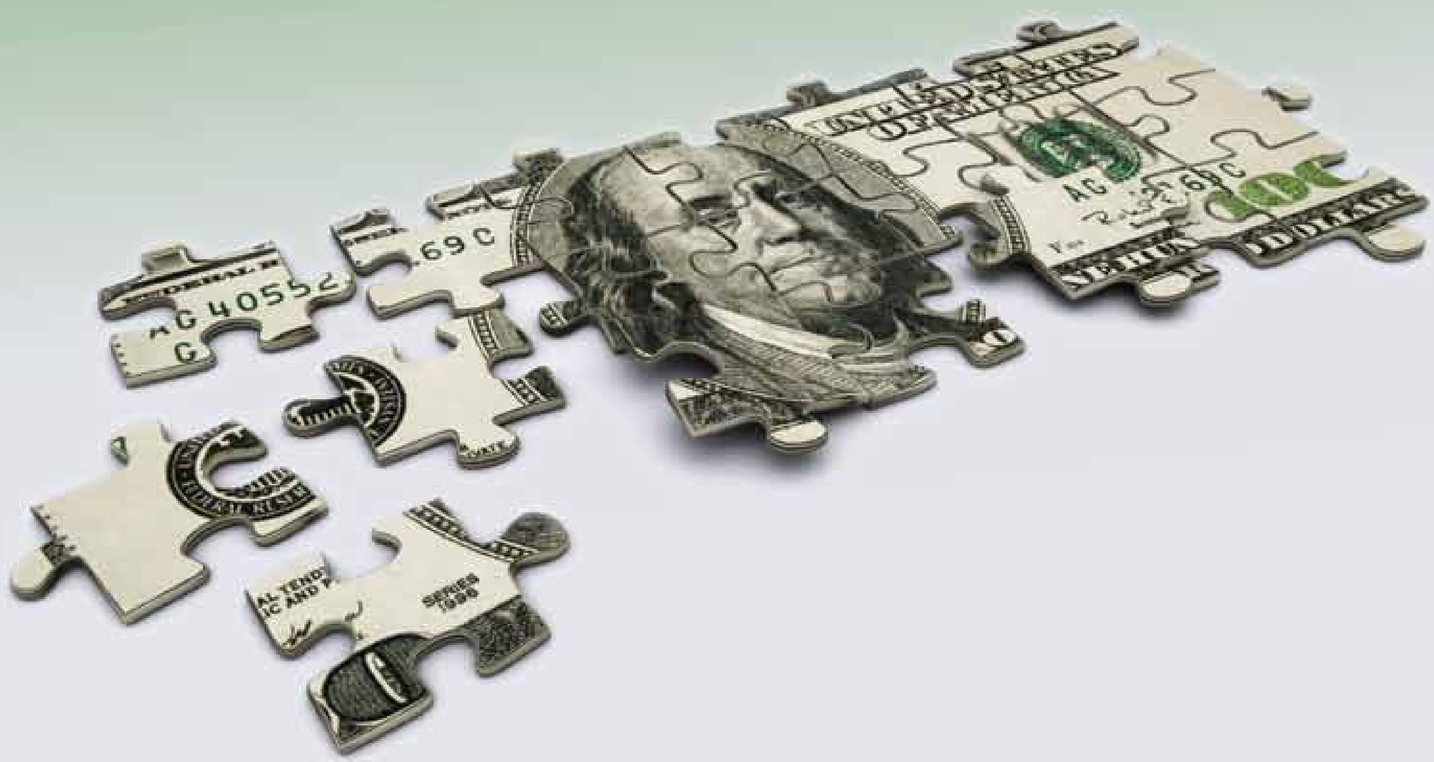
Comptroller of the Currency
Administrator of National Banks
US Department of the Treasury

Community Developments *Investments*

Fall 2008

Multibank CDCs

Pooling Resources to Strengthen Communities



A Look Inside ...

Barry Wides, Deputy Comptroller for Community Affairs, Office of the Comptroller of the Currency (OCC)

Banks are meeting the needs of their communities by working together. Multibank community development corporations (MBCDC) offer a collaborative approach that has been successful over the last two decades and, because of their flexibility, remain so today. They are designed to fill financial gaps through bridge loans, venture capital, or gap financing, when housing or economic development plans are good. MBCDCs can finance these projects because they spread the risk on projects that cannot qualify for conventional bank financing.

This issue of the *Community Development Investments* looks at how multibank CDCs are structured and how they are filling financing gaps. Whether an MBCDC is for-profit or nonprofit is determined by the membership based on what works best to meet the CDC's goals. Both structures can get the job done.

Andrew Hamilton, a consultant for several Midwest-based CDCs, shares his advice on the planning activities needed to form a for-profit multibank CDC in "Tips for Creating For-Profit Multibank CDCs" on page 4. His advice can help you examine most aspects of the formation process. He also points out the decisions to be made.

If you want to know how a for-profit, multibank CDC works, see the article on page 6, "Orchestrating Community Economic Development," which looks at the Jefferson Marion Washington CDC and the Upper Illinois River Valley CDC. Both CDCs are structured as for-profit corporations. They were established in the early 1990s with a technical assistance grant from the Illinois Department of Commerce to cover the start-up and organizational fees of forming the CDC. And both are still stimulating economic development in rural areas of Illinois.

This truck is spraying EZ Bond Maximum Fiber Matrix to temporarily stabilize dirt piles on construction sites. Phoenix Paper Products, the manufacturer of this paper and corn fiber product, received a loan from Upper Illinois River Valley CDC, a multibank CDC in north central Illinois.

For a glimpse into the operation of a nonprofit CDC, Andrew Gordon's article "Gap Financing Leads to Economic Development" (on page 9) illustrates the advantages of that structure. Arizona MultiBank CDC provides long-term funding for economic development activities that facilitate conventional financing and leverages other private and public funds. Even when a borrower lacks sufficient equity or has limited experience, the Arizona MultiBank CDC can bring both financial and technical assistance to a project.

Both the for-profit and nonprofit structures allow bank members to reach their community development goals. Both structures can draw deals from members and outside contacts, when the CDC's expertise and value are recognized throughout the community.

National banks can participate in multibank CDCs 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) investment as well as activities that primarily benefit: (1) low- and moderate-income persons or areas; or (2) government targeted areas for revitalization. It 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), see the sidebar below.

Investments in multibank CDCs can also be considered under the CRA. The Interagency Questions and Answers Regarding Community Reinvestments in 2001 addressed loans to CDCs. Download 66 Federal Register 36626 by visiting www.ffiec.gov/cra/pdf/qa01.pdf, and download 71 Federal Register 12433 by visiting www.ffiec.gov/cra/pdf/06-2188.pdf.

For additional information about multibank community development financing, see the sidebar above. For more information about the Part 24 authority or CRA consideration, national banks can contact the OCC's District Community Affairs Officers. Their contact information can be found on the Web at www.occ.treas.gov/cdd/contacts.htm.

OCC Resources on Multibank Community Development Financing

The following OCC publications and articles address issues about multibank community development corporations.

Multi-Bank Partnerships for Community Development Financing
Community Developments Fact Sheet
www.occ.treas.gov/cdd/multibankfactsheet.pdf

Multibank Small Business Mezzanine Funds
www.occ.treas.gov/cdd/mezfund.pdf

A Multibank CDC in Memphis Builds Homes and Businesses
www.occ.treas.gov/cdd/memphismultibank.pdf

Congress Restores the Public Welfare Investment Authority

On July 30, 2008, President Bush signed a major piece of housing legislation called the Housing and Economic Recovery Act (HERA). A short, but significant, provision restores the longstanding authority for banks to make affordable housing and community development investments under the public welfare investment authority in 12 USC 24(Eleventh) in a mix of low-, moderate-, and middle-income communities.

Prior to 2006, a "public welfare" investment was defined as primarily benefiting: (1) low- and moderate-income (LMI) persons, (2) LMI areas, and (3) areas targeted by a government entity for redevelopment. Allowable public welfare investments also included those that would receive consideration as a "qualified investment" under the CRA.

In 2006, legislation narrowed the public welfare investment authority to only those investments that primarily benefited LMI persons and areas. This change precluded the use of the public welfare investment authority for three key types of CRA eligible investments: (1) those benefiting rural underserved or distressed middle-income areas; (2) middle-income communities affected by FEMA-designated disasters; (3) government-targeted areas for economic revitalization that include a mix of moderate- and middle-income residents.

Recognizing the unintended consequences created by the narrower public welfare definition, HERA corrected this problem. This new provision was implemented August 2008, with the publication of OCC's interim final public welfare investment regulatory revisions in the Federal Register (http://edocket.access.gpo.gov/2008/E8-18410.htm) and issuance of OCC Bulletin 2008-22 (www.occ.treas.gov/ftp/bulletin/2008-22.html).

This change has the potential to help attract bank investments to more than 4,000 middle-income distressed or underserved rural areas across the country and many communities in areas of the Gulf Coast still recovering from the effects of the 2005 hurricanes.

Communities across the country will benefit from a broader range of national bank public welfare investments—creating much needed housing, community and economic development, as well as services or jobs for residents in these neighborhoods.

Tips for Creating For-Profit Multibank CDCs

Andrew Hamilton, Opportunity Alliance, LLC, Springfield, Illinois

Banks don't have to be large to meet the needs of underserved populations in urban or rural communities. Increasingly, banks of varying sizes are joining forces and sharing knowledge under the auspices of multibank community development corporations (CDCs).

These corporate entities are rooted in the communities they serve and leverage local resources to create jobs, stimulate economic activity, and channel funds toward low- and moderate-income persons and neighborhoods.

Multibank CDCs offer a two-pronged advantage for providing credit to nontraditional borrowers: centralizing expertise and distributing specialized tasks among bank members. Working in this collaborative environment can save time and resources and give hope to struggling communities sooner than later.

While there is no single solution for forming a CDC from several investor banks or other organizations, a for-profit structure is sometimes preferable over a nonprofit one for the following reasons.

- Participating banks and stakeholders will likely see a return on investment.
- Money that banks pledge will not be drawn down until needed by specific borrowers.
- Establishing a for-profit entity is easier than setting up a nonprofit under the Internal Revenue Service Code. Forming a nonprofit CDC, however, could take as long as a year.

These US Sonet engineers are installing residential and commercial cable service in rural Salem, Ill. US Sonet is an example of a loan recipient from a multibank CDC, Jefferson Marion Washington CDC, in Illinois. This loan enabled US Sonet to bring jobs to the community and a fiber optic network of underground cables, for Internet, phone, and cable TV services. The broadband cable access helped local businesses save time and better serve the community.

The following highlights several steps for investor banks and other organizations wanting to form a for-profit CDC:

First Steps

1. Setting Up Preorganizational Meetings

The banks form a preorganizational group and set up a meeting or series of meetings to discuss the community's development and financing needs. The group vets the ideas with community leaders and draws up a list of high-priority needs into the CDC's proposal for products and services.

2. Identifying Serious Investors

One way to separate serious bank investors from "tire kickers" is to include contingency language, such as "contingent upon adequate approval of the final CDC structure." This allows an individual bank to express interest in the initial idea but to withdraw if the final proposal is not to its liking.

Beside financial institutions, other potential investors include major corporations, units of government, development companies, utility companies, and other economic development stakeholders.

Organizational Documents

1. Articles of Incorporation

The group drafts articles of incorporation and submits them to the proper authorities with the agreed-upon structure.

2. By-Laws

By-laws should specify that shareholder voting rights are based on investment but allow for votes based on membership. Each investor generally receives a seat on the board of directors and has one vote each on the funding of loan requests. An investor may have cumulative voting when naming members to the board of directors. But, traditionally, once on the board, it's one vote per board member. Avoid allowing veto powers or the ability for a member to decline a draw on a member's subscription or weighted member voting. Such actions make for unequal representation and discourage smaller bank participation. With equal voting representation and decisions based on the strength of the majority, the members become team players.

3. Written Policy for Loan and Investment Decisions

Reach agreement on the types of investment products and services that the CDC plans to offer. These could be direct loans, subordinated loans, guaranteed loans, equity investments, or a combination of these financial assistance products. Then adopt a formal, written policy for the approval of loan and investment decisions.

Staffing and Operational Plans

The CDC may decide to think big and hire full-time staff or prefer to keep operational and administrative costs to a minimum. Alternatively, the board members may be hands-on and perform a number of operational duties for the corporation. No matter the approach, make sure to reach agreement on and document the startup plans as well as the short- or long-term operational plans.

CDCs often can close the gap between a borrower's credit needs and the funding that is available from traditional lending sources.

Funding and Capitalization

Investors generally sign a one-page stock subscription agreement that establishes the maximum amount of allowable draw from each financial institution. When a project is approved, each investor allows a pro rata draw on his or her individual subscription on a shared basis.

The CDC could fund several projects with a minor draw on each subscription. Some investors may be under the impression that cash is expected up front to organize the CDC. This does not have to be the case. If bank investors sign a preorganizational subscription agreement, funds are earmarked and will be used only when a project is approved.

Signing a subscription initially has only a minimal effect on the bank's income statement or balance sheet. The balance sheet change is booked only when the pro rata amount is drawn. Thus, a $1 subscription might have only 30¢ drawn in the first year or so. As a board member, the investor has a vote on whether the project is approved and, therefore, has control over the financial health of the portfolio.

CDCs often can close the gap between a borrower's credit needs and the funding that is available from traditional lending sources. Banks investing in CDCs would carry their investment as an asset. See the Financial Accounting Standards Board's "FAS 115" at www.fasb.org/pdf/fas115.pdf for a detailed explanation.

Operating Activities and Investment Guidelines

The CDC should formalize operating activities and investment guidelines. The guidelines should address the purpose or objectives of the CDC as well as:

- Eligible products and services.
- Investor eligibility and investment criteria.
- Rates and fees.
- Return on investment.
- Terms of loans and investments.
- Maximum and minimum amounts of investment or loan.
- Job creation.
- Resource leveraging.
- Application processes.
- Adequacy of collateral.
- Typical project structure.

- Project evaluation criteria.
- Financial analysis criteria.
- Servicing and collections.

Marketing

After the CDC is formally organized, it must start marketing activities to generate new projects. The CDC can dictate the aggressiveness the marketing campaign. At the least, it should develop a fact sheet or brochure to summarize the CDC's products and services.

Mass mailing — sending marketing materials to a directory listing of companies, major employers, and specific individual clients, for example — is a less costly but a more scattered, approach. A more time-consuming approach is setting up appointments with specific persons to solicit applications. The CDC should try a combination of these approaches.

Each board member should be able to provide relevant, potential contacts. Local entities, such as Economic Development Professionals, Chambers of Commerce, Small Business Development Centers, and the Senior Core of Retired Executives (SCORE), also are excellent resources.

Marketing the CDC is a collaborative effort for investors, city- and county-elected officials and administrators, and economic development professionals. When most—if not all—of the stakeholders are committed to achieving the CDC's goals, the elements of success will be in place.

For more information, e-mail Andrew Hamilton at andrewjhamilton@opportunityalliance.com or visit www.opportunityalliance.com.

Orchestrating Community Economic Development

Letty Shapiro, Community Development Expert, OCC

Multibank CDCs are like orchestras. They bring together a group of experienced players who jointly work on projects to create something that they could otherwise not accomplish individually.

In Illinois, two such multibank CDCs have combined the knowledge and capital of dozens of bank members to fund business ideas and expansions that create or retain jobs in their communities.

The first, the Jefferson Marion Washington Community Development Corporation (JMW CDC) was formed in the early 1990s by seven financial institutions and serves a rural, three-county area in south central Illinois.

The second is the Upper Illinois River Valley Community Development Corporation (UIRVCDC), which serves a rural area running through Illinois. It was founded in the early 1990s by 20 members, including national banks, regional banks, and an electric cooperative.

The two CDCs fulfill a need for gap financing, allowing deals to go forward that would otherwise not meet traditional underwriting standards. Although both CDCs have small deal flows, their impact on the community is huge.

Jefferson Marion Washington CDC

Transactions to be financed by the JWMCDC typically come in through member banks. That was the case with US Sonet, the brainchild of a local business person who had executive experience with a high-speed Internet operation in the St. Louis metro area.

The borrower saw an unmet need for additional bandwidth required by local government agencies, the local hospital, and the business community. When the project began in 2002, consumers did not have access to a fiber-optic network that could provide high-speed Internet, cable, and telephone service. The borrower had the knowledge to build and run a local network, but no capital to fund the project.

Among the companies that were frustrated by slow Internet speeds was Marion County Savings Bank. "When the regulators implemented Check 21, it was taking us three and a half hours to download information from the Federal Reserve in St. Louis," said Marion County Savings Bank Chairman and President Larry Clark.

Clark saw the value to the community, not only in the increased bandwidth for the businesses and municipalities, but also in the nearly one dozen local jobs the company, US Sonet, would create. However, since the borrower lacked equity, the deal would not pass traditional underwriting requirements.

Clark pitched the borrower's business plan to the JWMCDC, which agreed to provide $150,000 in gap financing, a crucial component of the initial capitalization for US Sonet.

This US Sonet engineer is installing residential cable service in Salem, Ill. US Sonet was able to bring a fiber optic network of underground cables, for Internet, phone, and cable TV services, to rural, south central Illinois through financing from Jefferson Marion Washington CDC.

US Sonet Fiber Optic Services

Sources	
First Mortgage Participation	$1,664,650
Marion County Savings Bank	500,000
Peoples National Bank	600,000
JWMCDC	150,000
Illinois Dept. of Commerce	250,000
South Central Regional Planning Commission	164,650
SBA 504 CDC Loan South Central Regional Planning Commission	1,200,000
Borrower Equity	1,000,000
Total	**$3,864,650**

Uses	
Land and Building Purchase	$460,000
Hard Costs	3,399,650
Soft Costs	5,000
Total	**$3,864,650**
Source: Marion County Savings Bank	

The subordinate financing for US Sonet was provided under the Small Business Administration (SBA) 504 loan program. The senior loan was a participation of five lenders, including the JWMCDC. As illustrated in the sources and uses table above, the first lien lenders provided $1.664 million and included Marion County Savings Bank, Peoples National Bank, the Illinois Department of Commerce, South Central Regional Planning Commission, and the JWMCDC. The SBA 504 subordinate financing of $1.2 million was provided by South Central Regional Planning Commission, an SBA-certified development company.

Today, despite challenges from national and local competitors, US Sonet has more than 1,200 subscribers along its 67 miles of cable and provides firewall and network security to two local police departments and Salem Community Hospital. It is also building a secure fiber wide area network, or WAN, that will serve the offices of Marion County State's Attorney, Sheriff, and Probation Department.

Upper Illinois River CDC

As with the JWMCDC, the UIRVCDC is dedicated to funding projects that create or retain jobs in the local economy. Its primary tool is a flexible-purpose loan that can be used for land acquisition, construction, working capital, leasehold improvements, equipment and machinery purchases, building renovation, or to purchase inventory.

Member banks bring forward deals and continue to service their banking relationship with the borrower after funding. Eventually, borrowers grow to a point where the bank can take the UIRVCDC out of the deal.

The typical UIRVCDC borrower, said Financial Advisor Andrew Hamilton, is one that a bank member would really like to help but can't because the borrower lacks either cash or collateral, despite having an excellent business plan.

Business Mushrooms with UIRVCDC's Help

One of the more unique UIRVCDC deals helped Phoenix Paper Products, Lostant, Ill., expand its product line. The company had received an Illinois Department of Conservation grant to transform scrap newspaper into pellets that replace peat moss in mushroom-growing operations. However, it needed additional funding for working capital and for purchasing additional machinery.

The borrowers' only collateral was

Phoenix Paper Products produces the EZ Spray blended fiber mulch to use on flat and moderate residential slopes. Phoenix received a loan for production of a paper-based peat moss alternative from the Upper Illinois River Valley CDC, a multibank CDC in north central Illinois.

paper-shredding machinery, but UIRVCDC member First Midwest Bank, Itasca, Ill., saw potential in Phoenix Paper's innovative product.

With the new machinery and capital, Phoenix Paper manufactured and marketed its new pellets, which hold moisture more effectively than peat moss. Using the pellets, mushroom growers can produce higher priced, premium mushrooms than if they use peat moss as their growing medium.

To make the transaction work, the UIRVCDC agreed to make a low interest rate loan in return for a significantly higher rate when Phoenix Paper began making a profit. First Midwest Bank provided primary financing to the paper products company.

Phoenix Paper paid off the original financing and eventually became a business client for First Midwest. Today, Phoenix Paper's three dozen employees produce a host of eco-friendly paper products, including a lightweight, flushable cat litter; several varieties of garden mulch; several earth stabilizers for construction sites; and a grass-seed, paper-pellet, fertilizer combination product for growing grass on shady lawns.

The two CDCs fulfill a need for gap financing, allowing deals to go forward that would otherwise not meet traditional underwriting standards.

Revisioning to Serve a New Market

A CDC that provides gap financing cannot reasonably expect all its deals to work out, but the Illinois Valley Banquet Center, LaSalle, Ill., is certainly a deal that has successfully generated double bottom lines for the UIRVCDC and the communities it serves.

Housed in a remodeled grocery store, the banquet center had been closed for some time when it caught the eye of Raoul Rosales in 2003. He and his family were already running a bar and restaurant in a nearby community and thought the banquet center would make a perfect gathering place for the local Latino community to hold celebrations, such as weddings, anniversaries, and concerts.

While their experience running their current business had given them the skills they needed to run the banquet hall successfully, the Rosales family did not have money to purchase the property.

Citizens First National Bank wanted to fund the $250,000 deal, but the high loan-to-value ratio of the loan needed by the Rosales family did not fit within the bank's traditional business loan underwriting criteria. When the UIRVCDC stepped in with gap financing, the deal worked.

In this financing, the bank provided $175,000 of the purchase price via a market rate loan that amortized over 10 years with a five-year balloon. The UIRVCDC took the second lien position, offering a subordinated $75,000 loan at the same terms. That loan has since been paid off.

By targeting an underserved market, the Illinois banquet center today is booked year-round with Hispanic community events, including weddings, anniversaries, and other celebrations as well as concerts featuring Latino musicians.

Small Projects Equal Big Results for Both CDCs

Since its inception, the UIRVCDC has completed about 28 projects totaling nearly $2.7 million with deal sizes ranging from $25,000

The Illinois Valley Banquet Center (now the Flamingo Banquet Center) sponsors many different events, including music, wrestling, and wedding parties. The original financing used to develop the facility included a loan from the Upper Illinois River Valley CDC.

to $250,000. The JMWCDC, meanwhile, has completed 10 projects with deal sizes ranging from $63,000 to $250,000. While that deal size may seem small to some, the effect of the CDCs on the lives of community members is significant.

The two CDCs have retained and created more than 1,000 jobs in companies ranging from a snack cake manufacturer to a bicycle shop and a hair-styling academy. By working together, the members of the JMWCDC and UIRVCDC have enriched the business environment, nurtured new bank customers, and changed the lives of hundreds of families in their local markets.

For more information, contact Andrew Hamilton, Financial Solutions, at (866) 325-7525 or andrewjhamilton@andrewjhamilton.com; or contact Larry Clark, President, Marion County Savings Bank, at (618) 548-3440 or lclark@marioncountysavings.com.

Gap Financing Leads to Economic Development

Andrew W. Gordon, President, Arizona MultiBank CDC

The 18 banks that formed the $10 million Arizona MultiBank Community Development Corporation (MultiBank) found success when they joined together 16 years ago to form a single entity. The entity was designed to spread risk and expense and concentrate expertise in the delivery of a special brand of community development financing. Today, MultiBank lent its initial investment nearly four times and continues to actively support emerging and underserved local markets in Arizona.

Started by the Arizona Bankers Association, MultiBank is a nonprofit corporation formed with a stock-like capital debt security, funded on a long-term basis by Arizona lenders, and certified by the U.S. Department of the Treasury as a community development financial institution (CDFI) and community development entity (CDE).

To add to the financial strength and stability of the corporation, the maturity of the investment automatically renews unless a majority of the investors notifies the members that the investment should be wound down in no less than five years. There are two classes of bank investors.

One class comprises those investing less than $500,000 and only some of them are represented on the board of directors. The second class invests $500,000 or more, sits on the board, and is empowered with a unique and stronger voice (in the form of a veto) to prevent material changes in the mission, structure, and investments of the corporation. Otherwise, all directors, a majority of which is made up of community representatives, have an equal voice in MultiBank's governance. Three banks, JPMorgan Chase, Bank of America, and Wells Fargo Bank, have invested more than a combined $500,000.

MultiBank provides financing and access to technical assistance for the advancement of small businesses, low- and moderate-income housing, nonprofit organizations, and economic development. Part lender and part intermediary, MultiBank provides direct financing in the form of debt, debt with equity features, and credit enhancements to facilitate conventional financing and to leverage other private and public funds.

Since December 1992, MultiBank has responded to financing needs in Arizona with 370 loans totaling $39 million. Loans range from $500 to $1 million for community development projects and, including loans from investor banks and borrower equity, total project investments exceed $157 million.

Over the years, the combination of MultiBank's mission, capitalization, and corporate structure has enabled it to succeed and remain nimble and responsive to community needs. This has happened despite significant changes in the overall banking market, such as the rise of interstate banking and ownership changes among its original investor banks.

A Part of the Community

Today, MultiBank has grown its original investment into $39 million in loans. It supports worthy projects that typically do not qualify, in whole or in part, for traditional bank financing. About half of its deals are referred by MultiBank investor banks, with the rest coming from existing borrowers and an informal network of contacts, such as SBA-supported small business development centers and area nonprofit organizations.

MultiBank's in-the-trenches financing also serves as a de facto research and development activity that helps to create perspective for its investor banks in shaping their lending products. These products are aimed at underserved markets and new customers. Ironically but appropriately, the better MultiBank performs its job, the faster its customers pay off their CDC loans and move into traditional bank financing products. MultiBank provides only project financing; while the borrowers execute their business plans and build their financial footings, investor banks support them with more traditional bank products and services, such as checking, savings, and investments.

"One indication of MultiBank's success is when one of our investor banks pays off a MultiBank loan because the borrower has become bankable," explained Bank of America Senior Risk Manager and MultiBank Chair John Philips. "We are always pleased when one of our borrowers has grown to the size and quality that the bank, which originally brought the deal to MultiBank, can ultimately meet all the customer's credit needs. MultiBank can then look for another borrower to help grow and move on to becoming a successful enterprise, increase employment opportunities, and contribute to an expanding local economy and a more positive environment in which to live and work."

Three Native American human services providers are sharing this building in downtown Phoenix. The building was renovated with gap financing from MultiBank.

MultiBank intentionally invites competition in its community development market. Generally, if another public or private lender can finance the deal with comparable or better terms, we encourage the customer to take it. We find, however, customers often prefer MultiBank's value-added lending that attracts synergistic relationships among funding sources and technical assistance. MultiBank borrowers definitely have dreams to bring to life; however, in general, they lack sufficient equity, a sufficient operating history, and adequate

Rim Country Bowling Lanes

As the following chart indicates, MultiBank's $125,000 subordinated loan sufficiently stretched the owner's equity of $230,000 to enable Compass Bank to make a $555,000 loan for the acquisition of the business and special-use real property. Five years after funding, Rim Country Bowling Lanes paid off the original financing.

Sources	Uses			
Funder	Business and Real Property Acquisition	Improvements, Equipment, and Working Capital	Total	Percent
Compass Bank (SBA)	$555,000	$0	$555,000	61
Arizona MultiBank	125,000	0	125,000	14
Borrower Equity	44,000	186,000	230,000	25
Total	**$724,000**	**$186,000**	**$910,000**	**100**

Source: Arizona MultiBank CDC

assets to attract a traditional lender to finance their project.

Expanding Senior Care

Expanding senior care was the case for MultiBank client Carefree Assisted Living, Cottonwood, Ariz. Carefree began as a relatively small operation licensed to provide assistance with daily living tasks, such as bathing, dressing, and eating, to six residents who shared a single-family home.

Carefree operates in a county with the state's second highest proportion of residents over 65 and the highest prevalence of residents over 85. The owners saw increased demand from seniors who wanted to live in a home-like environment. With help from MultiBank, they made plans to construct a new 22-bed facility in their rural community. The new project included setting aside four beds for indigent elderly, including veterans.

The deal was risky because the owners had never run an operation of that size. Further, their ability to service the debt relied heavily on income and operating expense projections, rather than an established cash flow. The fact that the building was to be new construction also added a layer of risk. Carefree had the building designed so that it could easily be remodeled into executive suites, should the assisted living facility fail.

Despite the challenges, Wells Fargo Bank and MultiBank saw that Carefree would be filling an important community need and agreed to finance the new facility.

Carefree Assisted Living

As the following chart illustrates, Wells Fargo provided 53 percent of the total project costs for land acquisition, development, and construction financing. MultiBank financed 27 percent of these costs in a subordinated lien position. The interim financing supplied by Wells Fargo and MultiBank converted to permanent mortgages once construction was completed. Wells Fargo refinanced both loans within five years, enabling MultiBank to redeploy its funds for another worthy community development project.

Sources	Uses			
Funder	Land and Off-Site Improvements	Building Construction	Total	Percent
Wells Fargo	$171,000	$219,000	$390,000	53
Arizona MultiBank	0	200,000	200,000	27
Borrower Equity	0	148,500	148,500	20
Total	**$171,000**	**$567,500**	**$738,500**	**100**

Source: Arizona MultiBank CDC

Community Benefit

Two employees of a large computer chip fabricator in Arizona wanted a change of lifestyle and discovered the opportunity to purchase, renovate, and reposition the somewhat run-down Rim Country Bowling Lanes, Payson, Ariz.

The wife-and-husband team had no prior experience running a bowling alley, but they were committed to upgrading the facility. Also, they planned to use their technical know-how to incorporate educational and family-oriented computer activities at the bowling alley.

The deal presented challenges on several levels. To be successful, the $910,000 project needed to be fully funded, including working capital. Unfortunately, the money the couple saved for their dream was not enough to qualify for the bank's SBA loan. Their experience at the chip maker was a long way from the lower-tech world of running a bowling alley. Further, traditional lenders tended to shy away from lending on single-purpose buildings, such as bowling alleys.

Bringing Together Native American Services

Another MultiBank loan, to Native American Connections, emphasized the CDC's commitment to transactions that connect people, places, and services unique to the Arizona market.

This project reinvigorated a mostly vacant, six-story building into a one-stop social services and development center, adjacent to a new light rail system in Phoenix. The building is now the new home of the three largest nonprofit Native American service providers in Phoenix. Native American Connections focuses on culturally appropriate behavioral health and the development of affordable housing with support services. The Native American Community Health Center provides primary health care and medical services. The Phoenix Indian Center's programs include education, workforce development, cultural and language preservation, and family counseling.

The three nonprofit entities, joined together to purchase an 85,000 square feet building and, with planning, coordination, and $8.2 million established a permanent geographic center and presence for the urban Native American community. In addition, they hope to transform the building into a tourist destination where artisans and vendors can sell their arts, crafts, and other merchandise, and to provide space for cultural amenities and a small businesses incubator program.

Rim Country Lanes obtained a facelift with the financial support from MultiBank.

What's Next

Looking ahead, MultiBank is evaluating its role in financing sustainable industries in Arizona, especially small businesses growing "green collar" jobs. For the past three years, MultiBank has been working with Navajo officials on a start-up tribal enterprise that primarily uses fly ash. Fly ash is a by-product of a coal-fired-power generating plant on the Navajo reservation used to make a "green" aerated concrete block for construction of new energy-efficient homes on and off the reservation. Also, in response to Arizona's high mortgage foreclosure environment, MultiBank is involved with private and public partners to find ways to make vacant residential properties available to workers in livable neighborhoods who might not otherwise know about these homes and might not typically qualify as owners or renters.

No matter which projects it funds in the future, the real value of the MultiBank will continue to be the synergies that arise from the joint efforts of its board, investors, and community partners.

"MultiBank's investment committee and lending staff have well over a century of combined experience lending to Arizona businesses and have seen, at one time or another, many projects similar to those reviewed at MultiBank," said MultiBank Chair Philips. "We meld that knowledge with MultiBank's distinctive credit culture of 'disciplined flexibility' and find ways to say 'yes'."

For more information, contact at agordon@multibank.org or visit www.multibank.org.

Native American Connections

As the accompanying chart illustrates, debt for the acquisition and renovation of the office building included $6 million in new markets tax credits (partially purchased by two bank investors in MultiBank, M&I Bank, and First National Bank of Arizona) and a subordinate loan of $1.2 million from the Local Initiatives Support Corporation (LISC). Equity for the project was partially provided by the manager of the building LLC, which was funded by MultiBank's subordinate loan of $500,000, Wells Fargo's existing equity equivalent loan of $250,000, and $141,000 of borrower equity. By MultiBank taking a subordinate lien on collateral, other than the assets of the building securing the new market tax credits and LISC loans, all the pieces of equity and subordinate financing could come together and make the dream of the project a reality.

Sources	Uses	
Funder	**Land and Off-Site Improvements**	**Percent**
New Markets Tax Credits	$6,056,000	74
Local Initiatives Support Corporation (LISC)	1,221,000	15
Arizona MultiBank *	500,000	6
Wells Fargo Equity Equivalent Investment *	250,000	3
Equity *	141,000	2
Total	**$8,168,000**	**100**

*Equity was partially funded into the project by Native American Connections, manager of the building LLC.

Source: Arizona MultiBank CDC

This Just in ... the OCC's Districts Report on New Opportunities for Banks

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Virginia Community Capital Expands Its Mission

Virginia Community Capital (VCC) is a nonprofit, community development financial institution (CDFI) focused on community and economic development in Virginia. VCC, originally chartered in 1995 as a small CDFI, offered micro-lending and Individual Development Account programs in three counties in the state. In 2005, the organization expanded its reach statewide. At the end of 2007, the entity had a loan portfolio of approximately $10 million and assets of $28.3 million. VCC supports community and economic development activities throughout the commonwealth, including affordable housing preservation and development, small business development, and primary care services for medically underserved areas. In addition, VCC is opening a community development bank to expand further its community development activities.

VCC offers partnership opportunities for community development loans and investments to banks serving Virginia. In addition, VCC provides technical assistance and credit enhancements for banks making loans for community development.

For more information, contact President and CEO Jane Henderson at (540) 260-3126 or jhenderson@ vccva.org, or visit VCC's www.vacommunitycapital.org.

New Market Tax Credits Help Preserve Affordable Multifamily Housing

Bankers, community leaders, and government officials, are supporting an affordable housing initiative and a child care center in Washington, D.C. Enterprise Community Investment, Jubilee Housing, District of Columbia Department of Housing and Community Development (DHCD), Jubilee JumpStart, and PNC Bank each contributed financing for the Ontario Court Apartments in the Adams Morgan community. This $9 million project includes the rehabilitation of 27 affordable rental units and the development of a new 24-hour child care center.

Jubilee Housing, a faith-based, nonprofit organization, which provides affordable housing and supportive services to economically disadvantaged residents of the Adams Morgan neighborhood, purchased Ontario Court in 1980. This preservation financing will continue to keep the apartments affordable. The child care center, Jubilee JumpStart Early Childhood Development Center, will offer educational programs during the day and provide care for children during the night and on weekends, while parents work.

Enterprise Community Investment and PNC New Markets Investment Partners used the New Market Tax Credit program to make this project a reality. The tax credits were leveraged, and PNC Bank provided an additional $3 million loan. Through the Housing Production Trust Fund, DHCD contributed $3 million to the project, and Jubilee Housing provided additional funds. Once the child care center opens, PNC plans further investment through the PNC Grow Up Great program, the bank's initiative for early childhood education.

For more information, visit www.jubileehousing.org.

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Small Loans, Big Returns

Ways to Work (WtW) is a nonprofit, community development financial institution that helps lower-income people. WtW is designed to help borrowers attain financial independence and advance economically by having money to purchase dependable used cars to get to work or school. Since 1996, WtW has originated nearly 12,000 loans for more than $31 million and the average auto loan amounts to an average $3,400. Results of a 2006 WtW evaluation indicate that borrowers reported an average increase of 41 percent in their take-home pay. In addition, 67 percent of WtW borrowers report that they have used conventional financial services subsequent to receiving their WtW loans.

Headquartered in Milwaukee, WtW makes its loans from 43 offices in 21 states: California, Delaware, Florida, Hawaii, Illinois, Indiana, Louisiana, Maryland, Michigan, Minnesota, Missouri, New York, North Carolina, Ohio, Oregon, Pennsylvania, South Dakota, Texas, Virginia, Washington, and Wisconsin.

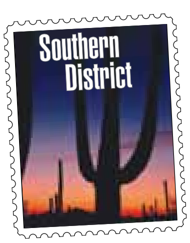
WtW offices are located in social service agencies affiliated with the Alliance of Children and Families (ACF). ACF agencies screen and provide financial education to borrowers and service the loans. WtW local offices provide financial education to more than three persons for every individual who receives a loan. Investors in WtW include several national foundations, the Community Development Financial Institution Fund of the U.S. Treasury Department, local United Way offices, and financial institutions. Banks can be involved by investing in the national WtW loan fund, by referring to local WtW offices prospective borrowers who do not meet conventional credit criteria, by participating in local WtW loan committees, and by providing grants and in-kind donations to WtW.

For more information, contact President Jeff Faulkner at (414) 359-1448 ext. 2 or jfaulkner@waystowork.org, or visit www.waystowork.org.

Tax Credits to Stabilize and Revitalize Neighborhoods

The St. Louis Equity Fund. (SLEF) was established to stimulate the development of affordable housing units throughout the St. Louis region and Missouri. SLEF accomplishes this through corporate investment using primarily low-income housing tax credits (LIHTC). Since its inception, SLEF has created 22 funds, which have invested in more than 100 projects to revitalize and stabilize housing in primarily low- and moderate-income neighborhoods. SLEF is seeking investors for its newest fund in 2008.

For more information, please contact CFO John F. Kennedy at (314) 436-7810 or johnkennedy@slefi.com.



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Partnering to Create Affordable Housing in North Carolina and South Carolina

The North Carolina Bankers Association created the Community Investment Corporation of the Carolinas (CICCAR) in December of 1990 to address the shortage of affordable housing in that state. CICCAR is an affordable housing loan consortium that provides long-term, permanent financing for the development of low- to moderate-income multifamily housing, elderly housing, and special needs housing.

The consortium lends to affordable housing developments throughout North Carolina and South Carolina, in rural and urban communities. Loan capital is provided by 120 financial institution members using the voluntary loan-pool participation process. Membership is open to all financial institutions in those states.

The consortium began accepting applications in March 1991. It has committed and funded financing totaling approximately $158 million for 189 affordable housing developments, producing 8,800 units of low-income housing. Those developments are located throughout the Carolinas. Most were developed under the federal low-income housing tax credit program, and all were new construction or substantially rehabilitated multifamily, senior, or special needs housing developments.

Both nonprofit and for-profit organizations can apply for CICCAR financing. To be considered for a loan, at least 51 percent of the project units must provide housing for persons earning no more than 60 percent of the area median income.

For information, please contact Executive Vice-President Cindy Wiggins-Tiede at (919) 781-7979, (800) 662-7044, or cindy@ncbankers.orq, or visit http://www.ncbankers.org/?content=ciccar

An Investment Opportunity in Northwest Louisiana

The newly created $40 million Northwest Louisiana Community Development Fund I was established to finance local real estate projects to help revitalize low- and moderate-income (LMI) communities across Northwest Louisiana. The fund currently has more than $11 million in capital commitments. The fund's sponsor, the Strategic Action Council, was created to enhance the capacity of the region to compete in today's global, technology-driven economy.

JPMorgan Chase is the lead investor with family and national foundations, both national and community banks, and institutional investors, such as pension funds and university endowments joining the fund.

The fund seeks to deliver market rate returns to investors and to create jobs, income, and community revitalization for LMI residents in a 10-parish region (Bienville, Bossier, Caddo, Claiborne, DeSoto, Lincoln, Natchitoches, Red River, Sabine, and Webster). This region represents emerging markets with substantial potential to contribute to the growth of Northwest Louisiana. Initial investments are expected in summer 2008, based on a pipeline of projects including mixed-income, mixed-use, workforce housing, and commercial joint ventures with developers and builders in the communities.

For more information, contact Karen Kasteel, Managing Director for the Kennedy Wilson Fund Management Group, at (310) 877-3414 or kkasteel@kennedywilson.com. You may also contact J. B. Beaird, Manager/CEO at Beaird Operating Companies (the Local Investor Group), at (318) 221-8276 or jbbeaird@softdisk.com.

Decreasing Home Foreclosures in Texas

The Texas foreclosure task force comprises local, state, and national nonprofit organizations and many other shelter-industry professionals. The group offers partnership opportunities for insured financial institutions to support Texas homeowners. The task force's major campaign seeks to decrease home foreclosures by directing struggling borrowers to the HOPE Hotline, reachable at (888) 995-HOPE. Callers receive experienced, quality counseling and can be connected with their lenders or local NeighborWorks organization. The task force effort is part of a nationwide campaign in coordination with NeighborWorks America and the Ad Council.

For more information, contact David Long, Resource Development Committee Chair, Texas Foreclosure Prevention Task Force and President, Texas State Affordable Housing Corporation, at (512) 477-3555, ext. 402 or dlong@tsahc.org, or visit http://texasforeclosurehelp.org.

Susan Howard (818) 240-5175
Dave Miller (720) 475-7670

ACCION New Mexico: Reaching Entrepreneurs

ACCION New Mexico is a CDFI and a member of the U.S. ACCION Network. The CDFI was created to increase access to business credit and training for emerging entrepreneurs throughout the state. The organization was founded in 1994 by New Mexico community and business leaders who sought to remove the barriers to credit for hardworking New Mexican entrepreneurs who had modest capital needs, thin credit histories, or limited collateral. Since its inception, it has financed more than 3,600 micro and small business loans in amounts of $200 to $150,000 to more than 2,000 businesses in more than 150 communities.

ACCION uses a "stepped lending" model that enables entrepreneurs to obtain small initial loans. After establishing a repayment history, they may apply for larger loans. More than $21 million in loans has created or sustained more than 3,500 jobs. The organization has a 94 percent repayment rate. ACCION achieved those statistics with the support of a network of banks and nonprofit partners throughout New Mexico.

ACCION uses referrals from previous customers, informational sessions, a phone application process, and mobile loan fairs to contact prospective clients. Almost 65 percent of the loans are made to low- and moderate-income clients. Of the client base, 57 percent of the clients are minorities, and 50 percent are women. ACCION operates under the leadership of a 29-member volunteer board and a permanent staff of 20. Most of the organization's funding comes from private sources.

For more information, contact President and CEO Anne Haines Yatskowitz at accion@accionnm.org.

Economic Development in Idaho

The Region IV Development Association (RIVDA) is a private, not-for-profit corporation established to encourage economic development, job creation, and diversification in an eight-county region of South-Central Idaho (Camas, Blaine, Gooding, Lincoln, Jerome, Minidoka, Twin Falls, and Cassia counties). Programs and projects carried out by RIVDA created more than 5,220 jobs and leveraged approximately $348.2 million in private-sector investment. RIVDA supported infrastructure planning and implementation, which developed safe and adequate water and sewer systems in more than 75 percent of the region's communities, by leveraging more than $34.2 million of federal, state, and local funds.

RIVDA is the parent organization of the Region IV Development Corporation (RIVDC), a certified development company, certified by SBA to process loans for small business development under the SBA Section 504 loan program. RIVDC also administers a revolving loan fund (RLF) providing small business loans for projects under $100,000 for fixed assets, inventory, and working capital. RIVDC also administers an intermediary relending program (IRP) to increase economic activity and employment in rural communities with populations of less than 25,000. RIVDC encourages small business participation loans with their RLF and the IRP, and has ongoing opportunities for investments in these funds.

For more information, contact Joe Herring, Administrative Director, at (208) 732-5727 ext. 3003 or joe@rivda.org, or visit www.rivda.org.

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