

The Community Development Trust: Investing in Affordable Multifamily Housing

By Judd Levy, President/CEO, Community Development Trust

Recent changes in 12 CFR 24 (“the regulation” or “Part 24”) makes it much easier for national banks to make investments that promote the public welfare. A number of financial intermediaries have been formed to invest in community development and public welfare projects on a national basis. The new regulation should ease the flow of capital to these national intermediaries.

One such vehicle is the Community Development Trust (CDT), the country’s first real estate investment trust created solely to provide capital for community development projects. The Local Initiatives Support Corporation, (LISC), the country’s largest non-profit financial intermediary for community development finance, created CDT as a for-profit real estate investment trust (REIT) in August 1998. LISC invested \$1,500,000 in seed capital and supported the start-up of the REIT. In June 1999, CDT completed its initial offering, a \$31,750,000 private placement of common stock with many of the country’s leading financial institutions. CDT’s bylaws restrict its activity to debt and equity investments that meet the requirements of the Community Reinvestment Act (CRA). CDT maintains a board of directors that includes representatives of the financial institutions who invested equity capital, and leading figures from the community development field.

CDT’s primary objective is providing capital for affordable rental housing for low- or moderate-income individuals and families. CDT will also invest in facilities that provide community services to low- or moderate-income individuals including, commercial and retail facilities, assisted living, charter schools, and other community development projects.

CDT’s business plan works as follows. CDT purchases CRA-eligible long-term fixed-rate loans from community development banks and other financial institutions and creates participation interests in the loans for sale to institutional investors through the REIT. Generally, CDT retains a subordinate interest in the loan and sells the senior participation to an institutional investor interested in long-term fixed-rate assets. The originating bank will generally continue to service the loan after the sale. CDT purchases loans as small as \$250,000 up to \$5,000,000, thus providing liquidity to a market that is underserved by traditional mortgage originators.

Mellon Bank, N.A., was the founding investor in CDT’s initial private placement. Under the regulation in effect at the time, Mellon submitted an investment proposal to the OCC for approval of its proposed equity investment in CDT pursuant to Part 24. Based on CDT’s mission to invest primarily in community development projects and a review of the Private Placement Memorandum and other documents, the OCC concluded that Mellon’s equity investment in CDT was consistent with the statute and the regulation, and approved the investment in 1999. Other national banks have piggybacked on

Mellon's original approval and have invested in CDT's initial private placements. These banks include BankOne, Fleet, Wachovia, Wells Fargo, Citicorp, and First Union.

The elimination of the geographic restriction in the regulation was most important to CDT and other national community development investors. Under the old regulation, Mellon could not invest in CDT if more than 25 percent of its investment would be made outside its investment area. This requirement placed certain constraints on Mellon's investment in that at least 75 percent of Mellon's funds needed to be invested in the region in which Mellon maintains its main offices or branches. The result of this requirement was that investments made by CDT were not made based on need and opportunity, but primarily on the location of its investor base.

CDT expects to raise additional equity capital early next year. The recent changes to the regulation will greatly simplify national bank participation in future equity placements. For additional information, contact Judd Levy, President and CEO, The Community Development Trust, (212) 271-5099.