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Expanding Your CRA Reach with CD Banks and CDFIs

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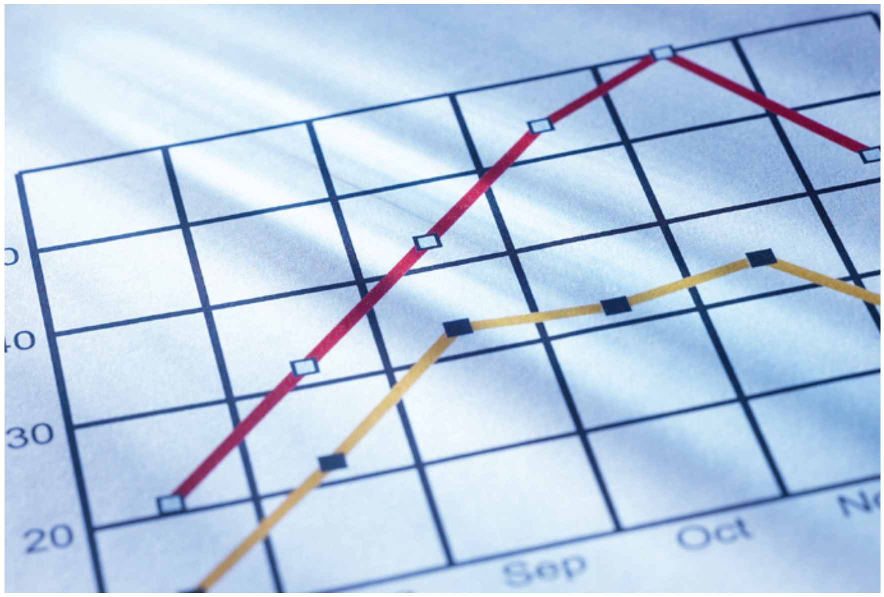
"Do well by doing good." This thought aptly describes partnerships that national banks make with Community Development Financial Institutions (CDFIs), including community development (CD) national banks. CD investments, loans, and services with CDFIs that primarily lend, or facilitate lending, in low- and moderate-income (LMI) areas, or to LMI individuals in order to promote community development, receive positive CRA consideration.



While most bankers may think of investment opportunities first when establishing a partnership with a CDFI, other activities are also beneficial to both parties. For example, providing CD services to a CDFI will result in positive CRA consideration under the Service Test. On page 12, City First Bank of DC (a CD national bank and certified CDFI) discusses its partnership with All-first Bank. In addition to its monetary investment, an executive officer from Allfirst Bank serves as chairman of the credit committee and sits on its board of directors.

Another way to partner with a CDFI is to set up a correspondent banking relationship to buy and sell loans. A CDFI then could buy participations in larger credits than it normally could originate due to its lending limits and expertise constraints. These participations can help improve the CDFI's interest income, as well as diversify its loan portfolio and credit risk. Alternatively, CDFIs could sell CD loans to banks that help them meet their CRA obligations under the Lending Test.

To expand your CRA reach, an investment in a CDFI or CD bank is a great place to start. A national bank may make an equity investment in a CDFI or CD bank under the authority of 12 CFR 24. This can help the investing bank expand its CRA reach into LMI areas or to LMI individuals within its assessment area — or in the broader statewide or regional area — that it otherwise might have difficulty reaching.

When a national bank makes a qualified investment in a CDFI or a CD bank, it may receive positive CRA consideration for its entire investment under the Investment Test, or it may choose to receive CRA consideration for a pro rata portion of the loans and investments made by the CDFI or CD bank.

Here's how it works:
A national bank makes a $100,000 equity investment in a CD bank (or its holding company), located in its assessment area that primarily lends in LMI areas to promote community development. The bank has a $100,000 qualified investment.

Alternatively, rather than limiting the full dollar amount of its investment to consideration solely under

Ways to Receive CRA Consideration for Supporting CDFIs At A Glance

- Subordinated loan
- CD loan participation
- Certificate of deposit
- Grant contribution
- Stock or equity investments in a CD bank or CDFI (or its holding company)
- Involvement on an advisory board, credit review committee, or as a director
- Providing expertise, consulting, or training to lending staff
- Establishing correspondent banking relationship for loan business

the investment test, the investing bank may opt to receive positive CRA consideration for the pro-rata share of the CD loans and investments originated or purchased by the CD bank during the investing bank's CRA evaluation period. Because the investing bank's equity investment of $100,000 represents one percent of the CD bank's $10 million capital base, the investing bank may receive CRA consideration for one percent of the CD loans originated/purchased during this CRA evaluation period. Thus, if the CD bank originated/purchased $15 million in CD loans during this evaluation period, the investing bank would receive CRA consideration for $150,000 of CD loans, nicely leveraging its $100,000 equity investment.

Additionally, under this alternative, if the CDFI or CD bank has qualifying investments on its books, the investing bank can receive CRA consideration for a pro rata portion of those as well. Continuing the facts from the above example, the $100,000 equity investment represents one percent of the CD bank's capital. The bank's CD assets of $30 million consist of $12 million in qualified CD investments and $18 million in CD loans. Under this approach, $40,000 of Investment Test credit is earned based on the fact that CD investments represent 40 percent of the institution's CD assets. And, as previously illustrated above, $150,000 in lending test credit is earned based on the amount of CD loans originated during the investing bank's CRA evaluation period. This split lending/investment test credit is an excellent way for a bank to leverage its original investment in a CDFI or CD bank, as is demonstrated in the example below.

For additional information about the CRA aspects of CD investments please visit OCC's CDFI and CD Bank Resource Directory on the Community Affairs Web page at http://www.occ.treas.gov/cdd/resource.htm or contact the Community Development Division at (202) 874-4930.

National Bank		**CDFI**
		$12 Million Qualified Investments (40%) $18 Million Community Development Loan (60%) $30 Million Total CD Assets
$100,000 Investment	→	$10 Million Capital (Bank's investment represents 1% of capital)

CD Loans originated/purchased during the evaluation period = $15 Million

Investment Test: Maximum Consideration of Total Investment = $100,000
(Total $100,000 Investment)

OR

Split Lending/Investment Test: Total $190,000.
Investment Portion: *40% of $100,000 Investment* = $40,000
Lending Portion: *Bank gets 1% of CD loans originated/purchased during this evaluation period* = $150,000
[$15 Million Community Development Loans] x [$100,000 investment/$10 Million Total Capital]