



## *Defining Community Development (CD)*

What qualifies and a case study for practical application

# DEFINING COMMUNITY DEVELOPMENT (CD)

- Credit needs vary among communities
- CD regulation concepts
  - CD Loans
  - Qualified Investments
  - CD Services



# DEFINING COMMUNITY DEVELOPMENT (CD)

- **Affordable housing** for Low- or moderate-income (**LMI**) individuals
- **Community services** for **LMI** individuals
- Activities that promote **economic development** by providing financing for small businesses or small farms
- Activities that **revitalize or stabilize** LMI geographies, distressed or underserved non-metro middle-income areas, or designated disaster areas.
- *Activities that **support, enable or facilitate projects or activities that meet “eligible uses” criteria** described in Section 2301(c) of the Housing and Economic Recovery Act of 2008 (HERA) and are conducted in designated target areas identified in plans approved by HUD in accordance with the Neighborhood Stabilization Program (NSP)*

# DEFINING COMMUNITY DEVELOPMENT (CD)

- Community development activities
  - Benefits the bank's assessment areas (AAs)
  - Responsive to community needs



## DEFINING COMMUNITY DEVELOPMENT (CD)

- Distressed - non metropolitan middle-income geographies
- Underserved - non metropolitan middle-income geographies
- Designated – major disaster areas designated by FEMA

# DEFINING COMMUNITY DEVELOPMENT (CD)

## **Revitalize or stabilize LMI geographies**

- Help attract new, or retain existing, residents or businesses
- Part of a strategic plan for an Enterprise Community or Empowerment Zone
- Consistent with a federal, state, local or tribal plan for revitalization or stabilization of LMI geographies

# DEFINING COMMUNITY DEVELOPMENT (CD)

## Examples – LMI Geographies



- Loan for an anchor business (grocery, pharmacy, etc) that employs or serves residents of the LMI area
- May be located in, or nearby, the low- or moderate-income area

# DEFINING COMMUNITY DEVELOPMENT (CD)

## **Revitalize or stabilize distressed non-metropolitan middle-income areas**

- Help to retain, or attract new, residents or businesses
- Are consistent with a bona fide government plan to revitalize or stabilize the geography
- Greater weight to activities that are most responsive to community needs



# DEFINING COMMUNITY DEVELOPMENT (CD)

## Examples – Distressed Areas

- Financing to attract a major new employer
  - Long-term job opportunities
- Financing essential infrastructure necessary to retain or attract existing or new businesses
  - Water and sewer facilities

# DEFINING COMMUNITY DEVELOPMENT (CD)

## **Revitalize or stabilize underserved non-metropolitan middle-income areas**

- Help meet essential community needs
- Does not have to target, but must include, LMI individuals



# DEFINING COMMUNITY DEVELOPMENT (CD)

## Examples – Underserved

- Financing for essential facilities
  - Health services
  - Education
  - Public safety
- Mixed-income housing facility that includes affordable housing for LMI families



# DEFINING COMMUNITY DEVELOPMENT (CD)

## **Revitalize or stabilize designated disaster areas**

- Attract new, or retain existing businesses or residents and is related to disaster recovery
- Are consistent with a bona fide government disaster recovery plan
- Regulators will give greater weight to those activities that are most responsive to community needs, including those of LMI individuals or neighborhoods

# DEFINING COMMUNITY DEVELOPMENT (CD)

## **Examples – Disaster Area**

- Financing to help retain businesses in the area that employ local residents
- Financing to attract a major new employer
- Financial assistance and services to individuals in the area who have been displaced

# DEFINING COMMUNITY DEVELOPMENT (CD)

## Change in the definition of CD

- Adds paragraph (g)(5) to \_\_.12
- Includes loans, investments, and services
  - For projects or activities that meet “eligible uses” criteria and relate to approved NSP plans
  - Must be in designated target areas
  - Must be provided no later than two years after last date appropriated funds are required to be spent
  - May be outside AA as long as needs of AA are adequately addressed
- Key change – may benefit middle-income borrowers or geographies

# DEFINING COMMUNITY DEVELOPMENT (CD)

## **Change in the definition of CD**

- Applies to activities related to approved NSP plans
  - NSP was first established under the Housing and Economic Recovery Act of 2008 (HERA)
- “Eligible uses”
  - Financing mechanisms for foreclosed properties
  - Purchase & rehab abandoned or foreclosed homes & residential properties
  - Land banks for foreclosed properties
  - Demolition of blighted structures
  - Redevelopment of demolished or vacant properties

# DEFINING COMMUNITY DEVELOPMENT (CD)

## Higher Education Opportunity Act

- Amendments to implementing regulations
  - \_\_.21(e) (Performance Tests, Standards, and Ratings) is amended to address low-cost education loans
  - \_\_.21(f) is amended to address activities in cooperation with minority- or women-owned financial institutions and low-income credit unions
  - Appendix A, Ratings, is amended to reflect both provisions



# DEFINING COMMUNITY DEVELOPMENT (CD)

## Higher Education Opportunity Act

- Low-cost education loans
  - Consideration to low-cost education loans to low-income borrowers in evaluating performance and assigning a rating
  - Applies to “education loans” as defined under TILA
  - Must be for a student at an “institution of higher learning” as generally defined in the Higher Education Act of 1965
  - Interest rates and fees must be no greater than those of comparable education loans offered directly by the U.S. Dept. of Education

# DEFINING COMMUNITY DEVELOPMENT (CD)

## **Higher Education Opportunity Act**

- Activities related to minority- or women-owned financial institutions and low-income credit unions
  - Noted under examples of qualified CD activities in the 3/11/2010 Interagency Q&As on CRA
  - Although effective 11/3/2010, does not change the availability of consideration for activities cited in the 3/11/2010 Q&As

# DEFINING COMMUNITY DEVELOPMENT (CD)

- **TRUE or FALSE?**
  - Economic development activities must meet two tests.
  - A loan to build a market-rate apartment complex in a low-income geography helps to revitalize because it creates jobs
  - A contribution to support a disaster recovery program for a city outside the bank's assessment area automatically qualifies as a qualified investment



# DEFINING COMMUNITY DEVELOPMENT (CD)

## Community Development Loan

- Have a primary purpose of CD
- Not reported as a home mortgage, small business, small farm or consumer loan
  - Unless it is a multi-family loan
- Benefits the bank's AAs or broader regional or statewide area that includes the bank's AAs
- Consideration given to complex or innovative loans/loan products
- May be direct or indirect
  - Indirect refers to loans originated by affiliates or third party lenders



# DEFINING COMMUNITY DEVELOPMENT (CD)

## Examples of CD Loans

- Affordable housing: rehabilitation, construction, permanent financing for multi-family
- Loans to:
  - Nonprofit organizations
  - Construction or rehab of community facilities
  - Financial intermediaries
  - Local, State or Tribal governments
- Loans to finance environmental cleanup or redevelopment of industrial site

# DEFINING COMMUNITY DEVELOPMENT (CD)

## Qualified Investment

- A lawful investment, deposit, membership share, or grant
- Has CD as its primary purpose
- May be direct or indirect (through affiliates)
- Consideration given to innovative or complex investments



# DEFINING COMMUNITY DEVELOPMENT (CD)

## Examples of Qualified Investments

- Investments, grants, deposit, or shares in or to:
  - Financial intermediaries
  - Organizations:
    - Engaged in affordable housing or serving LMI housing needs
    - Finance small businesses
    - Provide community services for LMI
    - Supporting activities essential to the capacity of LMI to sustain economic development or utilize credit
  - Low-Income Housing Tax Credit projects



## DEFINING COMMUNITY DEVELOPMENT (CD)

### **Community Development Services**

- Has CD as its primary purpose
- Related to the provision of financial services
- Has not been considered as a retail service



# DEFINING COMMUNITY DEVELOPMENT (CD)

## Other CD Service Examples:

- Providing financial services through branches and other facilities located in LMI areas
- Technical assistance on financial matters
- Loaned executive program
- Credit or foreclosure prevention counseling
- Financial planning to promote CD
- School savings programs
- International remittance services that increase access to financial services by LMI



# DEFINING COMMUNITY DEVELOPMENT (CD)

## ● TRUE or FALSE?

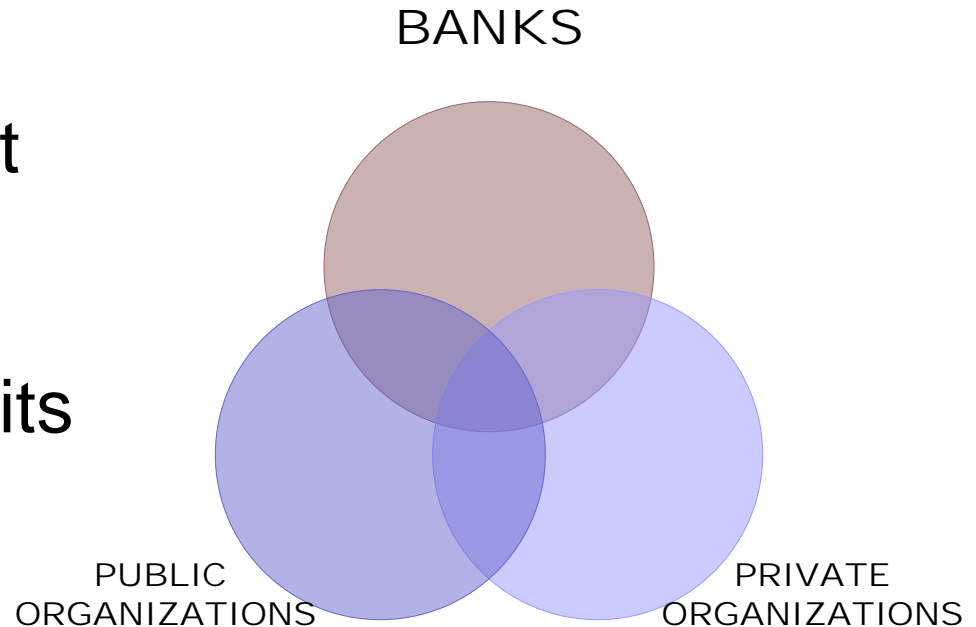
- Loans to nonprofit organizations providing LMI housing must be greater than \$1million.
- Creation of a consumer small loan program is an eligible CD service.
- A loan to support the construction of a community facility in a LMI area is a qualified CD loan.
- A large volume of SBA 504 loans should qualify as CD loans.
- Investments in community development credit unions outside your AA are not qualified CD investments.
- A \$700,000 working capital loan to a commercial developer to remove gas storage tanks in an LMI area is a qualified CD loan.



# DEFINING COMMUNITY DEVELOPMENT (CD)

## Bank Community Partners:

- Help bank to target its investments to benefit LMI
- Help bank to fulfill its CD goals and objectives
- Help bank to maintain awareness of CD needs



# DEFINING COMMUNITY DEVELOPMENT (CD)

## **Bank Community Partner Examples:**

- For profit and nonprofit housing developers
- Community Housing Development Organizations (CHDOs)
- Community Development Financial Institutions (CDFIs)
- CD Credit Unions
- Nonprofit neighborhood based organizations
- Small Business Development Centers (SBDCs)
- Governmental agencies
- Foundations
- Secondary mortgage market



# DEFINING COMMUNITY DEVELOPMENT (CD)

## Helpful Hints

- CD activity must have one of the four community development hooks
- Bank should have a **tracking mechanism** in place to capture community development activities. This will ensure you receive credit during an evaluation and accurate reporting
- Be prepared to support why CD activity qualifies



# DEFINING COMMUNITY DEVELOPMENT (CD)

**QUESTIONS**