikma

75 Dane Cleven (Community Savings Bank), email message, September 3, 2013.

76 Federal Deposit Insurance Corporation, Public Disclosure Community Reinvestment Act Performance Evaluation – Community Savings Bank, Chicago, Illinois, September 13, 2010.

77 Dane Cleven (Community Savings Bank), email message.

D. Providing Funds for Lending Using Deposits

Banks can make deposits in CDFI depositories to provide funds for relending to low-income borrowers. As explained earlier, deposits in federally insured banks or credit unions are insured up to the maximum allowed by law.

CASE EXAMPLE: BANK LEUMI USA AND CDFIs IN MULTIPLE STATES

Bank Leumi USA is a New York state-chartered commercial bank and the largest subsidiary of the Leumi Group, a global banking institution with major financial centers in 21 countries. In the United States, the bank maintains branches in California, New York, Florida, and Illinois. As of June 2013, the bank had $5.1 billion in total assets.[78] Bank Leumi USA is a wholesale bank that provides financial services to middle and upper-middle market companies and international businesses. The bank's wholesale lending and business strategy limits the type of loan products offered. The bank supports community development through community development lending in its assessment areas and investments in qualified community development investments, including CDFIs.

Bank Leumi USA's New York assessment area consists of the five counties in the New York City Metropolitan Statistical Area: Bronx, Kings, New York, Queens, and Richmond. For CRA compliance purposes, the bank maintains deposit relationships with two local CDFI credit unions. A $100,000 certificate of deposit is maintained at the Bethex Federal Credit Union, which provides its members throughout New York City with financial products (e.g., home, business, car, and consumer loans) and financial services (e.g., share accounts, check cashing, ATM access, and credit and budgeting counseling). The bank also maintains a $100,000 certificate of deposit at the Union Settlement Federal Credit Union, which provides its members in the East Harlem community in New York City with financial products and services.

In its California Region, Bank Leumi USA operates three branches in Los Angeles County, one in Encino, one in downtown Los Angeles, and one in Beverly Hills, which is considered the bank's main office in California. The Los Angeles assessment area is entirely within the Los Angeles-Long Beach-Glendale, California metropolitan division. The bank maintains a $100,000 certificate of deposit with the Pacoima Development Federal Credit Union. The Pacoima Development Federal Credit Union provides its members in the Northeast San Fernando Valley, which includes the City of Los Angeles, with financial services such as free check cashing, share accounts, and auto and consumer loans.[79] Bank Leumi also maintains a $100,000 certificate of deposit with Promerica Bank, a local Latino-formed business bank providing small business and bicultural services to the Los Angeles community.[80]

In Illinois, Bank Leumi USA operates one branch in Chicago—the Cook County metropolitan statistical area. The bank maintains a $100,000 certificate of deposit with the Urban Partnership Bank, which is both a CDFI and a Minority Depository Institution.

The certificates of deposits that Bank Leumi USA maintains with the CDFIs in New York, California, and Illinois are automatically renewable annually. The rate of interest return for these investments ranges from 0.25 percent to 0.75 percent.

Bank Leumi USA's investments in CDFIs were made with institutions within the bank's assessment areas, which directly benefited from the investments. Besides promoting community development

78 Jerry Murnane (Bank Leumi USA), email message, September 6, 2013.

79 Federal Deposit Insurance Corporation, Public Disclosure Community Reinvestment Act Performance Evaluation – Bank Leumi USA, New York, New York, March 31, 2010. Available at ***http://www2.fdic.gov/crapes***.

80 Jerry Murnane (Bank Leumi USA), email message.

in its assessment areas, the bank received CRA consideration and recognition for these certificates of deposit under the investment test. The amounts of these investments are maintained under the limit for fully FDIC-insured deposits.

E. Providing Capital for Loans or Investments Using New Markets Tax Credits

Community banks can provide cash to community development entities (CDEs)—intermediary groups that are certified by the CDFI Fund to take part in the New Markets Tax Credit Program—to make loans or investments to businesses in low-income communities. In return for the equity investment, the CDE provides the investor bank with new markets tax credits. The tax credit is worth 39 percent of the investment made in the CDE. The credit is a dollar-for-dollar reduction in federal tax liability, and the value of the credit is spread over seven years.

CASE EXAMPLE: EASTERN BANK, BOSTON, MASSACHUSETTS, AND MASSACHUSETTS HOUSING INVESTMENT CORPORATION

Eastern Bank, a mutual bank headquartered in Boston, Massachusetts, has $8.6 billion in total assets. Eastern Bank offers a wide range of services in both the commercial and consumer sectors.[81]

In 2008, Eastern Bank made an equity investment of $2 million, which, along with other investors, provided $50 million in equity for the Massachusetts Housing Investment Corporation's New Markets Tax Credits Fund III Series III, a CDE. The CDE is the for-profit subsidiary of the Massachusetts Housing Corporation, a certified CDFI loan fund. The Massachusetts Housing Investment Corporation was founded by a consortium of banks and corporate investors to provide loans for the construction and permanent financing of affordable rental housing.[82]

Wainwright Bank and Trust (later acquired by Eastern Bank) was the senior lender for all projects in the Massachusetts Housing Investment Corporation's New Markets Tax Credits Fund III Series III, including $5.7 million for development of a new facility for Girls Incorporated of Lynn. The CDE used the capital to make loans to qualified low- income community businesses such as Girls Incorporated. The loans extended by the CDE supported affordable housing, small business development, and community facility rehabilitation and renovation projects. The projects/borrowers were financially sound, with a significant level of equity behind the senior debt. All projects/borrowers had strong management teams.

To help ensure credit quality and control risks, the fund and project level financial covenants established by Wainwright Bank provided base-line underwriting parameters. Cash reserves were also substantial for each project.[83]

Eastern Bank has continued the legacy of Wainwright Bank through its community development lending, by remaining active in the nonprofit lending sector, and through its use of tax credits. Eastern Bank has been rated "outstanding" in CRA from 1995 to 2012. Its partnership activities

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81 Karen Turmenne (Eastern Bank), email message, September 13, 2013.

82 Federal Deposit Insurance Corporation, Public Disclosure Community Reinvestment Act Performance Evaluation – Wainwright Bank and Trust Company, Boston, Massachusetts, May 5, 2008. Available at ***http://www2.fdic.gov/crapes***.

83 Karen Turmenne (Eastern Bank), email message.

were considered innovative and complex, and very responsive to the community's credit needs. This activity is typically expected from larger banks and requires larger investment amounts than other types of investments.

Exhibit IV

EASTERN BANK AND MASSACHUSETTS HOUSING INVESTMENT CORPORATION

OLD LYNN SCHOOL REHABILITATION

Wainwright Bank and Trust, later acquired by Eastern Bank, was the equity investor and senior lender for all projects in the Massachusetts Housing Investment Corporation's New Markets Tax Credits Fund III Series III, including the rehabilitation of the historic Old Lynn School in Lynn, Massachusetts. The building is located at the edge of downtown, in one of the city's oldest neighborhoods. The Old Lynn School was rehabilitated into a 14,650 square foot office and services facility, with a new gymnasium, conference room, and program space. Once vacant, the rehabilitated property provides a home to Girls Incorporated of Lynn, which was founded over 70 years ago to provide programs for low-income girls and their families and is an affiliate of Girls Incorporated. The Girls Incorporated of Lynn Project sparked new activity to a distressed community, created a valuable community amenity, and preserved an important historic property.

Photo Credit: Eastern Bank

F. Providing Technical Assistance

Through a partnership agreement, community banks can provide technical assistance to CDFIs. Technical assistance can include product development, strategic and financial planning, and professional development of CDFI staff. Technical assistance can also include the volunteer service of a bank officer as a CDFI board director or member of an advisory board or credit review committee.

CASE EXAMPLE: **FIRSTBANK OF NORTHERN COLORADO, FORT COLLINS, COLORADO, AND FUNDING PARTNERS FOR HOUSING SOLUTIONS**

FirstBank of Northern Colorado, a subsidiary of FirstBank Holding Company of Colorado, is located in Fort Collins, Colorado. The bank's assessment area is composed of most of Larimer and Weld Counties in Colorado. In September 2009, FirstBank of Northern Colorado reported total assets of $389 million, and its CRA performance was evaluated using intermediate-small bank criteria.

The president of FirstBank of Northern Colorado, in partnership with other banks and local government, founded the Funding Partners for Housing Solutions, a CDFI dedicated to affordable housing. Through the partnership, FirstBank and other financial institutions provide the mortgage products, and local housing agencies provide financial education and client support.

During the CRA assessment period, an official of FirstBank of Northern Colorado served as the board president and member of a loan committee of Funding Partners for Housing Solutions. The bank official was involved in drafting the CDFI's first loan policy, launching new loan products, and maintaining the loan portfolio. The First Bank official also recruited other bank partners to invest in the CDFI's programs. FirstBank of Northern Colorado received CRA consideration under the community development test for the service of its officials to the Funding Partners for Housing Solutions.

From 2006 to 2009, FirstBank maintained an equity equivalent investment totaling $1.5 million in the Funding Partners for Housing Solutions. The bank has been an equity investor in Funding Partners for Housing Solutions since 1999. Since 2003, FirstBank Holding Company of Colorado has donated $25,000 annually to the Funding Partners for Housing Solution's operating budget. These investments were considered responsive to area credit and community development needs, and the bank received CRA credit under the community development test for these activities.[84]

Exhibit V

FIRSTBANK OF NORTHERN COLORADO AND FUNDING PARTNERS FOR HOUSING SOLUTIONS

VILLAGE OF STANFORD

The Village of Stanford project is a $10.1 million acquisition/rehabilitation project that was constructed by the Fort Collins Housing Authority in Fort Collins, Colorado, and financed through a collaboration composed of the FirstBank/Funding Partners bank/CDFI partnership and community housing nonprofits. The project included the acquisition of a blighted apartment complex and rehabilitation of 90 units utilizing FirstBank debt and low-income tax credits. FirstBank was the

Photo Credit: Courtesy of FirstBank, Funding Partners, and Fort Collins Housing Authority

84 Federal Deposit Insurance Corporation, Public Disclosure Community Reinvestment Act Performance Evaluation – FirstBank of Northern Colorado, Fort Collins, Colorado, December 16, 2009. Available at *http://www2.fdic.gov/crapes*.

tax credit investor. The Fort Collins Housing Authority used funding from the Funding Partners, which was supported by the FirstBank EQ2 investment, to cover temporary funding gaps on this project. The financing for the project guaranteed permanent affordability for residents earning 30 to 60 percent of the area median income.

The Village of Stanford is a model for affordable and sustainable multi-family housing. The complex was rehabilitated to conserve energy and contain utility costs for its residents. Building features include thermal-panel water heating, natural lighting with interior sky tubes, and Energy Star-rated appliances. The community building has geothermal exchange heating and cooling, with electricity provided by photovoltaic panels.

The project created 17 full-time jobs and was completed in 2010.

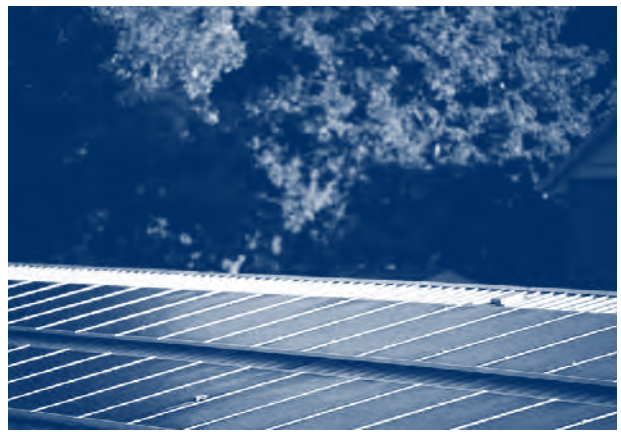

Photo Credit: Courtesy of FirstBank, Funding Partners, and Fort Collins Housing Authority

G. Collaborating with Banks to Invest in Loan Pools and Consortiums

Two or more financial institutions can invest funds in a pool and make a loan to a CDFI for a larger amount than either bank may have been willing or able to make independently. The risk associated with partnering with the CDFI is minimized because the banks are liable only up to the amount of their investment.

The lending pool can be organized as a lending consortium in which the participating banks pool their funds as investments in a consortium. In a consortium, the bank investors establish the maximum amount of draw from each bank. Each investor allows a pro rata draw on their individual subscription on a shared basis as funding is needed.

In a lending pool or consortium, the traditional banks and the CDFI agree on the types of investment products and services that will be offered to borrowers and the underwriting criteria. The CDFI works directly with the borrowers, and a loan committee composed of participating banks approves the loans.

Banks can provide grants, donations, EQ2s, certificates of deposit, direct loans, subordinated loans, guarantees, or a combination of these products to the loan pool or consortium. The pool or consortium can include credit enhancements from the participating banks, government entities, foundations, or tax credits.

A bank consortium can also apply for certification as a CDFI. Benefits of certification to bank consortiums include increased access to all levels of government funding, including the CDFI Fund.[85]

CASE EXAMPLE: THE BANK OF TAMPA, TAMPA, FLORIDA, AND NEIGHBORHOOD LENDING PARTNERS OF WEST FLORIDA

The Bank of Tampa is a full-service commercial bank in Tampa, Florida. The bank is a wholly owned subsidiary of the Tampa Bay Banking Company, a one-bank holding company in Tampa, Florida. The bank's assessment area is Hillsborough County, which is part of the Tampa-St. Petersburg-Clearwater, Florida, metropolitan statistical area. The Bank of Tampa had $1.166 billion in total assets as of January 2013. The bank's CRA lending, investment, and service activities were evaluated using intermediate-small standards in 2013.

During the recent recession, the housing market in the bank's assessment area was fragile, owing to the high number of distressed mortgages, foreclosed properties, and low property values. In addition, the supply of rental housing had not kept pace with the population increase, and many existing multifamily rental units had been converted to condominiums. Although Tampa's housing market has improved, there is a shortage of affordable housing, including affordable rental housing, in the area. To promote affordable housing, including affordable multifamily rental housing, the bank became a member of the Neighborhood Lending Partners of West Florida, Inc., a nonprofit lending consortium and certified CDFI. The CDFI provides financing to developers of affordable housing and permanent financing for the acquisition and rehabilitation of multifamily housing. The CDFI serves 20 counties in west Florida, including the bank's assessment area.

The Neighborhood Lending Partners' loan pool is funded by 14 banks, including The Bank of Tampa, which participate in each loan made by the consortium based on their respective commitment amount. The Bank of Tampa's commitment is $2 million. From July 22, 2009, through January 7,

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85 "Multi-bank Partnerships for Community Development Financing," Community Developments (September 2011). Available at *http://www.occ.gov/topics/community-affairs/publications/fact-sheets/fact-sheet-multi-bank-partnerships.pdf*.

2013, the bank participated with the Neighborhood Lending Partners in 13 loans totaling $976,750. The bank's investment in the Neighborhood Lending Partners has resulted in the creation of more housing options in its assessment area and the CDFI's target market.[86]

The Bank of Tampa provides additional support to the Neighborhood Lending Partners through a low-cost commercial checking account. The bank also provides representation on the CDFI's board of directors. Bank management has served on the Neighborhood Lending Partners' executive and loan committees, providing assistance to the CDFI with banking questions and specific lending and underwriting issues.[87]

Exhibit VI

THE BANK OF TAMPA, TAMPA, FLORIDA, AND NEIGHBORHOOD LENDING PARTNERS OF WEST FLORIDA

The Bank of Tampa participated with the Neighborhood Lending Partners of West Florida, a CDFI nonprofit lending consortium made up of traditional lenders, to provide construction financing for this 31-unit townhouse development in Clearwater, Florida. The development was partially funded through the U.S. Housing and Urban Development's Neighborhood Stablization Program. The developer's restrictions called for 16 townhouses to be purchased by residents earning no more than 80 percent of the area median income, and 15 units by residents earning no more than 120 percent of the area median income.

THE BANK OF TAMPA, TAMPA, FLORIDA, AND NEIGHBORHOOD LENDING PARTNERS OF WEST FLORIDA

Photo Credit: Courtesy of The Bank of Tampa

86 Federal Deposit Insurance Corporation, Public Disclosure Community Reinvestment Act Performance Evaluation – Bank of Tampa, Tampa, Florida, January 7, 2013. Available at ***http://www2.fdic.gov/crapes***.

87 Jacqueline Moore (Bank of Tampa), email message, June 18, 2012.

WESTON OAKS APARTMENTS

The Bank of Tampa participated with the Neighborhood Lending Partnerships of West Florida, a CDFI and consortium of lenders, to provide construction and permanent financing for the Weston Oaks Apartments, a 200-unit apartment complex located in Holiday, Florida. The development was partially funded by a State Housing Initiatives Partnership grant from the Florida Housing Finance Corporation. The developer's restrictions called for 15 percent of the units to be leased to tenants earning no more than 30 percent of the area median income, and 85 percent of the units to tenants earning no more than 60 percent of the area median income.

Photo Credit: Courtesy of The Bank of Tampa

H. Collaborating with CDFIs in Loan Participations

Loan participations are loans made by a traditional bank and CDFI partner to a specific borrower and serviced by either the traditional bank or CDFI. Typically, one of the lenders takes the role of the lead lender. The lead lender originates the loan, organizes and manages the participation, and deals directly with the borrower.

Loan participations can help traditional banks diversify their lending portfolios. They also allow a bank to reduce its credit risk to a customer or community that entails greater than average risk.

Loan participations can help CDFIs originate larger loans but stay within their legal lending limits. They also can help CDFIs keep customers that otherwise may have outgrown them.

Loan participations can be made with equal risk sharing for the lead lender and participating lenders. Alternatively, loan participations can be made on a senior/subordinated basis, where the lead lender is paid first and the subordinate loan participation is paid only if enough funds are left over.

CASE EXAMPLE: DEUTSCHE BANK TRUST COMPANY DELAWARE, WILMINGTON, DELAWARE, AND MULTIPLE CDFIS

Deutsche Bank Trust Company Delaware is headquartered in Wilmington, Delaware. The bank is chartered as a wholesale commercial bank and trust company, with total assets of $452.6 million as of September 2011. Deutsche Bank Trust Company Delaware is a small wholesale commercial bank relative to the large limited purpose institutions operating in Delaware. The bank's business strategy focuses on cash management services for institutional clients, corporate and personal trust services, corporate administrative services, and affiliate loan participation purchases. The bank's assessment area is composed of New Castle County, which is located within the Philadelphia-Camden-Wilmington metropolitan statistical area.

Deutsche Bank Trust Company Delaware directs most of its community development loans and investments to affordable housing initiatives. Since the bank does not conduct any direct commercial or retail lending and thus has no infrastructure to support those activities, it partners with other financial institutions, including CDFIs, and non-profit partners to carry out its community development lending and investing. All CDFI loan participations are on a senior basis, with various risk sharing structures, and serviced by the CDFI.

In 2010 and 2011, Deutsche Bank Trust Company Delaware participated in two tranches totaling $1.2 million in a $3.5 million acquisition/pre-development construction loan through the National Council on Agricultural Life and Labor Research, Inc., a CDFI loan fund. The loan participation with the National Council on Agricultural Life and Labor Research, Inc. financed a federally qualified health care center serving the uninsured and underinsured low- to moderate-income population. The National Council on Agricultural Life and Labor Research, Inc. provides financial and technical assistance for affordable housing in low-income, rural communities in Delaware.

In 2010, Deutsche Bank Trust Company Delaware made a $500,000 commitment to a $10.45 million loan fund consortium to finance permanent mortgages for affordable multi-family housing developments. The commitment was made to the Delaware Community Investment Corporation, a CDFI loan fund that provides permanent mortgages for multi-family affordable housing. The Delaware Community Investment Corporation was founded by a group of financial institutions to provide financing for affordable housing and commercial real estate projects located in targeted areas throughout Delaware. Since inception, the bank has participated in 14 of the 19 funds created by the consortium, including housing and community loan funds, and tax credit equity funds. Total current exposure was approximately $6.8 million in September 2011.

Also in 2010, the bank provided a three-year $250,000 term loan for working capital to the First State Community Loan Fund, a CDFI loan fund. The First State Community Loan Fund provides financing for affordable housing, business creation/expansion, and community services for the benefit of low- and moderate-income individuals in Delaware.[88]

I. Providing Loan Servicing

Community banks can service the loans of CDFIs that have limited capacity to process and service loans. Alternately, CDFI depositories and loan funds can service the community development loans of traditional banks, thereby helping lower operating costs for banks and providing additional resources for CDFIs.

CASE EXAMPLE: CORNHUSKER BANK, LINCOLN, NEBRASKA, AND COMMUNITY DEVELOPMENT RESOURCES

Cornhusker Bank is located in Lincoln, Nebraska. The bank is owned by Cornhusker Growth Corporation, a one-bank holding company. The bank's assessment area consists of Lancaster County in the Lincoln, Nebraska, metropolitan statistical area. The bank's total assets were $329 million in March 2010, and its CRA performance was evaluated using the intermediate-small bank performance criteria.

Cornhusker Bank has established a partnership with Community Development Resources, a CDFI loan fund that provides capital and technical assistance to small businesses in underserved areas in Nebraska. Cornhusker Bank services the small business loans originated by Community Development Resources. From 2005 to 2010, the bank serviced 33 loans totaling $782,000.[89]

Through its partnership with the CDFI, the Cornhusker Bank helped Community Development Resources develop their underwriting guidelines. The bank also donated a computer system to Community Development Resources.

For their partnership activities with Community Development Resources, Cornhusker Bank received CRA consideration under the community development test. The bank's activities were considered innovative and very responsive to the community development capital and credit needs of its assessment area.

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88 Catherine C. Franceschini (Deutsche Bank Trust Company Delaware), email message, November 19, 2012.

89 Federal Deposit Insurance Corporation, Public Disclosure Community Reinvestment Act Performance Evaluation – Cornhusker Bank, Lincoln, Nebraska, July 6, 2010. Available at *http://www2.fdic.gov/crapes*.

J. Providing Bank Services

Community banks can provide a variety of banking services, such as deposit accounts, to CDFIs.

CASE EXAMPLE: **BANK OF NEW HAMPSHIRE, LACONIA, NEW HAMPSHIRE, AND NEW HAMPSHIRE COMMUNITY LOAN FUND**

Bank of New Hampshire (formerly known as Laconia Savings Bank) is a full-service financial institution with its main office located in Laconia, New Hampshire. Bank of New Hampshire's assessment area encompasses eight full or partial counties, including all of Belknap, Carroll, and Strafford Counties and parts of Coos, Grafton, Hillsborough, Merrimack, and Sullivan Counties. As of December 31, 2012, the bank reported total assets of $1.1 billion.[90] For CRA purposes, Bank of New Hampshire was examined under large bank procedures.

In partnership with the New Hampshire Community Loan Fund, a state-wide CDFI dedicated to using financial and educational tools to benefit people and communities with low-incomes, Bank of New Hampshire supports the New Hampshire Statewide Individual Development Account Collaborative. The collaborative is composed of a network of community organizations that sponsor a matched savings program for low-income people in the state. Through the matched savings program, qualified individuals receive $3 for every $1 they save, up to a total $8,000, for homeownership, business ownership, or post-secondary education. The New Hampshire Community Loan Fund raises the matching funds, and Bank of New Hampshire opens accounts for participants throughout the state.[91] As of December 31, 2012, Bank of New Hampshire had 22 IDA accounts totaling $19,062. During the evaluation period, the bank opened 17 new IDA accounts. Bank of New Hampshire received CRA credit under the service test for this activity.[92]

During prior evaluation periods, Bank of New Hampshire became an equity investor in the New Hampshire Community Loan Fund. Since

Exhibit VII

Nicole Johnson had to pass up a promotion at work for lack of a reliable car. Her Individual Development Account helped her save for a new car, and she got the promotion—and a raise.

Photo Credit: Geoff Forester Photography, courtesy New Hampshire Community Loan Fund

Jay Jean used his Individual Development Account to get his career back on track with a college degree.

Photo Credit: Geoff Forester Photography, courtesy New Hampshire Community Loan Fund

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90 Karen Wilson (Bank of New Hampshire), email message, September 4, 2013.

91 Federal Deposit Insurance Corporation, Public Disclosure Community Reinvestment Act Performance Evaluation – Laconia Savings Bank, Laconia, New Hampshire, February 22, 2010. Available at *http://www2.fdic.gov/crapes.*

92 Karen Wilson (Bank of New Hampshire), email message.

2009, the bank has made EQ2 investments totaling $900,000. The bank made the following EQ2 investments: $100,000 in 2001, $400,000 in 2002, and $400,000 in 2005. Each EQ2 matures in 2023. These investments served to strengthen the CDFI's capital structure and allowed it to leverage additional debt capital. As a result, the CDFI increased its lending and investments in low-income communities, including the bank's assessment area. Bank of New Hampshire received CRA credit under the investment test for these investments.[93]

93 Federal Deposit Insurance Corporation, Public Disclosure Community Reinvestment Act Performance Evaluation – Laconia Savings Bank, Laconia, New Hampshire, February 22, 2010.

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