

CRA QUALIFIED INVESTMENTS IN THE FEDERAL RESERVE'S NINTH DISTRICT

*Federal Reserve Bank of Minneapolis
Community Affairs*

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NOTE: This document summarizes the regulations regarding qualified investments under CRA for large and small financial institutions. It does not discuss limited purpose banks or CRA strategic plans. This summary should not be used when assessing a financial institution's performance. It simply illustrates examples of investments noted in public evaluations of 36 large financial institutions and 65 small financial institutions of evaluations conducted from January 1, 1999, through June 30, 2000. The fact that an investment is listed in this document does not imply that such an investment will always qualify as a community development investment under CRA. Please discuss any questions you may have with your financial institution's regulatory agency.

CRA QUALIFIED INVESTMENTS

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INTRODUCTION

Since the revision of the Community Reinvestment Act (CRA) regulations in 1995, financial institutions have stated that they find the community development investment test particularly challenging. Financial institutions that have had trouble identifying “qualified investments” have cited multiple barriers as to why they have had difficulties. These include lack of understanding of the regulations, lack of opportunities in the financial institutions’ market areas, competition from larger financial institutions, and competition from other areas of the private sector. The purpose of this document is to provide financial institutions with a greater understanding of the CRA investment test, to explore the challenges and opportunities related to making qualified investments, and to offer a few examples of how other financial institutions have addressed the qualified investment test.

According to Regulation BB, which implements the CRA, the community development investment test evaluates a bank’s record of helping to meet the credit needs of the community it serves through qualified investments that benefit that community. The investment test measures the level and complexity of those investments and their responsiveness to community needs.

To offer examples of how other financial institutions have used investments under the CRA investment test, data were gathered from all CRA exams conducted of Ninth Federal Reserve District financial institutions between January 1, 1999, and June 30, 2000. The Ninth Federal Reserve

District includes Montana, North Dakota, South Dakota, Minnesota, Upper Peninsula of Michigan, and northwestern Wisconsin. This document not only includes information from exams conducted by the Federal Reserve Bank of Minneapolis, but also the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Federal Deposit Insurance Corporation. The data gathered include the size of the financial institution in terms of total assets at the time of the exam and the total monetary commitment to qualified investments, where applicable.

The collection and analysis of this data will allow financial institutions to review how similarly sized institutions in the Ninth Federal Reserve District have used investments under the investment test. This document is intended to offer financial institutions ideas regarding their own investments and possible investment opportunities within their communities.

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SUMMARY OF THE INVESTMENT TEST UNDER CRA

Qualified Investments - Definition and Performance Criteria

According to Regulation BB issued by the Board of Governors of the Federal Reserve System, the investment test evaluates a bank's record of helping to meet the credit needs of the community it serves through qualified investments that benefit that community. The investment test measures the level and complexity of those investments and their responsiveness to community needs.

A qualified investment is defined as "a lawful investment, deposit, membership share, or grant that has as its primary purpose community development."¹ In addition to the question of whether an action constitutes an investment, the more problematic question is whether or not the investment is for community development purposes. Community development under CRA is defined as the following:

1. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals;
2. Community services targeted to low- or moderate-income individuals;
3. Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs or have gross annual revenues of \$1 million or less; or
4. Activities that revitalize or stabilize low- or moderate-income geographies.²

¹ Regulation BB Community Reinvestment, Section 228.12(s).

² Regulation BB Community Reinvestment, Section 228.12(h).

Whether an action by a financial institution is considered a "qualified investment" is determined on a case-by-case basis. It is important to note that activities that qualify under the lending or service tests may not be considered under the investment test. Examples of possible qualified investments include an equity investment in a Small Business Investment Company (SBIC), a grant to a nonprofit organization that serves low- or moderate-income individuals, an investment in an affordable housing development through the purchase of low-income housing tax credits, or an investment in a revolving loan fund.

(Note: Further examples of qualified investments will be discussed in the section entitled "Opportunities for Making Qualified Investments – Examples from the Ninth Federal Reserve District.")

All qualified investments are not created equal. Although the dollar amount of the qualified investment is a major determinant of the institution's performance, it is not the only criterion. Other criteria on which the financial institution's investment performance is measured include, "the innovativeness or complexity of qualified investments, the responsiveness of qualified investments to credit and community development needs, and the degree to which the qualified investments are not routinely provided by private investors."³ Except for the actual monetary value of the investment, all of the performance criteria are decidedly subjective. Financial institutions subject to these regulations have been frustrated by this subjectivity.

³ Regulation BB Community Reinvestment, Section 228.23(e).

While this summary will not attempt to define “innovativeness,” “complexity,” or “responsiveness,” it will offer actual examples from previous CRA examinations.

Qualified Investment Performance Ratings – Large Financial Institutions

During a CRA exam of a “large bank,”⁴ the regulator assigns one of five ratings in regard to the bank’s performance in making qualified investments. These ratings range from outstanding to substantial noncompliance. This rating is then factored into the overall CRA rating, along with the ratings for the lending and service tests.

The following is a summary of the regulation’s description of each of the ratings used to assess a bank’s qualified investment activity (emphasis added):

Outstanding: An excellent level of qualified investments, particularly those that are not routinely provided by private investors; often in a leadership position; extensive use of innovative or complex investments; excellent response to credit and community development needs.

High Satisfactory: A significant level of qualified investments, particularly those that are not routinely provided by private investors; occasionally in a leadership position; significant use of innovative or complex investments; good responsiveness to credit and community development needs.

Low Satisfactory: An adequate level of qualified investments, particularly those that are not routinely provided by private investors; rarely in a leadership position; occasional use of innovative or complex investments; adequate responsiveness to credit and community development needs.

Needs to Improve: A poor level of qualified investments, particularly those that are not routinely provided by private investors; rare use of innovative or complex investments; poor responsiveness to credit and community development needs.

Substantial Noncompliance: Few if any qualified investments, particularly those that are not routinely provided by private investors; no use of innovative or complex investments; very poor responsiveness to credit and community development needs.⁵

Qualified Investments and Small Financial Institutions

Unlike large banks, “small banks”⁶ are not assigned a specific rating for their investments. In assessing whether a small bank’s CRA performance is satisfactory, examiners review loan-to-deposit ratios, percentage of loans within the bank’s assessment area, the distribution of loans to individuals of different income levels and to businesses and farms of different sizes, the bank’s record of taking appropriate action regarding complaints, and the geographic distribution of loans within the assessment area.

⁴ Large Bank under CRA is defined as an independent bank or thrift that, as of December 31 of the prior two calendar years, had assets of \$250 million or more, or a bank or thrift affiliated with a holding company that, as of December 31 of the prior two calendar years, had banking and thrift assets of \$1 billion or more.

⁵ Regulation BB Community Reinvestment, Appendix A, Section (b)(2).

⁶ Small Bank under CRA is defined as a bank or thrift that, as of December 31 of either of the prior two calendar years, had total assets of less than \$250 million and was independent or an affiliate of a holding company that, as of December 31 of either of the prior two calendar years, had total banking and thrift assets of less than \$1 billion.

Examiners of small financial institutions only review qualified investments at the request of the institution's management in order to enhance the bank's overall CRA rating to "outstanding." This being said, even if a small financial institution is vying for an outstanding rating, the financial institution does not necessarily have to have any qualified investments. The financial institution may receive an outstanding rating based solely on an excellent level of lending activities or a combination of lending and services.

The following Federal Financial Institutions Examination Council's "Interagency Questions and Answers" statement further clarifies this point:

A small institution that meets each of the standards for a "satisfactory" rating and exceeds some or all of those standards may warrant an "outstanding" performance rating. In assessing performance at the "outstanding" level, the agencies consider the extent to which the institution exceeds each of the performance standards and, at the institution's option, its performance in making qualified investments and providing services that enhance credit availability in its assessment area(s). In some cases, a small institution may qualify for an "outstanding" performance rating solely on the basis of its lending activities, but only if its performance materially exceeds the standards for a "satisfactory" rating, particularly with respect to the penetration of borrowers at all income levels and the dispersion of loans throughout the geographies in its assessment area(s) that display income variation. An institution with a high loan-to-deposit ratio and a high percentage of loans in its assessment area(s), but with only a reasonable penetration of borrowers at all income levels or a reasonable dispersion of loans throughout geographies of differing income levels in its assessment area(s), generally will not be rated "outstanding" based only on its lending performance. However, the

institution's performance in making qualified investments and its performance in providing branches and other services and delivery systems that enhance credit availability in its assessment area(s) may augment the institution's "satisfactory" rating to the extent that it may be rated "outstanding."⁷

⁷ Federal Financial Institutions Examination Council. Interagency Questions and Answers. The agencies have provided answers to questions pertaining to the provisions and topics of the CRA regulations. The Q&A document was revised and published in the *Federal Register* on April 28, 2000.

BANKS CITE BARRIERS TO MAKING QUALIFIED INVESTMENTS

Since the revision of the CRA regulations in 1995, financial institutions have found the investment test to be particularly challenging. In fact, research has shown that large financial institutions score markedly lower on the investment test than they do on the lending and service tests.⁸ Financial institutions that have had trouble identifying “qualified investments” have cited multiple barriers as to why they have had such difficulties. These include lack of opportunities in their market area, lack of understanding of the regulations, competition from larger financial institutions, and competition from other areas of the private sector.

Lack of Opportunities in the Assessment Area

The primary barrier cited by financial institutions regarding meeting the investment test under CRA is the limited number of investment opportunities within the financial institutions’ assessment area(s). During interviews with financial institution management and community contacts as part of the CRA exam process, those interviewed are often not aware of such opportunities. CRA public evaluation reports for financial institutions in rural areas often cite this barrier. According to one CRA evaluation, the following justification for the financial institution’s

⁸ Immergluck, 1998, CRA and CDFIs: The Community Reinvestment Act and CDFIs: Qualified Investments, Community Development Lending, and Lessons from the new CRA Performance Evaluations. Chicago: Woodstock Institute, pp 13-14.

limited ability to make qualified investments was offered: “The bank operates in a rural portion of northeastern Wisconsin. The assessment area does not contain any large communities in which community development investments would be more common.”

Understanding the Regulations

In addition to lack of opportunities, financial institutions also cite a lack of understanding of the CRA regulations. As noted in the previous section, the regulations are often seen as subjective and difficult to understand, particularly when it comes to the use of words such as “innovative” or “complex” or the marginal differences between “excellent” and “significant.” In addition, depending on the financial institution’s size, a financial institution may or may not have the staff available to adequately focus on understanding CRA issues and opportunities.

(Note: The consumer compliance areas of each of the regulatory agencies can serve as valuable sources of information about the CRA regulations.)

Competition From Other Financial Institutions

Competition is often cited as a barrier by both small financial institutions and smaller-sized large financial institutions. These smaller financial institutions often feel as if they are at a disadvantage when it comes to

making investments. For example, larger financial institutions may have the ability to purchase available bond issuances in their entirety, whereas smaller institutions may be able to purchase only a portion, making them less attractive to the issuers of the bonds.

Financial institutions in the Ninth District's metropolitan areas cite this as a fairly significant barrier. Where there is a great variance in the size of the financial institutions operating within a metropolitan area, the following citation from a public CRA evaluation in South Dakota illustrates this point:

Within the bank's overall assessment area, community contacts indicated opportunities to make community development investments, as defined by CRA, are extremely limited. Not only are community development investments not generally available, but also competition for any existing community development investments is very high. This situation is particularly apparent in the Sioux Falls Metropolitan Statistical Area (MSA) where several national and regional financial institutions dominate the market and aggressively purchase community development investments. Therefore, smaller institutions, like the bank, often have limited opportunity to purchase community development investments in the Sioux Falls MSA.

Competition From Other Areas of the Private Sector

Although financial institutions do not often cite competition from other areas of the private sector as a barrier, it does merit mention. According to one financial institution's management, "Many of the local investment opportunities offer tax benefits to individual investors rather than corporate

investors, which further limits the financial institution's potential involvement." Also, more organizations may target individual investors and grantors.

In addition, certain states have considered CRA-like regulations for the insurance industry. If such regulations were to be enacted, it could mean increased competition for financial institutions in making qualified investments.

OPPORTUNITIES FOR MAKING QUALIFIED INVESTMENTS – EXAMPLES FROM THE NINTH FEDERAL RESERVE DISTRICT

Seeking Out Opportunities

Despite the barriers discussed in the previous section, financial institutions often need to increase their efforts to identify qualified investment opportunities.

Although difficult, this task is not impossible. As new opportunities present themselves in communities, financial institutions can think about how these opportunities fit into their CRA goals. In addition, as financial institutions become more aware of their communities' needs, they have the ability to act as leaders in developing community development investment opportunities.

For example, examiners often use information gained from community contacts or other financial institutions within an assessment area to offer the financial institution ideas as to fulfilling the qualified investment test in the future.

A financial institution might see the following statement in its CRA evaluation:

Although community contacts did not identify any specific community development investment opportunities, they did identify needs in the community. For instance, affordable housing is in very short supply in the area and there is a lack of capital available for small businesses.

Based on this statement, the institution might take a leadership role in the community by convening other financial institutions and community leaders to develop and invest in community

development venture capital funds or revolving loan funds that fund affordable housing development.

Beyond the Assessment Area

Another important note for financial institutions in considering qualified investments is to remember that those investments need not be limited to those organizations serving only the financial institution's assessment area. Broader statewide or regionally focused programs that include the assessment area are also eligible for recognition under the investment test. For example, an investment in an SBIC that serves the entire state in which the financial institution is located would be considered a qualified investment. However, it may not receive as strong a weighting as an SBIC that is focused on the assessment area.

Ninth Federal Reserve District Examples

To offer examples of how financial institutions have addressed the investment test, data were gathered from the public evaluations of all CRA exams conducted of Ninth Federal Reserve District financial institutions between January 1, 1999, and June 30, 2000. This not only includes exams conducted by the Federal Reserve Bank of Minneapolis, but also by the Office of the Comptroller of the Currency, the

Office of Thrift Supervision, and the Federal Deposit Insurance Corporation. The data gathered include the size of the financial institution in total assets at the time of the exam and the total monetary commitment to qualified investments.

The collection of this data is intended to show financial institutions what similarly sized institutions have done to meet their responsibilities under the investment test.

Examples From Public Evaluations of 36 Large Banks and Thrifts

Community Development Grants (thirty-four financial institutions). Of the thirty-six large financial institution public CRA evaluations reviewed, almost all financial institutions had community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development as a qualified investment. While these grants are generally responsive to the community's needs and serve an important role in community development in every community, grant making in and of itself is not generally considered by examiners to be particularly innovative or complex. Examples of grants made by the large financial institutions include the following:

- ❑ Grants to a regional housing partnership for construction of affordable housing.
- ❑ Grants to two limited partnerships formed to construct affordable housing.
- ❑ A grant to an SBIC that provides long-term financing for minority-owned businesses.
- ❑ Grants to a multibank for-profit community development corporation (CDC) that provides funds for various

programs such as Head Start, food pantries, home rehab, and rent/deposit assistance for the homeless.

- ❑ Grants to a revolving loan fund that provides zero-interest funds to qualified Habitat for Humanity applicants.

State and Local Government Bonds (seven financial institutions). Following grants, the second most frequently cited qualified investment was the purchase of state and local government bonds. These bonds were used for such purposes as the purchase of affordable housing throughout the state, including the institution's assessment area; the construction of a day treatment center and residential facility for developmentally disabled individuals (who are primarily low or moderate income); and the remodeling of a low-income, multiple-family housing project.

Other Investments. Other less frequently cited qualified investments include investments in loan pools or capital funds (two financial institutions), investments in SBICs (three financial institutions), direct investments in affordable housing developments (five financial institutions), investments in CDCs (three financial institutions), investments in a tribally owned credit union (two financial institutions), and investments in complex community redevelopment projects (two financial institutions). Although less frequently used, several of these other investments are cited for their innovativeness and complexity or for identifying potential opportunities for other financial institutions.

Investments in Loan Pools/Revolving Loan Funds/Capital Funds (two financial institutions).

- ❑ Investments in three equity fund limited partnerships, created by a CDC to develop and/or rehabilitate multiple-family, low-income housing complexes.
- ❑ Investment in statewide limited partnership capital fund for housing. The fund invests in low-income housing projects. The project was determined by examiners to be complex as it involves equity investments and the use of tax credits to make it feasible.

Investments in SBICs (three financial institutions).

- ❑ Investment in a private venture firm, which is licensed by the Small Business Administration to provide venture capital to small independent businesses. (There are twenty licensed SBICs in the Ninth Federal Reserve District.)

Direct Investments in Affordable Housing Developments (five financial institutions).

- ❑ Purchase of Low-income Housing Tax Credits. Although not considered relatively complex or innovative, making equity investments in low-income housing tax credit projects via becoming limited partners in the projects is an excellent means of investing in an affordable housing project. The projects receive the capital needed to be viable housing projects and the bank receives tax credits as a return on investment.
- ❑ Ownership and operation of a low-income assisted living and senior housing complex by the bank's holding company.

Investments in Community Development Corporations or Development Associations (three financial institutions).

- ❑ Investment in a multibank CDC established by the bank's parent company. The CDC invests in entities

that finance, acquire, develop, rehabilitate, manage, sell, or rent housing primarily for low-income and moderate-income individuals.

Examples From Public Evaluations of 65 Small Banks and Thrifts

Of the sixty-five public evaluations reviewed, twenty-seven cited qualified investments contributing to the institution's outstanding CRA ratings.

Community Development Grants (twenty-one financial institutions).

Similar to large financial institutions, the largest number of qualified investments made by small financial institutions were in the form of community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development.

Examples include:

- ❑ Donation of a lamb or pig, purchased at the local fair, to a youth ranch that is home to local troubled teens from low- and moderate-income families. The animal is used for food or raised by the youth and sold.
- ❑ Grants to a newly formed local community foundation.
- ❑ Receipt of two grants from the Federal Home Loan Bank's Affordable Housing Program Grant fund, which were used by the local Habitat for Humanity chapter to construct two homes.
- ❑ Grants to a local CDC to provide funding to cover closing costs on new houses for residents in the assessment area.
- ❑ Grant to a designated local Community Development Financial Institution (CDFI).

State and Local Government Bonds (five financial institutions). Following grants, state and local government bonds were the most frequently cited qualified investments for small financial institutions. These include the following:

- ❑ Purchase of a local tax increment refunding bond to provide funding for the city to revitalize a blighted area.
- ❑ Purchase of a local government mortgage revenue bond that will fund a loan from the city to a nonprofit corporation that provides community services and job training.

Investments in Loan Pools/Revolving Loan Funds/Capital Funds (one financial institution).

- ❑ Maintenance by the bank of a membership investment in a local development corporation loan pool, which focuses on the facilitation, promotion, and encouragement of new and existing small businesses.

Investments in SBICs (one financial institution).

- ❑ A binding commitment to invest in an SBIC that provides venture capital to businesses located primarily in several midwestern states and potentially the bank's assessment area.

Direct Investments in an Affordable Housing Development (one financial institution).

Investments in CDCs or Development Associations (two financial institutions).

- ❑ Investment in a local community development and assistance organization to purchase and expand a medical clinic in a low-income census tract.

Deposits in CDFIs (one financial institution).

- ❑ Placement of deposits in two CDFIs as well as the bank becoming certified as a CDFI.

OTHER IDEAS FOR MAKING INVESTMENTS THAT MAY QUALIFY FOR CONSIDERATION UNDER CRA

Additional opportunities noted below that are worthy of consideration by a financial institution include new programs that are just being implemented and tools that have been in existence for a few years, but have not been widely used in the Ninth Federal Reserve District.

New Markets Tax Credit

In late 2000, the Community Renewal Tax Relief Act of 2000 was signed into law. A component of this act was the New Markets Tax Credit program, which is intended to spur investment in community development entities. According to the CDFI Fund, "By making an equity investment in an eligible community development entity (CDE), individual and corporate investors can receive a New Markets Tax Credit worth more than 30% of the amount invested over the life of the credit.... By increasing their capital base, this tax credit will enable CDEs to lend and invest more, to attract additional outside capital, and to bring even more private-sector engagement to their market-priming activities."⁹

(Note: For more information, visit CDFI's website at www.treas.gov/cdfi)

⁹ U.S. Department of the Treasury, CDFI Fund, "New Markets Tax Credit," <<http://www.treas.gov/cdfi/programs/newmarkets/index.html>>.

Equity Equivalent Investments (EQ2s)

EQ2s can be described as long-term, subordinated loans with specific conditions that allow them to function like equity. For nonprofits seeking new ways to raise equity, EQ2s provide an alternative to grants. In 1996, the National Community Capital Association (NCCA) developed the EQ2 for CDFIs and negotiated the first EQ2 investment. Since that time, several nonprofit organizations have successfully used the EQ2 to raise capital.

(Note: For more information, visit NCCA's website at: www.communitycapital.org)

CDFIs and Bank Enterprise Awards (BEA) Program

According to the CDFI Fund, "CDFIs are specialized financial institutions that work in market niches that have not been adequately served by traditional financial institutions. These CDFIs provide a wide range of financial products and services, including mortgage financing for first-time homebuyers, financing for needed community facilities, commercial loans and investments to start or expand small businesses, loans to rehabilitate rental housing, and financial services needed by low-income households and local businesses."¹⁰

¹⁰ U.S. Department of the Treasury, CDFI Fund, "Overview," <<http://www.treas.gov/cdfi/overview/index.html>>.

The BEA Program acknowledges the importance of traditional financial institutions in community development, by providing awards to banks that invest in CDFIs. According to the CDFI Fund, "Through the first five rounds of the BEA Program, the Fund has awarded over \$135.6 million to banks and thrifts. To date, banks and thrifts receiving awards have provided \$683 million in financial support or technical assistance directly to CDFIs, and \$2.4 billion to distressed communities in the form of direct loans, investments, and services."¹¹

(Note: For more information, visit CDFI's website at www.treas.gov/cdfi)

¹¹ U.S. Department of the Treasury, CDFI Fund, "BEA Program," <<http://www.treas.gov/cdfi/programs/bea/index.html>>.

APPENDIX A: LARGE BANKS AND THRIFTS

A BANK OR THRIFT THAT, AS OF DECEMBER 31 OF THE PRIOR TWO CALENDAR YEARS, HAD TOTAL ASSETS OF \$250 MILLION OR MORE AND WAS INDEPENDENT, OR A BANK OR THRIFT AFFILIATED WITH A HOLDING COMPANY THAT, AS OF DECEMBER 31 OF THE PRIOR TWO CALENDAR YEARS, HAD BANKING AND THRIFT ASSETS OF \$1 BILLION OR MORE.

NOTE: These examples are for illustrative purposes only. The fact that an investment is listed in this document does not imply that such investment will always qualify as a community development investment under CRA. Please discuss any questions you may have with your regulatory agency.

QUALIFIED INVESTMENT EXAMPLES

Asset Size (approximate): \$557 million

Qualified Investments: \$662,735

- Municipal bonds that funded a hospital expansion, which included the construction of assisted-living apartments for senior citizens. Half of the 24 new units were set aside for low- and moderate-income residents.
- Continued investment in a tribally owned credit union.
- Community development grants to organizations that serve low- and moderate-income individuals/geographies and/or promote small business development.

Asset Size (approximate): \$401 million

Qualified Investments: \$558,956

- Housing and redevelopment bond for the acquisition of a multifamily housing project primarily for rental to low- and moderate-income elderly persons or families.
- Investment in a downtown economic development incentive fund corporation, which provides a revolving loan fund to stimulate private investment in the downtown area.
- Investment in a housing partnership mortgage loan pool. Under this program, a consortium of banks provide a \$1.2 million mortgage loan pool for construction, rehabilitation, and permanent financing of homes to low- and moderate-income borrowers.
- Certificate of deposit in a tribally owned credit union.
- Community development grants to organizations that serve low- and moderate-income individuals/geographies and/or promote small business development, including the following:
 - A nonprofit consumer credit counseling service (CCCS)
 - A multibank for-profit community development corporation (CDC) established for the purpose of benefiting low- to moderate-income individuals. The CDC provides funds for various programs such as Head Start, food pantries, home rehabilitation, and rent/deposit assistance for the homeless.
 - A revolving loan fund that provides zero-interest funds to qualified Habitat for Humanity applicants. This program helps borrowers pay outstanding judgments, liens, and collection items, thereby helping to qualify for home purchase loans.

Asset Size (approximate): \$462 million

Qualified Investments: \$61,175

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development.
- Continued investment of \$100,000 in bonds (purchased prior to this evaluation period) that were used to construct a day treatment center and a residential facility for developmentally disabled individuals.

Asset Size (approximate): \$281 million

Qualified Investments: \$2,900

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development. (Although the bank makes a sizable amount of donations each year, many of the bank's donations do not qualify as community development donations.)
- Continued investment of \$400,000 in bonds (purchased prior to this evaluation period) that were issued by an area housing authority for the purpose of remodeling a low-income, multifamily housing project.

Asset Size (approximate): \$543 million

Qualified Investments: \$41,140

- Community development grants to organizations that serve low- and moderate-income individuals/geographies and/or promote small business development.

Asset Size (approximate): \$144 million

Qualified Investments: \$7,300

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development.

Asset Size (approximate): \$1.4 billion

Qualified Investments: \$8.2 million

- A substantial, complex, near-equity financing package to fund the redevelopment of a vacant warehouse building in a low/moderate-income area. The 1.9 million square foot facility will include a business incubator, retail space, office space, a child care center, and a government center. Upon completion, the project is expected to create about 5,000 new jobs. The project's funding represents a complex financial package involving several government agencies along with the bank's substantial investment. The complexity of the project was heightened by the exceptionally short time frame in which the banks analyzed and funded their investments after other involved financial institutions abandoned the project. The bank acted with an affiliate on this project.
- Equity investments of the bank's holding company in a Small Business Investment Company (SBIC), a substantial portion of which is credited to the bank.
- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development.

Asset Size (approximate): \$448 million

Qualified Investments: \$7.9 million

- Community development grants made by the bank holding company's affiliated foundation to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development. Most of the grants (73% by dollar) were to organizations that provide social services to low- and moderate-income individuals. Many of these organizations work directly with immigrant and refugee communities to help them meet basic needs.

Asset Size (approximate): \$191 million

Qualified Investments: \$2.6 million

- A substantial, complex, near-equity financing package to fund the redevelopment of a vacant warehouse building in a low/moderate-income area. The 1.9 million square foot facility will include a business incubator, retail space, office space, a child care center, and a government center. Upon completion, the project is expected to create approximately 5,000 new jobs. The project's funding represents a complex financial package involving several government agencies along with the bank's substantial investment. The complexity of the project was heightened by the exceptionally short time frame in which the bank analyzed and funded its investments after other involved financial institutions abandoned the project. The bank acted with an affiliate on this project.
- Equity investments of the bank's holding company in an SBIC, a substantial portion of which is credited to the bank.
- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development.

Asset Size (approximate): \$169 million

Qualified Investments: \$1.2 million

- Community development grants made by the bank holding company's affiliated foundation to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development. Specific examples include grants to a health care center for the improvement of health care delivery systems to low- and moderate-income families, to an organization that operates a food pantry and homeless shelter, and to a statewide SBIC.

Asset Size (approximate): \$80 million

Qualified Investments: \$1.2 million

- Community development grants made by the bank holding company's affiliated foundation to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development. Most of the organizations receiving qualifying grants provide social services to low- and moderate-income individuals or help develop affordable housing.

Asset Size (approximate): \$70 million

Qualified Investments: \$168,000

- Community development grants made by the bank holding company's affiliated foundation to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development. Specific examples include grants to a nonprofit organization that provides specially equipped residences for people with developmental disabilities, the local Salvation Army to assist with their relocation to a new facility, and a local nonprofit organization to help increase employment opportunities for people with mental illnesses.

Asset Size (approximate): \$365 million

Qualified Investments: \$1.08 million

- Community development grants made by the bank holding company's affiliated foundation to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development. Specific examples include grants to develop a homeless shelter and expand the services of a food pantry, to fund an organization that helps low-income people develop opportunities for self-employment, and to construct a new child care and educational facility (Head Start).

Asset Size (approximate): \$160 million

Qualified Investments: \$545,000

- Community development grants made by the bank holding company's affiliated foundation to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development. Specific examples include grants to a regional housing partnership for constructing affordable housing and providing homeownership education for low-income families, to an organization to develop housing for low- and moderate-income individuals with mental illnesses, and to a countywide achievement center that provides job training to persons with developmental disabilities.

Asset Size (approximate): \$166 million

Qualified Investments: \$518,000

- Community development grants made by the bank holding company's affiliated foundation to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development. Specific examples include grants to a start-up nonprofit organization that provides prevention and intervention counseling services to Hispanic youth, to a nonprofit organization that provides housing and support services to people with physical disabilities, and to a nonprofit organization that works with at-risk girls and battered women.

Asset Size (approximate): \$533 million

Qualified Investments: \$510,000

- Investments in three equity fund limited partnerships created by a CDC to develop and/or rehabilitate multifamily, low-income housing complexes. The projects qualify for low-income housing tax credits.
- Investment in a 44-unit housing complex for elderly tenants.
- Equity investment in limited partnership development association, which promotes economic development through the acquisition of real property and the development of an industrial park. The project will revitalize a moderate-income area and encourage the development of additional manufacturing in the MSA. This investment will also benefit low- and moderate-income individuals by creating new jobs primarily for low- and moderate-income individuals.

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development, including the following: the United Way (a majority of the United Way agencies serve low- and moderate-income individuals) and a housing partnership.
- Continued qualified investments from prior evaluation periods with remaining outstanding balances of \$292,500.

Asset Size (approximate): \$435 million

Qualified Investments: \$2.2 million

- Equity investments in low-income housing tax credit projects via becoming limited partners in the projects. The projects receive the capital needed to be a viable housing project, and the bank receives tax credits as a return on the investment.

Asset Size (approximate): \$507 million

Qualified Investments: \$1.7 million

- Five local government bonds to build a new service building in the downtown area. The location of the building is in a moderate-income tract, especially hard hit by a natural disaster.
- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development, including the following: an economic development agency, a chamber of commerce, a food shelf, the American Red Cross, and a nonprofit foundation that helps rehabilitate and revitalize areas impacted by a natural disaster, including moderate-income tracts.
- Continued investments made prior to this evaluation period and still outstanding include ten local bond issues, which helped finance housing and local development/redevelopment efforts.

Asset Size (approximate): \$415 million

Qualified Investments: \$1.08 million

- Bond that funds the purchase of housing by low- and moderate-income persons throughout the state, including the bank's assessment area.
- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development. The majority of the funds donated were used by an organization to match grant funds, which resulted in the exterior renovations of numerous homes owned by low-income persons. These exterior renovations were part of a program to stabilize and rehabilitate a distressed area.

Asset Size (approximate): \$366 million

Qualified Investments: \$545,500

- Equity investment in a statewide limited partnership capital fund for housing. The fund invests in low-income housing projects. The project is complex as it involves equity investments and the use of tax credits to make it feasible.
- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development, including grants to a nonprofit, private-public partnership created to focus on economic development and redevelopment opportunities in the region; to a "How To Do Your Banking" financial skills course at seven local high schools; to the United Way; and to the YMCA.

Asset Size (approximate): \$185 million

Qualified Investments: \$314,000

- Community development grants made by the bank holding company's affiliated foundation to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development. Specific examples include grants to Habitat for Humanity, a local college to support a program that prepares low-income women for employment and self-sufficiency, a program that provides legal services for low-income persons, and a child safety center that will provide child care and recreational activities for children of low- and moderate-income families.

Asset Size (approximate): \$355 million

Qualified Investments: \$284,000

- Community development grants made by the bank holding company's affiliated foundation to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development. Specific examples include grants to the Boys and Girls Clubs for the construction of a community center (the center will provide educational and recreational activities for children from all income levels, but it targets low- and moderate-income families), to Catholic Charities for a community liaison in a low-income apartment complex, and to an employment training program targeting low- and moderate-income persons with limited employment experience.

Asset Size (approximate): \$240 million

Qualified Investments: \$107,000

- Community development grants made by the bank holding company's affiliated foundation to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development. Specific examples include a grant to a convent for the provision of health care services to elderly, low-income nuns; to an organization that operates programs for battered women and children and for a health services program; and to an organization that provides technical assistance to farmers located in northwestern Minnesota.

Asset Size (approximate): \$843 million

Qualified Investments: \$837,000

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development, including the following:
 - Down payment assistance grants to 33 low- and moderate-income families, generally \$500 to \$2,000 per family.
 - Grants to two limited partnerships formed to construct affordable housing. These partnerships represent interests in residential real estate projects that qualify for low-income housing tax credits.
 - A grant to an SBIC that provides long-term financing for minority-owned businesses.
 - A grant to a community service organization providing social services (childcare, employment, welfare-to-work, and alternative education). About 70% of recipients are low income.

Asset Size (approximate): \$305 million

Qualified Investments: \$32,000

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development.

Asset Size (approximate): \$299 million

Qualified Investments: \$27,642

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development, including the following: an organization that builds housing for low- and moderate-income families, a credit counseling agency, and a homeless shelter.

Asset Size (approximate): \$258 million **Qualified Investments:** Not available

- A 99% ownership interest in an apartment building with 18 low-income tax credit units.
- A \$60,000 equity interest in a 48-unit, low-income tax credit property.
- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development.

Asset Size (approximate): \$600 million **Qualified Investments:** \$200,000

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development.

Asset Size (approximate): \$661 million **Qualified Investments:** \$75,000

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development.

Asset Size (approximate): \$1.0 billion **Qualified Investments:** \$30,000

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development, including the United Way, Neighborhood Housing Services, a local housing authority, and a development corporation for affordable housing.

Asset Size (approximate): \$509 million **Qualified Investments:** \$49.4 million

- The bank's holding company owns and operates a 78-unit, low-income, assisted-living and senior-housing complex. The holding company began developing this housing complex in August 1996. Total costs have exceeded \$4,800,000, which the holding company has independently financed through a different bank. The holding company provides for a social worker to provide services to the residents three days each week. The holding company has approximately \$1,000,000 in equity in this project.
- The bank has broken ground for redeveloping its current main office (located in a moderate-income census tract). The site is currently under construction and will soon include expanded space for the bank, an adjacent medical center, and a parking ramp. The site will also include a 138-unit rental townhouse development, of which approximately 12 units will be for low- and moderate-income individuals. The total cost of this project is expected to exceed \$44,000,000, which the holding company will finance independently through multiple lenders. The holding company has approximately \$4,600,000 in equity in this project.
- Moderate-income housing bonds for the construction of three different senior citizen housing projects within the assessment area.
- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development, including grants to an organization that acts as a fundraiser for several low- and moderate-income service groups, a group that provides homeownership counseling to low- and moderate-income people, and a group that provides youth programs for low- and moderate-income and at-risk youth.

Asset Size (approximate): \$281.8 million **Qualified Investments:** \$825,000

- Investment in a multibank CDC established by the bank's parent company. The CDC invests in entities that finance, acquire, develop, rehabilitate, manage, sell, or rent housing primarily for low-income and moderate-income individuals. (Currently, none of the loan pools contain loans originating in the state in which the bank is located. Management stated that the absence of investments in that state is primarily due to the infancy of the CDC and the difficulty associated with finding qualified investments in the state. Nonetheless, regulatory personnel consider the establishment of the CDC as a positive CRA endeavor.)

Asset Size (approximate): \$416 million

Qualified Investments: \$112,000

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development, including grants to a local economic development organization, a high school in a moderate-income geography, an organization that offers health and human service programs to low- and moderate-income individuals, an organization that serves troubled youths, day care centers, homeless shelters, and a consumer credit counseling service.
- Continued \$100,000 investment made during the previous evaluation period. The bank continues to hold this investment in a statewide SBIC. The purpose of this company is to make long-term investments in small businesses through the purchase of capital and debt securities of the company, by providing long-term loans, and by assisting with expert management advice.

Asset Size (approximate): \$426 million

Qualified Investments: \$58,000

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development, including a business association in a low-income geography, a business initiative development center, a women's business organization, a local housing corporation, and a community center.

Asset Size (approximate): \$69.4 million

Qualified Investments: \$6,000

- A small equity investment in a not-for-profit organization serving low- and moderate-income housing or other community development needs
- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development.

Asset Size (approximate): \$280.3 million

Qualified Investments: \$2,800

- Limited community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development.

APPENDIX B: SMALL BANKS AND THRIFTS

A BANK OR THRIFT THAT, AS OF DECEMBER 31 OF THE PRIOR TWO CALENDAR YEARS, HAD TOTAL ASSETS OF LESS THAN \$250 MILLION AND WAS INDEPENDENT OR AN AFFILIATE OF A HOLDING COMPANY THAT, AS OF DECEMBER 31 OF THE PRIOR TWO CALENDAR YEARS, HAD TOTAL BANKING AND THRIFT ASSETS OF LESS THAN \$1 BILLION.

NOTE: These examples are for illustrative purposes only. The fact that an investment is listed in this document does not imply that such investment will always qualify as a community development investment under CRA. Please discuss any questions you may have with your regulatory agency.

QUALIFIED INVESTMENT EXAMPLES

Asset Size (approximate): \$19.9 million

Qualified Investments: \$15,765

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development, including grants to the following:
 - A youth ranch through the annual purchase and donation of a lamb or pig. The ranch is home to local troubled teens. The youth who reside at the center come almost exclusively from low- and moderate-income families. The animals are used for food or raised by the youth and sold.
 - A newly formed local community foundation, which allowed the foundation to apply for a matching grant. Once the foundation accumulates sufficient capital, funds will be used to further economic development and job creation within the economically depressed county.
 - A senior citizens center through the payment of its water and utility bills for 1999. Approximately 90% of the persons who use the center are low- and moderate-income individuals.
 - A scholarship fund for attendees of a small business training program.

Asset Size (approximate): \$80 million

Qualified Investments: \$10,000

- Grants to a local community service organization that primarily serves the needs of low- and moderate-income children.

Asset Size (approximate): \$75.8 million

Qualified Investments: Not available

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development, including grants to the following:
 - A nonprofit economic development corporation through the payment of the organization's dues to the state's chamber of commerce.
 - An organization that helps people with mental and physical handicaps develop daily living skills and secure gainful employment. Many of these people have low or moderate incomes.
 - An organization that provides Christmas dinners for local foster children. The majority of foster children come from low- and moderate-income families and abusive families.
 - Powwows that support disabled residents of reservations, which are populated by low- and moderate-income people.
 - An organization that puts together packets of school supplies for elementary children whose parents could not afford to purchase the necessary supplies.
 - Three disadvantaged families in the community by providing Christmas gifts.
 - An organization, which helps individuals with disabilities achieve independence, to purchase and install automatic door openers for their building. The lack of automatic doors made it difficult for handicapped persons to enter the building.
 - A local organization that provides mental health and chemical dependency counseling to low- and moderate-income individuals.
 - A local domestic violence center, a shelter for physically and emotionally abused low- and moderate-income individuals.

Asset Size (approximate): \$33.6 million

Qualified Investments: Not available

- Grants to a local economic development corporation to assist the organization with its operating expenses.
- Two grants from the Federal Home Loan Bank of Indianapolis's Affordable Housing Program Grant Fund, which the local Habitat for Humanity chapter used to construct two homes.

Asset Size (approximate): \$290 million

Qualified Investments: \$681,309

- A binding commitment to invest in an SBIC. The SBIC was established to provide venture capital to businesses located primarily in several midwestern states and potentially in the bank's assessment areas.
- Grants to three local charitable organizations. The organizations provide various community services including housing, food, and educational programs targeted to low- and moderate-income individuals within the bank's assessment areas.

Asset Size (approximate): \$19 million

Qualified Investments: \$200,000

- The bank became certified as a Community Development Financial Institution (CDFI).
- Certificates of deposit in two other CDFIs.

Asset Size (approximate): \$271 million

Qualified Investments: \$150,000

- A local government tax increment refunding bond to provide funding for the city to revitalize a blighted downtown area into a shopping community consisting of small businesses.

Asset Size (approximate): \$68.7 million

Qualified Investments: \$32,000

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development, including a local community development association, a housing association, and a hospital.

Asset Size (approximate): \$146 million

Qualified Investments: \$28,000

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development, including the United Way, a children's hospital, a food shelf, and local economic development corporations.

Asset Size (approximate): \$211.0 million

Qualified Investments: Not available

- Grants to the local Neighborhood Housing Services organization.

Asset Size (approximate): \$184.2 million

Qualified Investments: Not available

- Grants to a foundation serving communities in the assessment area, including offering grants for subsidized housing.

Asset Size (approximate): \$53.3 million

Qualified Investments: Not available

- A housing authority's general obligation bond to help finance housing projects.

Asset Size (approximate): \$47.2 million

Qualified Investments: \$245,000

- Municipal bonds to help finance the construction of a community facility and the improvement of sewer and water for low-rent housing units. Both are located in moderate-income geographies.

Asset Size (approximate): \$158.4 million **Qualified Investments:** Not available

- An investment in a local community development and assistance organization to purchase and expand a medical clinic in a low-income census tract for lease to the City-County Health Board.
- Local government mortgage revenue bond for the purpose of funding a loan from the city to a nonprofit corporation that provides community services and job training.

Asset Size (approximate): \$53.8 million **Qualified Investments:** Not available

- Partnership with an economic development council for the development of a 12-unit affordable multifamily rental project, built to serve low-income families in the area. Much of the funding for the project received was in the form of grants and deferred mortgages.

Asset Size (approximate): \$230.7 million **Qualified Investments:** \$135,000

- Local government revenue bond that funded the construction of housing for three individuals who are developmentally disabled.
- Grant to the Salvation Army to keep the Salvation Army's social service programs functioning while the thrift store was being restored from fire damage.

Asset Size (approximate): \$41.8 million **Qualified Investments:** \$45,900

- Investment in a local CDC that focuses on providing affordable housing.
- A membership investment in a local development corporation loan pool, which focuses on the facilitation, promotion, and encouragement of new and existing small businesses and increased employment by providing loans to new and/or expanding industries and small businesses in the community.
- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development, including to the following:
 - A local CDC to provide funding to cover closing costs on new houses for assessment area residents affected by flooding.
 - A regional enterprise fund intended to strengthen and diversify the economy of the region. Loans are made to small businesses to fill the gap between the total cost of the project and the amount that is available through other sources of private funding.
 - A regional foundation dedicated to improving the quality of life for the people in the area by encouraging and energizing them to devise creative responses to change that will build a future with greater economic opportunity.

Asset Size (approximate): \$164.6 million **Qualified Investments:** \$25,000

- Grant to a local housing coalition to finance a workshop designed to help low- and moderate-income home buyers qualify for financing.
- Grant to a local CDC that focuses on building and rehabilitating affordable homes. The bank's investment is part of a \$200,000 pool that provides interest-free construction loans and other subsidies for low- and moderate-income buyers.

Asset Size (approximate): \$38.7 million **Qualified Investments:** \$9,000

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development.

Asset Size (approximate): \$55.6 million

Qualified Investments: \$7,975

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development, including a community development commission, a micro-lending organization, the Small Business Administration, a housing study's needs assessment, and an organization that serves women and children in distressed domestic situations.

Asset Size (approximate): \$210.8 million

Qualified Investments: \$6,500

- Community development grants to organizations that benefit low- and moderate-income individuals/geographies and/or promote small business development, including annual contributions to the local Neighborhood Housing Services organization and to a local organization that serves women and children in distressed domestic situations.

Asset Size (approximate): \$25.5 million

Qualified Investments: \$5,000

- Grant to a designated CDFI that provides loans, grants, and other programs and services to stimulate growth and development in the region.

Asset Size (approximate): \$35.1 million

Qualified Investments: \$4,000

- Grants to permanent endowment funds for educational scholarships for low- to moderate-income students.

Asset Size (approximate): \$70.1 million

Qualified Investments: \$1,800

- Grants to a local economic development corporation, an emergency housing and homeless service, and a low-income youth program.

Asset Size (approximate): \$26.9 million

Qualified Investments: \$1,000

- Grant to a regional economic conservation corporation that promotes small business development.