



Community Developments

Comptroller of the Currency
Administrator of National Banks

The OCC's community affairs newsletter

Focus on Community Development Investments

— by Jerry Hawke, *Comptroller of the Currency*

During a recent community development tour of Washington, D.C., I was struck by the visible, positive changes that have resulted from banks' investments in the underserved areas of the capital city. I toured several affordable housing and retail development projects where partnerships between local government, community-based development organizations, and financial institutions have changed distressed neighborhoods into thriving communities. The banks' investments were the crucial links to making those projects work.

This issue of *Community Developments* highlights the special investment authority that has allowed national banks to help revitalize and rebuild communities throughout the country. This authority is the OCC's regulation concerning national bank community development corporations (CDCs), community development (CD) projects, and other public welfare investments (12 CFR 24). National banks have made CD investments since 1965 and use this "part 24" authority to help build affordable housing, finance small businesses, and develop retail and commercial revitalization projects for low- and moderate-income individuals and neighborhoods. In fact, during the past 35 years, the OCC has approved more than 1,700 national bank investments. These investments, when combined with their community partners' investments, total more than \$11.2 billion in the funding of community development projects.

"Over the past thirty-five years, the OCC has approved more than 1,700 national bank investments, which together with their community partners, have totalled \$11.2 billion in funding."

Comptroller Hawke

Over the years, national banks have established a strong track record in making CD investments. In response to these successes, the OCC recently amended its rules to reduce unnecessary regulatory burden and simplify compliance, consistent with the safe and sound operation of national banks. The OCC now allows most eligible national

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banks to self-certify public welfare investments. This has encouraged banks of all asset sizes to make part 24 investments. As illustrated by the chart below, during the past several years, national bank investments under part 24 have leveraged funding in the billions from state banks and thrifts, government agencies, and community development intermediaries.

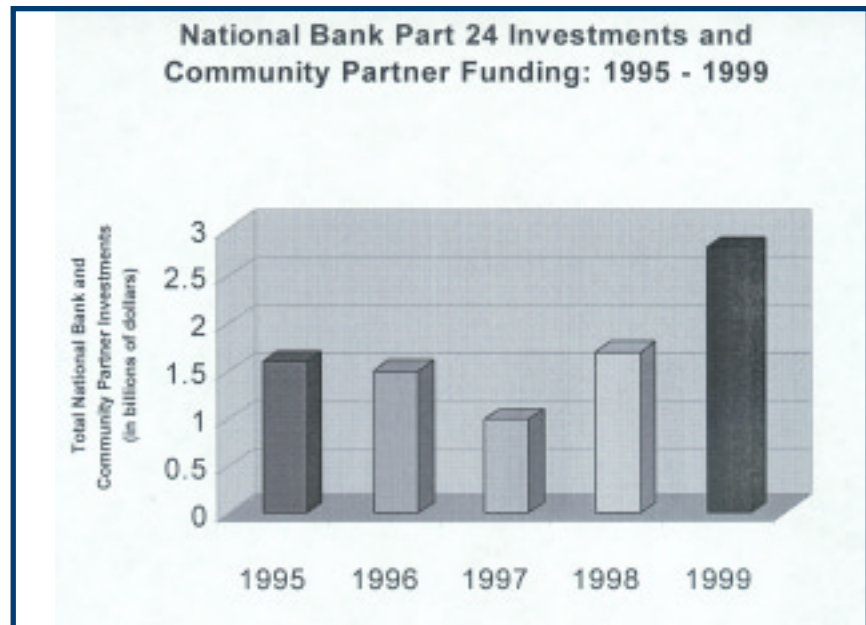
At least half of the banks' part 24 investments have involved the production of affordable rental housing for low- and moderate-income persons and families. Banks may make direct limited partnership investments with community-based development organizations, or banks may invest in funds sponsored by national housing intermediaries, such as Local Initiatives Support Corporation (LISC) and the Enterprise Foundation. These investments often use federal low-income housing tax credits (LIHTCs) as a way of filling the financing gap for projects and achieving good returns for bank investors. Articles in this newsletter identify how banks have been successful investors in affordable housing utilizing these various structures.

Banks have also found that CDCs can be established to serve as partners in higher risk transactions. This newsletter will provide you with information about successes resulting from banks' part 24 investments in multi-bank CDCs that assist start-up and expanding small businesses. For example, you will hear about mezzanine financing provided by the Ohio Mezzanine Fund and Southern Dallas Development Fund. Those CDCs have established themselves as risk-sharing intermediaries to help finance requests from small businesses that are very small or do not meet conventional underwriting standards. This issue also outlines key provisions of the recently-enacted New Markets legislation that provides new opportunities for banks to make profitable investments in entities that finance businesses in low- and moderate-income communities.

Technical assistance is an important service provided by some CDCs funded through part 24 investments. For example, Coastal Enterprises, Inc.'s (CEI) services, which are described in this

edition, help small businesses to develop market studies and business plans. Those services also enable the businesses to provide lenders with complete and thorough applications, which help to lower the banks' costs of loan production.

Why do banks make part 24 investments? The answer is really quite simple: the premise of partnership-building within part 24 helps banks create opportunities within their markets that they might



otherwise never see. Part 24 provides banks with a mechanism for helping them to do the more difficult projects — by reducing development expenses, enhancing the ability of clients to borrow funds, and sharing the risk that may be associated with CD lending with other banks, government agencies, and community-based organizations. As one banker explained, "... we believe that our business is only as healthy as the communities we serve. We see community development as a key component of our long-term business strategy. [Our programs are designed to have a] far-reaching impact on our communities that will produce additional demand for the bank's traditional products and services."

Banks that are currently making CD investments, as well as those banks that are contemplating new initiatives or seeking CD investments in areas where opportunities may not be so apparent, should consider the flexibility provided by part 24. CD investments under part 24 have proven to be both good business, and good for the communities served by the investing banks.

Investment in the Future: Bank of America's Community Development Corporation and the Power of Investments

— by Vickie B. Tassan,
Senior Vice President, Bank of America

Tremendous potential exists within America's inner cities and rural areas for corporations and entrepreneurs to create economic growth. Center-city neighborhoods, aging inner-ring suburbs, and rural areas are home to families, individuals, small business owners, nonprofits, and faith-based organizations. All can benefit from the powerful tool of equity investments.

Bank of America initially responded to the passage of the Community Reinvestment Act (CRA) of 1977, by forming the first bank-owned community development corporation (CDC) a year later. It has continued to pursue innovative community development investments under the authority granted to national banks by the Office of the Comptroller of the Currency's (OCC) regulations.

Bank of America Community Development Corporation is the resulting entity from the consolidation of bank CDCs acquired by Bank of America through a series of mergers. The CDC is able to move efficiently to address the investment needs of low-to-moderate income communities because of the authority granted to it by the OCC to make investments under the CDC, Community Development (CD) Projects, and Other Public Welfare Investments regulation, 12 CFR 24 (part 24).

Certainly, lending is an important component to any bank's community development program. Through lending, a bank can make significant amounts of money available in a fairly streamlined fashion, resulting in greater numbers of transactions. However, substantial equity often is needed to make borrowing possible. Ultimately, one of the highest priorities for Bank of America's equity investment is to help build the expertise and financial strength of participating local nonprofit entities so they can complete future developments independently. The investment tools provided to national banks by the OCC enable communities to benefit from not only traditional banking services, but also the patient capital that can be provided by financial institutions like Bank of America.

Viewing equity as the strategic lever for a broader range of community development tools,

Bank of America takes a business approach to delivering key community development equity products. Some of these include direct real estate development, strategic equity investments, and tax credit investments.

"Part 24 allows us the opportunity to build community development equity investment into an important business unit for Bank of America," said Jim Grauley, Bank of America Real Estate Equity and Product Development manager. "We can offer an unmatched range of equity investment products and measure results in terms of volume, return, sustainability, and community impact."

"Bank of America's strategy for deployment of equity calls for involving other stakeholders in a particular project, and targeting products to fit the needs of low-mod income neighborhoods," Grauley continued. "We offer a wide range of products from indirect investments to active management. We believe in working with

"Community development equity is a proven catalyst to revitalizing low-to-moderate income neighborhoods."

Michael Dulan, President, Bank of America CDC

neighborhood-based entities, whether they be nonprofits, community-oriented for profit, or

government entities."

Another hallmark of Bank of America's strategy is the strategic targeting of neighborhoods for multiple investments over a long-term, rather than haphazard, scatter-shot, or one-off approach to equity investments. Generally, this is best accomplished through alliances with community-based groups, and through working with local public sector agencies to implement a master-plan approach for revitalization. Bank of America is working with 59 community organizations in 16 cities to do just this. "We are most successful where we can bring the full range of Bank of America products and services to assist revitalization efforts by collaborating with public agencies and neighborhood organizations," Grauley said.

One example of this approach can be found in the Washington View development in the District of Columbia's Ward 8 community of Anacostia. Bank of America began its development activities in the Hillside neighborhood of Anacostia in 1995

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when it acquired the distressed and largely vacant Washington View Apartments. Joining forces with the Hillsdale Collaborative, a group of residents and community leaders committed to creating a new vision for this historic African-American neighborhood, the bank agreed to create model rental housing.

The plan called for lower density within Washington View. This was accomplished by demolishing several buildings and creating a park-like



Forty percent of the units in Mobley Place Apartments, Hillsborough FL, will be set-aside as affordable units for households earning 60 percent or below of median family income.

recreation area. Bank of America's CDC bought the decaying apartment complex, financed the rehabilitation of the structures, and continues to own and manage the development of affordable rental units.

Later, the bank, in partnership with the East of the River CDC, acquired the adjacent Howard Gardens, a long-abandoned public housing development that had become an eyesore and safety issue for neighborhood residents. The project will be converted into affordable townhomes for low- and moderate-income families, and will provide for expansion of the neighborhood's revitalization by offering more homeownership opportunities. The bank is the equity partner, and East of the River is using \$1.4 million in grants from the District of Columbia Department of Housing and Community Development to offset costs and write-down the mortgages for 50 percent of the borrowers. Currently, 54 new townhomes are under construction and will provide affordable homes to families at 60 to 100 percent of median income. As part of the project, the bank is also financing a new,

12,000-square-foot community center that will offer a computer learning center among other services. "By combining all of our resources, we were able to help revitalize and reenergize a wonderful community within Ward 8," said Retta William, executive director of East of the River CDC.

In Florida, the CDC announced plans for a \$16.6 million redevelopment project that will include construction of 238 units of affordable rental housing in the Tampa Heights neighborhood. Mobley Park, a joint venture between the CDC, Housing by St. Laurence, a nonprofit

community partner, and the City of Tampa, is designed to serve as a catalyst for further neighborhood revitalization and economic development. This project was the lead project in an overall revitalization initiative led by the City of Tampa.

"The lives of 238 families, and the surrounding community, will be better because

of the availability of safe, affordable housing," said Jim Cassady, Bank of America's Florida Executive for Community Development Banking. "This project jump-starts the revitalization of the Tampa Heights neighborhood and already is bringing further housing, economic development and jobs to the area."

The CDC made an equity investment of \$5.3 million in Mobley Park and provided a \$9 million letter of credit to back Hillsborough County Housing Finance Authority bonds. Additionally, a City of Tampa, State Housing Initiative Program Loan, is providing \$1.3 million. Housing by St. Laurence is contributing land valued at \$1 million. This project represents just one example of the synergies, results, and impact that can be achieved when public, private, and neighborhood organizations work together.

Adding real estate development and other indirect real estate investments, which produce thousands more affordable housing units each year,

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Bank of America invests nearly \$500 million per year in community development equity. This equity is further leveraged several times over by Bank of America loans on projects and in neighborhoods where this equity acts as catalyst.

The story of Bank of America's CDC goes far beyond dollars and numbers of units. It really is about people and helping to change the quality of their lives. We believe this level of impact is directly attributable to two key criteria used in selecting projects for equity investments.

First, the project must have the potential to attract other investors to the neighborhood. No one group - public, private or nonprofit - can address all the needs of our inner-city and rural areas on its own. Second, it must deliver measurable results of both impact and returns. This last point is key to creating sustainability for the business of community development if it is to remain

viable, regardless of economic cycles or changing political agendas.

These equity investments are possible because of the OCC's part 24 regulation. By enabling these investments, the OCC demonstrates an understanding of the various dynamics involved in sustainable community development investment. Simply put, part 24 allows banks to work more creatively in addressing community development needs in their communities.

The investment strategies described here are at the very heart of Bank of America's CDC activities. A visit to any of the bank's CDC projects clearly reveals that equity is a powerful tool. Through strategic equity investments, Bank of America is helping rebuild neighborhoods that have been overlooked for decades and thereby, strengthening the economic futures for our communities.

For additional information, contact Jim Grauley, Bank of America, at (404) 607-6169.

Citibank (South Dakota), N.A. Invests in Affordable Housing

Building local capacity for affordable multifamily housing development.

In 1993, Citibank (South Dakota), N.A. formed a subsidiary community development corporation, CitiHousing, Inc., through the OCC's part 24 authority. CitiHousing, Inc. (the CDC) was created to invest in local partnerships that develop affordable housing and to serve as a vehicle for the bank to receive financial benefits in the form of federal low-income housing tax credits. Additionally, the bank provides conventional construction and permanent loans in conjunction with the projects.

Specifically, in Sioux Falls, the bank identified a shortage of three- and four-bedroom rental units for large families. In order to satisfy this need, the bank opened a dialogue with the Diocese of Sioux Falls. The Diocese then created a nonprofit developer to serve as the general partner in constructing North Ridge, a multi-family housing project. Citibank and the CDC agreed to support this nonprofit developer, St. Joseph Catholic Housing, Inc., by providing technical assistance. The North Ridge Partnership's purpose was to construct and operate a 60-unit affordable rental property in Sioux Falls targeted to large families with very low incomes. St. Joseph Catholic Housing, Inc. has since broadened its development expertise by constructing and managing a portfolio of 400 units of affordable housing.



Citibank believes that the partnership between its CDC and the faith-based group was successful in building needed local housing development capacity. As a result of its success with the initial tax credit project, Citibank has partnered with additional faith-based affordable housing developers.

Through the part 24 program Citibank has helped expand affordable multifamily housing in South Dakota. In addition, these investments have helped form strong working partnerships, broaden the bank's conventional lending to include multifamily properties, create solutions that fit local needs, and strengthen local development skills.

"It is no exaggeration to state that 'but for' Citibank's involvement and generosity in the North Ridge housing project, St. Joseph Catholic Housing, Inc. would not have been created and the Catholic Diocese of Sioux Falls would not have become involved in low-income housing." – The Most Reverend Robert J. Carlson, Bishop of the Diocese of Sioux Falls, S.D.

First Citizens Investments Creates New Jobs in Charles City, Iowa

Taking a leadership role in promoting economic growth.

In 1995, First Citizens National Bank of Charles City, Iowa, identified the need to help its small, rural community revitalize the employment market after the departure of a major business, displacing 400 employees. The Bank's concept was to form a partnership, with other local businesses, to take advantage of local government programs designed to attract new industries and jobs. The OCC's community development investment authority helped the Bank make this effort successful and the goal achievable because of the ability part 24 provides to national banks to make investments that promote public welfare.

First Citizens, a \$700 million asset Iowa bank, did its research. The Bank partnered with the state economic development agency to determine options for attracting businesses. Because of state and local tax benefit programs, the most plausible option was to develop a speculative commercial building within an emerging industrial park site, the Southwest Development Park. This project had three advantages. The tax benefits of locating within the industrial park would provide an attractive incentive to a company looking to expand or relocate. The "spec" building would reduce the time and costs required to start a business venture. Finally, an existing labor pool was readily available to fill jobs, and a local community college agreed to provide job training.

First Citizens helped form the Floyd County Progressive Growth Limited Partnership, led the capi-

talization effort, and then encouraged other local companies, public utilities, and financial institutions to invest in this partnership to finance the commercial development.

The tax incentives, plus an established relationship with the town of Charles City, attracted Winnebago Industries and created 130 permanent jobs, including jobs for low- and moderate-income persons. The partnership piggybacked on the success of its first project by constructing another building on an adjacent site in the industrial park. Winnebago took the second building, which brought additional jobs to town, retained 23 existing jobs, and expanded Winnebago's presence in the community.

The Bank's limited partnership investment in the project was permissible under part 24 because it was targeted to an area that was designated for redevelopment by Charles City and the state of Iowa. The industrial park site was located within a state enterprise zone and was also designated as a tax increment financing (TIF) district by the city and county. In addition, the bank's investment was for the purpose of retaining and increasing jobs, including jobs for low- and moderate-income people.

After less than five years, the partnership has developed plans for its third speculative commercial building in the industrial park. The Partnership's activities to date have returned almost half of the jobs that had been lost in this rural community. In addition, the bank, as a limited partner, has received cash dividends from the sale of the first two properties. The bank's investment, made through part 24, has helped create a working partnership between the investors and the local governments that is returning a small Midwestern town back to economic health.



Southwest Development Park in Charles City, Iowa which now houses Winnebago Industries.

The Community Reinvestment Act and Part 24

— by Karen Tucker,
Community & Consumer Policy, OCC

National banks are encouraged through the Community Reinvestment Act (CRA) to help meet the credit needs of their entire communities, consistent with the safe and sound operations. The CRA regulation, 12 CFR 25 (part 25), establishes the framework and criteria by which examiners assess national banks' records of helping to meet the credit needs of their communities. In contrast, 12 CFR 24 (part 24) provides national banks with the legal authority to make community development investments designed to promote the public welfare, which are not otherwise expressly permitted under the National Banking Act. Although "qualified investments" are identified in the Community Reinvestment Act as a vehicle that banks can use to meet community credit needs, CRA is often confused with the part 24 investment authority.

This article describes the two regulations and sheds light on how they complement each other.

Bank investments under part 24 must primarily benefit low- and moderate-income persons, low- and moderate-income areas, or other government-targeted redevelopment areas. Part 24 gives banks the authority to make debt and equity investments in affordable housing, small businesses, activities that revitalize or stabilize communities, and other activities, services, or facilities that primarily promote the public welfare. Qualified community development investments under CRA have a similar goal. Banks may receive positive CRA consideration for investments involving affordable housing for low- and moderate-income persons; investments that promote economic development by financing small businesses or farms; investments that revitalize or stabilize low- and moderate-income areas; and investments involving community services targeted for low- and moderate-income persons.

Under the CRA, national banks receive positive consideration for making or purchasing investments that meet the definition of a qualified investment under the CRA regulation. The CRA regulation provides several evaluation methods for

national banks. Small banks are usually evaluated under a test that focuses on their lending performance. However, a small bank may also request review of its investment and services activities to help it meet its CRA objectives. Large banks are evaluated under the lending, investment, and service tests. National banks, having limited purpose and wholesale designations are evaluated under the community development test, which assesses the bank's community development lending, qualified investments, and community development services. In addition, national banks that are operating under an OCC-approved CRA strategic plan are evaluated according to the goals of these plans.

Part 24 investments that have been processed according to the guidelines in 12 CFR 24 can usually help banks meet their CRA obligations. In most instances, investments approved under part 24 will also meet the CRA definition of qualified investments. However, one important difference

between parts 24 and 25 can result in a public welfare investment not meeting the definition of a qualified investment under the CRA regulation. Part 24 provides a bank the authority to make community development investments outside, as well as within, its

"The establishment of a CDC under part 24 is an effective method a bank can use to deliver CRA eligible credit and investment products and services in its local community."

Karen Tucker

assessment area. In contrast, a CRA-qualified investment must benefit the bank's assessment area(s), or a broader statewide or regional area that includes the bank's assessment area(s). Bankers that want CRA consideration for part 24 investments should make sure that any CRA-qualified investments purchased under the public welfare investment authority of part 24 also meet the geographic restrictions in the CRA regulation.

The CRA regulation includes an exception for banks designated limited purpose or wholesale. For limited purpose or wholesale banks, the CRA-qualified investment can benefit an area outside of the assessment area, if the bank has adequately addressed the needs of its assessment area.

It should also be noted that while public welfare investments under part 24 require non-bank community support, CRA-qualified investments do not. Under part 24, a national bank may demonstrate community support or participation in sev-

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eral ways. For example, if a bank invests in a community development corporation (CDC), having non bank community representatives with expertise relevant to the proposed investment on the CDC's board of directors qualifies as community support. In addition, a recent change to part 24 allows a bank to meet this requirement automatically by the receipt of federal low-income housing tax credits for a project in which the investment is made (directly or through a fund that invests in such projects). (Please see 12 CFR 24.3 for additional examples.)

A final difference between parts 24 and 25 relates to the scope of qualified investment activities. While the CRA regulation sets forth a circumscribed list of affordable housing, small business, and other activities that must be supported by CRA qualified investments, part 24 tends to be a bit broader. While giving specific examples, part 24 also broadly authorizes investments that promote the public welfare by primarily benefiting low- and moderate-income persons, low- and moderate-income areas, or government targeted redevelopment areas.

Now that the primary similarities and differences between part 24 and part 25 have been highlighted, let's take a look at how part 24 can assist banks with CRA. The article on page 3 by the Bank of America (B of A) illustrates how the bank established a CDC under part 24. It shows how the bank successfully leveraged this subsidiary as a vehicle to invest in numerous low-income housing tax credit projects, to assist its nonprofit community partners in their revitalization activities, and to own and manage strategic properties in distressed neighborhoods. The establishment of a CDC under part 24 is an efficient method a bank can use to deliver CRA-eligible credit and investment products and services in its local communities. B of A has made this strategy work well both as a line of business and for CRA.

In addition to the B of A article, low-income housing tax credit investments under part 24 are also highlighted in an article on page 5, illustrating how Citibank (South Dakota), N.A. established a CDC through which it made tax credit investments. On page 13, there is an article describing the Local Initiatives Support Corporation's (LISC) National Equity Fund, which provides investment opportunities to banks to support nonprofit community

development partners in generating new affordable housing units and assisting in neighborhood revitalization.

The article on page 10 identifies examples of mezzanine financing and how part 24 investments can be used to assist small businesses with gap financing needs. For instance, banks may provide equity capital or invest in debt securities to establish a multi-bank CDC that in turn provides loans to small businesses that may not qualify for traditional bank financing. Using their part 24 authority in this manner, the investor banks may receive CRA investment test consideration for capitalizing the CDC or lending test consideration for their pro-rata share of the loans made to small business borrowers by the CDC. If the CDC makes CRA-qualified investments as well as community development loans, the bank may receive proportionate CRA consideration under both the lending and investment test. (See Interagency Qs and As, # __.23(b)-I, 65 FR 25103, date April 28, 2000.) The most important aspect of this strategy, however, is the fact that credit has been provided that helps these small businesses grow and create jobs.

Similarly, banks that invest in Community Development Financial Institutions (CDFIs) under part 24, as outlined in the article on page 18, may also receive CRA consideration under the lending test and/or the investment test. CDFIs can fill a gap in local communities by concentrating on the provision of credit services in low- and moderate-income areas.

CRA and part 24 share the common goal of promoting bank investments that benefit the public. They work and national banks use them. Since 1965, the OCC has approved more than 1,700 investments under part 24 and predecessor provisions in which banks and their community partners have invested \$11.2 billion. Some national banks make these investments directly, and others make them indirectly through community development corporations, tax credit funds, or in partnership with community-based organizations. Many of the investments leverage funding and services provided by local, state, or federal government agencies. Most of these investments that have been made since CRA was enacted have qualified for CRA credit.

For additional information, please contact Karen Tucker, Community & Consumer Policy, on (202) 874-4428 or at the OCC Website <www.occ.treas.gov>

Similarities and Differences between Parts 24 and 25

Public Welfare Investments — Part 24

CRA — Part 25

Purpose	Provides investment authority to make investments designed to promote public welfare.	Establishes framework and criteria for assessment of banks' performances in helping to meet the credit needs of their communities, including low- and moderate-income areas.
Primary Beneficiaries	<ul style="list-style-type: none"> • LMI persons • LMI areas • Government-targeted redevelopment areas 	For qualified investments: <ul style="list-style-type: none"> • LMI individuals and geographies in banks' assessment areas • Small businesses and farms
What Activities Qualify?	<ul style="list-style-type: none"> • Affordable housing, community services, or financing permanent jobs for LMI persons • Small business financing • Area revitalization or stabilization activity • Other activities, services, or facilities that primarily promote the public welfare 	For qualified investments: <ul style="list-style-type: none"> • Affordable housing (including multi-family) for LMI persons • Activities that promote economic development by financing small businesses or farms • Activities that revitalize or stabilize LMI areas • Community services targeted to LMI persons
Type of Investment	Equity Investments - stock, including venture capital; limited partnership interests; equity equivalents Debt securities/debentures	Investments, deposits, membership shares, or grants that have as their primary purpose one of the qualified investment activities, as noted above.
Geographic Consideration	No geographic restriction. investment may benefit a bank's assessment area.	The qualified investment must benefit the bank's assessment area, or a broader statewide or regional area that includes the bank's assessment area(s). However, for banks designated limited purpose or wholesale, the qualified investment can benefit an area outside of the assessment area if the bank has adequately addressed the needs of its assessment area.
Where to find	12 CFR 24.6	Interagency CRA Qs and As, particularly #__12(s)-4 distributed via OCC Bulletin 2000-15, and also located at 65FR 25088, (April 28, 2000)
Investment Authority	12 CFR 24.1 implements the basic investment authority of 12 USC 24 (Eleventh); 24.4 sets the aggregate limit of 5% of capital and surplus. However, with written OCC approval, an aggregate limit of 10% is allowed for adequately capitalized banks with OCC determination that a higher amount will pose no significant risk to the deposit insurance fund.	Some of a national bank's investments are authorized by 12 USC 24 (Seventh) as implemented by 12 CFR 1. Some CRA qualified investments can be purchased under the category of "securities held based on estimates of obligor's performance," which sets an aggregate limit of 5% of capital and surplus. Investment-grade securities have separate limits under 12 CFR 1.12 CFR 24 also authorizes the purchase of investments that may be CRA-qualified investments. See also OCC Advisory Letter 97-2.
Community Support Requirements	12 CFR 24.3 requires a national bank to demonstrate nonbank community support for or participation in the investment. Examples are provided at 24.3(b).	Not required under the CRA regulation.

Multibank Small Business Mezzanine Funds

— by John Sower,
President, Development Finance Corporation

One of the primary goals of part 24 investment authority is to benefit small business through equity or debt financing. The provision of gap financing for small businesses through the establishment of intermediary mezzanine funds is one method of accomplishing this goal.

Mezzanine capital is a familiar term for larger companies and is a form of investment with risks and returns between those of secured bank loans and equity investments. Traditional mezzanine funds provide subordinated debentures with warrants to purchase stock. Several multibank small business mezzanine funds now provide a similar type of capital for smaller companies – but with changes that are appropriate to their smaller deal sizes.

The Ohio Mezzanine Fund, Ltd. (the “Fund”) is a market-oriented intermediary which is structured as a limited liability corporation (LLC) with the investor banks sharing their equity ownership. The Fund has raised \$9 million from local banks that provided equity investments of \$50,000 to \$250,000, depending on bank size and lines of credit on a 6:1 ratio (e.g. six dollars of debt to one dollar of equity investment in the Fund). Some banks make their equity investments through their subsidiary CDCs, while providing the lines of credit from the bank itself.

The Fund makes gap or mezzanine loans ranging from \$100,000 to \$750,000 that are subordinated to bank loans of \$100,000 to \$2 million to \$3 million. The Fund always requires that a commercial lender provide senior financing to match or exceed the amount of the mezzanine loan from the Fund. The Fund’s returns are structured to be mid way between those of secured commercial bank loans and the venture capital funds. Currently banks look for overall returns of 10 percent to 11 percent on loans and venture capitalists seek returns of 30 percent to 35 percent plus. The Fund seeks investments that will generate returns of 18 percent to 25 percent which include an application fee, interest on the mezzanine loan of 3 percent to 4 percent over prime, and a success fee which is a negotiated percent of revenues.

The Fund’s investor banks include Bank First National, Bank One, Charter One Bank, KeyBank, FirstMerit Bank, Huntington National

Bank, and National City Bank.

“National City Bank has used subordinated financing from the Ohio Mezzanine Fund for several business clients requiring capital for growth or acquisitions” said Fritz Heintel, Vice President of National City Bank. “It provides financing for a niche in the market between conventional bank loans and equity investments. The bank’s board members are pleased to have the bank as an investor in the Fund, and to serve on the Board and Investment Committee.”

The Fund’s investments provide working capital for fast-growing firms, finance management buyouts or acquisitions of companies by individuals or other companies, and finance re-structurings or re-financings. The Fund takes more risk than commercial banks by making unsecured loans without collateral. Unlike venture capitalists and private investors, the Fund does not dilute the equity or participate in the management of the companies in which it finances – which is attractive to privately held firms. Typically the bank’s senior financing includes term loans and credit lines, which are disbursed as a percentage of inventory and receivables. A bank may refer a customer to seek mezzanine financing for one of several reasons, including a collateral shortfall, high leverage, revenue concentration, age of the company, and others.

Although privately organized and market oriented, the Fund is a unique working partnership of local banks and local economic development financing groups. It helps serve a public purpose of providing flexible financing to small businesses and creating jobs for low- and moderate-income persons. Representatives of nonprofit business financing organizations including the Greater Cleveland Growth Association serve on the Board.

As previously mentioned, the Fund is structured as a LLC, and the investor banks are the owners or members. Each bank appoints one representative to the Board of Managers, which in turn appoints an Investment Committee of senior lenders and credit officers who make the investment decisions. The Fund was organized and is professionally managed by Mezzanine Capital Management, Inc. (MCM) under a long-term administrative contract. MCM markets the Fund, structures and prepares investment proposals for the Investment Committee, manages the portfolio, and administers the Fund. The board meets quar-

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terly and the Investment Committee meets on call. The Fund is structured more like a small bank than a venture capital fund as the investor banks control the board which has all decision-making authority. In addition, the credit culture is more like commercial lending in a bank than like equity-investing in a venture capital fund. (See illustrative flow chart appearing on page 12.)

The Fund has made 19 loans totaling \$9.6 million since the end of 1996, which has leveraged \$27 million of senior bank loans and \$7 million of equity or other subordinated debt for a total of \$43.6 million of investments in small businesses.

The benefits to the participating banks include reduction of risk from the pooling of funds for a specific credit niche, access to mezzanine capital for business clients, loan referrals from companies seeking mezzanine financing, market returns on the lines of credit and equity investment, favorable publicity, and CRA benefits.

The Southern Dallas Development Fund (SDDF) in Texas has a similar structure but is CRA-oriented with most investments targeted for lower-income areas of Southern Dallas, smaller deal sizes, and lower return requirements on its investments. The participating banks include Adams Centre National Bank, Bank of America, Bank of Texas, Bank One, Bank United, Chase Manhattan Bank, Comerica Bank, Compass Bank, Northern Trust Bank, U.S. Trust Company of Texas, and Wells Fargo Bank. The Fund

"The Ohio Mezzanine Fund provides financing for a niche in the market between conventional bank loans and equity investments."

Fritz Heintel,
Vice President, National City Bank

started lending in 1992, and has made 87 loans totaling \$5.8 million, which has leveraged \$6.3 from financial institutions. The nonprofit Southern Dallas Development Corp., which receives administrative funds from the City of Dallas and other sources, and which has a board representing

local government, community organizations, bankers, and businesses, manages it. "SDDF has really helped Chase increase our lending to businesses in Southern Dallas," said Larry Conley, Senior Vice President of Chase Manhattan Bank.

Small and mid-size businesses are a profitable market segment for banks, even the very large banks, in part due to their deposits and cross-selling opportunities. Multibank small business mezzanine funds offer a successful way for banks to provide supplemental financing to valued small and

mid-size business customers.

For additional information on small business mezzanine funds and part 24, contact John Sower, Development Finance Group, on (202) 342-2973, or by e-mail at <sower1@erols.com>.

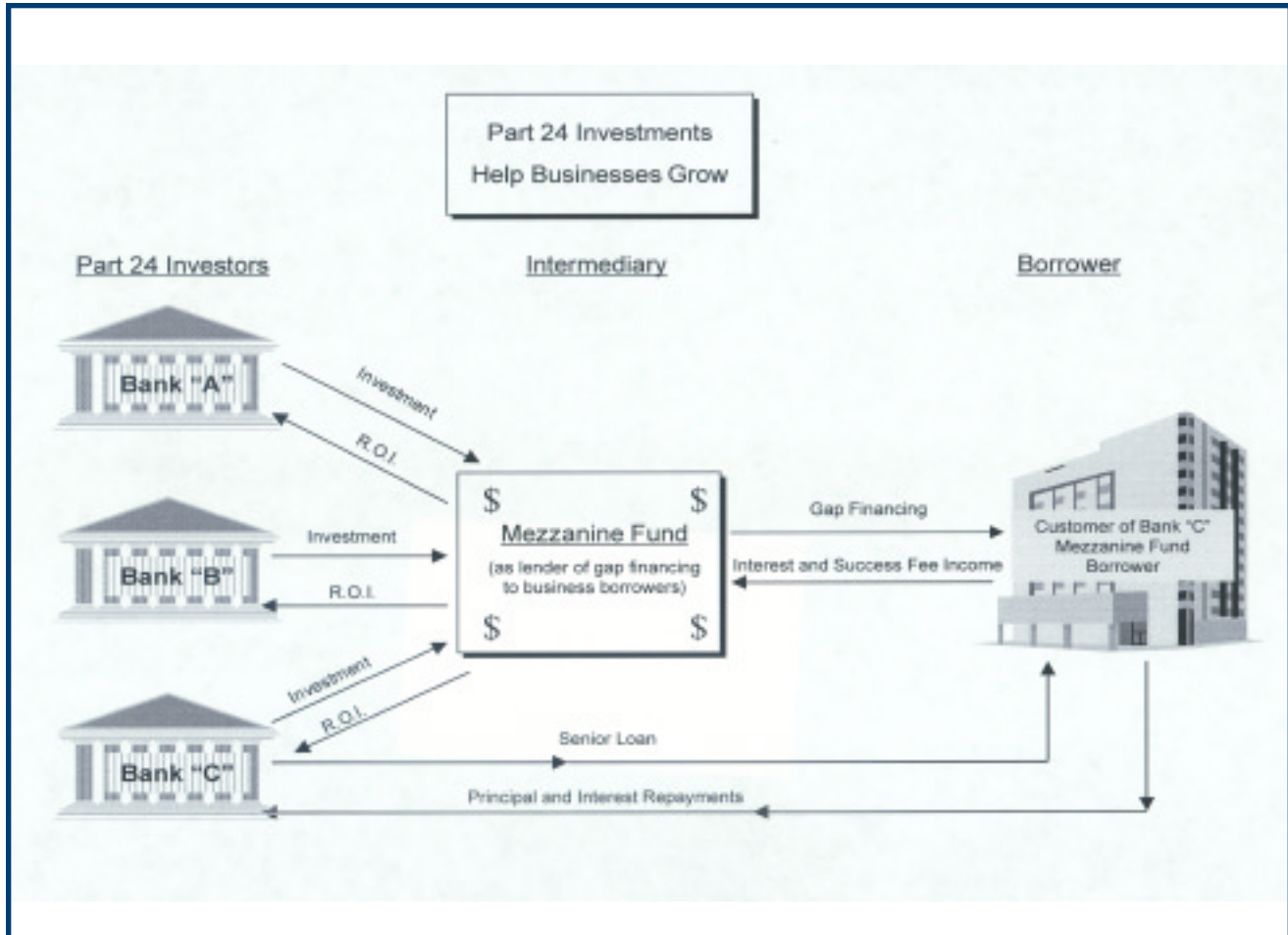
continued on page 12



Azteca Enterprises, Inc. construction contractor financed by the Southern Dallas Development Fund.

MULTIBANK SMALL BUSINESS

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Community Developments—The community affairs newsletter from the Office of the Comptroller of the Currency

Editorial Staff: Anna Alvarez Boyd
Barry Wides
William Reeves
Maury Zeitler

Questions or comments, please call (202) 874-4930. Previous editions available on our website @ <www.occ.treas.gov>

Investments by Banks Under Part 24

— Benson F. Roberts, *Vice President for Policy, Local Initiatives Support Corporation*

Equity investments by banks under the Office of the Comptroller of the Currency's (OCC's) Community Development Corporations (CDC), Community Development (CD) Projects, and other Public Welfare Investments regulation, 12 CFR 24 (part 24), offer an excellent way to partner with nonprofit organizations to finance community development projects. Public welfare investments can help banks to provide equity financing for community development, meet the CRA investment test, and (except for low income housing tax credit investments) qualify for Bank Enterprise Awards through the Treasury Department's Community Development Financial Institutions (CDFI) Fund.

The Local Initiatives Support Corporation (LISC) is one of the nation's leading non-profit financing source for community development. For more than 20 years, LISC and its affiliates have raised over \$3 billion from the private sector which has been passed through to 2,000 nonprofit low-income CDCs across the country. These CDCs have in turn produced over 100,000 affordable homes and 11 million square feet of commercial and industrial space. LISC operates through 38 offices nationwide. These local offices work with CDCs to improve neighborhoods. A project of the local Washington, DC, LISC office is highlighted in a sidebar note in this issue.

Banks are among our most important funding partners, and part 24 investments have long played a key role in these partnerships. LISC and its family of affiliated organizations have worked with banks on a range of public welfare investments.

Since 1987, LISC's **National Equity Fund (NEF)** has raised public welfare investments totaling \$1.7 billion from 90 banks, based on the federal low income housing tax credit. Major investors include Bank of America, Chase Manhattan Bank, and Deutsche Bank (formerly Bankers Trust), as well as Fannie Mae, Freddie Mac, and Berkshire Hathaway. Non-profit housing sponsors participate by forming limited partnerships. NEF creates funds, in which banks and other corporations invest, to capitalize local projects. Part 24 provides the authority for national bank investments in tax credit financed properties. (Please see sidebar notes on the renovation of Washington DC's

Whitelaw Hotel, financed with tax credit investments pass through the NEF, found on page 14.)

Another LISC affiliate, **The Retail Initiative (TRI)**, has raised \$24 million from ten investors, including Bank of America, Bankers Trust (now Deutsche Bank), Home Savings (now Washington Mutual), J.P. Morgan, Great Western (now Washington Mutual), and Wells Fargo. TRI has used these funds to invest in inner city supermarkets and shopping centers sponsored by CDCs, demonstrating the feasibility of making profitable investments in commercial real estate in distressed communities. Low-income communities benefit from better shopping, jobs, and physical improvements.

In 1999, LISC launched **The Community Development Trust (CDT)**, the nation's first real estate investment trust dedicated entirely to community development. Eleven banks are among the 18 investors providing total capitalization of \$31.75 million. The OCC reviewed the initial investment proposal and granted it part 24 prior approval. CDT provides a secondary market for long-term fixed rate loans on community development projects. It creates participation interests in these loans, sells a senior interest to institutional investors, and holds a subordinate interest as a credit enhancement. CDT also makes direct equity investments in affordable housing properties in conjunction with non-profit and for-profit sponsors. As a Real Estate Investment Trust, CDT can help preserve affordable housing by providing sellers with a deferral of capital gains taxes.

LISC and its affiliates have also arranged investments based on the **CDC tax credit**, a limited demonstration project created in 1993. This pilot provided tax credits over ten years equal to 50 percent of up to \$2 million in investments, loans, and donations to each of 20 nonprofit low-income community development corporations undertaking economic development and employment activities. LISC arranged investments totaling \$9.4 million for six CDCs. Bank of America CDC, Bankers Trust (now Deutsche Bank), Key Bank, and Citibank were the investors.

The recently-enacted **New Markets Tax Credit**, will present the next frontier for public welfare investments. The New Markets credit would provide a tax credit of 30 percent (in present value terms) to equity investors in community development organizations. The community developers

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INVESTMENTS BY BANKS

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could be non-profit or for-profit, as long as they meet community mission and accountability tests. Investment proceeds would be used to finance economic development activities in low-income communities. A non-profit sponsor could create a limited partnership or corporate subsidiary to attract equity investors. The New Markets Tax Credit

could open new opportunities for banks to make profitable investments with non-profit partners.

For additional information on LISC programs, please contact Buzz Roberts at (202) 785-2908.

Whitelaw Revival Anchors Neighborhood

"The preservation of the Whitelaw Hotel," wrote *Washington Post* architecture critic Benjamin Forgey, "qualifies almost as a resurrection." Designed in 1919 by an African American architect, Isaiah Hatton, and financed entirely by African Americans, the Whitelaw became a proud centerpiece of local culture in segregated Washington. But by the late 1980s, it had become the antithesis of its notable beginnings – boarded up, but occupied by squatters, it was the scourge of a neighborhood in serious decline. Guttered by fire, the Whitelaw no longer hosted the likes of Duke Ellington, only prostitutes and drug addicts.

Manna, a faith-based nonprofit community development corporation, transformed the hotel into 35 affordable apartments and its once famous ballroom into a community room and museum. When the Whitelaw reopened in 1992, the \$4.2 million renovation was by far Manna's most ambitious project to date. The Whitelaw's revival has led to the widespread rejuvenation of a neighborhood once seen as irretrievable.

LISC's supported Manna's efforts in several ways. LISC's Washington, D.C. program provided a \$60,000 pre-development loan and a \$250,000 construction loan. In addition, LISC's National Equity Fund invested almost \$2 million in equity financing based on the Low Income Housing Tax Credit – the first ever used in the District of Columbia – and Historic Rehabilitation Tax Credits. These investments came from a national investment pool that NEF assem-

bled with the participation of many banks and other corporate investors. LISC also worked with Manna and its other lenders, including (the former) Signet Bank, the Metropolitan Life Foundation, and the Washington, D.C. government, throughout the development process to identify funding gaps, assemble sources of funding, and package the tax credit application.



Whitelaw Apartments, Washington, DC. An investment of LISC's National Equity Fund.

Comptroller Tours District Of Columbia Neighborhoods Restored Through Community Development Efforts

— by Bud Kanitz, Community Affairs, OCC

“It is very valuable to see how partnerships between organizations such as the Local Initiatives Support Corporation (LISC), local community development corporations, and national banks are created in order to undertake the transformation of neighborhoods. The amount of work that is done to put together these complex community development deals and the important role that each partner plays is particularly impressive.”

Comptroller John D. Hawke, Jr. made this observation during a community development tour of the District of Columbia, sponsored by LISC for the OCC on October 19.

After the civil unrest of 1968, major deterioration occurred in several innercity D.C. neighborhoods, especially along the 14th Street, NW, corridor. The tour provided a look at some of these neighborhoods and how – as part of a concerted strategy – the work of community development corporations (CDCs) has made a visible difference.

Michael Rubinger, President and CEO of LISC, hosted the tour which featured stops at three community development projects. LISC is a national nonprofit “financial intermediary” that provides loans and staff assistance to CDCs, nonprofit groups that are locally based, and resident-led, which work to upgrade their neighborhood.

The first stop was the historic Whitelaw Hotel. Built in the early 1900’s, entertainers such as Duke Ellington and Pearl Bailey stayed at the Whitelaw during the “Jim Crow” days when African Americans were not welcome at white-only hotels. It was restored by Manna, Inc., a nonprofit faith-based community development corporation (CDC), in 1992. Tour participants listened

intently in the Whitelaw’s former ballroom as the Rev. Jim Dickerson, founder of Manna, discussed the renovation of the building. It was converted into 38 units of affordable rental housing at a cost of \$4.1 million, including assistance from the federal Low Income Housing Tax Credit and Historic Tax Credit programs. Several national banks participated in the financing under the OCC’s “part



Oramenta Newsome, LISC, and Comptroller Hawke tour DC neighborhood.

24” program through their investments in LISC’s National Equity Fund. (Please see article on page 13 for additional information on LISC.)

At the second stop, Robert Moore, president of the Columbia Heights Community Development Corporation, told how three CDCs worked together with LISC to build affordable townhouses and a shopping center – the fully occupied “Nehemiah Project” at 14th and Belmont Streets, NW. Nearby, Moore led a walking tour of a former vacant apartment building that is now completely renovated. The 19-unit building will operate as a housing cooperative. A unique feature of this development is that each apartment is wired for Internet access. After successful completion of a computer class, residents receive a free computer for their personal use.

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DC NEIGHBORHOODS TOUR

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On the final leg, the tour headed east of the Anacostia River to the new headquarters of the Marshall Heights Community Development Organization (MHCDO). The \$1.4 million office building, completed in 1999, was named in honor of MHCDO's former executive director, Lloyd D. Smith, current chairman of City First National Bank of Washington, DC.

Next, the group saw the East River Park Shopping Center on Minnesota Avenue, NE with its large Safeway supermarket. This shopping center was the model for LISC's "The Retail Initiative," which brings new supermarkets into underserved innercity neighborhoods. As the commercial anchor, it has served as a catalyst for other redevelopment in the surrounding community. The District of Columbia government targeted this neighborhood for revitalization. For example, nearby is the first minority-owned franchise of the Chesapeake Bagel Bakery chain – which received start-up assistance from MHCDO – as well as a 300-unit apartment building that was totally renovated. Finally, the group saw the 27 new

"Banneker Ridge" single family homes being constructed by MHCDO.

In addition to Comptroller Hawke and 13 OCC officials, tour participants included Michael Barr of the Treasury Department and Clifford Kellogg of the White House National Economic Council, as well as representatives of three Washington, D.C.-based national banks – Kathleen Walsh Carr, President and CEO of Adams National Bank; Russell Simmons, Senior Vice President, Riggs Bank N.A.; and Richard Didden, President of National Capital Bank of Washington.

After the tour, Comptroller Hawke thanked LISC and its nonprofit community-based partners for putting together the tour, declaring it "A very valuable morning!" The Comptroller added, "When it comes to understanding the complexity of community development deals, there's nothing like a first hand look."

For additional information, contact Bud Kanitz at (202) 874-8770.

New Markets Legislation Enacted

Several new community development related measures were included in the recently-enacted 2001 omnibus funding legislation. The New Markets Tax credit and New Markets Venture Capital provisions will provide new opportunities for banks to make community development investments.

- **The New Markets Tax Credit** — The credit will spur equity investment for business growth in low- and moderate-income rural and urban communities throughout the United States and Puerto Rico. The credit, worth over 30 percent of the amount invested (in present value terms), will be available to taxpayers who invest in a wide range of privately managed community development investment funds, such as community development banks and other CDFIs, venture funds, and new investment companies, that finance businesses in low- and moderate-income communities.
- **New Markets Venture Capital (NMVC) Firms** — NMVC firms will provide incentives to increase the availability of venture capital in low- and moderate-income communities for small businesses. Ten to twenty NMVC firms are planned. The legislation authorizes the SBA to guarantee up to \$150 million in loans that will match \$100 million in private equity for a total of \$250 million and provides \$30 million in technical assistance for small businesses.
- **Expansion of the Low Income Housing Tax Credit** — This bill increases the Low-Income Housing Tax Credit by more than 40% over two years and then indexes the credit for inflation thereafter. The credit will increase from \$1.25 per capita in 2000 to \$1.50 per capita for each state in 2001 and \$1.75 per capita in 2002.
- **Increase in the Private Activity Bond Cap** — The legislation increases the state private activity bond cap from \$50 per resident to \$75 per resident, phased in from 2001 to 2002. Private activity bonds allow states and municipalities to encourage economic growth in communities through the issuing of lower cost tax exempt bonds.

TRAINING ON CD INVESTMENTS

Community Affairs division staff will be conducting training on community development (CD) investments. In particular, the training will focus on national banks' use of the investment authority under the OCC's regulation, 12 CFR 24, on community development corporations, community development projects, and other public welfare investments.

The training will provide information on broad considerations for a bank's CD investment strategy, including how the part 24 investment authority gives banks the flexibility to address a variety of credit needs in their communities. The training will also:

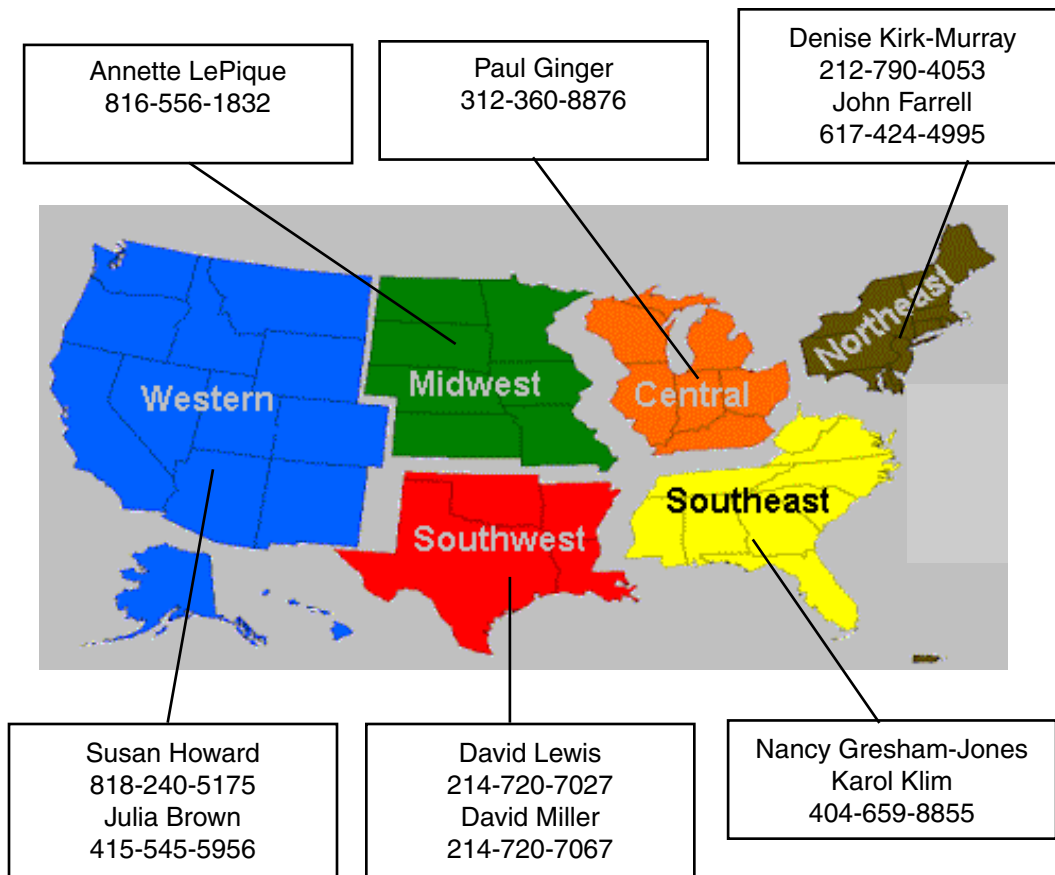
- Detail part 24 requirements and processes so that national banks appropriately notify the OCC of their investments; and
- Highlight successful CD investments that have helped to create positive changes in banks' communities.

In addition, the training will explain the changes of the recently revised Part 24 regulation and how the part 24 investment authority complements the

Community Reinvestment Act (CRA). This information is intended to facilitate increased banks' CD investments under part 24. We also hope to learn about issues and barriers that banks face when making CD investments.

During 2001, the District Community Affairs Officers (formerly Community Reinvestment and Development Specialists) will conduct training on CD investments and resources. The sessions will be targeted to institutions that would like to initiate, refine, or broaden their CD investment programs.

If you are interested in attending the OCC's training on CD investments, please contact your District Community Affairs Officers (DCAOs). (See the map below which provides contact information for the DCAO nearest you.) Information about training also will be available on OCC's Community Affairs website at www.occ.treas.gov/cdd/commfoc.htm. In addition, Karen Bellesi, CD Investment Manager, is available to provide information and can be reached on (202) 874-4930.



National Bank Investment Opportunities in Community Development Financial Institutions

— by Maury Zeitler,
Community Development Division, OCC

The Community Development Financial Institutions (CDFI) Fund was established as a unit of the U.S. Treasury in 1994. Since that time, there has been an increased focus by the public and private sectors on the financing and development of CDFIs. A CDFI is an organization with the primary mission of promoting community development by the provision of loans, investments, and/or related community development services to one or more underserved, targeted populations or investment areas.

Generally speaking, CDFIs are non-insured financial intermediaries that primarily concentrate on the provision of credit services to underserved markets. However, in some instances, CDFIs may be federally insured depository institutions, such as community development (CD) banks or CD credit unions. A CDFI may be a for profit or non-profit corporation. Examples of these are multi-bank community development corporations (CDC) or qualified loan funds. Through representation on its governing board, a CDFI is able to maintain accountability to the residents of its targeted community or investment area.

National Bank Investments in CDFIs

National banks are permitted to make equity or special debt investments in CDFIs under the Office of the Comptroller of the Currency's (OCC) CDC, CD Projects, and other Public Welfare Investments regulation, 12 CFR 24 (part 24). As described elsewhere in this newsletter, under part 24, national banks are permitted to make investments in CDFIs, as they are permitted to make investments in other CD projects, if the investment promotes the public welfare and meets the other requirements of the regulation. In addition, national bank investors may consider serving as advisors or sitting as directors, along with community leaders, on a CDFI's governing board.

CDFIs also may receive investments/grants from the CDFI Fund, other financial institutions, private foundations, and other sources. The CDFI Fund provides matching capital to qualifying CDFIs under authority of the Community Development Banking and Financial Institutions

Act of 1994 and 12 CFR 1805. It was designed to facilitate the creation of a national network of financial institutions dedicated to community development. Through April 2000, the CDFI Fund certified 393 CDFIs nationwide.

Examples of Investments in CDFIs

CDFIs can be structured in a number of ways, including, CD Banks and Bank Holding Companies, CDCs, CD Credit Unions, CD Loan Funds, Microenterprise Loan Funds, or CD Venture Capital Funds. What follows are examples of national bank investments in two types of CDFIs – a national bank and a CDC.

Unity National Bank, Houston, Texas – This community bank, with a service area that includes the Third Ward and Missouri City neighborhoods of Houston, started as a traditional community bank. In 1998, when its activities and focus changed to target primarily low- to moderate-income communities and underserved populations, the board of directors decided to seek designation from the OCC as a CD focus bank. The bank's articles of association were then amended to state that the purpose of the bank would be to promote the public welfare consistent with the requirements for national bank investments in community development projects in concert with part 24. With a CD focus bank designation, Unity is eligible to receive equity investments from other national banks and financial institutions. As a result, Wells Fargo Bank, N.A. made an equity investment of \$500,000 in the bank under part 24. The purpose of the investment was to enable Unity to increase its lending activities in the areas of small-business and consumer lending to the targeted communities.

The bank's service area is located in the Enhanced Enterprise Community (EEC) of Houston, designated under the Federal Empowerment Zone initiative. According to city statistics, the EEC is an area of concentrated poverty, unemployment, and neighborhood stagnation. The bank is an approved and active Small Business Administration (SBA) Preferred and Low Documentation Lender. The bank also provides these and other services to low- and moderate-income individuals and small businesses in its tar-

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NATIONAL BANK INVESTMENT

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ged communities. Additionally, the bank's business loan portfolio includes loans through programs that foster economic development by providing affordable housing in the inner city and working capital to small and minority-owned businesses, which provide a stabilizing effect on the economic development of low- and moderate-income areas served by the bank.

Oklahoma MetaFund Community

Development Corporation, Stillwater, OK – The Oklahoma MetaFund Community Development Corporation (MetaFund) is a certified CDFI operating in rural Oklahoma. The nonprofit MetaFund, founded in 1999, is the first CDC of its kind in the United States and is primarily capitalized and financed by the Oklahoma banking industry. The unique CDC provides a means for Oklahoma investors to finance a number of affordable housing and small business initiatives in all parts of the state, but especially in underserved areas in Tulsa and Oklahoma City.

"MetaFund has a very realistic chance of being the most highly capitalized multi-bank CDC ever. If so, it would create the opportunity to make a

profound and early impact on community development lending and investments in Oklahoma," MetaFund president and CEO Tom Loy said.

Stillwater National Bank was an early equity investor in the MetaFund, with an equity investment of \$1 million, made under part 24. "Our company's investment in MetaFund is another statement of commitment that Stillwater National Bank has made in participating in and funding new employment and business opportunities, which may not otherwise be available for many entrepreneurs," Stillwater National Bank CEO Rick Green said.

MetaFund and its partners are focusing on financing development initiatives that require non-traditional funding. The CDC does not compete with banks in making loans. Instead, it plays a role in many community and economic development projects, serving as subordinate lender, investor, or facilitator, working to bring together existing services and resources.

For additional information on national bank investments in CDFIs, contact the Community Development Division at (202) 874-4930 or on the Web at < www.occ.treas.gov >.

The Enterprise Social Investment Corporation (ESIC)

ESIC is a subsidiary of the Enterprise Foundation, a national, private, nonprofit financial intermediary. ESIC works with community partners, including banks, to finance, acquire, and develop affordable housing and other community development projects in neighborhoods throughout the country. Some of the tools that ESIC uses to accomplish its mission include:

- **Federal Low Income Housing Tax Credits** – Through this program, ESIC has raised more than \$3.2 billion in equity for investment in an estimated 70,000 affordable homes nationwide. Equity funds have been invested in a variety of rental housing developments – for individuals, families, and the elderly in urban, suburban, and rural communities. ESIC manages multi-investor as well as single investor funds for foundations, financial institutions, and corporations. Tax credit equity funds have been developed in nine states and eight cities.
- **Historic Tax Credits** – ESIC provides equity investments in commercial developments that

qualify for both federal and state historic tax credits. In Baltimore, ESIC has provided more than \$25 million in equity to four landmark reuse projects that have turned old warehouse and manufacturing space into office, commercial, and retail facilities.

- **Housing Development** – Through Enterprise Homes, Inc. (EHI), ESIC develops affordable rental and for-sale housing, including the redevelopment of public housing into mixed-income communities. EHI brings extensive experience with multi-layered financing, in-fill construction, and partnering with neighborhood organizations and government entities. EHI is the largest developer of for-sale housing for low-income first-time homebuyers under the federal Nehemiah Opportunity Grant.

For additional information on any of ESIC's programs, contact ESIC at (410) 964-1230.

Rules and Processes: National Bank CDC, CD Project and Other Public Welfare Investments (12 CFR 24)

National banks may make investments designed primarily to promote the public welfare under the community development investment authority in 12 USC 24 (Eleventh) and its implementing regulation, 12 CFR 24 (part 24). Among the part 24 investments are some investments not otherwise expressly permitted elsewhere under the National Bank Act. This authority allows banks to make equity and debt investments that have a public welfare purpose. The OCC's part 24 regulation can be found at <www.occ.treas.gov/cdd/resource.htm>.

Examples of such investments include those that support such activities as affordable housing and other real estate development; equity for start-up and small business expansion; activities that revitalize or stabilize a government-designated area; and other activities that supplement or enhance banks' traditional lending. Banks also may invest in national banks with a community development focus and in other community development financial institutions using the investment authority of part 24. For specific part 24 examples and contact information, the OCC's Directory and annual supplements of *National Bank Community Development Investments* are available in hard-copy, and also can be found at <www.occ.treas.gov/cdd/resource.htm>.

Requirements For Qualifying Public Welfare Investments

A bank's part 24 investments must benefit primarily low- and moderate-income persons; low- and moderate-income areas; or other areas targeted for redevelopment by local, state, tribal, or federal government (including federal enterprise communities and federal empowerment zones).

A bank's part 24 investments also must provide or support one or more of the following:

- Affordable housing, community services, or permanent jobs for low- and moderate-income persons.
- Equity or debt financing for small businesses.
- Area revitalization or stabilization.
- Other activities, services, or facilities that primarily support the public welfare.

The bank must demonstrate nonbank community support for, or participation in, the investment. Ways in which this can be done are

outlined in 12 CFR 24.3(b). One such example is a bank investment in a project that receives federal low-income housing tax credits.

Investment Limit Requirements

The investment must not expose the bank to unlimited liability. In addition, the bank's aggregate outstanding part 24 investments generally may not exceed 5 percent of the bank's capital and surplus. However, with prior OCC approval, the bank may invest up to 10 percent of its capital and surplus in part 24 investments.

Procedures For Making A Part 24 Investment

Self-certification

Often, eligible banks may make part 24 investments without prior notification to, or approval by the OCC. The process and conditions for self-certification are described in 12 CFR 24.5(a). To self-certify an investment, the bank must submit a letter to the OCC within 10 working days after it makes an investment.

To self-certify, the bank's investment must meet the tests for qualifying public welfare investments and investment limits. However, a bank may *not* use the self-certification process if:

- Its aggregate investments, including the proposed investment, exceed 5 percent of its capital and surplus;
- The investment involves properties carried on the bank's books as other real estate owned (OREO); or
- The OCC determines in published guidance that the investment is inappropriate for self-certification. (For this information, please refer to the most recent *National Bank Community Development Investments Directory*; visit the OCC's Web page; or contact the OCC's Community Development Division.)

Prior OCC approval

If either the national bank or its proposed investment do not meet the requirements for self-certification, the bank must submit a written request for

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RULES AND PROCESSES

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prior approval to the OCC before making the proposed investment. The process for prior approval and the factors that the OCC considers when evaluating a bank's proposal are described in 12 CFR 24.5(b).

The OCC generally will notify the bank about its approval, in writing, within 30 calendar days from the date on which the OCC receives the bank's information. The OCC may extend the review period by notifying the bank. If the review period is extended, the bank may make the investment only with the OCC's written approval. In addition, the OCC may impose conditions concerning its approval of an investment under part 24.

Information to send to the OCC

The bank's self-certification notice or request for prior OCC approval typically should include the following information:

- The name of the CDC, CD project, or entity into which the bank's investment has been or will be made;
- The date on which the bank investment was or will be made;
- The type of bank investment (debt or equity);
- Dollar amount of the bank's investment, and the dollar amount of the bank's aggregate outstanding part 24 investments;
- The amount of the bank's capital and surplus, and the percentage of the bank's capital and surplus represented by the aggregate outstanding part 24 investments and commitments;
- A statement certifying compliance with part 24 public welfare 24.3(a) and investment limit 24.4(b) requirements;
- Description of the bank's investment, including
 - The activity or activities that the bank's investment provides or supports, and the primary benefit intended by the bank's investment.
 - The type(s) of nonbank community support for, or participation in the investment.
 - How the investment does not expose the bank to unlimited liability, such as by describing the structure of the investment (e.g., CDC subsidiary, multibank CDC, multi-investor CDC, limited partnership, limited liability company, community

development bank) and any other information that would be relevant.

- The total funding for the project from all sources, if known.
- The geographic area served by the investment entity.
- Any community development partners involved in the project (e.g., government or public agencies, nonprofits, other investors), if known.
- Supplemental information (e.g., prospectus, annual report, web address that contains information on the entity in which the investment is made), if available.

Where To Send Part 24 Requests

A bank should send its part 24 self-certification or request for prior OCC approval to:

Barry Wides
Director, Community Development Division
Office of the Comptroller of the Currency
Washington, DC 20219

Assistance In Part 24 Investments

The OCC's Community Development Division maintains information about national bank investments in CDCs, CD projects, and other public welfare investments, and can provide information about part 24 policies, other community development programs, and partnership resources. In addition, the OCC's Community Affairs officers, located in each district, can provide technical assistance to banks that would like to establish a CDC, invest in low-income housing tax credit projects, or other community development investments.

Additional Information

The OCC has produced a number of community and economic development publications that may interest banks considering part 24 investments. For more information about community development investments and lending, please visit the Community Affairs page on the OCC's Web site at <www.occ.treas.gov>.

For additional information, contact the Karen Bellesi, Community Development investments manager, or other Community Development division staff at (202) 874-4930.

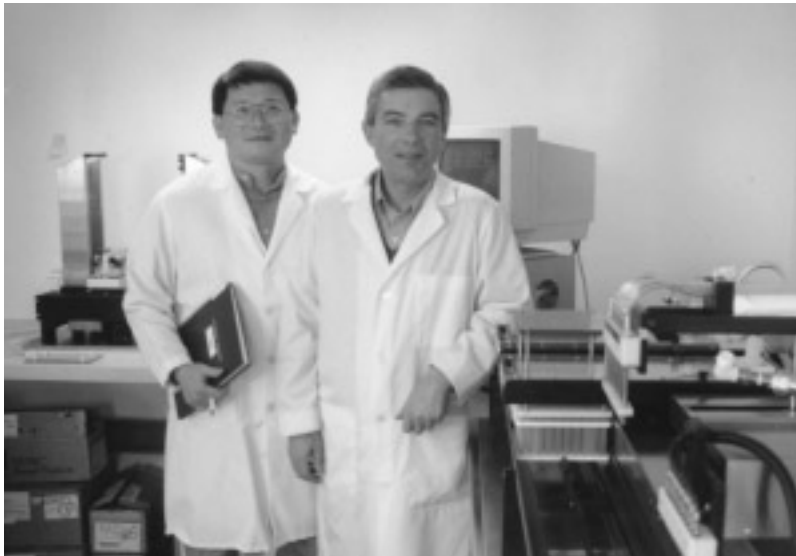
Ocean National Bank Community Development Invests in Venture Capital Fund

*Risk-sharing for small business growth
and job creation.*

The members of the board of Ocean National Bank (ONB) of Kennebunk, ME, a small, rural bank want to make a financial return on its investments. In addition, they also want these investments to have a social return or a public welfare purpose. Thus, the members were pleased when, in 1996, they had an opportunity to join with others in making an equity investment in a socially responsible community development corporation in Maine.

Coastal Enterprises, Inc. (CEI) is a nonprofit company that was formed in 1977 to mobilize capital, and to invest in job-generating, small businesses located throughout the state. The ONB managers felt that CEI's goals were aligned to both its financial interests and community development strategy. CEI also addressed an important small-business finance need in the communities the bank serves. In addition, an established relationship already existed between the bank and CEI through its traditional lending products, and the idea of sharing an investment risk with other financial institution partners was well received.

To expand CEI's public welfare purpose, the board of directors formed a wholly owned subsidiary called CEI Ventures, Inc (the Fund). This subsidiary, in turn, formed Coastal Ventures Limited Partnership (CVLP), which raised venture capital for growing Maine companies that can generate above-average equity returns over a five-to-seven-year time horizon. The Fund has three key goals – creating job opportunities for low-income people; supporting socially beneficial products and services in such industries as health care and the environment; and promoting progressive management practices such as employee



Scientists Brian Skoczenski (right) and Titan Fan founded Beacon Analytical, a bioengineering firm which manufactures and sells test kits that detect industrial and agricultural contaminants. CEI invested in the company's start-up.

ownership, employee incentives, and recycling. In addition to venture capital funding, CEI provides small businesses with technical assistance services, such as management assistance, strategic planning, and introductions to service providers in the local and national business communities.

The bank invested in CVLP through the OCC's community development investment authority, under 12 CFR 24. CVLP met the requirements of a qualified public welfare investment because it provided financing and technical assistance to local small businesses that create permanent jobs for low- and moderate-income people. CEI's goals and services gave the bank the assurance that the investment would be carefully nurtured.

During the four years of the bank's investment, CVLP has financed 17 businesses; generated 340 permanent jobs; and declared dividends from its venture capital investments. Low-income people hold almost 40 percent of the jobs that have been created. The CEI board members are so pleased with these results that they are planning a second fund to reach more Maine small businesses.

OCC Issues Advisory Letter on Financial Literacy

— by Sam Frumkin, *Community Affairs*

In its recent Advisory Letter on Financial Literacy, issued in January 2001, the Office of the Comptroller of the Currency (OCC) encouraged national banks to participate in financial literacy programs. Accompanying the advisory is a resource directory, available on the OCC Website at < www.occ.treas.gov/cdd/commfoc.htm > that provides information about various financial literacy programs and initiatives.

According to Deputy Comptroller Anna Alvarez Boyd, "Financial Literacy is the safety net that allows individuals to participate in the American financial system. Understanding the range of available financial products and services enables consumers to make better-informed choices in the financial marketplace."

Fair access to financial services for all Americans has long been a goal of the OCC. The agency is committed to enabling lower-income and other unbanked individuals to develop relationships with depository institutions. Financial literacy programs provide knowledge and skills that help consumers better distinguish among those offered by depository institutions and other financial service providers.

Banks also benefit from participating in financial literacy initiatives. Involvement in these programs has helped banks develop new customers while enhancing their visibility in the communities they serve. Further, when financial literacy programs are targeted to low- and moderate-income individuals, bank participation may be eligible for consideration under the Community Reinvestment Act.

OCC Issues Advisory Letters on Title Loans and Payday Loans

On November 27th, the OCC issued guidance alerting banks of the agency's safety and soundness, compliance, and consumer protection concerns with banks entering into contractual arrangements with vendors to fund so-called "title loans" and "payday loans." This guidance noted the OCC's intention to carefully examine payday and title lending activities,

through direct examination of banks, and, where applicable, review of any licensing proposals involving this activity. These examinations and reviews will focus not only on safety and soundness risks, but also on compliance with applicable consumer and fair lending. The advisory letters are available on OCC's website at <<http://www.occ.treas.gov/Advlst00.htm>>.



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