

Defining Community Development

What qualifies and a case study for practical application

DEFINING COMMUNITY DEVELOPMENT (CD)

- Credit needs vary among communities
- CD regulation concepts
 - CD Loans
 - Qualified Investments
 - CD Services



DEFINING COMMUNITY DEVELOPMENT

- **Affordable housing** for low- or moderate-income (**LMI**) individuals
- **Community services** for **LMI** individuals
- Activities that promote **economic development** by providing financing for small businesses or small farms

DEFINING COMMUNITY DEVELOPMENT

- Activities that **revitalize or stabilize** LMI geographies, distressed or underserved non-metro middle-income areas, or designated disaster areas.
- *Activities that **support, enable or facilitate** eligible use projects or activities that meet under the federal **Neighborhood Stabilization Program (NSP)***

DEFINING COMMUNITY DEVELOPMENT

- Community development activities
 - Benefits the bank's assessment areas (AAs)
 - Responsive to community needs



DEFINING COMMUNITY DEVELOPMENT

- Distressed - non metropolitan middle-income geographies
- Underserved - non metropolitan middle-income geographies
- Designated – major disaster areas designated by FEMA

DEFINING COMMUNITY DEVELOPMENT

Revitalize or stabilize LMI geographies

- Help attract new, or retain existing, residents or businesses
- Part of a strategic plan for an Enterprise Community or Empowerment Zone
- Consistent with a federal, state, local or tribal plan for revitalization or stabilization of LMI geographies

DEFINING COMMUNITY DEVELOPMENT

Examples – LMI Geographies



- Loan for an anchor business (grocery, pharmacy, etc) that employs or serves residents of the LMI area
- May be located in, or nearby, the low- or moderate-income area

DEFINING COMMUNITY DEVELOPMENT

Revitalize or stabilize distressed non-metropolitan middle-income areas

- Help to retain, or attract new, residents or businesses
- Are consistent with a bona fide government plan to revitalize or stabilize the geography
- Greater weight to activities that are most responsive to community needs

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Examples – Distressed Areas

- Financing to attract a major new employer
 - Long-term job opportunities
- Financing essential infrastructure necessary to retain or attract existing or new businesses
 - Water and sewer facilities

DEFINING COMMUNITY DEVELOPMENT

Revitalize or stabilize underserved non-metropolitan middle-income areas

- Help meet essential community needs
- Does not have to target, but must include, LMI individuals



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Examples – Underserved

- Financing for essential facilities
 - Health services
 - Education
 - Public safety
- Mixed-income housing facility that includes affordable housing for LMI families



DEFINING COMMUNITY DEVELOPMENT

Revitalize or stabilize designated disaster areas

- Attract new, or retain existing businesses or residents and is related to disaster recovery
- Are consistent with a bona fide government disaster recovery plan
- Regulators will give greater weight to those activities that are most responsive to community needs, including those of LMI individuals or neighborhoods

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Examples – Disaster Area

- Financing to help retain businesses in the area that employ local residents
- Financing to attract a major new employer
- Financial assistance and services to individuals in the area who have been displaced

DEFINING COMMUNITY DEVELOPMENT

Change in the definition of CD

- Adds paragraph (g)(5) to §__.12
- Includes loans, investments, and services
 - Projects or activities that meet “eligible uses” criteria and relate to approved NSP plans
 - In designated target areas
 - Provided no later than two years after last date appropriated funds are required to be spent
 - May be outside AA as long as needs of AA are adequately addressed
- Key change – may benefit middle-income borrowers or geographies

DEFINING COMMUNITY DEVELOPMENT

Change in the definition of CD

- Applies to activities related to approved NSP plans
 - “Eligible uses”
 - Financing mechanisms for foreclosed properties
 - Purchase & rehab abandoned or foreclosed homes & residential properties
 - Land banks for foreclosed properties
 - Demolition of blighted structures
 - Redevelopment of demolished or vacant properties

DEFINING COMMUNITY DEVELOPMENT

Higher Education Opportunity Act

- Amendments to implementing regulations
 - §__.21(e) (Performance Tests, Standards, and Ratings) is amended to address low-cost education loans
 - §__.21(f) is amended to address activities in cooperation with minority- or women-owned financial institutions and low-income credit unions
 - Appendix A, Ratings, is amended to reflect both provisions

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Higher Education Opportunity Act

- Low-cost education loans
 - Consideration to low-cost education loans to low-income borrowers in evaluating performance and assigning a rating
 - Applies to “education loans” as defined under TILA
 - Must be for a student at an “institution of higher learning” as generally defined in the Higher Education Act of 1965
 - Interest rates and fees must not exceed those for comparable education loans offered directly by the U.S. Dept. of Education

DEFINING COMMUNITY DEVELOPMENT

TRUE or FALSE?

1. Economic development activities must meet two tests.
2. A loan to build a market-rate apartment complex in a low-income geography helps to revitalize because it creates jobs
3. A contribution to support a disaster recovery program for a city outside the bank's assessment area automatically qualifies as a qualified investment



DEFINING COMMUNITY DEVELOPMENT

Qualified Community Development *(Loan, investment or service)*

- Have a primary purpose of CD
- Benefits the bank's AAs or broader regional or statewide area that includes the bank's AAs
- May be direct or indirect
 - Indirect refers to loans originated by affiliates or third party lenders

DEFINING COMMUNITY DEVELOPMENT

CD Loan

- Not reported as a home mortgage, small business, small farm or consumer loan
 - Unless it is a multi-family loan
 - Special ISB rule
- Consideration given to innovative or complex loans



DEFINING COMMUNITY DEVELOPMENT

Loans Made to Nonprofit Entities (continued)

| Type of loan | | Small business | HMDA | Community development | Not collected |
|---------------------------------|--|----------------|------|-----------------------|---------------|
| Residential real estate secured | Permanent loan to a nonprofit entity secured by and made for the purpose of purchasing a 1–4 family dwelling, including manufactured housing. | | X | | |
| | Permanent loan to a nonprofit entity secured by and made for the purpose of purchasing a multifamily dwelling with a primary purpose consistent with the definition of community development. | | X | X | |
| | Permanent loan to a nonprofit entity secured by and made for the purpose of purchasing a multifamily dwelling without a primary purpose consistent with the definition of community development. | | X | | |
| | Construction and other temporary financing to a nonprofit entity secured by residential real estate with a primary purpose consistent with the definition of community development. | | | X | |
| | Construction and other temporary financing to a nonprofit entity secured by residential real estate without a primary purpose consistent with the definition of community development. | | | | X |

DEFINING COMMUNITY DEVELOPMENT

Examples of CD Loans

- Affordable housing: rehabilitation, construction, permanent financing for multi-family
- Loans to nonprofit organizations
- Loans to CDFIs or CDCs
 - Minority and women-owned financial institutions
- Loans to finance environmental cleanup or redevelopment of industrial site

DEFINING COMMUNITY DEVELOPMENT

Qualified Investment

- A lawful investment, deposit, membership share, or grant
- Consideration given to innovative or complex investments

DEFINING COMMUNITY DEVELOPMENT

Examples of Qualified Investments

- Investments, grants, deposit, or shares in or to:
 - Financial intermediaries
 - Organizations:
 - Engaged in affordable housing or serving LMI housing needs
 - Finance small businesses
 - Provide community services for LMI
 - Supporting activities essential to the capacity of LMI to sustain economic development or utilize credit
 - Low-Income Housing Tax Credit projects

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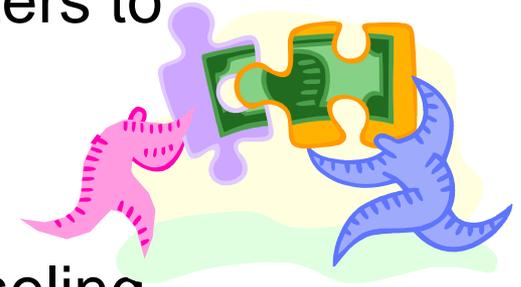
CD Services Must:

- Have CD as its primary purpose
- Relate to the provision of financial services
- Have not been considered as a retail service

DEFINING COMMUNITY DEVELOPMENT

CD Service Examples:

- Technical assistance on financial matters to organizations serving LMI needs
- Executive loan program
- Credit or foreclosure prevention counseling
- Financial Planning to promote CD
- School savings programs



Qualitative Considerations

- Responsiveness
- Innovativeness
- Complexity
- Degree to which the activity is available through other banks or private investors

DEFINING COMMUNITY DEVELOPMENT

TRUE or FALSE?

1. Loans to nonprofit organizations providing LMI housing must be greater than \$1million.
2. Creation of a consumer small loan program is an eligible CD service.
3. A loan to support the construction of a community facility in a LMI area is a qualified CD loan.



DEFINING COMMUNITY DEVELOPMENT

TRUE or FALSE?

4. A large volume of SBA 504 loans should qualify as CD loans.
5. Investments in community development credit unions outside your AA are not qualified CD investments.
6. A \$700,000 working capital loan to a commercial developer to remove gas storage tanks in an LMI area is a qualified CD loan.

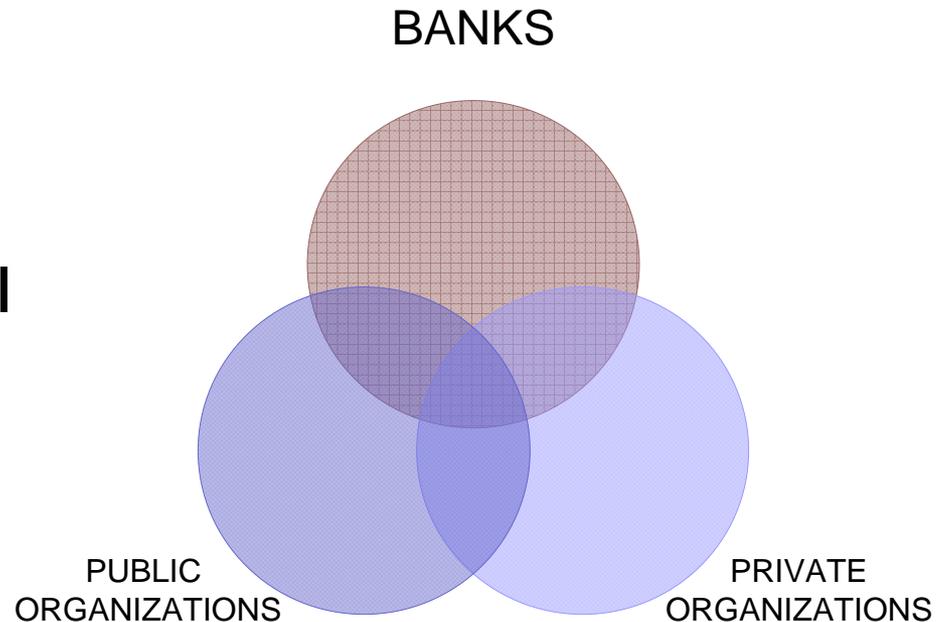


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Bank Community Partners:

- Help bank to target its investments to benefit LMI
- Help bank to fulfill its CD goals and objectives
- Help bank to maintain awareness

of CD needs



DEFINING COMMUNITY DEVELOPMENT

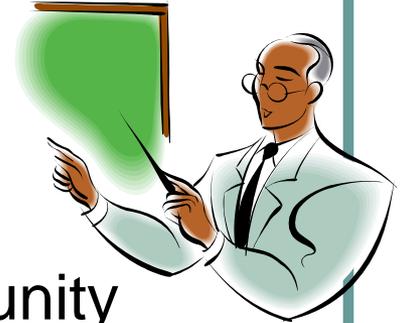
Bank Community Partner Examples:

- Community Development Financial Institutions (CDFIs)/CD Credit Unions
- For profit and nonprofit housing developers
- Nonprofit neighborhood based organizations
- Small Business Development Centers (SBDCs)
- Governmental agencies
- Foundations



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CD Tips



- CD activity must have one of the four community development hooks
- Bank should have a **tracking mechanism** in place to capture community development activities.
 - This will ensure you receive consideration during an evaluation and provide accurate reporting
- Be prepared to support why CD activity qualifies

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QUESTIONS

DEFINING COMMUNITY DEVELOPMENT

THANK YOU