



Multibank Partnerships for Community Development Financing

Many bankers pool their resources to finance community development activities. They may form nonprofit and for-profit multi-bank community development corporations (CDC), community and economic development entities, limited partnerships, limited liability companies, loan pools, and loan consortia with other local financial institutions to provide capital for affordable housing, small business development and other community needs. Local partners, including government entities and community-based organizations, also may provide direct and indirect resources to these entities to maximize impact and sustain economic growth in their communities.

Bank investments in multibank partnerships are typically made using the OCC's public welfare investment authority found in [12 CFR 24](#) community and economic development entities, community development projects, and other public welfare investments. In addition, bank investments in multibank partnerships may receive positive consideration under the [Community Reinvestment Act \(CRA\)](#) (12 CFR 25).

Opportunities

Multibank partnerships are attractive to banks for several reasons. These partnerships help banks expand their markets, enhance their reputations, and qualify them for CRA consideration. Multibank partnerships also help reduce the risks and costs associated with community development lending by spreading staffing and overhead costs across the partnership and limiting a bank's exposure.

Multibank partnerships also can lead to additional financing for community development investments. These relationships between banks allow them to expand the amount and types of capital available for local community development needs. They can also leverage community development funding from federal, state, and local governments, and from philanthropic sources. Furthermore, as companies financed by the multibank partnerships grow, banks can generate additional business.

Activities

Listed below are some, but not all, of the activities that multibank partnerships have helped to finance:

- 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
- Establishment of a community development entity in conjunction with the New Markets Tax Credit program

Strategies for Forming Multibank Partnerships

Banks have indicated a number of strategies for forming multibank partnerships. Bankers have indicated the importance of identifying the specific credit issues that need to be addressed, and the economic, social, and political climates that are contributing to challenges and solutions addressing those needs. The banks determine how the multibank partnership will contribute to those solutions and the financing gaps that it will address. The bank partners are prepared to change if local needs and resources change.

The bank partners select a geographic area that the entity will cover. Generally, the area should be small enough for the partnership to have an impact but large enough to provide a steady flow of opportunities. It is important to note, however, that a large geographic area may provide opportunities for a bank that wants to expand its reach into new markets and populations as well as gain access to government and nonprofit resources that cover broader areas.

The bank partners identify potential investors and other local partners, such as government agencies and nonprofit groups, that will contribute to the mission and activities of the partnership. Capital resources are certainly paramount. But other resources, such as the physical space to operate, furnishings, and computers, may be important. Local and state governments may provide funds to complement the resources provided by the partnership. Nonprofit organizations may identify potential customers for the partnership and provide technical assistance to help ensure that customers are ready for the financing that will be provided by the partnership.

The bank partners develop a lending strategy that meets the risk-and-return expectations of investors as well as incorporation resources in the community that will help the partnership to succeed. They select an organizational structure and develop appropriate governance documents. For example, they consider whether the

partnership should be organized as a corporation or a limited partnership and whether it should be organized as a for-profit or nonprofit entity. They determine a funding mechanism for the partnership. For example, they might consider whether investors should pool all funds at the start or each should fund a pro rata share of each project.

The bank partners organize a governance structure (e.g., board and committees) and decide how the loan structuring and administrative tasks will be handled. They also develop lending, accounting, personnel, and conflict-of-interest policies, as well as hire staff members for managing the day-to-day business of the partnership.

The bank partners determine the partnership's reporting and tracking mechanisms and the need, if any, for compliance with federal, state, and local requirements. They also consider how the services of the partnership will be marketed to customers and the steps for evaluating the partnership's impact and operation.

As an individual investor, a bank will decide the role that it wants to have in the partnership, besides that of investor. For example, the bank may decide to provide staff to serve on the partnership's board of directors and committees, and it may decide to contribute equipment and space for the partnership.

Best Practices

Involvement in a multibank partnership can yield promising results if properly planned and coordinated. Characteristics of successful multibank community development financing partnerships often include the development of common expectations among investors concerning the risks that the organization will accept and the returns it will be expected to produce. Successful partnerships also benefit from bank participants who refer prospective loan applicants to the partnership.

Building strong relationships within local markets is another important ingredient for a successful multibank partnership. Board and committee members are often engaged in both governing the organization and cultivating strong relationships with the staff of housing, finance, and economic development agencies in local and state governments. The bank partners often develop solid relationships with nonprofit organizations that provide business planning assistance, home-buyer counseling, and other services to prospective customers. They meet with local leaders to better understand the credit issues of communities and ensure that the multibank partnership stays current in its mission and programs.

Possible Risks

As in any other business endeavor, a multibank partnership may not perform as expected financially, and investors may lose some or all of the capital they invest. The involvement of multiple investors also means that investment decisions may not always match the priorities and preferences of a particular institution.

A further point to mention is that an investment in a multibank 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.

Regulatory considerations—12 CFR 24

National banks may purchase shares or interests in a multibank CDC or other partnership entity under the OCC's public welfare investment authority of [12 CFR 24](#). This authority permits national bank investments, directly or indirectly, that primarily benefit the public welfare by benefiting (1) low- and moderate-income (LMI) individuals; (2) LMI areas; (3) areas that are targeted for redevelopment by a government entity; or (4) the investment would receive consideration as a "qualified investment" under 12 CFR 25.23 of the CRA.

Furthermore, the investment in the multibank partnership must not expose the bank to

unlimited liability. 12 CFR 24 permits the aggregate of a national bank's public welfare investments to be no more than 5 percent of its capital and surplus. With written OCC permission, however, a bank's aggregate public welfare investments under 12 CFR 24 can rise to 15 percent of its capital and surplus. Examples of permissible investments are listed in the regulation.

Banks make public welfare investments directly or indirectly through multibank partnerships that make or conduct eligible activities. When a national bank makes an investment directly into a multibank partnership, which in turn invests funds in a project, **each project** in which the bank or the multibank partnership invests must primarily promote the public welfare and meet the public welfare beneficiary standards. If a bank does not control the multibank partnership in which it invests, the multibank partnership will not be considered a subsidiary for purposes of 12 USC 24 (Eleventh).

When a national bank makes an investment in a non-subsidiary multibank partnership, the partnership's activities, **in the aggregate** (as opposed to each project), must meet the primary beneficiary standards.

A national bank seeking to make a public welfare investment may provide after-the-fact notifications or seek prior OCC approval. With either approach, the bank must complete the OCC's CD-1 National Bank Community Development Public Welfare Investments form. A bank may access and submit the form electronically through OCC's [BankNet](#).

Regulatory considerations—CRA

Bank deposits in, grants to, or shares in a multibank partnership can be considered qualified investments under 12 CFR 25.23 of the CRA's [12 CFR 25](#). Additionally, if a bank purchases stock in a multibank partnership that primarily lends in LMI areas or to LMI individuals, the bank may claim a pro rata share of the partnership's loans as community development loans. The bank's pro rata share is

based on its percentage of equity ownership in the partnership.

Investments made under the CRA must benefit the bank's assessment area(s). (A bank may receive positive consideration for investments made outside of its assessment area[s] within a broader regional or statewide area that includes its assessment area[s], as long as the bank has adequately addressed the needs of its assessment area[s].)

Bank loans to multibank partnerships that primarily lend or facilitate lending to promote community development may be considered community development loans.

For More Information

- The OCC's Fall 2008 *Community Development Investments*, "[Multibank CDCs: Pooling Resources to Strengthen Communities.](#)"
- The OCC's Fall 2010 *Community Development Investments*, "[Public Welfare Investments: A Catalyst for Community Development.](#)"
- [Information about national bank investments in CDCs, community development projects, and other public welfare investments.](#)
- [Contact information for OCC's District Community Affairs Officers](#)