CRA INVESTMENT HANDBOOK

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CENTER FOR COMMUNITY DEVELOPMENT INVESTMENTS

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Center for Community Development Investments
Federal Reserve Bank of San Francisco
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CRA Investment Handbook

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FOREWORD

Thomas FitzGibbon, MB Financial Bank

It is my pleasure to invite you to review, evaluate and use the information contained in this guide to CRA-qualifying community development investment programs. You will find many ideas articulated within these pages that will pique your interest and help to guide you in the evaluation of CRA Investment Test Qualifying transactions.

Many of the investment vehicles are tried and true high-quality opportunities that have proven to provide both a market-rate return, with definable risk parameters that meet credit quality standards. Some investments may not provide market rate return, but when used in combination with other bank products and services provide a blended rate of return that meets or exceeds return thresholds for similarly rated transactions.

Included in this guide are a range of quality investment opportunities. Some are more sophisticated than others, reflecting the "innovative and complex" characteristics that add value to the investment for the CRA Performance Evaluation. These transactions often involve certified Community Development Financial Institution (CDFI) partnerships where the level of sophistication necessary to underwrite, evaluate, issue and manage the capital provides long term confidence that the capital will achieve the objectives and meet the return hurdles that the bank is seeking.

The CDFI industry has matured significantly in the past decade where it is now positioned to help the banking industry identify opportunities to deliver capital through a variety of vehicles including, but not limited to: New Markets Tax Credits, Low Income Housing Tax Credits, Donation Tax Credits, Purchase, Sale and Security Agreements (PSSA is also known in some circles as private placement debt), loan consortia that can qualify for either CRA Lending or Investment Credit, direct equity in qualified Community Development Intermediaries (equity equivalent investments), as well as Limited Partnerships that finance CRA-qualified activity to name but a few.

In addition to the direct investment in the qualified vehicles that are listed above there have been opportunities in the past to purchase CRA Investment Test qualifying mortgage-backed securities (targeted MBS) where the mortgages in the security meet the standard.

In order to find the right investment that meets your bank objectives, your institution will now have easily-accessible investment information in the form of this handbook that can aid you in delivering on your bank business and CRA objectives.

INTRODUCTION

David Erickson, Federal Reserve Bank of San Francisco

The CRA Investment Handbook brings together resources and information for investors at banks who are, in part, motivated by the Community Reinvestment Act of 1977 (CRA). The substantial revisions of the CRA in 1994 added the Investment Test for larger depository institutions. According to the CRA, a qualified investment is "a lawful investment, deposit, membership share or grant that has as its primary purpose community development." Bank regulators evaluate the investment performance of large institutions using the following criteria:

- the dollar amount of qualified investments;
- the innovativeness or complexity of qualified investments;
- the responsiveness of qualified investments to credit and community development needs; and
- the degree to which the qualified investments are not routinely provided by private investors.[1]

In the pages that follow, we have brief descriptions of the leading community development investment vehicles. The list of investments described here is not exhaustive, but they are the ones a CRA-motivated banker is most likely to encounter.[2] In addition to descriptions of various tax credits and other investments, we have brief overviews of some of the key government subsidy programs, such as Section 8 vouchers, that make many community development investments economically viable.

This booklet is a starting place and we hope you search out more detailed sources. Many good leads are cited in the footnotes of this publications. You might also keep an eye out for new publications from high quality sources such as the Office of the Comptroller of the Currency (OCC) and Novogradac & Company. We also provide a list of the banks between $1 and $10 billion in assets that have achieved the highest rating on their investment tests. We focus on these banks since they do not have the massive resources of the very large banks and still set the highest standards for their investing programs. Finally, we provide some excerpts from the regulatory guidance that pertains to CRA investments. For a more comprehensive look at the regulations, however, we urge you to visit the Federal Financial Institutions Examination Council's website.[3] Also, if you have a specific question about your bank's CRA performance, or CRA investments, you should consult your regulator's examination staff.

These articles were written by CRA bankers and investment professionals with expertise in a particular vehicle.[4] This publication is intended to be a living document; it will be updated as the market and regulatory environments continue to evolve and change. We, therefore, hope to hear from readers who have suggestions for future versions of this handbook.

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1 Ryan Trammell, "Success on the Investment Test," Community Investments Online, Federal Reserve Bank of San Francisco. Available at: http://www.frbsf.org/publications/community/investments/0409/success.html.

2 These descriptions should not be considered as an endorsement of any particular investment strategy; they are described here for informational purposes only.

3 Available at: http://www.ffiec.gov/cra/default.htm.

4 Special thanks to Patrick Davis, UC Berkeley; Thomas FitzGibbon, MB Financial; Andrew Kelman, Banc of America Securities, LLC; Jonathan Kivell, United Bank; Lauren Lambie-Hanson, Massachusetts Institute of Technology; Beth Lipson, Opportunity Finance Network; and Kerwin Tesdell, Community Development Venture Capital Alliance.

LOW INCOME HOUSING TAX CREDIT

The Low Income Housing Tax Credit (LIHTC) is a subsidy provided directly to developers who build or rehabilitate affordable housing units. The program was created as part of the Tax Reform Act of 1986 and made a permanent part of Section 42 of the Internal Revenue Code in 1993. LIHTCs are awarded to rental housing projects by state allocating authorities in every state, as well as the District of Columbia, Puerto Rico, and Guam. Investing in LIHTCs reduces federal income tax liability dollar for dollar, meaning $100 in tax credits reduce a $100 tax liability to zero. The majority of investors in LIHTCs are corporate entities.[1]

As Table 1 shows, a tax credit is typically more beneficial than a tax deduction.

Table 1. Differences between Tax Credits and Tax Deductions on Net Income of $1 Million

	No Tax Credit/ No Deduction	Deduction	Tax Credit
Net income from operations	$1,000,000	$1,000,000	$1,000,000
Tax Deductions	None	(300,000)	None
Taxable Income	1,000,000	700,000	1,000,000
Tax Liability Tax at 40% tax rate	400,000	280,000	400,000
LIHTCs	None	None	(300,000)
Net Tax Liability	$400,000	$280,000	$100,000

Source: Enterprise Community Partners, "Introduction to Low-Income Housing Tax Credits: Structuring a Project's Limited Partner Equity," available at www.enterprisecommunity.com/products_and_services/downloads/lihtc_101_ppt_10-06.pdf.

How to Use LIHTCs

Owners of a project can use LIHTCs to offset their tax liability. Owners can include an individual, corporation, limited liability company or a limited partnership.[2] When using LIHTCs to finance a project, developers must ensure that a minimum number of affordable units are made

1 National Association of Housing and Redevelopment Officials, "Resources for Affordable Housing: Low-Income Housing Tax Credit" (Washington: NAHRO, 2002), available at www.nahro.org/home/resource/credit.html.

2 Washington State Housing Finance Commission, "LIHTC Introductory Guide: FAQ" (Seattle: Housing Finance Commission, 2009), available at www.wshfc.org/tax-credits/faq.htm.

available for lower-income renters.[3] The minimum qualifications for LIHTC eligibility are:

- 20% of the units are set aside for individuals who earn 50% of area median income or below;
- 40% of the units are set aside for individuals who earn 60% of area median income or below.[4]

Financial Structure of LIHTCs

As an investment option, LIHTCs are awarded to projects (that is, developers receive the credits via the affiliated legal entity responsible for the development) and "sold" to investors.[5] After being awarded an allocation of LIHTCs for a qualifying project, a developer may request bids from investors to be the "LIHTC equity investor" in that project. The chart below shows the change in median price per dollar of LIHTCs paid by investors over time.

Source: Ernst & Young, "Understanding the Dynamics IV: Housing Tax Credit Investment Performance," p. 26, available at: www.ey.com/Global/assets.nsf/US/TCIAS_Understanding_Dynamics_IV/$file/tcias_understanding_dynamics_IV.pdf.

In arranging the financing for a project, developers must calculate the total "Sources and Uses" of funds. Table 2 shows a "4 percent" LIHTC transaction, for which a LIHTC investor would "pay in" $6.4 million for the LIHTCs awarded to the project.

3 Maine State Housing Authority, "Development Programs: Low Income Housing Tax Credit Program" (Augusta: State Housing Authority, 2009), available at www.mainehousing.org.

4 Affordable Housing Resource Center, "LIHTC Lexicon" (San Francisco: Novogradac and Company), available at www.novoco.com/low_income_housing/resources/lexicon.php.

5 Washington State Housing Finance Commission, "LIHTC Introductory Guide."

Table 2. Sample 4 Percent LIHTC Transaction

Project Funding Sources		
Tax-Exempt Bond Proceeds	$12,200,000	(63%)
LIHTC Equity (4% LIHTC)	6,400,000	(33%)
Subordinated Loan	800,000	(4%)
Total	$19,400,000	(100%)

Funding Uses		
Land	$3,000,000	(15%)
Construction	14,000,000	(72%)
Financing Fees	1,000,000	(5%)
Other "Soft" Costs (incl. developer fee)	1,400,000	(7%)
Total	$19,400,000	(100%)

Source: DC Housing Finance Agency, UBS Securities, and Eichner and Norris, "Presentation to District of Columbia Building Industry Association," available at www.dchfa.org/images/MixedIncomeHousingPresentation1-19-07.pdf.

4 Percent Credits vs. 9 Percent Credits: Four percent credits are available for new construction or acquisition-rehabilitation projects that include LIHTCs as a source of funds as well as other federal subsidies. Typically, projects are financed with 4 percent LIHTC equity, and tax-exempt bonds (either private placement or negotiated sale) issued by a state or local finance agency.

9 percent credits are also available for both new construction and acquisition-rehabilitation projects. However, projects with 9 percent credits are ineligible for tax-exempt bond financing or other federal subsidies. As a result, the interest rate on a 9 percent project is market rate. In contrast, a 4 percent project receives a discounted (that is, tax-exempt) interest rate. Allocating authorities award tax credit equity for 9 percent transactions on a competitive basis (via a scored application), whereas transactions with 4 percent equity are awarded on a first-come, first-served basis.

In the transaction in Table 2, the LIHTC equity composes 33 percent of total sources of funds. The pricing on LIHTC equity is based on a project's "eligible basis," which is "generally equal to the adjusted basis of the building, excluding land but including amenities and common areas."[6]

6 Affordable Housing Resource Center, "LIHTC Lexicon," "LIHTC Lexicon" Novogradac & Company LLP, Affordable Housing Resource Center. Retrieved from: http://www.novoco.com/low_income_housing/resources/lexicon.php.

Given that this is a 4 percent LIHTC transaction, the project is eligible for tax-exempt bond financing, which results in a lower interest rate for the borrowing entity. In this transaction, a subordinate loan (most likely originated by a city agency and paid from residual receipts from the property) fills the gap in financing the project. That is, in the above example, $18.6 million in proceeds is available from LIHTC equity and bond proceeds, which does not equal the $19.4 million in total uses for the project. As a result, the developer likely sought a "soft" second mortgage from a city agency to fill the gap in financing the project. One noteworthy aspect of the sources and uses in Table 2 is the developer's lack of cash equity. As is typical in LIHTC deals, developers put very little of their own cash into projects.

Total Credit Allocation: State agencies responsible for administering LIHTC programs are capped for the total amount of credits awarded to affordable housing projects (both 4 percent and 9 percent) in any given year. According to an LIHTC Introductory Guide, "The amount of annual authority [of LIHTCs allocated] is based primarily on the per capita population of the state."[7] For example, for a state with a population of five million that is allocated $1.95 per resident, per year in LIHTCs, the total credit available for that year would be $9,750,000 (5,000,000 x $1.95). "In addition to the per capita credit authority amount, the state may gain additional authority from other sources. These sources include credits forfeited by unfinished projects and excess credits from completed ones. The state may also receive additional credits from a national pool composed of the unused credits of other states."[8] All state agencies overseeing LIHTC programs are required to maintain a Qualified Action Plan (QAP), which lays out the criteria for the award of LIHTCs to projects (which are required to "apply" for credit allocations).

LIHTC Investment Structures

Investing in LIHTCs can be done by "direct investment" or through the "equity syndication" model. In these two options, investors place equity into projects directly or via investment funds and, in exchange, receive the tax credits annually, as well as a portion of the project (or projects') depreciation, amortization, and operating expenses. For investors in LIHTC projects, the compliance period for the investment is 15 years, although investors claim all credits in 10 years (with equal amounts claimed per year).[9]

Direct Equity Model: In the direct equity model, investors partner directly with developers, both in terms of funding and ownership of the legal entity performing the development. For example, a Limited Partner (LP) investor in the structure below would be a 99.99 percent owner of the LP entity performing the development, and the General Partner (GP) would be the developer or an affiliated entity.[10]

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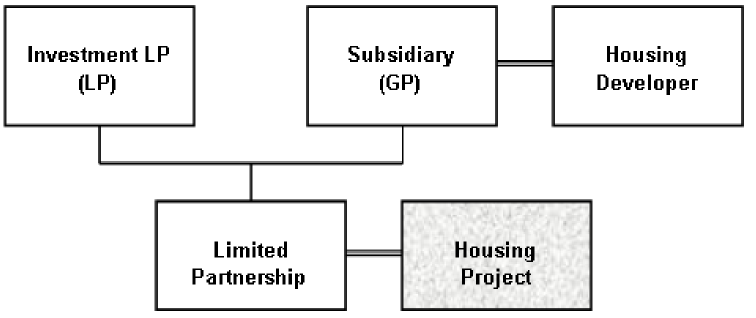
7 Washington State Housing Finance Commission, "LIHTC Introductory Guide."

8 Ibid.

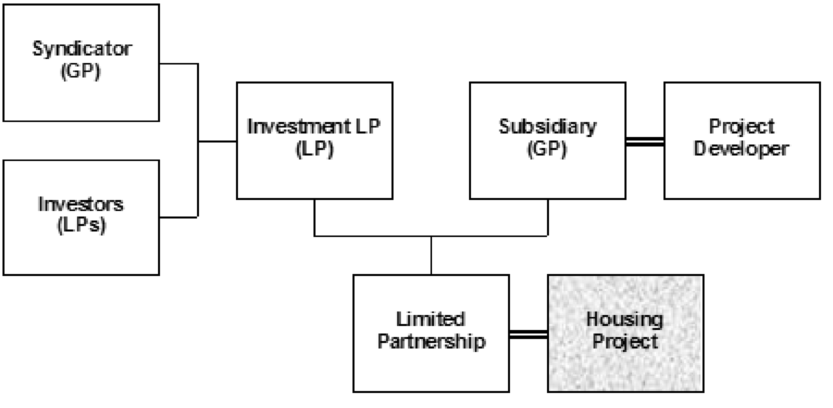
9 Catherine Such, "Low Income Housing Tax Credits" (Portland: Columbia Housing, March 2002), available at www.frbsf.org/community/investments/lihtc.html.

10 Ibid.



Source: National Equity Fund, "A Primer: The Low Income Housing Tax Credit," available at www.ncbcapitalimpact.org/documents/aalLIHTCprimer.pdf.

Equity Syndication Model: In the equity syndication model, an investor partners with an equity syndicator, a for-profit or nonprofit firm tasked with identifying eligible LIHTC projects and placing investments on behalf of the investors in its funds. Companies (including financial institutions) that do not have the capacity or expertise to analyze individual projects use this model. Investors are primarily concerned with underwriting the full equity syndicators, and secondarily concerned with project-level analysis.[11]



Source: National Equity Fund, "A Primer: The Low Income Housing Tax Credit," available at www.ncbcapitalimpact.org/documents/aalLIHTCprimer.pdf.

LIHTC Risks

Investors considering the origination of a tax credit equity investment must be cognizant of the risks posed by this type of project finance. One risk, for example, is the likelihood of cost overruns during construction. This risk, however, is mitigated by contingency reserves for hard

11 National Equity Fund, "A Primer: The Low Income Housing Tax Credit," available at www.ncbcapitalimpact.org/documents/aalLIHTCprimer.pdf.

costs. In addition, the cost-overrun risk is mitigated by the project sponsor (that is, the developer) providing a tax credit indemnity to the LIHTC investor and by executing both a completion and carry agreement.

Another risk for LIHTC investors is the failure of the project to meet the projected lease-up schedule, which would disqualify it from meeting the tax credit investor's pay-in schedule. This risk is mitigated by the fact that LIHTC projects target individuals at 50 percent or 60 percent of the area's median income or below. They therefore have a "rent advantage" relative to units at non-LIHTC projects. In addition, the supply of affordable housing in metropolitan areas is typically lacking, making newly constructed or rehabilitated LIHTC units attractive to tenants.

Supporting CRA Objectives with LIHTCs

A LIHTC investment qualifies under the investment test of the Community Reinvestment Act (CRA). Typically, CRA credit is given in the year the investment is made, although the benefits from the investment last for the length of the operating partnership.[12] Depository banks may satisfy their CRA needs for given geographic assessment areas using LIHTCs as part of their overall strategy for the CRA investment test.[13]

12 Such, "Low Income Housing Tax Credits."

13 Novogradac, "Community Development Investments."

HISTORIC TAX CREDIT

The Historic Tax Credit (HTC) program is classified by the Internal Revenue Service as the Rehabilitation Tax Credit and included in Section 47 of the Internal Revenue Code.[14] The HTC can be applied to older buildings constructed before 1936 (eligible for 10 percent HTC) and historic buildings, including those listed on either the National Register of Historic Places or located in a "Registered Historic District" and certified as historically significant. These buildings are eligible for 20 percent HTC.

The HTC program is administered by both the National Parks Service, which is part of the U.S. Department of the Interior, and the IRS. According to the IRS guidelines, HTCs are applied to "depreciable buildings," which are defined as those that have commercial or residential rental purposes.[15] The IRS revised the HTC program to its current structure following the Tax Reform Act of 1986, which also created the Low Income Housing Tax Credit (LIHTC).

The HTC offers investors a dollar-for-dollar reduction in federal income tax liability, which is similar to LIHTC and New Markets Tax Credits (NMTC). The HTC is the largest federal program for rehabbing historic buildings (in terms of dollar volume). In 2005, the National Parks Service approved 1,101 projects for the 20 percent HTC. The average development costs for a project certified was $3.06 million.[16] Table 1 shows the share of overall projects in each building category.

Table 1. HTC Program Projects

Type of Project Rehabilitated	Percentage of Overall Projects
Multi-Family Housing	46 percent
Other Commercial Buildings	27 percent
Office Buildings	24 percent

Project Development

HTCs are awarded for development costs, Qualified Rehabilitation Expenditures (QREs), incurred in rehabilitation. For investors underwriting an HTC investment, QREs include walls, partitions, floors, ceilings, paneling, windows and doors, air conditioning and heating systems, plumbing, chimneys, and fire escapes. The following costs are not QREs: land and building acquisition, site work (including demolition, fencing, parking lots, landscaping), personal property (including furniture and appliances), and new building construction.

Financial Structure

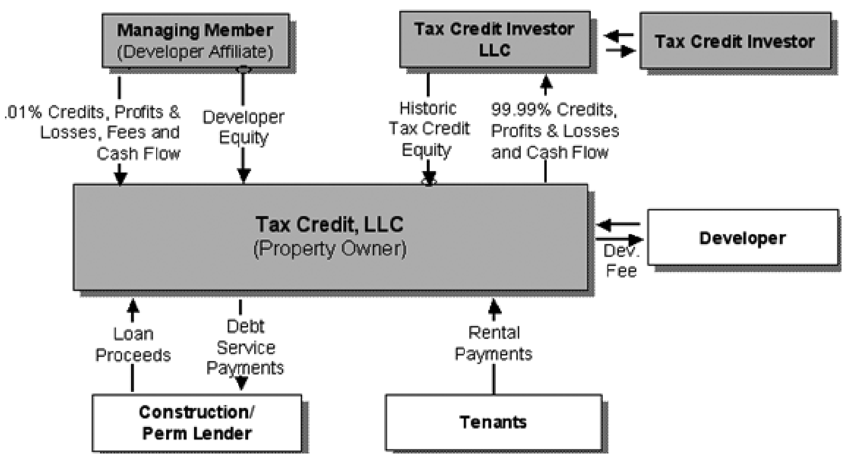
14 Merrill F. Hoopengardner and David F. Schon, "Laying the Foundation: The Basic Tax Rules Governing HTCs." Presentation to National Historic Tax Credit Conference, Washington, DC, November 7, 2007.

15 Ibid, section 168(e).

16 Ibid.

Unlike investments in Low Income Housing Tax Credits, returns for HTC investors are derived from a project's cash flow and the annual credit against federal income tax. Investors generally claim the tax credit in the year in which the rehabilitated building has been placed in service (for example, the year it is made available for rental office space for a commercial real estate project). Figure 1 outlines the financial structure of an HTC.

Figure 1. Financial Structure of a Historic Tax Credit Transaction



A sample calculation for the valuation of HTCs (on a per credit basis) is shown in Table 2. As the table indicates, an equity investor paying $0.98 per credit would pay in a total of $4.73 million for a total of $4.8 million in HTCs. However, investors include the project cash flow they receive to calculate the internal rate of return for the project investment.

Table 2. Valuing an HTC

Qualified Rehabilitation Expenditures	$24,060,799
Credit Rate (percent)	20 percent
Total Calculated Credit	$4,812,160
Tax Credit Investor Allocation	99.99 percent
Total Credit to Investors	$4,811,679
Credit Price Per Each $1 of Credit	$0.98
Equity Contributions from HTC Investors	$4,727,474

Supporting CRA Objectives with HTCs

HTCs present a unique investment opportunity for CRA credit under the investment test of the CRA exam when combined with either LIHTCs or NMTC. In addition, states have adopted complementary programs for historic preservation involving state tax credits. North Carolina, for example, offers the following program:[17]

- 20 percent state tax credit for rehabilitation of income-producing certified historic structures. This credit is awarded to rehabilitations that qualify for the 20 percent federal tax credit. The combination of the two credits can reduce the cost of certified rehabilitations by 40 percent. For income-producing properties, the rehabilitation expense must exceed the greater of the "adjusted basis" of the building or $5,000 within a 24-month period or a 60-month period for phased projects. A phased-project rehabilitation consists of two or more distinct stages of development. The adjusted basis of a building is its purchase price plus the amount of previous capital improvements, less previous depreciation deductions.
- 30 percent state tax credit for rehabilitation of non-income-producing certified historic structures, including personal residences. Qualified rehabilitation expenses must exceed $25,000 in a two-year period.

17 Self-Help, Inc, "Historic Tax Credits" Retrieved from: http://www.self-help.org/business-and-nonprofit-loans/business-and-nonprofit-files/business-nonprofit-technical-assistance-resources/Historic.Tax.Credits.doc. Retrieved on May 21, 2008.

NEW MARKETS TAX CREDIT

The New Markets Tax Credit (NMTC) was created by a bipartisan coalition in Congress near the end of President Bill Clinton's second term in office. The program was designed to encourage investment in low-income urban and rural areas—places that usually cannot access capital as easily or cheaply as wealthier communities. Because lenders believe these areas come with higher lending risk, many investors loan money and make investments only in more affluent areas, or charge higher rates for capital to compensate for the perceived additional risks. The NMTC program was designed to correct for this assumption by providing tax incentives to those who invest in businesses and development projects in low-income areas. Such investment spurs business creation and improvement, creates jobs, and increases social capital among residents. The NMTC program was made possible, in part, by the success of the Low Income Housing Tax Credit program, the founding of the Community Development Financial Institutions (CDFI) Fund within the Treasury Department in 1994, and advocacy and policy work by community development advocates who later formed the New Markets Tax Credit Coalition.[18]

Understanding New Market Tax Credits

The Allocation Process: The framework of the NMTC program is complex. The Treasury Department's CDFI Fund, investors, and businesses in low-income communities are connected through intermediary groups called community development entities (CDEs). A wide variety of institutions have formed community development entities, including community development corporations (CDCs) and other local nonprofits, CDFIs, small business investment companies, real estate development companies, venture capital companies, insured depository institutions, investment banks, and governmental entities. Community development entities also vary in geographic scope. Some confine their activities to one locality, while others serve communities across the country. The CDFI Fund certifies CDEs and allocates tax credit authority to them and, together with the Internal Revenue Service, monitors their investments to ensure their compliance with NMTC restrictions.

Once designated as a CDE, an organization can apply for tax credit allocation authority. Since 2003, the CDFI Fund has conducted annual competitions to award tax credit authority to CDEs. Each CDE requests a certain amount of credits to allocate to investors, who in turn give the CDE capital to invest in low-income communities. The CDEs' applications are assessed and scored in four categories: business strategy, capitalization strategy, management capacity, and community impact. Each category is equally weighted with a maximum 25 points each, but CDEs can earn up to 10 "priority points" if they have a track record of successful investments in disadvantaged businesses or communities, or if the CDE commits to making investments in unrelated entities. Allocations can be awarded to CDEs in any location so long as the investments are made in qualifying low-income communities. Except for Gulf Opportunity

18 P. Jefferson Armistead, "New Markets Tax Credits: Issues and Opportunities," Report prepared for Pratt Institute Center for Community and Environmental Development, (2005), available at http://www.prattcenter.net/pubs/nmtc-report.pdf.

Zone funds, which are restricted to areas affected by Hurricane Katrina, there are no quotas for allocating NMTC funds to any states or regions, unlike the Low Income Housing Tax Credit program, which has some similar features to the NMTC program.

The allocation process is very competitive. Each year, CDEs apply for a far greater amount of tax credit allocation authority than the NMTC program is authorized to award. As shown in Table 1, in the 2007 allocation process, CDE applicants requested $27.9 billion but only $3.9 billion was awarded.[19] Each year, or "round" of applications, has seen similar results. Because of the overwhelming demand for allocations, the CDFI Fund must be selective about which groups to support. The sixth round of allocations was awarded in fall 2008, and $3.5 billion was allocated. By the end of this round, the NMTC program distributed $19.5 billion of tax credit allocation authority to CDEs.[20] To continue the allocations in future years, Congress must reauthorize the program.

Table 1. Allocation Availability and Demand, Rounds 1 through 6

Application Round	Available Allocation (in billions)	Application Demand (in billions)
Round 1 (2001–2002)	$2.5	$26.0
Round 2 (2003–2004)	$3.5	$30.4
Round 3 (2005)	$2.0	$22.9
Round 4 (2006)	$4.1	$28.4
Round 5 (2007)	$3.9	$27.9
Round 6 (2008)	$3.5	$21.3
Total	$19.5	$156.9

Sources: New Markets Tax Credit Coalition 2007, CDFI Fund 2008, internal CDFI Fund data

Making the Investments (Turning QEIs into QLICIs): The CDEs that are awarded tax credits must allocate them within five years of the award. This is the second step of the NMTC administration process. The CDEs negotiate with investors to trade the tax credits for cash investment in the CDE. In return, the investor receives a credit worth 39 percent of the investment made in the CDE. The credit is a dollar-for-dollar reduction in tax liability, so it covers only taxes owed to the federal government, and the value of the credit is spread over seven tax years. The capital provided to the CDE is referred to as a "qualified equity investment," or QEI. The CDE uses the QEIs made by the investors to make "qualified low-income community investments," or QLICIs.

19 New Markets Tax Credit Coalition, "New Markets Tax Credits Progress Report 2007," available at http://www.newmarketstaxcreditcoalition.org/reportsETC/newfiles/2007%20NMTC%20Progress%20Report%20-%20Final.pdf.

20 Government Accountability Office, "New Markets Tax Credit Appears to Increase Investment by Investors in Low-Income Communities, but Opportunities Exist to Better Monitor Compliance," Report number: GAO-07-296: (2007), available at http://www.gao.gov/new.items/d07296.pdf.

Qualified low-income community investments are generally made in the form of loans or investments with better-than-market terms to businesses in low-income areas. There are four types of eligible QLICIs: (1) loans to or investments in qualified active low-income community business (QALICBs); (2) financial counseling and other services; (3) loans to or investments in other CDEs, provided that those funds are in turn used to finance qualified active low-income community business or financial counseling and other services; and (4) purchase of qualifying loans from other CDEs. The CDEs have one year from the time they receive the QEIs to invest substantially all (generally 85 percent of the proceeds) as qualified low-income community investments. The vast majority (more than 95 percent) of all qualified low-income community investments have been made in the form of loans to or investments in qualified active low-income community business, including both operating businesses and real estate developers.

NMTC Investment Structures: There are three main structures of NMTC investments. In the simplest model, the direct investment structure, a single investor makes a QEI in a CDE and that capital is passed down to a qualified active low-income community business, minus any CDE fees such as legal expenses. This model, shown in Figure 1, accounts for about 46 percent of all qualified low-income community investments made.[21]

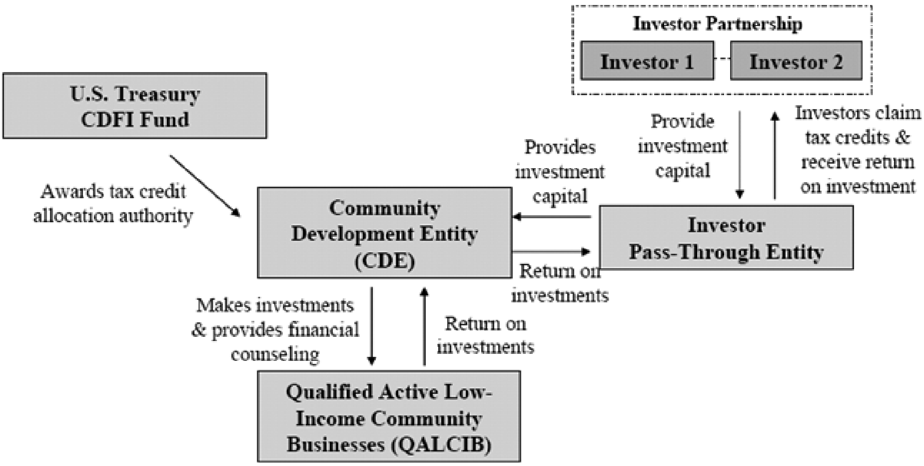
Figure 1. Direct Investment Structure

Another type of investment model is the tiered equity investment structure (see Figure 2). In this model, multiple investors partner to provide equity or loans. They use a pass-through entity to combine the capital and make the QEI in a CDE. The pass-through entity is often managed by the CDE. Each partner can withdraw his or her share of the initial investment after seven years. In the meantime, the partners receive tax credits and returns on their investments. About 13 percent of all qualified low-income community investments have been made through a tiered equity structure.[22]

21 Ibid.

22 Ibid.

Figure 2. Tiered Equity Investment Structure

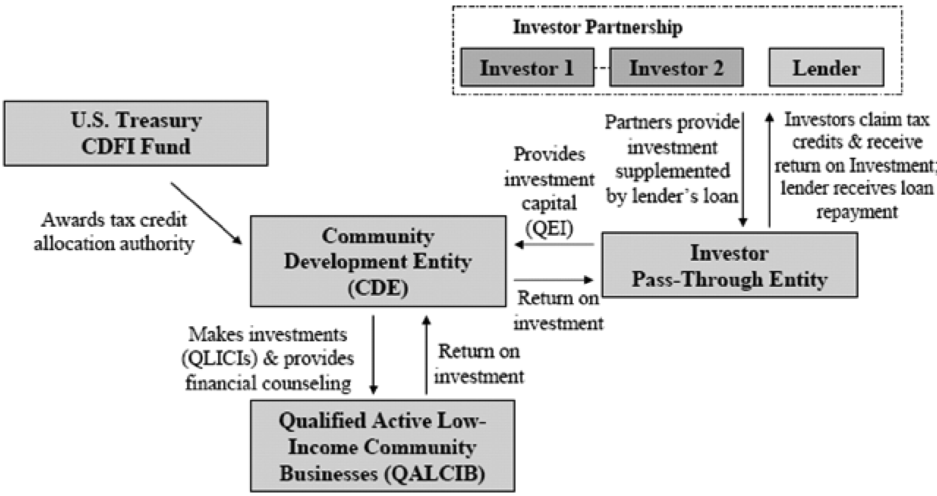


The third main model for NMTC investments is the tiered leveraged investment structure (Figure 3), which makes up about 41 percent of qualified low-income community investments.[23] In this structure, as shown in Figure 3, investors form an investor partnership, which then borrows money from a lender, typically a bank, to make a larger QEI. After combining their equity with the capital from the loan, the partnership then makes a QEI in a CDE.

In return for their qualified equity investments, the partners receive tax credits for 39 percent of the full QEI made, including the capital provided by the lender. They may also receive some return on the investment during the initial seven years. The lender is paid interest during the first seven years, as the qualified low-income community business makes loan payments to the CDE. For the investment to comply with NMTC restrictions, the lender cannot receive tax credits, and it cannot receive principal payments until the end of the seven-year term.

23 Ibid.

Figure 3. Tiered Leveraged Investment Structure



The tiered leveraged investment structure is attractive to investors because they are able to claim the full amount of the tax credit, not just 39 percent of the investment they made, even if the business fails or defaults on the loan. The arrangement is attractive to bankers because it allows them to make investments with a lower loan-to-value ratio, thus carrying less risk.[24] It is also attractive to the borrowers because, in most instances, most if not all of the investor's equity remains with the qualified active low-income community business at the end of the seven-year period given that investor returns are generated through the value of the tax credit. The tiered leveraged structure is becoming increasingly popular, though it can become complex as multiple tiers of investors are added.[25]

Supporting CRA Objectives with NMTCs

To qualify for NMTC eligibility, projects involving CDEs must operate in census tracts with a 20 percent poverty rate or tracts with a median household income that is 80 percent or below of the state or metropolitan statistical area's median household income.[26] NMTC investments may receive favorable CRA consideration given this emphasis on serving low-income communities.

24 Ibid.

25 Jeff Wells, "Case Study from Application to Construction: Lenders for Community Development Puts New Markets Tax Credit to Work," Community Development Investment Review, (2005), Federal Reserve Bank of San Francisco, vol. 1, no. 1.

26 Federal Reserve Bank of Richmond, "New Markets Tax Credits" (Richmond, VA: Federal Reserve Bank, available at www.richmondfed.org/community_affairs/topical_essays_and_resources/reports/newmarket.cfm.

TARGETED MORTGAGE-BACKED SECURITIES

Mortgage-backed securities (MBSs) are a popular vehicle among financial institutions looking to invest in their own communities. Community Reinvestment Act (CRA) officers and other bank investment officers appreciate the return and safety that MBSs provide relative to other securities. They also appreciate that they are widely available compared with other qualified investments. Moreover, bankers today find that CRA-qualified MBSs can typically provide a respite from concerns over the disruptions facing the mortgage markets and the questions surrounding the various mortgage products and underwriting standards.

For decades, mortgage-backed securities have played a crucial role in housing finance in the United States, making financing available to home buyers at lower costs and facilitating the availability of funds throughout the country. Investors include corporations, banks and thrifts, insurance companies, and pension funds. MBSs are popular because they provide a number of benefits to investors, including liquidity, yield, and capital management flexibility.

Understanding MBSs

An MBS has characteristics similar to a loan. When a bank purchases an MBS, it effectively lends money to the borrower/homeowner, who promises to pay interest and to repay the principal. In essence, the purchase enables the lender to make more mortgage loans. MBSs are known as fixed-income investments and represent an ownership interest in mortgage loans. Other types of fixed-income bonds include U.S. government securities, municipal bonds, corporate bonds, and federal agency (debt) securities.

To create MBSs, lenders originate mortgages and sell groups of similar mortgage loans to organizations such as Freddie Mac and Fannie Mae, which then securitize them. Originators use the cash they receive to provide additional mortgages in their communities. The resulting MBSs carry a guarantee of timely payment of principal and interest to the investor and are further backed by the mortgaged properties themselves. Some private institutions issue MBSs, known as private-label mortgage securities, in contrast to agency mortgage securities issued and/or guaranteed by Ginnie Mae, Freddie Mac, or Fannie Mae. Investors tend to favor agency MBSs because of their stronger guarantees, better liquidity, and more favorable capital treatment. Accordingly, this description focuses on agency MBSs.

The agency MBS issuer or servicer collects monthly payments from homeowners and passes through the principal and interest to investors. Thus, these pools are known as mortgage pass-throughs. Most MBSs are backed by 30-year fixed-rate mortgages, but they can also be backed by shorter-term fixed-rate mortgages or adjustable rate mortgages.

Liquidity: Historically, agency MBSs have been extremely liquid assets. Because of a large amount of outstanding mortgage securities and investors, investors have been able to easily buy, sell, or borrow against MBSs. The liquidity of MBSs is enhanced by the relative homogeneity of the underlying assets compared with corporate bonds (different issuers, industries and credit) or municipal bonds (state issued, authority issued, revenue bond, etc.).

Yield: Mortgage-backed securities offer attractive risk-return profiles. There are higher yielding fixed-income investments in the marketplace, but they have greater credit risk. MBSs have traditionally provided returns that exceed those of most other fixed-income securities with comparable risk profiles.[27] MBSs are often priced at higher yields than Treasury and corporate bonds of comparable maturity and credit quality. In fact, the market for investors in CRA-qualified MBSs has never been better. The recent credit crisis has resulted in record yields for MBS relative to Treasurys, with CRA-qualified MBSs offering yields around 5.5 percent and comparable Treasury yields of only 2.0 to 2.5 percent.[28]

Capital Management: For banks and thrifts, agency MBSs are considered bank-qualified assets. They can be held in higher concentration than other assets. In addition, the risk-based capital (RBC) treatment of agency MBSs is superior to that of corporate and many municipal bonds. For example, depositories holding Ginnie Maes do not have to hold RBC against the assets, and they must hold just 10 percent of the RBC requirement for Freddie and Fannie MBSs. This contrasts with a 100 percent RBC requirement for corporate bonds and up to 50 percent for municipal bonds. Finally, there is an active repurchase ("repo") market for MBSs that enables institutions to earn increased income from their investments by lending in the repo market.

Evaluating and Purchasing MBSs

Banks and other investors buy MBSs from securities dealers. New MBSs usually sell at close to their face value. However, MBSs traded in the secondary market fluctuate in price as interest rates change. When the price of an MBS is above or below its face value, it is said to be selling at a premium or a discount, respectively. The price paid for an MBS is based on variables including interest rates, the coupon rate, type of mortgage backing the security, prepayment rates, and supply and demand.

MBSs issued in book-entry form initially represent the unpaid principal amount of the mortgage loans.[29] Freddie Mac and Fannie Mae MBSs issued in book-entry form are paid by wire transfer through the central paying agent, the Federal Reserve Bank of New York, which wires monthly payments to depository institutions. Depositories put the MBS in "held to maturity" or "available for sale" accounts, depending on their investment strategy. Some investors hold bonds until they mature, while others sell them prior to maturity. Buy-and-hold investors worry about inflation, which makes today's dollars worth less in the future.

Bank investment officers analyze the economic value of MBSs using a number of terms, including weighted-average coupon (WAC), which is the weighted average of the mortgage note rates, and weighted-average life (WAL), which is the average amount of time a dollar of principal is invested in an MBS pool. The most important measure used by investment officers to value investments is yield.

27 The Bond Market Association.

28 Bloomberg Yield Tables.

29 An electronic issuance and transfer system for securities transactions.

Unlike other fixed-income investments, MBS principal payments are made monthly and may vary owing to unscheduled prepayments (e.g., refinancing or sale of the mortgaged home), which may also affect the amount and timing of MBS interest payments and MBS yields. Prepayment assumptions are factored into price and yield to compare the value of a mortgage security with other fixed-income investments.

As fixed-income securities, MBS prices fluctuate with changing interest rates: when interest rates fall, prices rise, and vice versa. Interest rate movements also affect prepayment rates of MBSs. When interest rates fall, homeowners refinance mortgages, and prepayment speeds accelerate. Conversely, rising rates tend to decrease the prepayment speed. An earlier-than-expected return of principal increases the yield on securities purchased at a discount. However, when an MBS is purchased at a premium, an earlier-than-expected return of principal reduces yield.

Each MBS has a coupon, which is the interest rate passed on to the investor. The coupon is equal to the interest rate on the underlying mortgages in the pool minus the guarantee fee paid to the agency and the fee paid to the servicer. The WAC is the weighted average of the mortgage note rates and investment officers often use it to compare MBSs. In analyzing a potential MBS investment, the length of time until principal is returned is important and the concept of a weighted-average life (WAL) is used. Average life is the average amount of time a dollar of principal is invested in an MBS pool. The WAL is influenced by several factors, including the actual rate of principal payments on the loans backing the MBS. When mortgage rates decline, homeowners often prepay mortgages, which may result in an earlier-than expected return of principal to an investor, reducing the average life of the investment. This can be thought of as an implied call risk. Investors are then forced to reinvest the returned principal at lower interest rates. Conversely, if mortgage rates rise, homeowners may prepay slower and investors may find their principal committed longer than expected, which prevents them from reinvesting at the higher prevailing rates. This scenario can be thought of as extension risk.

Supporting CRA Objectives with MBSs

The affordable housing goals that the U.S. Department of Housing and Urban Development (HUD) set for Freddie and Fannie (e.g., 56 percent of their purchases in 2008 must be to borrowers with incomes below the HUD median) help depository institutions achieve their LMI objectives through agency MBS investments. Usually, MBSs are composed of loans scattered throughout the country to borrowers with varying incomes. To support CRA objectives, affordable housing MBSs are created with loans to LMI borrowers in specified geographies. As a "qualified investment," the MBS should include loans in an institution's assessment area or in a statewide or regional area that includes the assessment area. At least 51 percent of the dollars in the MBS should be in loans to LMI borrowers, although in most cases the total is 100 percent. In addition, a financial institution that has, considering its performance context, adequately addressed the community development needs of its assessment area(s) will receive consideration for MBSs with loans located within a broader statewide or regional area. As CRA documentation details, "Examiners will consider these activities even if they will not benefit the institution's assessment area(s)."[30]

30 Federal Financial Institutions Examination Council, "FFIEC Question and Answer Document on CRA." This document is available at the FFIEC website at the following link: http://www.ffiec.gov/CRA/default.htm.

The Federal Financial Institutions Examination Council (FFIEC) issued an opinion letter (no. 794) indicating that targeted MBSs may receive positive CRA consideration.[31] This has been reinforced by numerous CRA examinations. Moreover, as lending-related qualified investments, CRA-qualified MBSs assist small banks with their CRA performance by enabling an upward adjustment of their loan-to-deposit ratio.

CRA-qualified MBSs increase the supply of affordable housing. MBS dealers pay a premium to originators for the low- to median-income (LMI) loans they sell, giving originators an incentive to create additional LMI lending opportunities in communities, which is the essence of the CRA. Banks that purchase MBS pools from dealers support this affordable housing initiative.

Reasons to consider MBSs as part of a CRA strategy include:

- Payment of principal and interest is guaranteed
- Market rate return
- No management fees
- Favorable capital treatment
- Liquid investment: can be sold or borrowed against
- Flexible: can be tailored to a bank's assessment area and sold in varying amounts
- Low transaction costs
- Available everywhere, even in rural areas.

Investors increase the supply of financing for affordable housing through this product by leveraging investment in affordable housing from nondepositories and by creating incentives for loan originators. As with all CRA products, institutions should discuss their unique circumstances with their regulator, accountant, or tax adviser to determine suitability and accounting treatment implications.

31 Federal Financial Institutions Examination Council, "Interagency Interpretive Letter, August 11, 1997."

COMMUNITY DEVELOPMENT VENTURE CAPITAL

Equity capital is vital to small business development and growth. It makes possible larger debt financings, and allows for rapid business expansion that cannot be financed prudently with debt alone. Such companies as Apple Computer, Federal Express, and Google all grew with the support of venture capital. Community development venture capital (CDVC) funds provide this vital equity capital financing to businesses in underinvested communities in ways that promote entrepreneurship, wealth, and job creation. They seek market-rate financial returns for their investors and create stronger economies where they invest. Banks and other financial investors are finding CDVC funds to be a profitable way of both fulfilling their obligations under the investment test of the Community Reinvestment Act (CRA) and helping to build markets for their traditional business lending activities.

CDVC funds are relative newcomers to the family of community development financial institutions (CDFIs). From only a handful ten years ago, there are now more than 70 CDVC funds operating in both urban and rural areas of the nation, as well as dozens more in other parts of the world. Capital under management in the United States has quintupled from $400 million in 2000 to more than $2 billion in 2009. (This data is based on Community Development Venture Capital Alliance data.)

The Importance of Banks and Other Financial Investors

The industry has changed rapidly during the past 10 years. Perhaps the greatest change is the increasingly dominant role of financial institutions as investors. Foundations, government, and other social investors provided early capital when the industry was still in an early stage. While these social investors continue to be vital to the industry, the large amount of capital that has fueled its recent rapid growth has come from banks and other financial institutions, such as pension funds and insurance companies. Banks have accounted for more than 60 percent of new capital raised by CDVC funds in the past five years, as compared with 40 percent of aggregate capital raised by all CDVC funds in the past.

Raising capital for a new fund in today's environment is challenging. Faced with market and regulatory pressure to deleverage, banks have been reluctant to commit new capital to CDVC funds, as they have been to most alternative investments. Funding from philanthropic sources has dropped, as endowments have suffered losses and rates of giving and program related investing (or PRI) have declined in reaction. At the same time, the level of interest in the field of "impact investing" has skyrocketed in the past few years. The Obama administration, too, has shown substantial interest in community development venture capital, and a new regulatory regime may increase incentives for banks and other newly-regulated financial institutions to begin investing again, perhaps at higher levels than before.

CDVC funds have evolved to attract large amounts of capital from increasing numbers of financially-oriented investors. Almost all new CDVC funds are adopting traditional market structures: 10-year limited partnerships or LLCs with 2-3 percent management fees, and incentivized management with a 20 percent carried interest going to fund managers and the remaining 80 percent going to investors. Management teams are increasingly sophisticated, possessing both traditional venture capital and strong economic development experience. On average, CDVC fund size, investment size, and geographic market scope have all increased substantially, and a number of CDVC funds are moving to expansion-stage companies rather than early-stage deals in response to investor feedback. Until the recent downturn, investors were providing a vote of confidence by reinvesting in existing management teams: nine CDVC fund management teams have successfully raised second and third funds, and more are in formation. The model developed in the United States has been transported successfully to Western and Eastern Europe, as well as the developing world.

Investment Returns

CDVC funds target areas of the country where other venture capital funds tend not to look. Most traditional venture capital investment dollars go to companies located in only five states—California, Massachusetts, New York, Texas, and Colorado. Even in those states, investment tends to be limited to certain distinct areas and to high-tech companies. CDVC funds focus on urban and rural areas outside of the traditional venture capital funds' typical stalking grounds. This allows them to find deals others do not, keeping valuations reasonable and avoiding bidding wars that suppress returns in overcrowded markets. In addition, many investors believe that—because CDVC funds invest in different geographies and often in different types of deals than typical venture capital funds—CDVC fund returns will behave differently than other investments in their portfolio, adding financial diversity. In fact, current anecdotal evidence indicates that financial returns in the CDVC industry may outperform those in the traditional venture capital industry during the current economic downturn.

Financial returns cannot be measured definitively until a venture capital fund has completed a full investment cycle. It is said that venture capital portfolios can be valued accurately at only two points: before any investments are made (when the fund has only cash) and after all investments are exited; at any point in between, valuation is highly speculative. Because the CDVC industry is so new—the first traditionally structured 10-year partnership fund will not wind up for several more years—we have no definitive return data on the CDVC industry equivalent to the return-to-investor data published by the National Venture Capital Association.

However, in an effort to get an early answer to the important question of financial returns, the Community Development Venture Capital Alliance (CDVCA) has compiled return information from a model portfolio composed of all exited investments made between 1972 and 1997 by the three oldest CDVC funds. All three had perpetual lives and primarily social investors, and two were not-for-profit organizations. CDVCA looked at all of the 31 exits made during the period, including seven full write-offs. Including these write-offs, the model portfolio yielded a 15.5 percent internal rate of return—very much in line with the long-run return record of the traditional venture capital industry. One would expect returns for the more recent, for-profit, limited life funds to be higher, because of the increased pressure to achieve market returns applied by investors and the pressure to exit quickly (which tends to boost returns) resulting from the more recent funds' limited lives.

CDVC funds achieve not only strong financial returns for investors, but also important social impact for communities. Like most companies backed by venture capital, CDVC portfolio companies grow rapidly. A model portfolio of investments made by a number of CDVC funds, for which CDVCA was able to gather job growth data, experienced employment increases of 169 percent annually. And these jobs are concentrated among lower-income people. A smaller portfolio for which CDVCA was able to distinguish low-income employment showed an employment increase of 89 percent, but with a 124 percent increase for low-income employees as compared with a 37 percent increase for other types of employees. Most CDVC investments are in LMI areas, and a high percentage are in government-designated empowerment zones, new markets tax credit areas, and CDFI Fund hot zones.

How to Invest in a CDVC Fund

Unlike many CDFIs, CDVC funds are for-profit entities. They are usually organized as limited partnerships (LPs) or limited liability companies (LLCs), and an investor in a CDVC fund purchases a partnership or membership interest in the LP or LLC. Because capital is invested in the form of equity rather than debt, the investor does not receive a set interest rate, but rather return on investment is dependent on the success of the fund's underlying investments in companies. Minimum investment sizes are typically in the hundreds of thousands of dollars, but a bank investment in an individual fund is often in the millions.

While a CDVC fund typically has a life of 10 years, all capital committed to the fund does not remain with the fund for the full 10-year period. At closing, a fund typically makes a "capital call" for only a portion of the amount committed by investors. The fund will call the additional committed capital over time to fund investments as they are made in companies. When a fund exits an investment, it will typically distribute realized cash to investors, so the investor receives its invested capital (plus associated earnings) back over time.

Supporting CRA Objectives with CDVC

Although investing in CDVC funds can be more complicated than other kinds of CRA investments, the rewards can be substantial. First, a successful fund can provide financial returns well above what a loan can offer. But more importantly, CDVC funds can be powerful catalysts for economic growth in communities. Bankers know better than anyone else that equity can be vital to the health and growth of a business. And along with equity capital, CDVC funds provide substantial entrepreneurial and managerial expertise; they are active partners in the businesses in which they invest. Equity capital and accompanying management expertise are rare commodities in low- and moderate-income areas, and are vital to their economic growth. Finally, the equity capital that CDVC funds provide helps promote business formation and expansion. A CDVC equity investment often makes possible much larger senior loans to companies. CDVC funds therefore not only offer banks financial returns in their roles as investors, but also can be important long-term partners in a bank's core lending business.

To find a CDVC fund in your area, you can visit CDVCA's Web site at www.cdvca.org. Leading CDVC funds across the nation are listed, along with fund profiles and profiles of representative deals. CDVCA operates a fund itself, which can accept capital in the form of grants and debt, for banks that are more comfortable with that form.

PRIVATE ACTIVITY BONDS

Municipal bonds, which finance community development projects, are a common investment vehicle for banks to earn Community Reinvestment Act (CRA) credit. Known as Private Activity Bonds (PABs), these taxable or tax-exempt securities allow state and municipal agencies to foster public-private partnerships.[32] Other debt issuances categorized as PABs include multifamily housing, industrial development, redevelopment, and student loan bonds.[33] The current formula is $80 multiplied by the state's population, with a per-state cap of $233,795,000 per annum.[34]

Project Finance

Bonds to finance community development projects can be either private placement or negotiated sale transactions. According to a recent journal article:

> Private placements avoid many of the regulatory requirements of bonds sold through typical competitive or negotiated sale mechanisms, because they are designed to be sold directly to one (or to a very few) investor(s) who hold them until they mature (or are redeemed). This creates potential opportunities for reducing the costs associated with issuance and disclosure that make such sales a potential advantage, particularly in cases where credit quality is poor or issue size is small.[35]

Negotiated sales allow for more liquid trading of bonds. However, they involve greater transaction costs, as those deals typically involve separate underwriters, trustees, bond purchasers, and possibly financial guaranty insurance providers (as well as legal counsel for all organizations).

For bond purchases, either negotiated sale or private placement, investors underwrite both the project-level metrics and the transaction's sponsor. At the project level, bond investors are concerned with the debt service coverage ratio (i.e., the ratio of project's net operating income to its annual debt service payment on its permanent mortgage) and loan-to-value ratio (i.e., the ratio of amount of hard debt on a project to its appraised value). In addition, project-level details that are relevant for underwriting include environmental history of the area, as well as information on the operating history and performance of a general contractor and property manager for construction projects involving rental housing.

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32 National Council of State Housing Agencies, "State HFA Factbook: NCSHA Annual Survey Results" (Washington, DC: NCSHA, 2001).

33 National Council of State Housing Agencies, "Housing Bonds for Lower-Income First Time Buyers" (Washington, DC: NCSHA, 2005), available at www.ncsha.org.

34 Ibid.

35 Mark Robinson and Bill Simonsen, "Why Do Issuers Privately Place Municipal Bonds?" Municipal Finance Journal, vol. 27, no. 3 (Fall 2006), 15.

In conducting financial analysis on the sponsor of a bond transaction, investors review the organization's liquidity and net worth. An investor's goal in completing this due diligence is to understand the sponsor's ability to cover any cash flow shortfalls that may arise in operating a project financed with bonds. For example, a bank that is considering a purchase of tax-exempt bonds to finance a multifamily affordable housing project may set a minimum requirement of cash-on-hand and net worth (adjusted for receivables that may not be converted to cash) for a developer.

Supporting CRA Objectives with Bonds

PABs represent an opportunity for banks to lend or invest dollars in communities that are included in their assessment areas for CRA exams. According to the Interagency Questions and Answers on the CRA, "municipal bonds designed primarily to finance community development generally are qualified investments. Municipal bonds or other securities with a primary purpose of community development need not be housing related. For example, a bond to fund a community facility or park or to provide sewage services as part of a plan to redevelop a low-income neighborhood is a qualified investment."[36]

36 Federal Register, "Community Reinvestment Act: Interagency Questions and Answers Regarding Community Reinvestments." Federal Register, July 12, 2001, available at http://www.ffiec.gov/cra/pdf/qa01.pdf.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SERVICE

The Certificate of Deposit Account Registry Service (CDARS) is a depository product that can be used for community development. CDARS is managed by the Promontory Interfinancial Network LLC (Promontory), a Virginia-based firm founded in 2002 by Eugene Ludwig, former Comptroller of the Currency of the United States.[37]

Participation in CDARS allows depositors to deal with a single financial institution while still taking advantage of FDIC insurance on deposits exceeding the $100,000 limit. The CDARS network spreads deposits among multiple banks to maximize FDIC protection. As of June 2008, Promontory had more than 2,000 member banks in its network, and the CDARS service was able to insure up to $50 million in deposits.[38]

One of the ancillary benefits of CDARS is that it increases deposits in member community banks and other undercapitalized, community-based financial institutions, such as Community Development Financial Institutions (CDFIs). In addition, "because banks swap deposits dollar for dollar, all of the money deposited in a community development bank using CDARS goes to work in the local community."[39]

Supporting CRA Objectives with CDARS

Banks may earn CRA credit when making a deposit, through CDARS, in a community development bank certified as a CDFI by the U.S. Treasury. According to the Office of the Comptroller of the Currency, "Financial institutions can request that CDARS deposit funds in participating banks that specialize in lending in low-income communities (in community development banks that are CDFI certified by the Treasury Department's CDFI Fund)."[40]

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37 Kelly Green, "Protecting Your Principal in IRA CDs," Wall Street Journal, June 7, 2008, available at http://online.wsj.com/article/SB121278609004552957.html?mod=googlenews_wsj.

38 Promontory Interfinancial Network, "About Promontory" Promontory Interfinancial Network (Arlington, VA: Promontory, June 2008), available at www.promnetwork.com/about.html.

39 "Promontory Interfinancial Network and Community Development Bankers Association, "Initiative Promises Financial 'Win, Win, Win.'" Press release (Washington, DC, May 4, 2004), available at http://www.cdars.com/_docs/news-articles/CDBA.PressRelease.pdf.

40 John Farrell and Denise Kirk-Murray, "This Just In…OCC's Districts Report on Investment Opportunities for Banks,"Community Developments (Winter 2004/2005), available at www.occ.treas.gov/cdd/eZine/winter04/thisjustin.html.

EQUITY EQUIVALENT (EQ2) INVESTMENTS[41]

A strong permanent capital base is critical for community development financial institutions (CDFIs) because it increases the organization's risk tolerance and lending flexibility, lowers the cost of capital, and protects lenders by providing a cushion against losses in excess of loan loss reserves. It allows CDFIs to better meet the needs of their markets by allowing them to engage in longer-term and riskier lending. A larger permanent capital base also provides more incentive for potential investors to lend money to a CDFI. All of these results help CDFIs grow their operations and solidify their positions as permanent institutions. Unlike for profit corporations, which can raise equity by issuing stock, nonprofits must generally rely on grants to build this base. Traditionally, nonprofit CDFIs have raised the equity capital they need to support their lending and investing activities through capital grants from philanthropic sources, or in some instances, through retained earnings. However, building a permanent capital base through grants is a time-consuming process, and one that often generates relatively little yield. It is also a strategy that is constrained by the limited availability of grant dollars.

Developing a Solution

In 1995, National Community Capital set out to create a new financial instrument that would function like equity for nonprofit CDFIs. To realize this goal, National Community Capital chose an experienced partner—Citibank—to help develop an equity equivalent that would serve as a model for replication by other nonprofit CDFIs and to make a lead investment in National Community Capital. The equity equivalent investment product, or EQ2, was developed through the Citibank/National Community Capital collaboration and provides a new source and type of capital for CDFIs.

The Equity Equivalent - What is It?

The Equity Equivalent, or EQ2, is a capital product for community development financial institutions and their investors. It is a financial tool that allows CDFIs to strengthen their capital structures, leverage additional debt capital, and as a result, increase lending and investing in economically disadvantaged communities. Since its creation in 1996, banks and other investors have made more than $70 million in EQ2 investments and the EQ2 has become an increasingly popular investment product with significant benefits for banks, CDFIs and economically disadvantaged communities. 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.[42]

41 This article, written by Beth Lipson, originally appeared in Community Investments (Volume 14, Number 1, March 2003) and is available at http://www.frbsf.org/publications/community/investments/cra02-2/index.html. It is an adaptation of a National Community Capital technical assistance memo written by Laura Sparks.

42 Comptroller of the Currency, Administrator of National Banks, in an opinion letter dated January 23, 1997, concerning Citibank's Equity Equivalent investment in the National Community Capital Association.

1. The equity equivalent is carried as an investment on the investor's balance sheet in accordance with Generally Accepted Accounting Principles (GAAP)

2. It is a general obligation of the CDFI that is not secured by any of the CDFI's assets

3. It is fully subordinated to the right of repayment of all of the CDFI's other creditors

4. It does not give the investor the right to accelerate payment unless the CDFI ceases its normal operations (i.e., changes its line of business)

5. It carries an interest rate that is not tied to any income received by the CDFI

6. It has a rolling term and therefore, an indeterminate maturity

Like permanent capital, EQ2 enhances a CDFI's lending flexibility and increases its debt capacity by protecting senior lenders from losses. Unlike permanent capital, the investment must eventually be repaid and requires interest payments during its term, although at a rate that is often well below market. The equity equivalent is very attractive because of its equity-like character, but it does not replace true equity or permanent capital as a source of financial strength and independence. In for-profit finance, a similar investment might be structured as a form of convertible preferred stock with a coupon.

Accounting Treatment

An investor should treat the equity equivalent as an investment on its balance sheet in accordance with GAAP and can reflect it as an "other asset." The CDFI should account for the investment as an "other liability" and include a description of the investment's unique characteristics in the notes to its financial statements. Some CDFIs have reflected it as "subordinated debt" or as "equity equivalent." For a CDFI's senior lenders, an EQ2 investment functions like equity because it is fully subordinate to their loans and does not allow for acceleration except in very limited circumstances (i.e., material change in primary business activity, bankruptcy, unapproved merger or consolidation).

CRA Treatment

On June 27, 1996, the OCC issued an opinion jointly with the Federal Deposit Insurance Corporation, Office of Thrift Supervision, and the Federal Reserve Board that Citibank would receive favorable consideration under CRA regulations for its equity equivalent investment in National Community Capital. The OCC further stated that the equity equivalents would be a qualified investment that bank examiners would consider under the investment test, or alternatively, under the lending test. In some circumstances Citibank could receive consideration for part of the investment under the lending test and part under the investment test.[43]

This ruling has significant implications for banks interested in collaborating with nonprofit CDFIs because it entitles them to receive leveraged credit under the more important CRA lending test. The investing bank is entitled to claim a pro rata share of the incremental commu-

43 See the Resources section of National Community Capital's website www.communitycapital.org for a copy of the opinion letter.

nity development loans made by the CDFI in which the bank has invested, provided these loans benefit the bank's assessment area(s) or a broader statewide or regional area that includes the assessment area(s). The bank's pro rata share of loans originated is equal to the percentage of "equity" capital (the sum of permanent capital and equity equivalent investments) provided by the bank.

For example, assuming a nonprofit CDFI has "equity" of $2 million—$1 million in the form of permanent capital and $1 million in equity equivalents provided by a commercial bank—the bank's portion of the CDFI's "equity" is 50 percent. Now assume that the CDFI uses this $2 million to borrow $8 million in senior debt. With its $10 million in capital under management, the CDFI makes $7 million in community development loans over a two-year period. In this example, the bank is entitled to claim its pro rata share of loans originated—50 percent or $3.5 million. Its $1 million investment results in $3.5 million in lending credit over two years. This favorable CRA treatment provides another form of "return on investment" for a bank in addition to the financial return. The favorable CRA treatment is a motivating factor for many banks to make an EQ2 investment.

Outcomes and Benefits

National Community Capital estimates that approximately $70 million in EQ2 investments have been made by at least twenty banks, including national, regional and local banks. These transactions have resulted in the following benefits:

EQ2 capital has made it easier for CDFIs to offer more responsive financing products. With longer-term capital in the mix, CDFIs are finding they can offer new, more responsive products. Chicago Community Loan Fund, one of the first CDFIs to utilize EQ2, once had difficulty making the ten-year mini-permanent loans its borrowers needed. Instead, Chicago had to finance these borrowers with seven-year loans. With over 15% of its capital in the form of EQ2, Chicago can now routinely make ten-year loans and has even started to offer ten-year financing with automatic rollover clauses that effectively provide for a twenty-year term. Cascadia Revolving Fund, a CDFI based in Seattle, finds EQ2 a good source of capital for its quasi-equity financing and long-term, real estate-based lending, and Boston Community Capital has used the EQ2 to help capitalize its venture fund.

Very favorable cost of capital. When National Community Capital first developed the equity equivalent with Citibank, National Community Capital was uncertain about where the market would price this kind of capital. The market rate for EQ2 capital seems to be between two to four percent.

Standardized documentation for EQ2 investments. As EQ2 transactions become more common, CDFI's and banks have worked to standardize the documentation, thereby lowering transaction costs, reducing complexity and expediting closing procedures. There are good examples of both short, concise EQ2 agreements and longer, more detailed agreements. Of particular note are the loan agreements crafted by Boston Community Capital and US Bank. US Bank's three-page agreement, which succinctly lays out the investment terms and conditions, is a user friendly document that has been used with approximately 25 CDFIs. The Boston Community Capital documents, with a 23-page loan agreement and a three-page promissory note, are substantially longer and more detailed, but include several statements and provisions that may make a hesitant bank more likely to simply use the CDFI's standard documents. For example, the agreement specifically references the OCC opinion letter recognizing an EQ2 investment as a qualified investment and includes a formal commitment from Boston Community Capital to assist a bank investor with a Bank Enterprise Award application.[44]

Non-bank investors are beginning to utilize EQ2 investments. Although banks have a unique incentive under the CRA to invest in equity equivalents, other investors can and are beginning to use the tool as well. Chicago Community Loan Fund has secured an EQ2 from a foundation, and Boston Community Capital has secured an EQ2 from a university. While the university and foundation do not have the same CRA incentives, they are able to demonstrate leveraged impact in their communities by making an EQ2 investment—rather than a loan—similar to how banks claim leveraged lending test credit under CRA.

Bank Enterprise (BEA) Credit for EQ2 Investments

The CDFI Fund's BEA program gives banks the opportunity to apply for a cash award for investing in CDFIs. Banks typically receive a higher cash award (up to 15% of their investment) for equity-like loans in CDFIs than for typical loans (up to 11% of investment). To classify as an equity-like investment for the BEA program, EQ2 investments must meet certain characteristics, including having a minimum initial term of ten years, with a five year automatic rolling feature (for an effective term of 15 years). The EQ2 must also meet other criteria, which are described in the Fund's Equity-Like Loan Guidance (available through the BEA page of the Fund's website: www.treas.gov/cdfi).

Conclusion

For CDFIs to grow and prosper, they will need to create more sophisticated financial products that recognize the different needs and motivations of their investors. The EQ2 is one step in this direction. Unlike investors in conventional financial markets, CDFI investors (and particularly investors in nonprofit CDFIs) have few investment products to choose from. The form of investment is typically a grant or a below-market senior loan. This new investment vehicle, the EQ2, is one step in developing the financial markets infrastructure for CDFIs by creating a new innovative product which is particularly responsive to one class of investors—banks. Further development and innovation in CDFI financial markets will help increase access to and availability of capital for the industry.

44 The Bank Enterprise Award Program is a program of the CDFI Fund that provides incentives for banks to make investments in CDFIs.

FINANCIAL AND TECHNICAL ASSISTANCE PROGRAMS

The Financial Assistance (FA) and Technical Assistance (TA) programs administered by the Community Development Financial Institutions Fund (CDFI Fund) began in 1994 as a result of the Reigle Community Development and Regulatory Improvement Act.[45] The FA and TA programs are two of the five programs the CDFI Fund oversees. The CDFI Fund is an agency within the U.S. Treasury Department. As of December 2006, the CDFI Fund had provided 667 FA awards totaling $524 million to qualifying organizations and 497 TA awards totaling $24 million.[46]

The FA and TA programs provide cash awards to CDFIs for three main uses: (1) economic development (including business development and commercial real estate development), (2) affordable housing (including financing for homeownership and housing development), and (3) consumer financial services (including financial literacy and basic banking services). The funds are awarded directly to CDFIs as intermediaries, which then lend and invest funds in their local communities. CDFIs leverage the FA funds awarded with other capital from foundations and private financial institutions. The TA funds allow CDFIs to improve community services, help borrowers expand their businesses, and strengthen their organizational capacity.[47]

Program Administration and Sample Awards

Applicants for FA and TA awards are CDFIs, which partner with banks, nonbank financial institutions, foundations, and other nonprofit organizations. For the FA program, CDFIs apply to the CDFI Fund for up to $2 million.[48] The funds are awarded annually, although 2009 included an additional round of awards for funds distributed through the American Recovery and Reinvestment Act. The CDFI Fund scores applications on the basis of an applicant's demonstrated ability to meet three goals: (1) provide affordable and appropriate financial products and services that positively affect their communities; (2) be viable financial institutions; and (3) use and leverage CDFI fund dollars effectively. CDFI applicants must match the funds awarded through the FA program with nonfederal funds. Those sources of matching funds can include below-market financing from banks, foundations, and nonbank financial institutions. The FA award can also be provided to a CDFI as an equity investment, loan, deposit, or grant.[49]

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45 Community Development Financial Institutions Fund, "CDFI Fund – U.S. Treasury – Community Development Financial Institutions Program" (Washington, DC: CDFI Fund, 2009), available at www.cdfifund.gov/what_we_do/programs_id.asp?programID=7.

46 Abt Associates, Inc., "Assessment of the Community Development Financial Institutions Fund (CDFI) Program, Training Program, and CDFI Certification". (Bethesda, MD: Abt, August 17, 2007), available at www.cdfifund.gov/impact_we_make/Assessment/CDFIAssessmentFinal_Report.pdf. The figures do not account for the nearly 300 awards to recipients of FA and TA funds.

47 L. Benjamin, S. Zielenbach, and J. Sass Rubin, "Community Development Financial Institutions: Current Issues and Future Prospects," Journal of Urban Affairs, 26 (2) (2004), available at www.federalreserve.gov/communityaffairs/national/CA_Conf_SusCommDev/pdf/zeilenbachsean.pdf.

48 Ibid.

49 Community Development Financial Institutions Fund, "CDFI Fund."

For the TA program, both start-up and more experienced CDFIs may apply for funding to support capacity building efforts to better serve their target markets. Among the qualifying uses of TA awards are acquiring consulting services for market analysis, expanding information technology capacity, providing training to the organization's board or staff, or presenting educational programs to the target community served. A CDFI can apply for a maximum of $100,000 in TA funds, in addition to $2 million in FA funds. Unlike an FA award, an organization does not need to match funding.[50]

As an example of a FA award, a California-based CDFI used the award to finance a charter school facility in Los Angeles. The charter school building will support an additional 100 students as a result of the real estate project. In another example, a CDFI in Maine slated the $2 million for acquiring and rehabilitating residential housing units for low- and moderate-income individuals and families.

Supporting CRA Objectives with Financial Assistance and Technical Assistance Awards

To achieve their goals in accordance with the requirements of the Community Reinvestment Act (CRA), banks have partnered with CDFIs in numerous ways. Banks have acted as investors, lenders, and grantors to CDFIs that participate in CRA-qualifying activities. The Office of the Comptroller of the Currency (OCC) lists the following options for banks to receive CRA recognition: [51]

- Subordinated loan
- CD loan participation
- Certificate of deposit
- Grant contribution
- Stock or equity investments in a CD bank or CDFI (or its holding company)
- Involvement on an advisory board, credit review committee, or as a director
- Providing expertise, consulting, or training to lending staff
- Establishing correspondent banking relationship for loan business.

According to a 2006 OCC report, "A national bank may make an equity investment in a CDFI or CD bank…This can help the investing bank expand its CRA reach into LMI [low- or medium-income] areas or to LMI individuals within its assessment area—or in the broader statewide or regional area—that it otherwise might have difficulty reaching. When a national bank makes a qualified investment in a CDFI or a CD bank, it may receive positive CRA consideration for its entire investment under the Investment Test, or it may choose to receive CRA consideration for a pro rata portion of the loans and investments made by the CDFI or CD bank."[52] Along with the CRA benefits, banks that partner with CDFIs may recognize expanding market opportunities for consumer and commercial financing as well as positive effects on community relations.

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50 Ibid.

51 K. Tucker, "Expanding Your CRA Reach with CD Banks and CDFIs," Community Developments (Washington, DC: Office of the Comptroller of the Currency, online news articles, March 2006), available at www.occ.treas.gov/cdd/Summer-08.pdf.

52 Ibid, p. 2.

HOPE VI PROGRAM

The Hope VI Program began in 1992 as a federal government effort to redevelop public housing. The program was initially called the Urban Revitalization Demonstration program and was the result of findings from the National Commission on Severely Distressed Public Housing.[53] The study had found 86,000 public housing units nationwide to be "severely distressed." The commission's recommendations focused on physical improvements, management improvements, and providing social and community services for residents.[54] The HOPE VI program specifically focused on physical improvements in public housing units and common areas, and social services for residents.

Since its inception in 1992, HOPE VI has provided more than $6 billion in funding for the redevelopment of public housing units nationwide.[55] The program funds the demolition of existing public housing units, and the development of rental and for-sale housing units on the same sites as the demolished buildings.[56] The program has led to the redevelopment of more than 63,000 housing units in more than 160 cities around the country.[57]

Program Administration

The program awards funding on a competitive basis. The U.S. Department of Housing and Urban Development awards funds to Public Housing Authorities (PHAs), which work directly with project developers.[58] In designing a project that involves redeveloping public housing units in a metropolitan area, a local PHA will collaborate with a developer on an application for HOPE VI funds. Project financing often includes multiple sources along with HOPE VI. The developer is responsible for approaching banks, nonbank financial institutions, and government agencies for tax credit investments, tax-exempt bond purchases, traditional mortgage financing, and subordinate loans for planned projects.

Project awards are often focused on developing units that are affordable for individuals and families earning a range of incomes relative to the area's median income. Given that one of the goals of the HOPE VI program is to reduce the concentration of poverty in public housing sites, developing mixed-income communities is given priority in funding decisions.[59]

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53 S. Zielenbach, "Catalyzing Community Development: Hope VI and Neighborhood Revitalization," Journal of Affordable Housing, 13 (2) (Fall 2003), available at www.clpha.org/uploads/docs/Zielenbach-HOPE_VI___Neighborhoods1.pdf.

54 U.S. Department of Housing and Urban Development, "HOPE VI: What is HOPE VI?" (Washington, DC: HUD, HOPE VI, Public and Indian Housing), available at www.hud.gov/offices/pih/programs/ph/hope6.

55 U.S. Department of Housing and Urban Development, "About HOPE VI" (Washington DC: HUD, Public and Indian Housing, DATE), available at www.hud.gov/offices/pih/programs/ph/hope6/about.

56 Zielenbach, "Catalyzing Community Development."

57 Bruce Katz et al., "A Decade of HOPE VI: Research Findings and Policy Challenges." (Washington, DC: Urban Institute and Brookings Institution), available at www.urban.org/UploadedPDF/411002_HOPEVI.pdf.

58 D. Wood, "Public Housing: Information on the Financing, Oversight, and Effects of the HOPE VI Program." Testimony before the Subcommittee on Housing, Transportation and Community Development, Committee on Banking, Housing, and Urban Affairs, U.S. Senate, June 20, 2007, available at www.gao.gov/new.items/d071025t.pdf.

59 Ibid.

Financial Structure of HOPE VI

HOPE VI is one of many sources of funding for redeveloping public housing units. For HOPE VI projects, sources of funding can include Low Income Housing Tax Credit (LIHTC) equity, tax-exempt bonds, traditional bank debt, and subordinate debt or grants from state or municipal agencies.[60] Projects that use HOPE VI funds demolish existing multifamily apartment buildings and construct new rental or for-sale units that are lower density. Significant government subsidies must be leveraged to meet the high per-unit development costs. For example, as Table 1 shows, the Tremont Pointe project in Cleveland involved a HOPE VI grant, a grant from the city, LIHTC equity, and a private mortgage.

Table 1. Sources of Funds for Tremont Pointe, Cleveland

Mortgage Debt	$2,116,000
Cuyahoga Housing Authority – Hope VI Award	$7,773,213
City of Cleveland	$2,500,000
LIHTC Equity	$5,700,000
Total Funds	$18,089,213

The resulting project is a mix of 190 for-sale and rental units offering community services to residents. In addition, the project includes 3,000 square feet of community space and multiple "green" amenities.[61]

A second example is the Henson Village project in Phoenix.[62] Before the HOPE VI funds were awarded, the Matthew Henson Homes had 372 housing units, 150 of which were constructed in 1940. The redevelopment demolished 356 units, rehabilitated 16 units, and built 611 new units. The mix of housing includes market-rate rental apartments and income-restricted rental units (financed with LIHTC), market-rate and income-restricted for-sale units, retail commercial space, and community service areas.[63]

The North Beach Place project in San Francisco replaced 229 units of public housing with 341 new units affordable to a variety of families.[64] The project was completed through a partnership of three development organizations and cost $108 million. Aside from the HOPE VI grant, other sources of funds included 9 percent LIHTCs; an Affordable Housing Program grant from the Federal Home Loan Bank of San Francisco; mortgage financing from a bank; funds from the San Francisco Mayor's Office of Housing and the San Francisco Housing Authority; and developer equity.

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60 Bruce Katz et al., "A Decade of HOPE VI: Research Findings and Policy Challenges." (Washington, DC: Urban Institute and Brookings Institution, May 2004), available at www.urban.org/UploadedPDF/411002_HOPEVI.pdf.

61 Green Communities, "Tremont Pointe, Cleveland" (Columbia, MD: Enterprise Community Partners), available at www.greencommunitiesonline.org/projects/profiles/tremont_pointe.pdf.

62 City of Phoenix, "Matthew Henson: Hope VI Revitalization Project Information Sheet" Phoenix: City of Phoenix, 2008), available at http://phoenix.gov/HOPEVI/hphenson.html.

63 Ibid.

64 Donna Kimura, "Grand Ideas Realized at North Beach Place," Affordable Housing Finance (August 2005), available at www.housingfinance.com/ahf/articles/2005/august/014_AHF_12-3.htm.

Supporting CRA Objectives with HOPE VI

Because HOPE VI projects are typically located in low- and moderate-income neighborhoods and serve low- and moderate-income tenants and homebuyers, banks are able to earn CRA credit for loans or investments originated for the projects. Banks eager to earn CRA credit for working on HOPE VI projects would identify active projects via the local housing authority or through affordable housing developers in the region.

SECTION 8 PROGRAM

The Section 8 program, also known as the Housing Choice Voucher Program, is a federally funded program that provides housing payment subsidies to low- and moderate-income (LMI) individuals and families. The subsidy helps ensure that households devote no more than 30 percent of household income to housing. Many LMI individuals and families cannot easily find decent, affordable housing. The Section 8 program helps them pay fair market rents that a landlord could otherwise receive. Approximately 1.4 million Americans receive Section 8 subsidies.[65]

Program Administration

The Section 8 program is funded through the U.S. Department of Housing and Urban Development (HUD). Local Public Housing Authorities apply to HUD for funds to distribute to qualifying individuals and projects. LMI tenants apply directly to their local housing authority and alert their prospective landlords of the secondary funding stream. Tenants receiving the Section 8 program pay 30 percent of their pre-tax income to the landlord. The local public housing authority pays the landlord the difference between that amount and the fair market rent.[66]

The subsidy allows tenants to pay the fair market rents, avoid housing-induced poverty, and still live in decent, affordable housing units. A recent study finds that Section 8 recipients are less likely to live in economically and socially distressed neighborhoods. Approximately 15 percent of voucher recipients lived in high-poverty neighborhoods compared with more than 53.6 percent of public housing residents.[67]

The program offers two forms of payment: tenant based and project based. In a tenant-based disbursal, the administering housing authority issues a voucher to the individual household, which then finds a unit to rent. If the unit meets the Section 8 quality standards, the housing authority pays the landlord the difference between 30 percent of the tenant's adjusted income and the fair-market rent in the area (as determined by the housing authority).[68]

In a project-based disbursal, subsidies are not mobile. Rather, the subsidy is tied to a specific unit for the term of a Housing Assistance Payments contract. The subsidy can be used for newly constructed or rehabilitated units or for units in existing buildings. A project-based subsidy effectively guarantees the developer, if the units are rented, a steady stream of revenue that can help pay debts incurred during construction or rehabilitation. It also helps to

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65 U.S. Department of Housing and Urban Development, “Housing Choice Voucher Program (Section 8)” (Washington, DC: HUD), available at http://portal.hud.gov/portal/page/portal/HUD/topics/housing_choice_voucher_program_section_8.

66 New York City Department of Housing Preservation and Development, “Residential Tenants: Section 8 Information” (New York: Department of Housing Preservation and Development), available at www.nyc.gov/html/hpd/html/tenants/section_8.shtml#whatissection8.

67 M. A. Turner, S. Popkin, and M. Cunningham, “Section 8 Mobility and Neighborhood Health” (Washington, DC: Urban Institute, 1999), available at www.urban.org/UploadedPDF/sec8_mobility.pdf.

68 HUD, “Housing Choice Voucher Program.”

ensure that affordable housing is available to eligible households even when the rental housing market is tight.[69]

Sample Section 8 Projects

Table 1 shows the 2006-2007 budget for the Wichita, Kansas, Housing Authority. Wichita has, historically, administered approximately 2,500 Section 8 vouchers. However, the city reported that it had approximately 1,500 people on its waiting list for affordable units as of 2006.[70]

Table 1. Wichita Housing Authority Budget, Including Section 8 Vouchers

Program	Amount Allocated
Section 8	$13,205,257
Public Housing	3,188,785
Community Development Block Grant	2,931,400
HOME Funds	1,720,657
Emergency Shelter Grant	125,818
General Fund	25,000
Total	$21,000,000

The Ashby Lofts Apartments in Berkeley are an example of a project-based Section 8 program. The 54-unit building cost $21 million to develop and was financed with Low Income Housing Tax Credit equity, funds from the California Multifamily Housing Program, and other sources. As a rental building, the project was awarded a project-based Section 8 contract for 20 units.[71] Likewise, in the South Lake Union neighborhood of Seattle, the Low Income Housing Institute developed 50 units of affordable rental housing in Denny Park Apartments. The project's units are affordable for individuals and families with income levels at or below 60 percent of the area's median income, and 13 units will be set aside specifically for Section 8 tenants.[72]

Supporting CRA Objectives with Section 8

Because Section 8 is intended to make housing affordable to low- and moderate-income individuals, loans and investments for Section 8-qualified projects have qualified financial insti-

69 Massachusetts Department of Housing and Economic Development, "Section 8 Project-Based Voucher Program" (Boston: Department of Housing and Economic Development, 2009), available at www.mass.gov/?pageID=ehedterminal&L=3&L0=Home&L1=Housing+Development&L2=Rental+Assistance+Management&sid=Ehed&b=terminalcontent&f=dhcd_factsheets_s8pbv&csid=Ehed.

70 Housing and Community Services of Wichita, "City Council Orientation" (Wichita: Housing and Community Services Agency, April 2007), available at www.wichita.gov/NR/rdonlyres/7F6DA028-03D3-47CC-B79E-BB11DC7390FF/0/HousingCommunityServices2007.pdf.

71 Housing and Community Services Department, "Recently Completed Affordable Housing Projects in Berkeley" available at www.ci.berkeley.ca.us/ContentDisplay.aspx?id=10502.

72 Green Communities, "Denny Park, Seattle, Washington." (Seattle: Green Communities and Enterprise and the Natural Resources Defense Council), available at www.enterprisecommunity.org/partnership_programs/green_communities/projects/profiles/DennyPark-2006.pdf.

tutions for credit under the lending and investing tests of the Community Reinvestment Act (CRA). In general, Section 8 properties typically serve LMI populations and are often located in CRA-qualified geographic areas. Participation in financing arrangements for properties that serve LMI individuals or LMI neighborhoods can earn recognition for banks in their CRA efforts. In one sample CRA exam performance evaluation, the Office of the Comptroller of the Currency noted the participation of the bank in two projects funded through Section 8:

> The bank provided $2 million in financing to a borrower to acquire an 83-unit apartment building for low-income tenants, in which the rents are subsidized through the HUD Section 8 program. The building is located in a section of Hollywood that is targeted for redevelopment…CNB provided $7.6 million in financing to a company to acquire a 199-unit apartment building in Santa Ana. The tenants are senior citizens and all rents are subsidized through the HUD Section 8 program.[73]

73 Office of the Comptroller of the Currency, "Community Reinvestment Act Performance Evaluation: City National Bank" (Washington, DC: OCC, January 10, 2000), p. 18, available at www.occ.gov/ftp/craeval/jan01/14695.pdf.

AFFORDABLE HOUSING PROGRAM

The Federal Home Loan Bank System's Affordable Housing Program (AHP) began in 1989 as a directive from the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA).[74] Each of the country's 12 regional Federal Home Loan Banks (FHLBs) administers an AHP program. The program subsidizes the development of for-sale and rental housing units. The FIRREA regulation calls for each FHLB to set aside ten percent of its net income for subsidized financing through AHP and the Community Investment Program. The latter provides below-market financing for qualifying community development projects. Each FHLB branch maintains a 15-member advisory council that provides insight and guidance on community development issues, including affordable housing, in that respective region. The councils help to ensure that projects awarded funds have substantial community development goals.

Since 1990, AHP has contributed $3 billion in funds to affordable housing developments around the country.[75] According to the Council of Federal Home Loan Banks, the program is "one of the largest private sources of grant funds for affordable housing in the United States."[76] AHP funds have helped finance approximately 623,000 housing units; of those, 391,000 units have been set aside for residents who are considered very low-income.[77]

Program Administration

Affordable housing projects are awarded AHP funds through a competitive application process. To receive AHP funds, FHLB member banks partner with affordable housing developers and community-based organizations to complete applications, which are submitted to FHLB staff members for review. The applications are reviewed, and projects are funded, annually or bi-annually.[78] Projects funded through AHP serve a wide range of neighborhood needs: many are designed for seniors, the disabled, homeless families, first-time homeowners, and others with limited resources.[79]

Funds awarded through AHP can be used to develop housing units for individuals and families whose income levels are at or below 80 percent of the area's median income (AMI). In presenting an AHP application, a developer will often mix the AHP award with other funding sources, including tax-exempt bonds and Low Income Housing Tax Credits (LIHTC). For rental housing projects funded through AHP, a minimum of 20 percent of the project's units must be

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74 Michael Swack, "Social Financing" in A Right to Housing Foundation for a New Social Agenda, edited by Rachel G. Bratt et al. (Philadelphia: Temple University Press, 2006).

75 Council of Federal Home Loan Banks, "Affordable Housing Program" (Washington, DC: FHLBanks, A Nation of Local Lenders, 2009), available at www.fhlbanks.com/programs_affordhousing.htm.

76 Ibid.

77 Ibid.

78 Federal Home Loan Bank of Dallas, "Community Investment: Affordable Housing Program" (Dallas: 2005), available at www.fhlb.com/community/ahp.

79 Council of Federal Home Loan Banks, "Affordable Housing Program."

affordable for individuals or families earning 50 percent or less of the AMI. [80] This requirement is similar to the LIHTC stipulation that 20 percent of the units serve individuals with incomes at or below 50 percent of AMI or 40 percent of the units serve individuals whose incomes are at or below 60 percent of AMI. In addition to funding a project's construction costs, AHP funds may also be used to lower the interest rate on loans or cover down payment and closing costs for projects.

According to the Federal Home Loan Bank of Pittsburgh, AHP provides grants and loans for single- and multifamily housing; new construction and rehabilitation; rental and owner-occupied homes; scattered-site housing development projects; and transitional and single-room-occupancy housing.[81] The developer of a project assists the sponsoring financial institution in completing the application for funds, which the respective FHLB Community Development staff review. The Federal Home Loan Bank of New York lists the following as scoring criteria for AHP applications:[82]

- Donated properties
- Sponsorship by nonprofit or government entity
- Targeting
- Homeless housing
- Empowerment
- Community stability
- First district priority: economic diversity and community strategies
- Second district priority: moderate-income rental housing
- AHP subsidy per unit

Financial Structure of the Affordable Housing Program

Subsidies in addition to AHP include LIHTC, tax-exempt bonds, and Community Development Block Grants (CDBG). Table 1 shows how a grant of $200,000 from the FHLB of Atlanta was combined with numerous other sources of funds to develop a 112-unit project in Williamsburg, VA.[83]

80 Federal Home Loan Bank of Indianapolis, "FHLBI Implementation Plan" (Indianapolis: 2009), available at www.fhlbi.com/HOUSING/documents/A.pdf.

81 Federal Home Loan Bank of Pittsburgh, "Affordable Housing Program, 2009: AHP Information" (Pittsburgh: FHLBank, Housing and Community Programs, 2009), available at http://www.fhlb-pgh.com/housing-and-community/programs/affordable-housing-program.html.

82 Federal Home Loan Bank of New York, "Using Affordable Housing Program Subsidies to Supplement Financing for Low-Income Housing Tax Credit Projects." (Trenton: State of New Jersey Housing and Mortgage Finance Agency website: Low Income Housing Tax Credits, n.d.), available at www.nj.gov/dca/hmfa/biz/devel/lowinc/FHLB percent203-11-08.ppt.

83 Community Housing Partners, "Preserving Rural Housing Development Properties Using LIHTC." Presentation to Virginia Housing Preservation Symposium, June 18, 2008, available at http://vacommunitycapital.org/products/documents/CHP-OrlandoArtze.pdf.

Table 1. Lafayette Village Family Apartments: Sources and Uses

Sources		Uses	
VHDA: REACH	$950,000	Hard Costs	$3785,488
VHDA: FLEX	$185,000	Soft Costs	$1,358,056
VHDA: Taxable	$120,000	Developer Fee	$1,000,000
RD #1: Orig. Loan	$4,151,916	Acquisition Cost	$5,232,885
DHCD: HOME	$195,000		
FHLB-Atl.: AHP	$200,000		
Tax Credit Equity	$5,133,774		
Deferred Developer's Fee	$440,739		
Total	$11,376,429	Total	$11,376,429

Given that the AHP awards subsidize only a small percentage of a project's total costs, developers leverage other federal, state, and local programs to finance affordable housing projects. In the above example, a developer used LIHTC equity to finance the property and also won an AHP award.[84] The AHP award helped fill the gap between the project's total development costs and the amount that could be financed through traditional sources, grants, and subordinate loans.

In another sample project in 2009, the Federal Home Loan Bank of Dallas awarded $280,000 to Tohatchi Area Opportunity Services, Inc., a nonprofit organization in New Mexico. First Community Bank was the bank sponsor for this AHP award, which helped fund 40 homeownership units.[85]

In 2009, the Federal Home Loan Bank of San Francisco awarded AHP funds to the Pierce Street Villas Phase 3 project. The developer, Habitat for Humanity of San Fernando and Santa Clarita Valley, used the $360,000 AHP award to finance a 24-unit homeownership project. Bank of the West was the sponsoring bank and submitted the AHP application to the Federal Home Loan Bank of San Francisco.[86] The units in this project are reserved for families with incomes at or below 60 percent of the AMI for Los Angeles County.

Supporting CRA Objectives with AHP

Banks that are members of a Federal Home Loan Bank can achieve their Community Reinvestment Act goals by participating in the AHP. In 2006, the FDIC provided a list of community development services recognized under CRA, including the AHP.[87] In addition, bank regulatory agencies published the following guidance on CRA and AHP in the January

84 Federal Home Loan Bank of New York "Using Affordable Housing Program Subsidies."

85 Federal Home Loan Bank of Dallas "Community Investment."

86 Federal Home Loan Bank of San Francisco, "2009 Round A Affordable Housing Program Award Recipients" (San Francisco: FHLB website), available at http://www.fhlbsf.com/ci/grant/ahp/pdf/09A_Awards.pdf.

87 "FDIC: Press Releases – PR-23-2006 03/02/2006" Federal Deposit Insurance Corporation. 2006. Retrived from: http://www.fdic.gov/news/news/press/2006/pr06023a.html.

2009 Federal Register:

> The Q&A continues to point out that institutions' other activities in connection with the FHLBs' AHP program would be considered in an institution's CRA evaluation—for example, providing technical assistance to applicants would be considered as a community development service…[88]

For one sample CRA exam performance evaluation, the Office of the Comptroller of the Currency noted the participation of the bank in AHP activities:

> Bank employees also provided technical assistance to the Cleveland community by submitting Affordable Housing Program applications to the Cincinnati Federal Home Loan Bank. Specifically, the bank assisted in filing nine applications which totaled $5.3 million.[89]

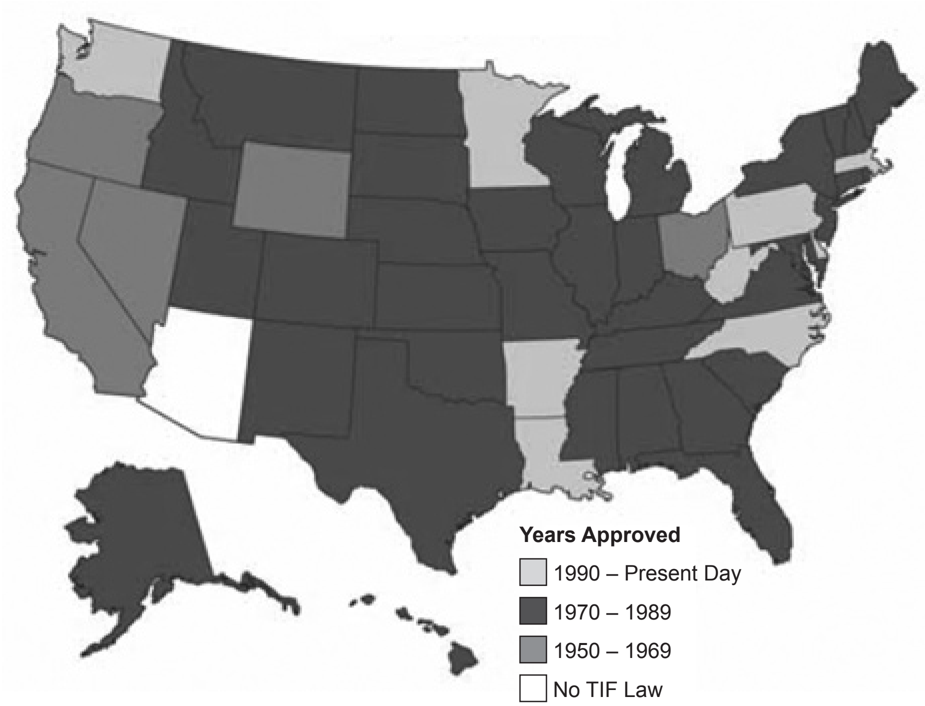
88 "CRA Interagency Questions and Answers." Notices. Federal Register, 74 (3) (January 6, 2009), 503, available at http://edocket.access.gpo.gov/2009/pdf/E8-31116.pdf.

89 Office of the Comptroller of the Currency, "Community Reinvestment Act Performance Evaluation: KeyBank, N.A." (Washington, DC: OCC, July 1, 2008), 19, available at http://www.occ.gov/ftp/craeval/Sept09/14761.pdf.

TAX INCREMENT FINANCE

Tax Increment Finance (TIF) began in California in 1952, and 49 states have passed TIF-authorizing legislation since then.[90] The goal of TIF is to provide a financing mechanism for infrastructure and real estate improvements needed for economic development in targeted areas within cities and states.[91] TIF-financed projects and districts are often located in low- and moderate-income communities. Map 1 shows the historic breakdown of TIF-authorizing legislation by state as of 2007.[92]

Map 1. History of TIF Legislation by State



Using TIF funds allows a metropolitan area to effectively freeze the amount of tax revenues that the municipal government will receive from a district or specific property. This baseline can be applied to sales tax, property tax, or both. To stimulate economic activity in the TIF-designated area, the government then allows real estate developers, local businesses, or city

90 J. Y. Man, "Introduction," in Tax Increment Financing and Economic Development (Albany: State University of New York Press, 2001).

91 Ibid.

92 Council of Development Finance Agencies and the International Council of Shopping Centers, "Tax Increment Finance Best Practices Reference Guide" (New York: CDFA, 2007), available at www.mrsc.org/ArtDocMisc/CDFA.pdf.

agencies to borrow funds against the future increases in tax revenues generated by that region as commercial activity grows. That "tax increment" is used to pay debt service for the debt holders.[93]

Program Administration and Examples

In implementing a TIF district, typically a city redevelopment agency identifies an area that is lagging the rest of the city in its economic development capacity. Issuing notes to finance the development of this area allows the city to effectively borrow against future tax revenues the district will generate. The commercial development of the TIF district then provides cash flow in the form of sales and property taxes to service the debt on TIF notes. TIF districts can help provide financial incentives to redevelop dilapidated buildings, remediate brownfield sites, and improve infrastructure such as roads or sewer systems.[94]

TIF programs are administered at the local level, with redevelopment agencies or other city agencies overseeing their operations. In Oakland, for example, the city's Community and Economic Development Agency identified ten districts slated for redevelopment with TIF funds.[95] In Portland, Oregon, the Portland Development Commission uses TIF financing to encourage private-sector investment, increase the number of jobs in the city, and expand the city's tax base. This city agency has created 11 districts that are funded through TIF.[96]

Supporting Community Reinvestment Act Objectives with TIF

In TIF transactions, banks purchase TIF-district bonds, which municipal agencies issue. The federal banking regulatory agencies have not identified specific implications of tax-increment finance on a bank's Community Reinvestment Act (CRA) performance. However, because TIF transactions often involve low- and moderate-income census tracts and businesses serving low- and moderate-income individuals, banks providing tax-increment financing would be considered eligible for earning CRA credit for those efforts. The following statements, which highlight TIF or TIF-related activities, were included in three banks' CRA reports:

> [Bank 1] FNB purchased $1 million (100%) of a local bond issue in 1996. The proceeds of the issue were used to rebuild and extend Hauenstein Road for future commercial development on the City of Huntington's north side. To date, nine businesses are expanding their operations and are in the process of hiring new employees, the majority

93 David Swenson and Liesl Eathington, "Do Tax Increment Finance Districts in Iowa Spur Regional Economic and Demographic Growth?" (Ames: Department of Economics, Iowa State University, June 2002), available at http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/5941edd057950c37862573d80056a1ff/$FILE/Do%20Tax%20Increment%20Finance%20Districts%20in%20Iowa%20Spur%20Growth.pdf.

94 Matthew Maryl, "Refocusing Wisconsin's TIF System on Urban Redevelopment, Three Reforms" (Madison: Center on Wisconsin Strategy, March 2005), available at http://www.cows.org/pdf/econdev/tif/rp-tif_2005.pdf.

95 Oakland Community and Economic Development Agency, "Business Assistance: Redevelopment" (Oakland: Summer 2009), available at www.business2oakland.com/main/redevelopment.htm.

96 Portland Development Commission, "Funding for PDC," available at www.pdc.us/about_pdc/pdcfunding.asp#fundstructure.

of whom would be considered low- to moderate-income.

[Bank 2] A bank officer serves as a board member for the Sealy Tax Increment Reinvestment Zone, and officers serve on local economic development boards of Directors.

[Bank 3] Purchase of $675,000 of [TIF] bonds used to renovate local, public schools. Bonds were issued as a part of a city approved empowerment zone, where school renovations were seen as a key aspect of revitalizing the city's older neighborhoods. …[97]

97 The excerpts are from three reports by the Office of the Comptroller of the Currency, "Community Reinvestment Act Performance Evaluation" (Washington, DC: OCC, May 7, 1997; May 3, 2009; and April 23, 2007, respectively). Available from [bank 1]: www.occ.treas.gov/ftp/craeval/aug97/14398.pdf; [bank 2]: www.occ.gov/ftp/craeval/Jan09/4241.pdf; [bank 3]: www.occ.gov/ftp/craeval/Aug08/23920.pdf.

CHARTER SCHOOL AND RURAL INVESTMENT PROGRAMS

In addition to TIF, Hope VI, Affordable Housing Programs, the Financial and Technical Assistance programs, and the Section 8 program, many other programs also support community economic development. Two sets of these programs are described here, one supporting charter schools and the other set supporting rural development programs.

1. Credit Enhancement for Charter School Facilities

The Charter School Facilities Credit Enhancement program began in 2001 and is administered by the Office of Innovation and Improvement within the U.S. Department of Education. According to a recent report, the program:

> [P]rovides assistance to help charter schools meet their facility needs. Under this program, funds are provided on a competitive basis to public and nonprofit entities, and consortia of those entities, to leverage other funds and help charter schools obtain school facilities through such means as purchase, lease, and donation. Grantees may also use grants to leverage funds to help charter schools construct and renovate school facilities….
>
> To help leverage funds for charter school facilities, grant recipients may, among other things, guarantee and insure debt to finance charter school facilities; guarantee and insure leases for personal and real property; facilitate a charter school's facilities financing by identifying potential lending sources, encouraging private lending, and other similar activities; and establish charter school facility "incubator" housing that new charter schools may use until they can acquire a facility on their own.[98]

How the Program Works

Charter management organizations, foundations, banks, and nonbank financial institutions can apply for allocations of funds from the program. The funds are used to finance charter school facilities throughout the country. As the Department of Education describes the program:

> The applications for grants are reviewed based on a numerical scoring system by grant readers external to the Department. Applicants are awarded extra points for their applications by serving communities with the greatest need for public school choice, which are typically those communities where the existing public schools are not performing well and large proportions of students come from low-income families….

98 U.S. Department of Education, "Credit Enhancement for Charter School Facilities" (Washington, DC: DOE, Office of Innovation and Improvement, February 17, 2009), available at www.ed.gov/programs/charterfacilities/index.html.

> The grant funds are usually drawn down in full in a one-time payment in advance of using them and may be invested…grant funds grow over time (i.e., through compounding interest) if the costs incurred, such as defaults on debt guaranteed through the grant, are less than the earnings on the investments. However, the program is subject to annual appropriations from the Department of Education and total grant dollars diminished substantially between 2007 and 2008 (from $36.5MM awarded in 2007 to $8.3MM awarded in 2008).[99]

Community Reinvestment Act Implications

The federal banking regulatory agencies have not issued specific guidance on this program's implications related to the Community Reinvestment Act (CRA). However, because charter schools are often located in low- and moderate-income neighborhoods and serve low- and moderate-income students, banks providing financing should be eligible for CRA credit. The following statements from two banks' CRA reports reference charter school finance activities:

> [Bank 1] The bank issued a $250,000 line of credit to fund capital improvements for a charter school building. The charter school is located in an economically distressed area of Wilmington and 85 percent of the charter school's students live below the poverty line and 65 percent come from single parent families. This line of credit will help stabilize this area.[100]

> [Bank 2] On May 25, 2006, ANB originated a loan totaling $2.5 million for a charter school located in a moderate CT [census tract]. The school was built to meet the needs of the growing Hispanic population by teaching English which is a key factor in future employment and economic achievement. On October 4, 2007, the bank increased the amount of the loan by $250 thousand and then, on December 20, 2007, ANB also originated a revolving line-of-credit for $200 thousand.[101]

2. USDA Housing Programs

The U.S. Department of Agriculture administers several substantial rural housing programs, including the Farm Labor Housing (Section 514), Rural Rental Housing Guaranteed Loan Program (Section 538), Rural Rental Housing (Section 515), and Single Family Housing Loan Guarantees (Section 502). These programs provide loans and guarantees to aid in the development, home purchase, and project financing of single-family and multifamily affordable housing in rural communities.[102]

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99 Jonathan Kivell, "Paying for School: An Overview of Charter School Finance," (San Francisco: Federal Reserve Bank of San Francisco, Community Development Investment Center, August 2008), p. 37, available at www.frbsf.org/publications/community/wpapers/2008/wp08-03.pdf.

100 Federal Deposit Insurance Corporation, "Community Reinvestment Act Performance Evaluation" (Washington, DC: FDIC, March 27, 2006), p. 5, available at www2.fdic.gov/crapes/2006/57203_060327.pdf.

101 Office of the Comptroller of the Currency, "Community Reinvestment Act Performance Evaluation" (Washington, DC: OCC, November 18, 2008), p. 11, available at ww.occ.gov/ftp/craeval/Apr09/16720.pdf.

102 U.S. Department of Agriculture, "Developer Opportunities, Rural Development Housing and Community Facilities Programs," (Washington, DC: USGA), available at www.rurdev.usda.gov/rhs/mfh/dev_splash.htm.

How the Programs Work

Table 1 lists the rural housing programs, their characteristics, and rules of implementation.

Table 1. USDA Rural Development Programs

Program Name	Formal Title	Type	Implementation
Farm Labor Housing	Section 514	Direct loan for project finance for farm laborers (urban or rural)	"[O]nly nationwide program designed to provide housing for farm laborers." "Funds can be used to purchase a site or a leasehold interest in a site; to construct housing, day care facilities, or community rooms; to pay fees to purchase durable household furnishings; and to pay construction loan interest." Source: U.S. Department of Agriculture, "Developer Opportunities, Rural Development Housing and Community Facilities Programs," available at www.rurdev.usda.gov/rhs/mfh/dev_splash.htm.
Rural Rental Housing Guaranteed Loan Program	Section 538	Guarantees for project finance for rural rental housing	"Loan guarantees are provided for the construction, acquisition, or rehabilitation of rural multi-family housing." "The terms of the loans guaranteed may be up to 40 years, and the loans must be fully amortized." Source: U.S. Department of Agriculture, "Guaranteed Rental Housing Program, Rural Development Housing and Community Facilities Programs," available at www.rurdev.usda.gov/rhs/mfh/brief_mfh_grrh.htm.

Rural Rental Housing	Section 515	Direct loan for project finance for rural rental housing	"Loans are direct, competitive mortgage loans made to provide affordable multifamily rental housing for very low-, low-, and moderate-income families; the elderly; and persons with disabilities. This is primarily a direct mortgage program, but its funds may also be used to buy and improve land and to provide necessary facilities such as water and waste disposal systems." "Tenancy: Very low-, low-, and moderate-income families; the elderly; and persons with disabilities are eligible for tenancy of Section 515-financed housing...Those living in substandard housing are given first priority for tenancy. When rental assistance is used top priority is given to very low-income households." Source: U.S. Department of Agriculture, "Rural Rental Housing Loans, Rural Development Housing and Community Facilities Programs," available at www.rurdev.usda.gov/rhs/mfh/brief_mfh_rrh.htm.
Family Housing Loan Guarantees	Section 502	Loan guaranty program to aid the purchase of for-sale housing by low- and moderate-income homebuyers in rural areas	"[U]sed to help low-income individuals or households purchase homes in rural areas. Funds can be used to build, repair, renovate or relocate a home, or to purchase and prepare sites, including providing water and sewage facilities." "Applicants for loans may have an income of up to 115% of the median income for the area." Source: U.S. Department of Agriculture, "Single Family Housing Loan Guarantees (Section 502), Rural Development Housing and Community Facilities Programs," available at www.rurdev.usda.gov/rhs/sfh/brief_rhguar.htm.

Supporting Community Reinvestment Act Objectives

As one Office of the Comptroller of the Currency publication stated, "Agriculture's [USDA] Rural Development has created private market financing programs to help low- and moderate-income rural residents obtain safe and affordable housing. Rural areas are defined as open country and communities with populations of 10,000 or less. Towns and cities with populations between 10,000 and 25,000 may also be considered as rural, under certain conditions."[103] However, the federal banking regulatory agencies have not issued CRA-specific guidance on the implications of participating in this program. Because rural and farm worker housing may serve low- and moderate-income communities, tenants, and homeowners, banks providing financing would be eligible for CRA credit. In describing the 502 program specifically, the same OCC publication stated, "Participating lenders may be eligible for favorable consideration under the Community Reinvestment Act (CRA)."

Further, the following examples were included in the CRA reports by three banks:

> [Bank 1] The bank also offers the USDA Rural Development Guaranteed Single Family Housing Program. Eligible homebuyers must meet certain income restrictions. This program provides 100 percent financing, requires no down payment, and mortgage insurance is prohibited.
>
> [Bank 2] SFNB did not offer innovative loan programs during the evaluation period. However, the bank did offer flexible loan programs for home mortgage loans (Federal Housing Administration (FHA), Veterans' Administration (VA), and Farm Service Agency/Rural Housing Service (FSA/RHS loans). During the evaluation period, SFNB originated 586 FHA loans totaling $57.8 million. The bank originated 122 VA loans totaling $14.4 million. SFNB originated 27 FSA/RHS loans totaling $2.7 million. These flexible loan programs offer borrowers an opportunity to obtain financing when they would otherwise be denied under conventional loan programs.
>
> [Bank 3] The bank offers a wide variety of loan and deposit products. Products and services include low cost checking, competitive rate school district incentive accounts (Academic Prime), USDA Rural Housing, ADFA Home-to-Own program, and an in-house low- to moderate-income financing program. All programs are available at all full-service branches while paying and receiving services are available at all the deposit-

103 Office of the Comptroller of the Currency, "USDA Rural Housing Fact Sheet." Community Developments Facts Sheet (Washington, DC: OCC, June 2009), p. 1, available at www.occ.treas.gov/Cdd/USDA%20Rural%20Housing%20Fact%20Sheet.pdf.

List of Banks with Assets between 1 billion and 10 billion dollars and a CRA and Investment Test Score of "Outstanding."

Only the most recent examination of a given bank from 2003 through 2008 is noted

** indicates an exam method other than "Large Bank"*

State	Bank	Assets (in millions)	Exam Year	Agency	City	Current Name/ Owner
CA	Farmers and Merchants Bank of Central California	1450	2007	FDIC	Lodi	
	California Savings Bank	1200	2006	OTS	San Francisco	
	Greater Bay Bank, N.A.	6880	2006	OCC	Palo Alto	
	Mellon 1st Business Bank	3168	2006	OCC	Los Angeles	
	San Diego National Bank	2356	2006	OCC	San Diego	
	California Commerce Bank	1874	2005	FDIC	Century City	(Citibank)
	California National Bank	3181	2005	OCC	Los Angeles	
	County Bank	1353	2005	FRB	Merced	
	Valley Indep. Bank	1285	2003	FRB	El Centro	
CT	Liberty Bank	2648	2008	FDIC	Mddletown	
	Citizens Bank of Connecticut	3329	2004	FDIC	New London	
DE	Wachovia Bank of Delaware	4784	2006	OCC	Wilmington	
	Wilmington Savings Fund Society	2696	2005	OTS	Wilmington	
	Citizens Bank	1177	2004	FDIC	Wilmington	
	PNC Bank, Delaware	2537	2004	FDIC	Wilmington	
FL	Commercebank, N.A.	5038	2007	OCC	Coral Gables	(Mercantil Commercebank)
	Mellon United National Bank	2762	2007	OCC	Miami	
	City National Bank of Florida	2747	2006	OCC	Miami	
	Fidelity Federal Bank & Trust	4379	2006	OTS	West Palm Beach	
	Republic Bank	2591	2003	FDIC	St. Petersburg	
IA	Bankers Trust Company, N.A.	2002	2007	OCC	Des Moines	
	Hills Bank and Trust Company	1366	2006	FDIC	Hills	
IL	Cole Taylor Bank	3292	2007	FRB	Chicago	
	Shorebank	1897	2007	FDIC	Chicago	
	First Midwest Bank	7174	2006	FRB	Itasca	
	Marquette Bank	1338	2006	FRB	Chicago	
	MB Financial Bank, N.A.	7461	2006	OCC	Chicago	
	Busey Bank	1781	2005	FDIC	Urbana	
	Pullman B&TC	1141	2004	FRB	Chicago	
	Regency Savings Bank, FSB	1354	2004	OTS	Naperville	

LA	Whitney Bank	6981	2003	OCC	New Orleans	
MA	Rockland Trust Company	2674	2008	FDIC	Rockland	
	Bristol County Savings Bank	1041	2007	FDIC	Taunton	
	Middlesex Savings Bank	3403	2007	FDIC	Natick	
	Berkshire Bank	2037	2006	FDIC	Pittsfield	
	Brookline Bank	2075	2006	OTS	Brookline	
	Boston Private Bank & Trust Company	1810	2005	FDIC	Boston	
	Peoplesbank	1061	2005	FDIC	Holyoke	
	Boston Federal Savings Bank	1684	2004	OTS	Burlington	(TD Banknorth)
	Eastern Bank	4715	2004	FDIC	Boston	
ME	Bangor Savings Bank	1846	2006	FDIC	Bangor	
MI	Citizens Bank	5761	2005	FRB	Flint	
	Citizens First Savings Bank	1271	2005	FDIC	Port Huron	
MN	Bremer Bank, N.A.	1620	2005	OCC	South St. Paul	
MO	Southwest Bank	2700	2005	FRB	Saint Louis	
MT	First Interstate Bank	4907	2007	FRB	Billings	
NE	Pinnacle Bank	1826	2006	FDIC	Lincoln	
NH	Citizens Bank New Hampshire	7326	2004	FDIC	Manchester	
NJ	Columbia Bank	4094	2007	OTS	Fair Lawn	
	Commerce Bank/North	4017	2006	FDIC	Ramsey	
	Spencer Savings Bank, SLA	1784	2006	OTS	Elmwood Park	
	Susquehanna Patriot Bank	2114	2006	FRB	Marlton	
	Lakeland Bank	1672	2005	FDIC	Newfoundland	
NM	Vectra Bank Colorado, N.A.	2589	2006	OCC	Farmington	
NV	Nevada State Bank	3886	2008	FDIC	Las Vegas	
	USAA Savings Bank	7297	2005	FDIC	Las Vegas	
	Citibank (Nevada), N.A.*	7100	2003	OCC	Las Vegas	
NY	Tompkins Trust Company	1133	2008	FDIC	Ithaca	
	Five Star Bank	1902	2007	FRB	Warsaw	
	Banco Popular North America	6310	2005	FRB	New York	
	NBT Bank, N.A.	1512	2004	OCC	Norwich	
OH	Union Savings Bank	1661	2007	OTS	Cincinnati	
	Peoples Bank, N.A.	1865	2006	OCC	Marietta	
OK	First United Bank and Trust Co.	1295	2005	FDIC	Durant	
PA	Wilmington Trust of Pennsylvania	1180	2007	FRB	Villanova	
	Dollar Bank, FSB	5231	2007	OTS	Pittsburgh	
	Lafayette Ambassador Bank	1252	2006	FRB	Easton	
	Waypoint Bank	5300	2004	OTS	Harrisburg	(Sovereign Bank)

PR	R-G Premier Bank of Puerto Rico	7767	2008	FDIC	Hato Rey	
SC	Carolina First Bank	8712	2007	FDIC	Greenville	
	First Citizens Bank and Trust Company, Inc.	5431	2006	FDIC	Columbia	
TN	Home Federal Bank of Tennessee	1719	2007	OTS	Knoxville	
	First Bank	1157	2005	FDIC	Lexington	
TX	Sterling Bank	3626	2006	FDIC	Houston	
	Amarillo National Bank	1902	2005	OCC	Amarillo	
	Texas State Bank	3832	2003	FRB	McAllen	
	Southwest Bank of Texas, N.A.	5160	2003	OCC	Houston	
UT	Zions First National Bank	8000	2003	OCC	Salt Lake City	
VA	Towne Bank	2274	2007	FDIC	Portsmouth	
	Riggs Bank, N.A.	6587	2003	OCC	McLean	
VT	Chittenden Trust Company	3369	2006	FDIC	Burlington	
WA	Homestreet Bank	2412	2007	FDIC	Seattle	
	Yakima FS & LA	1315	2006	OTS	Yakima	
WI	Johnson Bank	3010	2006	FRB	Racine	
WV	Wesbanco Bank	4045	2007	FRB	Wheeling	

Community Reinvestment Act: Interagency Questions and Answers Regarding Community Reinvestment

Excerpts Pertaining to "Qualified Investments"

January 6, 2009

§II.12(h)–6: Must there be some immediate or direct benefit to the institution's assessment area(s) to satisfy the regulations' requirement that qualified investments and community development loans or services benefit an institution's assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s)?

A6. No. The regulations recognize that community development organizations and programs are efficient and effective ways for institutions to promote community development. These organizations and programs often operate on a statewide or even multistate basis. Therefore, an institution's activity is considered a community development loan or service or a qualified investment if it supports an organization or activity that covers an area that is larger than, but includes, the institution's assessment area(s). The institution's assessment area(s) need not receive an immediate or direct benefit from the institution's specific participation in the broader organization or activity, provided that the purpose, mandate, or function of the organization or activity includes serving geographies or individuals located within the institution's assessment area(s). In addition, a retail institution that, considering its performance context, has adequately addressed the community development needs of its assessment area(s) will receive consideration for certain other community development activities. These community development activities must benefit geographies or individuals located somewhere within a broader statewide or regional area that includes the institution's assessment area(s). Examiners will consider these activities even if they will not benefit the institution's assessment area(s).

§II.12(h)–7: What is meant by the term "regional area"?

A7. A "regional area" may be as large as a multistate area. For example, the "mid-Atlantic states" may comprise a regional area. Community development loans and services and qualified investments to statewide or regional organizations that have a bona fide purpose, mandate, or function that includes serving the geographies or individuals within the institution's assessment area(s) will be considered as addressing assessment area needs. When examiners evaluate community development loans and services and qualified investments that benefit a regional area that includes the institution's assessment area(s), they will consider the institution's performance context as well as the size of the regional area and the actual or potential benefit to the institution's assessment area(s). With larger regional areas, benefit to the institution's assessment area(s) may be diffused and, thus, less responsive to assessment area needs. In addition, as long as an institution has adequately addressed the community development needs of its assessment area(s), it will also receive consideration for community development activities that benefit geographies or individuals located somewhere within the broader statewide or regional area that includes the institution's assessment area(s), even if those activities do not benefit its assessment area(s).

§ll.12(h)–8: What is meant by the term "primary purpose" as that term is used to define what constitutes a community development loan, a qualified investment or a community development service?

A8. A loan, investment or service has as its primary purpose community development when it is designed for the express purpose of revitalizing or stabilizing low- or moderate-income areas, designated disaster areas, or underserved or distressed nonmetropolitan middle-income areas, providing affordable housing for, or community services targeted to, low- or moderate-income persons, or promoting economic development by financing small businesses and farms that meet the requirements set forth in 12 CFR ll.12(g). To determine whether an activity is designed for an express community development purpose, the agencies apply one of two approaches. First, if a majority of the dollars or beneficiaries of the activity are identifiable to one or more of the enumerated community development purposes, then the activity will be considered to possess the requisite primary purpose. Alternatively, where the measurable portion of any benefit bestowed or dollars applied to the community development purpose is less than a majority of the entire activity's benefits or dollar value, then the activity may still be considered to possess the requisite primary purpose if (1) The express, bona fide intent of the activity, as stated, for example, in a prospectus, loan proposal, or community action plan, is primarily one or more of the enumerated community development structured (given any relevant market or legal constraints or performance context factors) to achieve the expressed community development purpose; and (3) the activity accomplishes, or is reasonably certain to accomplish, the community development purpose involved. The fact that an activity provides indirect or short-term benefits to low- or moderate-income persons does not make the activity community development, nor does the mere presence of such indirect or short-term benefits constitute a primary purpose of community development. Financial institutions that want examiners to consider certain activities under either approach should be prepared to demonstrate the activities' qualifications.

§ll.12(t)–2: Are mortgage-backed securities or municipal bonds "qualified investments"?

A2. As a general rule, mortgage-backed securities and municipal bonds are not qualified investments because they do not have as their primary purpose community development, as defined in the CRA regulations. Nonetheless, mortgage-backed securities or municipal bonds designed primarily to finance community development generally are qualified investments. Municipal bonds or other securities with a primary purpose of community development need not be housing related. For example, a bond to fund a community facility or park or to provide sewage services as part of a plan to redevelop a low-income neighborhood is a qualified investment. Certain municipal bonds in underserved nonmetropolitan middle-income geographies may also be qualified investments. See Q&A §ll.12(g)(4)(iii)–4. Housing-related bonds or securities must primarily address affordable housing (including multifamily rental housing) needs of low- or moderate-income individuals in order to qualify. See also Q&A §ll.23(b)–2.

§II.12(t)–3: Are Federal Home Loan Bank stocks or unpaid dividends and membership reserves with the Federal Reserve Banks "qualified investments"?

A3. No. Federal Home Loan Bank (FHLB) stocks or unpaid dividends, and membership reserves with the Federal Reserve Banks do not have a sufficient connection to community development to be qualified investments. However, FHLB member institutions may receive CRA consideration as a community development service for technical assistance they provide on behalf of applicants and recipients of funding from the FHLB's Affordable Housing Program. See Q&A §II.12(i)–3.

§II.12(t)–4: What are examples of qualified investments?

A4. Examples of qualified investments include, but are not limited to, investments, grants, deposits, or shares in or to:

• Financial intermediaries (including Community Development Financial Institutions (CDFIs), New Markets Tax Credit-eligible Community Development Entities, Community Development Corporations (CDCs), minority- and women-owned financial institutions community loan funds, and low-income or community development credit unions) 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, such as a CDFI that promotes economic development on an Indian reservation; • Organizations engaged in affordable housing rehabilitation and construction, including multifamily rental housing; • Organizations, including, for example, Small Business Investment Companies (SBICs), specialized SBICs, and Rural Business Investment Companies (RBICs) that promote economic development by financing small businesses; • Community development venture capital companies that promote economic development by financing small businesses; • Facilities that promote community development by providing community services for low- and moderate-income individuals, such as youth programs, homeless centers, soup kitchens, health care facilities, battered women's centers, and alcohol and drug recovery centers; • Projects eligible for low-income housing tax credits; • State and municipal obligations, such as revenue bonds, that specifically support affordable housing or other community development; • Not-for-profit organizations serving low- and moderate-income housing or other community development needs, such as counseling for credit, homeownership, home maintenance, and other financial literacy programs; and • Organizations supporting activities essential to the capacity of low- and moderate-income individuals or geographies to utilize credit or to sustain economic development, such as, for example, day care operations and job training programs that enable low- or moderate-income individuals to work. See also Q&As §II.12(g)(4)(ii)–2; §II.12(g)(4)(iii)–3; §II.12(g)(4)(iii)–4.

§II.12(t)–5: Will an institution receive consideration for charitable contributions as "qualified investments"?

A5. Yes, provided they have as their primary purpose community development as defined in the regulations. A charitable contribution, whether in cash or an in-kind contribution of property, is included in the term "grant." A qualified investment is not disqualified because an institution receives favorable treatment for it (for example, as a tax deduction or credit) under the Internal Revenue Code.

§ll.12(t)–6: An institution makes or participates in a community development loan. The institution provided the loan at below-market interest rates or "bought down" the interest rate to the borrower. Is the lost income resulting from the lower interest rate or buy-down a qualified investment?

A6. No. The agencies will, however, consider the responsiveness, innovativeness, and complexity of the community development loan within the bounds of safe and sound banking practices.

§ll.12(t)–7: Will the agencies consider as a qualified investment the wages or other compensation of an employee or director who provides assistance to a community development organization on behalf of the institution?

A7. No. However, the agencies will consider donated labor of employees or directors of a financial institution as a community development service if the activity meets the regulatory definition of "community development service."

§ll.12(t)–8: When evaluating a qualified investment, what consideration will be given for prior period investments?

A8. When evaluating an institution's qualified investment record, examiners will consider investments that were made prior to the current examination, but that are still outstanding. Qualitative factors will affect the weighting given to both current period and outstanding prior-period qualified investments. For example, a prior-period outstanding investment with a multi-year impact that addresses assessment area community development needs may receive more consideration than a current period investment of a comparable amount that is less responsive to area community development needs.

§ll.23(a)–1: May an institution, regardless of examination type, receive consideration under the CRA regulations if it invests indirectly through a fund, the purpose of which is community development, as that is defined in the CRA regulations?

A1. Yes, the direct or indirect nature of the qualified investment does not affect whether an institution will receive consideration under the CRA regulations because the regulations do not distinguish between "direct" and "indirect" investments. Thus, an institution's investment in an equity fund that, in turn, invests in projects that, for example, provide affordable housing to low- and moderate-income individuals, would receive consideration as a qualified investment under the CRA regulations, provided the investment benefits one or more of the institution's assessment area(s) or a broader statewide or regional area(s) that includes one or more of the institution's assessment area(s). Similarly, an institution may receive consideration for a direct qualified investment in a nonprofit organization that, for example, supports affordable housing for low- and moderate-income individuals in the institution's assessment area(s) or a broader statewide or regional area(s) that includes the institution's assessment area(s).

§ll.23(a)–2: In order to receive CRA consideration, what information may an institution provide that would demonstrate that an investment in a nationwide fund with a primary purpose of community development will directly or indirectly benefit one or more of the institution's assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s)?

A2. There are several ways to demonstrate that the institution's investment in a nationwide fund meets the geographic requirements, and the agencies will employ appropriate flexibility in this regard in reviewing information the institution provides that reasonably supports this determination. As an initial matter, in making this determination, the agencies would consider whether the purpose, mandate, or function of the fund includes serving geographies or individuals located within the institution's assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Typically, information about where a fund's investments are expected to be made or targeted will be found in the fund's prospectus, or other documents provided by the fund prior to or at the time of the institution's investment, and the institution, at its option, may provide such documentation in connection with its CRA evaluation. At the institution's option, written documentation provided by fund managers in connection with the institution's investment indicating that the fund will use its best efforts to invest in a qualifying activity that meets the institution's geographic requirements also may be used for these purposes. Similarly, at the institution's option, information that a fund has explicitly earmarked its projects or investments to its investors and their specific assessment area(s) or broader statewide or regional areas that include the assessment area(s) also may be used for these purposes. (If any documentation that has been provided at the institution's option as described above clearly indicates that the fund "double-counts" investments, by earmarking the same dollars or the same portions of projects or investments in a particular geography to more than one investor, the investment may be determined not to meet the geographic requirements of the CRA regulations.) In addition, at the institution's option, an allocation method may be used to permit the institution to claim a pro-rata share of each project of the fund. Nationwide funds are important sources of investments for low- and moderate-income and underserved communities throughout the country and can be an efficient vehicle for institutions in making qualified investments that help meet community development needs. Prior to investing in such a fund, an institution should consider reviewing the fund's investment record to see if it is generally consistent with the institution's investment goals and the geographic considerations in the regulations. See also Q&As §ll.12(h)–6 and §ll12(h)–7 (additional information about recognition of investments benefiting an area outside an institution's assessment area(s)).

§ll.23(b)–1: Even though the regulations state that an activity that is considered under the lending or service tests cannot also be considered under the investment test, may parts of an activity be considered under one test and other parts be considered under another test?

A1. Yes, in some instances the nature of an activity may make it eligible for consideration under more than one of the performance tests. For example, certain investments and related support provided by a large retail institution to a CDC may be evaluated under the lending, investment, and service tests. Under the service test, the institution may receive consideration for any community development services that it provides to the CDC, such as service by an executive of the institution on the CDC's board of directors. If the institution makes an investment in the CDC that the CDC uses to make community development loans, the institution may receive consideration under the lending test for its pro-rata share of community development loans made by the CDC. Alternatively, the institution's investment may be considered under the investment test, assuming it is a qualified investment. In addition, an institution may elect to have a part of its investment considered under the lending test and the remaining part considered under the investment test. If the investing institution opts to have a portion of its investment evaluated under the lending test by claiming its pro rata share of the CDC's community development loans, the amount of investment considered under the investment test will be offset by that portion. Thus, the institution would receive consideration under the investment test for only the amount of its investment multiplied by the percentage of the CDC's assets that meet the definition of a qualified investment.

§ll.23(b)–2: If home mortgage loans to low- and moderate-income borrowers have been considered under an institution's lending test, may the institution that originated or purchased them also receive consideration under the investment test if it subsequently purchases mortgage-backed securities that are primarily or exclusively backed by such loans?

A2. No. Because the institution received lending test consideration for the loans that underlie the securities, the institution may not also receive consideration under the investment test for its purchase of the securities. Of course, an institution may receive investment test consideration for purchases of mortgage-backed securities that are backed by loans to low- and moderate-income individuals as long as the securities are not backed primarily or exclusively by loans that the same institution originated or purchased.

§ll.23(e)–1: When applying the four performance criteria of 12 CFR ll.23(e), may an examiner distinguish among qualified investments based on how much of the investment actually supports the underlying community development purpose?

A1. Yes. By applying all the criteria, a qualified investment of a lower dollar amount may be weighed more heavily under the investment test than a qualified investment with a higher dollar amount that has fewer qualitative enhancements. The criteria permit an examiner to qualitatively weight certain investments differently or to make other appropriate distinctions when evaluating an institution's record of making qualified investments. For instance, an examiner should take into account that a targeted mortgage-backed security that qualifies as an affordable housing issue that has only 60 percent of its face value supported by loans to low- or moderate-income borrowers would not provide as much affordable housing for low- and moderate-income individuals as a targeted mortgage-backed security with 100 percent of its face value supported by affordable housing loans to low- and moderate-income borrowers. The examiner should describe any differential weighting (or other adjustment), and its basis in the Performance Evaluation. See also Q&A §ll.12(t)–8 for a discussion about the qualitative consideration of prior period investments.

§ll.23(e)–2: How do examiners evaluate an institution's qualified investment in a fund, the primary purpose of which is community development, as defined in the CRA regulations?

A2. When evaluating qualified investments that benefit an institution's assessment area(s) or a broader statewide or regional area that includes its assessment area(s), examiners will look at the following four performance 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. With respect to the first criterion, examiners will determine the dollar amount of qualified investments by relying on the figures recorded by the institution according to generally accepted accounting principles (GAAP). Although institutions may exercise a range of investment strategies, including short-term investments, long-term investments, investments that are immediately funded, and investments with a binding, up-front commitment that are funded over a period of time, institutions making the same dollar amount of investments over the same number of years, all other performance criteria being equal, would receive the same level of consideration. Examiners will include both new and outstanding investments in this determination. The dollar amount of qualified investments also will include the dollar amount of legally binding commitments recorded by the institution according to GAAP. The extent to which qualified investments receive consideration, however, depends on how examiners evaluate the investments under the remaining three performance criteria—innovativeness and complexity, responsiveness, and degree to which the investment is not routinely provided by private investors. Examiners also will consider factors relevant to the institution's CRA performance context, such as the effect of outstanding long-term qualified investments, the pay-in schedule, and the amount of any cash call, on the capacity of the institution to make new investments.

§ll.26–1: When evaluating a small or intermediate small institution's performance, will examiners consider, at the institution's request, retail and community development loans originated or purchased by affiliates, qualified investments made by affiliates, or community development services provided by affiliates?

A1. Yes. However, a small institution that elects to have examiners consider affiliate activities must maintain sufficient information that the examiners may evaluate these activities under the appropriate performance criteria and ensure that the activities are not claimed by another institution. The constraints applicable to affiliate activities claimed by large institutions also apply to small and intermediate small institutions. See Q&As addressing 12 CFR ll.22(c)(2) and related guidance provided to large institutions regarding affiliate activities. Examiners will not include affiliate lending in calculating the percentage of loans and, as appropriate, other lending-related activities located in an institution's assessment area.

§ll.26(b)–5: Under the small institution lending test performance standards, how will qualified investments be considered for purposes of determining whether a small institution receives a satisfactory CRA rating?

A5. The small institution lending test performance standards focus on lending and other lending-related activities. Therefore, examiners will consider only lending-related qualified investments for the purpose of determining whether a small institution that is not an intermediate small institution receives a satisfactory CRA rating.

§ll.26(c)–1: How will the community development test be applied flexibly for intermediate small institutions?

A1. Generally, intermediate small institutions engage in a combination of community development loans, qualified investments, and community development services. An institution may not simply ignore one or more of these categories of community development, nor do the regulations prescribe a required threshold for community development loans, qualified investments, and community development services. Instead, based on the institution's assessment of community development needs in its assessment area(s), it may engage in different categories of community development activities that are responsive to those needs and consistent with the institution's capacity. An intermediate small institution has the flexibility to allocate its resources among community development loans,

§ll.26(d)–2: Will a small institution's qualified investments, community development loans, and community development services be considered if they do not directly benefit its assessment area(s)?

A2. Yes. These activities are eligible for consideration if they benefit a broader statewide or regional area that includes a small institution's assessment area(s), as discussed more fully in Q&As §ll.12(h)–6 and §ll.12(h)–7.

CRA INVESTMENT HANDBOOK

Additional copies are available upon request from the Community Development Department, Federal Reserve Bank of San Francisco, 101 Market Street, San Francisco, California 94105, or call (415) 974-3467.

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