

Yale University

EliScholar – A Digital Platform for Scholarly Publishing at Yale

YPFS Documents (Series 1)

[Browse by Media Type](#)

2010

OCC Spring 2010 Newsletter, Road to Recovery: Banks Can Use Recovery Act to Pave the Way

United States: Department of the Treasury: Office of the Comptroller of the Currency (OCC)

Follow this and additional works at: <https://elischolar.library.yale.edu/ypfs-documents>

Recommended Citation

United States: Department of the Treasury: Office of the Comptroller of the Currency (OCC), "OCC Spring 2010 Newsletter, Road to Recovery: Banks Can Use Recovery Act to Pave the Way" (2010). *YPFS Documents (Series 1)*. 8869.

<https://elischolar.library.yale.edu/ypfs-documents/8869>

This Document is brought to you for free and open access by the Browse by Media Type at EliScholar – A Digital Platform for Scholarly Publishing at Yale. It has been accepted for inclusion in YPFS Documents (Series 1) by an authorized administrator of EliScholar – A Digital Platform for Scholarly Publishing at Yale. For more information, please contact elischolar@yale.edu.

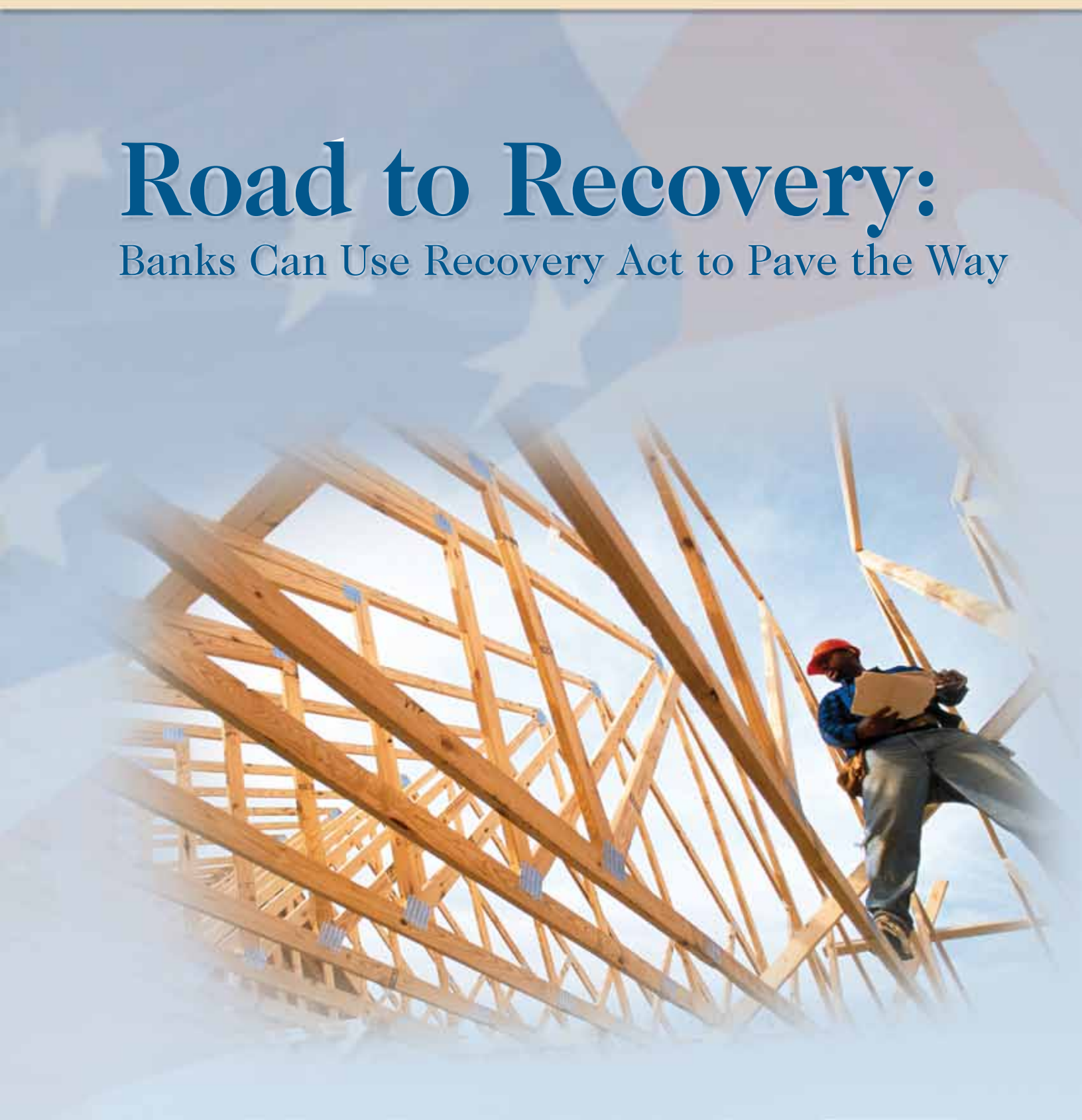


Comptroller of the Currency
Administrator of National Banks
US Department of the Treasury

Community Developments *Investments*

Spring 2010

Road to Recovery: Banks Can Use Recovery Act to Pave the Way



Community Developments Investments

Contents



	Page
A Look Inside ...	3
Economic Development Programs: Providing Lending Opportunities for Banks	5
Housing Finance Programs: Providing Lending and Investing Opportunities for Banks	13
Bond Investment Programs: Providing Investment Opportunities for Banks	17
This Just In ... OCC's Four Districts Report on New Opportunities for Banks	



OCC's Community Affairs Department

(202) 874-5556

E-mail CommunityAffairs@occ.treas.gov

Please contact us to obtain additional print copies of this and other OCC Community Affairs publications.

To view the online version of this publication, visit:

http://www.occ.treas.gov/cdd/Ezines/spring10/cde10spring_index.htm

Road to Recovery: Banks Can Use Recovery Act to Help Pave the Way

❖ A Look Inside ...

With the American Recovery and Reinvestment Act of 2009 (Recovery Act) having marked its first anniversary and the economy regaining its footing, banks face unique opportunities to help return the economy to long-term growth, to serve their communities, and to help themselves. Check out the related resource list.



❖ Economic Development Programs: Providing Lending Opportunities for Banks

New and expanded federal programs are helping banks find new ways to help small businesses create jobs, expand, and stabilize the economies of local communities across the nation.



❖ Housing Finance Programs: Providing Lending and Investing Opportunities for Banks

Thanks to the Recovery Act, banks have new opportunities to partner with community groups and state and local governments that are working to revitalize housing in their communities through their lending, investments, and community development service activities.



❖ Bond Investment Programs: Providing Investment Opportunities for Banks

The Recovery Act created or expanded programs that encourage more activity in the public finance sector by introducing four new kinds of taxable, tax credit, and tax-exempt bonds and providing greater financial incentives for banks to invest in municipal obligations. Also, see companion chart comparing bond programs.



A Look Inside ...

Barry Wides, Deputy Comptroller for Community Affairs, Office of the Comptroller of the Currency (OCC)

With the American Recovery and Reinvestment Act of 2009 (Recovery Act) having marked its first anniversary and the economy regaining its footing, banks face unique opportunities to help return the economy to long-term growth, to serve their communities, and to help themselves.

Recovery Act funds are beginning to be put to work by state, local, and community groups to revitalize struggling neighborhoods, cities, and states. Now, banks must step up and ensure that these critical community efforts are successful.

This issue of Community Developments Investments serves as a guide to banks interested in supporting critical community efforts. This guide will help banks understand how Recovery Act funds are being disbursed and how they are being used in community development. It highlights some of the programs created, expanded, and funded by the Recovery Act to promote small business financing and to stimulate housing and economic development. Individual articles highlight programs and opportunities in the areas of economic development, housing finance, and bond investments.

Banks can partner with local groups engaged in these programs by providing lending, investing, and technical assistance. They can invest in Build America Bonds that support efforts to rebuild national highways, city roads, and neighborhood infrastructure. They can work with local groups to rehabilitate distressed and foreclosed properties. They can finance low-income and affordable-housing developments. They can extend lines of credit to small businesses to finance payrolls and expand. Additionally, banks can partner with community development financial institutions, and in return, enter niche markets, cultivate future customers, and deliver mainstream and alternative financial products and services to underserved communities and banks that support community development efforts may receive Community Reinvestment Act (CRA) consideration.

As the Recovery Act funding for popular programs, like the SBA 7(a) and 504 programs, are exhausted, several temporary extensions have been approved. These and similar efforts are expected to continue to support Recovery Act initiatives as the economy stabilizes and grows through 2010 and 2011.

This guide will inform banks interested in lending, investment, and community development opportunities created by the Recovery Act. After reading these articles banks interested in learning more about these opportunities and their potential CRA impact may contact the OCC's District Community Affairs Officers.



The Recovery Act is helping to stimulate construction and jobs in communities across the nation.

Community Developments

Deputy Comptroller

Barry Wides

Editorial Staff

Beth Castro

Bill Reeves

Letty Ann Shapiro

Janet Fix

Morey Rothberg

Design Staff

Victor Battista

Rick Progar

Cheryle Robison

Questions or comments, please phone (202) 874-4930.

This and previous editions are available on our Web site:
www.occ.treas.gov/cdd/resource.htm.

Disclaimer

Articles by non-OCC authors represent their own views and are not necessarily the views of the OCC.

Additional Recovery Act and Neighborhood Stabilization Resources

The OCC and other organizations offer resources to help banks learn about funding and projects.

American Recovery and Reinvestment Act

- U.S. Department of the Treasury: Agency Plan
- Congressional Research Service: List of Authoritative Resources

Bonds

- U.S. Internal Revenue Service: Guidance on ARRA Bond Provisions

Community Development Financial Institutions

- CDFI Fund/Treasury home page

Low-Income Housing Tax Credits

- U.S. Department of Housing and Urban Development (HUD): HUD Recovery portal, LIHTC Basics, and Tax Credit Assistance Program information
- OCC: Low-Income Housing Tax Credit Program Fact Sheet and Article Archive on low-income housing tax credits

Native American Articles

- OCC: Native American Banking Resource Directory

Neighborhood Stabilization

- OCC: Neighborhood Stabilization Program Fact Sheet
- HUD: Neighborhood Stabilization Program (NSP) Web site, Neighborhood stabilization program information (NSP 2) and local NSP grantee contact information
- NeighborWorks America: A link to NPS grant summaries (NSP2)
- OCC: Community Affairs Department's Neighborhood Stabilization: Local Partnerships Are Rebuilding Communities Newsletter (Fall 2009)
- OCC: Community Affairs Department's Neighborhood Stabilization Web site.
- OCC: Property Disposition: Exploring Different Approaches for Preserving Affordable Housing Opportunities (PDF 374KB) (March 2009) (NR 2009-20)

U.S. Small Business Administration (SBA) Loan Programs

- 7(a) Loan Program Report: SBA's Economic Stimulus Provisions
- Section 504 loan program: Changes to SBA 504 Loan Program
- Microloan program: Microloans Help Small Businesses

U.S. Department of Agriculture

- Rural Development Portal
- Rural Development Implementing ARRA

OCC's Community Affairs Department

(202) 874-5556

E-mail CommunityAffairs@occ.treas.gov

Please contact us to obtain additional print copies of this and other OCC Community Affairs publications.

Economic Development Programs: Providing Lending Opportunities for Banks

The American Recovery and Reinvestment Act of 2009 (Recovery Act) is promoting economic stability and growth with incentives offered by new and expanded federal programs. The programs are available through the U.S. Small Business Administration (SBA), U.S. Department of the Treasury, U.S. Department of Housing and Urban Development (HUD), and U.S. Department of Agriculture (USDA). The programs give banks opportunities to expand lending, investments, and community development activities. Participating banks may be eligible for consideration under the Community Reinvestment Act (CRA). National banks are encouraged to discuss the possible CRA consideration of specific community and economic development activities with their OCC supervisory office.

This article highlights some of these new and expanded federal programs. Readers interested in gaining a better general understanding of the opportunities made available by the Recovery Act funding, please read A Look Inside.

U.S. Small Business Administration

The Recovery Act enables the SBA to offer new or expanded economic incentives to small businesses and lenders through five programs, including the:

- Basic 7(a) Loan Program
- 504 Certified Development Company Loan Program (CDC)
- Small Business Investment Company Program (SBIC)
- Microloan Program
- America's Recovery Capital Loan Program (ARC)

Basic 7(a) Loan Program

The SBA's 7(a) loan guaranty program is the agency's primary business loan assistance program. Section 7(a) of the Small Business Act authorizes the SBA to provide loan guarantees to lenders making small business loans. Lenders originating and servicing loans to small businesses receive a SBA guaranty on a percentage of the individual loan amount. The guaranty assures lenders that, in the event borrowers default, the SBA will reimburse lenders up to the percentage of the guaranty. Under this program, borrowers remain obligated for the full amount due.



USDA

Recovery Act funds are helping to preserve and create jobs, many of which are in small businesses in small towns.

SBA/US BANK

The Recovery Act encourages small business lending through SBA's 7(a) and 504 loan programs.



SBA

Dr. Justin Kim, O.D., owner of Trinity Vision Center in Texas, received SBA assistance to get the flexible working capital he needed during the economic downturn.

The Recovery Act authorized changes to the 7(a) loan program in three areas.

7(a) Fee Elimination and Guaranty Provisions

For certain 7(a) loans, Section 501 of the Recovery Act, temporarily eliminated the upfront fees for all eligible loans, including those with higher SBA guarantees (up to 90 percent and up to a \$1.5 million SBA guaranteed share) as provided in section 502 of the Recovery Act. The original funding in the Recovery Act for fee relief and higher guarantees has been exhausted. However, several temporary extensions have been approved providing additional funding for these purposes. Additional information can be obtained by participating SBA Lenders from their local SBA field office.

Debt Refinancing Permanent Provision

- New refinancing authority has been created by the Recovery Act allowing the restructuring of existing 7(a) debt into new 504 loans for purposes of business expansion and job creation.
- Existing 7(a) loans may be refinanced only if the current lender is unwilling or unable to modify the current loan.
- If a 7(a) lender is refinancing same-institution debt, the refinancing would be eligible for SBA 504 refinancing only if the lender is unable to modify the terms of the existing loan because a secondary market investor will not agree to the modified terms.

Dealer Floor Plan Pilot Initiative

- The Recovery Act authorized the SBA to establish a new program to guaranty new lines of credit extended by lenders to dealerships. The pilot program allows dealers to borrow against existing retail inventory. The dealer repays the debt as the inventory is sold and can borrow against the line of credit to add new inventory. The SBA will guarantee between 60 percent and 75 percent of a floor plan line's wholesale inventory value from \$500,000 to \$2 million to eligible dealers of titleable assets, including but not limited to automobiles, motorcycles, boats, recreational vehicles and manufactured housing (mobile homes).
- The dealer floor plan pilot program will continue through September 30, 2010. At that time, the SBA will determine if the pilot will be terminated, extended, or if certain features will become a permanent part of SBA's lending programs. Loans approved under the pilot are eligible for the temporary fee waiver as the 7(a) loan guaranty program. However, the SBA will guaranty loans up to 75 percent (not the temporary 90 percent) so that data collected during the pilot phase will provide a meaningful basis to determine if it should be extended.

For more information on this change, see the Small Business Administration and Federal Register posting for 74 FR 32006-32010, July 6, 2009.

504 Certified Development Company Loan Program (CDC)

This loan program provides financing for major fixed assets, such as owner-occupied commercial real estate and long-term assets, such as machinery and equipment. This program involves collaboration between private-sector lenders, such as banks, and certified development companies. Lenders make loans to qualifying small businesses. Typically, the bank portion consists of a loan secured by a first lien, covering 50 percent of the project cost. Subordinate financing of up to 40 percent traditionally comes from the CDC, which obtains these funds through the SBA's sale of debentures.

The SBA promotes the 504 loan program as an economic development tool. It is a self-supporting program funded by loan fees, rather than appropriations from the federal budget. Banks that offer SBA 504 loans may be able to attract



NADCO

Provident Business Financial Services worked with Capital Bank to provide financing to Tech-Wood USA, a start-up trying to generate 35 jobs in rural South Carolina. The banks advanced funds to purchase and improve the building before the SBA 504 loan was completed.



NADCO

After the credit crisis hit, the owners of Daystar Desserts needed a loan and the SBA guided them to Village Bank, a 504 lender, that helped them understand changes resulting from the Recovery Act. Their new loan will save them nearly \$200,000 in interest costs.



CDFI Fund

Project Hope in Massachusetts received a New Markets Tax Credit Award of \$4.8 million for its Roxbury Community Center, the community's first certified green building. The money will help Project Hope expand its education, job, and career services.

small business borrowers that would benefit from long-term financing for plant and major equipment acquisition.

For more information about the SBA 504 program, visit the SBA Web site

Recovery Act Changes to SBA 504

504 Fee Elimination Provisions

For eligible loans approved through the SBA's section 504 Certified Development Company Program on or after February 17, 2009, the SBA temporarily eliminated two program fees:

- Third-party participation fees (Small Business Investment Act section 503(d)(2) fees are codified at 13 CFR 120.972)
- CDC processing fees (13 CFR 120.971(a)(1) fees)

Consistent with the Recovery Act's temporary elimination of CDC processing fees, CDCs will no longer be allowed to collect deposits from small business applicants that otherwise would have gone toward payment of these fees upon loan approval under 13 CFR 120.935. The SBA will reimburse the CDCs for the waived processing fees.

The Funds that were originally earmarked for the temporary elimination 504 loan fees were exhausted. However, several temporary extensions have been approved providing additional funding for these purposes. Additional information can be obtained by participating SBA Lenders from their local SBA field office.

On October 28, 2009, SBA announced a new program that allows portions of eligible 504 first mortgages, pooled by originators or broker dealers, to be sold with an SBA guarantee to third-party investors in the secondary market. Lenders will retain at least 15 percent of each individual loan, pool originators will assume 5 percent of the risk, and the SBA will guarantee the remaining 80 percent. To be eligible to be included in a pool, the first mortgage must be associated with a 504 loan disbursed on or after February 17, 2009. The program will be in place until February 16, 2011, or until \$3 billion in new pools are created, whichever occurs first (see SBA Release Number: 09-76).

504 Refinancing Program

A new permanent SBA 504 refinancing program is being launched to help expand existing long-term projects. Under the new changes, a 504 CDC will be able to refinance existing loans that were used for 504-eligible fixed assets. This allows businesses to restructure eligible debt to improve cash flow and enhance capacity for growth and job creation or retention. Eligible debt is any debt incurred by the small business that was used to finance the purchase or expansion of fixed assets such as buildings, land, or equipment. Other eligibility conditions for refinancing include:

- The debt being refinanced has fixed assets as collateral.
- The existing debt was incurred for the benefit of the small business.
- The debt being refinanced must be related to the expansion.
- The new financing provides a substantial benefit to the business when prepayment penalties, financing fees, and other financing costs are taken into account.
- The borrower has been current on all payments of the debt being refinanced for one year prior to the date of refinancing.
- The terms and interest rate must be better than those of the existing indebtedness.
- The business must create or retain a job for every \$65,000 guaranteed by the SBA (up from \$50,000).

Any small business that is planning an expansion may refinance existing, eligible debt as long as the amount being refinanced is 50 percent or less of the total cost of the expansion.



CDFI Fund

Second Line Stages is a "green" film studio that received \$6 million in New Markets Tax Credits and was honored by the Council of Development Finance Agencies as the best tax-credit-financed project in the U.S. CDFI Director Donna Gambrell and others toured the studio on June 6, 2009.



CDFI Fund

Treasury Secretary Timothy F. Geithner announced \$1.5 billion in New Markets Tax Credit awards for 32 organizations on May 27, 2009.

The SBA 504 refinancing program was authorized on a permanent basis. (See Small Business Administration program changes at RN 09-44, 6/24/09)

Small Business Investment Company Program (SBIC)

This program is a public-private partnership administered by the SBA to bridge the gap between entrepreneurs' need for capital and traditional financing sources. The structure of the program is unique in that SBICs are privately owned and managed investment funds that use their own venture capital plus funds borrowed with an SBA guarantee to make equity and debt investments in qualifying small businesses. SBICs make investments in a broad range of industries, geographies, and stages of investment. Debenture SBICs focus primarily on providing debt or debt with equity features to small businesses that are mature enough to make current interest payments on the SBIC investment. The SBA licenses and regulates SBIC funds.

For more information on the SBA SBIC program, please visit the SBA Web site, Investment Division.

Recovery Act Changes to SBICs

The following changes made to the SBIC program under the Recovery Act are permanent.

- The Recovery Act makes SBICs eligible for greater SBA-guaranteed funding and requires them to invest 25 percent of their investment dollars in "smaller" businesses. The amount of funding an SBIC may invest in a single small business is set at 10 percent of the SBIC's *total* capital rather than the previous limit of 20 percent of the SBIC's *private* capital only. This translates to an effective 50 percent increase in funding available to a single business through an SBIC.
- Maximum SBA funding levels to SBICs will increase up to three times the private capital raised by the SBIC—up to \$150 million for single SBICs and \$225 million for multiple SBICs that are under common control. The cap for all licensees was set at \$137.1 million before the Recovery Act.
- The SBA funding limits will be higher for SBICs that are licensed after October 1, 2009, and that certify that at least 50 percent of their investments will be made in small businesses in low-income areas. Under these conditions, the SBA funding level for SBICs will increase to a maximum of \$175 million for single licensees and \$250 million for jointly controlled multiple licensees.

SBA Microloan Program

The SBA Microloan Program provides very small loans to startup, newly established, or growing small business concerns. Under this program, SBA makes funds available to nonprofit community-based microlenders (intermediaries), which, in turn, make fixed-rate loans to eligible borrowers in amounts up to \$35,000. These loans are to be used for working capital and acquisition of materials, supplies, furniture, fixtures, and equipment. SBA's interest rate to microlenders is based on the five-year Treasury rate, with adjustments tied to a microlender's average loan size. The program also offers microlenders financial support for technical assistance-related costs, including staff, classroom training, and occupancy costs. SBA's reimbursement is capped at 25 percent of the microlender's outstanding SBA loan portfolio. The Recovery Act has expanded the program to finance up to \$50 million in new lending and \$24 million in technical assistance grants to intermediaries (microlenders). Approximately, one third of the funds have been allocated as of March 2010. The 2010 appropriation for the Microloan Program is \$20 million and funds can be rolled-over into 2011. The SBA is expanding this program and is continuing to look for intermediaries.

SBA microlenders must be private, nonprofit community development organizations (501(c) status), quasi-government economic development corporations, or agencies established by Native American tribal governments. They must have at least one year of microlending experience and be able to provide technical assistance to borrowers.

The SBA Web site provides a list of intermediaries (microlenders).

SBA America's Recovery Capital Loan Program

The new SBA America's Recovery Capital (ARC) Loan Program offers stabilization financing to existing small businesses. SBA participating lenders make deferred-payment loans of up to \$35,000, backed 100 percent by the SBA, to established, viable, for-profit small businesses that need short-term help to make payments on existing qualifying debt. The SBA pays participating lenders a monthly interest rate throughout the term of the loan. The program is intended to give small businesses temporary financial relief to keep their doors open and regain their cash flow so they can maintain existing jobs and ultimately create new jobs.

The ARC program is a no-interest deferred-payment loan to help small businesses that have a history of good performance but, as a result of the slow economy, are struggling to make debt payments. ARC loans are distributed over a period of up to six months to be used for payments of principal and interest for existing, qualifying small business debt, including mortgages, term and revolving lines of credit, capital leases, credit card obligations, and notes payable to vendors, suppliers, and utilities. Repayment begins 12 months after the final loan disbursement. After the 12-month deferral period, borrowers repay the loan principal over a period of five years.

This program was launched June 15, 2009, and will continue as long as funding is available or until September 30, 2010, whichever comes first. An estimated one third of the funds remain available as of April 1, 2010. Detailed information is available for lenders interested in learning more about the ARC loan program, a list of ARC lenders, and a map for SBA field office contacts on the SBA Web site.

For more information on any of these SBA programs, visit the SBA Web site

U.S. Department of the Treasury

The Recovery Act enables the Treasury to offer new or expanded economic incentives to private-sector financial intermediaries through three programs.

CDFI Fund – Financial Assistance Awards

The CDFI Fund promotes access to capital and local economic growth by directly investing in, supporting, and training CDFIs that provide loans, investments, financial services, and technical assistance to underserved populations and communities. Financial assistance awards from the CDFI Fund are made in the form of equity investments, loans, deposits, or grants, and must be matched, dollar for dollar, by the applicant with funds of the same type from non-federal sources. Financial assistance awards enable CDFIs to leverage private capital to respond to demand for affordable financial products and services in economically distressed markets and by low-income families. CDFIs respond to this demand through the provision of loans, investments, training, technical assistance and basic financial services such as checking or savings accounts. Based on data supplied by CDFIs required to report to the CDFI Fund, it is estimated that CDFIs leverage their financial assistance awards with other dollars by an average of 20:1. CDFI Financial Assistance awards were \$143 million in 2009 and are expected to be \$113 million in 2010. These awardees may be looking for banks to help leverage these funds to promote community and economic development in the areas they serve. A listing of recent Financial Assistance award recipients is available on the CDFI Fund's Web site

New Markets Tax Credits Program

The New Markets Tax Credit (NMTC) spurs investment of private sector capital in distressed communities by providing a tax credit for taxpayers who make qualified equity investments in designated Community Development Entities (CDEs). The credit provided to the investor totals 39 percent of the investment in a CDE and is claimed over a seven-year credit allowance period. Banks may invest in CDEs and obtain NMTCs. Some banks have established their own CDEs to take advantage more fully of NMTC allocations. NMTC awards in 2009 were \$6.5 billion and are expected to total \$5 billion in 2010 (subject to authorization). A listing of recent New Markets Tax Credit awardees is available on the CDFI Fund's Web site

CDFI's Capital Magnet Fund

The Capital Magnet Fund (CMF) was established through the Housing and Economic Recovery Act of 2008 and is administered by the CDFI fund. CMF competitively awards grants to certified CDFIs and non-profit organizations having as one of their principal purposes the management or development of affordable housing. Initial funding of \$80 million was included in CDFI Fund's 2010 appropriation. Among an array of options, CMF dollars can be used to provide loan loss reserves, to capitalize an affordable housing fund, for guarantees, and for risk-sharing loans.

For more information visit the CDFI Web page.

Community Development Capital Initiative

On February 3, 2010, the U.S. Department of the Treasury announced enhancements to the TARP program in new initiative known as the Community Development Capital Initiative (CDCI). This program offers low-cost capital to regulated Community Development Financial Institutions in order to enhance their ability to provide credit in distressed communities. Basic terms of the program are:

- Recipients must be regulated financial institutions that are certified CDFIs.
- CDFIs can apply for capital equal to up to 5 percent of their total risk weighted assets.
- The dividend rate on the preferred stock will be 2 percent for eight years; after eight years the interest will increase to nine percent.
- CDFIs with existing TARP Capital Purchase Program investments will be eligible to exchange those investments into this program, thus lowering the cost of capital and providing access to additional capital.
- CDFIs will not be required to issue any warrants or other additional equity kickers to the Treasury Department.

In addition, in cases where an institution might not otherwise be approved by its regulator, it will be eligible to participate so long as it can raise enough private capital that – when matched with Treasury capital up to 5 percent of risk-weighted assets – it can reach viability. The private capital must be junior to Treasury's investment. For more information about the programs see the US Treasury press release (2/3/2010, TG-533).

Applications for the CDCI are due on April 30, 2010 and funding/exchanges must be completed by 5 p.m. (EST) on September 30, 2010.

Financial institutions which are not able to meet these deadlines may still apply to be a certified CDFI. Once CDFI Fund certification has been obtained, those institutions would then be eligible to apply for Financial Assistance awards from the CDFI Fund.

For more information on the CDCI program, please visit the [financialstability.gov](http://www.financialstability.gov) Web site:
<http://www.financialstability.gov/roadtostability/comdev.html>

U.S. Department of Agriculture

The Recovery Act enables the USDA to offer an expanded guarantee program for rural business and industry financing.

U.S. Department of Agriculture Rural Development Business and Industry Guaranteed Loan Program

USDA's Rural Development Business and Industry Guaranteed Loan Program seeks to improve, develop, or finance business, industry, and employment, and to improve the economic and environmental climate in rural communities. This is done by bolstering the existing private credit structure through the guarantee of quality loans in rural areas. The percentage of guarantee is negotiated between the lender and USDA Rural Development and depends on the size of the loan.

The Recovery Act provided \$1.55 billion in loan guarantee authority to make additional funds available to USDA Rural Development–approved lenders providing loans to businesses (including tribal enterprises and tribally owned businesses) in rural communities. The funds are being provided through a central pool, as requests are made, rather than through state allocations. The standard 2 percent B&I guarantee fee is being halved to 1 percent until September 30, 2010 and the standard annual renewal fee is temporarily eliminated until that same date. Finally, the Recovery Act permits a guarantee rate of up to 90 percent for high-priority loans based on an established scoring system (see <http://www.rurdev.usda.gov/or/biz/BIscore.pdf>) and loans that support quality jobs in distressed or underserved areas. Quality jobs mean that the borrower's business pays an average hourly wage rate of at least \$9.07 (more than 125 percent of the federal minimum wage). High-priority loans will be targeted to businesses located in a distressed or underserved community.

More information about Recovery Act changes to the USDA Rural Development Business and Industry program is available on the USDA Web site.

Under the program, banks may make loans for:

- Business and industrial acquisitions when the loan will keep the business from closing, prevent the loss of employment opportunities, or provide expanded job opportunities.
- Business conversion, enlargement, repair, modernization, or development.
- Purchase and development of land, easements, rights-of-way, buildings, or facilities.
- Purchase of equipment, leasehold improvements, machinery, supplies, or inventory.

Approved lenders and their USDA Rural Development Office representatives work with businesses (including tribes, tribal enterprises, and tribally owned businesses) to bring this loan program to rural areas (population 50,000 or less). Borrowers must be engaged in or proposing to engage in a business that undertakes at least one of the following activities:

- Provides employment.
- Improves the economic or environmental climate.
- Promotes the conservation, development, and use of water for aquaculture.
- Reduces reliance on nonrenewable energy resources by encouraging the development and construction of solar energy systems and other renewable energy systems.

Loan guarantees will be issued until funds are depleted or until September 30, 2010, whichever comes first.

To apply for funding through the B&I program, lenders should contact their Rural Development State Office. B&I program information is available on the USDA Web site.

General information about the Rural Development B&I Program is available on the USDA Web site and the OCC fact sheet on USDA Rural Development Business and Industry Guaranteed Loans (PDF 76KB).

CRA Consideration

SBA Basic 7(a), SBA 504, and ARC Loan Programs

Under certain circumstances, banks may receive CRA consideration for providing credit under the SBA Basic 7(a), 504, and ARC loan programs. For example, large banks that originate or purchase SBA loans of \$1 million or less receive lending test consideration. In addition, SBA loans over \$1 million that meet the definition of a community development loan in the CRA regulation (see 12 CFR 12(h)) are considered as community development loans in large bank lending tests. Refer to the regulation and Interagency questions and Answers Regarding Community Reinvestment (Q&A) dated March 11, 2010 for guidance. (See 12 CFR 25.12(h), and 75 FR 11642. §___.12(h)—1.)

Small and intermediate-small banks (ISB) also receive positive CRA consideration for originating or purchasing SBA loans when considering a bank's business lending. Unlike small and large banks, however, SBA loans that also meet the definition of a community development loan by an ISB may be considered under either the ISB community development test or its lending test, but not both. Refer to the Q&A for guidance. (See 12 CFR §___.12(h)—3.)

SBIC Program

Financing projects located in the broader statewide or regional area that includes the bank's assessment area(s), may receive CRA consideration if the projects benefit the bank's assessment area or, if the bank has otherwise adequately addressed the community development needs of its assessment area(s), even if these projects will not directly benefit the institution's assessment area(s). Banks receive CRA consideration for loans to or investments in an SBIC, because the SBICs are presumed to promote economic development. (See 12 CFR 25.12(g)(3) and the Q&As §___.12(g)(3)-1).

Microloan Program

Investments in or loans to intermediaries that support the SBA Microloan Program may receive CRA consideration, provided they meet both the geographic requirements of the CRA and they promote economic development. To promote economic development, the loans must support permanent job creation, retention, and/or improvement for low- and moderate-income persons, in low- or moderate-income geographies, or in areas targeted for redevelopment. (12 CFR 25.12(g) and the Q&As §___.12(g)(3)-1 and Q&A §___.12(t)-4).

A list of SBA Microloan Intermediaries can be found on the SBA Web site.

CDFI Fund and NMTC Programs

Banks may receive CRA consideration for loans and investments to financial intermediaries, such as CDFIs and NMTC-eligible Community Development Entities that primarily lend or facilitate lending in low- and moderate-income areas or to low- and moderate-income individuals to promote community development, provided the geographic requirements of the CRA are met. (See 12 CFR 25.12(h) & (t), and Q&A §___ .12(h)-1 and Q&A §___ .12(t)-4.)

Other CRA Information

Providing technical assistance on financial matters to small businesses (generally those with gross annual revenues of \$1 million or less) may be considered a community development service under the CRA. (See CFR 25.12(i) and §___ .12(i)-3.)

For additional information and guidance on CRA, refer to 12 CFR 25 and the March 11, 2010, Interagency Questions and Answers on CRA, both available on the Federal Financial Institutions Examination Council Web site. National banks are encouraged to discuss with their OCC supervisory office the possible CRA considerations of specific Recovery Act programs.

OCC's Community Affairs Department

(202) 874-5556

E-mail CommunityAffairs@occ.treas.gov to receive a hard copy of Community Developments.

Housing Finance Programs: Providing Lending and Investing Opportunities for Banks

The American Recovery and Reinvestment Act (Recovery Act) put in place funding mechanisms to address finance gaps for “shovel ready” multifamily housing development (low income housing tax credit projects) and grants to address foreclosed and abandoned single family units that are destabilizing neighborhoods. These programs are meant to stimulate production, create jobs, stabilize local housing values, and revitalize neighborhoods. The legislation creates opportunities for bankers seeking to expand their lending, investments, and community development service activities. Some of these activities may be eligible for consideration under the Community Reinvestment Act (CRA). National banks are encouraged to discuss the possible CRA considerations of specific housing programs with their OCC supervisory office.

This article highlights some of these new and expanded federal programs. For readers interested in gaining a better general understanding of the opportunities made available by the Recovery Act funding, please read A Look Inside.

Housing Development and Rehabilitation

The Recovery Act included provisions to restore the low-income housing tax credit (LIHTC) market, which has experienced significant disruptions since 2008. Because of the economic downturn, the demand for tax credits by investors has diminished. As a result, the pricing of tax credits has declined, and many approved developments now lack adequate funding for completion. The Recovery Act allowed states to request a portion of their 2009 LIHTC allocation in the form of a cash grant rather than as tax credits through the Tax Credit Assistance Program (TCAP). States were also permitted to exchange tax credit allocations for 2008 and 2009 for cash through the Tax Credit Exchange Program (Exchange Program). A smaller allotment of funds is being provided through the Native American Housing Block Grant Program (NAHBGP) to finance new construction, renovation, and energy retrofit investments.

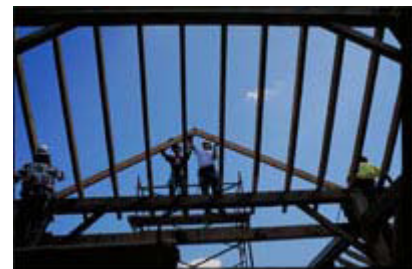
Both TCAP and the Exchange Program initiatives are subject to many of the same requirements under section 42 of the Internal Revenue Code as low-income housing credits are. TCAP funds may only be awarded as grants to projects, while the Exchange Program funds may be awarded as grants or loans.



USDA
Recovery Act funds help stimulate low-income housing tax credits and new markets tax credits for the construction of new facilities and housing.



USDA
Recovery Act funds can be used for energy-efficient retrofits of existing facilities through weatherization programs.



USDA
The Recovery Act funds help support the construction of new affordable housing units.

Tax Credit Assistance Program (TCAP)

Title XII of the Recovery Act appropriated \$2.25 billion under the HOME Investment Partnerships Program (HOME) to provide funds for capital investments in LIHTC projects. TCAP provides grants to housing credit agencies in each state to facilitate the development of projects that received LIHTC awards between October 1, 2006, and September 30, 2009. The housing credit agencies distribute these funds competitively to project owners. The funds are provided as grants or loans to projects to fill funding gaps that developers have recently experienced, rather than as tax credits.

These changes do not affect how banks invest in these projects or receive their tax credits. The Recovery Act funds are meant to stimulate projects that are ready to commence construction or rehabilitation but cannot because a reduced market appetite for LIHTC investments is creating a funding shortage.

TCAP funds from the Recovery Act may be used only for new construction or rehabilitation/reconstruction of existing LIHTC rental properties that can be afforded by households earning up to 60 percent of the area median family income. HUD awards TCAP grants by formula to state housing credit agencies to facilitate development of projects that received or will receive LIHTC allocations between October 1, 2006, and September 30, 2009. State-by-state information on TCAP grants is available on the HUD Web site.

The Recovery Act requires TCAP funds to be distributed to each state housing credit agency according to the percentage of the FY 2008 HOME program appropriation received by the state and its local participating jurisdictions. Because a major purpose of TCAP funds is to save jobs or create new jobs quickly, the Recovery Act establishes deadlines for the commitment and expenditure of grant funds and requires state housing credit agencies to give priority to projects that will be completed by February 16, 2012. Although TCAP funds were appropriated under the HOME heading of the Recovery Act, HOME program requirements (see 24 CFR part 92 and the consolidated planning requirements in 24 CFR part 91) do not apply to TCAP funds.

For more information about TCAP, visit the HUD Web site.

Tax Credit Exchange Program

Under section 1602 of the Recovery Act, state housing credit agencies are eligible to receive grants for low-income housing projects in lieu of low-income housing tax credits under section 42 of the Internal Revenue Code for 2009. This program, which exchanges 2009 tax credits for grants, is referred to as the "Exchange Program" and is estimated to cost up to \$3 billion. As is the case with TCAP, these funds are used to finance construction or acquisition and rehabilitation of qualified low-income housing under the LIHTC program. The Treasury Department awards section 1602 grants to state housing credit agencies in an amount equal to their low-income housing grant election amount, using an established formula. Awards can be made through 2010.

The state housing credit agency that receives the grant will use the funds to make sub-awards to finance the development of qualified low-income projects, with or without an allocation under section 42 of the Internal Revenue Code. The sub-awards are subject to the same requirements as low-income housing credits under section 42, and the agencies may make sub-awards through December 31, 2010. States may disburse sub-award funds through December 2011. The Exchange Program may temporarily fill the gap left by diminished investor demand for low-income housing tax credits. The program allows projects to continue when developers are unable to proceed because of a lack of investors. In this way, the near-term goal of creating and retaining jobs is achieved as well as the long-term benefit of increasing the supply of affordable housing.

The National Council of State Housing Agencies provides state-by-state information on affordable housing and summaries of the Exchange Program on its Web site.

For more information about the Exchange Program, visit the U.S. Treasury Department Web site.



HUD

HUD Secretary Shaun Donovan toured Native American housing in Montana and commented on the communities' unique opportunity to use American Recovery and Reinvestment Act funds to create jobs, improve the quality of housing, build communities, and promote energy efficiency.

Stabilization of Foreclosed and Vacant Properties

The Neighborhood Stabilization Program (NSP) was established by the Housing and Economic Recovery Act of 2008 (HERA) to provide \$3.92 billion in funding for emergency assistance to states and local governments (NSP1).

The Recovery Act provides an additional \$2 billion in NSP funding (NSP2) but makes several fundamental alterations to the program. First, the Recovery Act establishes NSP2 as a competitive program as opposed to the original formula distribution for NSP1. Second, NSP2 funding is available to nonprofit organizations as well as states and local governments. A list of the NSP2 grantees can be found on the NSP's Web site. NSP is considered a component of the Community Development Block Grant (CDBG) program and basic CDBG requirements govern the NSP program. Recovery Act funding also provides \$50 million of the \$2 billion for NSP technical assistance to improve the capacities of NSP1 and NSP2 communities to carry out high-performing, compliant neighborhood stabilization programs swiftly.

The NSP funds will be used to help stabilize property values and prevent neighborhood blight. In addition, the funds help create and preserve jobs. NSP funding will be used for the purchase or redevelopment of thousands of foreclosed and abandoned homes and properties across the nation. These actions can help stabilize neighborhoods by limiting the impact of vacant properties on surrounding properties and can provide the opportunity for thousands of households to own their own home. Program funding can also aid communities by providing a ready source of dollars to demolish and clear blighted structures or to land-bank real property until neighborhoods stabilize and demand for housing rebounds. Further, the inclusion of nonprofit organizations as eligible grantees in NSP2 will foster greater innovation and can encourage public and private partnerships. To increase the reach of NSP, HUD announced on April 2, 2010, an expanded definition for foreclosed and abandoned properties to now include properties in mortgage default and uninhabitable homes with lingering code violations. See HUD No. 10-066 for further details.

NSP funds must be used for activities related to vacant or foreclosed properties but are not restricted to acquisition and rehabilitation activities. Grantees may purchase properties outright or offer financing programs to qualified buyers, such as "soft second" loans (forgivable loans that allow applicants to purchase a home they otherwise could not afford), down payment grants, or rehabilitation loans. NSP expands market interest in foreclosed properties and helps stabilize hard-hit communities while promoting affordable rental and homeownership opportunities.

CRA Consideration

LIHTC Projects

Banks may receive CRA consideration for investments in and loans to LIHTC-eligible projects or funds provided the geographic requirements of the CRA regulation are met. Such loans and investments must benefit the bank's assessment area or the broader statewide or regional area that includes the bank's assessment area. Refer to the regulation (12 CFR 25.12(h) and 25.23) and the March 11, 2010 Interagency Questions and Answers on Community Reinvestment (Q&As) (see 75 FR 11642) for guidance. (See Q&A § __.12(h)-1, Q&A § __.12(t)-4, Q&A § __.23(e)-2, and Q&A § __.42(b)(2)-2.)

Investments in LIHTC projects or funds are eligible investments for national banks under the OCC's part 24 authority. For additional information, see Community Development *Investments* (Part 24) on the Community Affairs Web page.

NSP Activities

Banks should evaluate whether CRA consideration is available for their NSP-related initiatives. In general, banks can receive CRA consideration for lending, investment, and service activities that benefit their assessment area(s) or the broader statewide or regional area that includes their assessment area(s).

Loans to purchase, rehabilitate, and sell or rent foreclosed properties as affordable housing for low- or moderate-income individuals receive CRA consideration as home mortgage loans and, in the case of multifamily housing, CD loans. Bank investments and donations to CRA-qualified organizations also receive consideration. In addition, some activities related to the disposition of bank OREO may be eligible for consideration under the CRA. Bank donations to qualifying organizations may be in the form of cash or "in-kind" property. For example, bank donations or sales of property below market value to organizations whose primary purpose is consistent with the CRA definition of community development may be considered as a qualified investment in a CRA examination (refer to Q&A § __.12(t)-5).

In the context of a below-market-value sale of property to a community development organization, CRA consideration applies to the difference between current fair market value and the discounted sales price of the property. If the property were donated outright, then the property's current fair market value would be the amount of the in-kind donation. For example, a bank could donate a vacant house to a nonprofit organization that would rehabilitate the property and sell it to a low- or moderate-income family for affordable housing. The transfer of such a property, when part of a formal revitalization and stabilization plan, also can help stabilize a low- or moderate-income neighborhood when the nonprofit resells the home to new residents, preventing further neighborhood deterioration.

Banks can also receive CRA consideration for providing technical assistance that will help community development organizations build their capacity to acquire and manage foreclosed properties. Technical assistance includes activities such as management training, financial consulting, and marketing assistance. (See 12 CFR 25.12(i), Q&A §__.12(i)—1 and §__.12(i)—3)

For further information on bank activities, the OCC has developed a fact sheet on NSP Property Disposition and the Fall 2009 Newsletter on local partnership efforts to build neighborhood stabilization. Both are listed on the OCC's Community Affairs Web pages.

OCC's Community Affairs Department

(202) 874-5556

E-mail CommunityAffairs@occ.treas.gov to receive a hard copy of Community Developments.

Bond Investment Programs: Providing Investment Opportunities for Banks

The American Recovery and Reinvestment Act of 2009 (Recovery Act) and the Hiring Incentives to Restore Employment Act (HIRE Act) encourages more activity in the public finance sector by introducing four new kinds of taxable, tax credit, and tax-exempt bonds, expanding authority for existing bond categories, and providing greater financial incentives for institutions to invest in municipal obligations. See the chart on Recovery Act Bond Options for a comparison of the changes in the programs. For readers interested in gaining a better general understanding of the opportunities made available for banks by the Recovery Act funding, please read A Look Inside.



USDA

Build America Bonds can be used for a variety of purposes, including the purchase of technology for schools.

Perhaps most significant for banks, the Recovery Act increases the expense deductions financial institutions may take that are allocable to purchasing or carrying a tax-exempt obligation (e.g., a municipal security). The act also raises the limits for “bank-qualified” bonds, and exempts certain interest earnings on bonds issued in 2009 and 2010 from the alternative minimum tax (AMT).

Generally, interest expense allocable to purchasing or carrying a tax-exempt obligation is not allowed as a federal deduction. (See 26 USC 265(b)(1) and (3).) However, an exception allows a bank to deduct 80 percent of the interest expense allocable to purchasing and carrying a “qualified tax-exempt obligation.” (See 26 USC 265(b)(3), 291(e)(1)(B).) This obligation must be sold by a “qualified small issuer,” who may not issue more than \$10 million in qualified tax-exempt obligations in a calendar year. (See 26 USC 265(b)(3)(C).)

The Recovery Act made two important changes:

- First, it raised the ceiling for a “qualified small issuer” for 2009 and 2010. (See 26 USC 265(b)(3)(G).) For bonds issued in 2009 and 2010, the Recovery Act increases the limit from \$10 million to \$30 million and applies the limit to the ultimate qualified borrower of pooled financings, which permits larger pool issuances. Thus, for example, qualified 501(c)(3) bonds issued over this two-year period do not count toward the government issuer’s \$30 million limit.
- Second, for purchases in 2009 and 2010, a bank may deduct 80 percent of the interest expense allocable to purchasing and carrying a tax-exempt obligation from an issuer *other than a qualified small issuer*, provided that the bank’s average adjusted basis in tax-exempt obligations does not exceed 2 percent of its average adjusted basis in all assets. (See 26 USC 265(b)(7).)

These changes are expected to increase bank issuances and holdings of municipal securities in 2009 and 2010, particularly for community banks.

Exemption of Certain Interest Earnings from AMT and Corporate Adjustment

Interest on tax-exempt private activity bonds (but not government or 501(c)(3) bonds) is generally subject to the AMT, and interest on any tax-exempt bonds (other than housing bonds) is generally included in the corporate AMT adjustment based on current earnings. Under the Recovery Act, interest attributable to private activity bonds issued in 2009 and 2010 (including bonds issued to refund private activity bonds issued between January 1, 2004, and December 31, 2008) is not subject to the AMT, and interest attributable to tax-exempt bonds is not included in the corporate AMT adjustment based on current earnings. A refunding bond is treated as issued on the date of issuance of the bond that it is refunding (or the original bond, if more than one refunding has occurred).

New Taxable Bond Programs

Build America Bonds

The Build America Bond (BAB) program is a new type of tax-preferred bond. These bonds can be issued either with a tax credit to investors or with the direct payment option to the issuer. The direct payment option reflects a significant change in the federal government's approach to subsidizing municipal obligations. If the issuer elects the direct payment option, the issuer will receive, on each interest payment due date, a payment equal to 35 percent of the interest payable on that date. Thus, for example, on bonds with an 8 percent yield for the bondholder, the issuer will pay an effective interest rate of 5.2 percent. Alternatively, if the issuer elects the tax credit option for bonds payable at 6 percent, the bondholder will accrue a tax credit equal to 2.1 percent (35 percent of 6 percent) for a total yield of 8.1 percent. Both the interest paid to bondholders and the amounts of any credit they receive are included in taxable income.

Build America Bonds may be used to improve government-owned hospitals, public housing, roads, schools, libraries, parks, and prisons. Build America Bonds may be issued from February 17, 2009, through December 31, 2010 (see Internal Revenue Service (IRS) Guidance on Recovery Act Bond Provisions). A complete list of issuances to date organized by state is available on the Treasury Department Web site. Treasury released a status report (April 2, 2010 TG-625) on the BABs that indicates broad support for the new bonds in the marketplace.

Recovery Zone Economic Development Bond Program

The Recovery Zone Economic Development Bond Program is a new taxable bond instrument that may be used for qualified economic development activities in federally designated empowerment zones. Recovery zone economic development (RZED) bond issuers will receive a direct federal subsidy payment for a portion of their borrowing costs equal to 45 percent of the total coupon interest paid to investors. Thus, on RZED bonds with an 8 percent yield for the bondholder, the issuer will pay an effective interest rate of 4.4 percent. RZED bonds are subject to a national volume cap of \$10 billion over the two-year period 2009 to 2010 and must be issued before December 31, 2010.

Bond proceeds may be used for:

- Capital expenditures for property located in a recovery zone.
- Expenditures for public infrastructure and the construction of public facilities in a recovery zone.
- Expenditures for job training and educational programs.
- Reasonably required reserve funds and costs of issuance (up to 2 percent of the proceeds).

New Tax-Exempt Bond Programs

Recovery Zone Facility Bond Program

The Recovery Zone Facility Bond program, created by the Recovery Act, is a new kind of tax-exempt private activity bond. Typically, private activity bonds are taxable, unless specifically exempted by the federal government. Recovery zone facility (RZF) bonds may be used to support trades or businesses operating in areas suffering from economic distress. They may be used for a broad range of privately owned and operated facilities, as long as the facilities are located in designated recovery zones. The bonds are subject to a national volume cap of \$15 billion over the two-year period 2009 to 2010 and must be issued before January 1, 2011.

Tribal Economic Development Bond Program

The Tribal Economic Development Bond Program is a new tax-exempt bond program that will allocate up to \$2 billion for tribal economic development. The proceeds of these bonds may be used like the proceeds of any tax-exempt bond (including private activity bonds) issued by a state or local government for an unspecified broad range of projects and activities. Projects and activities funded could include sewage facilities, affordable multifamily rental housing, or green building and sustainable design projects. The Recovery Act allows tribal

governments to issue economic development bonds without having to satisfy the “essential governmental function” test generally applicable to bonds issued by tribal governments (Internal Revenue Code section 7871 (c)). This allows the proceeds from tribal economic development bonds to be used more broadly, stimulating economic development on tribal lands. The bonds may not be used to finance certain gaming facilities or facilities located off the issuer’s reservation. Bonds may be issued beginning February 17, 2009. The program has no time limit.

Tax Credit Programs

Increased Authority for Existing Tax Credit Program through Qualified Zone Academy Bonds

State and local governments may issue qualified zone academy bonds (QZABs) to finance qualified zone academies (FAQ). These QZABs may be used to renovate buildings, train and equip teachers, or develop course materials. The Recovery Act raises the annual national qualified zone academy bond cap from \$400 million to \$1.4 billion in 2009 and provides a new authorization for \$1.4 billion in 2010. Follow up clarification includes elimination of issuance restrictions, (see H.R. 2847, the HIRE Act, Sec. 301). This program, originally offered only as a tax credit, is now being offered with the option to receive a direct payment in cash, equivalent to the tax credit value.

New Authority for Tax Credit Program through Qualified School Construction Bonds

The Recovery Act creates a new category of tax-credit bonds to finance the construction, rehabilitation, or repair of public school facilities, “Qualified School Construction Bonds.” The Recovery Act authorizes \$11 billion annually in qualified school construction bonds (QSCBs) for 2009 and 2010, with 60 percent of that authority allocated in proportion to the respective amount of local educational grants received by each state under the Elementary and Secondary Education Act. The remaining 40 percent of that authority is allocated to the largest local educational agencies in the nation (as determined by the Treasury in coordination with the U.S. Department of Commerce and the Secretary of Education). A list of the 100 largest school districts as defined by the Treasury Department can be viewed on the Internal Revenue Service (IRS) Web site. QSCB, QSCB, originally offered only as a tax credit, are now being offered with the option to receive a direct payment in cash, equivalent to the tax credit value.

It should be noted that a large local educational agency is defined in the Recovery Act as any local educational agency that is: (1) among the 100 local educational agencies with the largest number of children ages 5 through 17 from families living below the poverty level, as determined by the Treasury using the most recent data available from the Department of Commerce; or (2) one of not more than 25 additional local educational agencies that the Secretary of Education determines (based on the most recent data available) are in particular need of assistance, based on a low level of resources for school construction, a high level of enrollment growth, or such other factors as the Treasury deems appropriate.

The Recovery Act also provides an additional \$200 million for 2009 and \$200 million for 2010, in annual qualified school construction bond authority to be allocated by the Secretary of the Interior to Indian tribal schools. These funds are in addition to the \$11 billion authorized for qualified school construction bonds and can be used for the construction, rehabilitation, and repair of schools funded by the Bureau of Indian Affairs. For more information, see “Part III - Administrative, Procedural, and Miscellaneous Qualified School Construction Bond Allocations for 2009” on the IRS Web site.

Providing Deeper Subsidies

The advantage of these qualified tax credit bonds is that they are designed to provide a deeper subsidy than that provided for tax-exempt bonds. Qualified zone academy bonds and qualified school construction bonds are intended to provide an effective zero percent interest rate. The Treasury Department sets the tax credit rate daily for these bonds at a rate estimated to permit their issuance without interest or discount, which allows the bonds to be issued at par. The issuer then pays back only the principal of the bond, and the bondholder receives federal tax credits (or a direct payment) in lieu of the traditional bond interest. The tax credit (or a direct payment) may be taken quarterly to offset the tax liability of the bondholder.

For these tax credit bonds, credits exceeding a bondholder’s tax liability may be carried forward to the succeeding tax year but cannot be refunded. Tax credit bonds differ from traditional tax-exempt bonds in that the tax credits issued through the program are treated as taxable income for the bondholder.

CRA Consideration

The new bond programs authorized by the Recovery Act may be used for a broad variety of public needs and are not restricted to activities that would qualify for CRA consideration. Financial institutions are advised to review each potential investment to determine if it meets the requirements of the CRA regulation.

Investments in qualified zone academy bonds are generally considered qualified investments because they provide community services to low- or moderate-income individuals and revitalizing and/or stabilize low- or moderate-income areas.

In general, bank investments in state and local municipal bonds may receive positive consideration under the CRA if their primary purpose is consistent with the CRA definition of community development and they meet the geographic requirements of the CRA regulation. A loan, investment, or service has as its primary purpose community development when it: (1) is designed for the express purpose of revitalizing or stabilizing low- or moderate-income areas, designated disaster areas, or underserved or distressed nonmetropolitan middle-income areas; (2) provides affordable housing for, or community services targeted to, low- or moderate-income persons; or (3) promotes economic development by financing small businesses and farms that meet the requirements set forth in 12 CFR 25.12(g). Banks receive positive CRA consideration for qualifying activities that benefit their assessment area(s) or the broader statewide or regional area that includes their assessment areas(s). For more information on CRA and the types of activities for which banks would receive positive consideration, refer to the CRA regulation (see 12 CFR 25) and the interagency questions and answers on community reinvestment (see 75 FR 11642, March 11, 2010).

Recovery Act Bond Investment Options

New Authority, Taxable Programs						
	Issuance Period	Allocation	Investor Advantage	Issuer Value	Tax Status	Eligible Projects/Initiatives
Build America Bonds Tax Credit	2/17/2009 through 12/31/2010		Portion of interest as tax credit to investors	Portion of interest costs subsidized by tax credit	Taxable income	Education, health & hospital, transportation, public safety environment, housing, utilities, other
Build America Bonds Direct Payment (from the federal government)	2/17/2009 through 12/31/2010		100% of coupon interest, No tax advantage	Direct federal subsidy payment to state and local governments is equal to 35% of total coupon interest paid to investors.	Taxable income	Education, health & hospital, transportation, public safety environment, housing, utilities, other
Recovery Zone Economic Development Bond Program Direct Payment (from the federal government)	2/17/2009 through 12/31/2010	National volume cap of \$10 billion over the 2-year period	National volume cap of \$10 billion over the 2-year period	Direct federal subsidy payment to state and local governments equal to 45% of total coupon interest paid to investors	Interest is taxable income	Qualified economic development purposes (Notice 2009-50, page 2): <ul style="list-style-type: none"> • Recovery zone property • Recovery zone public infrastructure and construction of facilities • Job training and education programs • Reserve funds and costs of issuance

New Authority, Tax-exempt Programs						
	Issuance Period	Allocation	Investor Advantage	Issuer Value	Tax Status	Eligible Projects/Initiatives
Recovery Zone Facility Bond Program	2/17/2009 through 12/31/2010	National volume cap of \$15 billion.	Interest is excludable		Tax exempt (IRS Notice 2009-50, sec 4.01 page 7)	To support trades or businesses operating in areas suffering from economic distress; for privately owned and operated facilities located in designated recovery zones (DRZ). DRZ's are defined as having significant poverty, unemployment, rate of home foreclosures, general distress; military installation closure or realignment; designated as empowerment zone or renewal community. (IRS Notice 2009-50, .01).
Tribal Economic Development Bond Program	Until allocation is depleted.	\$2 billion	Interest is excludable		Tax exempt (IRS Notice 2009-50, sec 4.01 page 7)	Broad economic development on tribal lands (not required to meet "essential governmental function" test)

Increased Authority For Existing Tax Credit Program						
	Issuance Period	Allocation	Investor Advantage	Issuer Value	Tax Status	Eligible Projects/Initiatives
Qualified Zone Academy Bonds	Initially, 2009 and 2010; revised 03/18/2010, QZABs exempt from issuance period.	National cap authorization raised from \$400 million to \$1.4 billion in each year.	Investors receive tax credits at a rate set by Treasury. As of 03/18/2010, investors may elect to receive direct payment (cash) from the federal government equal to the federal tax credit.	Investor tax credits subsidize issuer rate down to zero percent.	Taxable	<ul style="list-style-type: none"> • Renovate and equip buildings, • Train teachers, • Develop course materials.

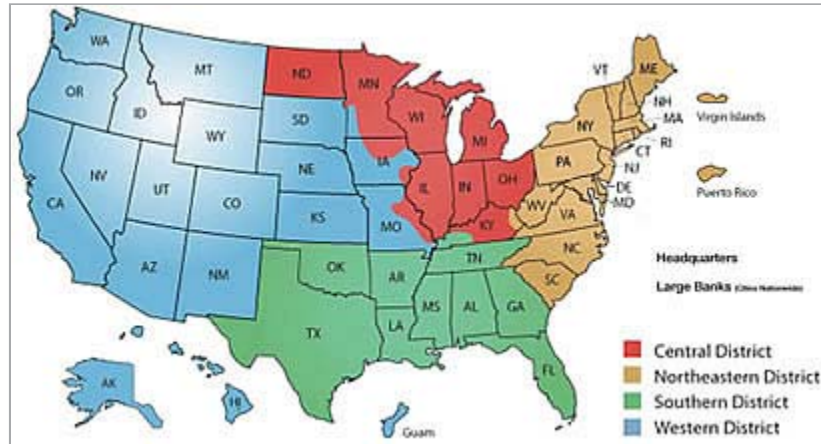
New Authority For Tax Credit Program						
	Issuance Period	Allocation	Investor Advantage	Issuer Value	Tax Status	Eligible Projects/Initiatives
Qualified School Construction Bonds	Initially, 2009 and 2010; revised 03/18/2010, QSCBs exempt from issuance period.	\$11 billion annually; 40% allocated to large school districts; an additional \$200 million is allocated by the Secretary of the Interior to Indian tribal schools.	Investors receive tax credits at a rate set by Treasury. As of 03/18/2010, investors may elect to receive direct payment (cash) from the federal government equal to the federal tax credit.	Investor tax credits subsidize issuer rate down to zero percent.	Taxable	Construction, rehabilitation, or repair of public school facilities and school facilities funded by the Bureau of Indian Affairs.

OCC's Community Affairs Department

(202) 874-5556

E-mail CommunityAffairs@occ.treas.gov to receive a hard copy of Community Developments.

This Just In ... OCC's Four Districts Report on New Opportunities for Banks



Western District



Susan Howard (818) 240-5175
Michael Martinez (720) 475-7670

Los Angeles Loan Fund Will Offer Banks Commercial Development Opportunities

The Los Angeles Local Development Corporation (LDC), a community development financial institution, is launching a new commercial loan fund to benefit businesses in Los Angeles, Orange, and Ventura counties of California. The 504 ACE Loan Fund II (ACE II) will make loans to businesses and nonprofits qualifying for SBA's 504 program. The \$20 million fund is soliciting investments from banks that are recipients of Troubled Asset Relief Program (TARP) funds as well as others. The minimum investment amount is \$200,000. The fund is scheduled to close at the end of the first quarter of 2010. Loans made through ACE II will primarily be commercial real estate loans with loan-to-value ratios up to a maximum 80 percent and maturities of 15 years.

The Los Angeles LDC was incorporated in 1995. It is known for its expertise in SBA 504 loans, direct small business loans, commercial real estate loans, and facilities loans to nonprofits. The organization launched the first 504 ACE Loan Fund in 2004, a \$10 million fund whose investors included several of the largest financial institutions in Southern California.

For more information, call (213) 362-9113.

Southern District



David Lewis (214) 720-7027
Karol Klim (678) 731-9723 x252
Scarlett Duplechain (832) 325-6952

Tennessee/Kentucky Housing Fund Achieves More Than \$43 Million in Financing in 13 Years

The Housing Fund, Inc. (THF), a 501(c)(3) nonprofit, was established in 1996 to finance affordable housing and neighborhood revitalization projects throughout middle Tennessee and Allen, Edmonson, and Warren counties in Kentucky. Since 1996, THF has helped more than 2,300 first-time homebuyers and provided more than \$43 million in financing to help individuals and organizations purchase, rehabilitate, or construct homes for low- and moderate-income families.

THF has several lending programs designed to meet the affordable housing needs of low- and moderate-income persons. In addition, THF offers second mortgage loans and a free, one-on-one counseling session. THF also has a predevelopment loan program for nonprofit organizations and a development loan program for nonprofit and for-profit developers. THF provides technical assistance services to nonprofit organizations, housing authorities, and community organizations.

THF is certified by the U.S. Department of the Treasury as a community development financial institution and is supported by public and private resources. Financial institutions that want to support THF's efforts can provide equity equivalents (EQ2) and program-related investments. For more information, visit The Housing Fund Web site or call Executive Director Loretta Owens at (615) 780-7000.

HUD Housing Vouchers Can Create Homeownership Opportunities

The federal Section 8/Housing Choice Voucher program dates back to 1975. The program helps low-income families, the elderly, and people with disabilities rent decent, safe, and affordable housing. In 2000, the U.S. Department of Housing and Urban Development (HUD) modified the program to permit the use of monthly assistance payments to make mortgage payments. The vouchers may be used toward mortgage payments for 10 to 15 years, depending on the loan terms. If the buyer is elderly or disabled, there is no time limit. More than 700 housing authorities nationwide have helped nearly 7,000 low-income families and individuals purchase homes by using Section 8 vouchers.

The program requires that financing be provided by a lender. Each loan must be insured or guaranteed and must comply with secondary mortgage or private sector underwriting standards. Applicants must be first-time homeowners, undergo HUD-certified home buyer training, and agree to live in the home. The housing choice vouchers are used as a source of income and can be blended with other funding sources such as individual development accounts, the HOME Investment Partnerships program, and the Affordable Housing Program.

Trustmark National Bank has been a leading partner in the homeownership program since 1999, when the Mississippi Regional Housing Authority 6 (MRHA 6) piloted the concept in Jackson. Over the past 10 years, MRHA 6 has used housing choice vouchers to help 18 low-income families become homeowners.

For more information on how your bank can participate in the homeownership program, call (601) 714-3943.

Texas Panhandle's Venture Capital Source

Equitrend Capital is a for-profit fund that provides equity capital to start-up and early stage ventures in the Texas Panhandle. Equitrend focuses on finding undiscovered potential in rural and underserved markets by targeting companies seeking to raise \$50,000 to \$5 million.

The following goals govern the direction and activities of the fund: 1) generate above-market returns for investors, 2) provide rural small businesses with the resources and opportunities to stay in their area, 3) build sustainable enterprises positioned to create quality jobs, and 4) expand local business capacity. Equitrend Capital uses a nonprofit manager to minimize operating expenses and employs multiple layers of due diligence on its investments. Equitrend received a community development financial institution grant in 2009 to pay for supervisory and technical assistance to invested companies.

An advisory board composed of investors and community stakeholders provides strategic advice and guidance, and an investment committee composed of investor representatives makes investment decisions for the fund. Equitrend closed its first round of funding in November 2008 and made its first investment in January 2009.

Investment in the fund is still available to accredited investors in units of \$50,000. For information, call (806) 683-9439, or visit www.equitrendcapital.com.

Northeastern District



Vonda Eanes (704) 350-8377
Bonita Irving (617) 737-2528 x223
Denise Kirk-Murray (212) 790-4053

Investment Fund Helping to Rehabilitate Foreclosed Properties in South Carolina

The South Carolina Association of Community Development Corporations (SCACDC) is a statewide trade association for nonprofit community development corporations that serve low- and moderate-income persons and communities in South Carolina. SCACDC established the Silver Crescent Investment Fund (SCIF) to raise \$15 million in equity and subordinated debt to help communities in the state that have high numbers of foreclosures.

SCIF will provide flexible capital that can be used by certified community development corporations and community development financial institutions to acquire and rehabilitate foreclosed properties in targeted communities. According to the fund offering, SCIF is seeking to raise capital to fund up to 10 community economic development ventures. Under the proposal, investors in SCIF would receive a 33 percent credit (using the South Carolina Community Development Tax Credit program) against their state tax liability and interest on their investment while supporting neighborhood stabilization efforts in the state.

To learn more about the Silver Crescent Investment Fund, call (803) 579-9855.

Central District



Paul Ginger (312) 360-8876
Norma Polanco-Boyd (216) 274-1247 x274

Rebuilding a St. Louis Community, One Red Brick at a Time

The Red Brick Community Land Trust is a nonprofit devoted to building diverse and healthy communities in the St. Louis area. The trust is currently developing 15 affordable units for sale. The three projects include four townhouses, five condominiums, and six scattered-site, single-family homes. The units are a combination of new construction (the townhouses) and rehabilitation development (the condos and the single-family homes). All the units are in the low-income Bohemian Hill neighborhood. Red Brick selected these properties because they are on stable streets that can profit from the sale of improved units and the development of new in-fill properties.

Each of the three projects is in a different stage of development, and all three will require construction financing. The townhouses need approximately \$1.2 million in private construction financing, the condos approximately \$300,000, and the single-family homes approximately \$540,000. Each home will sell for approximately \$60,000. Funding sources include Federal Home Loan Bank grants and other city and state subsidies. Potential homebuyers will receive counseling through the trust, and a partner agency is providing down payment assistance. Banks can provide construction loans and technical assistance or may contact the trust about the future sale of foreclosed or other real estate owned properties.

For more information, call (314) 436-1400 x18, or visit the Red Brick Community Land Trust Web site.

Targeting Investments in Community Development Credit Unions

The National Federation of Community Development Credit Unions is a 35-year-old national nonprofit association of community development credit unions (CDCU) serving lower-income communities. The federation is certified as a community development financial institution (CDFI) by the Treasury Department's CDFI Fund. The federation aims to help revitalize low-income communities by advocating for public policies that help CDCUs accomplish their mission and by providing CDCUs with financial and technical assistance.

The federation provides financial assistance to CDCUs through its Community Development Investment Program (CDIP) and manages nearly \$50 million in investments and commitments from 38 investors (including 10 banks). It has investments in more than 120 credit unions in inner cities and rural areas and on reservations across the country. In 25 years of operating the CDIP, the federation has not missed a payment to an investor.

Banks most often use the CDIP's Nominee Deposit Program to target investments to local CDCUs. Under this program, the federation acts as nominee for the investing bank, placing separate deposits of up to \$250,000 (or the maximum insured amount) in multiple CDCUs. The result is that a bank can invest more than \$250,000 in the CDIP and receive 100 percent insurance from the National Credit Union Administration on each of the underlying deposits. Banks also make uninsured loans to the federation. These loans are used to purchase mortgages from its members, increasing the flow of mortgage lending in low-income communities.

For more information, call (212) 809-1850 x212.

OCC's Community Affairs Department

(202) 874-5556

E-mail CommunityAffairs@occ.treas.gov to receive a hard copy of Community Developments.



Comptroller of the Currency
Administrator of National Banks

US Department of the Treasury
Washington, DC 20219

OFFICIAL BUSINESS
Penalty for Private Use, \$300

FIRST -CLASS MAIL
POSTAGE & FEES PAID
Comptroller of the Currency
PERMIT NO. G-8