



**2006 NATIONAL COMMUNITY
REINVESTMENT CONFERENCE**

**Preparing for the
Investment Test**



Objectives

- **Understand definitions & qualification process**
- **Understand how examiners evaluate investments**
- **Understand documentation requirements**



Community Development

- §____.12(h) Community Development means:
 - 1 Affordable Housing (including multifamily rental housing) for low- and moderate-income (LMI) individuals;
 - 2 Community Services targeted to LMI individuals;



Community Development

- §___.12(h) Community Development means (continued):

3 Activities that promote economic development by financing businesses & farms that meet the size standards of the SBA's Development Company or SBIC programs or have gross annual revenues of \$1 million or less ;

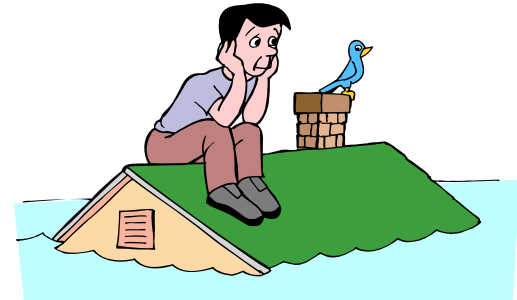
4 Activities that revitalize or stabilize LMI geographies.



Community Development

- For non-OTS institutions, revitalizing or stabilizing LMI geographies has been expanded to include:
 - Revitalizing designated disaster areas
 - “Distressed or underserved” middle-income nonmetropolitan areas

Designated Disaster Area



- Areas designated by the federal government (for example, major disaster declarations by FEMA)
- Eligible for 36 months following the date of designation
- Refer to FEMA website (<http://www.fema.gov>) for disaster designations

Distressed or Underserved Areas

- Includes middle-income tracts in nonmetropolitan areas
- “Nonmetropolitan” means outside an MSA
- The agencies will publish a list of covered tracts
- Refer to FFIEC website (<http://www.ffiec.gov>) for listing





Criteria

Distressed

- Unemployment rate of at least 1.5 times the national average
- Poverty rate of 20% or more
- Population loss of 10% or more between the previous and most recent decennial census
- Net migration loss of 5% or more over the five-year period preceding the most recent census.

Underserved

- Small population
- Distant from a population center
- Identified by USDA Urban Influence Codes 7, 10, 11, or 12

* A community is considered distressed if it meets one or more of the above criteria

Effect of rule change

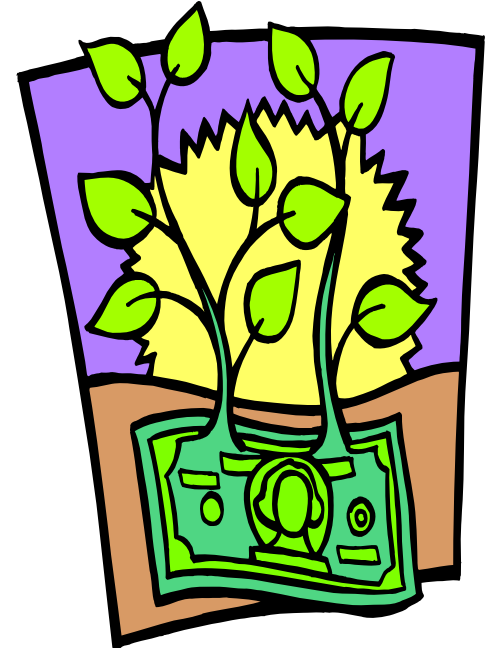


- Currently, only 15% of nonmetropolitan tracts are low- or moderate-income, compared to about one third of metropolitan tracts
- Under the new rule, approximately 40% of nonmetropolitan tracts will be eligible

Investment Test

A Qualified Investment is an investment, deposit, or grant that:

- Has a primary purpose of community development
- Benefits the bank's AA, broader region, or in some cases, an adjacent region



Types of investments

- Targeted mortgage-backed securities
- Low Income Housing Tax Credits (LIHTC)
- Deposits in CD credit unions
- Targeted contributions



Types of investments

- New Markets Tax Credits (NMTC)
- Targeted municipal bonds
- CD venture capital (CDVC)
- Equity equivalent investments (EQ2)
- Small Business Investment Company (SBIC)





What activities are evaluated?

- Investments and contributions made during the review period
- Investments still outstanding from a prior period
- Legally binding commitments to make future investments



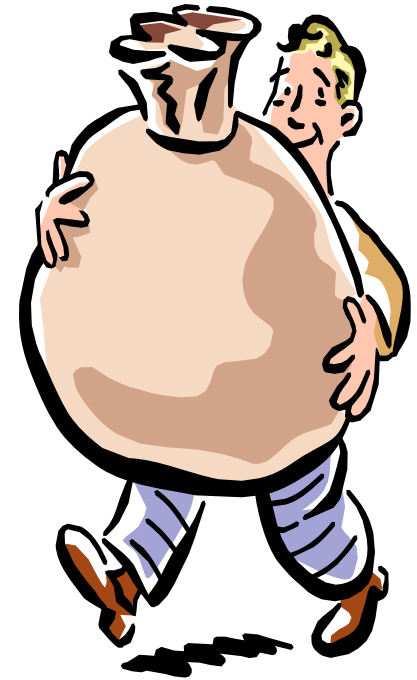
Investment Test – Exam Procedures

- Examiners “may consider qualified investments made prior to the previous examination still outstanding.”
- Consider dollar volume of investments “...in relation to the institution’s capacity and constraints.” This includes any legal, regulatory, or supervisory constraints.

Performance Criteria

Examiner consideration based on:

- Dollar amount of investments
- Innovation and complexity (large bank only)
- Responsiveness to local credit needs
- Degree to which investments are not provided by private investors
- Leadership position





Investment Test – Exam Procedures

- Consider dollar volume of investments “...in relation to ... assessment area characteristics and needs.”
- The use of any innovative or complex investments, particularly those not routinely provided by other investors.
- The degree to which investments serve LMI areas or individuals and are responsive to available opportunities

<u>Outstanding</u>	<u>High Sat</u>	<u>Low Sat</u>	<u>Needs to Improve</u>	<u>Substantial Non-compliance</u>
Excellent Level/Often Leader	Significant Level/Occasional Leader	Adequate Level/Rarely Leader	Poor Level	Few, if any, investments
Extensive Innovative/Complex	Significant Innovative/Complex	Occasional Innovative/Complex	Rare Innovative/Complex	No Innovative/Complex
Excellent responsiveness	Good responsiveness	Adequate responsiveness	Poor responsiveness	Very poor responsiveness



Documentation

- Assessment Area(s) that benefited.
- Dollar Amount (Commitment & Funded)
- Community Development Purpose(s)
- Complexity of the transaction
- Challenges to consummate the transaction
- Willingness of other participants
- Opportunity and Hurdles



Public Welfare Investments

- Banks and thrifts have the authority to make certain CD investments, like mortgage-backed securities.
- For other investments, like Tax Credit investments, banks need special permission.
- The “public welfare investment” rules give this authority.



Resources

- OCC

www.occ.treas.gov/cdd/pt24toppage.htm

- FDIC

www.fdic.gov/consumers/community/investmentguide.html

- FRB

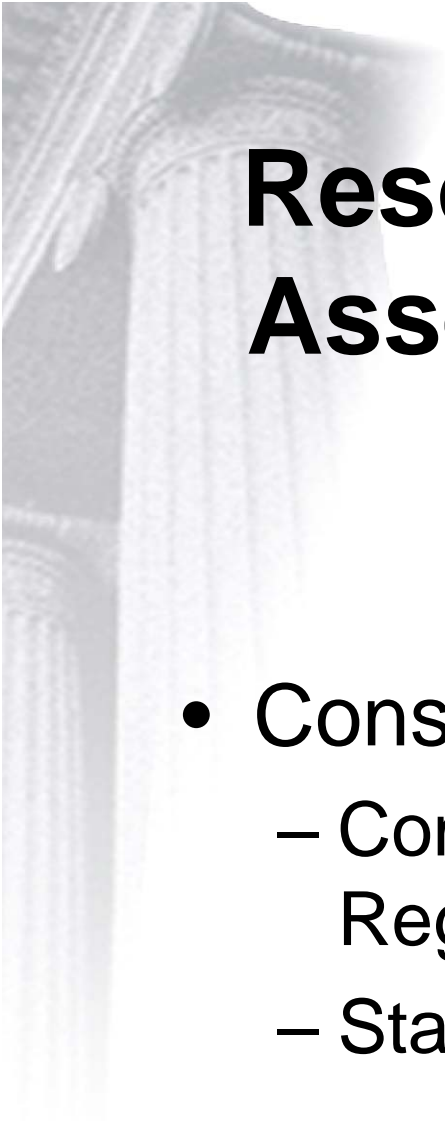
www.federalreserve.gov/CommunityAffairs/cdi/default.htm

- OTS

www.ots.treas.gov/docs/4/48079.pdf

- Center for Community Development Investments – FRBSF

www.frbsf.org/cdinvestments



Resources To Assist You In Assessing Your Investment Performance

- Consider Outside Resources
 - Community Affairs Offices of your Regulator
 - State & Municipal Redevelopment Offices
- Partnering With Community Groups



Open Discussion

- Questions
- Comments
- Ideas



**2006 NATIONAL COMMUNITY
REINVESTMENT CONFERENCE**

**Performance under the
Service Test**



Objectives

- **Understand definitions & qualification process**
- **Understand how examiners evaluate retail banking services and community development services**
- **Understand documentation requirements**



Service Test

- **Components of the Service Test**

- **Retail Banking Services**

- Accessibility of delivery Systems
- Changes in branch locations
- Reasonableness of hours and services

- **Community Development Services**



Retail Services – Exam Procedures

- **Accessibility of Delivery Systems**
 - Distribution of branches within geographies of differing income designations
 - Alternative delivery systems that expand accessibility of products and services



Retail Services – Exam Procedures

- **Changes in Branch Locations**
 - **New branches**
 - How many branches were opened?
 - Where are the new branches located?
 - **Branches closures**
 - How many branches were closed?
 - What was the income level of the branch area?
 - Why was the branch closed?
 - **How do these changes impact accessibility?**



Retail Services – Exam Procedures

- **Reasonableness of business hours and services in meeting assessment area needs**
 - Differences in hours of operations
 - Differences in deposit products offered
 - Tailoring of products and services



Community Development Services

- A Community Development Service means a service that:
 - Has as its primary purpose community development,
 - Is related to the provision of financial services and;
 - Has not been considered in the evaluation of the bank's retail banking services.



Definition of Community Development

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Definition of Community Development

- §____.12(h) Community Development means (continued):
 - 3 Activities that promote economic development by financing businesses & farms that meet the size standards of the SBA's Development Company or SBIC programs or have gross annual revenues of \$1 million or less;
 - 4 Activities that revitalize or stabilize LMI geographies. (NB: for banks only, this definition has been expanded to include disaster areas and distressed and underserved rural areas)



Financial Services

- Examples of Financial Services:
 - To community development organizations
 - Membership on boards/committees of community development organizations
 - Provision of managerial, administrative, financial, or lending expertise
 - Fundraising
 - On behalf of community development groups
 - Facilitator for the awarding of funds via grant programs and continuing monitoring
 - Homebuyer Counseling and Financial Literacy Classes



Community Development Services - Exam Procedures

- **Innovativeness of Service**
 - New Service
 - New underserved segment of the community served
- **Responsiveness of Service**
 - Degree of benefit to the underserved
 - Continued commitment provide services
- **Overall impact on low- and moderate-income individuals**



Community Development Services - Documentation

- **Community Development Service Activity**
 - **What service was provided?**
 - **Who provided the service?**
 - **Who benefited from the service?**
 - **How much time spent providing the service and how often?**



Community Development Services - Documentation (continued)

- **Is the organization a community development organization?**
 - Information, including mission statement, about the organization
 - Services provided by the organization
 - Beneficiary of the services of the organization
- **Is the service provided by the bank financial?**
 - Related to lending, accounting, financing, financial education, fundraising, etc.
 - Within expertise of staff member providing the service



Community Development Services - Documentation (continued)

- **Participation in grant programs**
 - Third-Party program administrator
 - Community group being sponsored
 - Purpose of grant
 - Ultimate beneficiary of grant

<u>Outstanding</u>	<u>High Sat</u>	<u>Low Sat</u>	<u>Needs to Improve</u>	<u>Substantial Non-compliance</u>
Systems readily accessible to all portions of AAs	Accessible to essentially all	Reasonably accessible to essentially all	Accessible to limited portion of AAs	Inaccessible to significant portion, especially LMI
Branch changes improved accessibility	Changes did not adversely affect accessibility	Changes generally did not adversely affect accessibility	Changes adversely affected accessibility	Changes significantly adversely affected accessibility

<u>Outstanding</u>	<u>High Sat</u>	<u>Low Sat</u>	<u>Needs to Improve</u>	<u>Substantial Non-compliance</u>
Hours and services tailored to convenience and needs of AAs, especially LMI	Do not vary in a way that inconveniences certain portions of AAs	Do not vary in a way that inconveniences certain portions of AAs	Vary in a way that inconveniences portions of AAs	Vary in a way that significantly inconveniences certain portions
Leader in providing CD services	Relatively high level	Adequate level	Limited level	Few, if any



Resources To Assist You In Assessing Your Service Test Performance

- **Consider Outside Resources**
 - Community Affairs Offices of your Regulator
 - State & Municipal Redevelopment Offices
- **Partnering With Community Groups**



Open Discussion

- Questions
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