



## **Multi-Bank Partnerships for Community Development Financing**

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### **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?**

Listed below are some, but not all, of the activities bank-owned CDCs have financed.

- Loans targeted to minority-owned small businesses.
- Subordinated debt for affordable housing and small businesses.
- Real estate development.
- Equity and near-equity investments in small businesses.
- Equity in real estate projects.
- Limited partnership investments in: (1) affordable housing projects involving federal low-income housing tax credits; (2) new markets tax credits; and (3) historic rehabilitation tax credits.
- Establishing a community development entity (CDE) in conjunction with the New Markets Tax Credit Program.

## **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.
- 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.

## **How can banks invest in multi-bank partnerships?**

National banks can participate through 12 CFR 24 (the Part 24 authority). Under the authority, banks can make investments, directly or indirectly, in any activity that could qualify as a Community Reinvestment Act (CRA) investments as well as activities that primarily benefit: (1) low- and moderate-income persons or areas; or (2) government targeted areas for revitalization. The regulation also sets the maximum aggregate

public welfare investment limit at 15 percent of capital and surplus under the authority. For further information, and to see how Part 24 has been changed by the Housing and Economic Recovery Act of 2008 (HERA), read: “Congress Restores the Public Welfare Investment Authority” article.

### **For more information**

- OCC’s Web-site for information about national bank community development opportunities generally at:  
[www.occ.treas.gov/cdd/resource.htm](http://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](http://www.occ.treas.gov/cdd/commfoc.htm)
- OCC’s E-zine on Multibank CDCs: Pooling Resources to Strengthen Communities at:  
[http://www.occ.gov/cdd/Ezines/fall08/cde08fall\\_index.htm](http://www.occ.gov/cdd/Ezines/fall08/cde08fall_index.htm)
- OCC’s Web site for information about national bank multi-bank CD partnerships at:  
[http://www.occ.gov/cdd/ca\\_archive\\_bcdc.htm](http://www.occ.gov/cdd/ca_archive_bcdc.htm)