

THE COMMUNITY

I N V E S T O R

A Publication of Community Capital Management, Inc.

Spring 2017 Newsletter

COMPLIANCE CORNER: REFINANCING AFFORDABLE RENTAL HOUSING FOR COMMUNITY DEVELOPMENT

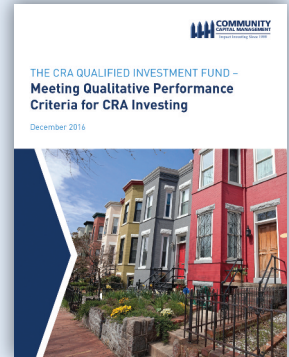
From time to time, we receive inquiries from banks asking how refinancing affordable rental housing properties is looked at for community development credit. The Community Reinvestment Act (CRA) was and is intended to encourage depository institutions to meet the credit needs of the communities in which they operate. The ability for a sponsor of low- and moderate-income (LMI) rental housing to access credit for refinancing is a credit need of the community because it allows them to continue providing affordable housing and not turn the units into market rate. There are several benefits to refinancing:

- Affordable rental housing is typically offered as yearly leases, making housing available annually
- If a current resident improves their income profile, no longer qualifying for affordable housing, that unit now becomes available to others in need
- Refinancing offers the borrower the ability to keep the property as LMI; otherwise, it could become market-rate, effectively removing LMI housing in the community
- Refinancing offers the borrower the opportunity for repairs and upgrades
- Refinancing also offers the borrower the ability to continue to provide key onsite social and supportive services (i.e., literacy training, healthcare, computer labs, and welfare-to-work)

Without the ability for borrowers of these properties to refinance, LMI tenants might not be able to continue living there or end up in substandard housing. *continued on page 2*

MEETING QUALITATIVE PERFORMANCE CRITERIA FOR CRA INVESTING

Community Capital Management (CCM), the adviser to the CRA Qualified Investment Fund, recently published an update to its report on meeting qualitative performance. The report highlights qualified investments made in 2015 and 2016 that are innovative or complex, responsive to community development needs, or are not routinely provided by private investors. The report is available by visiting www.crafund.com/banks.



Just as we did in our fall newsletter, we are spotlighting another like-minded organization related to the CRA. TRUPOINT Partners helps financial institutions analyze and geocode their data for CRA compliance analysis. Earlier this year, the TRUPOINT Compliance Team wrote a resourceful blog post that we have included in our spring newsletter.



A Quick-and-Dirty Guide to CRA Compliance Exams

CRA compliance is familiar for most lending institutions, but in this post, we'll cover a few things you may not know, and provide some tips for how to prep for a CRA exam. CRA, Redlining, and Fair Lending compliance are all closely entwined; best practice institutions will review their CRA compliance performance with an eye and an ear toward managing Fair Lending and Redlining compliance risk, too. Let's start with a basic overview of what the CRA is all about:

The Two Things CRA was Designed to Do

The CRA is a law intended to encourage depository institutions to help meet the credit needs of the communities in which they operate. CRA was designed to do two things:

1. Eliminate the illegal practice of Redlining.

Redlining is defined in *continued on page 2*

VISIT WWW.CRAFUND.COM/BANKS TO:

- See our new CRAIX overview
- Download our report on meeting qualitative performance criteria for CRA investing
- Obtain the most recent quarterly CRAIX fact sheet



Q&A with find CRA *continued from page 1*

the FFIEC's Fair Lending Exam Procedures as "a form of illegal disparate treatment in which a lender provides unequal access to credit, or unequal terms of credit, because of the race, color, national origin, or other prohibited characteristic(s) of the residents of the area in which the credit seeker resides or will reside or in which the residential property to be mortgaged is located."

Redlining has been a major regulatory hot topic since 2015. Consider analyzing your data for Redlining risk, if you aren't already.

2. Encourage depository financial institutions to meet the credit needs of every community they serve. Both the income level of the individuals and the census tracts geographies, including Low-to-Moderate Income (LMI) and Majority-Minority (MM) census tracts, are considered.

CRA compliance is closely monitored by regulators and examiners. However, neither credit unions nor nonbank entities supervised by the Consumer Financial Protection Bureau have to comply with CRA. Finally, CRA does not encourage the extension of unsafe or unsound credit. A financial institution's loan and deposit activity is expected to be safe, sound, and non-discriminatory.

COMPLIANCE CORNER *continued from page 1*

According to CRA regulatory guidance, both affordable housing rehabilitation and construction, including construction and permanent financing for multifamily rental properties serving low- and moderate-income persons, are qualified investments (Q&A's § __.12(h)-1 and § __.12(t)-4). As far as we are aware, there is no mention of new construction being more responsive than affordable housing rehabilitation or permanent financing for a multifamily project serving the LMI community.

In 2016, the new Q&As mention that "financial institutions may receive con-

CRA Exam Performance is Public

In 1989, a CRA rating system was introduced, and the reasoning behind the rating system was explained. At this time, written evaluations became required: one for the institution, and one for the public. In 1995, the CRA regulations were revised again to put greater emphasis on the performance outcomes; different evaluation types were developed for different types of institutions. Public CRA ratings also became available online. Today, the public CRA exam results are evaluated by community action groups, journalists, individual consumers, and of course, regulators. It will likely also be considered in any application for M&A activity.

Crucially, Fair Lending performance can and will impact your CRA performance rating. Evidence of potential discrimination according to Fair Lending regulations can lead to CRA rating downgrades.

The 4 CRA Ratings

There are four types of ratings that your institution will be assigned by your regulator (FDIC, FRB, or OCC):

- Outstanding
- Satisfactory
- Needs to Improve
- Substantial Noncompliance

These ratings will be made public. While Satisfactory and Outstanding ratings are the most common, lower ratings are not

unheard of. We also anticipate that the heightened Redlining scrutiny in recent years may lead to increased CRA scrutiny now and in the future.

CRA Evaluation Types & Their Performance Criteria

There are 5 CRA evaluation types, which are designed to accommodate basic differences in institutions' structures and operations. These unique evaluation methods are intended to establish performance-based CRA exams that are complete, accurate, and minimally burdensome to financial institutions. Here are the 5 evaluation types:

- 1. Small Bank:** Assets less than \$304M as of Dec. 31 in either of the two previous calendar years.
- 2. Intermediate Small Bank:** Assets of at least \$304M as of Dec. 31 in both of the prior calendar years, and less than \$1.216B as of Dec. 31 in either of the prior two calendar years.
- 3. Large Bank:** Assets of at least \$1.216B as of Dec. 31 in both of the previous two calendar years.
- 4. Community Development Test:** Evaluates Community Development activities for for limited-purpose and wholesale banks.
- 5. Strategic Plan:** Reviews an institution's strategic CRA plan.

To read the rest of TRUPOINT's blog post, please visit: <https://www.trupointpartners.com/blog/cra-exam-prep-guide>.

sideration for a community development activity, such as a qualified investment, if it serves a similar community development purpose as an activity described in an example related to a different type of community development activity, such as a community development loan." (§ __.12(g)-4). Accordingly, since refinancing's of community development loans are reportable for credit (§ __.42(b)(2)-5), investments that provide for community development refinancing should also qualify. This assumes that the underlying purpose of the bond is community development.

If you have any questions on this topic, please feel free to email Jessica Botelho at jbotelho@ccminvests.com.

Follow CCM on Twitter and LinkedIn for firm updates:

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ON-SITE VISITS TO CRA QUALIFIED INVESTMENTS

In the last year, we have visited several of the properties and small businesses across the country that our CRA qualified investments are helping to finance. This has been a wonderful and rewarding experience. We have met residents, small business owners, property managers, among others, and have been able to see first-hand the many progressive initiatives taking place in their communities. Highlights of three recent visits are included below.



David Sand, chief investment strategist, visiting Harlem River Point North in Harlem, NY. The property is one of many City-subsidized affordable housing developments for income-eligible New Yorkers displaced from their homes by Hurricane Sandy.

Harlem River Point North: Manhattan, NY

Harlem River Point North is an affordable rental property with 173 units located in a moderate-income census tract in Manhattan, New York. The building gives preference for 43 units to qualified households displaced by Hurricane Sandy. The property is one of many City-subsidized affordable housing developments for income-eligible New Yorkers displaced from their homes by the Hurricane. Harlem River Point North meets the Enterprise Green Communities criteria as well as the New York State Energy Research & Development Authority's efficiency standards.

On-Site Visit

David Sand, chief investment strategist, visited the property, which is located in the East Harlem neighborhood of Manhattan.

The securities identified and described herein are for illustrative purposes only and their selection was based upon non-performance criteria, such as the security's social and/or environmental attributes. As of 12/31/16, the investment that included a loan to Harlem River Point North, Congress Building and the investment that included a loan to VetPowered represented 0.37%, 0.30%, and 0.22%, respectively, of the Fund's assets.

The property has several on-site amenities including a workout facility and community room. Surrounding the property is a beautiful pathway with benches and an enclosed playground area for residents only. Nearby transit for residents includes Metro North and the 4, 5, 6 Subway line.

Congress Building: Miami, FL

The Congress Building is an historic Beaux Arts high-rise community in the heart of downtown with 128 units for low-income tenants. It was added to the National Register of Historic Places in 1985. Originally built in 1923 as office space, the building was restored and converted to affordable apartments in 1998. On-site resident amenities include financial counseling, educational courses, and job training. The property is located next to the Miami-Dade Metromover.

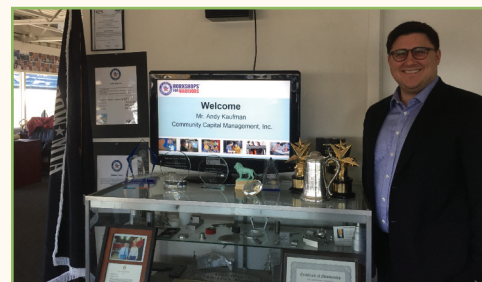


The Miami-Dade Metromover is located directly behind the Congress Building providing residents easy access to points in downtown Miami.

On-Site Visit

Jamie Horwitz, chief marketing officer, and Gabby Bastos, marketing assistant, visited the Congress Building and were given a tour of the building by the property manager who mentioned that 100% of the units were being occupied by low-income tenants. At the visit, Jamie and Gabby met with residents and saw the different types of apartments in addition to the resident community room and other onsite amenities. The property is conveniently located

next to the Miami-Dade Metromover, a free, electrically-powered system connecting points in downtown Miami.



Andy Kaufman, senior portfolio manager, visiting VetPowered in San Diego, CA. The veterans at VetPowered are dedicated to bringing advanced manufacturing back to America.

VetPowered: San Diego, CA

VetPowered is a small business providing state-of-the-art manufacturing, welding/fabrication, machinery repair, and customized training for veterans. Founded in 2009, VetPowered services the intersection of a highly qualified Veteran manufacturing workforce with industry needs. Every product made and serviced by VetPowered supports Workshops for Warriors (WFW), a 501(c)(3) non-profit, dedicated to training, certifying, and placing veterans and wounded warriors into advanced manufacturing careers.

On-Site Visit

Andy Kaufman, senior portfolio manager, recently went on a tour of the property that houses VetPowered and WFW. He was able to meet the instructors and several of the students enrolled in the welding and machinery certifications. The business is looking to expand to a 3-story building as well as create another building for more training and for student housing. All of the students are within six months of being discharged or have been honorably discharged. One of the students told Andy that it is an amazing program helping veterans transition back into civilian life.

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CRA Fund Highlights

CRA:

- ✓ Extensive documentation on each investment purchased
- ✓ New investments identified, purchased and earmarked to a bank per CRA exam cycle
- ✓ Ongoing dialogue with examiners/regulators
- ✓ Easy way to accomplish your CRA investment needs

Financial:

- ✓ Daily liquidity
- ✓ Monthly dividends
- ✓ Competitive financial performance
- ✓ Investing in high credit quality fixed income securities




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