

Federal Financial Institutions Examination Council, Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestments; Notice, Monday, July 25, 2016

§ __.12(g) Community Development

§ 11.12(g)—3: Does the regulation provide flexibility in considering performance in high-cost areas?

A3. Yes, the flexibility of the performance standards allows examiners to account in their evaluations for conditions in high-cost areas. Examiners consider lending and services to individuals and geographies of all income levels and businesses of all sizes and revenues. In addition, the flexibility in the requirement that community development loans, community development services, and qualified investments have as their “primary” purpose community development allows examiners to account for conditions in high-cost areas. For example, examiners could take into account the fact that activities address a credit shortage among middle-income people or areas caused by the disproportionately high cost of building, maintaining or acquiring a house when determining whether an institution’s loan to or investment in an organization that funds affordable housing for middle-income people or areas, as well as low- and moderate-income people or areas, has as its primary purpose community development.

§ __.12(g)(3)—1: “Community development” includes activities that promote economic development by financing businesses or farms that meet certain size eligibility standards. Are all activities that finance businesses and farms that meet the size eligibility standards considered to be community development?

A1. No. The concept of “community development” under 12 CFR 11.12(g)(3) involves both a “size” test and a “purpose” test that clarify what economic development activities are considered under CRA. An institution’s loan, investment, or service meets the “size” test if it finances, either directly, or through an intermediary, businesses or farms that either meet the size eligibility standards of the Small Business Administration’s Development Company (SBDC) or Small Business Investment Company (SBIC) programs, or have gross annual revenues of \$1 million or less. For consideration under the “size test,” the term financing is considered broadly and includes technical assistance that readies a business that meets the size eligibility standards to obtain financing. To meet the “purpose test,” the institution’s loan, investment, or service must promote economic development. These activities are considered to promote economic development if they support

- permanent job creation, retention, and/or improvement
 - for low- or moderate-income persons;
 - in low- or moderate-income geographies;
 - in areas targeted for redevelopment by Federal, state, local, or tribal governments;
 - by financing intermediaries that lend to, invest in, or provide technical assistance to start-ups or recently formed small businesses or small farms; or
 - through technical assistance or supportive services for small businesses or farms, such as shared space, technology, or administrative assistance; or
- Federal, state, local, or tribal economic development initiatives that include provisions for creating or improving access by low- or moderate-income persons to jobs or to job training or workforce development programs.

The agencies will presume that any loan or service to or investment in a SBDC, SBIC, Rural Business Investment Company, New Markets Venture Capital Company, New Markets Tax Credit eligible Community Development Entity, or Community Development Financial Institution that finances small businesses or small farms, promotes economic development. (See also Q&As § 11.42(b)(2)—2, § 11.12(h)—2, and § 11.12(h)—3 for more information about which loans may be considered community development loans.) Examiners will employ appropriate flexibility in reviewing any information provided by a financial institution that reasonably demonstrates that the purpose, mandate, or function of the activity meets the “purpose test.” Examiners will also consider the qualitative aspects of performance. For example, activities will be considered more responsive to community needs if a majority of jobs created, retained, and/ or improved benefit low- or moderate- income individuals.

§ __.12(g) (4)(ii)-1: What is a “designated disaster area” and how long does it last?

A1. A “designated disaster area” is a major disaster area designated by the Federal government. Such disaster designations include, in particular, Major Disaster Declarations administered by the Federal Emergency Management

Agency (FEMA) (<http://www.fema.gov>), but excludes counties designated to receive only FEMA Public Assistance Emergency Work Category A (Debris Removal) and/or Category B (Emergency Protective Measures).

Examiners will consider an institution's activities related to disaster recovery that revitalize or stabilize a designated disaster area for 36 months following

the date of designation. Where there is a demonstrable community need to extend the period for recognizing revitalization or stabilization activities in a particular disaster area to assist in long-term recovery efforts, this time period may be extended.

§__12(h) Community Development Loan

§__12(h)–1: What are examples of community development loans?

A1. Examples of community development loans include, but are not limited to, loans to:

- Borrowers for affordable housing rehabilitation and construction, including construction and permanent financing of multifamily rental property serving low- and moderate-income persons;
- Not-for-profit organizations serving primarily low- and moderate-income housing or other community development needs; and
- Financial intermediaries including Community Development Financial Institutions (CDFI), New Markets Tax Credit-eligible Community Development Entities, Community Development Corporations (CDC), minority- and women-owned financial institutions, community loan funds or pools, and low-income or community development credit unions that primarily lend or facilitate lending to promote community development;

§__12(h)–8: What is meant by the term “primary purpose” as that term is used to define what constitutes a community development loan, a qualified investment or a community development service?

A8. A loan, investment or service has as its primary purpose community development when it 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,

providing affordable housing for, or community services targeted to, low- or moderate-income persons, or promoting economic development by financing small businesses and farms that meet the requirements set forth in 12 CFR __12(g). To determine whether an activity is designed for an express community development purpose, the agencies apply one of two approaches. First, if a majority of the dollars or beneficiaries of the activity are identifiable to one or more of the enumerated community development purposes, then the activity will be considered to possess the requisite primary purpose. Alternatively, where the measurable portion of any benefit bestowed or dollars applied to the community development purpose is less than a majority of the entire activity's benefits or dollar value, then the activity may still be considered to possess the requisite primary purpose if (1) The express, bona fide intent of the activity, as stated, for example, in a prospectus, loan proposal, or community action plan, is primarily one or more of the enumerated community development purposes; (2) the activity is specifically structured (given any relevant market or legal constraints or performance context factors) to achieve the expressed community development purpose; and (3) the activity accomplishes, or is reasonably certain to accomplish, the community development purpose involved. The fact that an activity provides indirect or short-term benefits to low- or moderate-income persons does not make the activity community development, nor does the mere presence of such indirect or short-term benefits constitute a primary purpose of community development. Financial institutions that want examiners to consider certain activities under either approach should be prepared to demonstrate the activities' qualifications.

§__12(t) Qualified Investment

§__12(t)–2: Are mortgage-backed securities or municipal bonds “qualified investments”?

A2. As a general rule, mortgage backed securities and municipal bonds are not qualified investments because they do not have as their primary purpose community development, as defined in the CRA regulations. Nonetheless, mortgage-backed securities or municipal bonds designed primarily to finance community development generally are qualified investments. Municipal bonds or other securities with a primary purpose of community development need not be housing related. For example, a bond to fund a community facility or park or to provide sewage services as part of a plan to redevelop a low-income neighborhood is a qualified investment. Certain municipal bonds in underserved nonmetropolitan middle-income geographies may also be qualified investments. See Q&A §__12(g)(4)(iii)–4. Housing-related bonds or securities must primarily address affordable housing (including multifamily rental housing) needs of low- or moderate-income individuals in order to qualify. See also Q&A §11.23(b)–2.

§__12(t)–4: What are examples of qualified investments?

A4. Examples of qualified investments include, but are not limited to, investments, grants, deposits, or shares in or to:

- Organizations engaged in affordable housing rehabilitation and construction, including multifamily rental housing;
- Projects eligible for low-income housing tax credits;
- State and municipal obligations, such as revenue bonds, that specifically support affordable housing or other community development;
- Financial intermediaries (including CDFIs, New Markets Tax Credit-eligible Community Development Entities, CDCs, minority- and women-owned financial institutions, community loan funds, and low-income or community development credit unions) that primarily lend or facilitate lending in low- and moderate-income areas or to low- and moderate-income individuals in order to promote community development, such as a CDFI that promotes economic development on an Indian reservation;

- Not-for-profit organizations serving low- and moderate-income housing or other community development needs, such as counseling for credit, homeownership, home maintenance, and other financial literacy programs; and
- Organizations supporting activities essential to the capacity of low- and moderate-income individuals or geographies to utilize credit or to sustain economic development, such as, for example, day care operations and job training programs that enable low- or moderate-income individuals to work. See also Q&As §11.12(g)(4)(ii)–2; §11.12(g)(4)(iii)–3; §11.12(g)(4)(iii)–4.

§__23—Investment Test

§__23(a) Scope of Test

§__23(a)–1: May an institution, regardless of examination type, receive consideration under the CRA regulations if it invests indirectly through a fund, the purpose of which is community development, as that is defined in the CRA regulations?

A1. Yes, the direct or indirect nature of the qualified investment does not affect whether an institution will receive consideration under the CRA regulations because the regulations do not distinguish between “direct” and “indirect” investments. Thus, an institution’s investment in an equity fund that, in turn, invests in projects that, for example, provide affordable housing to low- and moderate-income individuals, would receive consideration as a qualified investment under the CRA regulations, provided the investment benefits one or more of the institution’s assessment area(s) or a broader statewide or regional area(s) that includes one or more of the institution’s assessment area(s). Similarly, an institution may receive consideration for a direct qualified investment in a nonprofit organization that, for example, supports affordable housing for low- and moderate-income individuals in the institution’s assessment area(s) or a broader statewide or regional area(s) that includes the institution’s assessment area(s).

§__23(a)–2: In order to receive CRA consideration, what information may an institution provide that would demonstrate that an investment in a nationwide fund with a primary purpose of community development will directly or indirectly benefit one or more of the institution’s assessment area(s) or a broader statewide or regional area that includes the institution’s assessment area(s)?

A2. There are several ways to demonstrate that the institution’s investment in a nationwide fund meets the geographic requirements, and the agencies will employ appropriate flexibility in this regard in reviewing information the institution provides that reasonably supports this determination.

In making this determination, the Agencies will consider any information provided by a financial institution that reasonably demonstrates that the purpose, mandate, or function of the fund includes serving geographies or individuals located within the institution’s assessment area(s) or a broader statewide or regional area that includes the institution’s assessment area(s). Typically, information about where a fund’s investments are expected to be made or targeted will be found in the fund’s prospectus, or other documents provided by the fund prior to or at the time of the institution’s investment, and the institution, at its option, may provide such documentation in connection with its CRA evaluation.

Nationwide funds are important sources of investments in low- and moderate-income and underserved communities throughout the country and can be an efficient vehicle for institutions in making qualified investments that help meet community development needs. Nationwide funds may be suitable investment opportunities, particularly for large financial institutions with a nationwide branch footprint. Other financial institutions, including those with a nationwide business focus, may find such funds to be efficient investment vehicles to help meet community development needs in their assessment area(s) or the broader statewide or regional area that includes their assessment area(s). Prior to investing in such a fund, an institution should consider reviewing the fund’s investment record to see if it is generally consistent with the institution’s investment goals and the geographic considerations in the regulations. Examiners will consider investments in nationwide funds that benefit the institution’s assessment area(s). Examiners will also consider investments in nationwide funds that benefit the broader statewide or regional area that includes the institution’s assessment area(s) consistent with the treatment detailed in Q&A §11.12(h)–6.

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