

The Federal Reserve Bank of Cleveland

Central Appalachia Community
Investment Forum Series
Lexington, Kentucky
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Key Definitions

- Qualified Investment
- Community Development
- Primary Purpose



Definitions

■ Qualified Investment

- Lawful investment, deposit, membership share, or grant that has as its primary purpose community development



Definitions

■ Community Development

- Activities that promotes affordable housing (including multifamily rental housing) for LMI individuals;
- Provides community services to LMI individuals;
- Activities that promote economic development by financing small businesses or small farms;
- Activities that revitalize or stabilize LMI geographies.



Qualified Investments

■ Examples of Qualified Investments

– See CRA Q&A .12(s)

- Mortgage-backed Securities (only if primary purpose is CD)
- Investments in Financial Intermediaries (including CDFI, CDC,) minority-and women-owned financial institutions, community loan funds, and low-income or community development credit unions)
- Investments in organizations engaged in the rehab or construction of affordable housing
- Small Business Investment Companies (SBIC)
- Investment in facilities that promote community development for low and moderate-income individuals (i.e. soup kitchens, health care facilities, battered women facilities, drug rehab centers)



Qualified Investments (Cont'd)

- New Market Tax Credits
- Projects eligible for low-income housing tax credits
- State and Municipal obligations, such as revenue bonds that specifically support affordable housing or other CD
- Nonprofit organizations serving L&M housing or other CD needs, such as home maintenance and other financial services education, counseling, etc.
- Organizations supporting activities essential to the capacity of L&M people or areas to sustain economic development (i.e. day care, job training)



How Investment Test Impacts Overall Rating

- Lending Test - 50%
- Investment Test - 25%
- Service Test - 25%
- Outstanding = Lending (12); Service (6); Inv.(6)
- High Sat. = Lending (9); Service (4); Inv. (4)
- Low Sat. = Lending (6); Service (3); Inv. (3)
- Need Imp = Lending (3); Service (1); Inv.(1)
- SNC = Lending (0); Service (0); Inv. (0)



How Investment Test Impacts Overall Rating (Cont'd)

- Outstanding = 20 or over
- Satisfactory = 11 through 19
- Needs Improvement = 5 through 10
- SNC = 0 through 4



Investment Test

- How investments are evaluated
 - Dollar amount of qualified investments,
 - Innovativeness & complexity of qualified investments,
 - Responsiveness of qualified investments to credit & community development needs
 - Degree to which qualified investments are not routinely provided by private investors.



Frequently Asked Questions

- Are charitable contributions considered qualified investments? .12(s) Q A5
- What level of qualified community development investments considered appropriate for my institution?
- If a bank invests in a CDC, do they get credit for the investment as well as a percentage of the loans extended?
- How do mortgage-backed securities increase availability of affordable housing?



Intermediate Small Banks

- Created a new size category (Intermediate Small Bank – Between \$250 M and \$1B)
- Created a simplified lending test and flexible new community development test
- Revised the definition of “Community Development” to include certain community development activities (including affordable housing) in underserved rural areas and disaster areas



Intermediate Small Banks

- No longer required to report originations and purchases of small business, small farm, and community development loans
 - Cost saving to the bank
 - Paperwork reduction (burden relief)
 - Eliminates competition for qualified investments (churning)



Intermediate Small Banks (Cont'd)

- No longer subject to Investment and Service Test
- Are subject to a proposed community development test which evaluates investments, services and community development loans together
- Banks must achieve a “satisfactory” rating on both the Lending Test and the Community Development Test



Summary

- Discussed definitions related to Qualified Community Development Investments
- Discussed which investments qualify for CRA purposes
- Discussed how investments impact the overall CRA rating
- Discussed Intermediate Small Banks and revised definition of Community Dev.



Questions

