Survey of CDFIs Identifies 34 CRA Investment Opportunities

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

The Community and Consumer Affairs Department (C&CA) of the Federal Reserve Bank of Philadelphia is frequently asked to identify CRA investment opportunities. Therefore, C&CA conducted a survey of the community development financial institutions (CDFIs) that were certified by the CDFI Fund and based in the Third Federal Reserve District.

The purpose of the survey was twofold: to inform financial institutions about CDFI-related investment opportunities so that they can investigate the opportunities further if they wish; and to get some indication of the quantity of situations in which banks can make CRA-eligible investments. The survey asked the CDFIs to identify opportunities for financial institutions to make CRA-qualified investments from December 2001 to December 2003. Of 24 CDFIs surveyed, 20 responded and identified a total of 34 investment opportunities.

The federal bank regulatory agencies have cited CDFIs as financial intermediaries that automatically qualify for the CRA investment test. This appears most recently in Interagency Questions and Answers Regarding Community Reinvestment, which was published on July 12, 2001 (see section 12 CFR 228.12[s]).

Each CDFI was asked to identify which of four community development purposes the investment met and other features. Some investments listed in the table on pages 14-17 are still in the planning stages.

For CRA credit, qualified investments must have a primary purpose of community development in one of four areas: affordable housing for low- or moderate-income (LMI) individuals (affordable housing LMI); community services; economic development; and asset management. The purpose of the survey was to inform financial institutions about CDFI-related investment opportunities so that they can investigate the opportunities further if they wish; and to get some indication of the quantity of situations in which banks can make CRA-eligible investments. The survey asked the CDFIs to identify opportunities for financial institutions to make CRA-qualified investments from December 2001 to December 2003. Of 24 CDFIs surveyed, 20 responded and identified a total of 34 investment opportunities.

The federal bank regulatory agencies have cited CDFIs as financial intermediaries that automatically qualify for the CRA investment test. This appears most recently in Interagency Questions and Answers Regarding Community Reinvestment, which was published on July 12, 2001 (see section 12 CFR 228.12[s]).

Each CDFI was asked to identify which of four community development purposes the investment met and other features. Some investments listed in the table on pages 14-17 are still in the planning stages.

For CRA credit, qualified investments must have a primary purpose of community development in one of four areas: affordable housing for low- or moderate-income (LMI) individuals (affordable housing LMI); community services; economic development; and asset management.
Message from the Community Affairs Officer

We have heard for a long time that banks have difficulty with the CRA investment test, and, as a result, we have devoted this issue of Cascade to identifying CRA investment opportunities in our District.

This issue contains articles about investment opportunities in each of the three states in the Third District. Some investments are for business purposes, and others are for residential or consumer purposes. The entities providing the investment opportunities range from for-profit organizations to nonprofits to governmental agencies. We also surveyed the community development financial institutions (CDFIs) in our District on CRA investment opportunities and share the results.

Based on our experience in compiling the material for this issue, there does seem to be a limited number of CRA investment alternatives — especially investments that pay a market or near-market return.

Many of the investment possibilities uncovered pay a low return or are grants. It is also clear that there is a widespread lack of understanding about the CRA investment test and how to use it to promote development. We wondered: Could community- and economic-development agencies, which have excellent loan programs, design investment products that address specific low- and moderate-income or small-business needs and that count for banks’ CRA investment test? We are open to facilitating this dialogue.

In the meantime, it seems advisable that banks that want to claim credit under the investment test give particular care as to how the transaction is initially booked at their institutions. CRA officers may want to discuss such investment test-eligible transactions with their chief investment officer to determine whether the transaction is an investment or a loan. The CRA Q&A says that “examiners will determine the dollar amount of qualified investments by relying on the figures recorded by the institution according to generally accepted accounting principles (GAAP)” (Section 228.23(e)-2). In the end, a bank’s examiner makes the final determination as to whether a transaction counts under the investment test. The bank’s job is to provide the background material.

Let us know your reactions to this issue. We are trying to make Cascade more substantive and more interesting. Our last issue focused on financial literacy. Let us know, too, if there are other subjects about which you would like us to provide in-depth coverage.

Survey of CDFIs Identifies 34 CRA Investment Opportunities

...continued from page 1

| Services targeted to LMI individuals (community services LMI); activities that promote economic development by financing small businesses or farms with gross annual revenues of under $1 million (small businesses); and activities that revitalize or stabilize LMI geographies (revitalize/stabilize LMI geographies). An abbreviated version of the four areas is used in the table. “NA” means not applicable. | Whether the listed investments are CRA-eligible for that institution, investors must do their own due diligence on acceptable returns, risk, and compliance. |

Since a financial institution’s primary regulatory agency makes the final determination as to whether the listed investments are CRA-eligible for that institution, investors must do their own due diligence on acceptable returns, risk, and compliance.

See the table on pages 14-17.
The Reinvestment Fund — Primary Financing Source for Charter Schools ...continued from page 1

in 1997 to 36 this year. Demand for charter schools is evidenced by an unprecedented level of community and parental involvement. According to Donald R. Hinkle, managing director of capitalization at TRF, “Years ago, small groups of neighbors would attend community meetings to discuss neighborhood plans. But we are accustomed to

standing-room-only crowds when charter schools are on the agenda.”

Many charter schools are developed by an existing neighborhood organization or sponsor with deep roots in its community and a strong track record. TRF already had relationships with many such organizations before they established charter schools.

TRF has taken advantage of its 16 years’ experience in community financing to address the considerable challenges that charter-school underwriting presents.

The two most significant challenges faced by new charter schools are: they are start-up businesses without management in place, and they usually have to purchase and renovate facilities before opening. Many founders and sponsors starting charter schools call on private management groups to provide expertise in developing the operationals, financial, and educational structures needed to govern the new institution. In Philadelphia, Drexel University/Foundations, Inc. Technical Assistance Center for Public Charter Schools assists many schools with start-up operations, policy, and procedural matters, as well as ongoing business management support.

The second challenge — preparing a facility for use as a school — can present real difficulties to founders with little or no experience in construction financing and implementation. In many cases, charter schools are established in abandoned stores, factories, or schools. Since the time between the awarding of the charter and the opening day of school is usually just a matter of months, charter-school founders must work with architects and contractors who have experience doing school projects. It’s very important to have a back-up plan in case the facility is not ready for the first day of school.

When reviewing an application for charter-school financing, TRF looks for strong leadership, well-defined business functions, knowledge of the reports required by state regulators, a cohesive staffing plan — and a board of directors that has expertise in managing a facility, recruiting staff, enrolling students, developing policies, and raising funds. Budgets must not reflect unrealistic fundraising goals, and projections for repayment of loans should be prepared by someone familiar with the state education department’s funding policies. Strong management is indispensable because charter schools operate independently of central school district administrations.

Charters are granted by the state education department for a specific period. In the event that a school closes — if the charter is revoked or not renewed, or the school ceases to exist for any reason — the charter school’s assets revert to the school district. This makes it highly...continued on page 4

Two students build architectural models at the Charter High School for Architecture and Design (CHAD), one of 14 charter schools in the Philadelphia metropolitan area that have received loans from The Reinvestment Fund. CHAD — the first charter high school for architecture and design in the nation — is located on Seventh Street near Washington Square in Philadelphia. The two students pictured are recent CHAD graduates and are now in college.
favorable for the charter school to be a lessee with another party as the landlord. Many charter schools lease from an unrelated party, thus limiting the available collateral. The term of the lease should match the term of the loan, as well as the term of the charter.

Charter schools are one way in which parents are dealing with the failure of crowded public schools, especially in low-income and minority communities. TRF’s response to the demand in these communities is to find ways to manage the risk inherent in charter-school financing so that neighborhoods and the region will benefit. Successful schools anchor communities.

For bank and corporate investors, TRF offers two ways to invest in charter schools. Banks and other corporations can, at present, invest in TRF’s loan fund and thereby support TRF’s overall work, including charter schools. In addition, starting in 2002, they can invest in charter schools through a joint venture being formed between TRF and the National Cooperative Bank Development Corporation. Investments of $25 to $50 million will be sought to serve a region encompassing Pennsylvania, New Jersey, Delaware, Maryland, and Washington, D.C. The term of the investments will range from five to 15 years.

As Sara Vernon Sterman, TRF’s director of community services, says: “Charter schools offer exciting alternatives for parents seeking a range of choices for their children’s education. TRF has taken the time to understand the nuances of this industry and feels comfortable with the challenges it presents.”

For information, contact Sandra Choukroun at (215) 925-1130, ext. 213, or choukrouns@trfund.com.

Charter Schools — Innovative Experiment in Education

Charter schools are innovative, depend on extensive parental participation, and are firmly rooted in their communities. Charter schools are public schools of choice that operate with freedom from many of the regulations that apply to traditional public schools. Charter schools are accountable to their sponsors — usually a local school board — to produce positive academic results and adhere to their charter contract. In addition, they are accountable for both academic results and fiscal practices to the sponsors who grant the charters, the parents who choose the schools, and their funders.

Most current charter schools are smaller than traditional public schools, and many are organized around themes such as international languages, performing arts, computer science, and African and Hispanic culture. While they are mandated to teach math, science, English, and social studies, there is considerable flexibility in curriculum design. Typically, charter schools have long waiting lists for admission.

Charter schools often are developed by well-established, successful nonprofit organizations in their community. For example, the TRF-financed Germantown Settlement Charter School was developed by the Greater Germantown Housing Development Corporation, which has taken a leading role in transforming the Germantown community in Northwest Philadelphia.

Another TRF borrower is the West Oak Lane Charter School, which was founded and developed by the Ogontz Area Revitalization Corporation, a Northwest Philadelphia community development corporation. It offers its elementary students instruction in five core curriculum areas and computers. The school has played a major role in keeping families in the community.

A key element in charter-school financing is the fact that the school district pays an allocation per pupil of approximately $6,000 for regular education and $11,000 for special education. This primary revenue stream may be enhanced by private donations or grants secured by school management. Achieving and maintaining full enrollment at a fully functioning, well-managed school is critical, since parents will quickly withdraw their children from a school that is floundering. — Sandra Choukroun
Allfirst Commits $1 Million in Grants to Nonprofits In Three Cities and Receives Pennsylvania Tax Credits

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

Thomas C. Bell, vice president of community and economic development at Allfirst Bank in Harrisburg, Pennsylvania, knew the reasons why Pennsylvania’s Neighborhood Assistance Program/Comprehensive Service Program (NAP/CSP) made sense — 10 years of state tax credits for 70 percent of grants made, name recognition, revitalization of a neighborhood, and goodwill. But he has been especially pleased about the ancillary business that has resulted from Allfirst’s involvement in the NAP/CSP.

Allfirst made a commitment to provide NAP/CSP grants of $100,000 a year for 10 years to nonprofit organizations in Harrisburg, Lancaster, and Carlisle and plans to provide grants to nonprofits in Bethlehem and Reading in the next year. In addition, Allfirst has booked more than $1 million in small-business loans in Lancaster during the past 18 months and anticipates booking construction, permanent, and small-business loans totaling $1 million in Harrisburg and $250,000 in Carlisle in the next year.

Bell has found that the NAP/CSP involved Allfirst deeply in its community, especially with many nonprofits and government agencies — and that it opened the door to city deposits and other business. “The bank is totally a partner with the nonprofit agency and the rest of the community,” he said.

In Harrisburg, Allfirst has been using the NAP/CSP with the Community Action Commission since 1998. In the first three years of a partnership to revitalize the South Allison Hill neighborhood, 16 single-family houses and 29 low-income rental units have been rehabilitated, 17 deteriorated buildings demolished, sidewalks replaced, funding secured for the development of a key commercial area, and a job training program established. A major future target is the rehabilitation and expansion of the district’s only supermarket. The city of Harrisburg has committed Community Development Block Grant and HOME funds, so Allfirst’s $100,000 grant is leveraging up to $1 million, Bell pointed out.

In Lancaster, Allfirst has partnered with the Inner City Group since 1999 to revitalize the South Duke Street corridor and surrounding neighborhood. Several of the small businesses that received Allfirst loans were located outside the targeted area, but the businesses heard of the bank’s interest and approached the bank, Bell said. When the school district of Lancaster suddenly had to close a school because of severe structural problems and lacked funding to establish temporary campuses, Allfirst committed an interest-free $1 million loan to the district.

In Carlisle, Bell asked Christopher Gulotta, executive director of the Redevelopment Authority of Cumberland County, to convene a broad-based meeting with the community’s nonprofit and government leaders. Late in 2000, Allfirst made an NAP/CSP commitment to the Hope Station Opportunity Area Neighborhood Council. In the first year of the partnership, a computer resource center was opened, a house rehabilitated, and a park restored.

Bell has arranged for Allfirst branch and small-business managers to meet with community and government representatives as needed. He added these final thoughts about the NAP/CSP: “By supporting our local communities, we benefit our customers, clients, and employees who live and work in them. After all, a bank is only as good as the community that it does business in.”

...continued on page 6
Mortgage-Backed Securities Can Meet CRA Investment Test And Be Economically Attractive

By Tom Healy, Co-Manager of the CRA Source, a division of HanoverTrade.com

A CRA-eligible mortgage-backed security (MBS) is a misunderstood and underused tool in many financial institutions’ efforts to satisfy their community-reinvestment goals. If constructed properly, mortgage-backed securities satisfy both the letter and the spirit of the CRA investment test, are relatively easy to obtain, and can be an economical solution to CRA compliance.

CRA was instituted to ensure that financial institutions satisfy the credit needs of their communities. There are a variety of ways to do this — from the simple to the innovative and complex. One relatively simple way of responding to credit needs is by purchasing MBSs. The federal bank regulatory agencies generally take the position that institutions may receive investment-test consideration for purchases of mortgage-backed securities that are backed by loans to low- and moderate-income (LMI) individuals within their respective assessment areas.

The MBS markets have proven very efficient at providing the funds needed for mortgage financing in the United States. Home-ownership rates, in fact, are now approaching 70 percent. This overall statistic, however, hides the fact that white non-Hispanic home ownership is 72 percent, while minority ownership is under 50 percent. The MBS market is helping to rectify this situation.

Business theory dictates that firms build on their strengths and outsource those areas in which they are not strong. Not all financial institutions excel at LMI lending. However, large numbers of recognized firms have gotten very good at it. Purchasing loans through MBSs helps banks comply with the investment test and provides the liquidity necessary for these firms to make even more loans. Because premiums are being paid for these investments, originators are motivated to compete more aggressively for LMI business. The result is a greater level of LMI originations and better pricing for the low- and moderate-income mortgagors, which is exactly the spirit of the Community Reinvestment Act.
Mortgage-Backed Securities Can Meet CRA Investment Test And Be Economically Attractive ...

...continued from page 6

It is a common perception, however, that finding MBSs tailored to a specific assessment area is difficult. This need not be the case. Information technology has allowed the capital-markets industry to more easily match the specific geographic and product needs of individual financial institutions with those originators that produce low- and moderate-income loans.

The map below depicts by census tract part of the assessment area of a Philadelphia-based bank (shaded tracts are LMI). By matching these tracts with pipeline and warehouse data from a large number of originators, an MBS was constructed backed by LMI mortgages (circles) that fall within this institution’s assessment area. In this example, some of the loans are to low- and moderate-income individuals, while others are to individuals in low- or moderate-income census tracts.

Since external databases allow for the construction of such information for most financial institutions, capital-markets firms can pro-actively match an individual institution’s CRA needs with multiple origination databases. These firms can then tailor mortgage-backed securities that are backed by CRA-eligible mortgages within each financial institution’s assessment area.

Some financial institutions have been concerned that they may purchase an MBS that will turn out to contain predatory loans. Purchasers can reduce this risk by buying MBSs that are sold by companies they know and have confidence in and are seller-servicers approved by Fannie Mae, Freddie Mac, or Ginnie Mae. Purchasers can reduce their risk even further by buying MBSs that consist of loans underwritten according to the standards of one of those government-sponsored enterprises (GSEs). The GSEs recently implemented detailed predatory-lending standards that emphasize mortgagor protections, such as discouraging single-premium insurance and encouraging escrow accounts, and they will be making periodic audits of approved seller-servicers. Although it is impossible to have total assurance that a specific MBS will not include such loans, an institution can greatly reduce the likelihood of purchasing an MBS containing predatory loans by taking these factors into account.

CRA-eligible MBSs not only satisfy investment-test needs but also may be economically attractive. While the process of creating an agency security out of a pool of mortgage loans strips some of the yield off the underlying mortgage coupon (for example, a 7.2 percent mortgage will be put into a 6.5 percent MBS), it also transfers the mortgages’ credit risk to that agency. Accordingly, there is no need for the investor to book a corresponding provision for loan loss. Additionally, because of the agency guaranty, risk-based capital requirements on the security are less than half of what they would be on the underlying loans.

However, CRA-eligible MBSs are ordinarily sold in the market at...

...continued on page 8
Mortgage-Backed Securities Can Meet CRA Investment Test And Be Economically Attractive  ...continued from page 7

a premium to comparable non-CRA-eligible securities. While premiums are driven by supply and demand and, therefore, vary tremendously by location as well as over time, they are somewhat offset by the avoidance of origination costs. The national average cost of originating a mortgage loan approximates 0.75 percent to 1.00 percent.

CRA loans also tend to have lower loan balances than non-CRA loans, and loans with lower balances have been shown to have, on average, more stable prepayment characteristics than their higher balance counterparts. As the graph shows, if market rates are 100 basis points lower than a mortgagor’s rate (“refinance incentive”), an

have traditionally accepted the relationship between risk and reward. The lower the risk, the lower the return the markets will demand. Investors do not have to forgo market returns on investment in many CRA-eligible mortgage-backed securities.

Home ownership in our communities is clearly a worthwhile goal. Not only is it one of the cornerstones of federal housing policy, but home ownership has also been shown to enhance family stability and increase family wealth. These are all attributes we would like to see in our respective markets. Home ownership can be facilitated by financial institutions’ investments in CRA-eligible MBSs. By using information technology to match financial institutions’ unique needs with loans underwritten to GSE standards, tailored securities can be built that help satisfy the CRA investment test while providing reasonable returns to your institution.

CRA Source, a division of HanoverTrade.com, focuses on selling loans eligible for the CRA lending test and selling securities eligible for the CRA investment test. For information, contact Tom Healy at 954-764-1767 or at CRASource@HanoverTrade.com.

UrbanAmerica

UrbanAmerica, L.P., a real estate investment company formed in 1998, has invested in 22 commercial properties valued at $182 million, primarily in low- and moderate-income census tracts in the United States.

Officials at UrbanAmerica, L.P. said that the company has raised $90 million from 35 investors and has paid the intended preferred return of 8 percent cash on invested equity. They added that UrbanAmerica, L.P. is seeking to raise an additional $24 million, then plans to close the fund. Investors become limited partners in UrbanAmerica, L.P.

Financial institutions that have invested in UrbanAmerica, L.P. include PNC Financial Services Group, Inc., which received CRA investment-test credit through one of its affiliates in a recent CRA examination.

For information, contact Richmond McCoy at (212) 612-9100 or mccoy@urbanamericalp.com.

$80,000 or lower-priced loan will prepay at about 12 percent per year. Its $120,000 or greater counterpart will prepay at over 25 percent per year. This lesser volatility of return translates to lower risk. Investors
On July 12, 2001, the most recent supplement to a document entitled “Interagency Questions and Answers Regarding Community Reinvestment (Q&A)” was published. The Q&A, which is supplemented periodically with new questions and revisions to existing ones, helps interpret the Community Reinvestment Act (CRA) regulation, which itself was revised on May 4, 1995. The July 12 supplement adopted a revision to a question and answer proposed in an earlier supplement, adopted six new questions and answers, and made revisions to eight existing questions and answers. This article will present the changes that relate to the investment test, which is one of the performance criteria used to assess a financial institution’s performance.

Adopted Revision

This question and answer was re-proposed in the April 28, 2000, supplement and adopted in the July 12, 2001, supplement. It relates to section .12(i)(2)(ii) of the regulation, the definition of community development loans.

Q .12(i)—5: Must there be some immediate or direct benefit to the institution’s assessment area(s) to satisfy the regulation’s requirement that qualified investments and community development loans or services benefit an institution’s assessment area(s) or a broader statewide or regional area that includes the institution’s assessment area(s)?

A5. No. The regulation recognizes that community development organizations and programs are efficient and effective ways for institutions to promote community development. These organizations and programs often operate on a statewide or even multi-state basis. Therefore, an institution’s activity is considered a community development loan or service or a qualified investment if it supports an organization or activity that covers an area that is larger than, but includes, the institution’s assessment area(s). The institution’s assessment area(s) need not receive an immediate or direct benefit from the institution’s specific participation in the broader organization or activity, provided that the purpose, mandate, or function of the organization or activity includes serving geographies or individuals located within the institution’s assessment area(s).

In addition, a retail institution that, considering its performance context, has adequately addressed the community development needs of its assessment area(s) will receive consideration for certain other community development activities. These community development activities must benefit geographies or individuals located somewhere within a broader statewide or regional area that includes the institution’s assessment area(s). Examiners will consider these activities even if they will not benefit the institution’s assessment area(s).

An example may help explain this important revision. Hypothetically, a financial institution is located in Philadelphia. Its assessment area is the Philadelphia metropolitan area. Its community development activities include loans, investments, and services to organizations and projects located in and benefiting Philadelphia, its assessment area. The institution’s community development activities also include loans and investments in several projects that benefit the entire state of Pennsylvania, including Philadelphia. Assume that, after considering its performance context, examiners have determined that the institution has adequately addressed the community development needs of its assessment area through loans, investments, or services. Examiners then would also consider the institution’s investment in a community development organization located in Harrisburg, Pennsylvania, that will serve only the Harrisburg area — with no potential that it will ever benefit Philadelphia, the institution’s assessment area. Harrisburg, of course, is in the statewide area (Pennsylvania) that includes the institution’s assessment area. The institution would receive consideration for its investment in Harrisburg.

To understand what is meant by the term “regional area,” refer to the next question and answer in the Q&A, .12(i)—6.

New Questions and Answers

Three of the six new questions and answers relate in some way to the investment test. The first deals...
New CRA Q&A Addresses Investment Test

Q .24(e)—1: Under what conditions may an institution receive consideration for community development services offered by affiliates or third parties?

A1. At an institution’s option, the agencies will consider services performed by an affiliate or by a third party on the institution’s behalf under the service test if the services provided enable the institution to help meet the credit needs of its community. Indirect services that enhance an institution’s ability to deliver credit products or deposit services within its community and that can be quantified may be considered under the service test, if those services have not been considered already under the lending or investment test (see .23(b)—1). For example, an institution that contracts with a community organization to provide home ownership counseling to low- and moderate-income home buyers as part of the institution’s mortgage program may receive consideration for that indirect service under the service test. In contrast, donations to a community organization that offers financial services to low- or moderate-income individuals may be considered under the investment test but would not also be eligible for consideration under the service test. Services performed by an affiliate will be treated the same as affiliate loans and investments made in the institution’s assessment area and may be considered if the service is not claimed by any other institution. See .22(c) and .23(c).

Q .25(a)—1: How can certain credit card banks help to meet the credit needs of their communities without losing their exemption from the definition of “bank” in the Bank Holding Company Act (the BHCA), as amended by the Competitive Equality Banking Act of 1987 (CEBA)?

A1. Although the BHCA restricts institutions known as CEBA credit card banks to credit card operations, a CEBA credit card bank can engage in community development activities without losing its exemption under the BHCA. A CEBA credit card bank could provide community development services and investments without engaging in operations other than credit card operations. For example, the bank could provide credit card counseling or the financial expertise of its executives, free of charge, to community development organizations. In addition, a CEBA credit card bank could make qualified investments, as long as the investments meet the guidelines for passive and noncontrolling investments provided in the BHCA and the Board’s Regulation Y. Finally, although a CEBA credit card bank cannot make any loans other than credit card loans, under .25(d)(2) (community development test — indirect activities), the bank could elect to have part of its qualified passive and noncontrolling investments in a third-party lending consortium considered as community development lending, provided that the consortium’s loans otherwise meet the requirements for community development lending. When assessing a CEBA credit card bank’s CRA performance under the community development test, examiners will take into account the bank’s performance context. In...continued on page 11
particular, examiners will consider the legal constraints imposed by the BHCA on the bank’s activities, as part of the bank’s performance context in .21(b)(4).

Revised Question and Answer

Only one of the eight revisions relates to the investment test. This revision was made necessary by the creation of the new markets venture capital program, which is administered by the Small Business Administration (SBA) and allows the SBA to designate new market venture capital companies (NMVCCs). NMVCCs are investment funds that will promote economic development in low-income geographies through equity-type investments in smaller enterprises located in those low-income areas. The regulatory agencies will presume that any loan to or investment in NMVCCs will promote economic development, and they revised the answer to question .12(h)(3)—1 to reflect this presumption.

Q .12(h)(3)—1: “Community development” includes activities that promote economic development by financing businesses or farms that meet certain size eligibility standards. Are all activities that finance businesses and farms that meet these size eligibility standards considered to be community development?

A1. No. To be considered as “community development” under .12(h)(3), a loan, investment, or service, whether made directly or through an intermediary, must meet both a size test and a purpose test. An activity meets the size requirement if it finances entities that either meet the size eligibility standards of the Small Business Administration’s Small Business Development Company (SBDC) or Small Business Investment Company (SBIC) programs, or have gross annual revenues of $1 million or less. To meet the purpose test, the activity must promote economic development. An activity is considered to promote economic development if it supports permanent job creation, retention, and/or improvement for persons who are currently low-or moderate-income, or supports permanent job creation, retention, and/or improvement either in low-or moderate-income geographies or in areas targeted for redevelopment by federal, state, local, or tribal governments. The agencies will presume that any loan to or investment in an SBDC, SBIC, or new markets venture capital company promotes economic development. In addition to their quantitative assessment of the amount of a financial institution’s community development activities, examiners must make qualitative assessments of an institution’s leadership in community development matters and the complexity, responsiveness, and impact of the community development activities of the institution. In reaching a conclusion about the impact of an institution’s community development activities, examiners may, for example, determine that a loan to a small business in a low- or moderate-income geography that provides needed jobs and services in that area may have a greater impact and be more responsive to the community credit needs than does a loan to a small business in the same geography that does not directly provide additional jobs or services to the community.

The rest of the new and revised questions and answers deal with predatory lending, the lending test, and data collection. In addition to the questions and answers presented that relate to the investment test, the Q&A as a whole contains many others that address all facets of the investment test as well as the lending and service tests. The Q&A is available at: www.access.gpo.gov/su_docs/fedreg/a010712c.html. The entire CRA regulation is available at www.federalreserve.gov/Regulations/RegRef.htm.

Community Preservation Corporation Invests Equity in Multifamily Housing

A subsidiary of the Community Preservation Corporation (CPC) has invested in 350 units through an equity fund it established for deteriorated multifamily units and mixed-use projects in urban areas of New York and New Jersey. The subsidiary, CPC Resources, Inc., expects to launch a second equity fund once the capital of its $42.5 million fund has been exhausted.

CPC launched its equity fund, the Opportunity Fund, in December 2000. The fund limits its exposure on any single project to about $6 million, and it invites co-venturers to share in ownership and equity investment, CPC officials said.

The fund will not normally obtain mortgage financing from CPC, and there is an opportunity for financial institutions to provide loans to some major redevelopment projects, they added.

For information, contact John McCarthy of CPC at (212) 869-5300 or: info@communityp.com. CPC’s website is www.communityp.com.
Delaware Economic Opportunity Fund Creates Low- and Moderate-Income Jobs

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

A Delaware venture-capital fund’s investment of $500,000 is enabling a printing company to expand its 150-employee workforce by about 50 percent over several years.

The business, located in Newark, Delaware, received an investment late last year from Intrust Venture Partners of Delaware, LLC (IVPD), which has been renamed the Delaware Economic Opportunity Fund (DEOF) and is now being managed by GS-DE, a wholly owned subsidiary of GSA Management, LLC. Both IVPD and DEOF have had a primary focus on businesses that create jobs for low- and moderate-income individuals or that are led by women or members of racial and ethnic minorities.

Michael J. Kelley, vice president of GSA Management, LLC and previously the manager of IVPD, said that the positions created by the printing-company investment offer livable wages and benefits and a career path for low-skill and semi-skilled workers. As the lead investor, IVPD helped the company raise a total of $3.5 million, consisting of $2 million in venture-capital investments and a $1.5 million bank loan, Kelley explained. Major corporations retain the company on an outsourcing basis to provide their entire printing and fulfillment needs, he said.

Minority-Owned Businesses Receive Small Amount of Equity Investments Made

Small business investment companies (SBICs) provided financing totaling $4.2 billion from October 1998 to September 1999 — but only 3 percent of that amount went to businesses at least 50 percent owned by African-Americans, Latinos, native Americans, and Asians, according to a research report.

The data on SBICs, which are privately organized and managed investment firms licensed by the Small Business Administration, are contained in a report released in September 2000 from the Milken Institute, a nonprofit economic-research organization based in Santa Monica, California. The study was conducted jointly with the Minority Business Development Agency of the U.S. Department of Commerce.

The report said minority-owned businesses grew from 1987 to 1997 at the rate of 17 percent a year — about six times the growth rate of all firms. However, based on a venture-capital firm’s estimate, minority-owned businesses receive only 2 percent of all private equity investments, the report noted.

The report recommends research and development of equity, mezzanine, and debt instruments attractive to institutional investors, increased investments in minority-owned businesses, and the formation of incubators that will support minority-owned businesses.

Financing minority-owned businesses provides needed capital to a fast-growing business sector while creating a vehicle for greater minority participation in the workforce, the study noted.

Further information on this and other institute studies may be obtained from www.milkeninstitute.org.
Delaware Economic Opportunity Fund Creates Low- and Moderate-Income Jobs  ...continued from page 12

Tavern district of downtown Wilmington, an area that is the focus of a major revitalization effort. The other two investments were in a home-décor business and a firm that provides back-office services to small businesses.

Businesses eligible for DEOF investments must have high-growth potential, be located in or serve Delaware, create good-quality jobs for low-income people, or provide a needed service in low-income communities of the state.

DEOF is seeking investments totaling $10 million. The minimum investment for a 10-year partnership in DEOF is $250,000. A closing of the DEOF partnership is expected to occur in the first quarter of 2002.

DEOF has formed an advisory committee of community and business leaders. Two full-time and two part-time employees of GSA Management, LLC are managing the fund, Kelley said.

For information, contact Michael J. Kelley, vice president of GSA Management, LLC at (302) 658-9230, ext. 105, or mkelley@gsamanagement.com.

GS Capital Provides Venture Capital to Minority- and Women-Owned Businesses on East Coast

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

A $4.1 million venture-capital investment has helped a Wilmington woman start a home-décor business that has created 3000 commission-based positions in just three years.

GS Capital, L.P., a small business investment company (SBIC), made the $4.1 investment to Homes for Living, Inc. GS Capital, L.P. was the lead venture-capital investor in the business. Other investors were the Delaware Innovation Fund and Intrust Venture Partners of Delaware.

GS Capital, L.P. was licensed by the Small Business Administration in 1997 as an SBIC. SBICs are privately owned and managed investment firms that provide venture capital to small businesses. They use their own capital and funds borrowed at favorable rates from the federal government. GS Capital, L.P. raised $20.7 million in private equity and received a two-for-one match from the SBA, creating a $62 million fund. The fund has made 19 investments totaling about $50 million, creating 3310 new jobs.

Richard J. Gessner, Jr., general partner of GS Capital, L.P., said that GS Capital, L.P. is the only SBIC based in the Third Federal Reserve District that focuses primarily on investing in businesses that are:

...continued on page 18
<table>
<thead>
<tr>
<th>Organization</th>
<th>Form of Investment</th>
<th>Purpose of Investment</th>
<th>Use of Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Street Financial Services Center (ASFSC)</td>
<td>Grant</td>
<td>Small businesses; revitalize/stabilize LMI geographies</td>
<td>Support three-year-old bilingual entrepreneurial-training program that provides technical assistance to help entrepreneurs develop business plan &amp; apply for loans from ASFSC. Grants will match federal funds from empowerment-zone contract.</td>
</tr>
<tr>
<td>Berean Federal Savings Bank</td>
<td>Deposit</td>
<td>Affordable housing LMI; small businesses</td>
<td>Expand home-mortgage &amp; small-business lending.</td>
</tr>
<tr>
<td>Borinquen Federal Credit Union</td>
<td>Deposit</td>
<td>Affordable housing LMI</td>
<td>Expand home-mortgage lending.</td>
</tr>
<tr>
<td>Cooperative Business Assistance Corporation</td>
<td>Investment</td>
<td>Small businesses</td>
<td>Capitalize small-business lending pool.</td>
</tr>
<tr>
<td>Cooperative Business Assistance Corporation</td>
<td>Grant</td>
<td>Small businesses</td>
<td>Fund administration &amp; special projects.</td>
</tr>
<tr>
<td>Delaware Community Investment Corporation (DCIC)</td>
<td>Investment</td>
<td>Affordable housing LMI; revitalize/stabilize LMI geographies</td>
<td>DCIC expects to organize its sixth equity fund. DCIC has raised about $200 million in equity &amp; debt since 1994 &amp; has developed about 3,500 rental-housing units.</td>
</tr>
<tr>
<td>First State Community Loan Fund (FSCLF)</td>
<td>Investment</td>
<td>Affordable housing LMI; community services LMI; small businesses; revitalize/stabilize LMI geographies</td>
<td>Equity-equivalent investment sought.</td>
</tr>
<tr>
<td>First State Community Loan Fund (FSCLF)</td>
<td>Grant</td>
<td>Affordable housing LMI; small businesses</td>
<td>Matching grants &amp; operating-support assistance sought for individual development account program administered by FSCLF.</td>
</tr>
<tr>
<td>First State Community Loan Fund (FSCLF)</td>
<td>Grant</td>
<td>Affordable housing LMI; community services LMI; small businesses; revitalize/stabilize LMI geographies</td>
<td>Grants sought for permanent equity in FSCLF loan pool; loan pool loss reserves; &amp; operating expenses.</td>
</tr>
<tr>
<td>Impact Loan Fund, Inc</td>
<td>Investment</td>
<td>Small businesses</td>
<td>Capitalize lending to start-up &amp; early-stage businesses; support operations. Loan fund may also provide housing-rehabilitation loans in the future.</td>
</tr>
<tr>
<td>Impact Loan Fund, Inc</td>
<td>Grant</td>
<td>Small businesses</td>
<td>Capitalize lending to start-up &amp; early-stage businesses; support operations.</td>
</tr>
<tr>
<td>Intrust USA</td>
<td>Investment</td>
<td>Small businesses</td>
<td>Investments will be used for working capital to enable Intrust to create regional or statewide equity funds to be operated by CDFIs or community-development entities created to take advantage of new markets tax credits. Investors receive Intrust USA preferred stock, which is convertible into common stock for public offering anticipated within 3 years.</td>
</tr>
<tr>
<td>Intrust USA</td>
<td>Investment</td>
<td>Small businesses</td>
<td>Intrust USA co-manages National Economic Opportunity Fund (NEOF), a limited-liability company. NEOF is also co-managed by Community Capital Resources Corporation, an affiliate of National Congress for Community Economic Development. Proceeds will be invested in local or regional funds that specialize in new markets tax credit-qualified investments.</td>
</tr>
<tr>
<td>Lancaster Housing Opportunity Partnership</td>
<td>Grant</td>
<td>Affordable housing LMI</td>
<td>Support home-buyer training &amp; fund closing-cost loans.</td>
</tr>
<tr>
<td>Murex Investments I, LLP</td>
<td>Investment</td>
<td>Small businesses; revitalize/stabilize LMI geographies</td>
<td>SBA-designated new markets venture capital company plans to provide community development venture capital (equity &amp; convertible debt) to manufacturing &amp; early-stage technology businesses. Businesses must pay at least $7.90 an hour, provide benefits, profit-sharing, &amp; be employee-owned. 80% of investments must be in most distressed areas of region.</td>
</tr>
<tr>
<td>Investment Minimum</td>
<td>Total Amt. Sought</td>
<td>Time Period for Investment</td>
<td>Term of Investment</td>
</tr>
<tr>
<td>--------------------</td>
<td>------------------</td>
<td>---------------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>$5,000</td>
<td>$85,000</td>
<td>2001 to 2002</td>
<td>NA</td>
</tr>
<tr>
<td>None</td>
<td>NA</td>
<td>Currently</td>
<td>Up to 8 years</td>
</tr>
<tr>
<td>$100,000</td>
<td>$300,000</td>
<td>12/2001</td>
<td>3 to 5 years</td>
</tr>
<tr>
<td>$250,000</td>
<td>$1.8 million</td>
<td>Currently</td>
<td>5 years</td>
</tr>
<tr>
<td>$5,000</td>
<td>$70,000</td>
<td>Currently to March 2002</td>
<td>NA</td>
</tr>
<tr>
<td>$500,000</td>
<td>$50 million</td>
<td>2004</td>
<td>10 years</td>
</tr>
<tr>
<td>$100,000</td>
<td>$350,000</td>
<td>Currently</td>
<td>5-year minimum</td>
</tr>
<tr>
<td>$5,000</td>
<td>$500,000</td>
<td>Currently</td>
<td>NA</td>
</tr>
<tr>
<td>$1,500</td>
<td>Unlimited</td>
<td>Currently</td>
<td>NA</td>
</tr>
<tr>
<td>$25,000</td>
<td>$150,000</td>
<td>Currently</td>
<td>5 to 10 years</td>
</tr>
<tr>
<td>$25,000</td>
<td>$150,000</td>
<td>4/2002 to 12/2002</td>
<td>NA</td>
</tr>
<tr>
<td>$10,000</td>
<td>$499,000</td>
<td>Currently</td>
<td>3 to 5 years</td>
</tr>
<tr>
<td>$1 million</td>
<td>$25 million, expanding to $100 million over four years</td>
<td>Currently</td>
<td>7 to 8 years</td>
</tr>
<tr>
<td>$4,000 to $20,000</td>
<td>$200,000</td>
<td>12/2001 for 2002; 12/2002 for 2003</td>
<td>NA</td>
</tr>
<tr>
<td>$100,000</td>
<td>$11 million</td>
<td>8/2001 to 1/9/2002</td>
<td>10 years</td>
</tr>
<tr>
<td>Organization</td>
<td>Form of Investment</td>
<td>Purpose of Investment</td>
<td>Use of Funds</td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>--------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Murex Investments 2, LLP</td>
<td>Investment</td>
<td>Small businesses; revitalize/stabilize LMI geographies</td>
<td>Same as Murex 1 on pages 14-15, except that 80% of investments must be in severely distressed areas of region.</td>
</tr>
<tr>
<td>National Community Capital Association</td>
<td>Investment</td>
<td>Affordable housing LMI; community services LMI; small businesses</td>
<td>Expand financing to CDFIs around U.S.</td>
</tr>
<tr>
<td>National Community Capital Association</td>
<td>Grant</td>
<td>Small businesses</td>
<td>Expand training, technical assistance, &amp; financing to CDFIs.</td>
</tr>
<tr>
<td>Neighborhood Housing Services of Reading, Inc. (NHSR)</td>
<td>Investment</td>
<td>Affordable housing LMI; revitalize/stabilize LMI geographies</td>
<td>Equity-equivalent investment for 52-unit project for older people in Berks County. NHSR is community housing development organization for project.</td>
</tr>
<tr>
<td>Neighborhood Housing Services of Reading, Inc. (NHSR)</td>
<td>Grant</td>
<td>Affordable housing LMI; revitalize/stabilize LMI geographies</td>
<td>Fund financing gap in 52-unit project described above.</td>
</tr>
<tr>
<td>New Jersey Community Loan Fund</td>
<td>Investment</td>
<td>Affordable housing LMI; community services LMI; small businesses; revitalize/stabilize LMI geographies</td>
<td>Capitalize affordable-housing, small-business, community-facility &amp; child-care loans.</td>
</tr>
<tr>
<td>New Jersey Community Loan Fund</td>
<td>Grant</td>
<td>Affordable housing LMI; community services LMI; small businesses; revitalize/stabilize LMI geographies</td>
<td>Fund technical assistance (TA), including TA provided for child-care facility development, &amp; operating support.</td>
</tr>
<tr>
<td>Pennsylvania Appalachian Capital Alliance</td>
<td>Investment</td>
<td>Small businesses</td>
<td>Capitalize loans to businesses owned by low- and moderate-income individuals.</td>
</tr>
<tr>
<td>Pennsylvania Appalachian Capital Alliance</td>
<td>Grant</td>
<td>Small businesses</td>
<td>Same as above; also, to fund operations.</td>
</tr>
<tr>
<td>Philadelphia Neighborhood Housing Services, Inc. (PNHS)</td>
<td>Grant</td>
<td>Community services LMI; revitalize/stabilize LMI geographies</td>
<td>Support PNHS’ consumer workshops on financial literacy, predatory lending, &amp; home ownership.</td>
</tr>
<tr>
<td>Rural Enterprise Development Corporation (REDC)</td>
<td>Grant</td>
<td>Small businesses</td>
<td>Expand REDC’s equity capital.</td>
</tr>
<tr>
<td>The Reinvestment Fund (TRF)</td>
<td>Investment</td>
<td>Affordable housing LMI; community services LMI; small businesses; revitalize/stabilize LMI geographies</td>
<td>Investment in TRF’s core fund. Investment governed by prospectus.</td>
</tr>
<tr>
<td>The Reinvestment Fund (TRF) Charter-School Joint Venture</td>
<td>Investment</td>
<td>Community services LMI</td>
<td>A joint venture to be formed by TRF &amp; the National Cooperative Bank Development Corporation will seek investments in charter-school loan program.</td>
</tr>
<tr>
<td>The Reinvestment Fund (TRF) New Markets LP or LLC</td>
<td>Investment</td>
<td>Community services LMI; small businesses</td>
<td>TRF expects to form new markets LP or LLC to make economic-development investments in low-income communities. Will seek equity investments in conjunction with new markets tax credits.</td>
</tr>
<tr>
<td>TRF Urban Growth Partners, LP</td>
<td>Investment</td>
<td>Small businesses</td>
<td>Ltd. partnership interest in community-development venture-capital fund. TRF has received commitments of $20 million.</td>
</tr>
<tr>
<td>United Bank of Philadelphia</td>
<td>Investment</td>
<td>Affordable housing LMI; community services LMI</td>
<td>Seeks investments to support growth in home-mortgage &amp; community-service facility lending.</td>
</tr>
<tr>
<td>United Bank of Philadelphia</td>
<td>Grant</td>
<td>Small businesses; revitalize/stabilize LMI geographies</td>
<td>Seeks grants to capitalize new small-business microloan fund.</td>
</tr>
<tr>
<td>USSCO Federal Credit Union</td>
<td>Investment</td>
<td>Small businesses</td>
<td>USSCO, established in 1958 &amp; located in Johnstown, Pa., is considering participations in small-business loans. Currently makes home-mortgage &amp; auto loans.</td>
</tr>
<tr>
<td>Women’s Opportunities Resource Center (WORC)</td>
<td>Investment &amp; Grant</td>
<td>Small businesses</td>
<td>WORC seeks funds to increase capital of microbusiness-loan fund &amp; to support operations.</td>
</tr>
<tr>
<td>Investment Minimum</td>
<td>Total Amt. Sought</td>
<td>Time Period for Investment</td>
<td>Term of Investment</td>
</tr>
<tr>
<td>--------------------</td>
<td>------------------</td>
<td>----------------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>$100,000</td>
<td>$10 million</td>
<td>1/1/2002 to 6/30/2003</td>
<td>10 years</td>
</tr>
<tr>
<td>$100,000</td>
<td>$20 million</td>
<td>Currently</td>
<td>7 to 15 years</td>
</tr>
<tr>
<td>$5,000</td>
<td>$2 million</td>
<td>Currently</td>
<td>NA</td>
</tr>
<tr>
<td>NA</td>
<td>$3 million</td>
<td>Currently to 2/1/2002</td>
<td>Minimum of 15 years</td>
</tr>
<tr>
<td>NA</td>
<td>$200,000</td>
<td>Currently to 2/1/2001</td>
<td>NA</td>
</tr>
<tr>
<td>$5,000</td>
<td>$10 million</td>
<td>Currently</td>
<td>1 to 25 years; 5 or more preferred</td>
</tr>
<tr>
<td>No minimum</td>
<td>$1.5 million</td>
<td>Currently</td>
<td>NA</td>
</tr>
<tr>
<td>$100,000</td>
<td>$3 million</td>
<td>Currently</td>
<td>8 years</td>
</tr>
<tr>
<td>$10,000</td>
<td>$200,000</td>
<td>Currently</td>
<td>NA</td>
</tr>
<tr>
<td>NA</td>
<td>NA</td>
<td>Currently</td>
<td>NA</td>
</tr>
<tr>
<td>$5,000</td>
<td>Unlimited</td>
<td>Currently</td>
<td>NA</td>
</tr>
<tr>
<td>$1,000</td>
<td>$9 million</td>
<td>Currently</td>
<td>2 years</td>
</tr>
<tr>
<td>NA</td>
<td>$25 million</td>
<td>Currently</td>
<td>Approx. 5 to 15 years</td>
</tr>
<tr>
<td>NA</td>
<td>$25 million</td>
<td>Estimated 2003</td>
<td>Approx. 7 to 10 years</td>
</tr>
<tr>
<td>$1 million</td>
<td>NA</td>
<td>Currently to summer 2002</td>
<td>Approx. 7 to 10 years</td>
</tr>
<tr>
<td>$500,000</td>
<td>$2.5 million</td>
<td>Currently</td>
<td>2 years</td>
</tr>
<tr>
<td>$500,000</td>
<td>$2.5 million</td>
<td>Currently</td>
<td>NA</td>
</tr>
<tr>
<td>NA</td>
<td>$1 million</td>
<td>Currently</td>
<td>5 years</td>
</tr>
<tr>
<td>NA</td>
<td>NA</td>
<td>Currently</td>
<td>NA</td>
</tr>
</tbody>
</table>
GS Capital Provides Venture Capital to Minority- and
Women-Owned Businesses on East Coast

...continued from page 13

owned by members of ethnic and racial minorities or women or that are located in low- and moderate-income census tracts. Of GS Capital’s 19 investments, 17 have been in such businesses.

GS Capital invests mostly in service-industry businesses in the northeastern corridor, which encompasses Delaware, Maryland, Massachusetts, New Jersey, New York, Ohio, and Pennsylvania. Its investments are usually for expansion or acquisition, rather than start-ups. About 70 percent of its investments have been to franchise businesses. GS Capital has found this an attractive niche because of the excellent financial performance of most major franchises, management oversight provided to the entrepreneur by the franchisor, stable cash flow, ability to attract other private capital, and an ability to create jobs.

The most likely exit mechanisms for GS Capital investments are through a recapitalization in which either management or employees buy out GS Capital’s position, sale of the company, or merger with another equity fund. GS Capital has not yet exited from any of its 19 investments, so its investors have not yet received a return. Gessner said that he expected GS Capital’s return on its gross portfolio to be between 20 percent and 25 percent.


GSA Management LLC, which manages GS Capital, has begun to seek capital commitments of $75 million for a new fund that will also be operated as an SBIC. Named GS Capital II, L.P., the fund will have three objectives: achieving a competitive return; assisting minorities and women to create and expand businesses; and creating jobs. GS Capital II intends to invest in privately held consumer retail firms, franchises, and service and technology businesses. GSA Management expects an increase in the number of solid expansion-stage companies that have received some funding but are unable to attract new capital. GS Capital II is expected to be different from GS Capital in that it will have a more diversified portfolio and will serve some additional locations along the East Coast.

Gessner said that he continues to see “a very underserved market” for minority-owned and women-owned businesses nationwide and especially along the East Coast. He added that there is “huge potential” for such businesses, noting that women are the fastest-growing business incorporators in the United States.

GS Capital II is expected to have a $10 million closing by the end of 2001 and will continue to seek funds in 2002, according to Gessner. The minimum investment is $1 million.

The advisory committee for GS Capital II includes William Stallkamp, retired vice chairman of Mellon Financial Corporation, and Dick Vermeil, head coach of the Kansas City Chiefs and former head coach of the St. Louis Rams and the Philadelphia Eagles.

For information, contact Richard J. Gessner, Jr., general partner, GS Capital, L.P., at (610) 254-4224 or rgessner@safeguard.com.
Pennsylvania’s Neighborhood Assistance Program —
A Popular Way to Make Grants and Get Tax Credit

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

Pennsylvania’s Neighborhood Assistance Program (NAP) has been a “win-win” proposition for banks for three decades: they can make grants to nonprofit organizations that usually count toward the Community Reinvestment Act investment test, and they get state tax credits for up to 70 percent of their contributions. In fact, the NAP is such a compelling idea that 14 states have replicated Pennsylvania’s legislation authorizing the NAP.

Fred N. Abrams, division chief in the office of community services of the Pennsylvania Department of Community and Economic Development (DCED), said that the NAP “has reduced the cost of doing business to the state and contributors and has enabled nonprofits to receive contributions they otherwise would not have gotten. Everybody wins!” Abrams, who has overseen the program for about 30 years, works to encourage banks and nonprofit organizations to use the NAP as part of community-development partnerships.

NAP has three variations: the basic NAP; the NAP/Comprehensive Service Program (NAP/CSP); and the NAP/Enterprise Zone Tax Credit Program. Banks and other corporations can obtain NAP tax credits for up to $250,000 each year ($600,000 in the case of the NAP/CSP).

Under the basic NAP program, contributors who qualify for the 50 percent credit also can obtain a federal charitable tax deduction, resulting in a cost of about $0.24 for each contributed dollar. Under the NAP/CSP, contributors can obtain state tax credits for 70 percent of contributions of either $100,000 or $250,000 a year for 10 years. Finally, corporations that own or lease buildings or land in the state’s 56 Enterprise Zones can receive a 20 percent tax credit for physical improvements, such as rehabilitation or expansion.

Pennsylvania has awarded about $200 million in NAP tax credits since the Neighborhood Assistance Act was passed in 1967. As successful as the NAP has been, its guidelines will be completely revised for the first time since the program’s inception. The revisions, which will be completed by next summer, will clearly outline the responsibilities of corporations and nonprofits “to make the program better and more useful,” Abrams explained. He said he also hoped to start a peer-review program for corporations and nonprofits participating in the NAP/CSP.

The NAP has been used extensively by the state’s largest banks, most regional banks, and some community banks, Abrams explained. He said that the NAP/CSP in particular could be used to a greater extent, and he expressed interest in working with community banks that have not used the basic NAP program to date.

Pennsylvania makes available $18 million in NAP-related tax credits each year. Corporations must apply to DCED to become eligible for NAP tax credits and have up to five years in which to use the credits after they have been awarded. Tax credits are awarded for grants that benefit a low-income community or individuals with income under 150 percent of federal poverty guidelines. The guidelines, issued by the U.S. Department of Health and Human Services, are based on the poverty thresholds used by the Bureau of the Census to prepare its statistical estimates of the number of persons and families in poverty.

Contributions for the 50 percent tax credits can be in-kind technical assistance as well as cash. A technical-assistance contribution could consist of a bank’s attorney or other employee who provides...
Pennsylvania's Neighborhood Assistance Program — A Popular Way to Make Grants and Get Tax Credit

...continued from page 19

techical assistance during regular
work hours to a nonprofit organi-
zation, Abrams said. To become eli-
gible for the tax credits, in-kind
technical assistance must be in-
cluded in a nonprofit organiza-
tion’s budget approved by DCED.

In the NAP/CSP, a bank or
other corporation works directly
with a nonprofit organization to
develop and implement a neigh-
borhood-revitalization plan. The first
year of a 10-year grant commitment
can be used to develop a com-
prehensive plan that addresses com-


community needs in housing, educa-
tion, health and social services,
community development, job train-
ing, crime prevention, and resident
involvement. At present, there are
18 NAP/CSP partnerships in Penn-
sylvania.

Ten of the 18 NAP/CSP part-
nerships have been in Philadelphia
and have become known as the
“Philadelphia Plan.” Philip Price,
Jr., a consultant who assisted the
formation of many of the Philadel-
phia partnerships, recalled that the
CSP was modeled after Tasty Bak-
ing Company’s support for the Al-
legheny West Community Develop-
ment Project. For the past 33 years,
Tasty Baking has provided grants
and technical assistance to the
project, which has rehabilitated 370
single-family houses for sale or
rent, developed 20 mixed-use
projects, and provided job training,
reading enrichment, and other pro-
grams.

For further information, contact
the DCED Office of Community Ser-
vices at (717) 787-1984. In Philadel-
phia, Philip Price, Jr., may be reached
at (215) 564-5678 or
ppricejr215@aol.com.

Pennsylvania Housing Finance
Agency Plans About $200 Million
in Mortgage Revenue Bonds

A
bout $210 million in Pennsylvania Housing
Finance Agency (PHFA) mortgage-revenue
bonds (MRBs) will be available for sale in 2002. The
majority of the bond proceeds are to make loans
to first-time low- and moderate-income home buyers.

Approximately $70 million of the MRBs will be
available for purchase on or about March 15, July 15,
and October 15. The MRBs are tax-exempt and
typically provide a return of 3.25 percent to 5.5
percent, are sold in denominations of $5000, and have
terms of six months to 30 years. About $210 million in
MRBs are also expected to be available in 2003.

In addition, PHFA will make available in 2002
and in 2003 approximately $21 million in low-income
rental housing tax credits. Half of next year’s credits
will likely be awarded in May, and the balance will be
awarded in September.

For information on the MRBs, contact Joseph Knopic at
(717) 780-3837 or knopic@phfa.org. For information on
the tax credits, contact Dave Evans at (717) 780-3882 or
devans@phfa.org.

Community Development Trust
Plans Equity Offering in 2002

T
he Community Development Trust (CDT), a real
estate investment trust (REIT) created solely to
acquire community-development assets, anticipates
raising additional equity in the second or third
quarter of 2002.

CDT was created by the Local Initiatives
Support Corporation, which has a minority
investment in the REIT. CDT raised $32 million in
equity from 18 institutional investors in 1999. In its
two primary activities, it invests long-term equity
capital to preserve affordable-housing develop-
ments, and it purchases multifamily mortgages
from community lenders.

CDT, which is based in New York City, makes
investments in different parts of the U.S. Its charter
requires that it invest in assets that meet CRA
requirements. It plans to use equity raised in 2002 to
invest in additional affordable-housing
developments and community-service facilities.

For information, contact Judd S. Levy at (212) 271-
5099 or levy@commdevtrust.com.
Pennsylvania Department of Community and Economic Development Has Range of CRA Investment Possibilities

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

Pennsylvania Department of Community and Economic Development (DCED) programs involving the state’s community-development bank, first-time farmers, and student scholarships have CRA-investment possibilities for financial institutions.

Investments in the Pennsylvania Community Development (PCD) Bank program will fund loans to state-accredited community development financial institutions (CDFIs). The minimum PCD Bank investment amount is $250,000 for a seven-year term. PCD Bank investments, which are expected to pay a market-rate return, are considered on a case-by-case basis.

A second possibility involves the next generation farmer (NGF) program, which finances farm purchases by first-time farmers. Tax-exempt bond issues of $250,000 or less are issued by local industrial-development authorities and are usually purchased by banks. Up to $2.9 million of the bonds have been issued or are expected to close before the end of this year. Next year, at least $2 million of the bonds are expected to be issued and available for purchase.

A third investment possibility involves DCED’s educational improvement tax credit program (EITC). EITC makes available annual tax credits of $20 million for elementary- and high-school scholarship programs and another $10 million for innovative educational programs in the state’s public schools. Corporations receive a 75 percent tax credit for a one-year contribution and a 90 percent tax credit for a two-year contribution.

Nonprofit organizations operate the scholarship and school programs. An interested bank can ask the nonprofit organizations that operate such programs in its trade area about whether any of the programs serve a majority of low- or moderate-income (LMI) students. Bank contributions to programs that serve such students, or serve students in LMI census tracts, may qualify under the investment test.

For information on the PCD Bank, contact Carlton L. Ketchen at (717) 720-1376 or cketchen@state.pa.us. For information on the NGF, contact Gail Wagner at (717) 720-1374 or gaiwagner@state.pa.us. For information on EITC, contact Ted Knorr at (717) 720-1420 or tknorr@state.pa.us.

Delaware State Housing Authority Has Bond, Grant, and Equity CRA Investment Opportunities

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

In Delaware – a small state with many banks – the state housing authority has created bond and grant opportunities to respond to the demand for CRA investments.

Delaware is planning $60 million in two single-family mortgage-revenue bond issues for 2002. The majority of the bond proceeds will be used to make mortgages to low- and moderate-income first-time homebuyers.

James M. Peffley, housing finance administrator at the Delaware State Housing Authority (DSHA), said that next year, for the first time in DSHA’s history, a portion of the issues will include “premium bonds.” The premium bonds...continued on page 22

The bonds were designed to provide an opportunity for financial institutions in Delaware to meet their CRA responsibilities.
Delaware State Housing Authority Has Bond, Grant, and Equity CRA Investment Opportunities

...continued from page 21

will enable the agency to provide down-payment and closing-cost grants for about 4 percent of the loan amount. Investors, who will purchase the premium bonds above par at a slightly higher interest rate than untargeted bonds, will receive a yield equivalent to that on the rest of the bond issue, Peffley said. Peffley explained that many states have found that first-time buyers especially need down-payment and closing-cost assistance, rather than a reduction in the interest rate.

Another portion of the two bond issues next year will include CRA bonds, which are structured specifically for banks needing CRA investments. CRA bonds produce a sizable reduction in DSHA’s cost of funds and, therefore, in the mortgage rate it is able to offer its borrowers. The bonds were designed to provide an opportunity for financial institutions in Delaware to meet their CRA responsibilities. More than half of the $60 million bond issues will consist of premium and CRA bonds, Peffley said. All the bonds in these issues will be sold in $5000 denominations.

DSHA works closely with banks in the state and contacts the banks before planning a bond issue to get an indication of the banks’ willingness to invest, Peffley noted. In another CRA investment possibility, DSHA is seeking grants of $3 million to $5 million in 2002 in connection with homes that will be built for low- and moderate-income buyers under the Delaware Housing Partnership (DHP). The grants will be used to provide down-payment and closing-cost assistance loans.

DSHA is also seeking grants of $250,000, primarily from banks, for the Housing Capacity-Building Program, which in turn provides grants to improve the capacity of nonprofit organizations to build or maintain housing. The program is a partnership of DSHA, the Delaware Community Investment Corporation, and the University of Delaware Center for Community Development and Family Policy.

...continued on page 23

New Jersey Economic Development Authority Seeks CRA Investments in Five Programs

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

The New Jersey Economic Development Authority (EDA) is seeking bank investments in several programs in which banks have previously provided loans or made grants. In addition, the EDA is interested in working with banks to develop new programs for brownfields pre-development and community development related to school construction.

Banks can work with the EDA’s Fund for Community Economic Development, which assists nonprofit organizations and for-profit groups in designated urban areas to provide loans to microbusinesses and small businesses or to develop real estate projects. They can make equity investments in real estate projects and in turn receive nonrecourse notes, or they can provide grants for real estate feasibility studies, EDA officials explained. In the past, banks have participated in the program by providing loans to nonprofit and for-profit organizations on a project-by-project basis.

...continued on page 23
The EDA also will seek its second round of grants early in 2002 to fund a business-training program through its Strengthening the Economy with Entrepreneurial Development (SEED) program. This program is a great opportunity for banks to develop new business relationships, EDA officials said. The grants would fund training, offered twice a year for new entrepreneurs, particularly women and members of racial and ethnic minorities, in 10 primarily urban locations. The EDA also invites banks to provide facilitators, review business plans, and provide financing to at least three entrepreneurs who have completed the training.

In addition, the EDA seeks investors to purchase tax-exempt bonds for day-care centers, charter schools, and social-service projects in urban and low-income communities, federal empowerment zones, and enterprise communities.

The EDA seeks investors to purchase tax-exempt bonds for day-care centers, charter schools, and social-service projects in urban and low-income communities, federal empowerment zones, and enterprise communities. The EDA expects to issue about $500 million in bonds next year, depending on economic conditions. A minimum investment amount is $750,000; the term is usually 10 to 20 years. (The EDA seeks letters of credit as an alternative to purchase of the bonds.)

The EDA would like to discuss with banks two other programs that are in the preliminary stages: school renaissance zones and a brownfields redevelopment program. The first program is related to the state’s responsibility, following a court decision, to finance and construct public schools in 30 special-needs school districts. The EDA is looking to stimulate economic-development projects and community facilities and thereby enhance the communities that include the new schools. The EDA, which plans to establish zones in about five school districts in 2002 on a pilot basis, is seeking equity investments, loans, or grants for commercial, recreational, and health-facility projects, among others.

In cooperation with banks, the EDA is also interested in organizing an equity or loan pool to fund pre-development site preparation or engineering and other studies on brownfields and other older industrial sites in the state’s urban aid communities. Funds would not be used for environmental cleanup. The EDA seeks equity investments either in a pool or on a case-by-case basis. Another option is a loan participation on a project-by-project basis.

For information, contact Rose M. Smith, Director, Marketing and Policy, EDA, at (609) 292-0359 or rms@njeda.com.
Penn Venture Partners Focuses on Venture Capital in Primarily Rural 34-County Pennsylvania Region

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

Penn Venture Partners (PVP), a conditionally approved new markets venture capital company (NMVCC), wants to establish a $25 million fund that will invest in businesses in a primarily rural 34-county region in Pennsylvania.

PVP represents a joint venture between the Ben Franklin Technology Center of Central and Northern Pennsylvania, Inc. (BFTCCNP) and Zero Stage Capital Company, an established venture-capital firm in Boston.

PVP will focus on a 34-county region now served by BFTCCNP — a mostly rural region in central and northwestern Pennsylvania that includes such cities as Erie, Harrisburg, Lancaster, Williamsport, and York. BFTCCNP is one of four Ben Franklin Technology Centers that have been providing early-stage financing, technical assistance, and other services to businesses in Pennsylvania for nearly two decades.

V. F. Russo, managing director of PVP and president and chief executive officer of BFTCCNP, said that there are virtually no venture-capital firms based in PVP’s targeted region. PVP has commitments for $9.7 million and hopes to raise an additional $0.3 million. It is also raising funds for technical assistance.

PVP, which will invest a substantial portion of its capital in businesses located in low-income areas of Pennsylvania, is one of seven NMVCCs across the United States that have been conditionally approved by SBA.

Before joining BFTCCNP in 1997, Russo held positions with United Technologies Corporation as director of technical programs in China, director of European operations, and director of business development. Russo, who opened the first wholly foreign-owned technology center in China, holds a doctorate in physics from Penn State University.

For information on PVP, contact V. F. Russo at (814) 863-4881 or vfrusso@psu.edu. Information on BFTCCNP is available at www.cnp.benfranklin.org. Information on NMVCCs is available at www.sba.gov/inv or at sbic@sba.gov.

NCCA Starts Asset-Management Services for Bank Investors in CDFIs

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

National Community Capital Association (NCCA) has started an asset-management service in which it will underwrite, monitor, and manage bank loans to investments in community development financial institutions (CDFIs).

NCCA, which has a decade’s experience in financing CDFIs, was in the process of developing an asset-management contract with its first client in mid-November.

NCCA will manage loans and investments in a broad range of CDFIs — entities certified by the CDFI Fund as well as nonprofit community loan funds, community development venture capital funds and credit unions, and microenterprise lenders. Allyson B. Randolph, director of external relations at NCCA, said that “the banks make the final loan or investment decision and get to keep the transaction
NCCA Starts Asset-Management Services for Bank Investors in CDFIs  ...continued from page 24

on their books, but they can also get helpful intervention from NCCA if the loan or investment runs into difficulty.”

In another relatively new service, NCCA analyzes the number and types of CDFIs in different markets. Randolph explained that this analytic service is useful for banks that are entering a new market or for those that have worked with one or two leading CDFIs and want to know about others in that market. In this service, NCCA provides information on the focus, activity levels, and investors and funders in CDFIs. Users pay an hourly consulting fee.

This analytical service is useful for banks that are entering a new market or for those that have worked with one or two leading CDFIs and want to know about others in the market.

Meanwhile, NCCA is developing an assessment and rating system to help investors evaluate the financial risk and return as well as the social impact of prospective CDFI investments.

Since 1991, NCCA, which is primarily funded by banks, foundations, churches, and the CDFI Fund, has provided $22.6 million in loans and $4.1 million in equity investments and program-development grants. It had 102 members as of mid-November.

For further information, contact Allyson B. Randolph at (215) 923-4754 or allysonr@communitycapital.org.

Murex Investments I, L.P. Plans to Invest in Businesses Located in Very Low-Income Areas

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

Murex Investments I, L.P. (MI), a conditionally approved new markets venture capital company (NMVCC), wants to establish an $11 million fund for investments in businesses located in very low-income census tracts of eastern Pennsylvania, southern New Jersey, and northern Delaware. MI will also invest in some businesses that are located outside of those tracts but that employ a majority of low-income individuals.

MI is a subsidiary of Resources for Human Development (RHD), a nonprofit organization based in Philadelphia that has over 2600 employees in six states. MI, founded in 1998 and certified as a CDFI by the U.S. Treasury Department in the fall of 2000, has 5.5 full-time equivalent employees, consisting of Joel Steiker, a business developer with MI; an operations manager; a fundraiser; a certified public accountant; and a venture capitalist.

MI is seeking to raise $5.5 million in order to trigger a matching investment by the U.S. Small Business Administration (SBA). To date, MI has received nearly $4 million in commitments. In addition, MI is raising $1.65 million in technical assistance dollars, which the SBA will match 1 for 1. Such funds will be used to provide technical assistance in finance, marketing, operations, and workforce development. An MI subsidiary will be the general partner, and investors will invest in a 10-year limited partnership, which will be managed by Katalyst, a venture capital firm located in Conshohocken, Pennsylvania. Steiker stated that he expected that the 10-year limited partnership would be fully invested within four years and would begin to provide returns by its sixth year.

In explaining the fund’s differentiating factors, Steiker explained that MI has a “double bottom line investment philosophy — it seeks...continued on page 26
Murex Investments I, L.P. Plans to Invest in Businesses Located in Very Low-Income Areas

...continued from page 25

MI has a "double bottom line investment philosophy" — it seeks strong financial returns from companies in which it invests, and wants returns to be shared with employees through profit-sharing and employee ownership.

strong financial returns from companies in which it invests, and it wants returns to be shared with employees through profit-sharing and employee ownership.

“We believe that if you tie performance to profit-sharing, you’ll build strong companies. Profit-sharing will motivate employees to be thinking when they do their job, and they will behave like owners.”

In furthering its social goals, MI at present invests only in manufacturing and service companies that pay “living wages” (at least $7.90 an hour) and provide healthcare benefits for each employee and that enable the workforce to own at least 10 percent of the company. MI will continue this investment approach as an NMVCC.

To date, MI has invested nearly $3 million in seven companies, and one investment is pending. CitySort, a mail-fulfillment business located in the American Street Empowerment Zone of Philadelphia, was on the verge of bankruptcy at the time of MI’s investment.

CitySort has leveraged $2.7 million in financing from Prudential Insurance Company and has since stabilized, Steiker said. CitySort has 50 employees and annual sales of about $3 million.

MI also invested in Sun & Earth, a Norristown, Pennsylvania, manufacturer of nonchemical household cleaning products.

MI’s board of managers and investment committee include Michael Forman, senior partner of Klehr, Harrison, L.L.P.; Larry Chimerine, director and chief economist of the Economic Strategy Institute; Robert McCord, managing director of Pennsylvania Early Stage Partners; James Steiker, founder of Steiker, Fisher and Olson; and Robert Fishman, executive director of RHD.

MI is also establishing an additional fund that will invest in businesses that primarily employ low-income individuals and that are located in low-income census tracts of northern New Jersey and central Pennsylvania, as well as the target geographic areas of its first fund. This venture capital fund will follow the “double bottom line investment philosophy,” but it will not be an NMVCC, Steiker said. He said that MI has begun to raise funds for this second fund and he expects that it will close in December 2002.

For further information, contact Joel Steiker at (215) 951-0300, extension 3183, or joel@rhd.org.
Calendar of Events

**Microenterprise Tools and Techniques**
A program developed by MicroNet (Maine’s association of microenterprise lenders), Massachusetts Microenterprise Coalition, and the Federal Reserve Bank of Boston

January 17-18, 2002, Providence, Rhode Island
March 5-6, 2002 Hartford, Connecticut
For information, call Arneese Brown, Community Affairs Department, Federal Reserve Bank of Boston, 617-973-3174

**2002 Community Reinvestment Conference**
A conference sponsored by the Federal Reserve Bank of San Francisco, in cooperation with the FDIC, OCC, and OTS

January 30-February 1, 2002
San Francisco, California
To be added to the mailing list for the conference, call Bruce Ito at 415-974-2422. For information about the agenda, call Lena Robinson at 415-974-2717.

**Tools for Building Sustainable Rural Communities**
A conference sponsored by the Federal Reserve Bank of Philadelphia

April 25-26, 2002, The Woodlands Inn & Resorts, Wilkes-Barre, PA
For information, contact Vera Bowders at 215-574-6570 or vera.bowders@phil.frb.org

A conference sponsored by the community affairs officers of the Federal Reserve System
March 27-28, 2003, Capitol Hilton Hotel, Washington, DC

**Call for Papers**
Individuals interested in presenting research should submit a completed paper, detailed abstract, or proposal by April 22, 2002, to:

William C. Hunter
Senior Vice President and Director of Research
Federal Reserve Bank of Chicago
230 South LaSalle Street
e-mail: Academic-Systems-Conference@chi.frb.org
Phone: 312-322-5810
Do we have your correct address? Please check the mailing information below. If it’s not correct, please let us know so that we can update our mailing list. Do you want to get on the Cascade mailing list? Let us know. Send corrections or requests to be added to the Cascade mailing list to betty.c.floyd@phil.frb.org. Or call 215-574-6458.