

Defining Community Development (CD)

What qualifies and a case study for practical application

DEFINING COMMUNITY DEVELOPMENT (CD)

- Credit needs vary among communities
- CD regulation concepts
 - CD Loans
 - Qualified Investments
 - CD Services



DEFINING COMMUNITY DEVELOPMENT (CD)

- **Affordable housing** for Low- or moderate-income (**LMI**) individuals
- **Community services** for **LMI** individuals
- Activities that promote **economic development** by providing financing for small businesses or small farms
- Activities that **revitalize or stabilize** LMI geographies, distressed or underserved non-metro middle-income areas, or designated disaster areas.

DEFINING COMMUNITY DEVELOPMENT (CD)

- Distressed - non metropolitan middle-income geographies
- Underserved - non metropolitan middle-income geographies
- Designated – major disaster areas designated by FEMA

DEFINING COMMUNITY DEVELOPMENT (CD)

- Community development activities
 - Benefits the bank's assessment areas (AAs)
 - Responsive to community needs



DEFINING COMMUNITY DEVELOPMENT (CD)

Revitalize or stabilize LMI geographies

- Help attract new, or retain existing, residents or businesses
- Part of a strategic plan for an Enterprise Community or Empowerment Zone
- Consistent with a federal, state, local or tribal plan for revitalization or stabilization of LMI geographies

DEFINING COMMUNITY DEVELOPMENT (CD)

Revitalize or stabilize distressed non-metro middle-income areas

- Help to retain, or attract new, residents or businesses
- Are consistent with a bona fide government plan to revitalize or stabilize the geography
- Greater weight to activities that are most responsive to community needs

DEFINING COMMUNITY DEVELOPMENT (CD)

Revitalize or stabilize underserved non-metro middle-income areas

- Help meet essential community needs
- Does not have to target, but must include, LMI individuals



DEFINING COMMUNITY DEVELOPMENT (CD)

Designated Disaster Area

- Attract new, or retain existing businesses or residents and is related to disaster recovery
- Are consistent with a bona fide government disaster recovery plan
- Regulators will give greater weight to those activities that are most responsive to community needs, including those of LMI individuals or neighborhoods

DEFINING COMMUNITY DEVELOPMENT (CD)

- **TRUE or FALSE?**
 - Economic development activities must meet two tests.
 - A loan to build a market-rate apartment complex in a low-income geography helps to revitalize because it creates jobs
 - A contribution to support a disaster recovery program for a city outside the bank's assessment area automatically qualifies as a qualified investment



DEFINING COMMUNITY DEVELOPMENT (CD)

Community Development Loan

- Have a primary purpose of CD
- Not reported as a home mortgage, small business, small farm or consumer loan
 - Unless it is a multi-family loan
- Benefits the bank's AAs or broader regional or statewide area that includes the bank's AAs
- Consideration given to complex or innovative loans/loan products
- May be direct or indirect
 - Indirect refers to loans originated by affiliates or third party lenders



DEFINING COMMUNITY DEVELOPMENT (CD)

Examples of CD Loans

- Affordable housing: rehabilitation, construction, permanent financing for multi-family
- Loans to:
 - Nonprofit organizations
 - Construction or rehab of community facilities
 - Financial intermediaries
 - Local, State or Tribal governments
- Loans to finance environmental cleanup or redevelopment of industrial site

DEFINING COMMUNITY DEVELOPMENT (CD)

Qualified Investment

- A lawful investment, deposit, membership share, or grant
- Has CD as its primary purpose
- May be direct or indirect (through affiliates)
- Consideration given to innovative or complex investments



DEFINING COMMUNITY DEVELOPMENT (CD)

Examples of Qualified Investments

- Investments, grants, deposit, or shares in or to:
 - Financial intermediaries
 - Organizations:
 - Engaged in affordable housing or serving LMI housing needs
 - Finance small businesses
 - Provide community services for LMI
 - Supporting activities essential to the capacity of LMI to sustain economic development or utilize credit
 - Low-Income Housing Tax Credit projects

DEFINING COMMUNITY DEVELOPMENT (CD)

Community Development Services

- Has CD as its primary purpose
- Related to the provision of financial services
- Has not been considered as a retail service

DEFINING COMMUNITY DEVELOPMENT (CD)

Other CD Service Examples:

- Providing financial services through branches and other facilities located in LMI areas
- Technical assistance on financial matters
- Loaned executive program
- Credit or foreclosure prevention counseling
- Financial planning to promote CD
- School savings programs
- International remittance services that increase access to financial services by LMI



DEFINING COMMUNITY DEVELOPMENT (CD)

● TRUE or FALSE?

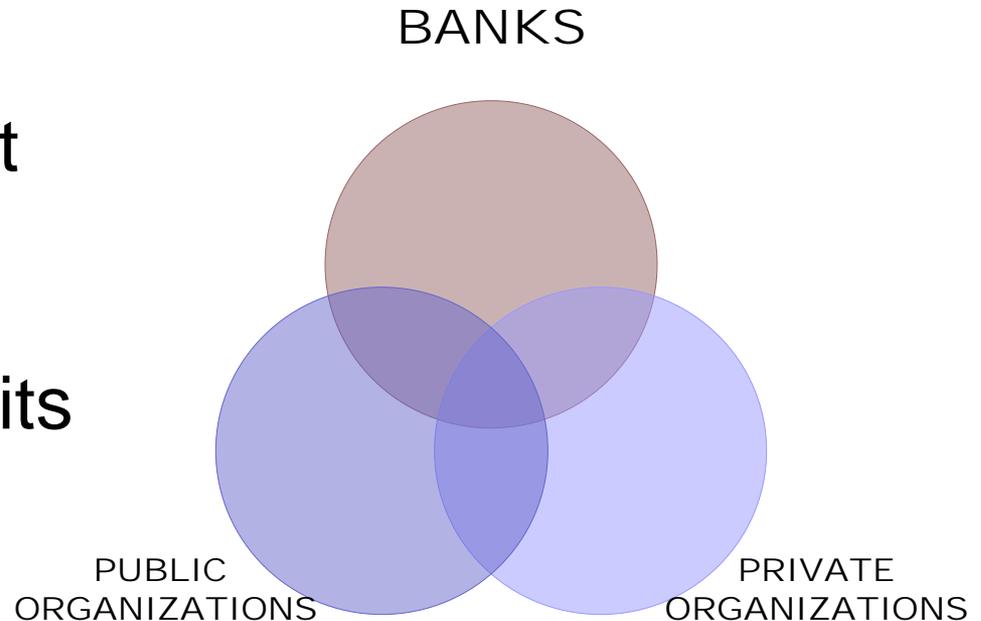
- Loans to nonprofit organizations providing LMI housing must be greater than \$1million.
- Creation of a consumer small loan program is an eligible CD service.
- A loan to support the construction of a community facility in a LMI area is a qualified CD loan.
- A large volume of SBA 504 loans should qualify as CD loans.
- Investments in community development credit unions outside your AA are not qualified CD investments.
- A \$700,000 working capital loan to a commercial developer to remove gas storage tanks in an LMI area is a qualified CD loan.



DEFINING COMMUNITY DEVELOPMENT (CD)

Bank Community Partners:

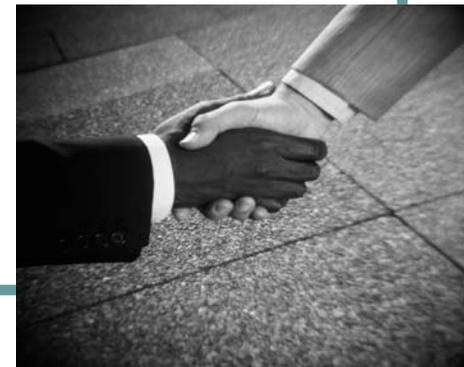
- Help bank to target its investments to benefit LMI
- Help bank to fulfill its CD goals and objectives
- Help bank to maintain awareness of CD needs



DEFINING COMMUNITY DEVELOPMENT (CD)

Bank Community Partner Examples:

- For profit and nonprofit housing developers
- Community Housing Development Organizations (CHDOs)
- Community Development Financial Institutions (CDFIs)
- CD Credit Unions
- Nonprofit neighborhood based organizations
- Small Business Development Centers (SBDCs)
- Governmental agencies
- Foundations
- Secondary mortgage market



DEFINING COMMUNITY DEVELOPMENT (CD)

Helpful Hints

- CD activity must have one of the four community development hooks
- Bank should have a **tracking mechanism** in place to capture community development activities. This will ensure you receive credit during an evaluation and accurate reporting
- Be prepared to support why CD activity qualifies



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QUESTIONS