



Multi-Bank Partnerships for Community Development Financing

Many bankers pool their resources to finance community development activities. They may form nonprofit and for-profit multi-bank community development corporations (CDCs), community and economic development entities, limited partnerships, limited liability companies, loan pools and loan consortia with other local financial institutions to provide capital for affordable housing, small business development and other community needs. Local partners, including government entities and community-based organizations, also may provide direct and indirect resources to these entities to maximize impact and sustain economic growth in their communities.

Bank investments in multi-bank partnerships are typically made using the OCC's community development investment authority found in 12 CFR Part 24 covering community and economic development entities, community development projects, and other public welfare investments. In addition, bank investments in multi-bank partnerships may receive positive consideration under the Community Development Reinvestment Act (CRA) (12 CFR 25).

Opportunities

Multi-bank partnerships are attractive to banks for several reasons. These partnerships help banks expand their markets, enhance their reputation, and qualify them for CRA consideration. Multi-bank partnerships also help to reduce the risks and other costs associated with community development lending by spreading staffing and overhead costs across the partnership and limit their exposure.

Multi-bank partnerships can also lead to additional financing available for community development investments. These relationships between banks allow them to expand the amount and types of capital available for local community development needs. They can also leverage community development funding from federal, state and local governments and from philanthropic sources. Furthermore, as companies financed by the multi-bank partnerships grow, banks can generate additional business.

Activities

Listed below are some, but not all, of the activities that multi-bank partnerships have helped to finance:

- Loans targeted to minority-owned small businesses
- Subordinated debt for affordable housing and small businesses
- Real estate development
- Equity and near-equity investments in small businesses
- Equity in real estate projects
- Limited partnership investments in: (1) affordable housing projects involving federal low-income housing tax credits; (2) new markets tax credits; and (3) historic rehabilitation tax credits
- Establishing a community development entity in conjunction with the New Markets Tax Credit Program

Strategies for Forming Multi-bank Partnerships

Banks have indicated a number of strategies for forming multi-bank partnerships. Bankers have indicated the importance of identifying the specific credit issues that need to be addressed and the economic, social and political climates that are contributing to challenges and solutions addressing those needs. They determine how the multi-bank partnership will contribute to those solutions and the financing gaps that it will address. They are prepared to change if local needs and resources change.

The bank partners select a geographic area that the entity will cover. Generally, the area should be small enough for the partnership to have an impact but large enough to provide a steady flow of opportunities. It is important to note, however, a large geographic area may provide opportunities for a bank that wants to expand its reach into new markets and populations as well as gain access to government and nonprofit resources that cover broader areas.

The bank partners identify potential investors and other local partners, such as government agencies and non-profits, who will contribute to the mission and activities of the partnership. Capital resources are certainly paramount. However, other resources may be important, for example, the physical space to operate, furnishings, and computers. Local and state government may provide funds to complement the resources provided by the partnership. Nonprofit organizations may identify potential customers for the partnership and provide technical assistance to help ensure that customers are ready for the financing that will be provided by the partnership.

The bank partners develop a lending strategy that meets the risk and return expectations of investors as well as resources in the community that will help the partnership to succeed. They select an organizational structure and develop appropriate governance documents. For example, they consider whether the partnership should be organized as a corporation or a

limited partnership and whether it should be organized as a for-profit or nonprofit entity. They determine a funding mechanism for the partnership. For example, they might consider whether investors would pool all funds at the start or whether they might each fund a pro rate share of each project.

The bank partners organize a governance structure (e.g., board and committees) and decide how the loan structuring and administrative tasks will be handled. They also develop lending, accounting, personnel, and conflict-of-interest policies as well as hire staff for managing the day-to-day business of the partnership.

The bank partners determine the partnership's reporting and tracking mechanisms as well as the need for compliance with federal, state and local requirements, if any. They also consider how the services of the partnership will be marketed to customers and steps for evaluating the partnership's impact and operation.

As an individual investor, a bank will decide the role that it wants to have in the partnership, besides that of investor. For example, the bank may decide to provide staff to serve on the partnership's board of directors and committees and may decide to contribute equipment and space for the partnership.

Best Practices

Involvement in a multi-bank partnership can yield promising results if properly planned and coordinated. Characteristics of successful multi-bank community development financing partnerships often include the development of common expectations among investors concerning the risks that the organization will accept and the returns it will be expected to produce. Successful partnerships also benefit from bank participants who refer prospective loan applicants to the partnership.

Building strong relationships within local markets is another important ingredient for a successful multi-bank partnership. Board and

committee members are often engaged in both governing the organization and cultivating strong relationships with the staff of housing finance and economic development agencies in local and state governments. The bank partners often cultivate solid relationships with nonprofit organizations that provide business planning assistance, homebuyer counseling and other services to prospective customers. They meet with local leaders to better understand the credit issues of communities and ensure that the multi-bank partnership stays current in its mission and programs.

Possible Risks

As in any other business endeavor, a multi-bank partnership may not perform as expected financially, and investors may lose some or all of the capital they invest. The involvement of multiple investors also means that investment decisions may not always match the priorities and preferences of a particular institution.

A further point to mention is that an investment in a multi-bank partnership may be illiquid. Exit from the partnership may be available only at unfavorable terms and may not occur according to an investor's preferred timing.

Regulatory considerations – Part 24

National banks may purchase shares or interests in a multi-bank CDC or other partnership entity under the OCC's community development investment authority of [12 CFR 24](#). Part 24 permits national bank investments, directly or indirectly, that primarily benefit the public welfare by benefiting (1) low- and moderate-income persons; (2) low- and moderate-income areas; (3) areas that are targeted for redevelopment by a government entity; or (4) the investment would receive consideration as a "qualified investment" under 12 CFR 25.23 of the CRA.

Further, the investment in the multi-bank partnership must not expose the bank to unlimited liability. Part 24 permits the aggregate of a national bank's public welfare

investments up to five percent of its capital and surplus. However, with written OCC permission, a bank's aggregate public welfare investments under Part 24 can rise to 15 percent of its capital and surplus. Examples of permissible investments are listed in the regulation.

A national bank seeking to make a part 24 community development investment may provide after-the-fact notifications or seek prior OCC approval. With either approach, the bank must complete the OCC's CD-1 *Form for Processing National Bank Community Development (Part 24) Investments*. A bank may access and submit the form electronically through the OCC's Banknet web site: <https://www.banknet.occ/cd1invest/default.aspx>.

Regulatory considerations - CRA

Bank deposits, grants, or shares in or to a multi-bank partnership can be considered qualified investments under 12 CFR 25.23 of the CRA [12 CFR part 25](#). Additionally, if a bank purchases stock in a multi-bank partnership that primarily lends in low- and moderate-income areas or to low- or moderate-income individuals, the bank may claim a pro-rata share of the partnership's loans as community development loans. The bank's pro-rata share is based on its percentage of equity ownership in the partnership.

Investments made under the CRA must benefit the bank's assessment area(s). (A bank may receive positive consideration for investments made outside of its assessment area(s) within a broader, regional or statewide area that includes its assessment area(s) as long as the bank has adequately addressed the needs of its assessment area(s).)

Bank loans to multi-bank partnerships that primarily lend or facilitate lending to promote community development may be considered community development loans.

For more information

Visit OCC's web-site for information about national bank community development opportunities generally at:

www.occ.treas.gov/cdd/ca_archive.htm

Information about national bank investments in CDCs, community development projects, and other public welfare investments can be found at:

<http://www.occ.treas.gov/cdd/pt24toppage.htm>

The contact information for the OCC's District Community Affairs Officers can be obtained at:

www.occ.treas.gov/cdd/contacts.htm

A good resource for examples and best practices can be found in the OCC's E-zine on *Multibank CDCs: Pooling Resources to Strengthen Communities* at:

http://www.occ.gov/cdd/Ezines/fall08/cde08fall_index.htm