Community Developments

Comptroller of the Currency
Administrator of National Banks

Winter 2000/2001 *Community Affairs OnLine News Articles*

# Focus on Community Development Investments

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During a recent community development tour of Washington, D.C., I was struck by the visible, positive changes that have resulted from banks' investments in the underserved areas of the capital city. I toured several affordable housing and retail development projects where partnerships between local government, community-based development organizations, and financial institutions changed distressed neighborhoods into thriving communities. The banks' investments were the crucial links to making those projects work.

This issue of *Community Developments* highlights the special investment authority that has allowed national banks to help revitalize and rebuild communities throughout the country. This authority is the OCC's regulation concerning national bank community development corporations (CDCs), community development (CD) projects, and other public welfare investments (12 CFR 24). National banks have made CD investments since 1965 and use this "part 24" authority to help build affordable housing, finance small businesses, and develop retail and commercial revitalization projects for low-and moderate-income individuals and neighborhoods. In fact, during the past 35 years, the OCC has approved more than 1,700 national bank investments. These investments, when combined with their community partners' investments, total more than $11.2 billion in the funding of community development projects.

Over the years, national banks have established a strong track record in making CD investments. In response to these successes, the OCC recently amended its rules to reduce unnecessary regulatory burden and simplify compliance, consistent with the safe and sound operation of national banks. The OCC now allows most eligible national banks to self-certify public welfare investments. This has encouraged banks of all asset sizes to make part 24 investments. As illustrated by the following chart, during the past several years, national bank investments under part 24 have leveraged funding in the billions from state banks and thrifts, government agencies, and community development intermediaries.

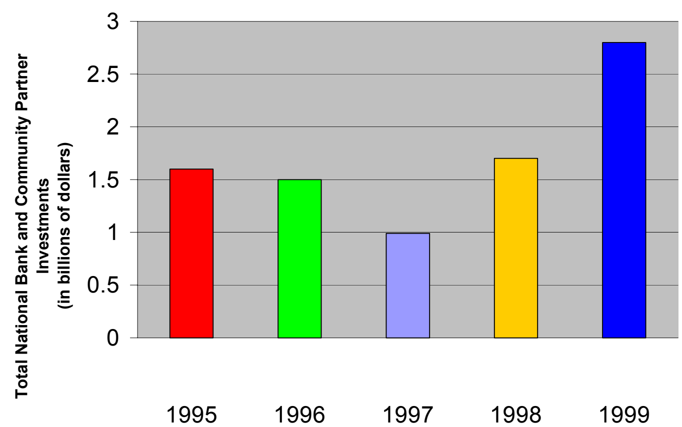


**Table 1. National Bank Part 24 Investments and Community Partner Funding, 1995-1999.**

At least half of the banks' part 24 investments have involved the production of affordable rental housing for low- and moderate-income persons and families. Banks may make direct limited partnership investments with community-based development organizations, or banks may invest in funds sponsored by national housing intermediaries, such as Local Initiatives Support Corporation (LISC) and the Enterprise Foundation. These investments often use federal low-income housing tax credits (LIHTCs) as a way of filling the financing gap for projects and achieving good returns for bank investors. Articles in this newsletter identify how banks have been successful investors in affordable housing utilizing these various structures.

Banks have also found that CDCs can be established to serve as partners in higher risk transactions. This newsletter will provide you with information about successes resulting from banks' part 24 investments in multi-bank CDCs that assist start-up and expanding small businesses. For example, you will hear about mezzanine financing provided by the Ohio Mezzanine Fund and Southern Dallas Development Fund. Those CDCs have established themselves as risk-sharing intermediaries to help finance requests from small businesses that are very small or do not meet conventional underwriting standards. This issue also outlines key provisions of the recently-enacted New Markets legislation that provides new opportunities for banks to make profitable investments in entities that finance businesses in low- and moderate-income communities.

Technical assistance is an important service provided by some CDCs funded through part 24 investments. For example, Coastal Enterprises, Inc.'s (CEI) services, which are described in this edition, help small businesses to develop market studies and business plans. Those services also enable the businesses to provide lenders with complete and thorough applications, which helps to lower the banks' costs of loan production.

Why do banks make part 24 investments? The answer is really quite simple: the premise of partnership-building within part 24 helps banks create opportunities within their markets that they might otherwise never see. Part 24 provides banks with a mechanism for helping them to do the more difficult projects — by reducing development expenses, enhancing the ability of clients to borrow funds, and sharing the risk that may be associated with CD lending with other banks, government agencies, and community-based organizations. As one banker explained, "… we believe that our business is only as healthy as the communities we serve. We see community development as a key component of our long-term business strategy. [Our programs are designed to have a] far-reaching impact on our communities that will produce additional demand for the bank's traditional products and services."

Banks that are currently making CD investments, as well as those banks that are contemplating new initiatives or seeking CD investments in areas where opportunities may not be so apparent, should consider the flexibility provided by part 24. CD investments under part 24 have proven to be both good business, and good for the communities served by the investing banks.