Comptroller of the Currency
Administrator of National Banks
US Department of the Treasury

Community Developments

Community Affairs
Department

Fact Sheet

Bank-Owned Community Development Corporations

How can a bank own a community development corporation?

The community development investment authority provided under 12 CFR part 24 allows banks to make investments in bank-owned community development corporations (CDCs) that primarily benefit low- and moderate-income individuals and low- and moderate-income areas.

How can owning a CDC benefit a bank?

An ownership interest in a CDC can benefit a bank by:

- Providing effective support for a bank's CRA compliance strategy.
- Building profitable customer relationships with community development providers.
- Targeting new markets and new customers.
- Promoting specific bank-driven economic development strategies.
- Maximizing external resources and community support.
- Supporting a positive local reputation.
- Providing more flexible financing.
- Expanding CRA investment opportunities
- Providing a central location within a bank for both community development information and expertise.
- Providing a focal point for community development marketing activities.

What types of activities do CDC's undertake?

Listed below are some, but not all, of the activities bank-owned CDCs have financed.

- 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 (CDE) in conjunction with the New Markets Tax Credit Program.
- Technical assistance to small business owners.
- Pre- and post-purchase homebuyer counseling.

What is involved in forming a bank-owned CDC?

National banks can participate through 12 CFR 24 (the Part 24 authority). Under the authority, banks can make investments, directly or indirectly, in any activity that could qualify as a

Community Reinvestment Act (CRA) investments as well as activities that primarily benefit: (1) low- and moderate-income persons or areas; or (2) government targeted areas for revitalization. The regulation also sets the maximum aggregate public welfare investment limit at 15 percent of capital and surplus under the authority.

1. **Regulatory considerations**:

- Authority for forming a subsidiary CDC is provided under 12 CFR part 24.
- For after-the-fact notification or prior approval of an investment, a bank should submit a CD-1 form to the OCC under the 12 CFR part 24 guidelines. Those submissions can be sent through the mail to the Deputy Comptroller for Community Affairs, Office of the Comptroller of the Currency, Washington, DC 20219 or submitted through the OCC's Banknet https://www.banknet.gov/cd1invest/default.aspx
- Permissible activities include those that satisfy the public welfare investment requirements of 12 CFR part 24 (see examples at 12 CFR part 24.6).

2. **Market and mission considerations:**

- Identify the local financial needs.
- Determine the goals, activities, and scope of the proposed CDC.
- Determine geographic scope for the CDC.
- Draft a mission statement or charter statement, including objectives, goals, and activities.
- Determine the legal structure for the CDC.
- Develop articles of incorporation, bylaws, staffing structure, operating activities, lending and investment guidelines, marketing plan, and a community participation plan (if appropriate).

3. **Structural considerations:**

- What is the appropriate amount of capitalization for the CDC?
- What is the process for funding the CDC's ongoing operations?
- Will the CDC be an affiliate or a subsidiary?
- Will the CDC be a for-profit or a non-profit?
- Will the CDC be a single bank-financed entity or a multibank- entity in partnership with other banks?
- How will the CDC be staffed and managed, including resources for office space and equipment?
- How will the CDC's activities facilitate the bank's regular lines of business (e.g., referrals back to the bank)?
- What are the CDC's record-keeping and reporting mechanisms and timeframes?

What are the risks involved with a bank-owned CDC?

- Investment in a CDC must not expose the bank to unlimited liability.
- Investments in CDCs, like other investments, can involve credit, liquidity, compliance, and other risks.
- A bank should have systems in place to ensure that it complies with the percentage capital limitations imposed on national banks making public welfare investments.

For more information

- OCC's Fall 2008 *Community Development Investments* entitled "Multibank CDCs: Pooling Resources to Strengthen Communities" at: http://www.occ.gov/cdd/Ezines/fall08/cde08fall_index.htm
- OCC's Winter 2004/2005 *Community Development Investments* entitled "Growing with Bank-Owned Community Development Corporations" at: http://www.occ.treas.gov/cdd/EZINE/winter04/index.html.
- OCC's Web site for information about national bank community development investments generally at: http://www.occ.treas.gov/cdd/pt24toppage.htm
- OCC's District Community Affairs Officers, whose contact information can be obtained at: http://www.occ.treas.gov/cdd/contacts.htm.
- OCC's Web site for information about national bank Bank Owned CDCs at: http://www.occ.gov/cdd/ca_archive_bcdc.htm