

Interagency CRA Officer Training

Defining CD-What Qualifies?

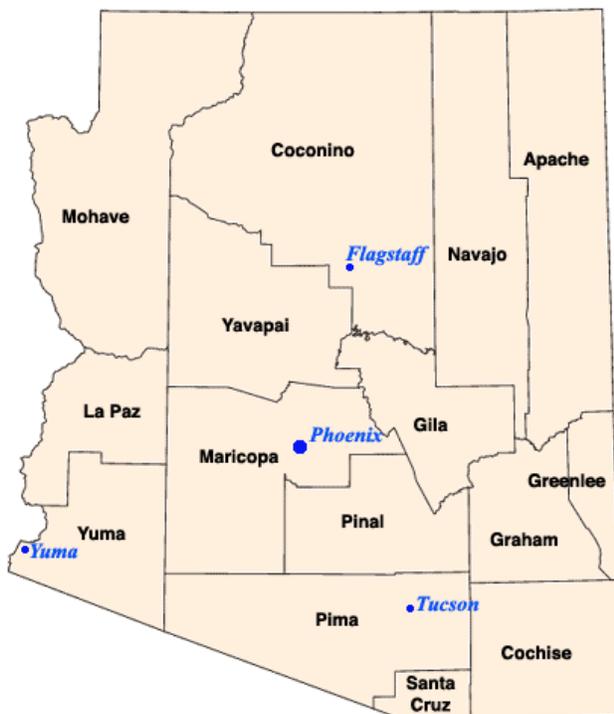
Case Study and Answer Key – for Facilitators Only

Instructions:

Training participants should be broken into four small groups and at least one facilitator assigned to work with each group. The facilitator will allow time for group members to read the Case Study and then complete the assigned table. Upon completion of assignment, the groups will report their findings.

CASE STUDY

B&T Bank traces its roots to the late 1800's when it was founded as a small privately owned bank. The bank has grown to become approximately \$390MM in total assets and for the first time will be examined under the Intermediate Small Bank (ISB) procedures. The bank's assessment areas include the Phoenix-Mesa-Scottsdale MSA (Maricopa and Pinal Counties), the Tucson MSA (Pima County) and Cochise County. Below is information regarding the bank's assessment area:



ASSESSMENT AREA

Maricopa County is located in the central part of Arizona and is ranked fourth among the nation's counties in total population. There are several small business organizations located in the county. The largest of these is the Phoenix Regional Development Corporation (PRDC) which has received a grant from USDA to provide technical assistance (TA) to small business owners participating in

the agency's small business development program. The program requires small business owners to attend a ten week financial literacy program and upon completion, the graduates are eligible to apply for a micro-loan. PRDC continues to seek ways to serve its clients and has asked B&T to participate in its Loan Executive program and to invest in the small business revolving loan pool.

Pinal County is located in the central part of Arizona. There are many community development partners in Pinal County including, the Gila River Community Development Corporation (CDC). The Gila River CDC, with funding from local lenders and the cities of Maricopa and Casa Grande, manages the RADE program which funds the purchase and rehabilitation of owner-occupied homes on the Gila River Indian Reservation. The Spanish speaking population in Pinal County continues to grow and B&T's retail management is looking for ways to tap into this market. Gila River CDC is also concerned and has plans to offer their financial literacy workshops in Spanish.

B&T is a member of the Federal Home Loan Bank system. To help serve the low- and moderate-income families in rural Pinal County, B&T sponsored an Affordable Housing Partnership (AHP) grant for EDC and its Self-Help Homeownership Opportunity Program (SHOP). EDC has a long history of constructing and rehabilitating affordable housing in rural areas. EDC could expand its program if they could secure an 18-month line of credit for construction of additional units.

Pima County is located in the south central region of the state and is home to the Pima American Indian tribe, from which it gets its name. There continues to be a serious lack of affordable housing in Pima County. To help meet this need, Urban Renewal Enrichment Corp (UREC) has submitted a request for additional HOME funds. The head of B&T's mortgage loan department provided a letter of support to UREC to accompany their application for HOME funds. The arrangement will expand B&T's existing first-time homebuyer mortgage program, with additional down payment assistance and home buyer training. B&T also committed to expand its work with delinquent borrowers through the creation of a Home Ownership Preservation Office. B&T staff will work with borrowers to identify reasons for late payments and then refers them to UREC to provide appropriate counseling or assistance.

B&T has partnered with Fairbanks CDFI to serve the small businesses along the Mexican border. Fairbanks CDFI has identified Pima and Santa Cruz as its service area. However, the CDFI has not made any loans in Pima County.

Pima County also has a growing elderly population. B&T has a banking center in the WM Towers Retirement Center. A survey of the residents determined that less than fifty percent of the residents and/or staff are B&T customers. W. Maxx CDC owns and operates the retirement center that provides housing to low- and moderate-income citizens and has discussed a possible \$900,000 renovation proposal with B&T. However, before W. Maxx CDC agrees on a lender, the Board of Directors would like to learn more about any CRA qualified services that B&T could provide.

Cochise County, named for the Apache Chief is located in the Southeastern corner of Arizona and is known as the Land of Legions. Cochise County is home of the first McDonald's drive thru and is home to one of the oldest military outposts in the American West – Fort Huachuca – now a modern center for intelligence training for the United States Army. B & T has one banking center in Cochise County and has the largest market share.

County	%White	% Hispanic	% Black	% Native American	% Other	# of Families	Median Family Income
Maricopa	66.22	24.85	3.73	1.85	14.16	763,110	\$51,827
Pinal	70.42	21.86	2.72	7.81	16.34	45,211	\$39,548
Pima	75.07	29.34	3.03	3.22	15.47	212,092	\$44,446
Cochise	76.66	30.69	4.52	1.15	17.68	30,768	\$38,005

BANKING OPERATIONS

Since the last exam, the assessment area expanded to include Pima County. As a result, three new banking centers were added to the Bank's service areas. Of the current ten banking centers, four or 40% are located in LMI census tracts, two located in distressed census tracts and one located in an underserved census tract. In addition, a new banking center located in a moderate-income census tract in Maricopa County, is scheduled to open in November of this year. This will bring the total retail banking system to eleven banking centers, its Operation Center and ten ATMs located within the Bank's AA. The bank has not closed any banking centers since the last CRA exam.

BANK CD SERVICE ACTIVITIES

The B&T branch system is the primary delivery system for retail banking services and the banking centers are reasonably accessible to geographies and individuals of different income levels in the bank's AA. The Bank offers a range of deposit and loan products and business services available at all banking center locations.

<i>B&T Banking Center Information</i>				
<i>Address</i>	<i>ATM Yes / No</i>	<i>Census Tract Classification</i>	<i>% LMI Census Tracts</i>	<i>Comments</i>
<i>Maricopa County</i>			<i>45%</i>	
<i>600 North Duncan</i>	<i>No</i>	<i>Middle</i>		<i>Operation Center</i>
<i>203 West Main</i>	<i>Yes</i>	<i>Moderate</i>		<i>Scheduled to open 11/23/07</i>
<i>502 North Duncan</i>	<i>Yes</i>	<i>Middle</i>		<i>Distressed census tract</i>
<i>2205 Florida Blvd.</i>	<i>Yes</i>	<i>Low</i>		
<i>934 Forest St</i>	<i>Yes</i>	<i>Middle</i>		<i>Distressed census tract</i>
<i>Pinal County</i>			<i>54%</i>	
<i>110 South Congress</i>	<i>Yes</i>	<i>Moderate</i>		
<i>801 Hwy 321</i>	<i>Yes</i>	<i>Middle</i>		
<i>206 Hillcrest Dr.</i>	<i>Yes</i>	<i>Moderate</i>		
<i>2700 Celanese Road</i>	<i>Yes</i>	<i>Middle</i>		
<i>Pima County</i>			<i>35%</i>	
<i>1330 Indian Hook Road</i>	<i>No</i>	<i>Middle</i>		<i>Located in WM Towers Retirement Center</i>
<i>615 Crown Pointe Lane</i>	<i>Yes</i>	<i>Moderate</i>		
<i>Cochise County</i>				
<i>116 NE Main, Benson</i>	<i>Yes</i>	<i>Middle</i>		<i>Underserved census tract</i>

ASSIGNMENT

Unfortunately for the Bank, the last CRA Officer has accepted a position with one of its competitors and has relocated to another state. The Bank believes it has done an “outstanding” job of meeting the needs of its local community. However, it has taken several months to fill the position and the CRA exam will begin in a couple of months. As the new CRA Officer, management has asked you to review the bank’s CD Loans, Investments and Services to determine if they qualify for CRA. To assist you, management hired a consultant who prepared various tables, listing loans, investments, and services she believes qualify for CRA. **Using your assigned table complete the last two columns: 1) Denoting whether the activity qualifies for CRA, with a “Yes” or “No” including a brief description as to why it does or doesn’t qualify and 2) Determine if the activity is a community development loan, investment or service.**

Table #1**Community Development Loans, Investments, Services and Opportunities – Work papers (Answer Key)**

Task: Review the community development activities below and determine if they are eligible community development activities. Provide comments to support decision.

Organization	Activity Description	Assessment Area	Qualify? (Yes or No)	CD Activity Type (Loan, Investment, Service)
Jefferson Management & Associates	\$500,000 Working capital loan to commercial developer to build 12 unit apartment building	Moderate-income in bank's AA	No / Loan is < \$1 million; working capital loan – not directly for construction; Reported as SB loan	Activity does not qualify
Mesa YMCA	President and EV President served as President and Treasurer - Programs targeted to serve the needs of LMI and include an after school program for LMI children which financial literacy training is provided by bank employees	Maricopa County	Yes / Organization serves LMI population in Maricopa County, a distressed area	Service – Only CD service if bank employee is providing financial expertise
Habitat for Humanity	BC Sales Mgr/Volunteer - Builds houses for low-income families	Pima County	No / Service provided by employee is not related to financial services; would qualify if bank staff participated in application reviews or financial education	Activity does not qualify
Camelot Hospital	\$75,000 Unsecured Loan to nonprofit hospital to fund walk-in medical clinic - Only bank involved	Underserved CT	Yes / Hospital in underserved area; Bank involvement shows leadership	CD Loan
Provident Business Solutions	EV President serves on Advisory Board - Provides economic development financing to small businesses in Arizona. Organization assists with funding of SBA 504 loans	Statewide	Yes / Provides SBA 504 loans & SBA 7A	Service
Roswall Black Chamber of Commerce	\$100,000 Contribution - Small business loan pool to fund micro loans – Branch Manager is Board Member- Bank is the largest contributor	Maricopa & Pinal Counties	Yes / Helps to provide financing to small businesses	Investment & Service
Breezy Hill Apartments	\$650,000 - Bank purchased LIHTC to build apartments	Maricopa County	Yes / Tax credits are considered as CD investments	Investment
Blessed Rock Baptist Church	Branch Manager is Deacon - Provides a variety of information and free services designed to help elderly members	Pima County	No / Organization does not meet primary purpose of CD; Activity does not primarily benefit LMI (No documentation provided)	Activity does not qualify

Alzheimer's Association	Branch Manager serves on Board - Organization provides assistance to individuals in the county affected by Alzheimer. EVP personally raised \$10,000 to help fund program	Pima County	No / Organization does not meet primary purpose of CD; Activity does not primarily benefit LMI (No documentation provided)	Activity does not qualify
EDC	Bank has made a binding commitment to provide construction & permanent financing – Vice President serves as Board Member & Treasurer	Pinal County	Yes / Organization constructs and rehabs affordable housing units for LMI families; Additional loans will expand B&T existing FHLB partnership	CD Loan – Only the construction loan would count as CD; Perm financing would be HMDA reportable and not counted as CD (unless multi-family)

Table #2**Community Development Loans, Investments, Services and Opportunities – Work papers (Answer Key)**

Task: Review the community development activities below and determine if they are eligible community development activities. Provide comments to support decision.

Organization	Activity Description	Assessment Area	Qualify? (Yes or No)	CD Activity Type (Loan, Investment, Service)
Maricopa County Foundation	President served as “founder” of the Foundation - Foundation recently created and was developed to promote growth in Maricopa County in the areas of Arts, Culture, and Recreation	Maricopa County	No / Foundation serve a broad array of community needs. Bank is encouraged to target any future investments toward community development activities	Activity does not qualify
Casa Grande Charter School	Branch Manager teaches the FDIC Money Smarts Program; PTA offers financial literacy program to parents; School is a Title 1 School (52% of students participate in free lunch program)	Pinal County	Yes / Charter School serves LMI students and employee activity meets CD primary purpose	Service
United Way	Bank employee serves as Advisory Chair and assist with fundraising - Programs for a variety of community needs including education, the arts, and community activity	Maricopa County	No / Organization must meet CD primary purpose and benefit LMI	Activity does not qualify
Pima County IDA Program	Local banks have established an IDA program for affordable housing - Retail Manager provides TA & serves on task force	Pima County	Yes / IDA program is income driven and serves LMI and is related to affordable housing	Service
Ocampo Manufacturing	\$950,000 Commercial loan to factory-employees primarily LMI and loan helps to retain jobs	Low-income	No / Loan is < \$1 million; Reported as SB loan	Activity does not qualify
Helping Hands	\$25,000 donation to Gilbert Battered Women Shelter	Upper-income	May be / Would count if Clients are typically LMI	Investment
Niskey Lake CDC	\$30,000 - Donated foreclosed property for resale to LMI borrower	Pima County	Yes / Nonprofit provides assistance to LMI	Investment
Pinal County Salvation Army	\$250,000 construction loan to expand SRO housing for the homeless	Pinal County	Yes / Sal Army is providing housing for LMI through its Single Room Occupancy (SRO) Housing Program	Loan

Fairbanks CDFI	\$75,000 - Deposit into a CDFI- All loans have been made in Santa Cruz	Santa Cruz County	Yes / CDFI meets CD purpose	Investment
UREC	\$10,000 contribution; Creation of a Home Ownership Preservation Office	Pima County	Yes / UREC provides affordable housing to LMI families; Home Ownership Preservation Office will help to prevent foreclosures; The arrangement will expand B&T's existing first-time homebuyer mortgage program by generating loans and CRA service opportunity	Investment & Service

Table #3**Community Development Loans, Investments, Services and Opportunities – Work papers (Answer Key)**

Task: Review the community development activities below and determine if they are eligible community development activities. Provide comments to support decision.

Organization	Activity Description	Assessment Area	Qualify? (Yes or No)	CD Activity Type (Loan, Investment, Service)
Scottsdale Middle School Reading Program	Branch Manager serves volunteer - Program enhances the reading skills of middle school students and builds character and leadership skills	Maricopa County	No / Organization does not meet CD purpose; Employees involvement is not related to the provision of financial services	Activity does not qualify
Greater Scottsdale Area United Way	Local United Way Agencies have established an asset building coalition to offer the IDA program - Mortgage Lender is a coalition member and provides input on the development of the affordable housing program	Maricopa County	Yes / Primary purpose of the task team is to support the creation of an IDA program which by definition is income driven	Service
Inez LLC	\$51,000 Loan to purchase trailer park – Inez LLC is a local small business owner	Moderate-income	No / Reported as SB Loan	Activity does not qualify
EDC	Vice President serves as Board Member & Treasurer – EDC Provides first-time home ownership training & builds homes for LMI families	Pinal County	Yes / Organization meets CD purpose	Service
Main Street Pinal Downtown Development Pool	Florence City President serves on Board - Established to assist businesses located in downtown area to obtain affordable financing by providing low-interest rate loans through area banks, including B&T Bank	Pinal County	Yes / Program works with banks to provide low-interest rate loans to small businesses	Service
BCI Development Corporation	\$25,000 contribution - EV President serves on Loan Committee -Provides innovative, long-term financing programs to small and medium size enterprises outside bank's AA	Santa Cruz	Santa Cruz is not part of the bank's AA / Must benefit a broader regional area that includes the bank's AA	Investment & Service
Magnolia Baptist Church	\$1.5 million perm loan for daycare and multipurpose center - loan will create 10 daycare jobs; Banking Center Manager teaches financial literacy classes to parents	Low-income	Yes / Daycare center will serve LMI area and create LMI jobs	Loan & Service

Arizona Community Bank	\$100,000 – 12 month CD - Deposit into a Minority Owned Bank serving the entire state	Apache County	Yes / Minority Owned Bank serves entire state. CD Investment if met needs in assessment area	Investment
Phoenix Regional Development Corporation	\$50,000 investment in Community Development Corporation- Florence City President serves on Board	Maricopa & Pinal Counties	Yes / Nonprofit provides financing to small businesses	Investment
W. Maxx CDC	\$900,000 construction loan on a retirement center based on the provision of CRA qualified services	Pima County	Loan & Service - B&T needs to identify what CRA qualified services they can provide – Construction Loan would count – Financial Literacy could be provided	Loan & Services would only count after they had been provided
Gila River CDC	Bank assists in identifying community members needing CDC services as well as providing bank employees in the Pinal County assessment area to work as volunteers to assist Gila River CDC	Pinal County	Yes, bank assists CDC in their mission targeting LMI individuals such as Financial Literacy workshops.	Service – Yes, since bank actually provided the financial expertise

Table #4**Community Development Loans, Investments, Services and Opportunities – Work papers (Answer Key)**

Task: Review the community development activities below and determine if they are eligible community development activities. Provide comments to support decision.

Organization	Activity Description	Assessment Area	Qualify? (Yes or No)	CD Activity Type (Loan, Investment, Service)
Phoenix Regional Development Corporation	President serves as VP on board -Nonprofit corporation established to provide supplemental financing for new or expanding small businesses.	Maricopa & Pinal Counties	Yes / Organization meets CD purpose	Service
Casa Grande Charter School	\$2,000 grant to support School PTA's Financial Literacy Program - Branch Manager teaches the FDIC Money Smarts Program; PTA offers financial literacy program to parents; School is a Title 1 School (52% of students participate in free lunch program)	Pinal County	Yes / Charter School serves LMI students and employee activity meets CD primary purpose	Investment & Service
BCI Development Corporation	EV President serves on Loan Committee - Provides innovative, long-term financing programs to small and medium size enterprises outside bank's AA	Santa Cruz County	Santa Cruz is not part of the bank's AA / Must benefit a broader regional area that includes the bank's AA	Activity does not qualify
Pilgrim's Inn	Sr. Vice President serves on Board -Provides transitional housing and day care service for low- to moderate-income families; Provides emergency assistance for utility bill payments	Pinal County	Yes / Provides assistance to homeless mothers and children; Programs include daycare and transitional housing	Service
Maricopa Housing Authority	\$570,000 Construction loan -Branch Manager teaches banking class	Maricopa County/ Moderate-income	Yes / Housing Authority serves LMI & provides affordable housing	Loan & Service
Phoenix Regional Development Corporation	\$200,000 LOC to finance small business loans – Real estate secured	Maricopa & Pinal Counties	No / Would be reported as a small business loan	Activity does not qualify
Sunflower Properties, LLC	\$1.5 MM to restructure debt, collateral in Maricopa, owner business in Houston, TX – Proceeds were used to reopen a factory in Santa Cruz and reemployed the LMI workers and is now the largest employer	Santa Cruz/ Moderate-income	It depends / SB and HMDA loan reporting guidance says to use the property location. However, Q & A _ .42(a)#10 says a bank can report either the business' physical location or the location where the loan proceeds are used; Bank must meet its AA needs before it would count	Activity could qualify as a CD loan

Gold Bond	\$500,000 - Bank purchased a municipal bond to construct high school for students of all income levels	Cochise County/ Underserved census tract	Yes / Underserved census tract covers infrastructure improvements in non-metro middle income areas; Bank would not have to prove that the majority of the students were LMI before this would be considered	Investment
Casa Grande Downtown Rotary Club	Banking Center Manger serves as Rotary Club President - Rotary Club provides philanthropic support to various community organizations	Pinal County	No / Organization purpose does not meet CD primary purpose test	Activity does not qualify
Phoenix Regional Dev Corp. (PRDC)	Bank has an opportunity to participate in the Loan Executive program and contribute to the small business revolving loan pool	Maricopa County	Yes / Organization provides small business loans; Bank could benefit from retail deposit accounts and SB loans; Would only count after donation is made and/or financial expertise is provided	Service & Investment