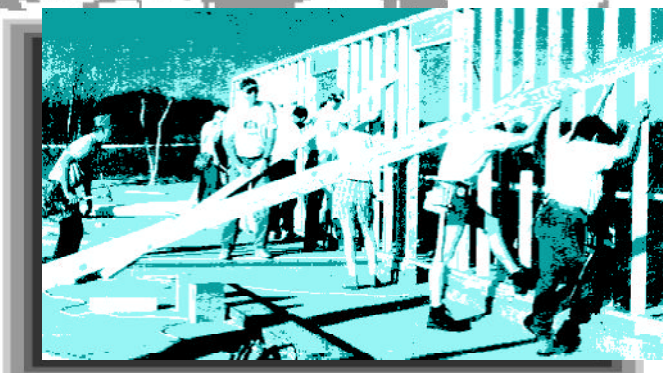


Community Development Investments

A Guide for State Member Banks and Bank Holding Companies



Foreword

Both state chartered banks that are Federal Reserve System members (state member banks) and bank holding companies may be authorized to make community development equity and debt investments in organizations and projects designed primarily to benefit the community welfare. Through community development corporation (CDC) subsidiaries, limited partnerships or other business ventures, banks and bank holding companies may undertake a variety of investment activities in urban and rural communities to help provide housing and job opportunities for low- and moderate-income persons, assist small and minority businesses, and provide important community services.

In promoting community welfare, financial institutions may use this authority to purchase, own, rehabilitate, construct, manage, and sell real property, invest in small business ventures, and support community-based organizations and their projects. These activities may be approved by the Federal Reserve System with certain constraints needed to protect the safety and soundness of financial institutions and ensure that required public benefits result.

This brochure provides guidance to both state member banks and bank holding companies about the formation of CDCs and other uses of equity investments for community development. It covers the following topics:

- Federal Reserve policies and guidelines governing bank and bank holding company CDCs and equity investments
- Key issues that banks and bank holding companies should address when considering investments for community development purposes
- The notice or approval processes for state member banks and bank holding companies
- Regulatory treatment of community development investments.

For Additional Information

The Federal Reserve Banks' Community Affairs and Applications processing staffs can provide additional information and technical assistance concerning community development investment options, policy issues, and notice or application requirements. Any state member bank or bank holding company interested in the formation of a CDC, or in making other community development investments, is encouraged to consult with its Reserve Bank prior to developing a community development investment program.

Addresses and telephone numbers of the Federal Reserve Banks appear in the Appendix.

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Introduction

The Federal Reserve Board believes that financial institutions possess a unique combination of financial and managerial resources that make them particularly suited to help address important housing, community, and economic development needs of disadvantaged communities. The Board has consistently encouraged financial institutions to explore the many avenues available to expand their community development financing activities.

Increasingly, financial institutions have actively pursued a growing number of options to help meet important credit needs in economically disadvantaged communities. In addition to conventional mortgage, home improvement, small business and commercial construction loans, banks and other holding company subsidiaries originate government-guaranteed loans designed to meet specialized needs of low- and moderate-income families and small and minority businesses. Financial institutions also purchase community development loans from other lenders, provide technical and loan packaging assistance to nonprofit groups, and participate in a variety of state and local government financing programs designed to help meet the housing and business development needs of low-income persons and urban and rural communities. In recent years, an increasing number of financial institutions have established lending units which focus on community development finance.

Although these activities are somewhat specialized, they remain a reflection of the traditional, primary function of financial institutions: market allocation of capital in the form of debt financing. In performing this function, banks and other bank holding

company subsidiaries usually must wait for others — their customers — to initiate projects and commit equity capital before they themselves can make loans.

The absence of equity capital and investor interest are often important factors contributing to economic decline or stagnation in certain urban neighborhoods and rural areas in which financial institutions have a presence. Although financial institutions have increased their lending efforts in support of nonprofit development groups and others who operate in disadvantaged communities, the capacity to lend is often limited by the availability of private investment capital. Moreover, an increasing number of public sector programs designed to provide resources for community development now base grant and loan decisions on the commitment of matching funds from the private sector. Ultimately, without a minimum level of equity investment, it is difficult for community developers to obtain bank and other public sector financing.

The Federal Reserve Board recognizes that limited and focused use of financial institution capital in the form of equity and certain debt investments for real estate development and other business purposes may be a critical element in the community development process.

Accordingly, since 1971 the Board has authorized bank holding companies, under Regulation Y, to make many types of community development equity investments in support of the public welfare. Moreover, as a result of an amendment to the Federal Reserve Act and subsequent revisions to Regulation H that became effective in January 1995, state member banks can now make similar community development investments.

Community Development Investments

With some limitations, state member banks and bank holding companies can:

- Create *de novo*, wholly-owned community development corporation (CDC) subsidiaries which invest in low- and moderate-income housing, commercial and industrial projects and community services facilities
- Help capitalize multi-investor or consortium CDCs along with other financial institutions and public and private investors
- Purchase interests in limited partnerships which develop, rehabilitate, own and operate low- and moderate-income housing projects
- Invest in local, state, or national equity pools or master limited partnerships which provide capital for low- and moderate-income housing
- Invest in CDCs, joint ventures or limited partnerships sponsored by community-based groups for community development purposes
- Provide venture capital investments for start-up or expanding small and minority-owned businesses in economically disadvantaged communities
- Organize and operate entities that provide technical and advisory services for housing, community and economic development organizations and their projects.

The practical result is that institutions can expand the number of roles they play in the community development process. For example, rather than waiting for others to initiate projects, institutions can also buy, rehabilitate and sell properties, or provide important front-end equity or special debt investments. In effect, the community development investment option adds an additional dimension that allows financial institutions to become catalysts for the revitalization of economically distressed areas or play leadership roles in other community development activities. Often such action will increase community confidence and help

attract the interest of other private investors.

Most commonly, this option enables financial institutions to fill capital gaps in a manner that helps make community development projects financially feasible. The capacity to provide additional equity or special purpose debt for a project is especially important when an institution is focusing on capital-poor areas or working with nonprofit community-based development corporations that typically have little working capital to support revitalization projects and leverage additional financing.

Investments in CDCs or other ventures also enable financial institutions to play a direct role in public-private partnerships for community revitalization and job creation. These investments can help leverage other public and private funds, strengthen the capacity of community-based organizations to undertake key projects, and provide the capital and expertise to support other, more traditional forms of bank financing.

Other Benefits

Use of community development investments also may provide a number of other potential benefits to bank holding companies and/or their subsidiary financial institutions. These benefits may be direct or indirect and often vary depending on a number of factors specific to each bank or bank holding company and the communities it serves.

Development of New Market Opportunities. The focused use of equity investments in community development areas may lead to new banking opportunities; it can help generate additional deposits and increased demand for bank loans or other services in what were previously perceived as weak markets. Construction or rehabilitation of low- and moderate-income housing, for example, can help create local demand for shopping and other business services. Similarly, economic development projects that provide jobs for unemployed or underemployed persons can stimulate business activity and could lead directly to new or expanded banking relationships.

Investment Return. When properly conceived and structured, community development equity investments may yield direct capital gains or after-tax profits for the financial institution investor. Although the profitability of community development investments will vary with the type of project, the capacity to earn a return on the investment could make participation as an equity investor in community projects more attractive than use of funds only as charitable contributions and grants for essentially the same purposes.

Public Image and Competitive Advantages. In a financial services marketplace that is highly competitive, community development investments can sometimes provide a way for an institution to distinguish itself from its bank and nonbank competitors. In addressing important community development needs, equity investments can help demonstrate an institution's commitment to the economic well-being of its community and local markets. Such investment activity also may help cement business relationships with decision-makers in government and business and with consumers who view community support as an important factor when they select a financial institution. In both new and existing markets, active participation in community development helps an institution project a positive public image which can translate into new business opportunities.

Enhancing CRA Performance. The strategic use of CDCs and community development investments can help strengthen the Community Reinvestment Act performance of financial institutions. For example, by providing additional equity for community projects, a bank or bank holding company CDC may help those projects qualify for loans from banks. CDCs may also provide subordinate financing to make bank loans feasible. In addition, a CDC may provide technical

assistance that will help banks to identify appropriate projects and package safe and sound community development loans. It should be emphasized, however, that these investment activities alone are no substitute for comprehensive, ongoing bank CRA programs. (For more information on the treatment of community development investments under CRA, see the section, "Regulatory Treatment of Investments.")

The equity investment option has generated increased interest among banks and bank holding companies seeking ways to help meet key community needs. Generally, financial institution CDCs or community development equity investments have focused on low- and moderate-income housing and small and minority business development that helps create employment opportunities for lower-income persons.

Investments in corporations, limited partnerships or other nonbanking entities are not part of the traditional roles played by financial institutions. As exceptions to laws that restrict financial institution ownership of real estate or limit nonbanking ventures, such investments require special legal and regulatory authority. They also necessitate a cautious approach by supervisory agencies to ensure that financial institutions are using this authority only for legitimate community development purposes and in a manner that does not pose undue risk to the participating bank holding companies or insured financial institutions.

The Federal Reserve Board views CDCs and related investment activities as important, flexible tools for banks and bank holding companies. These specialized activities generally should be used to stimulate and supplement, rather than replace, the ongoing community development lending programs of financial institutions.

Alternative Investment Mechanisms

With appropriate notices (or in some cases, regulatory approvals), state member banks and bank holding companies may engage in community development equity investments to promote community welfare through a number of mechanisms. Financial institutions have used four primary approaches:

- Creation of a *de novo* CDC as a subsidiary that can make investments in a variety of community development projects and business ventures
- Participation in a multi-investor, consortium CDC or equity pool that, in turn, invests in one or more community development projects and business ventures
- Investment in limited partnerships formed to invest in one or more community development projects
- Direct investment in a single-purpose community development project or business venture, alone or jointly with others.

Each approach has a number of advantages and disadvantages, depending on the bank's or holding company's size and objectives, as well as the nature of the local community development environment.

Among the factors that will govern the choice of any particular approach are: the needs of the communities to be served; the nature and structure of project proposals the institution receives; the availability of community resources; the interest of other potential investors; the institution's interest in engaging in particular investment activities on a long- or short-term basis; and the extent to which an institution can commit capital and management resources to community development investment.

Each of the four basic approaches provides ample opportunity for state member banks or bank holding companies to support local community development projects with equity

capital, and all may be accommodated under Regulation H or Regulation Y subject to certain conditions. Some institutions, for example, form subsidiary CDCs which invest in limited partnerships, directly develop projects, or participate in joint ventures. A bank holding company may choose to invest in individual projects without creating separate CDCs or using limited partnerships as conduits. Still others make separate investments in CDCs and in one or more limited partnerships.

Subsidiary Community Development Corporations

A CDC is a corporate entity that specializes in development and rehabilitation of real estate, investment in business ventures, and related activities specifically designed to address the housing, commercial redevelopment, employment, and community facilities needs of low- and moderate-income persons and areas. Typically, bank or bank holding company CDCs are used to undertake a number of projects over a long time-frame, usually reinvesting any income in future projects.

The CDC concept is an outgrowth of the anti-poverty programs of the 1960s and 1970s when local nonprofit groups organized CDCs as vehicles to help stabilize deteriorated or declining neighborhoods that lacked internal resources or outside investor interest. These CDCs were community-based organizations characterized by strong dedication to community revitalization and an ability to assemble and focus neighborhood, government, and private resources to create grass-roots solutions to neighborhood problems. Most importantly, in the absence of private investment, these CDCs developed the capacity to serve as catalysts for community revitalization by taking direct action through the purchase and rehabilitation of real estate,

or the creation and support of other business ventures.

The CDC concept attracted congressional and supervisory agency interest, and was soon adapted to banking. In the early 1970s bank holding companies and national banks were authorized by their federal regulators to invest in real estate and business ventures for community development purposes. Since then, a number of states have passed laws allowing state-chartered banks to undertake similar activities. In 1992, legislation authorized state member banks to make community development investments under certain conditions.

Financial institutions that create wholly-owned, subsidiary CDCs typically do so for several reasons. First, a CDC subsidiary can serve as a mechanism to address community development needs on an ongoing basis. Deteriorated or declining neighborhoods and communities almost always have a multiplicity of needs that require a long-term commitment of resources to facilitate revitalization. In that context, a CDC represents an institutional commitment that enables a bank or bank holding company to take action on multiple community development projects over time.

Second, the CDC approach provides the maximum flexibility for making community development investments of all types and responding to community needs or project opportunities as they arise. For example, a subsidiary CDC may be authorized to develop its own projects, form or invest in joint ventures and limited partnerships, invest in small businesses, and provide gap equity and financing for single-purpose community development projects developed by others. Although some financial institution CDCs specialize only in housing or small business investment, others take a comprehensive approach to community development.

Third, a subsidiary CDC, like a specialized bank lending unit, can provide an organizational focal point within the institution for community development investment activities, enabling it to marshal resources and centralize community

development expertise. Hiring and training staff to develop expertise in community development finance will be especially important. Community development finance in general, and equity investment in particular, are unique activities requiring special expertise in real estate development, government-assisted housing, community and economic development programs, and community development finance techniques. This expertise may not be present in traditional banking organizations.

Fourth, establishing a subsidiary CDC enables a bank or bank holding company to leverage its capital for community development purposes while limiting its exposure to risks associated with investing in economically distressed or declining areas. As a corporate entity, a CDC can leverage its capital with loans and reinvest its income in additional projects without requiring additional financial resources from its parent bank or holding company. A CDC's corporate structure also helps shield the parent institution from exposure to potential liabilities associated with real estate development or business ventures.

Finally, a CDC subsidiary, especially one at the bank holding company level, can be useful in helping bank affiliates to design and implement community development finance programs, thereby enhancing the image of affiliate banks in their respective communities. For example, the CDC may provide technical assistance, advisory services, equity investments, or debt financing for affiliate banks and their community development loan programs.

Generally, most large and medium sized banks or bank holding companies that regularly receive requests from affiliate banks, government agencies, and community groups to help finance community development projects, or that wish to engage in community development activities on a long-term basis, might find it advantageous to create a wholly-owned CDC subsidiary.

Although smaller institutions have created wholly-owned CDCs, many may be unable or unwilling to commit sufficient capital for a single subsidiary that is devoted exclusively

to community development. Where a long-term effort is required, many smaller institutions have found it advantageous to join with others in a multi-bank, or multi-investor CDC.

Consortium CDCs and Equity Pools

A second major option used by financial institutions involves participation in CDCs, business corporations, or equity pools formed by a number of financial institutions or nonbank investors. Such CDCs or ventures, commonly called multi-bank or consortium CDCs, allow financial institutions to pool resources and share investment risks with others who are also interested in community revitalization.

As with a wholly-owned CDC subsidiary, a state member bank or bank holding company may be authorized to invest in a consortium CDC that undertakes a variety of community development activities which promote public welfare. Most consortium CDCs have been organized at the local level in cooperative efforts to address either low- and moderate-income housing or small and minority business development needs in a single city or metropolitan area. Some may focus on a single neighborhood or target area, while others operate on a city-wide basis. Still other consortium CDCs or equity pools provide community development assistance on a state-wide or even national basis.

Other investors in consortium CDCs often include national banks, state banks (where authorized by state law), thrifts, utilities, insurance companies and other local corporations, businesses, and individuals. Where statutes allow, state and local government redevelopment agencies, or quasi-public development corporations, may also be investors in consortium CDCs. Whenever other investors are involved, however, a state member bank or bank holding company should take steps to ensure that it is in compliance with other regulatory requirements, such as those governing joint ventures, investments in nonbank entities, and other applicable laws and regulations.

Generally, the consortium approach may be especially well suited for financial institutions that lack sufficient capital or community development expertise to engage in the development process, address multiple community needs or larger, more complex projects. By pooling its investment with funds from other investors, an institution can help assemble equity capital in amounts necessary to respond to community development needs and opportunities that it might be unable to handle alone.

An important advantage of a consortium CDC is its ability to tap the expertise and resources of its investor organizations to help manage CDC operations. Often, banking companies and other investor firms can make available executives with a variety of skills and professional backgrounds to serve on the CDC board and investment and loan committees. In other cases, executives on loan from the investor institutions or firms can help manage CDC operations on a day-to-day basis. And, if necessary, a consortium CDC can raise the funds needed to hire full-time management and staff with expertise in the development process and community development financing techniques, without burdening any one investor.

Moreover, the consortium approach helps reduce the amount of capital any one institution needs to commit. It also spreads the risk among many investors, thereby limiting potential losses for each participant.

For some financial institutions, consortium CDCs may present drawbacks. First, given the CDC's multiple stockholders or investors, project investment decisions are made on a collective basis and may not always match the priorities or preferences of a particular institution.

Second, participation in a consortium CDC may not provide the desired benefits that might otherwise be associated with a wholly-owned CDC that carries the name of the bank or bank holding company. Investment returns must be shared with other investors, as must public recognition for the support given to the CDC's activities. It also may be more difficult, depending on how the consortium is structured, for a bank or bank holding

company to benefit from any tax credits and other tax advantages flowing from the CDC and its project investments.

Finally, in the case of bank holding companies, the consortium approach may limit their ability to assist their affiliate banks, often located in different communities and states, through the CDC. For that reason, some bank holding companies may wish to help capitalize consortium CDCs in a number of local communities where their affiliate banks have a presence.

Limited Partnership Investments

An increasing number of financial institutions are being asked to invest in limited partnerships that channel equity capital to low- and moderate-income housing and other community development projects. With some limitations, state member banks and bank holding companies may purchase one or more partnership shares in a limited partnership organized by others.

Limited partnerships may be formed for many business purposes, including development of certain commercial or industrial projects, consistent with the Board's community welfare standards for state member banks and bank holding companies. Most limited partnerships in which financial institutions participate, however, have focused on development or rehabilitation of low-income housing.

Although changes in federal tax law reduced tax benefits for individuals investing in real estate, the advent of the federal low-income housing tax-credit has made investment in low-income housing increasingly attractive to businesses and corporations. As a result, a growing number of limited partnerships invest exclusively in qualified low-income housing projects. Most are formed by private developers who serve as general partners, but many limited partnerships are created by nonprofit organizations and government-sponsored housing finance corporations as vehicles for attracting private investment to low-income housing projects.

Generally, there are two basic types of low-income housing limited partnerships: operating limited partnerships and master limited partnerships. Both types can provide direct investment returns to the limited partners, allowing them to obtain the benefits while limiting many of the liabilities associated with direct real estate development.

Operating Partnerships. These partnerships are generally created to attract investments in a particular housing project, though some partnerships may own multiple projects. They are generally formed by the project developer or owner (usually a private developer or a nonprofit development corporation that serves as the general partner) to attract equity investments from businesses and corporations. A financial institution may be the sole limited partner, or alternatively it may purchase only one or a few of many such shares. The partnership owns the housing project and the state member bank or bank holding company, as a limited partner, benefits from any net income and tax credits generated by the project in proportion to its ownership interest.

The equity generated by an operating partnership reduces significantly the amount of debt needed to finance the project. Hence, the debt service that the rents must support is also lower, allowing for reduced rents that are affordable to low- and very low-income families.

Master Limited Partnerships. Some limited partnerships are formed to make investments in multiple projects and in many locations. These "master" limited partnerships generally purchase shares in other operating limited partnerships. This helps spread the risk among investors and shield them from liabilities.

Master limited partnerships, especially those focusing on low-income housing, are usually created by national or statewide groups — including housing finance agencies and nonprofit or quasi-public corporations — although some are locally based. Low-income housing "equity funds" or equity pools are often organized as master limited partnerships; others may employ the corporate form and operate as consortium CDCs.

Because limited partnership arrangements often involve complex legal, accounting and tax issues, users of the limited partnership mechanism for community development investment often must incur significant “due diligence” costs prior to making any investment decision.

Limited partners are essentially passive investors, and risk losing their limited liability status if they participate in managing or directing the partnership’s investment activity. Consequently, the financial strength, experience, and character of the general or managing partner is of utmost importance and must be assessed carefully by any financial institution interested in purchasing shares as a limited partner.

Direct Project Investments

State Member Banks. State member banks may not invest in community development corporations or business ventures that would expose them to liability beyond the amount of their investments. This would generally prevent state member banks from taking a direct ownership position in nonbanking real estate or unincorporated businesses or ventures, such as by purchasing property directly in the bank’s name, or otherwise serving as a general partner in a limited partnership. As a direct business owner, developer or general partner, the state member bank could be liable for debts and other

potential expenses beyond the amount of its investment, unless specific, additional protections are put in place.

Bank Holding Companies. Under Regulation Y, however, bank holding companies may be authorized to invest directly in individual community development projects or business ventures as opportunities arise, without utilizing a CDC subsidiary or limited partnership as a conduit. Such direct project investments must have significant public benefits and satisfy safety and soundness and other regulatory requirements. In undertaking direct project investments, bank holding companies could serve as the sole owner or developer. More often, bank holding companies using this approach have preferred to enter into a joint venture with the local developer or nonprofit development corporation that initiates and manages the project.

The direct project investment approach may be useful in helping a bank holding company respond on a timely basis to a specific and immediate community need or proposal. A project investment may be made without incurring delays and costs associated with incorporation of a CDC or formation of a limited partnership. On the other hand, this option may not be appropriate if the bank holding company intends to participate in a number of community development investment activities over time.

Key Considerations for Banks and Bank Holding Companies

When entering into any new line of business, financial institutions usually consider the markets in which they will operate and analyze alternatives to determine which approach best matches the institution's capacity and objectives. These assessments are no less necessary in the community development area.

In determining which community development investment strategy and organizational mechanism will be most suitable, banks and bank holding companies must carefully assess a number of key issues. Among them are:

- **Nature of the Market and the Community Needs To Be Addressed.** What are the key community development needs on which the institution's investment activity will focus? Will it be low- and moderate-income housing? Creating jobs for low- and moderate-income persons through small and minority business development? Development of community facilities? Or a combination of these?
- **Geographic Scope of Activities.** Where will the investment activity take place? Will the investment activity target any particular neighborhoods, communities, or states?
- **Community Resources and Investment Strategies.** To what extent are other private and public organizations committed to community development and revitalization in the target area or community? Are there effective, experienced groups with which the institution could work? What other public and private financial and managerial resources are available in the target areas or communities? Does the financial institution plan to develop its own projects, or will it focus on helping finance projects sponsored by others? Will the institution be providing gap equity and debt for projects, or does it expect to provide the bulk of project financing in most cases?

- **Commitment of Capital and Other Financial Resources.** What initial capital investment is the institution prepared to commit to community development activities? Will this sum be accompanied by a commitment of loans or lines of credit? What is the maximum capital investment the institution expects to make over time? Is this expected capital investment consistent with the institution's safety and soundness?
- **Management Issues.** How and by whom will the community development investment activity be managed? What commitment of financial institution resources will it take to provide effective management?

Community Needs and Market Focus

The nature of the community development marketplace to be served is a critical element. Because communities — whether urban or rural — usually have a multiplicity of needs, the institution's selection of investment activities on which to focus is an important first step in the process.

Typically, financial institutions have used their business experience and ongoing community relationships to help them develop their investment strategies. Community outreach helps identify critical needs and projects, potential target areas, and capital gaps that might be addressed.

In some cases, institutions participate in formal community planning activities from which community development needs, priorities, and investment opportunities emerge. But often community investment programs are created when an institution finds that it cannot respond to specific financing requests from businesses, government agencies, or community groups using only conventional loans and banking services.

Financial institutions have established investment programs designed to serve a variety of community needs. Some institutions have focused exclusively on low- and moderate-income housing. Others provide support for small and minority business development, or neighborhood economic development projects that will generate needed long-term employment opportunities for low- and moderate-income persons. Still others engage in a range of these activities.

In determining their investment strategies, institutions should have a clear idea both of their initial objectives and of the types of future investment activities they may want to undertake. For example, although an institution's immediate interest may be to invest in one specific, low-income housing project in a particular neighborhood, it may also be aware of other community development needs that it would want to address in the near future. In such cases, the institution might wish to structure its proposal based on a range of contemplated investment activities that would meet regulatory standards and conditions.

This decision, however, will require careful assessment of the markets and communities to be served to identify key community development needs and potential target areas.

Geographic Scope of Activities

Consideration also should be given to geographic scope. An institution's initial investments may begin in one neighborhood or community. But as banks and bank holding companies extend their operations to other communities and even to other states, they may also want to expand the geographic base of their community development investment activity. It often makes sense for an institution to seek authority to conduct its CDC and investment activities over a broader geographic area than is required for the initial projects.

Banks consummating mergers across community lines, or opening branches in new areas, will likely want to conduct community development investment activities in these

new markets. Similarly, a bank holding company moving interstate might want to extend the area in which it makes community development investments to assist new affiliates across state lines.

For a community bank, or a smaller one-bank holding company, a community development investment program initially targeted for one neighborhood may become the focal point for requests for participation in projects located in other neighborhoods and communities in their trade area. This often will occur even though the initial CDC or community development investment activity was narrowly focused.

Since considerable time and effort may be required to plan, and implement successive single projects or narrowly focused community development activities, there may be real value for an institution to include in its notice or request for approval to regulators a range of qualified community development activities over a broader geographical area. The institution can then respond to community needs and opportunities in this wider area on a timely basis as they arise.

Community Resources

Another key factor is the availability and structure of community resources, including the capacity of existing organizations to undertake effective community development and revitalization activities. Where effective neighborhood CDCs, local development agencies and entrepreneurs with community development experience are already in place, financial institution CDCs and investment activities may be more appropriately structured to help meet capital gaps for projects initiated by others. On the other hand, in communities or neighborhoods that lack effective, experienced community development partners, financial institutions may have to play a leadership role in developing projects and in assembling other financial and managerial resources.

The extent to which public sector funds are committed to, and available for, community revitalization also will have a bearing on financial institution investment strategies and

decisions. The potential for development of projects that help meet the needs of low- and moderate-income persons or areas is enhanced where public funds -- from local, state and federal government programs -- are available for community development. If public sector commitment and funding is inconsistent or uncertain, financial institution CDCs may have to utilize additional equity capital for projects, or rely more on additional private sector sources of subsidized capital, such as foundation grants, corporate and individual donations, and voluntary sweat equity contributions.

Where effective community partners and resources are present, strategies can focus on leveraging financing by providing supplementary equity capital to fill financial gaps in projects. Where these other resources are limited, any investment activity will likely be more capital intensive and require significantly greater planning and managerial resources from financial institutions.

Commitment of Capital and Other Financial Resources

The capital requirements of a CDC or investment activity, over both the short and long term, should be carefully considered. The amount of capital investment will vary with the nature of community needs to be addressed, the availability of other resources and partners, the objectives of the financial institution, and any limitations imposed by regulatory agencies. Most importantly, capitalization should be appropriate, both in terms of equity and debt, to the activities being undertaken by the financial institution or its CDC. A bank or bank holding company CDC can begin with a modest amount of equity capital which, over time, may grow as new project opportunities arise.

Bank CDCs or investment programs may provide debt financing along with equity investments for community development projects. The anticipated maximum amounts, funding options, and structure of such debt financing should be assessed when planning a community development investment

program. Examples of debt financing include direct loans to the CDC (in which the bank or bank holding company also has invested equity), the purchase of debt securities issued by the CDC or entity, issuance of lines of credit to the CDC, or participation in loans made by the CDC.

Use of a financial institution's equity capital for community development investment has both practical and regulatory limits. Both the Federal Reserve Board (for state member banks), and the Comptroller of the Currency (for national banks) employ some form of limitations on the amount of capital an institution can use for community development investments. Although the Federal Reserve provides slightly more flexibility for bank holding companies, the Board does expect each holding company to be prudent in funding a CDC or project, in accordance with safety and soundness considerations.

Nonprofit vs. For-Profit Approach

A CDC or community development investment activity can operate on a for-profit or a nonprofit basis, and banks and bank holding companies should carefully consider their options. Both approaches have advantages and disadvantages.

Nonprofit organizations are eligible to receive grant money directly from many foundations and federal and state agencies. Such grants can be a valuable resource for a CDC or community development project. In the case of rental or for-sale housing, these funds help reduce debt service costs and allow rents or sale prices to be set at levels affordable to low-income persons.

A nonprofit CDC cannot return its earnings to the parent bank or holding company; it must reinvest them in other development projects. Thus, the selection of this approach serves to emphasize that community benefit, not direct financial gain, is the primary purpose of the financial institution's community development activity. By conveying this message, a financial institution's nonprofit CDC may achieve increased community support and credibility.

The nonprofit approach also may have some drawbacks. Government and foundation grants are generally scarce and difficult to obtain. A nonprofit CDC controlled by a financial institution could be perceived as an advantaged competitor for such funds by existing community-based nonprofit groups, which rely heavily on government and foundation grants to support their operations and projects. They may not welcome creation of a bank-sponsored nonprofit CDC seeking grants for its projects.

A nonprofit CDC also may have difficulties attracting investments from those to whom the potential for a profitable investment return is an important factor. This is especially true in the case of consortium CDCs or partnerships, which may need to attract capital from a variety of corporate and individual investors so that larger revitalization projects may be undertaken.

The for-profit approach has several benefits. It may be more acceptable to management and boards of directors, because it places community development in a business context that conveys seriousness of purpose and organizational discipline. Plus, the potential for investment returns (including, in some cases, tax benefits) may help attract investments from others in a community who share an interest in community revitalization. Successful for-profit CDCs and ventures help demonstrate to other developers and businesses that community development work can be profitable and rewarding.

For some financial institutions, the for-profit approach to community development investments may have some disadvantages. For example, community and neighborhood groups may perceive a for-profit CDC as more risk-averse and less willing to pursue difficult projects in low-income areas, even though these may be most needed.

Also, some community organizations may prefer to see potential net earnings from any community development project used to reduce project costs, rents or sale prices, rather than be passed back to the financial institution sponsors as profits. A for-profit CDC or investment may not be viewed by the

community as one that provides the maximum benefits to low- and moderate-income persons.

Most banks and bank holding companies with CDC or community development investments have chosen the for-profit route. Most have found that many of the advantages of nonprofit operations can be obtained by working closely with existing nonprofit community organizations that may serve as joint venture partners in community development projects. In a few cases, financial institutions have formed both a for-profit and a nonprofit CDC, with each focused on activities for which its particular form is most advantageous.

Management and Organization

Given the complexities of the community development investment process, it is essential for banks and bank holding companies to ensure that CDCs and investments receive effective management and oversight. The level of commitment of management resources may vary considerably, depending on the investment mechanism being used and the types of investments being made.

The Federal Reserve has found it especially important that financial institution investors in CDCs and other similar entities be particularly attentive to the need to match management and staff experience and expertise with the types of activities the CDC or entity will undertake. For example, CDCs that specialize in the purchase, rehabilitation and resale of affordable housing, should employ, at both the staff and board level, people with appropriate experience in real estate development and real estate financing. Similarly, CDCs that focus on venture capital investments in small and minority businesses will require staff and/or board members with the expertise and experience needed to properly assess the prospects and performance of small businesses, structure appropriate financing packages, and effectively monitor on an ongoing basis the progress of the businesses assisted.

A subsidiary CDC that is participating in a number of projects on an ongoing basis, may require a full-time chief executive officer and other staff — to conduct community outreach,

review project proposals, manage the investment approval process, and monitor investments once made. Other CDCs can be managed effectively by their boards of directors with support from bank or bank holding company personnel on a part-time basis, especially when the CDC is used to make only occasional project investments as needs or opportunities arise. In such cases, care should be taken to ensure that board members and bank staff have the expertise and proper experience to deal effectively with the types of investments being considered.

Most CDCs also make use of an investment or loan committee. It is often comprised of bank or bank holding company officers and other real estate development experts who may need to meet only occasionally.

Limited partnership investments require far fewer resources for ongoing management. Indeed, as limited partners, financial institutions should not engage in activities that

would constitute “management” of the partnership, since this could expose them to potential liabilities as a general partner.

Nonetheless, these investments may be extremely labor intensive during the period when the holding company is considering purchase of partnership shares and reviewing partnership documents. Institutions will need to exercise appropriate review of projects in which the partnership plans to invest and of the activities of the general or managing partner, to ensure that their interests are protected and that any tax benefits promised the limited partners are in fact provided.

Overall, managerial resources devoted to community development investments by a state member bank or bank holding company should be appropriate to the investment mechanism being used and the nature and extent of planned community investment activities.

Guidelines for State Member Banks

Although bank holding companies have long been authorized to make community development investments, until recently, restrictions in the Federal Reserve Act precluded state member banks from engaging in many community development investment activities. State member banks could lend to community development corporations and other entities engaged in similar activities, but they generally could not make equity investments themselves for community development purposes if those investments were in real estate, business ventures or other nonbanking corporations. This had the effect of restricting the options available when state member banks were asked to help fill financial gaps in community development projects, or wanted to join with other institutions in their community to form a CDC or other financial intermediary.

The Depository Institutions Disaster Relief Act of 1992, however, amended Section 9 of the Federal Reserve Act (12 U.S.C. 321-338) by adding a new paragraph (12 U.S.C. 338a) to allow state member banks, under certain conditions, to make public welfare investments for community development purposes. The law states that:

State member banks may make investments designed primarily to promote the public welfare, including the welfare of low- and moderate-income communities or families (such as by providing housing, services, or jobs), to the extent permissible under State law, and subject to such restrictions and requirements as the Board of Governors of the Federal Reserve System may prescribe by regulation or order....

In response to these changes to the act, the Federal Reserve Board revised its Regulation H (12 CFR Part 208), which governs the

activities of state member banks, by adding a new section entitled “Community Development and Public Welfare Investments.” These regulatory provisions became effective January 9, 1995. They describe those circumstances under which state member banks are permitted to make certain types of community development investments without prior approval and those instances when prior approval must be sought from the Federal Reserve.

Public Welfare

Community development investment authority for state member banks is restricted to investments that primarily promote the public welfare. Although the Federal Reserve Act does not specifically define the term “public welfare,” the Board has adopted a flexible approach consistent with its experience in approving bank holding company community development investments and the policies adopted under Regulation Y.

The Board determined that there are a number of community development investment activities that clearly promote the public welfare and are permissible for state member banks, if other conditions (see below) are met. Generally, investments that promote the public welfare are those that provide housing opportunities for low- and moderate-income families, and employment opportunities or other services that are targeted toward low- and moderate-income communities or families. For example, state member bank investments in entities that support the purchase, rehabilitation, and sale of single family homes, or the purchase, development, rehabilitation, sale or rental of multi-family housing, would meet the public welfare standard if the majority of the housing units serve low- and moderate-income families.

Also, investments in corporations or other entities that invest in, or otherwise help finance, small businesses or commercial revitalization projects, generally would be presumed to meet the public welfare test if those projects or ventures are (1) located in low- and moderate-income communities and (2) provide services and long-term employment for low- and moderate-income persons.

Because community development often involves a variety of special circumstances and projects with unique attributes based on local needs and resources, there may be some uncertainty about whether a proposed investment would meet the public welfare test. In such cases, state member banks are encouraged to consult with the Applications and Community Affairs staff at their Reserve Banks.

Geographic Scope of Investment Activity

One of the primary purposes of a bank's participation in community development is to help improve economic conditions in low- and moderate-income areas served by the bank. Consequently, although the Federal Reserve does not specifically limit the geographic scope of a state member bank's community development investments, such investments will usually be made in response to community development needs in the bank's general trade or market area. If a state member bank's trade area covers more than one state as a result of branching, it would not be unusual to see the bank making community development investments to help meet the needs of low- and moderate-income areas in those states.

In some cases, state member banks may choose to invest in statewide (or even national) community development corporations (CDCs), limited partnerships or equity pools being formed by many financial institutions and perhaps other investors. Usually, a bank would make this type of investment with the expectation that future community development projects in the bank's trade area would be eligible to receive assistance from the statewide organization.

Profits and Dividends

Although substantial return on investment is generally not the primary purpose of financial institution participation in community development investment activity, investments may be in for-profit community development corporations, limited partnerships and other for-profit entities. Hence, state member banks may anticipate receiving some returns on their investments.

As in the case of bank holding company community development investments, the Federal Reserve places no limits on either the amounts or the timing of profits that can be generated from a state member bank's community development investment activity. The state member bank can receive profit distributions or dividends from a CDC, partnership or other venture at any time, and there is no requirement that such profits be reinvested in other community development activities.

As a practical matter, however, the nature of community development investment activity makes significant returns unlikely in the short run and most financial institutions usually reinvest profits in the CDC or additional community development projects. This helps sustain the community development activities and limits the need for additional capital commitments from investor financial institutions.

Community Involvement

The Federal Reserve does not require state member banks to engage in any particular forms of community involvement as a prerequisite to making community development investments. The Board believes, however, that the potential for successful community development investments is improved where financial institutions seek and consider the views of the affected neighborhoods or communities before engaging in investment activity. Community development is a process that almost by definition involves the participation of a variety of public and private organizations. Efforts to help meet the

housing and employment needs of low- and moderate-income persons and economically distressed communities can rarely occur or be truly successful without effective community input and participation in the planning and financing processes.

To ensure that CDC and project investments are responsive to community needs and help leverage community resources, state member banks are encouraged to establish effective mechanisms for outreach and consultation with affected groups in the community or project area. Depending on the nature and location of a project, these groups might include neighborhood development organizations, community advocacy groups, local government officials and agencies, small businesses, merchant's associations, and other business organizations. Consultation with affected parties helps an institution identify worthwhile projects, establish cooperative working relationships with public agencies, development groups, and potential investors, and market completed projects to those most in need.

The Federal Reserve does not specify any particular approach for ensuring community involvement. Some financial institution CDCs have established a community advisory committee in the community where projects are considered. Others have preferred to utilize community outreach mechanisms already established by their institution. Community representation on the board of directors of a state member bank's CDC is helpful but not required.

Investments Without Prior Approval

To provide state member banks with flexibility to respond to local community development needs on a timely basis, and to reduce regulatory burden, the Board has adopted procedures that allow institutions to make certain community development investments without prior regulatory approval, if the conditions outlined below are met.

Such investments must be in an entity that undertakes community development activities meeting the public welfare test. These entities

and activities are generally consistent with those that have been approved by the Board in the past for bank holding companies, and in most cases, by the Comptroller of the Currency for national banks.

Qualified Entities

State member bank investments meeting the public welfare test can be made without prior approval only if they are in qualifying entities. A qualified entity is a corporation, limited partnership, or other entity that engages solely in qualified community development activities (see below) and does not expose the bank to liability beyond the amount of the investment. Such an entity can be organized on a for-profit or nonprofit basis.

As specified by Regulation H, qualified entities also include both a particular CDC or limited partnership, or a class of CDCs or limited partnerships, for which the Board has previously approved state member bank or bank holding company public welfare investments. For example, if the Board had approved a bank holding company public welfare investment in a particular CDC or limited partnership under Regulation Y, a state member bank could invest in that same CDC or limited partnership without prior Board approval.

Moreover, certain classes or types of entities are considered qualified entities in which state member banks can invest without prior approval. The Board has routinely approved many bank holding company investments in CDCs focusing on lower-income housing, or in low-income housing partnerships that utilize federal low-income housing tax credits (LIHTC). Consequently, any CDC or limited partnership that closely fits those characteristics would be part of a class of qualified entities in which state member banks can invest without prior approval from the Federal Reserve.

Additionally, a state member bank may invest in any specific CDC, limited partnership, or other entity that the Office of the Comptroller of the Currency has previously approved as a qualified community development investment

for a national bank, under 12 U.S.C. 24 (Eleventh). For example, if one or more national banks have been approved to invest in a certain multi-bank CDC under 12 U.S.C. 24 (Eleventh), then state member banks could also invest in that particular CDC without prior approval from the Federal Reserve.

Finally, Regulation H also allows state member banks to invest, without prior approval, in any entity that qualifies as a community development financial institution (CDFI), as defined by section 103(5) of the Community Development Banking and Financial Institutions Act of 1994 (12 U.S.C. 4702(5)). CDFIs are private organizations that focus solely on various types of community development financing and are certified by the CDFI Fund.

In any case where a proposed community development investment will not be in a qualified entity, the state member bank must submit a request for approval to its Federal Reserve Bank.

Qualified Community Development Activities

A qualified entity (other than one previously approved by the Board and the OCC, or those qualifying as CDFIs) must engage solely in one or more public welfare community development activities. This ensures the Board that the state member bank's investment meets the intent and requirements of the Federal Reserve Act, and that bank ownership of real estate or other nonbanking ventures will be limited to community development purposes. It also ensures that the bank's investment is not being made for strictly entrepreneurial purposes that may not be related to meeting the community development needs of low- and moderate-income areas or families.

Although there may be a wide variety of other public welfare activities that could be approved by the Board, the types of investments that do not require prior approval (as long as other conditions are met), include the following:

Low- and Moderate-Income Housing. The Board has found that development,

rehabilitation, ownership, management, sale or rental of housing, (1) where the majority of the units are or will be occupied by low- and moderate-income persons, or (2) that qualifies for low-income housing tax credits, are activities that generally fall within the scope of permissible public welfare investment activities. Typically, these activities are performed by a for-profit or nonprofit corporation, or a limited partnership, in which one or more financial institutions are investors.

Commercial Development and Revitalization. Efforts to help revitalize commercial areas in low- and moderate-income neighborhoods through real estate development or the rehabilitation of commercial or other nonresidential properties (including the management, sale or rental of such properties), generally will meet the public welfare test if (1) the properties are located in a low- or moderate-income area, and (2) the goods or services and employment opportunities provided by businesses occupying the properties are targeted towards meeting the needs of low- and moderate-income persons. Commercial development in middle- or upper-income areas, even though it may provide ancillary employment opportunities for lower-income persons, is not viewed by the Board as a community development activity in which state member banks may invest without first seeking Federal Reserve approval.

Small Business Development. Investments benefitting small businesses, including minority-owned businesses, located in low- and moderate-income areas are considered qualified community development activities. For example, such investments could be in a CDC, limited partnership or other entity that provides equity and debt financing for small businesses, develops retail, office, medical, agricultural, manufacturing or service facilities used by small businesses, or provides technical assistance or consulting services to small businesses. Generally, if the firms assisted (1) meet the U.S. Small Business Administration's definitions of small business under either the Small Business Investment Company program or the Certified Development Company program, and (2) are located in low- and moderate-income areas, investments in entities

serving or owning such businesses are qualified community development investments.

Industrial Development, Job Training and Other Community Development Activities.

The development, redevelopment, management, sale or rental of other nonresidential property, such as that used for manufacturing, small business incubators, job training, or other economic development services, also would generally meet the public welfare test as a qualified activity if the beneficiaries are low- and moderate income-persons.

Generally, economic development activities of any kind, undertaken by an entity located in a low- and moderate-income area, that focus on the creation of long-term jobs and employment opportunities targeted towards low- and moderate-income persons, would be qualified activities.

Counseling and Technical Assistance.

Regulation H provides that investments in entities that provide credit counseling, technical assistance, program development and related research that facilitates community development would be qualified community development activities, as long as the activities assist low- and moderate-income persons, small businesses or nonprofit corporations in low- and moderate-income areas. Generally, if other conditions are met, investments in entities devoted only to providing these types of services supportive of community development may be made without prior approval.

Legal and Supervisory Conditions

There are several legal and supervisory thresholds that a state member bank must satisfy before it can engage in community development investment activities, even those that involve qualified entities and activities, without seeking prior approval from the Federal Reserve. Some of these requirements are specified by the law itself, while others are consistent with supervisory safety and soundness policies or procedures used by the Board when considering requests for approval of other types of bank activities.

First, there are two essential threshold standards that must be met: (1) the investment must be permissible under state law, and (2) the state member bank must meet certain supervisory conditions concerning its safety and soundness and compliance performance, including capitalization and examination ratings. A state member bank that fails to meet any of these conditions cannot make a community development investment without prior approval and must submit a request for approval to its Federal Reserve Bank if it wishes to engage in community development investment activities.

State Law Requirements. The investment activity must be permissible under state law in the state in which the bank is chartered. Although many states have adopted statutes that specifically allow state-chartered banks to make certain types of community development investments, others rely on more general “comparability” statutes which authorize state banks to engage in any activities legally permissible for national banks. As national banks may, under certain conditions, make community development investments, it is likely that state banks chartered in states having such comparability laws also may engage in community development investment activity. A state member bank in a state with such a comparability law should consult with its state banking regulatory agency, as well as with its Federal Reserve Bank, to ensure that proposed community development investments are permissible.

Supervisory Considerations. A state member bank must also meet the conditions specified in Regulation H before it can engage in community development investment activity without seeking prior approval. The bank must:

- Be at least adequately capitalized under risk-based capital standards
- Meet supervisory safety and soundness standards by achieving a composite super-

visory CAMEL rating of “1” or “2” in the bank’s most recent examination

- Have an overall consumer compliance rating of at least “satisfactory” as a result of its latest consumer compliance examination.

In addition, if the bank wishes to engage in community development activities without seeking prior Federal Reserve approval, it may not be subject to any written agreement, cease and desist order, capital directive, prompt corrective action directive, or memorandum of understanding issued by the Board or a Federal Reserve Bank.

Should a state member bank not meet one or more of these supervisory conditions, it must submit an application to its Federal Reserve Bank requesting permission to engage in the community development investment activity, even if that activity clearly meets the public welfare test.

Investment Limits

For safety and soundness purposes, there are also limitations on the amount of capital that a state member bank can devote to community development investments. As required by Regulation H, a single community development investment cannot exceed the sum of two percent of the state member bank’s capital stock and surplus, and the aggregate of all of a bank’s community development investments cannot exceed the sum of five percent of capital stock and surplus.

If a state member bank’s investment in a qualified entity is within these limits, and all other conditions are met, the bank can make its investment(s) without prior approval. On the other hand, if a state member bank wishes to make investments exceeding these limits, it must submit an application to its Federal Reserve Bank. In no case, however, may a state member bank’s aggregate community development investments exceed 10 percent of capital stock and surplus.

Liability Limitations — Direct Project Investments

Regulation H requires that a state member bank’s community development investments

be made in a manner that does not expose the bank to liability beyond the amount of the investment. Generally, this precludes direct investments in property, projects or unincorporated business ventures, because as a developer or general partner with direct ownership of a business venture, the state member bank would be potentially liable for debts and civil penalties beyond the amount of the investment.

The most common approach to limiting liability is for a bank to create or invest in entities that provide protection against liability. Typically, these include CDCs or other corporations, or limited partnerships in which the bank is a limited partner. While there may be ways to limit liability in direct ownership situations, the Federal Reserve expects that community development investments by state member banks generally will be investments in corporations or investments as limited partners in limited partnerships.

The Board recognizes, however, that there may be exceptional cases in which a state member bank finds it necessary or particularly advantageous to make a direct community development project or business investment, when other means can be used to limit liability. In any such case, a proposal for a state member bank investment that forgoes the protections of the corporate or limited partnership structure, must be submitted to the Federal Reserve for prior approval. The bank’s request for approval must explain the nature of the investment and how limitations on liability will be achieved.

Notice and Approval Procedures

Regulatory procedures for community development investments are similar to those used for other permissible state member bank activities. There may be slightly different procedures, however, for some community development investments, depending on whether the investments meet the criteria outlined above for “Investments without Prior Approval.”

Notices for Investments Without Prior Approval

As noted previously, state member banks wishing to make community development investments in qualified entities may do so (if other supervisory conditions are met), without receiving prior approval from the Federal Reserve. In such cases, however, Regulation H requires that the state member bank submit a notice to its Federal Reserve Bank within 30 days after making the investment.

The notice may be brief, but should, at a minimum, clearly identify:

- (1) The amount and type of the bank's investment (e.g., equity investment in a CDC, purchase of a limited partnership share, purchase of debt securities)
- (2) The entity in which the bank has invested (e.g., a wholly owned CDC, multi-investor CDC, limited partnership, venture), including its name, operating or target area, general purposes and primary activities, and whether the entity is one that has also been approved by the Comptroller of the Currency for investments by national banks, or is a qualified Community Development Financial Institution
- (3) The primary beneficiaries of the investment (e.g., low- and moderate-income areas or families, small businesses in low- and moderate-income areas).

The notice should also include a statement certifying that the bank meets all of the regulatory conditions specified in Regulation H, Section 208.21(b), concerning "Investments that do not require prior Board approval."

Requests for Approval of Other Investments

If the investment or the state member bank does not meet all of the requirements for an investment that can be made without prior approval, the bank must request permission to make the investment. It is also advisable to consult with the Reserve Bank's Applications staff and Community Affairs staff prior to finalizing a request, if the state member bank

is uncertain as to whether the investment meets the Board's public welfare standards.

Contents of the Request for Approval. The amount of detail will vary among requests, but it is always helpful to include as much information as possible about planned activities, as the state member bank bears the full burden of presenting and documenting its case for approval. The request should, however, include at least the following information:

- The amount, type(s) and timing of the bank's proposed investment(s) (e.g., equity investment in a CDC, purchase of a limited partnership share, purchase of a CDC's debt securities), and whether the amount is within the limits specified in Regulation H, as a percentage of capital stock and surplus
- The name and description of the entity or venture in which the bank proposes to invest (e.g., the specific CDC, limited partnership), including its operating or target area, whether it is a for-profit or nonprofit venture, and whether the entity is one for which national bank investments have been approved by Office of the Comptroller of the Currency and/or is a qualified Community Development Financial Institution
- The nature and purposes of the key community development activities (e.g., low-income housing rehabilitation, small business development) to be undertaken by the entity
- How, and the extent to which, the proposed community development investment activities will benefit low- and moderate-income areas or persons and promote the public welfare
- How the state member bank's liability will be limited to the amount of its investment(s).

If the state member bank is proposing to form a subsidiary or is investing in a consortium CDC or other multi-investor entity, a copy of the entity's proposed or final articles of incorporation should be included with the request. For multi-investor CDCs or other corporations, the state member bank should identify, to the extent possible, expected

nonbank investors in the entity and the nature, if any, of any other business relationships between the bank and such investors. For requests involving limited partnership investments, the state member bank should provide a copy of the partnership's prospectus and agreement.

Generally, the Federal Reserve Bank will act under delegated authority, where appropriate, within 30 calendar days of receiving a state member bank's completed request for per-

mission to engage in community development activities. If a request is incomplete or requires clarification, the process may take longer.

Some circumstances may require a Federal Reserve Board determination, such as when a request involves a new public welfare activity or raises policy issues. In such cases the Board will generally make a determination within 60 calendar days from the date on which a completed request was received by the Reserve Bank.

Guidelines for Bank Holding Companies

The 1970 amendments to the Bank Holding Company Act gave the Board new flexibility to determine what nonbanking activities are proper and permissible for bank holding companies. In the context of this legislative change and the Board's interest in encouraging bank holding companies to participate in solutions to community problems, the 1971 revisions to Regulation Y explicitly authorized bank holding companies to engage in community development equity investment activities.

Regulation Y lists community development among the activities deemed by the Board to be closely related to banking and therefore permissible for bank holding companies. Section 225.25 (b)(6) defines the term as follows:

Community Development. Making equity and debt investments in corporations or projects designed primarily to promote community welfare, such as the economic rehabilitation and development of low-income areas by providing housing, services or jobs for residents.

Community Welfare Test

A number of Federal Reserve decisions have addressed the concept of "community welfare," providing holding companies with flexibility in tailoring their investments to meet the needs of their disparate communities. Generally, the Board has found that investments in CDC ventures or community development projects which primarily benefit low- and moderate-income persons and economically disadvantaged neighborhoods and communities meet the "community welfare" test. Such benefits can include, for example, new or rehabilitated low- and moderate-income housing, or the development of facilities providing community services to low- and moderate-income persons.

Bank holding company CDCs and investments approved by the Federal Reserve typically have had one or more of the following primary purposes:

- Development or rehabilitation of rental housing for low- and moderate-income families, including projects utilizing federal low-income housing tax credits
- Purchase, rehabilitation and sale of affordable owner-occupied housing for low- and moderate-income persons
- Development or expansion of small business enterprises in economically distressed areas
- Development of community facilities which provide health, educational and other essential services primarily for low- and moderate-income persons
- Provision of technical assistance and advisory services to public and private community development organizations engaged in activities benefitting low- and moderate-income persons and areas, or small businesses.

These and related activities help to create economic value and provide direct benefits to low- and moderate-income persons and areas.

The Federal Reserve has made clear, however, that investments would be presumed not to meet the community welfare test if they are for corporations or projects organized to build or rehabilitate high-income housing, or commercial, office and industrial facilities not designed explicitly to create long-term job opportunities for low- and moderate-income persons. This is so even though such investments might provide some indirect benefits to low- and moderate-income persons.

For example, a bank holding company's equity investment to develop upscale housing in an economically distressed community would not meet the test even though the project ultimately might indirectly benefit some low- and

moderate-income persons through resulting construction jobs or an increase in the local tax-base that would support enhanced community services to low-income groups. Similarly, major downtown real estate development that is not located in a low- and moderate-income area and used primarily for low- and moderate-income persons generally would not meet the test, although such a project might provide some benefits to a community. Without strong evidence to the contrary, the Board believes that such benefits are too indirect and are insufficient to merit approval of a community development activity under Regulation Y's community welfare standard.

The Federal Reserve has recognized, however, that neighborhoods and communities in both urban and rural settings vary greatly with respect to size, population mix, community needs, and economic condition. Consequently, the Federal Reserve remains flexible in applying the standards of Regulation Y for approval of community development activities. For example, approved community development activities have included, in one case, the creation of a rural test farm for crop experimentation that could help diversify a rural farm economy, and in another case, the rehabilitation of a medical services clinic to help attract doctors in a small rural community.

Profits and Dividends

Bank holding company community development investments may be made on either a for-profit or nonprofit basis.

In the case of for-profit CDCs or ventures, no explicit limits are set on the profits that may be generated by a holding company community development investment, but significant profits are generally not expected. Moreover, profits or dividends from a CDC or other approved community development venture may be provided to the holding company at any time. This flexibility is often necessary to attract capital from other nonbank investors. Although profits are allowed, they should not be the primary purpose of a holding company CDC or project investment.

Most bank holding company CDCs and other equity investments have been for-profit ventures. Although the capacity to obtain immediate returns on investments may be important in principle to holding companies and participating nonbank investors, in practice most holding companies choose to reinvest profits in the CDC or additional projects that benefit community welfare.

Capital Investment

In cases involving a bank holding company's initial community development investment, the Federal Reserve takes a flexible approach in its evaluation of capital commitments for bank holding company community development activities. Although the Federal Reserve sets no minimum or maximum levels for capital investment by bank holding companies in CDCs or community development projects, it does expect that use of bank holding company equity for such purposes will be (1) appropriate to the nature and scope of anticipated investment activities, and (2) prudent with respect to the size, financial condition and capitalization of the holding company.

Bank holding companies' community development investments will vary substantially in size based on the community needs to be addressed and each holding company's community development objectives, financial capacity and geographic scope of operations. Depending on their objectives and projects, many bank holding companies have chosen to capitalize CDC subsidiaries with small initial investments, adding needed capital as projects reach the development stage. In other cases, such as investments in limited partnerships that develop or own lower-income housing, the partnership agreements often have required phased payments of capital by bank holding companies and other investors, over a period of years. Individual project investments either through CDCs or directly by the holding company, usually leverage other debt financing and may require more or less equity

investment depending on the requirements of the project's total financial package.

In light of the diversity of community development activities, the Federal Reserve's approach allows for review of proposals on a case-by-case basis. Because community development equity investment is not intended to be a major activity of a bank holding company, bank holding companies are not expected to commit a significant proportion of their capital to CDCs or community development projects. Nor will the Federal Reserve approve community development equity investments in amounts that might pose undue risk to the safety and soundness of the bank holding company.

Geographic Scope of Investment Activity

The Federal Reserve does not limit the geographic scope of a bank holding company's community development investments. Bank holding companies typically conduct their CDC and project investment activities in economically disadvantaged neighborhoods and communities in the market areas served by their subsidiary banks. As a result, some holding companies choose to conduct their community development investment activities in one community or one state, while others with interstate operations have established CDCs approved to make investments on an interstate basis.

Some bank holding companies, anticipating possible expansion across state lines, obtain approval to conduct their community development equity investment activities nationwide so that they can assist newly acquired subsidiaries wherever they may be located. So long as the activities in the new locations meet the community welfare test, are consistent with the approval previously granted by the Federal Reserve, and do not pose safety and soundness concerns, this approach generally allows a bank holding company or its CDC to make community development investments in new market and

target areas served by subsidiary banks with minimal regulatory consultation and review.

Community Involvement

Bank holding companies should seek and consider the views of the affected neighborhoods or communities when making an investment decision. Community development is a process that almost by definition involves the participation of a variety of public and private organizations. Efforts to help meet the housing and employment needs of low- and moderate-income persons and economically distressed communities can rarely occur or be truly successful without effective community input and participation in the planning and financing processes.

To ensure that CDC and project investments are responsive to community needs and help leverage community resources, bank holding companies are encouraged to establish effective mechanisms for outreach and consultation with affected groups in the community or project area. Depending on the nature and location of a project, these groups might include neighborhood development organizations, community advocacy groups, local government officials and agencies, small businesses, merchant associations, and other business organizations. Consultation with affected parties helps a holding company: identify worthwhile projects; establish cooperative working relationships with public agencies, development groups, and potential investors; and market completed projects to those most in need.

The Federal Reserve does not specify any particular approach for ensuring community involvement. Many bank holding company CDCs have established community advisory committees in each community where projects are considered. Others utilize community outreach vehicles already established by their subsidiary banks. Community representation on the board of directors of a bank holding company's CDC is helpful but not required.

Notice and Approval Procedures

Initial Investments by Bank Holding Companies

For an initial investment by a bank holding company, an appropriate Regulation Y notice with an accompanying narrative proposal must be submitted to the Reserve Bank before a bank holding company can make the investment. Proposals filed by bank holding companies to engage in community development activities under Regulation Y generally are processed by the Federal Reserve Banks under delegated authority, unless issues are raised that warrant the review and decision of the Federal Reserve Board.

As a first step, any bank holding company considering making an initial community development investment is strongly encouraged to discuss its proposed investment with both the Federal Reserve Bank's Applications staff and Community Affairs staff prior to developing and submitting a proposal. The Reserve Bank's staff can provide feedback on the holding company's concept or proposal, highlight issues and respond to questions. This consultative process facilitates development of the proposal and helps a bank holding company avoid technical problems and issues that could delay consideration.

The narrative description of the bank holding company's proposal should include information on how the proposed investment activities meet the requirements of Section 4(c)(8) of the Bank Holding Company Act and the Federal Reserve's Regulation Y. The proposal should demonstrate how the proposed investment is primarily designed to benefit community welfare, focusing on how benefits will be provided to low- and moderate-income persons and areas.

Federal Reserve Bank's Applications staff will review the notice to form or invest in a CDC or other community development activity to determine whether it meets all statutory and regulatory requirements, including the community welfare test under Regulation Y. A review is also conducted for safety and soundness considerations.

Unless issues are raised or public comment is received, the decision to authorize CDC or

project investments usually will be made by the Reserve Bank within 30 days after receipt of a proposal from the holding company. Under some circumstances, an investment proposal may raise policy issues requiring review by the Federal Reserve Board. In such cases the Board will generally make a determination within 60 calendar days after submission of a complete notice.

Contents of the Proposal. A holding company's initial proposal to engage in community development activities, must include sufficient descriptive material to give the Reserve Bank a complete picture of the company's community development investment plans. The amount of detail will vary among proposals, but it is always helpful to include as much information as possible about planned activities, since the applicant bears the full burden of presenting and documenting its case for approval.

In developing its draft community development investment proposal and in preparing for its initial contact with Reserve Bank staff, the bank holding company should assemble the following information:

- A complete description of the proposed community development investment activities in which the holding company would engage; this should include information on the (1) type of entity in which investments will be made (e.g., CDC subsidiary, consortium CDC, limited partnership, project investment), (2) the primary purposes and objectives of the entity/investment (e.g., housing for low- and moderate-income persons, small business development), (3) the geographic scope of community development activities, and (4) whether the investment activities will be conducted on a for-profit or nonprofit basis
- A discussion of how the proposed community development activities will benefit low- and moderate-income persons and promote community welfare
- A description of the amount(s) and timing of the holding company's community development equity and debt investments; this should cover initial and anticipated future equity investments by the holding company,

as well as any related loans or lines of credit it would provide

- A description of the initial project(s) to be undertaken, and other future projects, if available
- Identification of any other parties that will be supporting the projects and the nature and extent of their financial or managerial participation.

If the holding company is forming a subsidiary CDC or is investing in a consortium CDC or other multi-investor corporation, a copy of the CDC's articles of incorporation should be included with the notice. For proposed investments in multi-investor CDCs or other corporations, the bank holding company should identify, to the extent possible, expected nonbank investors in the entity and the nature, if any, of any other business relationships between the bank holding company or its subsidiaries and such investors. In the case of a notice for a limited partnership investment, the holding company should provide a copy of the partnership's prospectus and agreement.

Additional Investments

In December 1994, the Federal Reserve Board issued a revised interpretation on the scope of permissible community development activities for those bank holding companies which had already received approval to make community development investments. The interpretation (12 CFR 225.127), which became effective in January 1995, incorporated previous Federal Reserve decisions concerning permissible investments and also authorized bank holding companies to conduct community development investment activities similar to those authorized for state member banks.

Bank holding companies previously approved to engage in one or more community development investment activities under section 4(c)(8) of the Bank Holding Company Act and Section 225.25(b)(6) of Regulation Y may make additional community development investments, as identified in the revised interpretation, 225.127, up to a total of five percent of the holding company's consolidated capital stock and surplus, without seeking

additional Federal Reserve approval or providing a notice. This five percent limit for additional investments without notice includes, on a consolidated basis, all community development investments by the holding company, its nonbank subsidiaries, and its subsidiary banks.

Additional investments (by a previously approved bank holding company) may be made directly, or through a corporation or limited partnership, without prior approval, for the following purposes:

- Develop, rehabilitate, manage, sell and rent residential property if a majority of the units will be occupied by low- and moderate-income persons, including projects utilizing federal low-income housing tax credits
- Develop, rehabilitate, manage, sell and rent nonresidential real property located in low- and moderate-income areas and used primarily by low- and moderate-income persons
- Finance development or expansion of small business enterprises in low- and moderate-income areas to stimulate economic development
- Develop job training and placement facilities, or community facilities which provide services primarily for low- and moderate-income persons
- Invest in an entity located in a low- or moderate-income area if that entity creates long-term employment opportunities, a majority of which will be held by low- and moderate-income persons
- Provide technical assistance and advisory services to low- and moderate-income persons and areas, small businesses, or non-profit corporations to help achieve community development
- Invest in a certified Community Development Financial Institution as determined by the Community Development Financial Institutions Fund
- Invest in a corporation or project previously approved by the Comptroller of the Currency for investment by national banks

- Invest in a corporation or project previously approved by the Federal Reserve Board for investment by state member banks.

For example, if a holding company had previously been authorized under Regulation Y to invest in a low-income housing limited partnership, it could later make other types of community development investments that are listed in the Board's revised Regulation Y interpretation (under 225.127) without approval from the Federal Reserve, so long as the aggregate total amount of all of its community development investments remained under five percent of the holding

company's consolidated capital and surplus. Such additional investments, in this example, would not have to be in other low-income housing partnerships or related activities, but could also include CDCs or other ventures engaged in qualified community development activities unrelated to the purposes of the holding company's initial investment. In general, once a holding company has been approved to make any type of community development investment pursuant to Regulation Y, it can then make the other types of investments identified in the Board's revised interpretation without prior approval, if the aggregate investment limit is honored.

Regulatory Treatment of Investments

General Approach

For regulatory and reporting purposes, the Federal Reserve treats community development investments the same way as other types of similar investments. Each community development investment is booked, reported and evaluated according to its type, risk and duration.

Reporting. Under normal circumstances, state member banks do *not* report community development investments under the “other assets” category. As with other investments, community development investments should be reported in the Reports of Condition and Income (Call Report) in accordance with the report’s instructions, which are consistent with generally accepted accounting principles (GAAP).

Under the Call Report instructions, equity investments are generally accounted for on a consolidated basis, using the equity method, at cost, or at fair value, as appropriate. Debt securities are generally accounted for at fair value or at amortized cost, as appropriate, and loans are generally accounted for at amortized cost. Additional guidance is set forth in the Call Report Instructions and in relevant statements and interpretations under GAAP.

For example, an equity investment in a wholly-owned subsidiary CDC would be reported on a consolidated basis and treated the same way that capital contributions to other wholly-owned bank subsidiaries are treated. Similarly, a loan to a bank-owned CDC, multi-bank CDC, or a loan to a project being developed by such CDCs, is reported the same way as is a loan to any other business venture or entity.

Examinations. Generally, the supervisory evaluation of a community development investment is based on its performance, and the impact of that performance, in turn, on the operating performance and financial condition

of the bank. Such an investment typically is not criticized by examiners solely because its yield might be less than that of more traditional investments. Instead, the historical and prospective performance of the investment is measured against the explicit terms of the debt or equity instrument, as well as the expectations of the bank at the time the investment is made. One factor underlying such expectations is generally the expected yield on comparable investments. Where a particular community development investment has performed poorly, or has weak prospects, it will be evaluated in that light and, like other similarly situated bank assets, may be subject to criticism by examiners.

Primary Types of Investments

Community development investments vary considerably and the Federal Reserve does not treat all such investments alike. Consequently, as with other types of bank loans and investments, each community development investment is considered and evaluated based on its particular attributes and merits, and the strength and value of the entity for which equity or loans are being provided.

The following is an overview of several common types of community development investments that financial institutions have made and a general discussion of the regulatory reporting and evaluation processes for each.

Equity Investment in a CDC

State member banks may invest in community development corporations (or Community Development Financial Institutions or other similar entities). Usually this entails the purchase of stock in the CDC (if it is a for-profit entity), which is either wholly-owned by the bank or is a multi-investor CDC.

Wholly-owned CDCs. A wholly-owned CDC is a type of bank subsidiary that is devoted exclusively to community development investment and lending. Such subsidiaries are incorporated and issue shares of stock which are purchased *en toto* by the state member bank. For regulatory accounting and reporting purposes, the operations of the CDC are not treated any differently than are the operations of other wholly-owned bank subsidiaries. Equity investments in (as well as loans to) such CDCs by the state member bank are accounted for and reported on a consolidated basis, as are investments and loans made by the CDC for community development projects.

Consortium or Multi-investor CDCs. A state member bank may wish to make an investment in a consortium, multi-bank or multi-investor CDC, as one of many investors. Because a single bank would not generally have a controlling interest in a multi-investor CDC, these CDCs are sometimes referred to as nonbank CDCs, (i.e., they are nonbank CDCs in which one or more banks may be investors). Nonbank CDCs may include existing community-based CDCs, Community Development Financial Institutions, or other types of community development organizations.

As with wholly-owned CDCs, investments in consortium CDCs involve the purchase of stock which may have certain value for regulatory and reporting purposes, though liquidity may be limited. Equity investments in consortium CDCs are generally regarded as long-term investments and may be valued at the initial investment amount, unless significant material gains or losses by the CDC clearly indicate a change in value. If a state member bank owns less than 20 percent of the CDC or entity, the straight cost method to valuation may be used, but ownership positions of 20 percent or more in the entity must be valued using the equity method.

Investments by a state member bank representing more than 50 percent of the ownership of a CDC would be considered a controlling interest and would have to be reported by the bank on a consolidated basis.

Nonprofit CDCs. Nonprofit CDCs may be capitalized in the same general way as for-profit ventures, with initial equity, issuance of debt securities to investors, loans to the CDC, etc. The “equity” of a nonprofit community development corporation, however, usually comes in the form of initial “contributions” made to the CDC by its members (investors). For most nonprofit CDCs organized under section 501(c)(3) of the Internal Revenue Code, such contributions do not purchase or represent an ownership position in the CDC, and contributors cannot derive a direct benefit or financial gain from any distribution of the organization’s funds. These bank contributions (investments) in nonprofit CDCs cannot be sold or redeemed by the bank, nor can the nonprofit CDC pay dividends to its member contributors, should the CDC accumulate income over expenses. Consequently, an equity investment (i.e., contribution) in a nonprofit CDC by a state member bank is not considered an asset of the bank.

Loans to a nonprofit CDC, or debt securities issued by the nonprofit CDC and purchased by the bank, are reported and evaluated in the same manner as are loans or debt securities for any other business, venture or entity.

Equity Investment in a Limited Partnership

State member banks may purchase shares in master limited partnerships or operating limited partnerships that undertake qualified community development activities. Usually such partnerships develop, own and rent low-income housing and qualify limited partners for the benefits of the federal low-income housing tax credit. In larger low-income housing equity pools organized as limited partnerships, a bank is one of many investors and purchases only a few of the available shares. There are some cases, however, especially those involving joint ventures by a bank and a nonprofit community-based CDC, where one institution has become a 99 percent limited partner. Generally, limited partnership shares purchased by a state member bank will be valued at their face amounts, with a risk-weighting of 100 percent.

Also, in general, limited partnership shares are accounted for as equity interests; however, as noted above, the accounting treatment and reporting of such investments must conform to the instructions for Call Reports.

Purchase of Debt Securities Issued by a CDC

Debt securities issued by a for-profit or nonprofit CDC and purchased by a state member bank are evaluated in the same manner as other similarly situated debt securities purchased and held by the bank. Generally, these are considered long-term investments which are not made for immediate resale or trading purposes. Usually, these CDC debt securities will be unrated, though many are secured by mortgages on the CDC's projects.

Loans to a CDC

Loans made by a state member bank to a wholly-owned or multi-investor CDC are generally evaluated in the same way as are loans to other businesses or ventures. The CDC's earnings, capital, management and other risk factors related to the CDC's capacity to repay the loan are assessed. Since bank loans to a CDC are usually used by the CDC for relending to community development projects, the bank's loans may not always carry conventional terms and conditions. Where a CDC intends to relend at favorable rates or terms, the bank will often offer similar rates or terms to the CDC. Performance of the bank's loans to a CDC is generally a function of the performance of the CDC's project loans and investments.

CRA and Community Development Investments

Community development investments can play a number of roles in helping financial institutions achieve and demonstrate performance under the Community Reinvestment Act (CRA). Under the CRA regulations, as revised and adopted by the supervisory agencies in April 1995, bank or bank holding company community development invest-

ments can serve to enhance the CRA performance of a financial institution under each of the performance tests that will be used by the supervisory agencies for larger retail banks, smaller institutions and wholesale or special purpose banks. The impact of any community development investment on an institution's CRA performance, however, will depend on the amount(s) and type(s) of investment(s) made, and the subsequent activities of the CDC(s) or other entities in which the bank invests. These will be considered in the context of the bank's overall record of performance using the appropriate CRA assessment criteria.

The CRA performance of any size or type of bank can benefit from an investment in a CDC or other community development entity. Because the primary beneficiaries of community development investments are low- and moderate-income areas or persons, and/or small businesses and small farms, the activities of a bank-owned or supported CDC, or other similar entity, could help a bank to:

- Increase the number of housing and small business loans made in low- and moderate areas or to low- and moderate-income persons
- Enhance the geographic distribution of housing, small business or small farm loans within a CRA assessment area
- Develop innovative loan products, alone or in conjunction with public sector programs, that facilitate credit extensions to low- and moderate-income persons, small businesses and small farms
- Increase the number and types of community development loans made
- Provide community development investments and community development services.

Larger Retail Banks

Community development investments may enhance a larger retail bank's CRA performance in a number of ways. A bank's investment(s) in a wholly-owned CDC can

make a positive impact under the investment test, while the loans made, and community development services provided by such a CDC can help, in varying degrees, to demonstrate CRA performance under the lending and service tests respectively.

For example, a wholly-owned CDC or other wholly-owned entity undertaking community development activities, may contribute to the bank's CRA performance directly, because the loans and investments made by the CDC or entity, as a bank subsidiary, may be assessed on a consolidated basis with those of the bank. Thus small business loans, special purpose mortgage loans, or other community development loans and equity investments made by the CDC can be assessed as part of the bank's CRA performance, as though they were made by the bank itself.

Similarly, investments in consortium CDCs that provide community development loans within a bank's assessment area also can contribute to a bank's CRA performance, where consortium participants agree to allocate loans among the CDC's investors. To the extent that these types of loans are ones the bank might not have made on its own, without the added equity, subordinated financing, or staff expertise provided by a CDC, a wholly-owned or consortium CDC can help increase the bank's capacity to serve low- and moderate-income markets.

Moreover, equity investments by a larger retail bank in low-income housing limited partnerships would be reflected as qualified investments under the CRA regulation's investment test. A bank's loans to projects supported by the partnership's equity investments could be counted under the lending test.

Small Bank CRA Performance

Although smaller institutions are assessed differently under CRA than are larger banks, community development investments also can play significant roles in enhancing small bank CRA performance. As with larger banks, smaller banks can employ community development investments to create wholly-

owned CDCs, consortium CDCs, or they can invest in low-income housing limited partnerships and other qualified community development entities. In turn, these investment activities can help smaller institutions make loans or investments that respond directly to the small bank assessment standards that are outlined in the CRA regulation.

For example, the loans and investments made by a CDC in which a smaller bank participates, may be considered as lending-related activities in assessing the reasonableness of the bank's loan-to-deposit ratio. The loans of a CDC owned by smaller bank can be considered in assessing whether the majority of the bank's loans are in its assessment area. By providing additional equity, subordinate financing or special loan products and services, a CDC can help a smaller bank make additional loans to low- and moderate-income persons, improve the bank's geographic distribution of loans, and respond effectively to complaints about the bank's CRA performance.

Wholesale or Limited Purpose Banks

Under the revised regulations, the CRA performance of a wholesale or limited purpose bank is evaluated solely on the basis of a community development test which measures the bank's community development performance. Standards include the level of community development loans, services and investments, the use of innovative or complex community development loans and investments, and the overall responsiveness of the bank to community credit and community development needs in its assessment area(s). At the bank's option, the activities of the bank's affiliates, consortia and other third parties can be considered as part of the bank's CRA performance.

Consequently, community development investments used to create and fund the operations of wholly-owned CDCs, consortium CDCs, low-income housing limited partnerships and other entities, can be primary vehicles for helping demonstrate CRA performance. Moreover, CDCs owned or supported by the bank can make loans and investments that are considered in assessing

the bank's CRA performance. Virtually every type of community development investment activity allowed under Regulation H or Regulation Y can become part of the CRA record of a wholesale or limited purpose bank.

Bank Holding Companies

Although bank holding companies are not evaluated under CRA, their community development investment activities can help support the CRA record of performance of their subsidiary banks, including larger retail institutions, smaller banks and wholesale or limited purpose banks. For example, bank holding company CDCs can provide gap equity or subordinate financing that helps a bank make loans for community development

projects on a safe and sound basis. The bank is thus able to make additional loans in its CRA assessment area that might not otherwise have been feasible.

Similarly, the investments and loans of a consortium CDC in which a bank holding company has invested can, under certain circumstances, be allocated to one or more banks owned by the bank holding company for CRA evaluation purposes, as long the requirements of the CRA regulation are met.

Overall, bank and bank holding company community development investments can contribute significantly to a bank's CRA performance under the standards of the revised CRA regulations.

Appendix

Federal Reserve Banks

State member banks and bank holding companies interested in making community development investments should consult with both the Community Affairs Officer and the Officer in charge of the applications processing function in the Supervision and Regulation department of the appropriate Federal Reserve Bank. They may be reached at the following addresses.

Federal Reserve Bank of Boston

600 Atlantic Avenue
Boston, Massachusetts 02106
(617) 973-3000

Federal Reserve Bank of New York

33 Liberty Street
New York, New York 10045
(212) 720-5000

Federal Reserve Bank of Philadelphia

Ten Independence Mall
Philadelphia, Pennsylvania 19106
(215) 574-6000

Federal Reserve Bank of Cleveland

P.O. Box 6387
Cleveland, Ohio 44101
(216) 579-2000

Federal Reserve Bank of Richmond

P.O. Box 27622
Richmond, Virginia 23261
(804) 697-8000

Federal Reserve Bank of Atlanta

104 Marietta Street, N.W.
Atlanta, Georgia 30303-2713
(404) 521-8500

Federal Reserve Bank of Chicago

P.O. Box 834
Chicago, Illinois 60690-0834
(312) 322-5322

Federal Reserve Bank of St. Louis

P.O. Box 442
St. Louis, Missouri 63166
(314) 444-8444

Federal Reserve Bank of Minneapolis

250 Marquette Avenue
P.O. Box 291
Minneapolis, Minnesota 55480-0291
(612) 340-2345

Federal Reserve Bank of Kansas City

925 Grand Avenue
Kansas City, Missouri 64198
(816) 881-2000

Federal Reserve Bank of Dallas

P.O. Box 655906
Dallas, Texas 75265-5906
(214) 922-6000

Federal Reserve Bank of San Francisco

101 Market Street
San Francisco, California 94105
(415) 974-2000
