Comptroller of the Currency
Administrator of National Banks

Community Developments

from the Community Development Division

Generating Community Development by Providing CRA-Related Investments

—by Maggie Pope, Community Reinvestment Fund

Established in 1988 as a nonprofit corporation under the laws of Minnesota, the Community Reinvestment Fund (CRF) addresses the need for community development financial resources across the nation by increasing the availability of capital for community and economic development loans originated by local revolving loan funds. CRF aggressively pursues the purchase of community and economic development loans to provide local revolving loan funds with cash liquidity necessary to support the origination of new loans. To finance these activities, CRF creates securities collateralized by the loans and sells the securities to banks, insurance companies, pension funds, and other institutional investors. The sale of these securities provides CRF with capital to purchase additional development loans. To date, CRF has purchased nearly $70 million of such development loans, issuing 11 series of its Community Reinvestment Revenue Bonds to more than 35 investors, including national banks. It has also privately placed whole loans with several banks and pension funds.

Under revisions made to the Community Reinvestment Act (CRA) regulations in 1995, the statute's 12 assessment factors were eliminated and substituted with three criteria: a lending, investment, and service test. While the revisions concentrate the focus of compliance standards on performance, with a significant emphasis on lending, banks are also expected to make community development investments. The question of how CRA regulations affect investors in Community Development (CD) securities is addressed in part by OCC Advisory Letter AL 97-2. The advisory letter provides guidance to national banks by informing them of the standards these securities must meet to qualify for purchase.

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Two key issues for determining whether an investment instrument meets CRA requirements are whether the security is a "CD security," and whether it is an "Eligible Investment." Advisory Letter AL 97-2 defines that, "CD securities are securities that are backed by interests in pools of community development loans, such as loans to borrowers in low- and moderate-income areas, or to small businesses. Typically, these securities are not rated by a nationally recognized statistical rating agency." It also defines the standard by which a national bank may purchase and hold unrated CD securities if the bank concludes, based on reliable estimates, ". . . that the obligator will be able to satisfy its obligations under that security, and the bank believes that the security may be sold with reasonable promptness at a price that corresponds reasonably to its fair value." The purchase of CD securities also must be consistent with safe and sound banking practices.

CRF's Community Reinvestment Revenue Bonds are backed by the development loans it purchases and are credit enhanced through tranches. The loans purchased and made with loan-sale proceeds provide critical financing for small businesses, minority- and women-owned businesses, job creation, affordable housing, neighborhood revitalization, and other activities that assist disadvantaged people or communities. CRF's secondary market for development loans has provided capital to 65 community development lenders around the country, including small neighborhood development groups, such as Frogtown Action Alliance in St. Paul, Minnesota; large urban development groups, such as Philadelphia Industrial Development Corporation; and state agencies in Arizona, California, Colorado, and Minnesota. Increasingly, CRF is being approached by banks seeking opportunities for CRA-qualified investments. For more information about CRF, contact Dennis Sonnek at (612) 338-3050.

Mercantile Bank, N.A., Develops Unique Community Development Service

—by Maury Zeitler, Community Development Division

The OCC recently approved a unique equity investment for Mercantile Bank, N.A. (the Bank), St. Louis, Missouri, under the Community Development Corporation (CDC), Community Development project (CD project), and Other Public Welfare Investments regulation, 12 CFR 24. Although the CDC primarily will be engaged in activities that meet the public welfare requirements of the regulation, a new operating division in the CDC will provide services previously not available.

All of the current investments in the Bank's CDC involve projects that produce affordable housing for low- and moderate-income people and are located in low- and moderate-income areas. The entire investment portfolio of the CDC is made up of limited partnership investments in projects using low-income housing tax credits, historic tax credits, and special state tax programs. Future investments in the CDC by the Bank will be used to promote the public welfare.

The CDC is establishing a new operating division to be called the Missouri Tax Credit Clearinghouse (the Clearinghouse). The Clearinghouse acts as a project financial intermediary and advisor to investors and tax credit purchasers in the state of Missouri. The activities of the Clearinghouse include:

- Acting as a "finder" to bring together investors and tax credit developers.
- Acting as a financial intermediary by buying and reselling certain types of transferable state tax credits.
- Acting as an advisor by providing financial, transactional, and tax planning advice to customers and potential customers, assisting them in structuring, arranging, executing, and managing tax-credit transactions.

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Initially, these services are provided in connection with projects awarded credits under Missouri State Tax Credit Programs. These include Investment Credit Programs, Contribution Credit Programs, and Business Incentive Programs. All of these programs develop projects that are made up of targeted low- and moderate-income individuals and areas, and that are specific to communities located in Missouri.

The Bank also noted that some of the activities of the Clearinghouse (i.e., acting as a "finder" for investors) will benefit the Bank's service area by encouraging investment in, or development of, tax credit projects that will serve these low- and moderate-income individuals and areas. Additionally, by promoting the purchase and resale of transferable tax credits, a secondary market may develop to encourage further investment in these projects.

For additional information, contact Michael J. Marshall, senior attorney and assistant secretary, Mercantile Bancorporation at (314) 418-8186.

City First Bank Opens In Washington, D.C.

—by Lillian Long, Community Development Division

City First Bank of DC, N.A. (the Bank), a national bank with a community development focus, opened its office in November 1998. The Bank will pursue two objectives simultaneously. They are to operate efficiently and profitably, focusing on the District's low- and moderate-income neighborhoods, and to increase access to credit, capital, and financial services for individuals and institutions in ways that will improve the economic health of these neighborhoods.

The Bank's activities will include real estate, commercial and consumer loans, and retail banking services, targeted to individuals and institutions in or serving the primary market area. Within each category, the Bank offers a balanced mix of products. The Bank also plans to develop cooperative business relationships with banks and other financial intermediaries both in and outside of its market area.

In determining whether or not a bank has a CD focus, the OCC takes into consideration several regulatory and policy issues. These include an assessment of the extent to which the Bank: (1) operates with and maintains an ongoing CD focus; (2) engages in public welfare activities as described in 12 CFR 24; and (3) has community participation and support. The Bank is located at 14th and Chapin Streets, NW, Washington, DC.

The OCC also recognized two additional national banks with a community development focus. They are Unity National Bank, in Houston, Texas and New York National Bank, in New York City. Banks with a community development focus are eligible to receive investments from national banks and to apply for designation as Community Development Financial Institutions. For additional information contact Lillian Long, Community Development Division at (202) 874-4930.

Texas Southern University Initiates Community Development Intern Program

Texas Southern University (TSU), Houston, Texas, recognized a growing need for experienced managers in the field of neighborhood revitalization. In response, it has joined forces with the Third Ward Community Development Corporation (TWCDC) and the

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Fannie Mae Foundation to develop a program emphasizing leadership skills and community and economic development.

The new Community Development Leadership and Internship Program at TSU, a "Historic Black College and University" is offered as an undergraduate minor or graduate-level concentration in community development; both include internship experience in the field. TSU and TWCDC developed the curriculum. The Fannie Mae Foundation is providing grant funds to help pay a stipend to student interns.

The new curriculum includes construction and rehabilitation of affordable housing, land assembly, new business development, and neighborhood commercial development. In addition, course work will cover the legislative process, urban sociology, finance, organizational management, conflict resolution and negotiation, marketing, and public relations.

Students gain practical experience in the day-to-day demands of community development work through an intern placement with a nonprofit organization, government agency, or financial institution involved in community development. Interns working with nonprofits and CDCs gain experience in marketing and development; those placed with the city or county are exposed to public policy and administrative procedures for community development initiatives; and those placed with financial institutions learn about bank financing of inner city revitalization.

Fall 1998 marked the initiation of the program, which has plans to place 20 interns annually. For further information, contact Joshua Hill, dean, School of Technology at TSU at (713) 313-7007, or Tony Williams, executive director, TSU/Third Ward CDC at (713) 313-1851.

Fannie Mae Foundation Becomes Partners with Universities to Expand Affordable Housing Opportunities

—by Jacquelyn C. Allen, Community Development Division

The Fannie Mae Foundation (Fannie Mae) awarded $5 million in grants to 14 universities across America as part of its University-Community Partnership Initiative (UCPI). The goal of the program is to expand affordable housing opportunities for low- and moderate-income households located in selected university communities.

The UCPI involves a two-pronged approach to achieving its goal of expanding affordable housing opportunities. First, UCPI seeks to increase the efficiency and effectiveness of nonprofits and other housing providers in housing development and housing-related service delivery in distressed communities. Second, it seeks to implement comprehensive community partnership projects in targeted neighborhoods with its strong affordable housing production and rehabilitation component that can be replicated across the country. All partnership programs are expected to integrate technical assistance, training, research, education, and evaluation into its activities.

The Fannie Mae Foundation considered four major criteria in selecting partner universities: (a) proposed partnership activities that would address the housing needs of targeted communities directly; (b) the presence of a comprehensive neighborhood strategy; (c) the sustainability of the effort in the long term; and (d) institutional competence to implement the UCPI.

The UCPI awardees undertake a wide range of projects, such as (1) producing and rehabilitating rental, homeowner, and special-needs housing for the elderly, including rehabilitating vacant buildings in blighted areas; (2) establishing employer assisted housing programs; (3) providing homeownership education and counseling; (4) creating neighborhood redevelopment plans; (5) establishing an apprentice program to develop housing construction and/or rehabilitation skills; and (6) identify-

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ing best practices in neighborhood development.

The universities participating in the initiative include: Pratt Institute, New York; University of Alabama at Birmingham; University of Illinois; University of Texas-Pan American; Yale University; University of California–Los Angeles; Case Western Reserve University; University of Wisconsin; University of Michigan; University of Florida/University of South Florida; University of Pennsylvania; Georgia State University; and Michigan State University. These universities received a total of $4 million. The University of Maryland was awarded a $1 million grant to pilot the program in March 1998. For additional information contact Tony Tijerino at the Fannie Mae Foundation at (202) 274-8064.

Individual Development Accounts

—by Letty Shapiro, Community Development Division

On October 10, 1998, President Clinton signed into law the Assets for Independence Act (the Act), S.2206—60. The Act establishes a five-year demonstration program to help low-income individuals and families save part of their income for future use toward specified activities: post-secondary education, first-time home purchase, and business start-up. The Act provides federal grants up to $1,000,000 to agencies conducting demonstration projects that manage Individual Development Accounts (IDAs), recruit and manage matching funds provided by nonfederal resources, and select and manage eligible IDA project participants.

National banks can serve as trustees for these IDA accounts because they are federally insured financial institutions. Banks can also provide matching funds for IDA programs. The designers of this program hope that banks will become active partners in these projects, thus introducing low-income people to the benefits of savings as well as to the process of managing their money in a financial depository institution. These accounts offer banks an opportunity to expand their market reach and earn CRA consideration.

The intent of the Act is to move federal welfare policy away from "asset limits" that characterized mean-tested policies of the 1960s, 1970s, and 1980s and that discouraged savings and asset accumulation. Recent welfare reform calls for increases in recipient general asset limits to promote savings by program participants. Also, recent policy supports the promotion of asset accumulation for targeted uses, such as home ownership. These anti-poverty strategies are based on the concept that asset building and stake holding provide individuals and families with more ways to personally overcome poverty. Asset-based policies promote savings and investment as mechanisms for asset accumulation.

To date, the development of IDAs is primarily a local and state phenomenon. Existing projects are attached to job training, welfare reform, self-sufficiency, microenterprise, or other development programs. The Act provides federal seed money to encourage additional projects and expansion of nonfederal matching funds. The results of this pilot will indicate the extent to which poor people can save and how asset accumulation effects economic well-being, psychological outlook, community involvement, active citizenship, and well-being of the next generation.

The U.S. Department of Treasury plans to announce the program and publish written guidelines in the *Federal Register* by January 27. Proposals for funding will be due by April 27. The Office of Community Services at the Department of Health and Human Services will administer this program. For further information, contact: Richard Saul, Office of Community Services at the Department of Health and Human Services, (202) 401-9341.

OCC News

OCC Issues Guidance on Accuracy of Community Reinvestment Act Data in Large Banks

The OCC recently issued Advisory Letter AL 98-16, to remind national banks that accurate community development, home mortgage, and small business data are essential for determining a bank's compliance with the Community Reinvestment Act.

Bank personnel, community development advocates, community organizations, examiners, and government agencies may be misled by banks' erroneous, community development data, home mortgage data, and small business data. Data errors also affect an examiner's ability to evaluate a bank's CRA performance appropriately and accurately.

Some common errors that OCC examiners have found include (1) reporting renewals of small business loans as originations; (2) not reporting gross annual revenues, when known, for a business receiving a small business loan; (3) in the case of an increase in a line of credit, reporting the total amount of the line of credit rather than the amount of the increase; (4) reporting loans that do not meet the definition of community development; and (5) reporting loans as both a small business loan and a community development loan. For additional information, contact the Community and Consumer Policy Department, at (202) 874-4446.

OCC Releases Affordable Housing Publication

The Community Development Division is pleased to announce the release of a new publication on affordable housing. *The Single-Family Affordable Housing Market: Trends and Innovations* captures the presentations given at the July 1997 Affordable Housing Symposium, sponsored by the OCC. Topics include the state of the affordable mortgage lending market, affordable mortgage underwriting standards, risk management, and risk mitigation strategies. Bankers and other affordable housing market professionals spoke from experience and provided vivid examples of market success stories. Many shared descriptions of their impetus for change and their satisfaction with portfolio growth and stability, while others offered ideas for increasing liquidity, reducing interest rate risks, and developing strategies for an industry that is continuing to mature and change.

Whether your bank has a long history of affordable housing lending or only an eager interest in this expanding market, this 104-page publication offers valuable insights. It is available on the OCC's Internet Web site for your easy retrieval and review, and in a print edition for $15. To purchase this publication, please send your written request, with payment, to:

Comptroller of the Currency
P.O. Box 700004
Chicago, IL 60673-0004

To obtain copies of OCC publications, send a written request, with $15 payment (check or money order) to: Comptroller of the Currency, PO Box 70004, Chicago, IL 60673-0004. Some OCC publications, including advisory letters, are available on the OCC's Web site at: http://www.occ.treas.gov.

Capitol Views

CDFI Fund Program Funding

In *Federal Register* notices, the CDFI fund invited all eligible parties to apply for financial and technical assistance under the next round of CDFI program funding. The core component provides direct assistance to CDFIs that serve their target markets through loans, investments, and other activities. The intermediary component supports technical assistance to CDFIs that focus primarily on financing other CDCs and/or support the formation of CDFIs.

The CDFI Fund management announced its intent to award up to $50 million under the core component, making 50 to 65 awards with an anticipated maximum of about $2.5 million. It also intends to award up to $7.5 million under the intermediary component with an anticipated maximum award of $1.5 million.

The deadline for applications are January 19 for the intermediary component and January 21 for the core component.

If you have questions about this fund, contact the:

Awards Manager
Community Development Financial Institutions Fund
U.S. Department of the Treasury
Washington, DC 20220
phone: (202) 622-8662
fax: (202) 622-7754

Fannie Mae Offers Mortgage Financing for the Rehabilitation of Affordable Apartments

At the Mortgage Banker's Association annual conference held in Chicago recently, Fannie Mae, the nation's largest source of home mortgage funds, and its largest multifamily mortgage investor, announced a new rehabilitation financing initiative for owners of affordable apartment properties in need of repairs and improvements to remain competitive in their markets.

The rehabilitation loan product allows owners of properties with five or more rental units to make moderate-to-major improvements that are necessary to allow rents to keep up with increasing expenses. This new loan product will allow apartment owners to enhance the quality of a property to retain tenants and compete with similarly positioned apartments in the community.

The rehabilitation financing will be available through selected lenders who participate in Fannie Mae's Delegated Underwriting and Servicing (DUS) product line who have experience in underwriting and managing rehabilitation loans. It provides for rehabilitation funding of up to $15,000 per unit across all multifamily product lines, provided that 100 percent of the units financed are affordable to low- and moderate-income tenants. For additional information contact Alfred King at (202) 752-6136.

Administration Announces Funding in Housing Aid for the Elderly and Disabled

President Clinton recently announced that $696 million in grants to nonprofit groups will be made available to create more than 8,200 subsidized apartments for poor senior citizens and people with disabilities. The grants are being administered under the Section 202 Program for senior citizens and the Section 811 Program for people with disabilities. An estimated 12,400 people around the nation will live in the apartments. In addition to funding construction and rehabilitation projects to create the apartments, HUD grants will also subsidize rents on the apartments for five years so that residents will pay only 30 percent of their incomes as rent. All recipients of the housing assistance must be classified as "very low income," which means an income of less than 50 percent of the area median, on a national basis. This amounts to an income of less than $8,000 a year.

For additional information, contact HUD at (202) 708-0685.