

Using Debt Securities to Finance Economic Development

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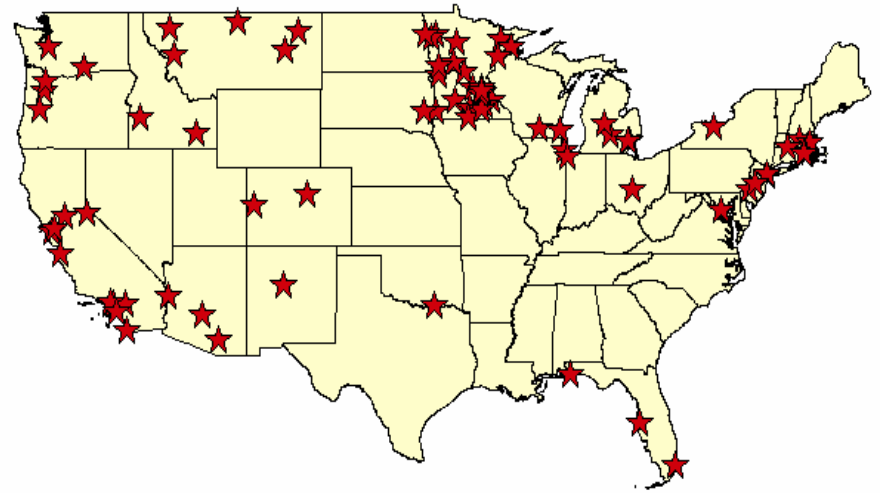
About Community Reinvestment Fund

- **A national nonprofit in business since 1989**
- **First organization to purchase and securitize economic development loans**
- **Pledges loans as collateral for market-rate debt securities it sells to banks and others**
- **16 series of debt securities issued to date**
- **Next issue may be rated**



CRF's Track Record

- **\$300 million provided to 103 lenders in 24 states, District of Columbia**
- **More than 1,200 loans in 38 States**
- **Debt securities bought by banks, insurance companies and pension funds**
- **Investors include U.S. Bank, Wells Fargo, Washington Mutual, Prudential, MetLife, Methodist Pension Fund**



CRF's Track Record

- Has issued \$208 million in debt securities
- Has privately placed \$54 million in loans with individual investors
- Loss ratio is less than 0.5%
- Delinquencies currently 0.29%

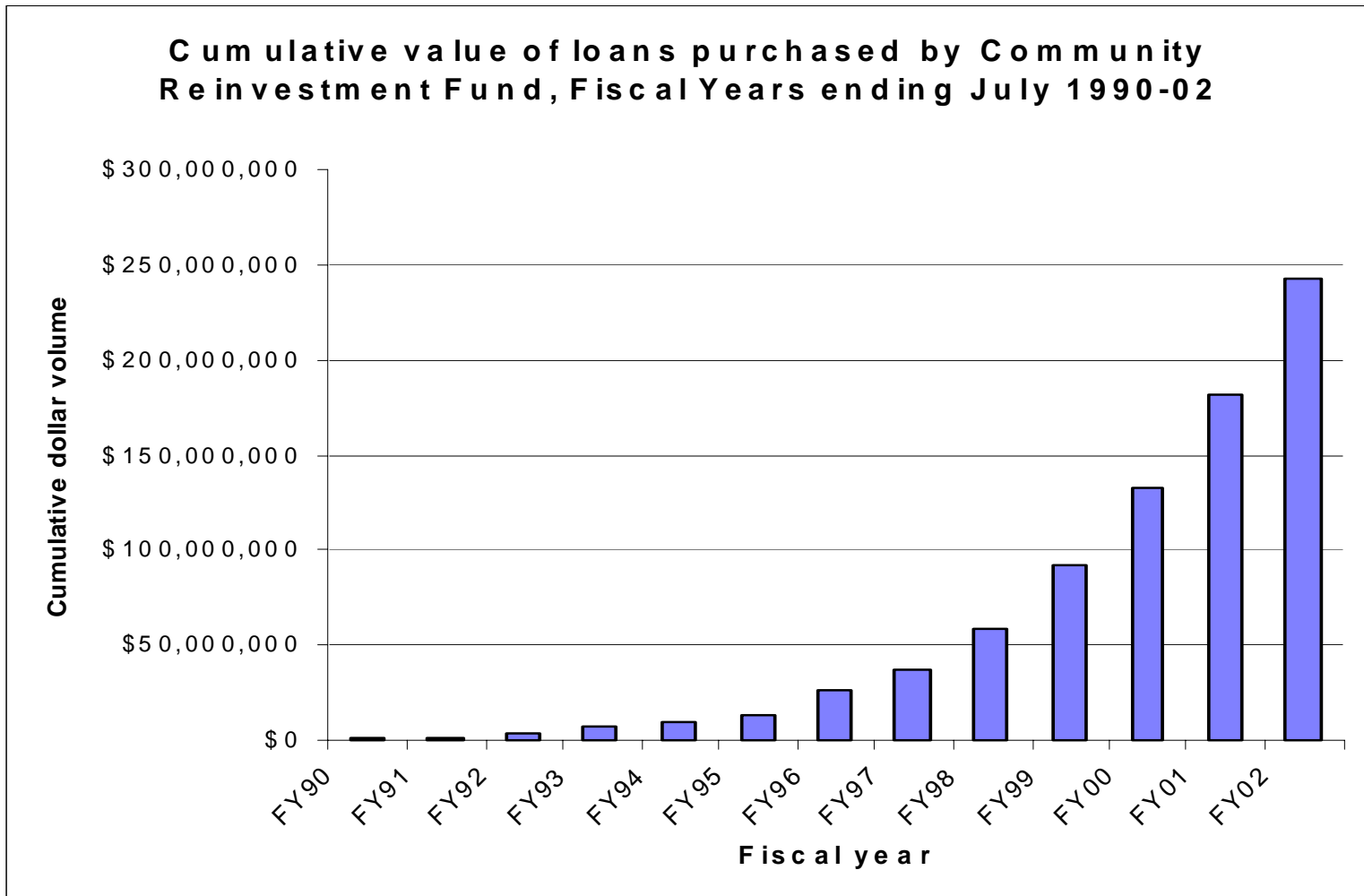


How CRF leverages funds

- 80% market-rate investments
- 18% social-rate investments
- 2% charitable contributions
 - Major foundation support: MacArthur, Ford, Fannie Mae, F B Heron, McKnight



The Market is Growing Rapidly



Not a solicitation

- **Information provided to illustrate how such debt securities work**
- **Not intended to serve as an invitation to purchase such securities**
- **CRF complies with regulations governing Private Placements of such offerings**



Details on a recent security

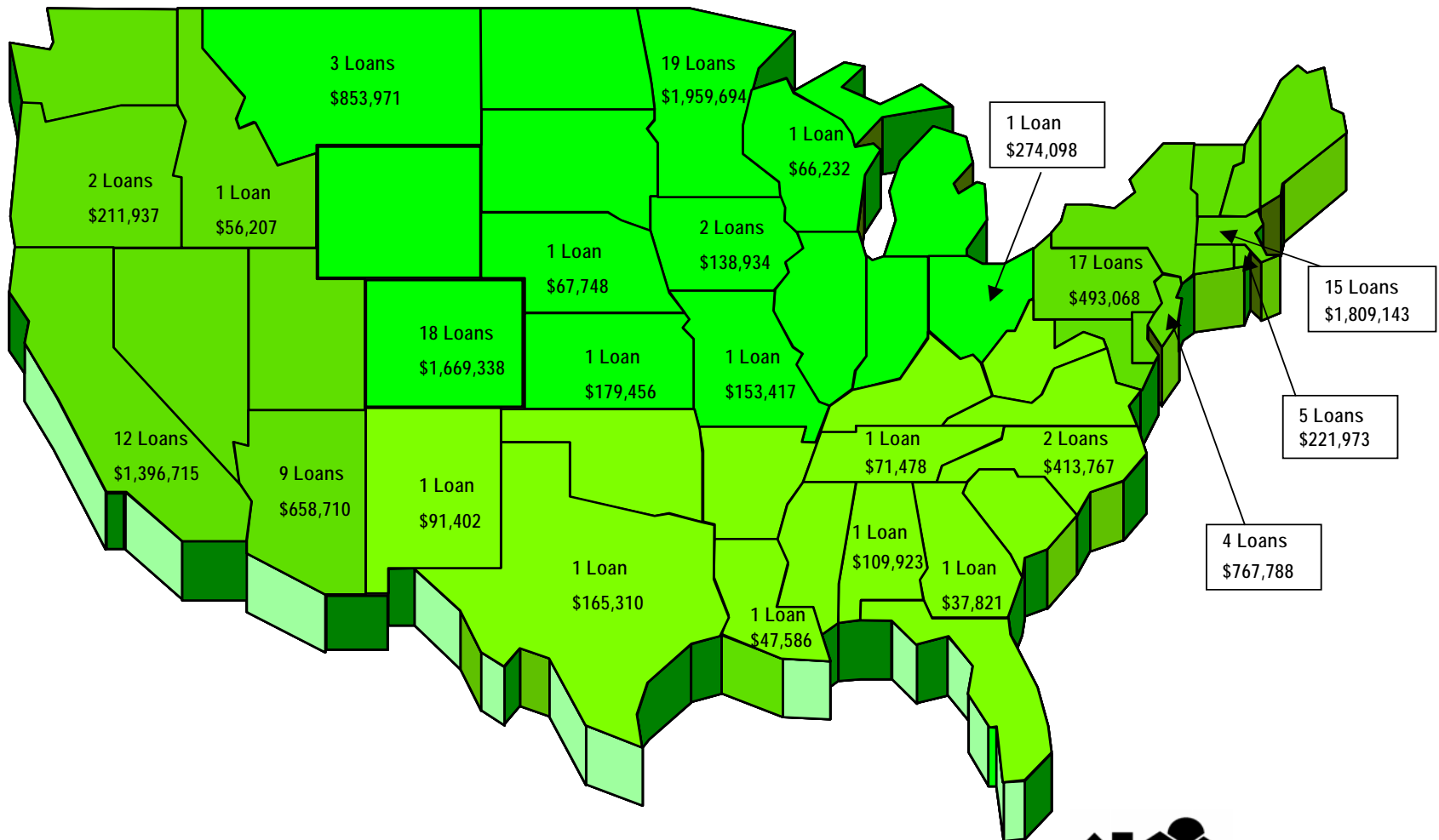
\$10.5 million total security

- \$7.9 million Class A-1 Senior Notes**
- \$1.6 million Class B-1 Junior Notes**
- \$500,000 Class B-2 Junior Notes**
- \$527 Class C Subordinated Notes**
- Secured by \$12.9 in loans**
 - \$9.8 million with no additional guarantees**
 - \$3.1 with some form of guarantee**
- Loans made in 24 states**
- Not rated**
- Privately placed**



Geographic Diversification

GEOGRAPHIC DISTRIBUTION OF FOURTEENTH SERIES DEVELOPMENT LOANS



Difference among security classes

- **Senior class – Pay rate equivalent to Triple B securities. Weighted average maturity: 30.4 months assuming no losses, 38 months with 3% loss.**
- **Junior class – Issued by pre-arrangement with supporting institutional investors. Weighted average maturity 65 months.**
- **Supporting class: CRF's portion. Payment begins when other classes paid off.**



CRA credits

- **Can be earned for banks by purchasing loans**
- **Depending on circumstances, can qualify as either a loan or investment**
- **CRF allocates security geographically to various lenders to help meet CRA tests**




Performance

- **All CRF securities have paid on or before scheduled payment dates; no defaults**
- **Historic loan losses less than .05%**
- **30-day loan delinquency rate less than .04%**



CD Securities Defined

“CD Securities are securities that are backed by interests in pools of community development loans, such as loans to borrowers in low- and moderate-income areas, or to small businesses. These securities are typically not rated by a nationally recognized statistical rating agency.”

FEB 26 '97 04:56PM	P.2
	AL 97-2
OCC ADVISORY LETTER	
Comptroller of the Currency Administrator of National Banks	
Subject: Community Development Securities	
TO: Chief Executive Officers of all National Banks, Community Development Finance Organizations, OCC Department and Division Heads, and All Examining Personnel	
PURPOSE	
In response to questions received from national banks, this advisory letter informs national banks of the standards that Community Development (CD) Securities must meet to qualify for purchase under the authority granted by the Investment Securities regulation, 12 CFR 1. It also explains the treatment of those investments under the Community Reinvestment Act regulation, 12 CFR 25.	
DEFINITION	
CD Securities are securities that are backed by interests in pools of community development loans, such as loans to borrowers in low- and moderate-income areas, or to small businesses. These securities typically are not rated by a nationally recognized statistical rating agency.	
DISCUSSION	
Twelve USC 2-(Seventh), and its implementing regulation, 12 CFR 1, authorize national banks to purchase, sell, deal in, underwrite, and hold certain types of securities. Under the standards in part 1, a national bank may purchase and hold unrated CD Securities if the bank concludes, based on reliable estimates, "that the obligor will be able to satisfy its obligations under that security, and the bank believes that the security may be sold with reasonable promptness at a price that corresponds reasonably to its fair value." See 12 CFR 1.3(i). Acquisitions of CD Securities also must be consistent with safe and sound banking practices. Although CD Securities typically do not receive a rating from a nationally recognized statistical rating agency, part 1 permits national banks to invest in those securities if the bank documents that the issuer of the security will perform. See OCC Interpretive Letter No. 703. Performance documentation may be based on the bank's assessment of the project underlying the security, credit underwriting standards, or credit enhancements offered by the organization offering the securities to support the security and the quality of the underlying loan pools. Enhancements such as mortgage insurance, over collateralization of small business loans, the issuing organization's commitment to repurchase delinquent loans, and other enhancements also may demonstrate the obligor's ability to perform.	
Date: February 25, 1997	Page 1 of 2



Eligible Investment

- **Reasonable Estimates**
 - *that the obligor will be able to satisfy its obligations under the security*
 - *belief that security can be sold with reasonable promptness*
 - *and at fair value*
- **Must be consistent with safety and soundness**



Evidence of Performance

- **Based on bank's assessment of:**
 - *Project underlying security*
 - *credit underwriting standards*
 - *quality of underlying loan pools*
 - *enhancements such as mortgage insurance or overcollateralization*
 - *other credit enhancements*



New Markets Tax Credit

- **New Opportunity for Bank investment**
- **39% Federal Tax Credit over 7 years**
- **Must be invested in Community Development Entities that have been awarded tax credit allocation**
- **CRF's affiliate, National New Markets Tax Credit Fund, awarded \$162.5 million in first round**
- **Commercial Lending, LLC is now operating**
- **Business Loan Conduit, LLC is in formation**



For More Information

If you would like more information about CRF or the New Markets Tax Credit program, please contact us.

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