

## NMTCs Help Banks and Credit Unions Invest in Communities

By Jennifer Dockery, Staff Writer, Novogradac & Company LLP

When a bank or credit union enters a low-income area for the first time, the result can be dramatic. People who previously borrowed money through payday loan companies or pawnshops have access to loans with reasonable interest rates. Families that have never had a savings account can begin saving for a home and building credit. For many community financial development institutions (CDFIs), new markets tax credits (NMTCs) provide a cushion that keeps these institutions open and serving the moderate- and low-income communities most in need of their services.

"CDFI banks are anchor institutions. They help in providing a variety of financial services, which includes loans, deposit services and nonfinancial services and counseling. NCIF's mission is to provide capital to and assist these anchor institutions to use NMTCs to provide subsidized credit to low and moderate income communities," said Saurabh Narain, chief fund advisor for the National Community Investment Fund (NCIF). NCIF is a CDFI and community development entity that facilitates three-way partnerships between large banks and smaller community development banks. It received a total of \$68 million NMTC allocations in 2003 and 2008 and is working with several small CDFI banks to route NMTC dollars to highly distressed communities. Those partners include City National Bank of New Jersey, Albina Community Bank, Southern Bancorp and First American International Bank.

Liberty Bank & Trust Company received allocations of NMTCs in 2002, 2006 and 2008 and is using these tax credits to make small business and real estate loans in distressed areas of Louisiana. The proceeds from these transactions allow the community bank to put branches

into areas that for years may not have had access to traditional financial institutions. Liberty Bank is headquartered in New Orleans with operations in Louisiana, Mississippi, Texas, Kansas and Missouri.

"Other banks and financial institutions ran off and left communities high and dry. The services we provide as a community bank give direct benefit to thousands of people. The revenue from new markets tax credit transactions helps us...operate profitably," said Alden McDonald, president and chief executive officer at Liberty.

Like traditional banks, Liberty offers savings and checking accounts, mortgage loans, small business loans and credits cards. The difference between Liberty and other banks is that its customers tend to carry lower balances. A customer at an average community bank carries a checking balance of approximately \$1,800. At Liberty, the average balance is \$300 to \$500. The bank must serve three to four times as many customers as an average bank to generate the same amount of capital. This increases the number of tellers and other bank personnel that Liberty employs.

"We use revenue from new markets tax credits transactions to offset the lack of revenue we receive from the low-income communities," McDonald said. Liberty's NMTC revenue allows the bank to offer low- and moderate-income people a Visa card with a 10 percent to 12 percent interest rate rather than the typical 23 percent to 27 percent.

Enterprise Corporation of the Delta (ECD)/Hope Community Credit Union (HOPE) also provides services to low- and moderate-income communities in the south. ECD, HOPE's primary sponsoring corporation, received

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allocations of NMTCs in 2002, 2006 and 2009 and is using the credits to assist low-income communities in Arkansas, Louisiana, Mississippi and Tennessee. ECD uses the NMTCs to expand HOPE's services throughout the mid-south.

"The new markets tax credit was vital to HOPE's ability to grow," said William Bynum, CEO of ECD/HOPE. HOPE had \$4 million in assets and fewer than 4,000 members before receiving its NMTC allocations. A year later, it had \$48 million in assets and 9,000 members. The credit union now has \$130 million in assets and 28,000 members.

HOPE offers traditional financial services to customers, including consumer loans, mortgage financing and small business loans as well as savings and checking accounts. Additionally, the credit union offers financial counseling and other services.

"The primary difference is that ECD/HOPE's products and services are designed with a special focus

on the needs of moderate- and low-income families," Bynum said.

## The Credit Crisis

As credit has dried up across the country, the services of CDFI have increased. Bynum said that many of HOPE's customers who two years ago would have qualified for a traditional loan from a community bank have been unable to obtain funds.

"We have seen an increased demand for our services as traditional banks have gotten tighter on their services," Bynum said. He added that the credit union's experience assisting people after Hurricane Katrina helped prepare them for the current crisis.

## Fighting Foreclosure

"The CDFIs have not been offering subprime loans. These institutions have been stepping up to do a lot more as required by the low-income community," said Liberty Bank's McDonald.

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The CDFI banks and credit unions have started increasing the types of services that they are offering to customers, especially with homeownership and foreclosure issues.

“We’re trying to figure out how best to assist our customers, especially [with] the homeownership piece,” McDonald said. In July, Liberty was devising a program

to identify home mortgage customers who recently lost their jobs or had other difficulties because of the economic downturn.

Liberty planned to adjust mortgage payments for customers before they begin to struggle with their payments. “It should be done early and cause less pain,” McDonald said. ❖

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