

# Introduction to Community Development Investing

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## OVERVIEW

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# Community Reinvestment Act

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- 1977; 12 U.S.C. 2901 et al
- Enacted to prevent redlining and to encourage banks to meet the credit needs of all segments of the communities they serve
- Affects all federally insured depository institutions

# Qualified Investment under CRA

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- Lawful investment, deposit, membership share, or grant
- That has as its primary purpose community development

# Community Development under CRA

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- **Affordable housing for low- and moderate-income individuals and families**
- **Community services targeted to low- and moderate income individuals and families**
- **Activities that promote economic development by financing businesses or farms meet the size eligibility standards of the SBA's SBDC or SBIC programs, or have gross annual revenues of \$1 million or less**
- **Activities that revitalize or stabilize low- and moderate-income geographies, areas defined as underserved or distressed nonmetropolitan middle-income geographies, and designated disaster areas.**
- **Activities that support, enable or facilitate projects or activities for eligible uses under the Neighborhood Stabilization Act**

# Examples of Investments, Deposits, Shares, or Grants to:

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- CDFIs, Minority- or women-owned depository institutions (MDI), community development credit unions (CDCU)
- Housing development organizations, CDCs, nonprofit organizations providing housing counseling
- State and municipal bond obligations that specifically support affordable housing or community development
- Small business investment companies (SBICs), Rural Business Investment Companies (RBIC), organizations that promote economic development by financing small business;
- Low-Income Housing Tax Credit (LIHTC), New Markets Tax Credits (NMTC); Under specific circumstances Historic Tax Credits or Renewable Energy Tax Credits may also qualify
- Facilities that promote community development in LMI areas for LMI individuals, such as homeless shelters, soup kitchens, health care facilities

# Geographic Requirement for Qualified Investments

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## Qualified Investments must benefit

- The bank's assessment area

OR

- A broader statewide or regional area that includes the bank's assessment area

# Why Invest?

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- Meeting the needs of the community
- Meeting the needs of your customers
- Opportunity to generate additional sales of bank products and services
- Attractive returns; definable risk parameters
- Receive CRA consideration

# Legal Authority for Community Development Equity Investments

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- **National Banks: 12 CFR Part 24**
  - 5% of capital and surplus (15% with prior OCC approval)
- **Federal Savings Associations – 12 CFR Part 159; 12 CFR Part 160.36; and HOLA 5 (c) (3) (A)**
- **State member banks – 12 CFR Part 208 (Regulation H)**
- **State non-member banks – 12 CFR Part 362**



# CRA Consideration for Qualified Investments

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- **Small Banks (< \$290 million)**
  - Lending Test 100%
  - Community Development activities could improve a Satisfactory Rating to Outstanding
- **Intermediate Small Banks (\$290 million - \$1.160 BB)**
  - Lending 50%
  - Community Development 50%

# CRA Consideration for Qualified Investments

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- **Large Banks (>\$1.160 BB )**
  - Lending 50%
  - Investments 25%
  - Services 25%
- **Wholesale and Limited Purpose Banks**
  - Community development 100%

# Prudent Investment Considerations

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- **Community needs and opportunities**
- **An understanding of the risks associated with different types of investments**
- **Internal capacity to initiate and manage investments**
- **Regulatory considerations**

# For More Information

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- Contact your bank examiner and community affairs officer
- CRA: [www.ffiec.gov/cra](http://www.ffiec.gov/cra) ; 2010 Interagency Q&A
- Guidance and information on PWI  
<http://www.occ.gov/topics/community-affairs/resource-directories/public-welfare-investments/index-public-welfare-investments.html>
- Federal Reserve and OCC publications