

Community Affairs Webinar Series

# **FINDING COMMUNITY DEVELOPMENT OPPORTUNITIES**



## **YOUR PRESENTERS:**

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FEDERAL DEPOSIT INSURANCE CORPORATION

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**Division of Depositor and Consumer Protection**

**Webinar: June 27, 2013**

# **Finding Community Development Opportunities**



# Opportunities for Community Development

## Community Development:

- Promotes the economic health of customers and communities
- Expands business opportunities for lending and investments
- Contributes to strong performance under the Community Reinvestments Act

**Defining Opportunities: Circumstances that offer the possibility for action**

## Resources from the FDIC:

<http://www.fdic.gov/consumers/community/offices.html>

# Opportunities for Community Development

## From opportunity to action:

- Understand what is going on and organize information from Federal, state, local sources**
- Network with the quarterbacks at the local and state levels**
- Assess how to connect, considering the bank's capabilities and goals, and involve senior officers and Board members**
- Connect to “promising practices” and involve the local network in learning**
- Implement responsive initiatives and assess results**

# Opportunities for Community Development

## Community Development Purposes:

- Affordable housing for LMI individuals**
- Community services targeted to LMI individuals**
- Activities that promote economic development by financing small businesses or farms (SBDC or SBIC size standards) and that support LMI jobs**
- Activities that revitalize or stabilize LMI areas, designated disaster areas or distressed or underserved middle-income rural areas**
- Activities that support Neighborhood Stabilization Program areas (up to 2 years after program spending deadlines)**

# Opportunities for Community Development

## Community Development CRA Guidance

- ❑ **A “qualified investment” is a lawful investment, deposit, membership share, or grant that has as its primary purpose community development.**
- ❑ **A community development service has as its primary purpose community development and is related to the provision of financial services.**
- ❑ **Equity and debt investments in CD programs and financial intermediaries discussed in agency guidance include:**
  - **Community Development Financial Institutions (CDFIs) minority- and women-owned financial institutions, community loan funds, and low-income or community development credit unions**
  - **Investments in SBDCs, SBICs and 504 Certified Development Company loans**
  - **New Market Tax Credits or Low-Income Housing Tax Credits**
- ❑ **Interagency Questions and Answers on Community Reinvestment:**  
<http://www.ffiec.gov/cra/qnadoc.htm>



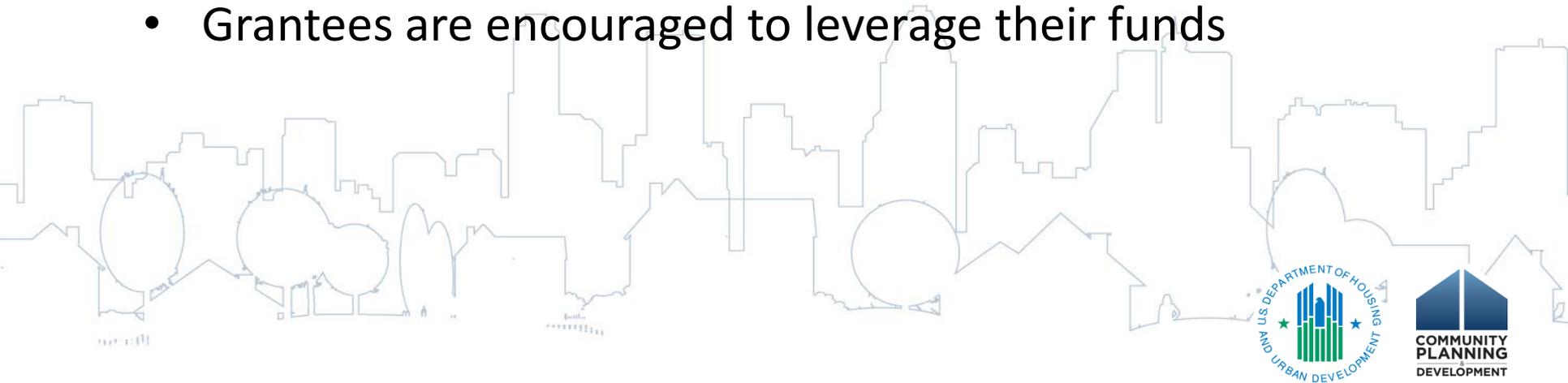
# Overview of Certain HUD Housing-Related Grant Programs

June 2013



# Characteristics of a Formula Grant

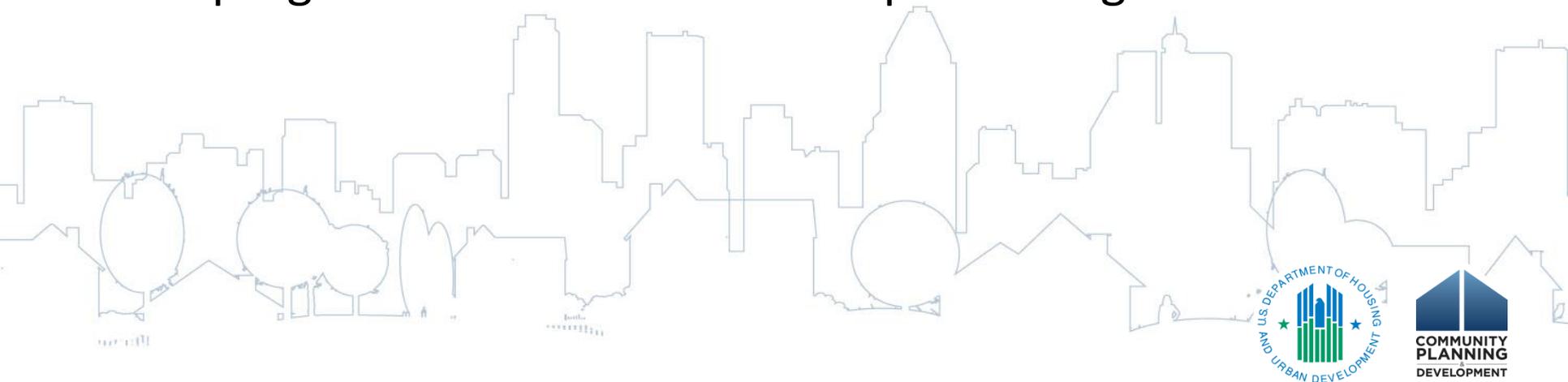
- HUD provides funding by formula to state and local governments
- HUD provides general framework of program rules
- Grantee makes funding decisions from the eligible activities
- Grantees design programs to meet local needs
- Grantees are encouraged to leverage their funds



# CRA Investment Opportunities at HUD CPD

- Neighborhood Stabilization Program: \$7 billion
- Community Development Block Grant program: \$3 billion annually
- HOME: \$1 billion annually

All programs offer homeownership financing subsidies.



# Neighborhood Stabilization Program

- NSP was authorized to stabilize communities suffering from foreclosed and abandoned property
  - FY08: \$3.92 billion to 307 NSP1 grantees
  - FY09: \$1.93 billion to 56 NSP2 grantees
  - FY10: \$1 billion to 270 NSP3 grantees
- NSP1 and NSP3 were allocated by; NSP2 was competitive
- Funds may be used to purchase and redevelop foreclosed homes, demolish blighted structures, establish land banks, and redevelop demolished or vacant properties for LMMI households (up to 120% of area median income).
- Program income received to date is almost \$1 billion. An estimated \$2 billion may be generated.



# Community Development Block Grant

- Annual entitlement program that provides grants to states and local governments for housing, economic development and other activities that benefit low-income communities.
  - FY13: \$3.06 billion (after sequester) to about 1,200 grantees
- 28 eligible activities that must meet one of 3 national objectives:
  - Benefit low- and moderate-income persons,
  - Prevent or eliminate slums or blight, or
  - Address needs urgent to the community because of a serious and immediate threat and for which no other funding is available



# Section 108 Loan Guarantee

- Section 108 is the loan guarantee program of CDBG. It enables grantees to borrow up to 5 times the annual allocation for large scale commercial development or small business lending projects.
  - Must pledge their current and future CDBG allocations as security for the loan; to date, none have defaulted
  - Maximum repayment of 20 years
- Section 108 provides subordinate financing to fill equity gaps in projects that have a community benefits (e.g.: job creation/retention, goods or services).
- \$240 million in guarantee authority in FY 2013
- \$500 million request for FY 2014



# HOME Investment Partnerships Program

- Annual entitlement program that provides grants to states and local governments for affordable housing.
  - FY12: \$1 billion to 644 grantees
- HOME funds may be used to provide home purchase or rehabilitation assistance to low-income homeowners and new homebuyers as well as building or rehabilitating housing for rent or ownership.
- Since the program's establishment in 1990 over 1.1 million affordable housing units have been acquired, constructed or rehabilitated, and nearly 275,000 tenants have received direct rental assistance.



# Partners

Grantees can carry out their programs using:

- Local or state agency staff
- Contractors (duly procured, usually for-profit)
- For-profit and nonprofit developers (including CHDOs)
- Sub-recipients (usually nonprofit)
- Public housing authorities
- Community-based development organizations
- Lending institutions



# OneCPD Technical Assistance

- Technical assistance resources for NSP, CDBG, HOME, are available at: <https://www.onecpd.info/>
- Resource library
- Calendar of training and events
- Ask a Question help desks

Grantees also have an assigned HUD staff representative who is available to answer their questions.



# 504 Loan Program



# Purpose of the 504 Loan Program

- Provide long-term, fixed-rate financing to small businesses for purchasing or constructing facilities or for purchasing M & E
- Create jobs
- Fulfill community/public policy goals
- Maximize public/private sector financing

# Typical 504 Project

- Use of proceeds to purchase land and building for expanding business
- Borrower provides at least 10 percent equity
- First mortgage lender provides 50 percent of financing (no SBA guaranty)
- SBA provides balance of financing secured by second mortgage



## Certified Development Companies (CDCs)

- CDCs are nonprofit organizations established to promote economic development.
- SBA certifies and regulates CDCs.
- There are approximately 270 CDCs nationwide.

- CDCs package, process, close, and service 504 loans.
- Some CDCs also liquidate their 504 loans.

# Debentures

- Maturities of 504 loans are for 10 or 20 years
- Funds to the small businesses come from investors who buy shares in the pooled debentures for that month
- The loan rate is established at the time the debenture is sold and is fixed for the term
- There is a declining prepayment penalty extending for 1/2 the maturity of the debenture

# Loan Payments

- Loan payments are collected directly from the borrower by the servicing agent through ACH.
- The servicing agent also collects all the fees and redistributes those to the CDC or to SBA.

- The 504 program has historically operated as a zero subsidy program.
- The cost to the government resulting from 504 accelerations and partial recoveries is offset by fees to SBA from the borrower, the CDC, and the first mortgage lender.

# CDC Fees

- CDCs are permitted to charge fees to 504 borrowers in return for processing, closing and servicing the 504 loans.
- Generally, a CDC receives 1.5 percent (of the debenture) as a one time processing fee and .5 to 1 percent as an on-going servicing fee.

# Economic Development Goals

- Create jobs (1 job/\$65,000) or
- Meet a community development goal or
- Meet a public policy goal, and
- Meet or exceeds job average of 1 job/  
\$65,000

- Improve, diversify or stabilize a local economy
- Stimulate other business development
- Bring new income into the community
- Assisting manufacturing firms (NAICS Codes 31-33)

# Public Policy Goals

- Revitalize a business district
- Expand exports
- Expand Minority Enterprise Development
- Aid rural development
- Assist veteran-owned businesses
- Increase productivity
- Modernize facilities
- Assist businesses affected by fed. cutbacks
- Assist women-owned businesses



U.S. Small Business Administration

# Public Policy Goals (cont.)

- **Reduction of energy consumption by at least 10%;**
- **Increased use of sustainable designs**, including designs that reduce the use of greenhouse gas emitting fossil fuels or low-impact design to produce buildings that reduce the use of non-renewable resources and minimize environmental impact; or
- **Plant, equipment and process upgrades of renewable energy sources** such as the small-scale production of energy for individual buildings or communities consumption, commonly known as micropower, or renewable fuel producers including biodiesel and ethanol producers. Note: the terms in subparagraphs (b) and (c) have the meanings given those terms under the Leadership in Energy and Environmental Design (LEED) standards for green building certifications.

## Maximum Debenture Size (cont.)

- \$5 million
- Max of \$5,500,000 and borrowers are eligible for more than one \$5.5 million 504 loan for each project that complies with these goals:
  - **Small Manufacturers** (defined as a business with its primary NAICS Code in Sectors 31, 32, and 33, and all of its production facilities are located in the United States) Creates or retains 1 Job Opportunity per \$100,000 in 2 years;
  - **Each project that reduces the Borrower's energy consumption by at least 10% and;**
  - **Each project for plant, equipment and process upgrades of renewable energy sources** such as the small-scale production of energy for individual buildings or communities consumption, commonly known as micropower, or renewable fuel producers including biodiesel and ethanol producers..

- Small Business Investment Act of 1958  
<http://www.sba.gov/tools/resourcelibrary/lawsandregulations/index.html>
- Code of Federal Regulations -- Title 13--Business Credit and Assistance – 13 CFR §120  
[http://www.access.gpo.gov/nara/cfr/waisidx\\_09/13cfrv109.html](http://www.access.gpo.gov/nara/cfr/waisidx_09/13cfrv109.html)
- Standard Operating Procedures – SOP 50 10 5(E), Lender and Development Company Loan Programs

# COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

[www.cdfifund.gov](http://www.cdfifund.gov)



## Bank Enterprise Award (BEA) and New Markets Tax Credit (NMTC) Program Overviews

Presenter: Mia Sowell & Christopher Allison  
June 27, 2013

# CDFI Fund Overview



- Created in 1994
- Mission: To increase economic opportunity and promote community development investments for underserved populations and in distressed communities in the United States
- Vision: To economically empower America's underserved and distressed communities
- The Community Development Financial Institutions Fund (CDFI Fund) achieves its mission by directly investing in and supporting Community Development Financial Institutions (CDFIs), Community Development Entities (CDEs), and other financial institutions through the following programs and initiatives:
  - **Bank Enterprise Award (BEA) Program**
  - **New Markets Tax Credit (NMTC) Program**
  - CDFI Program (FA & TA)
  - Native Initiatives (NACA)
  - CDFI Bond Guarantee Program

# BEA Program Overview



- Provides awards to FDIC-insured depository institutions that demonstrate an increase in investing in Community Development Financial Institutions (CDFIs) or in their own lending, investing, or service-related activities in distressed communities.
- All Applicants must be FDIC-insured.
  - CDFI and non-CDFI banks may apply.
- Program Awards are based on BEA Qualified Activities that have been successfully completed.
- Baseline and Assessment Period.
- Award proceeds must be used for future BEA Qualified Activities.

# BEA Qualified Activities



The BEA Program rewards actual increases in the dollar volume of Qualified Activities in three funding categories:

1. **CDFI-Related Activities:** Equity investments, equity-like loans, loans, deposits, or technical assistance to certified CDFIs.
  - A CDFI that receives an Equity Investment (e.g. grants, stock purchase), Equity-like Loan or CDFI Support Activity (e.g. loan, technical assistance, or qualifying deposit) from an Applicant is a CDFI Partner.
    - CDFI Partners must be *Integrally Involved* in a Distressed Community as defined in the FY 2013 NOFA and BEA Interim Rule.
2. **Distressed Community Financing Activities:** Loans or investments for affordable housing, affordable housing development, small businesses, commercial real estate; education loans.
3. **Service Activities:** Deposits, financial services, or community services provided to residents of BEA Distressed Communities.

# BEA Distressed Communities



**BEA Distressed Communities** are census tracts with:

- Geographic requirement:
  - A total population of at least 4,000, if near a MSA with a population of 50,000 or greater;
  - A population of at least 1,000 if no portion is located near a MSA; or
  - Located within an Indian Reservation.
- Economic requirement:
  - At least 30% of population living in poverty, and
  - Unemployment rate at least 1.5 times the national average.

***\*Census tracts may meet these requirements either individually, or collectively, when aggregated with contiguous census tract(s). Use the CDFI Fund's Information Mapping System (CIMS) to identify BEA Distressed Communities.***

# BEA Estimated Award Calculations



Estimated BEA Program awards are determined formulaically based on these percentages. Estimated awards for Certified-CDFIs are calculated using a higher percentage. Qualified Activities are funded in this order.

Category	Priority	Estimated Award Percentage
CDFI-Related Activities	First Priority	<ul style="list-style-type: none"><li>Increases in Equity Investments or Grants are multiplied by 15%.</li><li>Increases in Loans and Deposits are multiplied by 18% for CDFI Applicants and 6% for non-CDFI Applicants.</li></ul>
Distressed Community Financing Activities	Second Priority	Increases in Distressed Community Financing Activities are multiplied by the asset size priority factor then by 9% for CDFIs and 3% for non-CDFIs.
Service Activities	Third Priority	Increases in Service Activities are multiplied by the asset size priority factor then by 9% for CDFIs and 3% for non-CDFIs.

# BEA Priority Factors



Priority Factors applied to Distressed Community Financing and Service Activities are based on the CRA asset size of the applicant, as of the end of the Assessment Period.

CRA Asset Size Classifications	Priority Factor
<b>Small Banks</b> (assets of less than \$296 million as of 12/31/2012)	5.0
<b>Intermediate Banks</b> (assets of at least \$296 million, but less than \$1.186 billion, as of 12/31/2012)	3.0
<b>Large Banks</b> (assets of \$1.186 billion or greater, as of 12/31/2012)	1.0

# BEA FY 2013 Application Round



- Approximately \$17.1 million in appropriations are available for the FY 2013 Application Round.
- Baseline Period: January 1- December 31, 2011
- Assessment Period: January 1- December 31, 2012
- Persistent Poverty County (PPC) Activities – commitments (minimum and maximum percentage of award) requested for usage of 2013 award proceeds.
- Apply via [Grants.gov](http://Grants.gov) and submit signature page and maps via [myCDFIFund](http://myCDFIFund).

# BEA FY 13 Application Deadlines



## Important Application Deadlines:

Activity	Timeline
Application and NOFA Released	June 3, 2013
Last day for BEA Program Help Desk Questions	July 10, 2013 by 5:00 p.m. ET
Last day for IT Help Desk Questions	July 12, 2013 by 5:00 p.m. ET
Application Due Date (via Grants.gov)	July 12, 2013 by 11:59 p.m. ET
Application Signature Page Due Date	July 12 2013 by 5:00 p.m. ET
Supporting Documentation Due Date (to BPD)	July 16, 2013 by 5:00 p.m. ET

- Compliance Period: January 1 – December 31, 2014
- Compliance Report due: June 30, 2015

# BEA Contact Information



CDFI Fund's Bank Enterprise Award Program Website	<a href="http://www.cdfifund.gov/bea">www.cdfifund.gov/bea</a>
Help Desk Phone	(202) 653-0421 *Option 4
Help Desk Email	<a href="mailto:cdfihelp@cdfi.treas.gov">cdfihelp@cdfi.treas.gov</a>

# What is the New Markets Tax Credit?



- The NMTC Program was authorized under the Community Renewal Tax Relief Act of 2000. The American Taxpayer Relief Act of 2012 extended the program through 2013.
- Provides a credit against Federal income taxes for investors that make Qualified Equity Investments (QEIs) into Community Development Entities (CDEs).
- CDEs in turn use the proceeds of these investments to make Qualified Low-Income Community Investments (QLICIs).
- The credit is taken over a seven-year period. The credit rate is:
  - Five percent of the original investment amount in each of the first three years; and
  - Six percent of the original investment amount in each of the final four years.
  - Equals 39 percent of amount of original investment.
- CDEs are headquartered in 49 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

# What is a CDE?



To be eligible to participate in the NMTC Program, a Community Development Entity must be certified by the CDFI Fund. To qualify for certification as a CDE, an organization must:

- Be a domestic corporation or partnership at the time it applies for certification;
- Demonstrate a primary mission of serving or providing investment capital for low-income communities or people; and
- Maintain accountability to low-income communities through representation on the organization's governing board of advisory board to the entity.

Organizations that have been certified as CDFIs by the CDFI Fund and organizations that have been designated as Specialized Small Business Investment Companies by the Small Business Administration automatically qualify as CDEs.

# Low-Income Communities



***Low-Income Communities*** are census tracts:

- With at least a 20 percent poverty rate; ***or***
- Where the median family income does not exceed 80 percent of the area median family income; ***or***
- Where the median family income does not exceed 85 percent of the area median family income, provided the census tract is located in a high migration rural county; ***or***
- That have a population of less than 2,000, are contained within a federally designated Empowerment Zone, and are contiguous to at least one other low-income community.
- Projects not located within low-income communities, but that otherwise serve ***Targeted Populations***, may also qualify for NMTC investments. Please refer to IRS and CDFI Fund guidance for additional details.

# Eligible Investments



## **Qualified Low-Income Community Investments**

- Any capital or equity investment in or loan to any Qualified Active Low-Income Community Business (QALICB);
- Purchase of a loan from another CDE if the loan is a QLICI;
- Any equity investment in or loan to any CDE; and
- Financial counseling and other services to businesses located in, or residents of, low-income communities.

## **Financial Counseling and Other Services**

Financial counseling and other services is defined as “advice provided by the CDE relating to the organization or operation of a trade or business.” Activities could include:

- Business plan development;
- Assistance with business financials; and/or
- Operating assistance to non-profit organizations.

# Eligible Investments



## **Qualified Active Low-Income Community Business**

- An operating business located in a low-income community;
- A business that develops or rehabilitates commercial, industrial, retail, and mixed-use real estate projects in a low-income community;
- A business that develops or rehabilitates community facilities, such as charter schools or health care centers, in a low-income community; and
- A business that develops or rehabilitates for-sale housing units located in low-income communities.

# Ineligible Activities



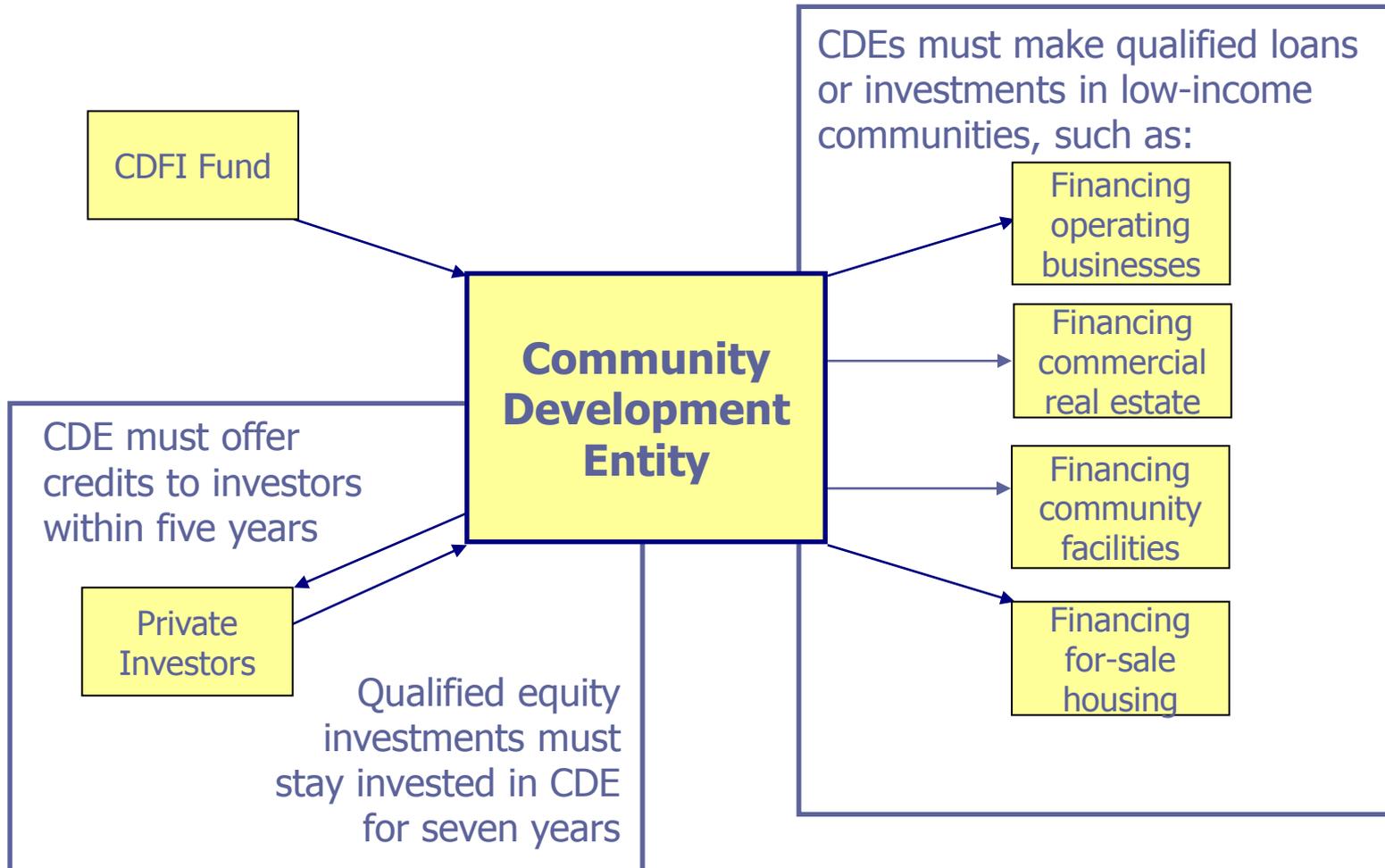
## **Residential rental property**

- Buildings or structures that derive 80 percent or more of its gross rental income from renting dwelling units.

## **Certain types of businesses**

- Golf courses;
- Race tracks;
- Gambling facilities;
- Certain farming businesses;
- Country clubs;
- Massage parlors;
- Hot tub facilities;
- Suntan facilities; and
- Stores where the principal business is the sale of alcoholic beverages for consumption off premises.

# NMTC Investment



# NMTC Investments



<b>Lending &amp; Investing Activity</b>	<b>FY 2012</b>	<b>Cumulative</b>
Total QLICIs	\$5.5 billion	\$26.4 billion
Number of QLICIs	1,278	6,814
Percent of Loans/Investments in Severely Distressed Communities	70.60%	70.50%
Jobs at End of Reporting Period	31,405	111,277
Projected Construction Jobs	52,448	247,555
Affordable Housing Units Financed	2,967	7,488
Square Feet of Commercial Real Estate	18.6 million	109.3 million
Businesses Financed	578	1,781
<b>Financial Counseling &amp; Other Services</b>		
Total Investments	\$856,979	\$33.1 million
Businesses Served	8,323	34,295

# NMTC Contact Information



CDFI Fund's New Market Tax Credit Website	<a href="http://www.cdfifund.gov/nmtc">www.cdfifund.gov/nmtc</a>
Help Desk Phone	(202) 653-0421 *Option 3
Help Desk Email	<a href="mailto:cdfihelp@cdfi.treas.gov">cdfihelp@cdfi.treas.gov</a>

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# **OTHER PROGRAMS AND RESOURCES**

## **Other programs and resources:**

### **Assets for Independence (AFI aka “IDA Program”)**

HHS Office of Community Service

[www.acf.hhs.gov](http://www.acf.hhs.gov)

### **Community Economic Development (CED)**

HHS Office of Community Service

[www.acf.hhs.gov](http://www.acf.hhs.gov)

### **Volunteer Income Tax Assistance (VITA)**

IRS

[www.irs.gov/Individuals/IRS-VITA-Grant-Program](http://www.irs.gov/Individuals/IRS-VITA-Grant-Program)

### **Employment & Training Administration (ETA)**

Dept. of Labor

[www.doleta.gov](http://www.doleta.gov)



## **Other programs and resources:**

### **Minority Development Business Agency (MBDA)**

HHS Office of Community Service

[www.mbda.gov](http://www.mbda.gov)

### **Economic Development Administration (EDA)**

Dept. of Commerce

[www.eda.gov](http://www.eda.gov)

### **Rural Development programs**

USDA

[www.usda.gov](http://www.usda.gov)

### **Federal TRIO Program and GEAR UP program**

Dept. of Education

[www.ed.gov](http://www.ed.gov)



# FOR FURTHER INFORMATION:

## Community Affairs Webinar Series Resources:

[www.fdic.gov/consumers/community/Webinar/index.html](http://www.fdic.gov/consumers/community/Webinar/index.html)

- **Archived presentations**
- **Links to agency websites**
- **Additional resources**

Contact us at:

[CommunityAffairs@FDIC.gov](mailto:CommunityAffairs@FDIC.gov)

