Office of the Comptroller of the Currency

Community Developments *Investments*

January 2021

Strengthening Communities With Opportunity Zone Investments

Strengthening Communities With Opportunity Zone Investments

A Look Inside …

National banks and federal savings associations (collectively, banks) can help economically distressed communities, such as those suffering negative effects of the COVID-19 pandemic, by investing in low- and moderate-income (LMI) areas in designated opportunity zones. This edition of the Office of the Comptroller of the Currency's (OCC) Community Developments Investments explains how banks can support distressed communities and receive Community Reinvestment Act (CRA) credit by making investments in tax-advantaged qualified opportunity funds (QOF) part of their community development strategies.

Leveraging Qualified Opportunity Funds in Bank Community Development Strategies

This article highlights tax, legal, and regulatory issues for banks to consider when investing in QOFs.

Opportunity Zone Measures of Distress

Opportunity zone communities often experience economic distress on a variety of measures including a persistently high poverty rate, high unemployment, high housing vacancy rates, low home values, and many others.

PNC Bank: Strengthening Communities Through Strategic Opportunity Zone Investments

PNC Bank explains how its CRA-defined community development mission guides project selection for the QOFs that the bank has sponsored, including those used to build workforce housing and a community health center. The structure of these deals offers a helpful case study for QOF financing for projects.

Measuring the Impact of Qualified Opportunity Fund Investments

Some banks and other sponsors of QOFs are using the Opportunity Zones Reporting Framework developed by the U.S. Impact Investing Alliance, the Beeck Center for Social Impact and Innovation at Georgetown University, and the Federal Reserve Bank of New York to evaluate the social and economic impacts of their investments in QOFs.

Woodforest CEI-Boulos Opportunity Fund

Woodforest National Bank has partnered with CEI-Boulos Capital Management to develop a QOF to invest in high-impact commercial real estate projects in opportunity zones in the bank's 17-state CRA assessment area. All projects are measured against the Opportunity Zone Reporting Framework.

Intermediary-Sponsored Opportunity Funds Seek to Deliver Community Impact for Investors

Banks do not have to sponsor their own QOFs. They can invest in third-party funds sponsored by intermediaries such as Local Initiatives Support Corporation (LISC) and Enterprise Community Partners, which seek to deliver measurable returns to banks and other investors interested in making sustainable positive economic impacts with community projects in opportunity zones.

A Look Inside …

Barry Wides, Deputy Comptroller for Community Affairs, OCC

As the nation works to recover from the pandemic's economic disruptions, national banks and federal savings associations (collectively, banks) can help by rebuilding hard-hit, low- and moderate-income (LMI) and economically disadvantaged communities in designated opportunity zones across the United States.

Banks investing in the nation's 8,764 census tracts in qualified opportunity zones can, under specific circumstances, enjoy tax advantages authorized by the Tax Cuts and Jobs Act of 2017.[1] An opportunity zone is an economically distressed area designated by the U.S. Department of the Treasury to attract private investment from qualified opportunity funds (QOF). Investments in these funds can spur economic development and create jobs in distressed communities in urban, rural, and tribal areas across the United States that are home to more than 31 million people. The tax advantages and the opportunity to help communities have fueled the interest of banks and others to invest in QOFs.

PNC Bank

Architect's rendering of the Tappan Tremont in Cleveland. This 95-unit apartment building includes 60 percent affordable workforce housing units and was financed by a PNC Bank-sponsored qualified opportunity fund.

This edition of the Office of the Comptroller of the Currency's (OCC) *Community Developments Investments* explains how banks with capital gains can support distressed communities by including QOF investments in their community development strategies. In doing so, banks can help achieve their community-impact missions and receive Community Reinvestment Act (CRA) consideration for QOF investments that benefit LMI individuals and areas in opportunity zones.

The article titled "Leveraging Qualified Opportunity Funds in Bank Community Development Strategies" reviews the mechanics of investing in QOFs, the legal authority for banks to make these investments, and the criteria for establishing CRA eligibility under the OCC's new CRA rule.

Articles about PNC Bank's and Woodforest National Bank's opportunity zone programs highlight how these two banks have

Community Developments

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On the cover
Photos show the Stonewall Building in downtown Birmingham, Ala. The photo in the middle shows Alex Flachsbart, chief executive officer of Opportunity Alabama, and Ed Ticheli, a developer, discussing the renovation of the Stonewall Building, previously known as the American Life Building. The background image shows the renovated Stonewall Building, which is located in an opportunity zone and will contain 140 affordable housing units. (Photos: Opportunity Alabama and LMS Real Estate Investment Management)

Questions or comments
Call (202) 649-6420 or email communityaffairs@occ.treas.gov. This and previous editions are available on the OCC's website at www.occ.gov.

[1] Refer to section 13823 of Pub. L. 115-97.

included QOFs in their community development strategies. While both banks created and sponsored their own QOFs, each bank's selection of fund investment projects is guided by its own community-impact mission.

PNC Bank invested its capital gains in its own QOFs to fulfill the bank's community development mission. An article describes opportunity zone projects where the bank financed workforce housing and a community health center.

Woodforest National Bank's opportunity fund, created in partnership with a community development financial institution, finances projects across the Texas-based bank's 17-state footprint, including workforce housing in two cities and the revitalization of the historic St. James Hotel overlooking the Edmund Pettus Bridge in Selma, Ala.

Banks that do not want to sponsor their own QOFs have an alternative way to support distressed communities in opportunity zones. They can invest in third-party funds created by intermediaries such as Local Initiatives Support Corporation (LISC) and Enterprise Community Partners. Intermediaries seek to maximize measurable economic improvements in opportunity zones by carefully identifying projects and tracking and measuring the projects' progress for investors. The opportunities available to banks by working with LISC and Enterprise Community Partners are discussed in the article titled "Intermediary-Sponsored Opportunity Funds Seek to Deliver Community Impact for Investors."

To learn more about investing in QOFs and the OCC's new CRA rule, bankers may contact the OCC's District Community Affairs Officers (DCAO) assigned to their banks' OCC district.

We look forward to hearing how your bank chooses to support opportunity zone investments and about your efforts to help revitalize communities across the nation that have been hard-hit by the global pandemic.

Leveraging Qualified Opportunity Funds in Bank Community Development Strategies

David Black, Community Development Expert, OCC

National banks and federal savings associations (collectively, banks) can make tax-advantaged investments in opportunity zones to benefit low- and moderate-income (LMI) communities. In addition, banks investing in qualified opportunity funds (QOF) may achieve their community development goals and, in doing so, receive Community Reinvestment Act (CRA) credit. Banks can take various roles—as investors, lenders, brokers, and fund managers.

Jefferson-Werner, LLC

Brinker Lofts in Bethlehem, Pa., shown in 2019, is the adaptive reuse of the Lehigh Valley Cold Storage building, and included 31 market-rate residential units and first-floor retail space. The project received financing from a PNC-sponsored QOF.

What Is an Opportunity Zone?

An opportunity zone is an economically distressed area designated by the U.S. Department of the Treasury to attract private investment from QOFs. A QOF is an investment vehicle that is set up as either a partnership or corporation for investing in eligible property in an opportunity zone. Monies invested in QOFs can help spur economic development and create jobs in these distressed areas. There are about 8,700 economically diverse opportunity zones,[2] covering 12 percent of all census tracts in the United States. Qualified opportunity zones are in all 50 states, the District of Columbia, and five U.S.territories.

Investors that have capital gains and invest new capital in QOFs are eligible to receive tax benefits, including deferment and potential partial forgiveness of their initial gain. Investors may receive possible exemption of gains from their QOF investment, depending on the length of time that the funds are invested in the QOF. To receive the tax benefits, the QOF must comply with a number of requirements, including making timely, qualified investments in opportunity zones.[3]

Opportunity zones were established in tax legislation enacted in December 2017.[4] Requirements and guidance for this tax incentive are available through regulations and other documents published by the Treasury Department and the Internal Revenue Service (IRS).[5]

The opportunity zone tax incentive is designed to stimulate the flow of private sector capital into long-term equity investments in real estate, infrastructure, operating businesses, and start-ups in designated communities.

2 Refer to Opportunity Zones Resources for a list of designated qualified opportunity zones. Also refer to Internal Revenue Notice 2018-48.

3 For more information on how opportunity zones work, refer to the Treasury Department's Community Development Financial Institutions Fund's Opportunity Zones Resources.

4 Section 13823 of Pub. L. 115-97.

5 For example, refer to Opportunity Zones Frequently Asked Questions.

The opportunity zone tax incentive is designed to complement existing community development tools and debt financing products and to be flexible enough to meet the diverse needs of a wide range of communities.

State and local governments have organized efforts to attract opportunity zone investments that will support local economic development strategies. These efforts include developing community prospectuses;[6] offering businesses additional incentives such as state tax credits, job training programs, small business loans, and affordable housing incentives;[7] and facilitating QOF investments to meet community priorities, such as affordable housing and renewable energy.[8] Banks have participated in these organizing efforts, contributing important leadership and resources that bring parties together to form constructive, transformational strategies.

The U.S. Impact Investing Alliance, the Beeck Center for Social Impact and Innovation at Georgetown University, and the Federal Reserve Bank of New York, after consultation with a wide range of industry leaders, developed an approach to manage and measure the economic and social outcomes of opportunity zone investments. The resulting framework recommends that investors and QOF managers integrate the needs of local communities into the formation and implementation of the QOFs.[9] Community engagement could be helpful when developing a QOF's management strategy.

How Can Banks Participate in Opportunity Zone Transactions?

Banks can participate in opportunity zone transactions in a number of ways.

Brokering Opportunity Zone Transactions

Opportunity zone transactions can bring investors into economically distressed areas, and those investors may be new to community development finance. The capital that finances a community development project often involves numerous public and private entities. Community-oriented development, such as affordable housing or community facilities, often involves subsidies or concessionary financing. Banks have experience in these types of transactions, knowledge of local projects and businesses, and connections to local partners, which may help bring critical projects to fruition.

Lending in Opportunity Zone Transactions

Opportunity zones may create new lending prospects for banks, including prospects for commercial real estate loans, construction loans, and bridge loans. Although these loans are not eligible for the opportunity zone tax incentives, they can potentially be profitable lending opportunities for banks.

Due to their CRA responsibilities, banks have traditionally been active lenders in economically distressed areas well before the opportunity zone designation. Loans in opportunity zone transactions may be eligible for CRA consideration.

Managing Qualified Opportunity Funds

A bank may be the general partner or managing member of a QOF that manages investments from the bank itself or from third-party investors.

To form a QOF, an eligible corporation or partnership self-certifies by filing Form 8996, Qualified Opportunity Fund, with its federal income tax return.

The QOF plays several important roles in opportunity zone transactions, including communicating with investors, identifying qualifying projects in an opportunity zone, structuring

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6 For example, refer to *Opportunity Zone Investment Prospectus Guide*.

7 Refer to examples in Maryland and Colorado.

8 Refer to California Opportunity Zone Partnership.

9 The Opportunity Zones Reporting Framework includes five guiding principles:

- Community engagement: QOF investors should request that fund managers integrate the needs of local communities into the formation and implementation of the funds, reaching low- income and underinvested communities with attention to diversity.
- Equity: QOF investments should seek to generate equitable community benefits, leverage other incentives, and aim for responsible exits.
- Transparency: QOF investors should be transparent and hold themselves accountable, with processes and practices that remain fair and clear.
- Measurement: QOF investors should voluntarily monitor, measure, and track progress against specific impact objectives, identifying key outcome measures and allowing for continuous improvement.
- Outcomes: QOF metrics should track real change, with an understanding that both quantitative and qualitative measures are valuable indicators of progress.

transactions, and complying with all applicable opportunity zone regulations.

Banks with experience in complex tax transactions and community revitalization strategies may see managing a QOF as an extension of existing activities. Banks managing QOFs should understand and manage the risks inherent in fulfilling these roles. A bank considering whether to undertake the management of a QOF should contact its supervisory office to understand any regulatory issues related to these activities.

Investing in Qualified Opportunity Funds

A bank with a capital gain may choose to invest that gain in a QOF. By investing in a QOF, which then invests in qualified opportunity zone property, an investor can receive up to three tax benefits:[10]

1. **Tax deferment:** Investors can defer tax on any prior capital gains invested in a QOF until the earlier of the date on which the investment in a QOF is sold or exchanged, or December 31, 2026.[11] The capital gains must be invested in a QOF within 180 days of realization.
2. **Partial tax forgiveness:** If the QOF investment is held for longer than five years, there is a 10 percent exclusion of the deferred gain, decreasing the investor's tax liability upon sale of the investment or when the deferral expires in 2026. If the investment is held for more than seven years, the exclusion increases to 15 percent.[12]
3. **Exclusion of further gains:** QOF investors can permanently exclude from taxation any capital gains that accrue after their investment in a QOF, if the investment is held for at least 10 years. After 10 years, the investor is eligible for an increase in the tax basis of the QOF investment equal to its fair market value on the date that the QOF investment is sold or exchanged.[13]

A QOF must hold at least 90 percent of its assets in a qualified opportunity zone property. Those QOF investments can be invested directly into a qualified opportunity zone business property or indirectly by investing in a stock or partnership interest in an opportunity zone business.[14]

A qualified opportunity zone business (QOZB) is a trade or business in which substantially all the tangible property owned by the business is qualified opportunity zone business property. At least 50 percent of the gross income of the QOZB must be derived from the active conduct of a trade or business in qualified opportunity zones.[15]

The QOZB may not operate or lease more than de minimis property to any private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises.[16]

A qualified opportunity zone business property is tangible property used in the trade or business of a QOF or QOZB. The property must have been acquired by purchase from an unrelated party after December 31, 2017. In addition, either the original use of the property originates with the QOF or the QOF substantially rehabilitates the property during a 30-month holding period after acquisition.[17] Additional restrictions, which are discussed in the IRS opportunity zone regulations, apply.[18]

Public Welfare Investment Authority

National banks, under conditions described in this section of this article, may make investments in QOFs under the public welfare investment

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[10] Refer to Opportunity Zones Frequently Asked Questions.

[11] The tax on the original capital gain can be deferred until no later than December 31, 2026. Investors should plan on having sufficient funds to pay the tax if they don't want to liquidate their investment in the QOF at that time.

[12] The final date to receive the full tax forgiveness benefit of an opportunity zone investment was December 31, 2019. After this date, the full 15 percent step-up in basis after a seven-year hold expired, as it is no longer possible to achieve a seven-year hold before the end of 2026, when the original deferred gain is recognized. The final date to receive any basis step-up on the original gain is December 31, 2021. After December 31, 2021, the 10 percent step-up in basis after a five-year hold expires, as it will no longer be possible to achieve a five-year hold before the end of 2026.

[13] No gain is recognized on disposition of the investment, provided the disposition occurs on or before December 31, 2047.

[14] The term "qualified opportunity fund" is defined as any investment vehicle that is organized as a corporation or a partnership for the purpose of investing in qualified opportunity zone property (other than another qualified opportunity fund).

[15] The IRS regulations also provide three safe harbors that businesses may use to satisfy this test. Refer to 26 CFR 1.1400Z2(d)-1(d)(3)(i)(A), (B), (C), or (D).

[16] Refer to 26 CFR 1.1400Z2(d)-1(d)(4).

[17] Additions to basis must exceed an amount equal to the adjusted basis of such property at the beginning of such period. 26 USC 1400z-2(d)(2)(D)(ii).

[18] Refer to section 1400Z of Pub. L. 115-97 and Final Regulations 1400Z-2.

(PWI) authority. The investment is generally permissible if it is "designed primarily to promote the public welfare, including the welfare of low- and moderate-income communities or families (such as by providing housing, services, or jobs)."[19]

The PWI regulations require a qualified community development investment to primarily benefit low- and moderate-income (LMI) individuals, LMI areas,[20] or other areas targeted by a governmental entity for redevelopment. In addition, an investment would be eligible as a PWI if it would receive consideration as a qualified community development investment under the CRA regulations.[21] A PWI must not expose the bank to unlimited liability, and a bank's aggregate PWIs must not exceed 15 percent of its capital and surplus.[22] A bank's opportunity zone investment may not automatically qualify as a PWI and may require the OCC's prior approval, including if there is uncertainty as to whether the investment meets the regulations' criteria.[23]

Federal savings associations (FSA) may invest in a QOF under several investment authorities, including

- community development-related equity investments in real estate pursuant to section 5(c)(3)(A) of the Home Owners' Loan Act;
- investments in service corporations for community development pursuant to 12 CFR 5.59; and
- de minimis investments in the aggregate up to 1 percent of the FSA's total capital or $250,000 in community development investments of the type permitted for a national bank under 12 CFR 24, pursuant to 12 CFR 160.36.

For more information on the FSA PWI authorities, including permitted activities, consult the FSA section on the OCC's Public Welfare Investment Resource Directory.

Volcker Rule

Section 13 of the Bank Holding Company Act, also known as the Volcker rule, generally prohibits any banking entity from acquiring or retaining an ownership interest in, sponsoring, or having certain relationships with a hedge fund or private equity fund (covered fund). In July 2020, amendments to the Volcker rule clarified that a covered fund does not include an issuer that is a QOF, as defined in 26 USC 1400Z–2(d).[24]

CRA Consideration

Under the CRA regulation in effect for OCC-supervised banks until October 1, 2020, loans, investments, or services in an opportunity zone transaction were eligible for CRA consideration if they met the definition of community development.[25]

Under the CRA rules for OCC-supervised banks that took effect on October 1, 2020,[26] a community development loan, community development investment, or community development service that helps meet the credit needs of a bank's entire community, including LMI communities, is a qualifying activity if it meets the criteria in 12 CFR 25.04.[27] These criteria include activities that finance qualified opportunity funds, as defined in 26 USC 1400Z-2(d)(1), that benefit LMI-qualified opportunity zones, as defined in 26 USC 1400Z-1(a).[28]

For more information, contact David Black at David.Black@occ.treas.gov.

[19] Refer to 12 USC 24(Eleventh) and its implementing regulation, 12 CFR 24. Examples of investments that qualify under the PWI authority are at 12 CFR 24.6.

[20] The PWI LMI eligibility definition is different than the U.S. Internal Revenue Code Section 45D(e) low-income criteria for the purposes of determining whether an area qualifies under the opportunity zone provisions. Under the opportunity zone regulations, for a census tract to be designated a "low-income" qualified opportunity zone tract, it must have a poverty rate of at least 20 percent or a median family income of (a) no more than 80 percent of the statewide median family income for census tracts within non-metropolitan areas, or (b) no more than 80 percent of the greater statewide median family income or the overall metropolitan median family income for census tracts within metropolitan areas. The PWI definitions of low-income and moderate-income follow the same definitions as the CRA. Banks seeking to qualify a QOF investment for PWI should use the definitions at 12 CFR 24.2(f).

[21] Refer to 12 CFR 24.3.

[22] Refer to 12 CFR 24.4.

[23] The prior approval process for PWIs is outlined in 12 CFR 24.5 (national banks).

[24] Refer to OCC Bulletin 2020-71, "Volcker Rule Covered Funds: Final Rule."

[25] 12 CFR 25, Appendix C, and 12 CFR 25.12(g) (national banks); 12 CFR 25, Appendix C, and 12 CFR 195.12(g) (FSAs).

[26] Refer to "Community Reinvestment Act Regulations, Final Rule," 85 Fed. Reg. No. 109, pp. 34734–34834.

[27] The final rule consolidates 12 CFR 25, the OCC's national bank CRA rule, with 12 CFR 195, the OCC's federal savings association CRA rule, by applying 12 CFR 25 to savings associations and removing the current 12 CFR 195.

[28] Refer to "Community Reinvestment Act Regulations, Final Rule," 85 Fed. Reg. No. 109, p. 34796. Also see the CRA Illustrative List.

Opportunity Zone Measures of Distress

The goal of the federal *opportunity zone tax incentive is to* increase investment in economically *distressed* communities across the nation. By many measures of socioeconomic well-being, opportunity zones are, on the whole, among the highest-need communities in the United States.

High poverty rate: Opportunity zones have an average poverty rate of 27.7 percent compared with the national poverty rate of 14.1 percent.

Persistent poverty: Even though opportunity zones only cover one-quarter of the country's low-income census tracts, they cover 38 percent of all U.S. census tracts that have been persistently poor (with a poverty rate of at least 20 percent) since at least 1980. Opportunity zones cover 49 percent—essentially half—of the country's pockets of concentrated persistent poverty, meaning census tracts in which at least 40 percent of the population has lived in poverty since at least 1980.

High unemployment: Thirty-one percent of prime age adults residing in opportunity zones are not working, compared with 22 percent across the United States.

High housing vacancy rates: The average opportunity zone housing vacancy rate is 13 percent compared with 8 percent nationally.

Older housing stock: The housing stock in opportunity zones is much older than that of non-opportunity zone areas; in the typical zone, the median residence was built 50 years ago—more than 10 years before the median residence nationwide.

Low home values: The median home is worth less than $100,000 in 43 percent of opportunity zones. In 46.5 percent of opportunity zones, the median value of homes surveyed between 2014 and 2018 was lower than that surveyed between 2006 and 2010.

Low homeownership rate: Homeownership rates are lower in opportunity zones than the national average, and 46 percent of the opportunity zone population owns a home, compared with 64 percent nationwide.

Limited economic mobility: Economic mobility for children from poor backgrounds is measurably worse in opportunity zones than outside these zones. Only 7.3 percent of children born to poor parents in the average opportunity zone were able to climb into the top fifth of the income distribution upon adulthood, lower than the 13.2 percent average for poor children outside of opportunity zones.

High prevalence of brownfield sites: Opportunity zones, which represent only 10.7 percent of all U.S. census tracts, contain nearly one-third (32 percent) of the country's brownfield sites, which are properties that have been contaminated by prior (often industrial) use and typically stand vacant for years or decades. The country's opportunity zones contain over 14,700 known brownfield sites.

Source: Economic Innovation Group

PNC Bank: Strengthening Communities Through Strategic Opportunity Zone Investments

Cathy Niederberger, Executive Vice President of Community Development Banking, PNC Bank

PNC Bank, N.A. (PNC) works to make communities stronger and more prosperous as part of our culture as a community-focused "Main Street" bank. Those of us working with lower-income communities understand that truly transformative development opportunities don't come around very often but, project by project, these opportunities accumulate to maintain and strengthen disadvantaged communities across the country.

Part of PNC's aim to do right by its customers and communities involves us exploring new programs and avenues, particularly in communities that need them most. PNC recognizes that new financing options have the potential to be game changers for low-income communities. For example, the low-income housing tax credit (LIHTC) was first introduced in 1986. Today, LIHTCs have become a pillar of the affordable housing industry. The new markets tax credit, introduced in 2000, has since demonstrated many successes in stimulating economic development in lower-income areas.

At the end of 2017, a new tool was added to the community development toolbox with the introduction of opportunity zones and qualified opportunity funds (QOF).

Congress created opportunity zones with the Tax Cuts and Jobs Act (TCJA) of 2017 to help reduce economic inequality by stimulating the economy in low-income and economically disadvantaged communities through the investment of realized capital gains. Opportunity zones are primarily in low-income census tracts designated by each state's governor that can benefit from private investment spurred by these tax incentives.

PNC Bank

Architect's rendering of the East York Street development, a new 56-unit building with ground-floor retail and transit-centered workforce housing in the East Kensington neighborhood of Philadelphia.

Investors, like PNC, reinvest realized capital gains into QOFs, which in turn are used to help finance projects located in the opportunity zones. The investments into QOFs enable investors to temporarily delay and potentially eliminate a percentage of the taxes on realized capital gains, with the amount varying based on the length of the investment. Investment terms in QOFs vary from five to 10 years, and the longer the investment in the opportunity zone, the greater the tax incentive.

In 2018, after the TCJA became law, PNC explored how it might take advantage of this new tax benefit opportunity. One of the bank's initial considerations was the program's timeline imposed for an investment in a QOF after the investor realizes a capital gain. (The incentive requires that capital gains must be reinvested in a QOF within 180 days of realization.) PNC scoured its existing real estate development pipeline to see which properties were in opportunity zones and how we could resolve timing delays caused by appraisal gaps or insufficient debt service coverage to meet the opportunity zone program timelines.

Another PNC consideration was determining the purpose of the QOF and subsequent project investments. From a programmatic perspective, opportunity zones generally are intended to benefit distressed communities. Current regulations do not, however, provide specific requirements on projects a QOF might finance. The lack of specific requirements means it might be possible for a developer to seek financing from a QOF for a project that is inconsistent with a local community's wishes or a municipal plan for that site.

To address this issue, PNC imposed its own criteria when selecting which QOFs to invest in and used the Community Reinvestment Act (CRA) as the guide. PNC decided to invest in QOFs that are consistent with the PNC Community Development Banking team's mission to support community development, as defined in the CRA.

Specifically, that includes affordable housing for low- or moderate-income (LMI) individuals; community services targeted to LMI populations; activities that promote economic development by financing small businesses or farms; and neighborhood revitalization or stabilization activities. PNC's investments in QOFs generally cover the same footprint as PNC's Community Development Banking portfolio, which includes 20 states and the District of Columbia.

Another PNC consideration was how to structure its investments in QOFs. PNC decided to form QOFs as closed funds, which means the bank is the single investor, and the funds do not permit outside investors. At the project level, the funds would allow third-party investors to invest as silent investors along with the bank. In many projects, this extra support is necessary to help make the funds' projects financially feasible.

PNC's QOFs are experiencing high demand from other investors interested in investing in opportunity zones. Due to the timeline constraints associated with maximizing the opportunity zone tax benefits and the long timeline for getting projects ready for financing, PNC's opportunity funds invest in projects that are already fairly advanced in their planning and development. These projects are located within PNC's retail footprint, have total development costs ranging from $5 million to $20 million, and have a shorter horizon for getting to the closing table. By offering lower-cost, long-term financing, PNC qualified opportunity funds can turn a project with a financing gap into a project that is a viable deal.

PNC Bank

Architect's rendering of Chicago's Ogden Commons, which received an investment through a PNC-sponsored qualified opportunity fund. Phase 1 of this development is anchored by a Sinai Health System federally qualified health care facility.

While details vary by project, PNC QOFs generally invest 70 percent of the stabilized fair market value as equity and 20 percent of the stabilized fair market value as fully amortizing debt. The project developer contributes the balance as equity. Consistent with investing in low-income communities, other funders often join a project to help cover any remaining funds above and beyond the project's appraised value. A third-party investor can rely on PNC's extensive due diligence to benefit from a financially stable and worthwhile project.

The following are two examples of PNC's opportunity zone projects that are making a difference in local communities in our footprint.

Ogden Commons in Chicago: After more than a decade, Chicago's North Lawndale community is getting a new, major mixed-use development, one that will bring much-needed jobs, retail space, state-of-the-art health services, and eventually hundreds of new residential units to a historically African American and underserved West Side neighborhood. Ogden Commons will transform 10 acres of vacant land on a site once occupied by the now-demolished Ogden Courts, one of the city's more troubled public housing developments. When complete in 2026, the entire project will provide 120,000 square feet of commercial space and over 350 mixed-income housing units. Ogden Commons is a partnership between PNC, the Habitat Company, the city of Chicago, the Philipsborn family, and the Chicago Housing Authority.

Phase 1 is under way. Leveraging a PNC opportunity zone investment and loan, this three-story building with 50,000 square feet of commercial and retail space will be the new home of Sinai Health System's federally qualified health center affiliate, which will occupy 66 percent of the space. It is noteworthy that more than 70 percent of Sinai's patients are low-income clients who rely on Medicaid. Ethnic minorities comprise more than 80 percent of the neighborhood's population. The project will create more than 110 permanent jobs and create a home for two African American-owned restaurants (Steak 'n Shake and Ja' Grill).

The project's total development cost of $21.5 million will be funded by a 76 percent equity investment from PNC through the PNC Opportunity Zone Fund, 11 percent equity from the Habitat Company, 9 percent from the Chicago Housing Authority, and

4 percent from third-party equity investors. PNC also provided a $3 million construction/term loan and bridged a $2.5 million grant from the city, with the Chicago Housing Authority contributing the land.

2120 East York Street in Philadelphia: This project is located in the East Kensington neighborhood in the River Wards section of Philadelphia. Like many industrial sections of older cities, this neighborhood has had a few different lives. In its heyday, the area was bustling with nautical industries such as ship builders and commercial fishing. It transitioned to iron and steel manufacturing, then textiles. Neighborhood decline began in the 1950s when the large industrial buildings gradually emptied, jobs went elsewhere, and residents struggled to find new work. This decline continued for many years. Today, East Kensington is experiencing significant redevelopment and a resurgence in population and vibrancy.

Philadelphia's Master Plan calls for more transit-oriented housing in the East Kensington neighborhood. The PNC Opportunity Zone Fund will finance a development consisting of 56 apartments for workers with moderate or middle incomes. Consistent with the city's plan, the developers will build a mixed-use project with commercial space on the ground level and workforce housing on the upper levels. In this project, workforce housing units will be available to persons earning 80 to 100 percent of the area median income and who are paying no more than 30 percent of their income for housing. The project is located within the city's multimodal transportation system for providing easy and cost-effective transportation for residents to and from Center City.

The project's total development cost of $12.8 million will be funded through a 62 percent investment from the PNC Opportunity Zone Fund; a 20 percent long-term loan from PNC; and 18 percent developer equity from several sources. The opportunity zone structure provides significant cash flow savings that make the deal feasible, while the opportunity zone tax benefits have attracted a silent investor to contribute alongside PNC, strengthening the financial aspects of the project.

As an early investor in QOFs, PNC approaches its investments in opportunity zones with real-life experience. Initially, as we attended forums to learn more about this new program and funding resource, reactions to the program felt like the tale of two cities. Many private developers wanted to learn how the program would help to maximize their tax savings, while community developers were looking for investors to help revitalize their communities in a way that responded to neighborhood needs. With time, we are hopeful that these two groups may combine their interests into projects that PNC can support.

PNC has observed that not all proposed opportunity zone projects meet its funding standards. Some projects that we have reviewed, for example, did not satisfy the bank's requirement for QOFs to have a community development purpose, while others had projects that were early in the planning stages and not far enough along to meet the program's timeline. And while PNC maintains a varied pipeline, I'm happy to see that the proposed transactions are mostly, if not all, affordable housing. The hope is that stricter program guidance will be issued that balances the needs of the residents with the need to advance greater economic opportunity for all.

Another observation is that there is great variance in the marketing and knowledge sophistication among opportunity zone leaders. In some places, such as Erie, Pa., and across Alabama, there is a collective effort for opportunity zone leaders to market the region in a way that will attract the right blend of resources and private investors and engage in redevelopment efforts that are consistent with community plans.

In other places, there is little to no evidence that communities recognize the time-sensitive nature of the opportunity zone program and opportunities for attracting new investment for redevelopment. Perhaps the time period for the opportunity zone tax incentive should be extended. Doing so would allow for substantial, thoughtful, truly transformative neighborhood revitalization to come to life with the help of private investors who appreciate the personal satisfaction, as well as the financial return, that comes with responsible investing in low-income communities.

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Measuring the Impact of Qualified Opportunity Fund Investments

Letty Ann Shapiro, Community Development Expert, OCC

Banks can view opportunity zone investing in two ways—as an attractive tax-advantaged investment and as a new community development tool to make a positive social and economic impact in communities they serve. With careful planning and implementation, banks may ensure both views come true.

To ensure positive, long-term economic and social impacts and avoid unintended consequences, banks such as Woodforest National Bank, and other investors, adopted the Guiding Principles and Reporting Framework for Opportunity Zones (OZFramework) with the goal of maximizing the social impact and economic returns from their investments in qualified opportunity funds.

The Beeck Center for Social Impact and Innovation at Georgetown University developed these guiding principles and reporting framework for opportunity zone investing in partnership with U.S. Impact Investing Alliance and the Federal Reserve Bank of New York. The partnership began in 2018 and released the framework in February 2019. The framework is designed to help banks and other investors ensure that their opportunity zone capital addresses the economic barriers facing low-income and underserved communities.

To develop the OZFramework, the partners convened training and work sessions with over 50 organizations representing community development investors, researchers, policymakers, and other stakeholders. The goal was to craft strategies for ensuring that opportunity zone investments result in long-term, meaningful, and inclusive community and economic development. This work resulted in the formation in June 2019 of the Opportunity Zones Investor Council. The council's 15 original members included investors, developers, and fund managers who debated ways to positively affect the nation's opportunity zones; cross-pollinate best practices; and develop new models for community investment.

The framework's five guiding principles for qualified opportunity funds are as follows:

- **Community engagement:** Integrate the needs of local communities, including low-income and underserved communities, into the formation and implementation of how the capital will be used and the types of projects funded.
- **Equity:** Seek to generate equitable community benefits, leverage other available incentives, and aim for the funds' responsible exits from the communities.
- **Transparency:** Engage in practices that are transparent, accountable, fair, and clear.
- **Measurement:** Monitor, measure, and track progress against expected impact objectives.
- **Outcomes:** Apply and track both quantitative and qualitative metrics to assess real changes in communities over time.

The framework recommends collecting, tracking, and reporting on basic transaction-level data, which enables measurement of the economic and social impacts of QOF activities. Transaction-level data include the size and location of the investment property; identification of commercial tenants; and the type of qualifying property.

In addition, the reporting framework recommends that projects collect the following data:

- Net new jobs created.
- Net new employees hired and maintained.
- New entrepreneurs (including whether they are women-owned or minority-owned enterprises and first-time businesses).
- Housing units built or renovated, including those identified as affordable housing.

Adopting the OZFramework can help banks, and other investors in qualified opportunity funds, measure the impact that fund-financed projects are having on their communities.

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Woodforest CEI-Boulos Opportunity Fund

The $20 million Woodforest CEI-Boulos Opportunity Fund is a collaboration between Woodforest National Bank and CEI-Boulos Capital Management LLC. The fund invests in high-impact commercial real estate projects located in opportunity zones throughout Woodforest's 17-state footprint.

Many of the fund's portfolio investments represent collaborations between various entities (local developers, nonprofit organizations, local and state government, philanthropic institutions, banks, community development financial institutions, community-based organizations, and private investors) that share a common vision for their community. All projects are measured against the Opportunity Zone Reporting Framework, developed by the U.S. Impact Investing Alliance, the Beeck Center at Georgetown University, and the Federal Reserve Bank of New York (see "Measuring the Impact of Qualified Opportunity Fund Investments").

Rhaglan Hospitality

The historic St. James Hotel, which is undergoing renovation, sits on the riverfront near the historic Edmund Pettus Bridge in Selma, Ala., in 2020.

One of the fund's investments is financing the restoration of the historic St. James Hotel in Selma, Ala. The project will convert a neglected asset that is central to this rural community's rich history into a Hilton-branded hotel. The hotel will support Selma's growing civil rights tourism industry and provide new jobs for the city's residents. The hotel is a block from historic Edmund Pettus Bridge, one of the most well-known landmarks of the civil rights movement, and near the National Voting Rights Museum and Institute and other attractions. The long vacant downtown hotel is expected to open in fall 2020.

Intermediary-Sponsored Opportunity Funds Seek to Deliver Community Impact for Investors

Letty Ann Shapiro, Community Development Expert, OCC

National banks and federal savings associations (collectively, banks) may benefit when investing in opportunity zones by working with intermediaries to identify the right opportunity zone investment, choose a qualified opportunity fund (QOF), and engage in proper project management.

Local Initiatives Support Corporation (LISC) and Enterprise Community Partners (Enterprise) want to help banks make the right choices. For more than 35 years, each has worked with banks on community and economic development initiatives in low- and moderate-income (LMI) communities.

LISC and Enterprise seek to deliver measurable returns to banks and other investors interested in making significant, sustainable, and measurable impacts with opportunity zone investments in distressed and LMI communities. In their separate ways, LISC and Enterprise are demonstrating how to work with communities, investors, and stakeholders in structuring QOFs that achieve the highest impact for these communities.

Local Initiatives Support Corporation

The Ford Foundation formed LISC in 1979 as an intermediary nonprofit organization. The mission was to connect public and private resources with underinvested communities and people. By working with government, foundations, and for-profit companies that have resources and capital and with residents and local institutions who understand local needs, LISC helps to form partnerships with stakeholders that encourage LMI communities to grow and prosper. Over the years, LISC has focused its financing and expertise in a variety of community development activities, such as affordable housing development, creative placemaking, education, small business finance, charter schools, and food- and health-related projects that improve the quality of life for residents in LMI communities.

LISC

Washington, D.C., Mayor Muriel Bowser (in red scarf), and other local leaders at the 2019 groundbreaking ceremony for LISC's MLK Gateway project in the Anacostia community.

Through its 35 local offices, rural teams, and national affiliate companies, LISC has invested over $20 billion in grants, loans, and equity in community projects since 1979.[29] These funds have leveraged $64.8 billion in community development capital investments to create nearly 420,000 affordable homes and apartments and 70 million square feet of commercial, retail, and community space. LISC's existing funds total $2.3 billion and cover 924 designated opportunity zones across the country.

George Ashton III, Managing Director of Strategic Investments at LISC, describes LISC's approach to opportunity zones as helping to address two typical challenges in underserved communities: (1) minimizing gentrification and displacement by entering communities early and ahead of for-profit developers; and (2) structuring financing that is adequate to support short- and long-term economic growth and opportunity. In addition, LISC focuses on projects that have multiple uses, for example, mixed-use buildings that provide both affordable housing and space for small retail businesses. LISC has developed a four-pronged strategy for its work in opportunity zones.

[29] The national affiliate companies are New Market Support Corp., National Equity Fund, and Immito. New Market Support Corp. facilitates investments in new markets tax credit projects, and National Equity Fund facilitates investments in low-income housing tax credits. Immito is a new small business lender launched by LISC in 2018 to encourage economic development and community development. Immito is a licensed and approved nonbank Small Business Administration lender.

First, LISC serves as an initial impact investor and supports other impact investors by raising, deploying, and managing investor equity. LISC has aligned itself with QOF equity investors that are not just looking for measurable returns but additional deep, sustainable impact.

Second, LISC works with socially motivated project developers to identify and manage projects that have short- and long-term benefits to residents of opportunity zone communities. As Mr. Ashton explains, "developers are where the magic happens." LISC's qualified opportunity funds finance projects at the intersection of community development and private equity, with experienced developers who want to build projects that provide affordable housing, services, and permanent jobs for residents. A bank may consider participating with LISC by using its capital gain proceeds to make an equity investment in a LISC-sponsored QOF. A bank may also consider providing a loan to a local developer of a specific LISC opportunity zone project.

One of LISC's first QOF partnerships is the eMpower Anacostia Fund (EAF), the first fund exclusively targeting Washington, D.C.'s historic Anacostia neighborhood. EAF is encouraging positive social impact by developing inclusive, mixed-income neighborhoods. LISC will be tracking the success of workforce tenants through savings account growth, reduction in debt-to-income ratios, and overall long-term financial stability. In addition, LISC will be providing leasing preferences to female, minority, veteran, and immigrant-owned businesses that will occupy the street-level retail space. EAF's initial project is the MLK Gateway I, a $23 million, 34,000-square-foot commercial development with space for a coffee shop, a training academy, and potentially a bank, grocery, and restaurant. HSBC Bank worked with LISC to support a pre-development loan, and the project includes PNC Bank as a senior lender and an investor in the project's new market tax credits. City First Bank of D.C. also will be a lender for the project.

LISC

Construction site for LISC's MLK Gateway project in the Anacostia community in Washington, D.C.

Third, LISC brings together organizations and stakeholders who are committed to community revitalization and shared prosperity for residents of LMI communities. LISC brings together community development corporations and institutions, local and state governments, community residents and leaders, and other organizations to develop strategies. The resulting strategies identify resources, needs, and opportunities in the community. These meetings enable LISC to design projects that are consistent with the community's needs, strengths, and understanding of social impact.

For example, LISC created and convened the Opportunity Investment Consortium of Indiana, which was launched in November 2018. The consortium was established to help implement impactful real estate transactions in Indiana's 156 opportunity zones. The consortium comprises banks, including First Financial Bank, Old National Bank, PNC Bank, and Regions Bank, state agencies, and other corporate partners. Along with LISC, the Fifth Third Foundation has provided a grant to support the consortium's development. The consortium hosts an online portal to aid in matching opportunity zone projects in need of funding to potential investors. The targeted outcomes of these projects are to support jobs, transform places, support businesses, and drive innovation.

The fourth prong pertains to knowledge sharing with the broader community. Qualified opportunity funds managed by LISC will collect data on the social impact of the projects for investors and include tools for measuring change. LISC's six-step playbook offers guidance for opportunity zone stakeholders seeking to make inclusive, equitable community development investments in qualified opportunity funds.

Enterprise Community Partners

Enterprise has been bringing together expertise, private and public sector partners, policy leadership, and investments for more than 35 years. Its mission is to create opportunities for LMI individuals through affordable housing in diverse, thriving communities. Enterprise has deep roots working with private developers and has developed strong relationships with investment fund managers and potential financial partners, including banks, community development financial institutions, philanthropic organizations, and local government agencies. Since 1982, Enterprise has created almost 585,000 homes and spent $43.6 billion on community development projects and program development.

whatnowatlanta.com

Architect's rendering of the affordable housing units planned for Parkside at Quarry Yards in Atlanta. The development, planned by Enterprise Community Partners, with opportunity zone fund financing, will have access to the Bankhead Marta rapid transit station, the Proctor Creek Greenway Trail, as well as the Atlanta BeltLine's Westside Trail.

Enterprise is actively involved in opportunity zone financing and development with two qualified opportunity funds (QOF). The first is the Enterprise Opportunity Fund, an internal proprietary fund. The second is an external fund called Rivermont Enterprise Emergent Communities Fund. As impact investing vehicles, these funds are expected to generate both responsible returns for investors and equitable and inclusive economic growth that can create economic mobility for LMI communities. As sponsor of the fund, Enterprise's role is to identify community development projects, including a pipeline of investment-ready projects in designated opportunity zones, and manage the QOF's assets.

Banks are typical investors in the Enterprise Opportunity Fund. Generally, the fund seeks to deliver returns consistent with the project's risk. Enterprise uses the fund's capital strategically to structure financing that is appropriate for real estate transactions in LMI communities, which may involve multiple funding sources due to the need for deeper subsidies. Enterprise encourages banks to support opportunity zones, both as investors in QOFs as well as providing loans to specific projects. For projects that are especially challenging, such as housing that is affordable for persons earning less than 80 percent of area median income, the Enterprise Opportunity Fund may use low-cost financing provided by government programs, such as 4 percent tax credit bonds. Enterprise advises that a bank seeking Community Reinvestment Act (CRA) credit for its qualified opportunity fund investment should carefully consider a fund's strategy for selecting projects to ensure they meet the CRA qualifying activity criteria and the bank's geography-based goals, if applicable. The strategy is typically described in a fund's legal documents and prospectus.

Enterprise recognizes that not all opportunity zone projects are alike. As Will Lambe, Director of Capital Solutions at Enterprise, puts it, "If you've seen one opportunity zone project, you've seen one opportunity zone project." Mr. Lambe understands the potential for unintended consequences if QOF managers have a sole focus on profit. He believes that QOFs should help to address community needs, such as by increasing housing affordability, improving community resilience by providing needed services, and improving economic mobility with mixed-use developments. Enterprise implements its philosophy through the design and operation of its QOFs, which have a double bottom line of both providing a tax reduction incentive for investors and providing positive economic and social outcomes for underserved communities.

For example, the goal of the Emergent Communities Fund is to spur economic growth by revitalizing emerging communities and supporting local entrepreneurs. The Emergent Communities Fund identifies projects and offers financing for main street projects across small cities and towns in the Southeast United States, with initial targets in North Carolina and Virginia. The Emergent Communities Fund plans to finance mixed-income projects with a secondary component, such as retail space, a health facility, or food provider located in an underserved or distressed community. The Emergent Communities Fund may also finance the development of workforce housing that is affordable to teachers, nurses, firefighters, and similar professionals who earn 80 to 120 percent of area median income. "The space for financing alternatives and tools to address the community and economic development needs in connection with opportunity zones is still developing," according to Sarah Brundage, Senior Director of Public Policy at Enterprise.

One of the first investments by the Emergent Communities Fund was made in the summer of 2020. Enterprise was able to bring a combination of QOF investments and low-income housing tax credits to the Parkside at Quarry Yards, a 182-unit affordable rental project in Atlanta. The development will feature computer and community rooms, an exercise room, a wellness center, and outdoor playground and picnic area. The development is part of a multiphase master plan to include retail space, a hotel, and expansive green space, all within walking distance of the public rapid transit line. Further expanding the emerging community will be the newly announced Microsoft Atlanta campus, which is planned across the street from the Parkside at Quarry Yards complex and is expected to bring 1,500 jobs to the neighborhood.

Enterprise believes that QOFs should establish parameters for assessing how funded projects will achieve positive social impact. The Beeck Center for Social Impact and Innovation at Georgetown University, the U.S. Impact Investing Alliance, and the Federal Reserve Bank of New York worked together and developed the Opportunity Zones Reporting Framework, which provides core community and economic development principles for measuring an opportunity zone project's outcome.[30]

Specifically, the framework includes a mission statement and an overview of objectives the QOF seeks to achieve, including

- expected outcomes of projects undertaken by the fund, such as jobs created, and descriptions of the data gathering and assessment tools that the fund will use.
- data analysis, which will demonstrate how a fund's projects have helped to address local community and economic development needs.

Enterprise was invited to participate on the Opportunity Zone Investor Council, a group of fund managers, investors, and developers working in opportunity zones across the country. The Opportunity Zone Investor Council aims to think, act, and collaborate in new ways with the assistance of tools, experts, and the collaborative thinking supported by the Beeck Center and the OZFramework. The goal is to provide meaningful public transparency and accountability based on proactive partnerships between communities and investors.

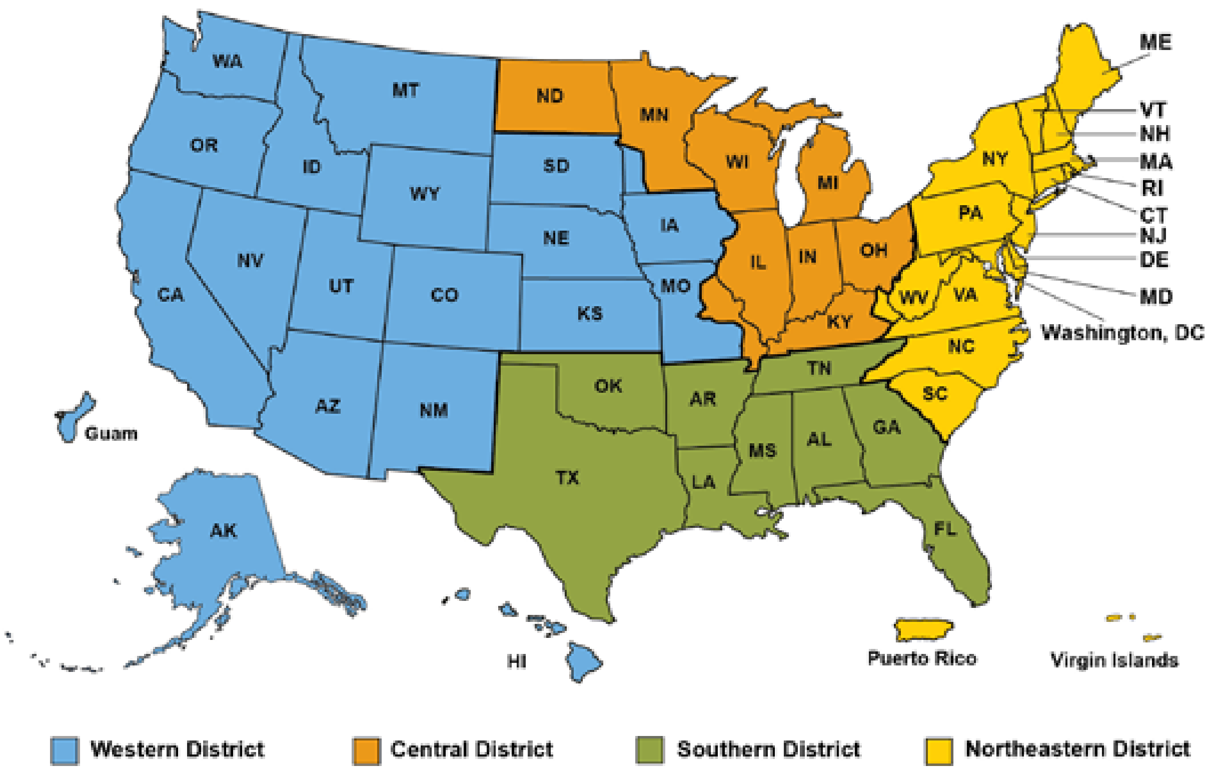
Enterprise has included the OZFramework in each of its opportunity zone funds and will report data based on the Beeck Center's framework. Enterprise hopes that its use of the OZFramework will encourage other QOF managers to replicate the process as well as influence potential investors. Ideally, data collected on opportunity zones will help demonstrate, through industry-wide impact assessments of opportunity zone fund investments, that disinvested communities can benefit from this source of capital in well-planned projects and create a win-win for all stakeholders.

Visit the LISC and Enterprise websites for more information on their work in opportunity zones.

For more information, contact Letty Ann Shapiro at LettyAnn.Shapiro@occ.treas.gov.

[30] Refer to the article titled "Measuring the Impact of Opportunity Zone Investments" in this edition of *Community Developments Investments.*

Community Affairs supports the OCC's mission to ensure a vibrant banking system by helping national banks and federal savings associations to be leaders in providing safe and sound community development financing and making financial services accessible to underserved communities and consumers, while treating their customers fairly.



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