

Interagency CRA Workshop

Defining CD-What Qualifies?

Case Study and Answer Key – for Facilitators Only

Time: 60 minutes

Instructions for Participants:

Please read the Case Study and be prepared to discuss during the workshop.

We will assign the attached tables of questions on the day of the workshop. This will be done according to seating arrangement in the auditorium at the Federal Reserve Bank of Chicago. Feel free to review, but do not take the time to answer as you will not know what table of questions will be assigned to you until the day of the workshop.

Instructions for Facilitator

There are three sections of seats in the auditorium at the Federal Reserve Bank of Chicago. Prior to the workshop, a different table of questions will be distributed to each section of seats in the auditorium.

- *Provide the participants with 15 minutes to read the case study and answer the questions on the table. (15 minutes)*
- *Lead a discussion of 10 minutes with each of the three sections in the auditorium. Make every effort to cover at least three of the questions on each table with each section of participants. (30 minutes)*
- *Allow an additional 15 minutes total to follow up with each of the three sections of participants. (15 minutes)*
- *A table of agency representatives will be convened for the purpose of amplifying the facilitator's answers.*

CASE STUDY

B&T Bank traces its roots to the late 1800's when it was founded as a small privately owned bank. The bank has grown to become approximately \$390MM in total assets and for the first time will be examined under the Intermediate Small Bank (ISB) procedures. The bank's assessment areas include the Phoenix-Mesa-Scottsdale MSA (Maricopa and Pinal Counties), the Tucson MSA (Pima County) and Cochise County. Below is information regarding the bank's assessment area:



ASSESSMENT AREA

Maricopa County is located in the central part of Arizona and is ranked fourth among the nation's counties in total population. There are several small business organizations located in the county. The largest of these is the Phoenix Regional Development Corporation (PRDC) which has received a grant from USDA to provide technical assistance (TA) to small business owners participating in the agency's small business development program. The program requires small business owners to attend a ten week financial literacy program and upon completion, the graduates are eligible to apply for a micro-loan. PRDC continues to seek ways to serve its clients and has asked B&T to participate in its Loan Executive program and to invest in the small business revolving loan pool.

Pinal County is located in the central part of Arizona. There are many community development partners in Pinal County including, the Gila River Community Development Corporation (CDC). The Gila River CDC, with funding from local lenders and the cities of Maricopa and Casa Grande, manages the RADE program which funds the purchase and rehabilitation of owner-occupied homes on the Gila River Indian Reservation. The Spanish speaking population in Pinal County continues to grow and B&T's retail management is looking for ways to tap into this market. Gila River CDC is also concerned and has plans to offer their financial literacy workshops in Spanish.

B&T is a member of the Federal Home Loan Bank system. To help serve the low- and moderate-income families in rural Pinal County, B&T sponsored an Affordable Housing Partnership (AHP) grant for Extreme Development Corporation (EDC) and its Self-Help Homeownership Opportunity Program (SHOP). EDC has a long history of constructing and rehabilitating affordable housing in rural areas. EDC could expand its program if they could secure an 18-month - \$400,000 line of credit for construction of additional units.

Pima County is located in the south central region of the state and is home to the Pima American Indian tribe, from which it gets its name. There continues to be a serious lack of affordable housing in Pima County. To help meet this need, Urban Renewal Enrichment Corp (UREC) has submitted a request for additional HOME funds. The head of B&T’s mortgage loan department provided a letter of support to UREC to accompany their application for HOME funds. The arrangement will expand B&T’s existing first-time homebuyer mortgage program, with additional down payment assistance and home buyer training. B&T also committed to expand its work with delinquent borrowers through the creation of a Home Ownership Preservation Office. B&T staff will work with borrowers to identify reasons for late payments and then refers them to UREC to provide appropriate counseling or assistance.

B&T has partnered with Fairbanks CDFI to serve the small businesses along the Mexican border. Fairbanks CDFI has identified Pima and Santa Cruz as its service area. However, the CDFI has not made any loans in Pima County and has applied for New Market Tax Credits under Impact Ten, its newly created for-profit CDE.

Pima County also has a growing elderly population. B&T has a banking center in the WM Towers Retirement Center. A survey of the residents determined that less than fifty percent of the residents and/or staff are B&T customers. W. Maxx CDC owns and operates the retirement center that provides housing to low- and moderate-income citizens and has discussed a possible \$900,000 renovation proposal with B&T. However, before W. Maxx CDC selects a lender, their Board of Directors would like to learn more about B & T’s record of providing qualified CD services.

Cochise County, named for the Apache Chief is located in the Southeastern corner of Arizona and is known as the Land of Legions. Cochise County is home of the first McDonald’s drive thru and is home to one of the oldest military outposts in the American West – Fort Huachuca – now a modern center for intelligence training for the United States Army. B & T has one banking center in Cochise County and has the largest market share.

County	%White	% Hispanic	% Black	% Native American	% Other	# of Families	Median Family Income
Maricopa	66.22	24.85	3.73	1.85	14.16	763,110	\$51,827
Pinal	70.42	21.86	2.72	7.81	16.34	45,211	\$39,548
Pima	75.07	29.34	3.03	3.22	15.47	212,092	\$44,446
Cochise	76.66	30.69	4.52	1.15	17.68	30,768	\$38,005

BANKING OPERATIONS

Since the last exam, the assessment area expanded to include Pima County. As a result, three new banking centers were added to the Bank's service areas. Of the current ten banking centers, four or 40% are located in LMI census tracts, two located in distressed census tracts and one located in an underserved census tract. In addition, a new banking center located in a moderate-income census tract in Maricopa County, is scheduled to open in November of this year. This will bring the total retail banking system to eleven banking centers, its Operation Center and ten ATMs located within the Bank's AA. The bank has not closed any banking centers since the last CRA exam.

BANK CD SERVICE ACTIVITIES

The B&T branch system is the primary delivery system for retail banking services and the banking centers are reasonably accessible to geographies and individuals of different income levels in the bank's AA. The Bank offers a range of deposit and loan products and business services available at all banking center locations.

B&T Banking Center Information				
Address	ATM Yes / No	Census Tract Classification	% LMI Census Tracts	Comments
Maricopa County			45%	
600 North Duncan	No	Middle		Operation Center
203 West Main	Yes	Moderate		Scheduled to open 11/23/10
502 North Duncan	Yes	Middle		Distressed census tract
2205 Florida Blvd.	Yes	Low		
934 Forest St	Yes	Middle		Distressed census tract
Pinal County			54%	
110 South Congress	Yes	Moderate		
801 Hwy 321	Yes	Middle		
206 Hillcrest Dr.	Yes	Moderate		
2700 Celanese Road	Yes	Middle		
Pima County			35%	
1330 Indian Hook Road	No	Middle		Located in WM Towers Retirement Center
615 Crown Pointe Lane	Yes	Moderate		
Cochise County			75%	
116 NE Main, Benson	Yes	Middle		Underserved census tract

ASSIGNMENT

Unfortunately for the Bank, the last CRA Officer has accepted a position with one of its competitors and has relocated to another state. The Bank believes it has done an “outstanding” job of meeting the needs of its local community. However, it has taken several months to fill the position and the CRA exam will begin in a couple of months. As the new CRA Officer, management has asked you to review the bank's CD Loans, Investments and Services to determine if they

qualify for CRA. To assist you, management hired a consultant who prepared various tables, listing loans, investments, and services she believes qualify for CRA. **Using your assigned table complete the last two columns: 1) Denoting whether the activity qualifies for CRA, with a “Yes” or “No” including a brief description as to why it does or doesn’t qualify and 2) Determine if the activity is a community development loan, investment or service.**

Table #1

Community Development Loans, Investments, Services and Opportunities – Work papers (Answer Key)

Task: Review the community development activities below and determine if they are eligible community development activities. Provide comments to support decision – *Remind participants that ultimately, the decision as to whether or not activities that are borderline will qualify is left to the EIC and decisions may vary from one examiner to another and from one agency to another.*

Organization	Activity Description	Assessment Area	Qualify? (Yes or No)	CD Activity Type (Loan, Investment, Service)
Jefferson Management & Associates	\$500,000 Working capital loan to commercial developer to build 12 unit apartment building	Pinal County	Maybe. Activity may qualify as CD depending on the purpose. Is the intent to provide AH for LMI? Stabilize or revitalize the neighborhood?	Loan, if not reported as small business
Mesa YMCA	President and EV President served as President and Treasurer - Programs targeted to serve the needs of LMI and include an after school program for LMI children which financial literacy training is provided by bank employees	Maricopa County	Yes. Organization serves LMI population in Maricopa County, a distressed area. Serving as treasurer indicates a “provision of financial services”. Need more information on whether serving as “president” includes the provision of financial services.	Service – Only CD service if bank employee is providing financial expertise
Habitat for Humanity	BC Sales Mgr/Volunteer - Builds houses for low-income families	Pima County	No / Service provided by employee is not related to financial services; would qualify if bank staff participated in application reviews or financial education	Activity does not qualify
Camelot Hospital	\$75,000 Unsecured Loan to nonprofit hospital to fund walk-in medical clinic - Only bank involved	Pima County Underserved CT	Yes / Hospital in underserved area; Bank involvement shows leadership	CD Loan
Provident Business Solutions	EV President serves on Board - Provides economic development financing to small businesses in Arizona. Organization assists with funding of SBA 504 loans	Statewide	Maybe. The organization qualifies by providing financing to small businesses. Need more information to confirm serving on the board involves the provision of financial services.	Service
Roswall Black Chamber of Commerce	\$100,000 Contribution - Small business loan pool to fund micro loans – Branch Manager is Board Member- Bank is the largest contributor	Maricopa & Pinal Counties	Yes on contribution. Organization helps to provide financing to small businesses. Maybe on service. Must be related to the provision of financial services.	Investment & Service

Breezy Hill Apartments	\$650,000 - Bank purchased LIHTC to build apartments	Maricopa County	Yes / Tax credits are considered as CD investments	Investment
Blessed Rock Baptist Church	Branch Manager is Deacon - Provides a variety of information and free services designed to help elderly members	Pima County	No / Organization does not meet primary purpose of CD; Activity does not primarily benefit LMI (No documentation provided)	Activity does not qualify
Alzheimer's Association	Branch Manager serves on Board - Organization provides assistance to individuals in the county affected by Alzheimer. EVP personally raised \$10,000 to help fund program	Pima County	No / Organization does not meet primary purpose of CD; Activity does not primarily benefit LMI (No documentation provided)	Activity does not qualify
B & T Bank	The bank began offering a payroll check cashing service for employees of local businesses. The bank charges a \$3 fee for each check cashed. The fee is less than competitor institutions charge and significantly less than those charged by nonbank check cashing services in the area.	Statewide	Yes / New examples of CD services include low-cost savings or checking accounts, including IDAs, or free- or low-cost government payroll, or other check-cashing services, that increase access to financial services for LMI individuals.	Service
EDC	Bank approved a loan to provide a \$400,000 LOC for construction of SF units & to modify its SF mortgage portfolio product to provide permanent financing – Vice President serves as Board Member & Treasurer	Pinal County	Yes. Organization constructs and rehabs affordable housing units for LMI families. Serving as treasurer involves the provision of financial services.	CD Loan & Service
Bisbee Cactus Farm	\$450,000 loan to purchase new equipment which will also create 7 new jobs – loan is secured by the Bisbee family home	Cochise County	Maybe. If the loan is part of a revitalization/stabilization effort and is not reported as small farm on the Call report.	CD Loan
Tucson Early Learning Center	\$75,000 – non real estate secured loan to a for-profit childcare center that serves LMI children ages 9 months to 10 years old	Pima County	Yes, if the center serves primarily LMI children.	CD Loan
UREC	The bank purchased a loan participation of \$200,000 from another local bank in a \$1,000,000 loan to UREC, a local nonprofit, to build affordable rental housing	Pima County	Yes, as long as the loan is not reported as small business. UREC is a qualified CD organization.	CD Loan

Table #2

Community Development Loans, Investments, Services and Opportunities – Work papers (Answer Key)

Task: Review the community development activities below and determine if they are eligible community development activities. Provide comments to support decision– *Remind participants that ultimately, the decision as to whether or not activities that are borderline will qualify is left to the EIC and decisions may vary from one examiner to another and from one agency to another.*

Organization	Activity Description	Assessment Area	Qualify? (Yes or No)	CD Activity Type (Loan, Investment, Service)
Maricopa County Foundation	President served as “founder” of the Foundation - which was recently created to promote growth in Maricopa County in the areas of Arts, Culture, and Recreation	Maricopa County	No / Foundation serves a broad array of community needs. Bank is encouraged to target any future investments toward community development activities	Activity does not qualify
Casa Grande Charter School	Branch Manager teaches the FDIC Money Smart Program; PTA offers financial literacy program to parents; School is a Title 1 School (52% of students participate in free lunch program)	Pinal County	Yes. Charter School serves LMI students and employee activity meets CD primary purpose. <i>Note: OCC banks will need to confirm that incomes used to qualify students for the free lunch program are consistent with incomes for LMI using HUD AMI.</i>	Service
United Way	Bank employee serves as Advisory Chair and assists with fundraising programs for a variety of community needs including education, the arts, and community activity	Maricopa County	No / Organization must meet CD primary purpose and benefit LMI. Service must be related to the provision of financial services.	Activity does not qualify- May qualify if bank can demonstrate local UW has a primary purpose or mission of CD or if contribution supports a CD qualified activity
Pima County IDA Program	Local banks have established an IDA program for affordable housing - Retail Manager provides TA & serves on task force	Pima County	Yes / IDA program is income driven, targeted to LM,I and is related to affordable housing	Service
Ocampo Manufacturing	\$950,000 Commercial loan to factory-Loan allows 50 new LMI employees to be hired as part of the County’s revitalization plan.	Cochise County	Yes, as long as the loan is not also reported as small business. ISB can choose to have loan evaluated as CD unless they voluntarily report and are evaluated under LB procedures (Lending, Investment, Services)	Activity might qualify
Helping Hands	\$25,000 donation to Gilbert Battered Women Shelter	Maricopa	Yes / OCC policy staff have opined that this would qualify since battered women seeking	Investment

		County Upper-income CT	shelter are assumed to be without resources to support themselves, they are considered low-income	
Niskey Lake CDC	\$30,000 - Donated foreclosed property for resale to LMI borrower	Pima County	Yes / Nonprofit provides assistance to LMI	Investment
Pinal County Salvation Army	\$250,000 construction loan to expand SRO housing for the homeless	Pinal County	Yes / Sal Army is providing housing for LMI through its Single Room Occupancy (SRO) Housing Program	Loan
Fairbanks CDFI	\$75,000 - Deposit into a CDFI- All loans have been made in Santa Cruz	Santa Cruz County	Yes / CDFI meets CD purpose	Investment
UREC	\$10,000 contribution; Creation of a Home Ownership Preservation Office	Pima County	Yes / UREC provides affordable housing to LMI families; Home Ownership Preservation Office will help to prevent foreclosures; The arrangement will expand B&T's existing first-time homebuyer mortgage program by generating loans and CRA service opportunity	Investment & Service
Avondale Auto Parts	\$500,000 LOC to the for-profit company which helps to produce auto parts for the Phoenix International Raceway. The company is located in an enterprise zone which requires the company to create 10 LMI jobs for every \$100,000 borrowed	Maricopa County	Yes / Loan meets the CD primary purpose and because B & T is an ISB, the bank could decide to count the loan as a CD loan instead of a SB loan – Note: If the loan is made by an ISB, it does not need to exceed \$1 mil	CD Loan
EDC	B & T sponsored a \$300,000 AHP grant application to provide gap funds needed to construct 25 SF units	Pinal County	Yes / EDC provides affordable housing for LMI persons	Service
B & T Bank	The bank began offering a payroll check cashing service for employees of local businesses. The bank charges a \$3 fee for each check cashed. The fee is less than competitor institutions charge and significantly less than those charged by nonbank check cashing services in the area.	Statewide	Yes / New examples of CD services includes low-cost savings or checking accounts, including free- or low-cost government payroll, or other check-cashing services, that increase access to financial services for LMI individuals.	Service

South Central Transportation & Freight Co.	\$1.2 MM loan as part of a SBA 504 loan to expand and redevelop its Tucson facility	Pima County	Yes. Loan is > \$1 million to a business and made under the SBA 504 Certified Development Company program.	CD Loan
National Community Investment Fund (NCIF)	B & T Bank invested \$50,000 in a nationwide community development investment fund.	Statewide	Yes / with qualification. Investments in nationwide funds will not be granted the same consideration as investments that directly or indirectly, benefit the bank's AA's. 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).	Investment

Table #3

Community Development Loans, Investments, Services and Opportunities – Work papers (Answer Key)

Task: Review the community development activities below and determine if they are eligible community development activities. Provide comments to support decision– *Remind participants that ultimately, the decision as to whether or not activities that are borderline will qualify is left to the EIC and decisions may vary from one examiner to another and from one agency to another.*

Organization	Activity Description	Assessment Area	Qualify? (Yes or No)	CD Activity Type (Loan, Investment, Service)
Scottsdale Middle School Reading Program	Branch Manager serves volunteer - Program enhances the reading skills of middle school students and builds character and leadership skills	Maricopa County	No / Organization does not meet CD purpose; Employees involvement is not related to the provision of financial services	Activity does not qualify
Greater Scottsdale Area United Way	Local United Way Agencies have established an asset building coalition to offer the IDA program - Mortgage Lender is a coalition member and provides input on the development of the affordable housing program	Maricopa County	Yes / Primary purpose of the task team is to support the creation of an IDA program which by definition is income driven and directed to LMI individuals	Service
Inez LLC	\$51,000 Loan to purchase trailer park – Inez LLC is a local small business owner	Maricopa County (LMI CT)	No if reported as SB Loan. Need more information to determine whether the purpose is CD.	Activity does not qualify
EDC	Vice President serves as Board Member & Treasurer – EDC Provides first-time home ownership training & builds homes for LMI families	Pinal County	Yes / Organization meets CD purpose. Board service includes the provision of financial services.	Service
Main Street Pinal Downtown Development Pool	Florence City President serves on Board - Established to assist businesses located in downtown area to obtain affordable financing by providing low-interest rate loans through area banks, including B&T Bank	Pinal County	Yes, if board service involves the provision of financial services. Program works with banks to provide low-interest rate loans to small businesses	Service
BCI Development Corporation	\$25,000 contribution - EV President serves on Loan Committee -Provides innovative, long-term financing programs to small and medium size enterprises outside bank's AA	Santa Cruz	It depends / Santa Cruz is not part of the bank's AA – Is there any indirect benefit to the AA? Is there a benefit to the broader regional area that includes the bank's AA? Examiner may consider the investment IF the bank has adequately met the needs of its AA(s)	Investment & Service
Magnolia	\$1.5 million perm loan for	Pima County	Yes / Daycare center will	Loan & Service

Baptist Church	daycare and multipurpose center - loan will create 20 daycare jobs; Banking Center Manager teaches financial literacy classes to parents	(LMI CT)	serve LMI area and create LMI jobs. Service involves the provision of financial services.	
Arizona Community Bank	\$100,000 – 12 month CD - Deposit into a Minority Owned Bank serving the entire state	Apache County	Yes, if the minority-owned bank has met needs in their assessment areas	Investment
Phoenix Regional Dev Corp	\$50,000 investment in Community Development Corporation- Florence City President serves on Board	Maricopa & Pinal Counties	Yes. Nonprofit provides financing to small businesses. Board service may qualify if it involves the provision of financial services.	Investment & possibly Service
W. Maxx CDC	\$900,000 construction loan for a new retirement center for LMI seniors– secured by non- residential real estate	Pima County	Yes / Construction loan to a nonprofit entity that meets primary purpose	CD Loan
Gila River CDC	Bank has loaned Spanish speaking employees in the Pinal County assessment area to assist the CDC in delivering financial literacy classes	Pinal County	Yes / bank assists CDC in their mission targeting LMI individuals such as Financial Literacy workshops. Involves the provision of financial services.	Service
Phoenix Senior Housing LLC	\$850,000 construction loan, secured by residential real estate to for-profit group to expand health care and housing for LMI seniors	Maricopa County	Yes. Construction and other temporary financing to a for-profit entity secured by residential real estate that meets the CD primary purpose – dollar amount has no bearing on the loan. Construction loans are not included as small business/farm loans on the Call report.	CD Loan
Our Lady of Mercy Early Learning Center	\$95,000 – non real estate secured loan to a for-profit childcare center that serves LMI children ages 6 months to 13 years old	Cochise County	Yes, if center serves primarily LMI children. Loan meets the CD primary purpose and because B & T is an ISB, the bank could decide to count the loan as a CD loan instead of a SB loan.	CD Loan
Bisbee Chamber of Commerce	Retail manager serves on board and as Treasurer	Cochise County	No / must prove that organization meets CD primary purpose	Activity does not qualify
George W. Brown Community Center	VP of lending renewed a construction loan to build a community center that will provide affordable day care and financial literacy education for LMI families.	Maricopa County	Yes / Banks should collect information about CD loans that they refinance or renew as loan originations. CD loan refinancings and renewals are subject to the	CD Loan

	The original loan was made in a prior calendar year.		reporting limitations that apply to refinancings and renewals of small business and small farm loans.	
B & T Bank	The bank began offering a payroll check cashing service for employees of local businesses. The bank charges a \$3 fee for each check cashed. The fee is less than competitor institutions charge and significantly less than those charged by nonbank check cashing services in the area.	Statewide	Yes / Examples of CD services includes low-cost savings or checking accounts, including "free- or low-cost government payroll, or other check-cashing services, that increase access to financial services for LMI individuals.	Service