

Community Investments

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Investment Types

- **Shares purchased in:**

- Revolving loan fund
- Low income housing tax credit pool
- Activities that stabilize a LMI area with new jobs
- Community Development Corporation revitalizing a LMI area

- **Investment purchases of:**

- Municipal bond financing for community development purpose
- State housing finance authority bonds targeted to affordable housing
- Industrial revenue bonds financing community development to stabilize or revitalize a LMI area
- Low income housing tax credits

Investment Types (continued)

- **Deposits provided for or shares purchased in:**
 - Minority or women-owned financial institution
 - Low-income or community development credit union
 - Community Development Financial Institution
- **Grants to nonprofit agencies that:**
 - Develop affordable housing or provide home buyer education and counseling
 - Provide financing or technical assistance to small businesses/small farms using Small Business Development Centers, Tribal Business Information Centers, small business incubators or revolving loan funds
 - Provide services for LMI people such as welfare-to-work training, educational enrichment or health care
 - Work to facilitate redevelopment at LMI communities

The EQ2

- The Equivalent or EQ2 is a capital product originally developed for CDFI's and their investors. It has been expanded to include other Community Development Entities (CDE's) as well, both non-profit and for-profit.
- An EQ2 is a financial tool that allows CDE's to strengthen their capital structures, leverage additional debt capital, and as a result, increase lending and investing in economically disadvantaged communities.

The EQ2 (continued)

- For investors in general, the EQ2 provides a vehicle for facilitating greater impact in economically disadvantaged communities and, for bank investors in particular, the EQ2 provides a mechanism for receiving investment test credit or enhanced lending test credit under the Community Reinvestment Act (CRA).

EQ2 Structure

- **Investment features we look for:** The EQ2 is defined by the six attributes listed below. All six characteristics must be present; without them, this financial instrument would be treated under current bank regulatory requirements as simple subordinated debt.
 1. Must be carried on investor's balance sheet as an investment in accordance with GAAP.
 2. Unsecured
 3. Subordinated to all other creditors
 4. Investor does not have the right to accelerate payment (unless CDE ceases its normal operations)
 5. Below market interest rate not tied to any income received by CDE
 6. Must be long term and have a rolling and indeterminate maturity.

Processing An EQ2

■ Evaluation Criteria

- Does request meet the bank's EQ2 requirements and features?
- Is this a Loan Pool Participation or an Investment?
- What is the EQ2 allocation (budget) for service area?
- What kind of market presence does the bank have?
- What is the history and impact of the organization?
- Are they a CDFI, CDE, nonprofit or for profit?
- What will the funds be specifically used for?
- Will the investment primarily benefit communities served by U.S. Bank?
- Who are the other investors in the fund?
- Is the investment innovative or complex, do we have a leadership role?
- Will the investment allow for banker participation (i.e. loan committee)?

Processing An EQ2 (continued)

■ Documentation for the Request

- Business Plan
- Most recent fiscal year end financial statement
- Private Placement Memorandum, Offering Memorandum or Stock Subscription (if applicable)
- Articles of Incorporation
- CDFI Certification letter
- 501(c)3 (nonprofit status) confirmation letter from IRS
- List of current investors
- Current loan activity report
- Marketing brochures, materials, etc.

Requestor Considerations

- Does your investment benefit the assessment area of the bank with whom you are making the request?
- How is your program innovative and complex?
- What is the responsiveness of your investment to the credit and community development needs of LMI individuals/families?
- What is the degree to which the investment is not routinely provided by private investors?
- What is the approval process the bank uses and what documentation do they require?