Three Eighth District Organizations Awarded CDFI Funds

Three financial institutions in the Eighth District were among 31 organizations nationwide to receive a combined $35.5 million in financial and technical assistance from the Community Development Financial Institutions (CDFI) Fund. These funds will be leveraged with significant private funds and are expected to result, over time, in at least $350 million of lending and investing in distressed urban and rural communities in 46 states and the District of Columbia.

Treasury Secretary Robert Rubin recently announced those organizations selected in the first round of CDFI funding. Included are Quitman County Federal Credit Union (Marks, Miss.), Louisville Community Development Bank Holding Company, and Southern Development Bancorporation (Arkadelphia, Ark.). Profiles of each of these Eighth District financial institutions are listed below:

**Quitman County Federal Credit Union**

Quitman County Federal Credit Union was formed in 1981 as a means for this remote rural county’s African-American population to have access to basic financial services at affordable prices. Membership in the credit union has grown to 1,325 household members, close to half of the county’s black households, a dramatic sign of success. The credit union also is an important source of community education in the provision of financial counseling for consumers and the self-employed.

With a CDFI Fund grant of $100,000, Quitman will be able to expand its lending for home improvement and residential construction, and thus stimulate opportunity for small building contractors. The credit union will be able to leverage its increased net worth many times over through increased share growth. It is also considering potential expansion of its service area into two adjacent counties, which are located in an Enterprise Community.

**Louisville Community Development Bank Holding Company**

In a bold approach to revitalize distressed Louisville neighborhoods, public and private sector leaders joined with community leaders to spur the formation of a comprehensive community development bank holding company. It will serve an investment area composed of most of Louisville’s inner-city low-income neighborhoods and includes Louisville’s Enterprise Community.

The holding company will have three subsidiaries: a full-service bank focusing on small business lending, home improvement loans and mortgages for multifamily development; a real estate development company with emphasis on single-family new construction and rental housing development; and a nonprofit enterprise development center.
designed to foster small business development and entrepreneurial initiatives by area residents.

An equity investment of $2 million from the CDFI Fund is expected to play a central role in helping to raise the capital necessary to launch this new effort. The CDFI award also includes $336,500 in technical assistance.

**Southern Development Bancorporation**

This comprehensive community development bank holding company is demonstrating that a bank holding company, with appropriate affiliates and subsidiaries, can be profitable while achieving important community development objectives. Since the bank holding company purchased an existing bank in 1988 and created its multi-faceted structure, Southern has been responsible for the creation or retention of 2,300 jobs. Southern is now seeking to launch a major expansion into the Arkansas Delta. With the addition of banking operations in that region, and more resources directed to Southern’s real estate development and enterprise development components, it can implement a comprehensive program directed to commercial and housing lending, real estate development, small business expansion, venture capital and micro-enterprise lending.

The CDFI Fund investment, $1 million equity investment in Southern and $1 million grant to its nonprofit affiliate Arkansas Enterprise Group, will help to launch this expansion. Southern’s Delta presence is expected to include a partnership with a university to advance research into rural economic development issues.

### Highlights of the First Round of CDFI Program Funding

#### Types and Amounts of Assistance

- The Fund is selecting 31 organizations for funding for a total of $35,469,500.
- This funding is broken down as follows:
  - Equity Investments: $9,350,000
  - Grants: $18,690,000
  - Loans: $6,660,000
  - Technical Assistance: $769,500

#### Organizational Diversity

- Four community development banks or bank holding companies, one of which is African-American
- Six community development credit unions
- Twelve community development loan funds focusing on housing, nonprofit facilities and/or small business, including microbusinesses
- Three community development venture capital organizations, one of which is an inner-city venture capital fund, while the remaining two serve rural areas
- Two micro-enterprise loan funds
- One Native-American regional housing organization
- Two multifaceted CDFIs, each with a credit union and one or more loan funds
- One national community development intermediary

#### Geographic Reach

- The CDFIs selected are headquartered in 20 states plus the District of Columbia.
- The CDFIs selected serve communities in 46 states plus the District of Columbia.
- Approximately 50 percent of the organizations serve predominantly urban areas, 25 percent serve predominantly rural areas, with the remainder serving a combination of both.

#### Impact and Innovation

- Of the 31 organizations selected, 12 represent startups (in existence two years or less) or are launching major geographic expansions.
- In addition, the CDFI funding will assist eight other organizations in implementing significant new programs, products or services.

### National Consumers Week

**Coming in October**

Oct. 20-28 has been declared National Consumers Week by President Clinton. The 1996 theme, “Service Signals Success” is designed to build on the themes of honesty, courtesy and fairness in the marketplace.

Mark your calendars now for this special event, and watch for additional information as it becomes available.
During the past couple of years, Bentonville, Ark., has experienced rapid population growth resulting in a severe shortage of affordable housing. The increase in population has caused an increase in demand for rental housing; so much so that market rates have been pushed to levels in which safe, decent, affordable housing is not available to low- and moderate-income individuals.

The city also began to notice an increasing number of single-parent families who were homeless or living in overcrowded conditions or in local shelters with no affordable alternatives. As a result children were being separated from parents and put in foster care until suitable housing could be secured.

To address these problems, the Chamber of Commerce developed the Community Development Corporation of Bentonville/Bella Vista, Inc. in 1992. With one paid staff person, the CDC has produced a total of 24 innovative housing units for low- and moderate-income residents in its service area.

The city of Bentonville recently established a goal to provide single-parent families with transitional housing coupled with social services. The city turned to the CDC to help achieve this goal.

The CDC began the site selection process by looking at available property in its target area. It soon found a 15,000 square foot, vacant church on 1.5 acres for sale. The CDC board analyzed the structure and did a rough construction estimate to see if the structure would be feasible for an adaptive reuse plan. After discussing its plans one-on-one with the surrounding residents, the CDC negotiated an offer and the building and land were acquired using a HOME grant.

The CDC's project became a reality called Havenwood. The goal was to develop completely furnished, single-room occupancy (SRO) units, each with its own kitchen and bathroom. Nine SRO units and six one-bedroom units were constructed inside the church. In addition, shared living spaces were designed for the families that included a laundry room, play room, computer room, family room, food pantry and library.

Total unit costs, including all shared spaces, was $26,000 per unit. The community donated building materials and hundreds of hours of labor. Additional funding came from an Affordable Housing Program grant from the Federal Home Loan Bank of Dallas secured by the Bank of Bentonville and CDC equity.

Havenwood's mission is to provide transitional housing for very-low income, single parents and their children for a maximum period of two years. During this time, families will receive the support they need to move out of the poverty cycle and eventually into conventional housing. An on-site program director serves as a liaison to needed social services and works with each resident to develop a "Personal Achievement Contract" and a savings plan. Group classes are conducted that focus on parenting, housekeeping, nutrition, budgeting and relationships. Community volunteers provide child care during classes.

According to Nancy Leake, executive director of the CDC, "Volunteers made Havenwood a reality." There was no funding available to furnish the units, so each apartment was adopted by an individual, business, church or community group and completely furnished. This gave each apartment a unique look and made the families more comfortable.

The residents are an important component in the project's daily operations. The Havenwood Residents Association is lead by a resident president and vice president who guide the day to day operations including assigning chores in the shared living spaces and planning social events. The Havenwood Resident's Council is a five-member council responsible for hearing resident complaints, resolving conflicts and making recommendations to Havenwood's Board for rule changes and disciplinary action.

Havenwood is an example of a rural community identifying a housing need and answering that need with the innovative reuse of a vacant church. The Havenwood motto clearly reflects the community's spirit and support behind the project: "Havenwood—An Opportunity for Transition."
Arkansas Bank Introduces Home Ownership Accessibility Model

by Tony Robinson, CRA Officer Boatmen’s Bank of Hot Springs, Ark.

Boatmen’s National Bank of Hot Springs, Ark., has discovered that a tailor-made mortgage product contributes to the success of entering low- and moderate-income (LMI) mortgage markets. Recycled products just won’t do. Designing a product based on the realities of your market’s statistics is essential.

Instead of using an established LMI mortgage product, Boatmen’s gathered census bureau statistics for its area, Garland County, and conducted research to see what type of underwriting and marketing would be necessary for individuals to access a mortgage product successfully. The bank gathered information on Garland County LMI census tracts and discovered surprising statistics when correlating rental payment numbers with specific mortgage payments. In some census tracts, many individuals were paying more in rent than they would if they were buying a home. The bank also discovered a correlation between high rental areas and low- and moderate-income areas.

When looking at the numbers, it was clear that some type of product to address what is commonly called the “rent trap” was desperately needed in the Garland County area. The bank’s extensive research revealed that many LMI persons had the ability to make monthly mortgage payments but did not make the jump into homeownership. Why? For the answer to that question, Boatmen’s looked at medium, mean and mode income and found that in all three statistical categories it would be very difficult for approximately 65 percent of the LMI individuals within the bank’s assessment area to come up with a substantial down payment and/or closing costs.

For this reason the product had to be flexible. The bank discovered that the majority could afford a 5 percent down payment, which became the requirement for the product. Originally, Boatmen’s felt that only a 30-year amortization structure would be needed. But after a little research, the bank discovered that some LMI individuals desired the option of paying their loans off in a shorter time frame—consumers are getting more savvy and realize that a shorter amortization will build equity faster.

In addition, Boatmen’s stripped the product of the conventional cost associated with mortgage loans, including PMI insurance, points and origination fees. Potential homeowners also have access to governmental HOME funds for down payment and closing cost assistance. This financial help has been instrumental in the overall success of the program.

After designing the mortgage product, the bank needed to address other concerns. The first being how to reduce the risk associated with this relatively experimental product in accordance with safe and sound banking principles. To limit these risks several restrictions were established: 1) a maximum loan amount of $40,000, 2) a loan fund allocation of approximately $1 million; after which, the portfolio would be reviewed for a time period to assure an acceptable delinquency rate was being attained, and 3) charging one person with the responsibility for reviewing the portfolio on a quarterly basis.

Another risk was the fact that a majority of the applicants were first time homeowners; therefore, a quality educational component was critical to the program. To be considered for the mortgage product, the buyer first successfully completes a free three-week course covering an array of home ownership responsibilities including how to apply for a mortgage loan. By collaborating with the local Community Service Office (CSO), Boatmen’s was able to construct a superior educational program.

When the classes began, only about eight people actually completed the required sessions. The bank could easily have given up and fallen back on its good intentions; however, it didn’t. During a recent session over 60 participants completed the full three-week course. Approximately $1.2 million in loans have been funded. The program is still experimental, but so far the bank is pleased with the results and loan performance. For more information, call Tony Robinson at (501) 321-8203.

Contributors: Judy Armstrong, Matthew Ashby, Kirk Bowlin, Tamme Mattingly, Keith Turbett and Glenda Wilson

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Please direct any questions or comments to Glenda Wilson at (314) 444-8317.
Comparison of Similarly Situated Lenders and the CRA Performance Context

Some lenders have expressed concern that banks are not in a position to respond to CRA examination findings and will have difficulty producing their own analysis to provide to examiners given the lack of business lending data currently available to the examined bank regarding peer performance. Furthermore, given the lack of available peer data, banks are unclear how to place their lending performance in the context in which they will be examined.

These issues were carefully considered by the financial institution regulatory agencies when drafting both the new CRA regulations and examination procedures. They also were addressed during examiner training sessions.

“Performance context” describes information about a bank and its community that an examiner must review to assess adequately the bank’s performance. This information about a bank and its community provides the context for evaluating data on a bank’s lending, service and investment performance. Typically, this information includes demographic and economic data about the bank’s assessment area and information about local economic conditions. It also covers the bank’s major business products and strategies, as well as its financial condition, capacity, and ability to lend or invest in its community. Consideration of these factors during a CRA examination reflects a fundamental underpinning of the new CRA regulation—that the differences in banks and in the communities in which they do business preclude rigid and inflexible rules. Information about other lenders can be a useful part of this performance context in certain circumstances.

As part of the geographic distribution analysis, one of the five lending test performance criteria under the new rule, an examiner may include an analysis of the lending performance of other similarly-situated lenders. Such an analysis could provide accurate insight, for example, into lending opportunities available in the examined bank’s assessment area. This analysis may also be useful in evaluating why a bank has an abnormally low loan penetration in certain areas. Nonetheless, this analysis is simply one tool among many that an examiner may use in evaluating one lending test criterion. The new regulations do not require examiners to use any single type of analysis and would not link any particular ratio with a particular test rating or overall CRA rating.

Identifying similarly-situated lenders for comparison may be difficult in some cases and, perhaps, not possible in others. Therefore, the Interagency CRA Examination Procedures make clear that the comparative analysis may be used in situations in which a bank’s lending patterns show abnormally low loan penetration in certain parts of its assessment area if the analysis will provide useful information. To determine whether analysis of the performance of similarly-situated lenders would provide insight into a bank’s low loan penetration in certain geographic areas, examiners will first consider whether the:

- reported loan category is substantially related to the bank's business strategy;
- area under analysis substantially overlaps the bank’s assessment area;
- analysis includes a sufficient number and volume of transactions and an adequate number of lenders with overlapping assessment areas to conduct a meaningful analysis;
- assessment area data are free from anomalies that can cause distortions such as, for example, lenders that dominate parts of the area. If it appears that peer group analysis would be helpful, an examiner may seek information from the bank’s management and community contacts on the
Community Development Investments and the Lending Test

How to count qualified investments under the Lending Test in the new CRA examination

Community development professionals will find cause for celebration in a letter issued February 21, 1996, by all four bank regulatory agencies describing how banks can count investments in a community development bank (CDB) as qualified activity under the lending test in the new CRA examination. The letter was issued in response to a request from Cecil Adams, president of Community Bank of the Bay (proposed), a community development bank in formation in Oakland. According to the letter, any bank that makes an investment in a CDB may choose to have its investment evaluated strictly under the investment test or under both the lending test and the investment test. The following is an example of how a bank’s investment could be treated:

Assume an institution invests $1 million in a CDB that has a total capitalization of $10 million. The CDB holds assets of $30 million, with $12 million in qualified investments and $18 million in community development loans.

The investing bank could choose to have its $1 million investment considered solely under the investment test. Alternatively, if it requested consideration under both the lending and investment tests, the amount attributed to the investment test would equal the product of the bank’s investment in the CDB and the percentage of CDB’s assets portfolio comprised of qualified investments. The amount attributed to the lending test would equal the investing bank’s pro rata share of community development loans originated by the CDB during the period under review. In this example, qualified investments comprise 40 percent of the CDB’s total assets ($12 million of total assets of $30 million), so the investing bank would receive consideration of 40 percent of its total $1 million investment in the CDB, or $400,000, under the investment test. It is assumed that the remainder of the bank’s investment has been used to fund community development loans in an amount equal to its pro rata share of loans originated by the CDB. Since the bank has supplied 10 percent of the capital of the CDB, this provides the basis for determining, under the lending test, its pro rata share (10 percent) of community development loans made by the CDB. Assuming the CDB’s $18 million in loans were originated during the period under review and benefit the bank’s assessment area (or a broader statewide or regional area that includes the bank’s assessment area), the bank’s pro rata share of these loans would be $1.8 million. Therefore, the bank may receive consideration for $1.8 million in community development loans under the lending test.

An investing bank, as you would imagine, must provide its supervisory agency with necessary information to calculate the appropriate breakdown should the bank choose to have its investment evaluated under both the investment and the lending tests. The staffs of the four financial supervisory agencies are in the process of developing an official commentary, in the form of questions and answers, to provide additional guidance for resolving interpretive questions arising under the new CRA regulations. This commentary will provide further clarification of how such investments will be treated under the new CRA regulations, including a description of other types of community development financial institutions in which banks could invest and receive partial credit under the lending test.

All in all, this is good news for community development banks and those institutions considering investments in CDBs. The thoughtful response of the regulatory agencies to the question of bank investments relative to the new CRA regulations demonstrates the agencies support and recognition of the important work of community development banks, and that of their bank investors.

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1 Any bank investment in a community development bank must be authorized by the investing institution’s primary supervisory agency.