



Community Development Investments and Services



2012 National Interagency Community
Reinvestment Conference

Community Development Defined

- Affordable housing targeted to low- or moderate-income (LMI) individuals or families.
- Community services targeted to low- and moderate-income individuals or families.
- Activities that promote economic development by financing small businesses and small farms.
- Activities that revitalize or stabilize LMI Geographies, Distressed or Underserved Non-Metropolitan Middle-Income Geographies, or Designated Disaster Areas
- Loans, investments, and services that support, enable, or facilitate Neighborhood Stabilization Program (NSP) eligible activities in designated target areas.

Community Development Investments

- The CRA regulation defines a community development investment as a lawful investment, deposit, membership share, or grant that has as its primary purpose community development.
- Grants or donations to organizations with purposes consistent with the definition of community development
- Equity investment in a small business venture capital company or community development corporation
- Investment in bonds with a primary purpose consistent with community development
- Deposit or membership share in a community development financial institution (CDFI)

Community Development Service

- A community service or retail banking service consistent with the definition of community development.
- Is related to the provision of financial services
- Common community development services include: providing financial literacy seminars to Imi people; serving on a community development corporation; IDA accounts; free or low cost banking products and services.

CRA Investment Test Rating

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).

Rating criteria

- (1) The dollar amount of qualified investments;
- (2) The innovativeness or complexity of qualified investments;
- (3) The responsiveness of qualified investments to credit and community development needs; and
- (4) The degree to which the qualified investments are not routinely provided by private investors.

CRA Service Test Rating

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.

Rating criteria-- Community development services.

- (1) The extent to which the bank provides community development services; and
- (2) The innovativeness and responsiveness of community development services.

CRA Service Test Rating

Rating Criteria - Retail banking services.

- (1) The current distribution of the bank's branches among low-, moderate-, middle-, and upper-income geographies;
- (2) The bank's record of opening and closing branches, particularly branches located in low- or moderate-income geographies or primarily serving low- or moderate-income individuals;
- (3) The availability and effectiveness of alternative systems for delivering retail banking services
- (4) The range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

Exam Procedures

- Performance Context
- Community Contacts
- Review Self Assessment
- Evaluation Period
- Identify Qualified Activities
- In/Out Assessment Area
- Quantitative Consideration
- Qualitative Consideration
- Affiliate Activity
- Peer/Similarly Situated Bank Comparisons

CRA Program Best Practices for CD Investment and Service Activities

- 10) Board and Senior Management Commitment
- 9) CRA Committee
- 8) Investment and Service Activity Goals
- 7) Training
- 6) Activity Collection Form
- 5) Self Assessment
- 4) Comparisons
- 3) Innovation
- 2) Partnerships
- 1) Discussions with Regulators

Planning Your Services and
Investments for Extraordinary
Outcomes

Responsiveness

Slide 10

OCC1 we recommend using bullet points and key words rather than full narrative quotation on slides.

The bullet points allow the audience to better view the slides, highlighting the key, salient points, while allowing the presenter to provide more narrative detail without appearing to read the slides to the audience.

Other changes are highlighted in blue.

Bobbie Kennedy, 3/6/2012

Responsiveness

Extraordinary Outcomes?

- Moving beyond the numbers
- Not just: “Is this enough?”
- Qualitative factors

Responsiveness

Examiner assigns a rating based on conclusions about performance under each applicable Performance Criterion in the regulation.

- Outstanding Qualified Investments:
 - “Excellent Responsiveness to credit and community development needs”
- Outstanding Community Development Services:
 - “Its services (including, where appropriate, business hours) are tailored to the convenience and needs of its assessment area(s), particularly low- or moderate-income geographies or low- or moderate-income individuals”

Responsiveness

Question .21(a)-2: Are all community development activities weighted equally by examiners?

Answer : No

- Examiners consider:
 - Responsiveness to credit and community development needs.
 - Innovativeness and complexity, if applicable.
 - Degree to which bank serves as a catalyst for other community development activities.

Responsiveness

Question: .21(b)(2) – 1: Will examiners consider performance context information provided by institutions?

Answer:

- Institutions may provide any relevant information, including:
 - Assessment area(s) lending, investment, and service opportunities

Responsiveness

Question: .21(b)(2) – 1: Will examiners consider performance context information provided by institutions?

Answer:

- Formal needs assessment is not required.
- Efforts to ascertain community credit needs are not evaluated.
- Quality of information provided is not rated.

But documented analysis can help examiners

Responsiveness

Examiner Guidance on Investment Test Analysis:

- Number and dollar amount of qualified investments:
 - Only one part of investment test performance evaluation.
- Some investments may:
 - Be more responsive to credit or community development needs;
 - Have greater impact on the community;
 - Due to complexity, be more difficult to make.

Responsiveness

Examiner Guidance on Community Development Service Analysis:

- Primary evaluation factor:
 - Responsiveness to community needs.
 - Consideration to level of innovation involved.
- Secondary consideration:
 - Number of services provided.

Responsiveness: Examiner Perspective

- Community development activities by definition:
 - Responsive to the needs of LMI persons or geographies.
- What investments or services are developed in partnership with members of the community?
- What investments or services are developed in response to a need specific to a community?

Responsiveness

Issue: How will the examiner identify responsiveness?

- Performance Context
- Community Profile
- Community Contact
- Bank Documentation

Responsiveness Examples

- These examples differentiate:
 - Bank involvement
 - Community interaction
 - Municipal engagement
 - Clarity of community development objectives
- Responsive Involvement versus Passive Investment
- Responsive Investment

Responsiveness

Examples

- These examples differentiate:
 - Bank involvement
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Responsiveness

Questions?



Planning Your Services and Investments for Extraordinary Outcomes

Identifying Investments and Services and
Communicating with your Regulator

Complex and Innovative

- Qualitative aspects of community development activities
- Complexity and innovative not defined in CRA regulation
- Complexity: more complicated transactions; involves multiple entities or funding sources; high level of coordination or monitoring
- Innovative: new product or service introduced to market; new feature that allows product serve LMI individuals

Examples of Qualified CD Investments

- Automatically qualified investments:
 - Low income housing tax credits
 - Investments in small business investment company (SBIC) or small business development center (SBDC)
- Other examples:
 - Community Development Financial Institutions (CDFIs)
 - Other financial intermediaries that lend or facilitate lending in LMI communities or to LMI individuals (CDCs, CDCUs, minority and women owned institutions)
 - State and municipal bonds that support affordable housing or community development
 - Affordable housing developers
 - Nonprofits providing housing counseling, financial education to LMI individuals
 - Daycare operations or job training programs that enable LMI individuals to work
 - Facilities that promote community development in LMI areas (homeless shelters, health care clinics, etc)

Examples of CD Services

- Providing financial services through branches and other facilities located in LMI areas
- Providing technical assistance on financial matters for nonprofit organizations engaged in affordable housing, small business and other community development activities
- Credit and foreclosure prevention counseling; homebuyer education
- School savings programs
- International remittances
- Providing financial services with primary purpose of community development and designed to increase access to financial services for LMI individuals

Identifying Extraordinary Investments and Services

- Quantitative and Qualitative
- Data: what does it say about community needs?
- Community partners:
 - Identify community needs and help bank identify opportunities to benefit LMI individuals/communities
 - Review bank products, services and programs to determine responsiveness to community needs
- Holistic approach:
 - Banks, community partners and other agencies need to be at the table together to discuss community issues and develop solutions
 - Each partner brings unique resources; need to leverage for maximum impact
- Large institutions may have more resources, but small efforts or investments can have big community impact—it just needs to be documented
- There are always opportunities to be innovative!

What Examiners Are Looking For

- What is your community development strategy?
 - A high level overview of the bank's commitment in LMI markets
 - Connecting points between CRA and different business areas
 - What are your institution's strengths and limitations that impact investment and service opportunities
- Performance context. We want to see that you know your market
 - Local market information, not readily available to examiners (both quantitative and qualitative)
 - Details on the complexity and impact of bank's activities in local markets (include metrics like jobs created/retained, wages, housing units, etc)
 - Documentation of the market areas that are challenging to serve and how bank is responding in these markets
 - What is the impact of your work?
- Who are your community partners and how do you work together?



Planning Your Services and Investments for Extraordinary Outcomes



Best Practices and Interactive Exercise

Knoxville Owner Occupied Home Rehab Program

- Partners:
 - City of Knoxville, Tennessee Housing and Development Agency (THDA), Pinnacle Financial Partners, Federation of Appalachian Housing Enterprises (FAHE)
- Issue:
 - City providing long-term loans for owner-occupied rehab using HOME funds
 - HOME funds tied up for 20 years
 - Restricted, finite and shrinking source of funds ; HOME funds cut by 24% in FY 2012/2013
 - Additional funds needed to expand program
- Solution:
 - Pinnacle Financial Partners provided \$2 million investment to seed owner-occupied rehab loan pool, administered by FAHE
 - City will continue short term construction loans using HOME funds
 - FAHE, a CDFI, entered into MOU with City to refinance construction loans with long-term low interest loans
- Benefits:
 - City: \$2 million to invest in preserving housing stock; HOME funds now every 6 months instead of every 20 years; 10% of program income can be returned to City for administration
 - FAHE: additional funds to support mission of providing access to capital for affordable housing
 - Pinnacle: CRA credit, state of Tennessee tax credit

BankPlus CreditPlus Account

- Issue: More payday lenders in MS than McDonalds and Burger Kings combined. Need for a viable alternative to help individuals outside mainstream banking system caught up in payday lending cycle
- Product: combination second chance account/small dollar loan. Small, short term loan product designed to help build saving behavior
- How it works:
 - Loan term 12-24 months
 - Max loan up to \$1000 depending on credit score
 - 5% fixed rate for loan term
 - Financial education mandatory
 - Upon completion of education, half of loan proceeds placed in checking account and half in savings account. Customer encouraged to use loan proceeds to pay off outstanding debts.
- Result: Customer repays loan and develops credit history; \$ in savings account; checking account in good standing and financial education
- Over 8000 loans (\$7.4 million) opened since 2008
- CD Service, responsive to community credit needs

CD Investment or Service?

- Bank branch manager volunteers for Habitat for Humanity to build a home
 - Activity is not qualified CRA activity; service is not related to provision of financial services.
- Bank makes a \$100,000 investment in a CDFI for a fund providing microloans. Commercial lender serves on loan review committee.
 - CD investment and service. Organization provides financing for small businesses and commercial lender is providing financial services expertise
- \$30,000 donated foreclosed property to CDC for resale to LMI borrower
 - CD investment. CDC provides assistance to LMI.

CD Investment or Service?

- The bank made an \$400 in-kind donation representing the work time of two bank employees from the IT department installing computers at a local affordable housing development organization. The organization provides housing for low- and moderate-income individuals within the bank's assessment area. The bank calculated the \$400 investment by estimating the following: two employees x 8 hours each x \$25 hourly wage (paid by the bank for their bank duties).
 - Not a qualified CD investment; could be CD service. Regulators do not consider the wages or other compensation of an employee or director who provides assistance to a community development organization on behalf of the institution, but may consider donated labor of employees or directors of a financial institution in the service test if the activity is a community development service.

CD Investment or Service?

- Bank is offering payroll check cashing service for employees of local businesses. Bank charges a \$3 fee for each check cashed. The fee is less than competitor institutions charge and significantly less than those charged by nonbank check cashing services in area.
 - CD Service. New examples of CD services include low-cost savings or checking accounts, including IDAs, free or low-cost government payroll, other check-cashing services, that increase access to financial services for LMI individuals
- Bank purchased \$500,000 municipal bond to construct high school for students of all income level located in underserved census tract
 - CD investment. Activities that revitalize or stabilize underserved areas by helping to meet essential community needs are considered CRA activities. Bank would not have to prove that the majority of the students were LMI.

CD Investment or Service?

- Bank CRA officer serves on advisory council for organization providing assistance to youth aging out of foster care system. Advisory council identifies transitional housing as the biggest need for foster youth in preventing them from becoming homeless at the age of 18. Bank CRA officer contacts local affordable housing developer and arranges partnership with foster youth organization to develop housing for these youth. Bank assists with AHP grant application for funding to support housing project and agrees to provide financial education and banking services for youth in housing.
 - CD Service. Demonstrates leadership and responsive to community needs

- A bank makes a \$100,000 deposit in a minority-owned institution in New Orleans, Louisiana, which is not in its assessment area.
 - CD Investment. Deposits in minority- and women-owned institutions that primarily lend or facilitate lending in low- and moderate-income areas or to low- and moderate-income individuals in order to promote community development are qualified investments. The agencies have said that banks can receive credit for activities related to minority or women-owned institutions, even if they are not in the bank's assessment area(s).

CD Investment or Service?

- The bank made a grant to a nonprofit mental health facility that serves children from the entire county. Thirty percent of the children served are considered low- or moderate-income.
 - Not a qualified CD investment since less than 50 percent of children served are LMI.



Questions????