



Multi-Bank Partnerships for Community Development Financing

What are multi-bank community development (CD) financing partnerships?

Many bankers pool their resources to finance community development activities. They form multi-bank CDCs, loan pools, and loan consortia with other local financial institutions and other investors to provide capital for affordable housing, small business development and other community needs.

Why do banks participate in multi-bank CD financing partnerships?

- To spread the credit and other risks of community development lending.
- For financial returns.
- To expand the markets they serve.
- To enhance their reputations.
- For CRA consideration.
- To spread the staffing and other overhead costs of community development lending.
- To expand the amount of capital available for local community development needs.
- To expand the types of capital available for local development.
- To leverage community development funding from federal, state and local governments and from philanthropic sources.

- To generate business for the bank as companies financed by the multi-partnership grow.

What types of financing do multi-bank partnerships provide?

- Long-term mortgages for affordable housing.
- Small business loans for fixed assets and working capital.
- Pre-development and construction loans for affordable housing.
- Subordinated debt for affordable housing and small businesses.
- Equity and near-equity investments in small businesses.
- Equity in real estate projects.

What steps do banks follow to form a multi-bank CD financing partnership?

- Select a geographic area – one small enough for the partnership to have an impact but large enough to provide a steady flow of opportunities.
- Identify specific local needs that the partnership will address (but be prepared to change if local needs change.)
- Identify potential investors and other partners, such as government agencies and nonprofits.

- Develop a lending strategy that meets the risk and return expectations of investors.
- Select an organizational structure (for-profit vs. nonprofit).
- Determine a funding mechanism. (Will investors pool all funds at the start, or will they fund a pro rata share of each project?)
- Organize a governance structure (e.g., board and committees).
- Decide the role that the bank wants to play, if any, besides that of investor (e.g., providing staff to serve on the board of directors and organization committees, etc.).
- Decide how loan structuring and administrative tasks will be handled.
- Develop lending, accounting, personnel, and conflict-of-interest policies.
- Market the services of the partnership.
- Evaluate the impact and the operations of the partnership.
- Provide financing in targeted communities.

What are some of the practices of successful multi-bank CD financing partnerships?

- They develop common expectations among investors as to the risks that the organization will accept and the returns it will be expected to produce.
- Board and committee members are thoroughly engaged in governing the organization.
- Bank participants refer prospective loan applicants to the partnership.
- They cultivate strong relationships with the staff of housing finance and economic development agencies.
- They cultivate strong relationships with nonprofit organizations that

provide business planning assistance, homebuyer counseling and other services.

What risks are involved in multi-bank partnerships?

- As in any other business endeavor, a multi-bank partnership may not perform as expected financially, and investors may lose some or all of the capital they invest.
- The involvement of multiple investors means that investment decisions may not always match the priorities and preferences of a particular institution.
- Participation in a multi-bank partnership means that a single institution may claim the financial returns and favorable publicity arising from the activities of the partnership.
- An investment in a multi-bank partnership may be illiquid. Exit from the partnership may be available only at unfavorable terms and may not occur according to an investor's preferred timing.

For more information

- OCC's Web-site for information about national bank community development opportunities generally at:
www.occ.treas.gov/cdd/resource.htm
- OCC's District Community Affairs Officers whose contact information can be obtained at:
www.occ.treas.gov/cdd/commfoc.htm