

COMMUNITY INVESTMENTS

A Community • Economic Development Publication

VOLUME THIRTEEN NUMBER 2



CENSUS 2000 AND

THE POWER OF DEMOGRAPHICS

Deciphering your community is the first step to serving their needs. Census 2000 can help . . . read how

MAKING REINVESTMENT WORK

FOR SAN DIEGO

An informative article about an entity that has made the “three leg” partnership among community, government and banks work in San Diego

DISTRICT UPDATE

First-year achievements of the 12th District Leadership Councils and snapshots from the 2001 Summit

REBUILDING COMMUNITIES

ONE SITE AT A TIME

Find out how Genesis LA is linking public and private resources to create oases in the City of Angels

EQUITY EQUIVALENT INVESTMENTS

EQ2s are the newest innovation for investing in CDFIs. Learn how they can enhance your lending or investment test performance and strengthen CDFIs

....plus a first look at comments for the CRA Review

SEPTEMBER 01

Community Investments

EDITOR-IN-CHIEF
Joy Hoffmann

MANAGING EDITOR
Lena Robinson

CONTRIBUTING EDITOR
Jack Richards

ART DIRECTOR
Cynthia B. Blake

If you have an interesting community development program or idea, we would like to consider publishing an article by or about you. Please contact:

MANAGING EDITOR
Community Investments
Federal Reserve Bank of San Francisco
101 Market Street, Mail Stop 620
San Francisco, California 94105

Community Affairs Department
www.frbsf.org
(415) 974-2978
fax: (415) 393-1920

Joy Hoffmann
Vice President
Public Information and Community Affairs
joy.h.molloy@sf.frb.org

Jack Richards
Community Affairs Senior Manager
jack.richards@sf.frb.org

Bruce Ito
Associate Community Investment Specialist
bruce.ito@sf.frb.org

H. Fred Mendez
Senior Community Investment Specialist
fred.mendez@sf.frb.org

Craig Nolte
Senior Community Investment Specialist
(Seattle Branch)
craig.nolte@sf.frb.org

John Olson
Community Investment Specialist
john.olson@sf.frb.org

Adria Graham Scott
Community Investment Specialist
(Los Angeles Branch)
adria.graham-scott@sf.frb.org

Lena Robinson
Community Investment Specialist
lena.robinson@sf.frb.org

Mary Malone
Protocol Coordinator
mary.malone@sf.frb.org

Judith Vaughn
Staff Assistant
judith.a.vaughn@sf.frb.org

Editor's **NOTEBOOK** by Fred Mendez

— STAFF PERSPECTIVE —

While some aspects of the "new economy" have gone the way of the leisure suit, web portals continue to evolve and change the way business is done. The possible implications of this evolution on the democratization of credit are boundless. Historically, businesses have served a particular geographic marketplace, forcing them to tailor their products and services to the needs of the population in that geographic marketplace. Some businesses have found ways to serve a much larger marketplace, not limited by geographic boundaries, by providing homogenous products and services with broad customer appeal in order to achieve economies of scale. Our new economy has provided ways for some businesses to achieve economies of scale by providing tailored products to a marketplace defined by customer rather than geography.

Case in point: log onto the Internet and shop for a dress shirt with a 19-inch neck and 28-inch arm length and presto . . . a business in Vermont can confirm your order and have the shirt delivered within days. It would be safe to assume that Vermont does not have a large population of men who need such shirts. The Internet provides this business with a link to brand name portals like Yahoo or America Online, a global marketplace for odd-sized dress shirts, and "customized" economies of scale.

Any time spent on-line at lending portals indicates that financial institutions are searching for their place in the new economy. Most institutions are under pressure from shareholders and analysts to provide their products and services in a streamlined and cost-efficient manner in order to maintain strong earnings growth, which has led to standardization of products. Laws like the Community Reinvestment Act (CRA) encourage financial institutions to focus more on geography than a target customer base; a focus that has been criticized by financial institutions as limiting their evolution to serve the same role as the odd-sized shirt manufacturer in Vermont, while being supported by community-based organizations as a way for financial institutions to be responsive to local community needs. Both sides are right, and the current review of the CRA regulation will offer an opportunity for both to find a compromise.

Also important in determining where financial institutions can fit within the new economy are the capital markets. The products underlying existing mortgage-backed securities are typically very conservative, and although many of the loans originated by community development financial institutions over the last decade are virtually standardized, there has been surprisingly little appetite for securities backed by these loans. Although the CRA's investment requirements for large financial institutions have encouraged the purchase of geographically targeted mortgage-backed securities, low-income housing tax credits and community development municipal bonds, these CRA-related investments are simply a re-labeling of existing products that were already widely available. It would seem that the capital markets aren't in a position to lead financial institutions towards the new economy.

Perhaps there are investors out there who would happily purchase securities with different maturities and weighted interest rates, regardless of geography. The demand created by these investors would spur the development of a lending portal where potential borrowers of different income levels could request customized loans that exactly match need with payment ability. The current review of the CRA regulation provides us with an excellent opportunity to discuss these types of issues and look to the day when purchasing a home with a customized loan is as easy as buying an odd-sized dress shirt.





CENSUS 2000 and the POWER of Demographics

by Robert Clingman, U.S. Census Bureau

Using the Internet to Better Understand Your Community

The decennial census—which began in 1790 when Congress mandated that the nation be counted every ten years and appointed Thomas Jefferson as the first Director of the Census—is an activity that has both historical significance and practical importance. It has proven to be a vital tool for government, business, educators, interest groups, politicians, and virtually every other organization that exists to shape future plans and identify constituent needs. Census 2000 underscores this function like no other.

The census, it has been said on many occasions, is about money and political power. More than \$200 billion in federal funds are allocated back to state and local governments each year on the basis of census data. In California, a number of state funds go to cities and counties using census data as well. With respect to political representation, the U.S. Congress, state legislatures, and city and county elections will be shaped by Census 2000 numbers for the next ten years. Congressional seats in the US House of Representatives are also allocated by census numbers. Redistricting commissions presently are at work in every state to redraw not only congressional district boundaries, but state legislative district boundaries and local election districts as well.

SOME "FIRSTS" FOR CENSUS 2000

Census 2000, the Nation's 21st decennial census, recorded an impressive number of "firsts:"

► In recognition of the nation's changing demographic landscape, people of multi-racial heritage were able to acknowledge that on the census for the first time. Nationwide, nearly seven million residents indicated they were of two or more races. In California, some 1.6 million people, or 4.75 percent of the state's population, indicated multi-racial heritage, significantly higher than the national average of 2.4 percent. The use of this new category will make exact comparisons with 1990 and earlier years impossible. Instead, only a "high

side" and a "low side" comparison can be made. For example, the low side would be the number of people who indicated White as their race in 1990 compared with those who indicated White and no other race in 2000. The high side comparison would be 1990 White numbers compared with those in 2000 who indicated White and no other race **plus** those who indicated White and another race or races.

► The Census Bureau launched its first ever paid advertising campaign, which brought the census message to the nation on prime time television, on radio, in newspapers and on a number of "out of home" vehicles such as billboards, bus posters, and transit shelter ads. Ads

were produced not only in English, but also in Chinese, Spanish, Korean, Vietnamese, and Tagalog, as well as a limited number in more than 50 other languages. The average person saw or read more than 50 census ads, and more than 90 percent of those surveyed about the ads could recall not only the ad but also the content.

- Across the nation, the Census Bureau created partnerships with more than 140,000 local and tribal governments, businesses and corporations, and community-based organizations to jointly promote the census and encourage participation. The result of this unprecedented level of community engagement in the census was the reversal of a 30 year decline in the mail response, which contributed significantly to the quality and cost control of the census. It also en-

abled the Census Bureau to reach its recruiting goals (more than 900,000 people were hired to work in Census 2000) during a period of historically low unemployment.

CENSUS DATA ON THE INTERNET

But perhaps the most impressive “first” of Census 2000 is the availability of census data, free of charge, to anyone with internet access. Since the premier release of Census 2000 data on December 28, 2000, when the count of the nation was delivered to the President, census numbers have been available to the public on the Census Bureau’s website: www.census.gov. With each subsequent release of census data, including each state’s population count released by April 1 of this year, the data has been available on the website shortly after receipt by each of the states’ governors.

This article will explain some of the many important improvements to the

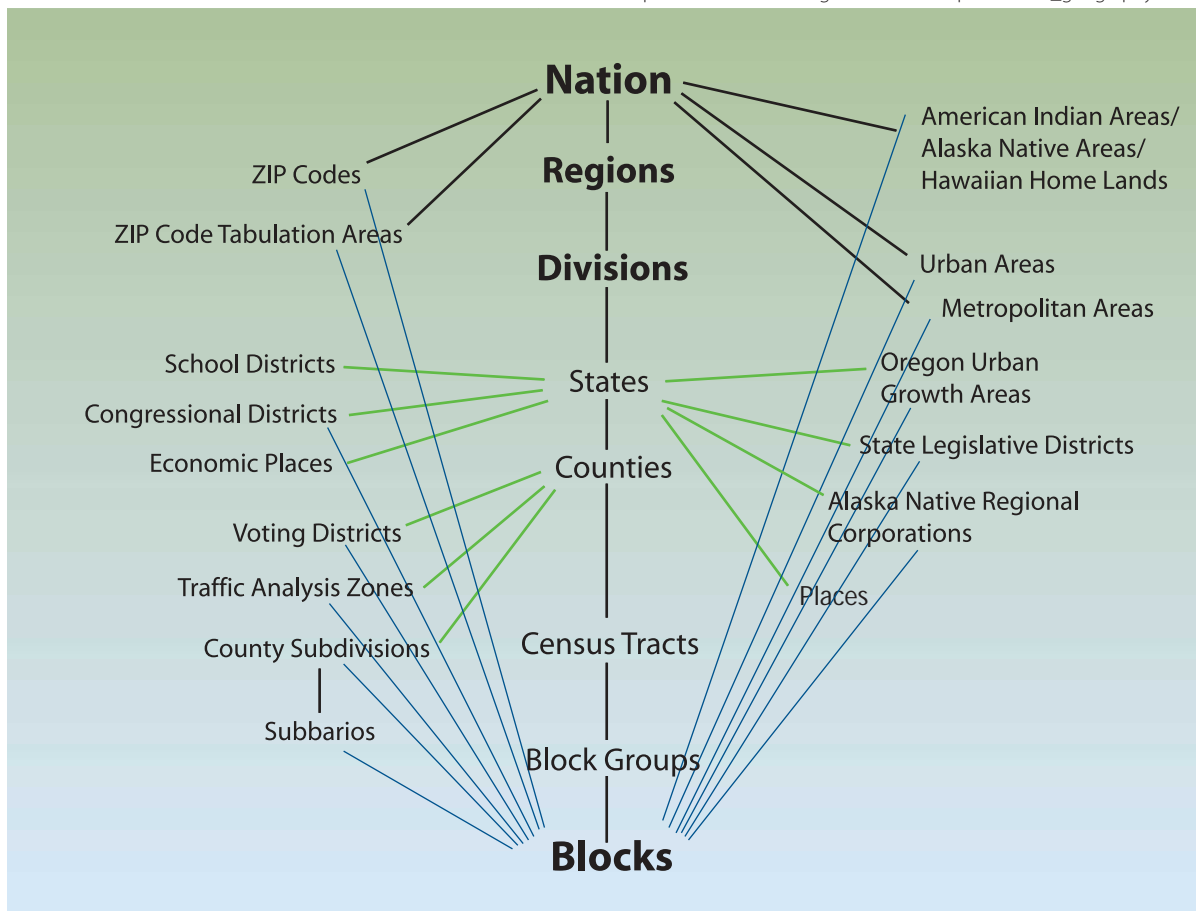
Census Bureau’s main website and to American Fact Finder, which is the primary resource for data on individual communities. American Fact Finder is available from the homepage of the census website.

GEOGRAPHICAL SEGMENTS

Census information about one’s state, county, city, down to very small geographic segments is available in the form of prepared tables and maps through American Fact Finder. In descending order, designated geographic segments are:

- The nation as a whole
- Regions of the country
- States
- Counties
- Places (cities, towns and unincorporated communities)
- Census Tracts
- Block Groups
- Blocks

http://factfinder.census.gov/home/en/epss/census_geography.html



It will also be possible to get specific statistical tables and maps for census Primary Metropolitan Statistical Areas, congressional districts, legislative districts (in some states, not others), Zipcode Tabulation Areas (ZCTAs), and American Indian and Alaska Native reservations and trust lands. More importantly, American Fact Finder will enable users to compile custom profiles of specific areas and display comparisons of one area with another, in some instances down to as small an area as a census block. In urban areas, this would be a normal city block. In rural areas, a block may be considerably larger in total area.

COMPILING COMMUNITY PROFILES

A profile of one section of a community can easily be drawn by racial composition, age, gender distribution, percentage of owner versus renter-occupied housing units, family situation, (such as the number of single-parent households) and compared with a similar profile of another section in the community, or with another area outside the community. The availability of such information is of considerable importance to business, government and community-based organizations that apply for or make grants to community programs.

The improved and user friendly census website has taken much of the mystery out of census data for individuals and organizations who previously had to rely on statistical or research experts to compile tables or maps to meet their needs. The website has a wide variety of help sections and tutorials for novice internet users and seasoned veterans alike. One important feature on American Fact Finder is that when new data is released, that data is also highlighted on the main American Fact Finder page, with links that access the new data.

OTHER IMPORTANT WEBSITE FEATURES

Other important features available from the main census website worth noting include:

- ▶ links to statistical information compiled by other federal agencies
- ▶ links to state data centers and other information centers
- ▶ links to information the Census Bureau compiles for other federal agencies, including data on housing starts, other construction, trade information, employment figures, etc.
- ▶ links to information about specific population groups
- ▶ links to the American Community Survey (ACS), which has compiled important social, economic, demographic and housing information in selected communities for several years and is planning expansion into every county in the nation by 2003. The plan is for ACS to replace the census long form in 2010, which will greatly simplify the process, and also provide important information to communities every year rather than every ten years.

AVAILABILITY OF CENSUS DATA

New Census 2000 information will continue to be released well into next year, as it becomes available. The website provides a tentative schedule of release dates (look for Census 2000 Data Products At a Glance). Population counts by race, gender, age and household characteristics are currently being released by state, with the majority already completed. Additional detailed race and Hispanic categories, as well as American Indian and Alaska Native tribes will be available begin-

“
...perhaps the most impressive “first” of Census 2000 is the availability of census data, free of charge, to anyone with internet access.”

ning in September of this year. The first data that reports detailed demographic, social and economic information from the Census 2000 long form is scheduled for release beginning in March, 2002. As with the other data, American Fact Finder will be the primary source, although it will also be available on CD-ROM, DVD and paper copies. American Fact Finder will always highlight new data products on its main page.

CONCLUSION

The decennial census has been characterized as the nation's family portrait. It provides invaluable information about this country: who we are, where we live, where we've been, and in many ways where we are going as a nation. Census 2000 has been called the most controversial in U.S. history because of the debate over use of adjusted vs. unadjusted numbers. Census 2000 has also been termed as the most inclusive of all decennials because of the extensive involvement of local and tribal governments, community-based organizations, and state and federal agencies in a nationwide campaign to ensure a complete and accurate tally. Census 2000 is certain to be viewed in history as a watershed count.

Using Census Data to Create a Performance Context

By Gilberto Cooper, Examiner, Federal Reserve Bank of San Francisco

The ongoing release of 2000 Decennial Census data provides an ideal opportunity to revisit the subject of performance context, and in particular the role census data plays in the creation of that context. Census data are an integral aspect of the Community Reinvestment Act because this information informs the regulatory definition of *geography, low-, moderate-, middle- and upper-income*. But beyond such fundamentals, the data are useful as indicators of potential lending, service, and investment opportunities. As an examiner, I cannot even begin to assess a financial institution's CRA performance without knowing the capacity and constraints for CRA-related activities present in the assessment area under review. Census data are one tool for identifying such capacity and constraints.

This paper describes how a CRA examiner might begin to identify such capacity and constraints and construct a performance context using the census data. It is hoped that understanding an examiner's methodology will give a financial institution wishing to create its own performance context a blueprint to follow.

For the sake of illustration, I shall use the City and County of San Francisco California (San Francisco) as the assessment area under review. As of this writing, only the 1990 data are available, hence that is the data that will be used. As part of the examination preparation, the examiner typically has a multiplicity of census data for the assessment area under review. The examiner will initially review that data to answer four broad questions:

- ▶ how does the assessment area compare to the state, metropolitan statistical area (MSA), or county from which the area is drawn
- ▶ what are the demographic characteristics of low-, moderate-, middle-, and upper-income census tracts
- ▶ what are the labor and employment conditions extant in the assessment area
- ▶ what are the trends¹ in sector employment, business formation and residential (single and multifamily) construction

The answers to these questions will lead to extrapolations about the assessment area's demand for loans, services and investments.

In the MSA² containing the City and County of San Francisco, the 1990 census reports that 129,713 of MSA residents described themselves as "not verbally proficient in English." The majority of these individuals, 86,228, reside in San Francisco. The census also reports that the MSA has 49,539 households living below poverty levels; again, with the majority, 31,820, being San Francisco residents. Know-

ing this, the examiner would then investigate whether the population with limited English proficiency was geographically concentrated, particularly in low- and moderate-income census tracts. Similarly, the examiner would investigate the geographic concentration of poor households and families.

Looking at the assessment area itself, the examiner would highlight its particular demographic characteristics, such as areas of population concentration, residents' income level, residents' housing situation, poverty levels, etc. In our example, the examiner might note that the majority of San Francisco households and families live in middle- income census tracts and are middle-income. Regarding the housing stock, 69 percent of housing in San Francisco consists of rental units, with renting being the predominant housing situation in census tracts at all income levels. (In contrast, 47 percent of California's and 55 percent of the MSA's housing consists of rental units.)

The census data also raise questions about the cost of living in San Francisco. For instance, 40 percent of all renters in San Francisco allocate more than 30 percent³ of their income to rent. However, 45 percent of the renters in low-income census tracts pay more

1 Generally, the examiner will supplement business formation data with information from Dun & Bradstreet business revenue surveys, which additionally indicate the geographic distribution of farm and non-farm businesses in the assessment area.

2 The City and County of San Francisco is part of MSA 7360, which also includes the counties of Marin and San Mateo.

3 HUD considers housing to be unaffordable when it requires more than 30% of household income.

than 30 percent of their income towards rent. This means that renters in these census tracts, who are more likely to be low-income, are paying unaffordable rents. Low-income census tracts have the highest poverty rate, with 28 percent of their families living below poverty levels. Comparatively, the rate for San Francisco as a whole is 10 percent. Further, 66 percent of San Francisco households receiving public assistance are in low- or moderate-income census tracts.

Labor and employment conditions extant at the time of the census indicated a 5.4 percent unemployment rate in low-income census tracts and a 4.1 percent rate in moderate-income census tracts. Middle-income census tracts had a rate of 3.2 percent. Upper-income tracts had a rate of 1.8 percent.⁴ As a gauge, the rate for California was 3.3 percent. Data from the U.S. Bureau of Labor Statistics revealed positive trends in employment since the taking of the census. However, these trends are for the MSA not the assessment area. U.S. Bureau of Census data indicated a similarly positive trend in the number of new residential permits issued in the MSA. Again, the examiner would use community contacts to determine the trends for the specific assessment area.

As a result of the broad analysis of the data, some of the performance context extrapolations the examiner could have for San Francisco include the following:

⁴ *Unemployment information by census tract is only available during the decennial census. To obtain more current information, the examiner would contact community representatives knowledgeable about employment in the assessment area. California's Employment Development Department reports the information on a city basis.*

LENDING TEST

- ▶ given the concentration of households and families in middle- and upper-income census tracts, loans may be concentrated in those census tracts
- ▶ given the predominance of middle- and upper-income households and families, middle- and upper-income individuals may make up the majority of the institution's borrowers
- ▶ given that a substantial number of renters are paying unaffordable rents, there may be demand for affordable housing and, thus, a demand for loans to finance affordable housing development

SERVICE TEST

- ▶ given the concentration of households receiving public assistance in low-income census tracts, there may be opportunities for community development services, such as financial literacy training for those moving from welfare to work
- ▶ given the poverty rate in low and moderate census tracts, there may be community organizations that could benefit from an institution's provision of financial expertise

INVESTMENT TEST

- ▶ given the lack of affordable housing there may be investments available to address that need for low-, moderate- and middle-income individuals
- ▶ given the poverty rate, there may be social service organizations that would benefit from community development grants

I want to emphasize that the extrapolations the examiner draws from the census data are *preliminary*. In fact, those extrapolations are less conclu-

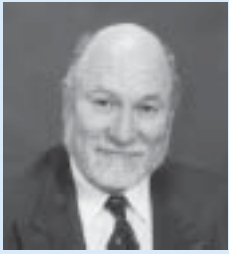
*We shall not cease from
exploration/And the end
of all our exploring/
Will be to arrive where
we started/And know the
place for the first time
– T.S. Eliot*

sions and more hypotheses that must be tested or investigated while on-site. Thus, the analysis of the census data is only a starting point. Interviews with community representatives and officers of the institution under examination are conducted to verify and substantiate the extrapolations. Performance expectations may be boosted or tempered based on the capacity and constraints of the institution under review, in accordance with safe and sound operations explicit in the Act.

A performance context is rarely a *fixed* phenomenon. A community is a dynamic entity, affected by constantly changing demographic and economic variables within the community. Accordingly, while the census data are key in developing that context, the extrapolations arrived at must be constantly verified and updated against the current reality of the community itself. In fact, while the census data are useful, their accuracy is compromised by the passage of time. Thus, a performance context is more than a collection of facts about an assessment area; rather, it is, ideally, a collection of *explorations and conclusions substantiated with current objective facts* about the demand for loans, services and investments in the assessment area.

In summary, the creation of a performance context is essentially an assessment of the opportunities present in a

ABOUT THE AUTHORS



ROBERT (BOB) CLINGMAN served as coordinator of the Seattle Region's Partnership program in Alaska, northern California, Idaho, Oregon and Washington for Census 2000. The Partnership program's primary focus was to develop cooperative working relationships with community-based organizations, local and tribal governments and mainstream and ethnic media, to increase the mail response rate and reduce the differential undercount among minority population groups. For the 1990 census, he was the senior media specialist for the six states comprising the Seattle Region (Alaska, Idaho, Montana, Nevada, Oregon and Washington).

Between decennials, Mr. Clingman worked for the State of Washington's Department of Fish and Wildlife as a public information officer and consultant to the Wild Salmonid Policy task force, and as marketing manager for the Office of State Procurement.

He is a graduate of the University of Washington, and also attended Seattle University, Western Washington University and Sophia (Jochi) University in Tokyo. In September, he will once again attempt retirement, to devote more time to the five G's . . . Grandchildren, Golf, Gardening, Going to Galway for an extended excursion and Georgiana, his friend of 50 years and wife of 27 years.

GILBERTO COOPER has been an examiner with the Federal Reserve Bank of San Francisco for 13 years. In this capacity he has led and assisted with compliance and Community Reinvestment Act (CRA) examinations of banks of various asset sizes. He has participated in the development and instruction of Federal Reserve System courses on fair lending and the CRA.

Before joining the Federal Reserve Bank of San Francisco, Mr. Cooper was a bank officer with experience in both the lending and operational areas of retail banking. He attended the University of California at Berkeley, obtaining a degree in psychology with additional studies in English literature.

community. Once the extrapolations are investigated and verified, they become objectively substantiated conclusions. This methodology of data gathering, extrapolation and confirmation ensures that the examiner's assessment of an institution's CRA performance is sound. Conversely, an institution should draw upon its own staff, local government, community development and social service organizations, regulatory agencies and the census data to identify those factors that may affect its abilities under the Lending Test and, if applicable, the Investment and Service Tests. It behooves an institution to create its own performance context to help ensure that its record is assessed accurately. This type of self-analysis is regarded as a CRA "best practice."

With census data becoming increasingly available on the Internet, the ability of the public (including financial institutions and community groups) to build profiles of geographic areas and develop their own hypotheses is enhanced. Thus, a financial institution or community group could identify census tracts with no CRA-related activity and perhaps identify factors that could be causing the inactivity or identify hidden opportunities. Much like a grant proposal, marketing plan or business plan, a performance context is about the possibilities and the "whys" of those possibilities. It is about exploration, the insights gained from that exploration, and the resultant action taken to help meet the identified needs of the community.

CI

2002

COMMUNITY REINVESTMENT CONFERENCE

JANUARY 30-FEBRUARY 1



This biennial conference is sponsored by the four banking regulatory agencies: The Federal Reserve Bank of San Francisco, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency and Office of Thrift Supervision.

A practical and engaging conference format will allow attendees to gain guidance and clarification on CRA compliance, lending, service and investment techniques. Each day of the two and a half days is filled with opportunities to network, gather information and see successful examples of community development. You are certain to come away with a number of best practices to bolster your CRA program and ideas to increase your impact in the communities you serve.

Registration brochures will be mailed in October and available online at www.frbsf.org/news/events/index.html. Call Bruce Ito at 415/974-2717 to be added to the mailing list or fax a list of names with contact information to 415/393-1920.



Making Reinvestment WORK for San Diego

by Jim Bliesner, Director, San Diego Reinvestment Task Force & Michael Lengyel, Project Analyst, San Diego Reinvestment Task Force

For 24 years the Reinvestment Task Force (RTF) has been actively involved with ensuring that the reinvestment needs of San Diego County are properly addressed. During these 24 years, everything has changed—most notably the density and diversity of San Diego, the financial services industry and the overall business landscape. This article will provide an overview of the RTF and how it has evolved to meet the ever-changing economic and political environment, with the goal of providing a blueprint for other communities interested in creating a similar entity. The processes employed by the RTF are accessible and replicable for almost any community regardless of size, location or resources.

DESCRIPTION

The San Diego City-County Reinvestment Task Force was established in 1977 by joint resolution of the San Diego City Council and County Board of Supervisors. It was formed as a trilateral, quasi-public entity to include elected officials, lenders and community representatives. The purpose of linking these three parties was to encourage dialogue among the primary

stakeholders involved in CRA-induced projects. Despite being chaired by seven different councilmen and three members of the Board of Supervisors since its inception, the RTF has maintained its trilateral balance and remained a forum where creative ideas for reinvestment can be discussed and then implemented.

As a catalyst for economic progress, the RTF serves the population of San Diego County,¹ with emphasis on low- and moderate-income constituencies, and local nonprofit housing and economic development organizations. The RTF carries out City and County policies that specifically address reinvestment as it relates to the lending practices of regulated financial institutions at the local level.

The San Diego Housing Commission and the County Department of

Housing and Community Development have provided annual funding to the RTF since 1983. The funding, which is considered annually, covers basic administrative costs. The RTF Director is a contract employee to the RTF, also with an annual renewal. The base funding (\$165,000 in 2001) is supplemented by research grants from private and other public sources.

The RTF is co-chaired by a member of the City Council and a member of the County Board of Supervisors, who are responsible for appointing the additional fifteen seats that include lenders, representatives of community housing and economic development agencies, and at-large public members representing other municipalities and unincorporated areas of San Diego County. These appointees are identified or recommended by staff and serve three-year terms. The RTF also has a standing committee of representatives from fifteen nonprofit organizations responsible for the development and monitoring of lender agreements.

MISSION

The mission of the RTF is to spur private and public financing of affordable housing and economic development in

¹ *The County of San Diego is comprised of 18 cities totaling 2,911,468 residents. 26.7% of the residents are of Hispanic descent, 50% are White, 5.5% are Black and 9.8% are Asian or other. 5.8% of the residents are classified as low-income, 21.6% are moderate-income, 34.4% are middle-income and 26.3% are upper-income.*

areas suffering from disinvestment through negotiation, partnership building and strategy-formation. The RTF accomplishes its goals by monitoring lending practices and policies and developing strategies for reinvestment in underserved areas. By proactively fostering initiatives, the RTF continues to encourage positive, long-term public/private ventures with businesses and community organizations.

THREE ACTIVITY CATEGORIES

Activities of the RTF fall into the categories:

- 1) *research, education and monitoring*
- 2) *community reinvestment infrastructure facilitation*
- 3) *lending strategies and commitments*

Under its *research, education and monitoring* function, the RTF has produced an innovative body of research data pertinent to understanding the nature of disinvestment in San Diego.² The research has been funded by the City and County, HUD and financial institutions, and conducted in conjunction with the San Diego Fair Housing Council, the San Diego Non-Profit Federation, the California Reinvestment Committee, as well as state universities and the San Diego Association of Governments. Topics have included analysis of home mortgage lending patterns, fair housing, homeowners insurance, and small business credit and equity capital.

Research has served as the basis for merger interventions and public testimony and has helped to define policy and develop strategic plans for the RTF. For example, research showed that

while large statewide or national banks were receiving satisfactory CRA ratings by regulators, their CRA lending and investments were disproportionately focused in their headquarter cities. This finding led the City Council and the County Board to authorize the RTF to intervene on their behalf in bank mergers. Another research endeavor, a Comprehensive Credit Needs Assessment, funded jointly by lenders and local government, revealed an absence of equity capital for housing and small businesses. This finding prompted the RTF to embark on an effort to create an equity capital “family of funds.” Other research that showed rejection rates for home loans in low-income and minority-dominant census tracts as disproportionately high has prompted the City to design a policy that would link deposits to positive performance under CRA lending.

Work by the RTF around *infrastructure facilitation* has focused on the formation, development, funding and support of nonprofit organizations for the purpose of enhancing the capacity of the San Diego community to utilize bank financing and to access capital markets. These organizations bridge the gaps between traditional lenders, affordable housing developers and small businesses. For example, the RTF was the lead advocate in the formation of Neighborhood National Bank, a San Diego-based community development financial institution, and has assisted in the formation of local community development corporations involved in housing development and a multi-bank housing lending consortium.

The third area of focus for the RTF has been *lending strategies and commitments*. In 1991, the RTF was authorized to secure commitments from

lenders regarding their proposed CRA lending activities for the San Diego region. Commitments were developed jointly by the RTF and local lenders, and were presented to the City Council and the Board for approval. Although the commitments are voluntary, participating banks benefit from a coordinated reinvestment strategy with government and the community, which increases the potential for profit and impact. Agreements were formed with the eight largest lenders, which represented a combined 76 percent of deposit market share in San Diego County in 1999. That same year, the lender commitments generated \$1.3 billion in CRA-related lending in San Diego County, a 28 percent increase (\$294 million) over 1998. The average ratio of CRA lending to total deposits was 7.88 percent in San Diego.

Lender commitments also called for annual reporting of home mortgage, small business, affordable housing and community development lending data in low-income communities for San Diego. Data are also reported for corporate giving and some categories of consumer lending. Reporting allows for

1999 CRA REINVESTMENT BY INSTITUTION*

() – REINVESTMENT AMOUNT AS
% OF ASSETS

Bank of America	\$204.53 (4%)
Washington Mutual	\$311.74 (6%)
Wells Fargo	\$298.51 (3%)
Union Bank	\$238.22 (8%)
CA Bank & Trust	\$89.52 (6%)
San Diego National	\$157.48 (16%)
California Federal	\$17.12 (2%)
Borrego Springs	\$6.98 (18%)
Total	\$1,324.09 / Average (7.88%)

* dollars in millions

² www.co.san-diego.ca.us/rtf/publication/index.html

“The separation of many banking services from CRA oversight over the past decade... has caused the RTF to reevaluate its focus on separate lending agreements with individual banks.”

ongoing bank-by-bank comparison in each lending category that RTF uses to monitor performance. Drops in performance are discussed and recommendations made on programs and strategies for improvement. One example of recommended strategies for improvement involved opening new bank branches. Four different banks responded to this request after being provided data regarding levels of income and potential customers in comparison to other areas of the County.

FUTURE DIRECTION

As the local economy and the banking industry evolves, the RTF has adjusted its strategy to accommodate broader socio-economic conditions. Early focus on information and education was appropriate and reflected local and national conditions. With increased financial industry consolidation, the RTF necessarily changed to a strategy of merger intervention and advocacy. However, recent passage of the Financial Modernization Act and the disappearance of locally headquartered banks due to mergers have diminished the RTF's ability to intervene in mergers and effect agreements for local reinvestment. The separation of many banking services from CRA over-

sight over the past decade, which has resulted in a notable reduction of bank branches, increased mortgage company lending and expanded check cashing facilities, has caused the RTF to reevaluate its focus on separate lending agreements with individual banks.

In light of these challenges, the RTF has formulated a three-year Reinvestment Master Plan³ that contains 18 recommended actions. The goal of the Master Plan is to mitigate against the distancing of financial services from low-income communities in San Diego. At the heart of the Plan is the development of a \$100 million equity fund that will provide much needed capital for affordable housing and small business development. Other recommendations include the recruitment of credit unions, insurance companies and other financial service entities into the reinvestment efforts, and a requirement that all financial service providers doing business with the City or County discuss their involvement in community reinvestment efforts with the RTF.

At the core of the Reinvestment Master Plan is the persistence of a forum for dialogue about responsible reinvestment. A second feature has been the creation of collaborative models utilizing the capacity of the community, government and lenders to address common problems. The third and most recent component has been the development of a multi-year, systematic strategy for addressing credit needs throughout the region. The hope is that these core features will enable the RTF to remain effective in addressing reinvestment needs in San Diego County. **CI**

For further information about the Reinvestment Master Plan or investment opportunities, please contact Jim Bliesner at 858/694-8729 or via email to: jbliesed@co.san-diego.ca.us.

³ <http://www.co.san-diego.ca.us/rtf/new/plan.pdf>

ABOUT THE AUTHORS

JIM BLIESNER is the director of the San Diego City/County Reinvestment Task Force and has served in that position since 1985. The Task Force is a quasi-public, trilateral agency authorized by the City and County of San Diego to monitor lending practices and develop strategies for reinvestment. The work of the Task Force has received national recognition as a model for encouraging partnerships between the lending industry, community nonprofit organizations and government by the National Association of Housing and Redevelopment Organizations.

Jim has been a board member of the California Community Reinvestment Corporation. He also served as a founding member of the California Reinvestment Committee. He was appointed by the governor of California to his Office of Neighborhoods, and by the mayor of San Diego to the City Committee on Growth and Development and the City Committee on Redistricting. Jim has also been a faculty member in San Diego State University's Community Economic Development Certificate Program.

Mr. Bliesner is recognized in Who's Who in American Business and Finance as an innovator in economic and housing development. His efforts have received the Honor and Special Merit Awards from the American Planning Association and the American Institute of Architects. He was most recently awarded a "Lifetime Achievement Award" from the San Diego Housing Federation.

MICHAEL LENGVEL is the program analyst for the Reinvestment Task Force (RTF). Michael has an MBA and a masters of science in accounting from San Diego State University. His duties include analyzing economic and financial data of financial institutions and working with community groups to develop reinvestment strategies. Michael has prepared multiple financial and lending analyses for nonprofit organizations in addition to the research and monitoring work he does for the RTF. Before joining the RTF, Michael worked as a research paralegal at a San Diego law firm, specializing in the area of construction defect litigation.

CRA REVIEW COMMENTS

by Jack Richards, Senior Community Affairs Manager, Federal Reserve Bank of San Francisco

When the federal bank and thrift regulatory agencies revised the CRA regulations in 1995, they committed to review the regulations in 2002 to determine whether the revised regulations had met the goal of more objective, performance-based CRA evaluations. As part of the FFIEC's commitment to review the CRA in 2002, Community Affairs is hosting CRA officer roundtable meetings throughout the Twelfth District during the second and third quarters to solicit input from CRA officer participants on how to improve the CRA regulation. In addition, we are encouraging comments from community-based and advocacy organizations.

As expected, the initial feedback is both wide-ranging and thought-provoking. We thought you'd be interested in reading some of what we've heard. Presented below are selected comments from roundtable meetings held in Nevada, Idaho, Arizona and Oregon, plus highlights of comments submitted by the Greenlining Institute and the California Reinvestment Committee.

Of course, these suggested changes to the CRA do not reflect the views of the Federal Reserve. In some cases, the original comment has been paraphrased. You are encouraged to add your comments for consideration. Comments must be received by October 17, 2001. Information about how to submit comments is provided at the end of the article.

FROM THE BANKERS

Assessment Area

- Define assessment areas according to geographies from which banks collect deposits
- Define how performance context is to be created for assessment areas without low- or moderate-income census tracts
- Clarify what components are included in the performance context

Lending Test

- Give greater weight to community development loans
- Give greater weight to loans originated and less weight to loans purchased
- Include measurement of loan-to-deposit ratios in the large bank examination
- Give greater consideration under the lending test for outstanding loans

Investment Test

- Change the investment test to be for "extra credit"
- Raise the threshold for defining "moderate income" to 110 percent of median income, to be more in line with housing finance agencies and the IRS

Service Test

- Place greater emphasis under the service test on service delivery, rather than on branch locations
- Create a sliding scale to allow service test performance to offset low investment in areas with few investment opportunities
- Consider community development services under the investment test when a monetary value can be assigned to them
- Give consideration under the service test for volunteer labor activities such as for Habitat for Humanity

Community Development and Other

- Expand the definition of community development to allow for cultural facilities that benefit low- and moderate-income areas
- Provide more consideration for mixed-income community development projects
- Encourage income diversification by providing specific consideration for mixed-income developments with fewer than 50 percent of units for low- and moderate-income tenants/owners
- Raise the small bank threshold to either \$500 million or to \$1.0 billion in assets

- Add a “medium” category for banks to move to the “large bank” category or extend the transition period
- Reduce the five-year projection requirement for the strategic plan

FROM THE CALIFORNIA REINVESTMENT COMMITTEE

- Assign CRA-related responsibility to any financial institution that lends or takes deposits from a significant portion of any market, using national lending averages as benchmarks
- Review community development activities based on the effect they have “on the ground” in low-income communities and communities of color
- Review all affiliate and subsidiary lending, investment and service activities as part of the CRA examination
- Compare subprime/predatory lending activities in low-income areas with more traditional activities to ensure safe-and-sound lending practices, both for the bank and the consumer
- Strengthen requirements that banks offer access to branches in underserved areas
- Increase consideration for charitable contributions under the investment test

FROM THE GREENLINING INSTITUTE

- Review CRA-related activities by race, ethnicity and gender
- Include in-depth analyses of subprime lending as part of all CRA examinations
- In the public evaluation, provide a competitive ranking: reveal where institution CRA ratings rank in relationship to peers
- Require that institutions not receive “outstanding” ratings under the lending test if percentage of conventional home loan originated is less than “60 percent of population parity” for underserved minorities
- Place greater emphasis on the impact of loans and investments, rather than the quantity originated
- Consider bank’s performance on CRA commitments with community organizations as part of the examination
- Include analysis of efforts to promote diversity, the racial and gender composition of boards and top management, and of key CRA personnel as part of the CRA examination. Also, include an analysis of inner-city minority vendor contracts.

CONTACTS FOR SUBMITTING YOUR COMMENTS

Board: Comments should refer to Docket No.R-1112 and should be mailed to Ms. Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW, Washington, DC 20551, or mailed electronically to regs.comments@federalreserve.gov.

FDIC: Mail: Written comments should be addressed to Robert E. Feldman, Executive Secretary, Attention: Comments/OES, Federal Deposit Insurance Corporation, 550 17th Street, NW, Washington, DC 20429. **Facsimile:** Send facsimile transmissions to fax number (202) 898-3838. **Electronic:** Comments may be submitted to the FDIC electronically over the Internet at www.fdic.gov/regulations/laws/publiccomments/index.html. The FDIC has included a page on its web site to facilitate the submission of electronic comments in response to this ANPR concerning the CRA regulations (the EPC site). You may also electronically mail comments to comments@fdic.gov.

OCC: Please direct your comments to: Docket No.01-16, Communications Division, Public Information Room, Mailstop 1-5, Office of the Comptroller of the Currency, 250 E Street, SW, Washington, DC 20219. You can inspect and photocopy all comments received at that address. In addition, you may send comments by facsimile transmission to fax number (202) 874-4448 or by electronic mail to regs.comments@occ.treas.gov.

OTS: Mail: Send comments to Regulation Comments, Chief Counsel’s Office, Office of Thrift Supervision, 1700 G Street, NW, Washington, DC 20552, Attention Docket No.2001-49. **Facsimiles:** Send facsimile transmissions to fax number (202) 906-6518, Attention: Docket No.2001-49. **E-Mail:** Send e-mails to regs.comments@ots.treas.gov, Attention Docket No.2001-49 and include your name and telephone number.

For instructions on where to hand-deliver or inspect comments, please visit the Federal Reserve Board’s Advanced Proposal of Rulemaking at: www.federalreserve.gov/boarddocs/press/boardacts/2001/20010719/

District Update

CRA Leadership Councils were established in 2000 to recognize and encourage community reinvestment efforts throughout the 12th District. The Councils, which are affiliated with the local CRA roundtables, actively participate with the San Francisco Fed's Community Affairs staff to identify critical community and economic development needs, and to develop new products and services.

In April 2001, Community Affairs hosted a joint Leadership Council summit in Portland, Oregon to celebrate first-year achievements and to discuss second-year refinements for the Councils. In this issue, we are pleased to share highlights of each Council's work. If you haven't already done so, make yourself acquainted with your leadership council members at an upcoming roundtable meeting and chat about initiatives or concerns you feel are important in your geography.



Joy Hoffmann (FRBSF)

Alaska

- Coordinating a tour of rural Alaskan towns for bankers and regulators for August 2001



Father Mike (St. Anthony's), Jack Richards (FRBSF), Gordon Boerner (San Diego), Jane Shock (Utah), Carolyn Mitchell (Arizona)

Arizona

- Designed a multi-bank CRA investment pool for small banks (see investment opportunities)



Bruce Ito (FRBSF), Kelly Walsh (Hawaii), Marcia McAdams (Los Angeles), Joy Hoffmann and Fred Mendez (FRBSF)

Hawaii

- Negotiating to bring Operation Hope's *Banking on the Future* financial literacy program to the state

Idaho

- Surveyed lenders and nonprofit organizations on community development needs and resources in preparation for a series of roundtables in rural areas



Cindy Williams (Idaho), Bernie Kronberger, Barbara Smith and Brent Warren (Oregon), Judith Olson (Washington)



Larry Seedig (Nevada), Jane Shock and Paula Ciaburri-Mahoney (Utah), Joyce Keane (San Francisco)

Nevada

- Contacted casino owners to determine ways banks and casinos can work together on local community development issues
- Focusing on increasing roundtable participation

Northern California

- Completed a small business resource brochure for financial institutions to send to declined small business loan applicants



Bruce Hyland (FRBSF)

District Update



Bernie Kronberger, Barbara Smith, Brian Stewart and Brent Warren (Oregon)

Oregon

- Planning a rural homebuyer fair
- Hosted Leadership Council Summit including a bus tour of community development projects in the Portland area

Southern California (Los Angeles, San Diego)

- *Los Angeles*: Publishing a “how to” guide for nonprofits seeking financial institution grants.
- *San Diego*: Surveying financial institutions and nonprofit organizations about needs and credit resources to assist in the development of a community investment strategy



Mindy Murphy, Gloria Tang, Adria Graham Scott and Marcia McAdams (Los Angeles)



Gustavo Bidart and Gordon Boerner (San Diego), Mindy Murphy (Los Angeles)

District Update

Washington

- Partnered with a local nonprofit to create a childcare loan fund to support Washington and Oregon childcare businesses
- Forming a statewide financial literacy council



Yvonne Blumenthal, Jonathan Fischer and Joan Burbridge (Washington)



Stephanie Harpst (Utah), Doreen Davis-Peterson (Nevada)

Utah

- Coordinated meetings on the impact of the 2002 Winter Olympics on low- and moderate-income communities
- Co-hosted roundtable meetings in rural areas



2001 Leadership Council Summit group at St. Anthony's Village

Rebuilding Communities One Site at a Time

by Rocky Delgadillo, City Attorney, Los Angeles

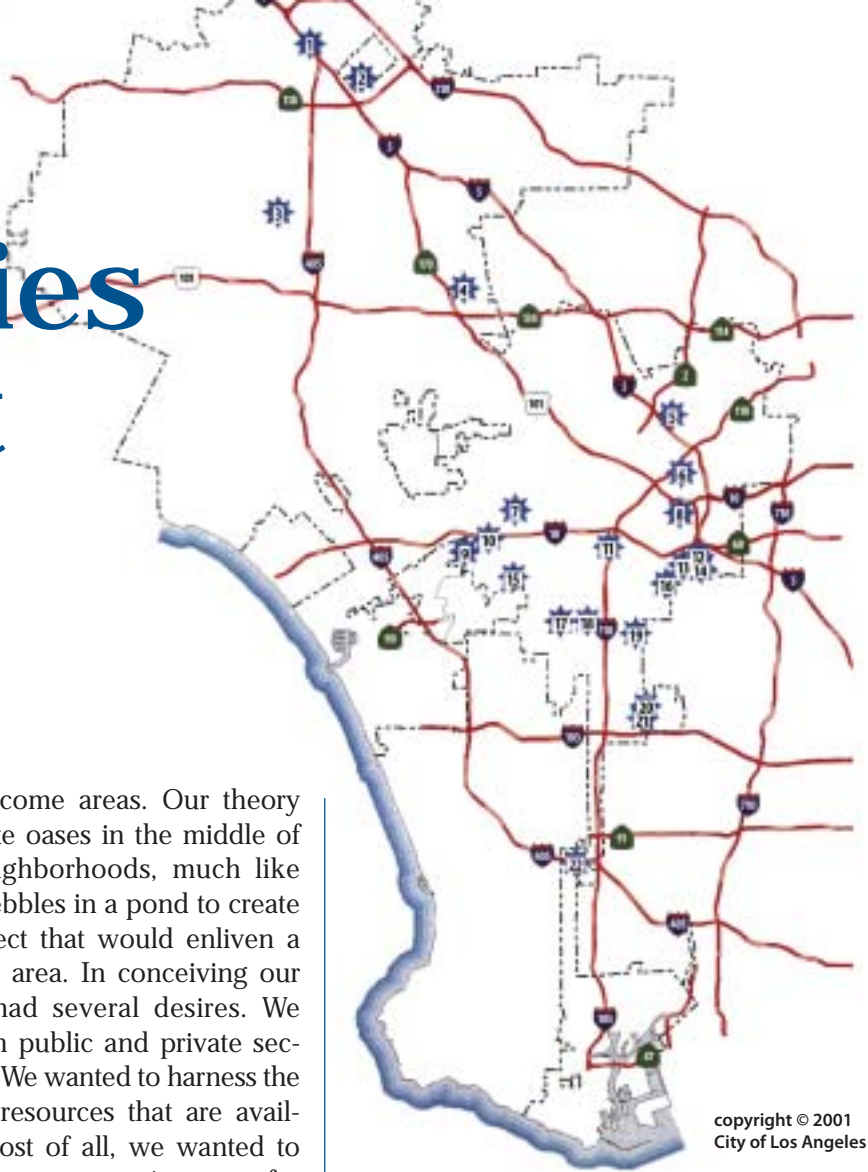
Since the Watts riots in 1965, business and civic leaders in Los Angeles have grappled with the complex issues that stem from poverty in this city. Studies, proposals, ideas and initiatives generated in Los Angeles, Sacramento and Washington have provided incremental and random improvements, but none comprehensive enough to alter the landscape. Following the 1992 civil unrest, many of the problems of the inner city were still facing us. The newest of the civic collaborations designed to “save the city” was Rebuild LA. It was there that I first saw the difficulty of one organization trying to solve many societal problems with limited resources.

In 1993, Los Angeles voters elected Richard Riordan for their mayor. When he recruited me to join his economic development staff, I jumped at the chance to work from city hall. Facing the existing challenges, now exacerbated by a major earthquake, I drew upon a lesson I had learned from my years at Rebuild LA: when confronted with complexity, begin solving problems by focusing on one piece at a time.

My colleagues and I conceived a way to address inner-city issues by building on large, blighted properties scattered throughout the city’s low- to

moderate-income areas. Our theory was to create oases in the middle of “desert” neighborhoods, much like dropping pebbles in a pond to create a ripple effect that would enliven a much larger area. In conceiving our plans, we had several desires. We wanted both public and private sector partners. We wanted to harness the vast public resources that are available. But most of all, we wanted to create an investment environment for entrepreneurs looking for opportunities to make money. Thus Genesis LA was born.

Genesis LA is an innovative and powerful economic development initiative that melds the best of the public and private sectors to tackle the tough challenges typically associated with developing long neglected inner-city areas. The initiative is directed by the Genesis LA Economic Growth Corporation, a not-for-profit organization, whose mission is to provide sources of gap financing with side-by-side investments to leverage public subsidies. Early on, we found only frustration in attempts to attract traditional investments to the inner city, but we held fast to the belief that there is money to be made in these densely populated, underserved areas. We also



copyright © 2001
City of Los Angeles

GENESIS L.A. SITES

1. Biotech Center (Lakeside Debris Basin)
2. Sunquest Industrial (Calmat)
3. Marquardt Industrial
4. North Hollywood – Mixed Use Office Retail
5. Taylor Yards Industrial Park
6. River Station (Cornfields)
7. Pico/San Vicente Power Center
8. Santa Fe Rail Yard SCI-Arc Mixed Use
9. Samitaur/“Conjunctive Points” Creative Office
Target/McDonalds Retail Center
10. Adams and La Brea Mixed Use Office/Retail
11. Automobile Club
12. Sears Tower (Mixed Use Retail)
13. Crown Coach (Former Prison Site)
14. UPS (Old Facility)
15. Santa Barbara Plaza
16. Lancer Industrial Park
17. Chesterfield Square
18. Vermont Slauson Retail Center
19. Goodyear Industrial Tract/Slauson Retail
20. Watts Retail Center
21. Lanzt Industrial Park
22. Harbor Gateway Center

knew that in a city with transportation challenges, employers could find a ready workforce in these neighborhoods.

Unlike older cities, Los Angeles does not have a single “inner city.” Its 472 square miles cover varied terrain and encompass over 300 distinct communities, with low- and moderate-income areas spread throughout. Genesis LA sites were assembled to facilitate smart growth efforts by focusing on twenty-two carefully selected sites throughout Los Angeles. The sites are underused and blighted properties primarily located in distressed neighborhoods in South and East Los Angeles—urban infill gems (see map). The considerable size of these sites, most spanning over 40 acres, is integral to their function as job creation catalysts.

Because many of the sites are also situated in Enterprise Zones, Empowerment Zones or designated redevelopment areas, they are eligible to receive municipal, state and federal subsidies. The city’s involvement with and support of Genesis LA serves to expedite the processing of permits and entitlements necessary to prime the sites for development. Some sites are slated for retail development, others for industrial, manufacturing, biotech or mixed use. In all cases, job creation is the most important element to these developments given that they are located in Los Angeles neighborhoods with the highest unemployment.

Genesis LA projects benefit from the extensive financial expertise and support of its sponsors, partners, affiliates and board members. By identifying the gap financing necessary for each of its projects to attract private investment, the Genesis LA approach to financing complex redevelopment deals is what sets it apart from other economic development programs. Many of the current twenty-two sites would not be developed if not for the creative financ-

“*Our theory was to create oases in the middle of “desert” neighborhoods, much like dropping pebbles in a pond to create a ripple effect that would enliven a much larger area.*”

ing tools provided by Genesis LA. Gaps are filled with grants, city funds, tax incentives, investment from for-profit funds, contributions from corporate sponsors and the sale of naming rights. Partners with expertise in law, architecture, environmental cleanup and marketing provide in-kind resources that contribute to narrowing financing gaps. Genesis LA Economic Growth Corporation will itself provide gap financing of last resort, including purchasing property, if needed to make a project feasible.

Genesis LA has designed two distinct financial tools to attract private investment:

- The Genesis LA Real Estate Fund, LLC, provides debt and equity financing in and around the Genesis LA sites. It is managed by Shamrock Capital Advisors, Inc. and features attractive, risk-adjusted returns expected in the mid- to high-teens. Investments into this fund from financial institutions are eligible for CRA investment test credit (see box 1).

1

THE REAL ESTATE DEVELOPMENT FUND

Spin off is part of the LA lexicon. Used extensively in the entertainment industry, it means that one good thing breeds another. In keeping with its community, the good idea of Genesis LA led to its spin off, the Genesis LA Real Estate Fund.

The Genesis LA planners conceived the fund, developed specifications for it, then went shopping for a manager who would take it and run. Many stepped up to the table, but the board selected Shamrock Capital Advisors, an affiliate of Shamrock Holdings, the investment vehicle of the Roy E. Disney family. Shamrock has substantial experience with real estate development, and shares a dedication to Los Angeles with the Genesis LA team.

The Genesis LA Real Estate Investment Fund works like any other private investment pool, except that it only fund projects in low- to moderate-income areas of Los Angeles, which encompasses approximately 70 percent of the city’s area. This includes Genesis LA sites and properties around the sites. The fund, which is capitalized at \$85 million, seeks commercial, industrial and mixed-use projects that will create jobs and provide returns in the mid- to high- teens for its investors. The fund has committed 15 million dollars to date.

Its first investment in Hollywood has already been sold to the Academy of Motion Picture Arts and Sciences. The second, a live/work project in the Venice neighborhood, is under construction. A third project, four buildings totaling 650,000 square feet, will provide up to 1,200 jobs in light industrial businesses.

A TYPICAL DEAL: SUNQUEST

An old city vehicle maintenance yard and a closed landfill have been neighbors in the northern reaches of the San Fernando Valley for years. Together, these two parcels, totaling 33 acres, present a big opportunity for smart development. But developers and officials didn't need to look further than the landfill to know costs would be high. The tired, dusty neighborhood is surrounded by other industrial properties, mainly small operations. Less than a mile away are residential areas.

Genesis LA has helped put together an innovative financing package that will give rise to the SunQuest Industrial Park. When it is complete, four new buildings will house 350 employees. State-of-the-art industrial facilities, to be sold to their end users upon completion, will be constructed around the former landfill—about one-third of the site. At this point, identified tenants include: a manufacturer of sets and props for the entertainment industry, a manufacturer of equipment used for hazardous material and asbestos cleanup, and a company that sells and leases medical supplies to the entertainment industry.

Total Cost: \$51.35 million
Private sector funding: \$30.6
Public sector funding: \$20.4
Genesis LA funding: \$350,000

The Gap: A financing gap for this project was created by the costs associated with acquiring the landfill, moving the city vehicle maintenance facility, and the carrying cost for the project during permitting and remediation. In addition, until the land is remediated, collateral value is depressed, thus limiting the availability of traditional equity and debt financing.

Private sector funding

- The developer will provide \$6 million in equity, and has secured a traditional construction loan commitment of nearly \$15 million
- The Genesis LA Real Estate Fund is making a \$9.6 million mezzanine loan to the developer to be funded at milestone points throughout the process (as collateral value increases) in exchange for a 26% equity state in the project

Public sector funding

- The \$10.3 million cost of relocating the city's vehicle maintenance facility will be borne by the city. In addition, the City has a pending application for \$9 million in Section 108 funding, which will be used to acquire land at a lower interest cost—a benefit that will be passed on to the final purchasers of the buildings
- A brownfields grant of \$750,000, under HUD's Brownfields Economic Development Initiative (BEDI) program, has been made to cover remediation costs
- The City is making a \$350,000 contribution from its Community Development Investment fund, which is a set aside of federal Community Development Block Grant monies to be used only for economic development purposes

Nonprofit funding

- Genesis LA Economic Growth Corporation is contributing 350,000 in return for a portion of the developer's retained equity

When construction is complete, the developer will retain ownership of the parking lot, which will be constructed over the former landfill, so that liability for potential problems will not be transferred to the new owners. He is also indemnifying the City against any liability associated with cleanup of the old maintenance yard.

- The Genesis LA Growth Capital Fund will offer \$50-100 million for mezzanine financing, subordinated debt and other equity investments to manufacturing and technology companies that benefit low- to moderate-income neighborhoods, and/or are owned by minority or women entrepreneurs. Genesis LA is currently discussing the fund with interested investors.

The Genesis LA approach has attracted the interest of significant public and private sector sponsors who believe this approach will be the one to make a difference. In many instances, the expense of redeveloping distressed, often contaminated properties makes traditional financing, even with government subsidies, impossible. Two financial institutions with deep roots in Los Angeles have invested heavily in Genesis LA's funds. Both Bank of America and Washington Mutual recognize that inner-city neighborhoods provide excellent business opportunities. The bankers tell me that because Genesis LA funds deals, determines the financial feasibility of projects and manages the investments, it eliminates underwriting costs for them and leverages their dollars. At the same time, they receive market-rate returns on their investments and create jobs in low-income communities while investing in CRA-eligible projects. Like Bank of America and Washington Mutual, retail giants McDonald's and Kmart, plus the Los Angeles Department of Water and Power also have the vision to understand that by working together under the Genesis LA umbrella they can do well and do good at the same time. Each sponsor has committed up to \$1.0 million dollars to the initiative as well as invested in individual sites and/or the for-profit funds.

The Genesis LA team understands the expense of developing in urban areas, and recognizes the difficulty of working with government-sponsored programs that have been overwhelming to developers and financial institutions. Through Genesis LA, Los Angeles has found a way to attack inner city development by easing the way for private investment. By bringing flexibility and focus to addressing these problems, we get the money on the table. By taking the best ideas and adding to them, we have set a standard that can be replicated around the world. **CI**

To learn more about the Genesis LA project visit our website: www.genesisla.org/. For additional information about CRA-eligible investment opportunities in the *Genesis LA Economic Growth Corporation or Capital Fund*, contact:

Deborah J. La Franchi
 President and CEO
 213/687-0528
lafranchi@genesisla.org

Genesis LA Real Estate Fund
 Richard Gentilucci
 Vice President Real Estate
 Shamrock Holdings, Inc.
 818/973-4268
rgentilucci@shamrockinc.com

Browse Proceedings from the Federal Reserve's Community Affairs Research Conference

Changing Financial Markets and Community Development

Topics Include:

- **Conference Summary**
- **The Unbanked and the Alternative Financial Sector**
- **New Industry Developments**
- **Wealth Creation**
- **Evaluation of CRA**

Speeches by the Federal Reserve's

- **Chairman Greenspan**
- **Governor Gramlich**

Now available at . . .

www.chicagofed.org/cedric/index.cfm



ABOUT THE AUTHOR



Los Angeles City Attorney ROCKY DELGADILLO was elected to office on June 5, 2001. Before his election, Rocky served as deputy mayor for economic development, where he oversaw city efforts to retain and attract business and jobs. In this capacity, Rocky created the L.A. Business Team to encourage smart business development that is friendly to neighborhoods. The team worked with more than 2,000 companies representing 200,000 employees and more than \$20 billion in private investment over the last four years. In 1996, the Los Angeles Business Journal named Rocky "Government Official of the Year."

Prior to his work for the city, Rocky was a senior attorney at O'Melveny & Myers in Los Angeles. He left the firm to work as the director of business development for Rebuild L.A. in the aftermath of the 1992 civil unrest. Rocky's team at Rebuild L.A. attracted nearly \$500 million in investments for neglected communities, spurred 15 new private-sector training programs and created a \$6 million loan fund for inner-city entrepreneurs.

Rocky earned a scholarship to Harvard University where he graduated with honors while receiving the university nomination for a Rhodes Scholarship and earning recognition as an honorable mention All-American football player. He earned his J.D. in 1986 from Columbia University, and was awarded their Medal of Excellence for the most distinguished young alumnus in 1998.

Rocky Delgadillo remains extremely active in the Los Angeles community. He has chaired Latino Heritage Month for the last five years and serves on the boards of many organizations including Catholic Big Brothers, the First AME Church Renaissance Program, the Franklin High School Scholarship Foundation, Friends of Jordan High School in Watts, and Workforce L.A. Rocky, his wife Michelle, and their newborn son, Christian live in downtown L.A.

EQ2 Equity Equivalent¹

Investments

THE NEED

A strong permanent capital base is critical for community development financial institutions (CDFIs) because it increases the organization's risk tolerance and lending flexibility, lowers the cost of capital, and protects lenders by providing a cushion against losses in excess of loan loss reserves. It allows CDFIs to better meet the needs of their markets by allowing them to engage in longer-term and riskier lending. A larger permanent capital base also provides more incentive for potential investors to lend money to a CDFI. All of these results help CDFIs grow their operations and solidify their positions as permanent institutions. Unlike for-profit corporations, which can raise equity by issuing stock, nonprofits must generally rely on grants to build this base. Traditionally, nonprofit CDFIs have raised the equity capital they need to support their lending and investing activities through capital grants from philanthropic sources, or in some instances, through retained earnings. However, building a permanent capital base through grants is a time-consuming process, and one that often generates relatively little yield. It is also a strategy that is constrained by the limited availability of grant dollars.

¹ This article is an adaptation of a National Community Capital technical assistance memo written by Laura Sparks.

² Comptroller of the Currency, Administrator of National Banks, in an opinion letter dated January 23, 1997, concerning Citibank's Equity Equivalent investment in the National Community Capital Association.

DEVELOPING A SOLUTION

In 1995, National Community Capital set out to create a new financial instrument that would function like equity for nonprofit CDFIs. To realize this goal, National Community Capital chose an experienced partner—Citibank—to help develop an equity equivalent that would serve as a model for replication by other nonprofit CDFIs, and to make a lead investment in National Community Capital. The equity equivalent investment product, or EQ2, was developed through the Citibank/National Community Capital collaboration and provides a new source and type of capital for CDFIs.

THE EQUITY EQUIVALENT—WHAT IS IT?

The Equity Equivalent, or EQ2, is a capital product for community development financial institutions and their investors. It is a financial tool that allows CDFIs to strengthen their capital structures, leverage additional debt capital, and as a result, increase lending and investing in economically disadvantaged communities. Since its creation in 1996, banks and other investors have made more than \$70 million in EQ2 investments and the EQ2 has become an increasingly popular investment product with significant benefits for banks, CDFIs and economically disadvantaged communities.

The EQ2 is defined by the six attributes listed below. All six characteristics must be present; without them, this financial instrument would be treated under current bank regulatory requirements as simple subordinated debt.

1. The equity equivalent is carried as an investment on the investor's balance sheet in accordance with Generally Accepted Accounting Principles (GAAP)
2. It is a general obligation of the CDFI that is not secured by any of the CDFI's assets
3. It is fully subordinated to the right of repayment of all of the CDFI's other creditors
4. It does not give the investor the right to accelerate payment unless the CDFI ceases its normal operations (i.e., changes its line of business)
5. It carries an interest rate that is not tied to any income received by the CDFI
6. It has a rolling term and therefore, an indeterminate maturity

Like permanent capital, EQ2 enhances a CDFI's lending flexibility and increases its debt capacity by protecting senior lenders from losses. Unlike permanent capital, the investment must eventually be repaid and requires interest payments during its term, although at a rate that is often well below market. The equity equivalent is very attractive because of its equity-like character, but it does not replace true equity or permanent capital as a source of financial strength and independence. In for-profit finance, a similar investment might be structured as a form of convertible preferred stock with a coupon.

ACCOUNTING TREATMENT

An investor should treat the equity equivalent as an investment on its balance sheet in accordance with GAAP and can reflect it as an “other asset.” The CDFI should account for the investment as an “other liability” and include a description of the investment’s unique characteristics in the notes to its financial statements. Some CDFIs have reflected it as “subordinated debt” or as “equity equivalent.” For a CDFI’s senior lenders, an EQ2 investment functions like equity because it is fully subordinate to their loans and does not allow for acceleration except in very limited circumstances (i.e., material change in primary business activity, bankruptcy, unapproved merger or consolidation).

CRA TREATMENT

On June 27, 1996, the OCC issued an opinion jointly with the Federal Deposit Insurance Corporation, Office of Thrift Supervision and the Federal Reserve Board that Citibank would receive favorable consideration under CRA regulations for its equity equivalent investment in National Community Capital. The OCC further stated that the equity equivalents would be a qualified investment that bank examiners would consider under the investment test, or alternatively, under the lending test. In some circumstances Citibank could receive consideration for part of the investment under the lending test and part under the investment test.³

This ruling has significant implications for banks interested in collaborating with nonprofit CDFIs because it entitles them to receive leveraged credit under the more important CRA lending test. The investing bank is entitled to claim a pro rata share of the incremental community development loans made by the CDFI in which the bank has invested, provided these loans benefit the bank’s assessment

This special debt investment is a precedent-setting community development debenture that will permit ‘equity-like’ investments in not-for-profit corporations.²

area(s) or a broader statewide or regional area that includes the assessment area(s). The bank’s pro rata share of loans originated is equal to the percentage of “equity” capital (the sum of permanent capital and equity equivalent investments) provided by the bank.

For example, assuming a nonprofit CDFI has “equity” of \$2 million—\$1 million in the form of permanent capital and \$1 million in equity equivalents provided by a commercial bank—the bank’s portion of the CDFI’s “equity” is 50 percent. Now assume that the CDFI uses this \$2 million to borrow \$8 million in senior debt. With its \$10 million in capital under management, the CDFI makes \$7 million in community development loans over a two-year period. In this example, the bank is entitled to claim its pro rata share of loans originated—50 percent or \$3.5 million. Its \$1 million investment results in \$3.5 million in lending credit over two years. This favorable CRA treatment provides another form of “return on investment” for a bank

³ See the Resources section of National Community Capital’s website www.communitycapital.org for a copy of the opinion letter.

in addition to the financial return. The favorable CRA treatment is a motivating factor for many banks to make an EQ2 investment.

OUTCOMES AND BENEFITS

National Community Capital estimates that approximately \$70 million in EQ2 investments have been made by at least twenty banks, including national, regional and local banks. These transactions have resulted in the following benefits:

EQ2 capital has made it easier for CDFIs to offer more responsive financing products. With longer-term capital in the mix, CDFIs are finding they can offer new, more responsive products. Chicago Community Loan Fund, one of the first CDFIs to utilize EQ2, once had difficulty making the ten-year nonpermanent loans its borrowers needed. Instead, Chicago had to finance these borrowers with seven-year loans. With over 15% of its capital in the form of EQ2, Chicago can now routinely make ten-year loans and has even started to offer ten-year financing with automatic rollover clauses that effectively provide for a twenty-year term. Cascadia Revolving Fund, a CDFI based in Seattle, finds EQ2 a good source of capital for its quasi-equity financing and long-term, real estate-based lending, and Boston Community Capital has used the EQ2 to help capitalize its venture fund.

Very favorable cost of capital. When National Community Capital first developed the equity equivalent with Citibank, National Community Capital was uncertain about where the market would price this kind of capital. The market rate for EQ2 capital seems to be between two to four percent.

Standardized documentation for EQ2 investments. As EQ2 transactions become more common, CDFI’s and banks have worked to standardize the docu-

ABOUT THE AUTHOR



BETH LIPSON is the manager of special projects in the financial services division at National Community Capital. National Community Capital provides financing, training, consulting and advocacy services to a national network of private-sector Community Development Financial Institutions (CDFIs). Beth manages National Community Capital's collection and publication of CDFI industry data and New Markets Tax Credit efforts. She also underwrites loans and investments to CDFIs. Beth has a BA from the University of Pennsylvania and an MBA from the Wharton School. For more information about National Community Capital, visit www.communitycapital.org.

mentation, thereby lowering transaction costs, reducing complexity and expediting closing procedures. There are good examples of both short, concise EQ2 agreements and longer, more detailed agreements. Of particular note are the loan agreements crafted by Boston Community Capital and US Bank. US Bank's three-page agreement, which succinctly lays out the investment terms and conditions, is a user-friendly document that has been used with approximately 25 CDFIs.

The Boston Community Capital documents, with a 23-page loan agreement and a three-page promissory

note, are substantially longer and more detailed, but include several statements and provisions that may make a hesitant bank more likely to simply use the CDFI's standard documents. For example, the agreement specifically references the OCC opinion letter recognizing an EQ2 investment as a qualified investment and includes a formal commitment from Boston Community Capital to assist a bank investor with a Bank Enterprise Award application.⁴

Non-bank investors are beginning to utilize EQ2 investments. Although banks have a unique incentive under the CRA to invest in equity equivalents, other investors can and are beginning to use the tool as well. Chicago Community Loan Fund has secured an EQ2 from a foundation, and Boston Community Capital has secured an EQ2 from a university. While the university and foundation do not have the same CRA incentives, they are able to demonstrate leveraged impact in their communities by making an EQ2 investment—rather than a loan—similar to how banks claim leveraged lending test credit under CRA.

BANK ENTERPRISE AWARD (BEA) CREDIT FOR EQ2 INVESTMENTS

The CDFI Fund's BEA program gives banks the opportunity to apply for a cash award for investing in CDFIs. Banks typically receive a higher cash award (up to 15% of their investment) for equity-like loans in CDFIs than for typical loans (up to 11% of investment). To classify as an equity-like investment for the BEA program, EQ2 investments must meet certain characteristics, including having a minimum initial term of ten years, with a

five year automatic rolling feature (for an effective term of 15 years). The EQ2 must also meet other criteria, which are described in the Fund's Equity-Like Loan Guidance (available through the BEA page of the Fund's website: www.treas.gov/cdfi). For more information on qualifying for equity-like loans under the BEA program, visit the Fund's website or contact the CDFI Fund at 202/622-8662.

CONCLUSION

For CDFIs to grow and prosper, they will need to create more sophisticated financial products that recognize the different needs and motivations of their investors. The EQ2 is one step in this direction. Unlike investors in conventional financial markets, CDFI investors (and particularly investors in non-profit CDFIs) have few investment products to choose from. The form of investment is typically a grant or a below-market senior loan. This new investment vehicle, the EQ2, is one step in developing the financial markets infrastructure for CDFIs by creating a new innovative product which is particularly responsive to one class of investors—banks. Further development and innovation in CDFI financial markets will help increase access to and availability of capital for the industry. **CI**

ADDITIONAL RESOURCES

Please visit National Community Capital's website www.communitycapital.org for the following free documents:

- Sample Equity Equivalent Agreements
- Regulatory Opinions Letters regarding EQ2

⁴ *The Bank Enterprise Award Program is a program of the CDFI Fund that provides incentives for banks to make investments in CDFIs.*

District Bulletin

— CONFERENCES AND SEMINARS —

SEPTEMBER 12

Introduction to Community Development Venture Capital sponsored by Community Development Venture Capital Association; Chicago, Illinois. For an agenda, registration materials and information about hotel accommodations please visit their website at www.cdvca.org.

The training session will provide the opportunity to hear from and ask questions of leading practitioners in the field, and participate in a business-school style case study. Case study and introductory reading material will be sent out prior to the training.

SEPTEMBER 18–20

Developing Working Relationships with Indian Tribes and Organizations sponsored by Southern Utah University; Cedar City, Utah. Information can be found at <http://utahreach.usu.edu/rosie/native/index.html>.

Issues to be addressed include: understanding Indian culture and history, building trust, creating a collaborative environment and tackling legal considerations.

SEPTEMBER 23

Smart Growth and Community Development: Working Together Smartly sponsored by Local Initiatives Support Corporation, National Neighborhood Coalition and The Federal Reserve Bank of Richmond; Washington, D.C. Contact Julia Gray at 804/697-8457 to receive a brochure.

This conference will explore how community development and smart growth work together. Participants will have ample opportunity for interaction during the workshops oriented toward discussing practical solutions for smart community development.

SEPTEMBER 23–26, 2001

12th Annual Oweesta Conference: Strengthening Native Assets sponsored by First Nations Development Institute; Honolulu, Hawaii. To register phone 540/3715615 or visit www.firstnations.org.

This is a training conference for economic development practitioners working with Native communities that encourages sharing of best practices and the exchange of ideas in Native sustainable development.

OCTOBER 8–9

Oregon Brownfields Conference 2001: "Bright Ideas for Redevelopment"; Bend, Oregon. Contact: Michael Fernandez at 541/737-4023 or 800/653-6110.

This 3rd annual conference will provide participants with information, case studies and panel discussions from representatives of state and federal agencies, funding organizations and consulting firms. Learn from experts how to successfully tackle redevelopment projects.

OCTOBER 15–17

Ninth Annual Housing Washington 2001: Build on Success presented by Washington State Housing Finance Commission and Washington State Office of Community Development; Tacoma, Washington. Phone 360/357-8044 or visit the website at www.wshfc.org/conf for additional information.

Housing Washington will offer workshops, focus sessions and general sessions designed to expand your creativity, develop your professional knowledge and leave you with practical tools that you can use every day. This year's conferences will focus on: celebrating affordable housing successes, preserving existing housing, including historic structures, providing defensible safe living spaces, rural and farm-worker housing and systemic and holistic approaches to making housing affordable.

OCTOBER 24–27

National Community Capital's 2001 Annual Training Conference; Memphis, Tennessee. Visit their website at www.communitycapital.org for a conference agenda and to register.

This conference will concentrate on community development as a civil rights issue, the opportunities and challenges of a major economic downturn, and how CDFIs can move from talking about impact to improving it.

NOVEMBER 1–6

Annual Loan Fund Training Institute sponsored by the National Association of Development Organizations (NADO) Research Foundation; New Orleans, Louisiana. A downloadable pdf version of the institute brochure is available at www.nado.org/meetings, or contact Bill Amt at 202-624-8467 or bamt@nado.org.

The Institute is an excellent opportunity to strengthen skills in small business development loan fund management through both an intensive three-day course and the EDFS annual training conference. This event is divided into two sessions, so you can attend either or both.

NOVEMBER 7–9

Community: A Capital Idea sponsored by The Enterprise Foundations Annual Network Conference; Washington D.C. For registration information call 410/772-2418 or online: www.enterprisefoundation.org/training/netconf.

Join professionals from all over the country with experience in, enthusiasm for, and dedication to low-income housing and community development to share your ideas and experiences.

District

— REFERENCES, RESOURCES & OTHERS —

NMVC FINAL RULE

SBA added new regulations to implement the New Markets Venture Capital (NMVC) Program, which certifies NMVC companies to make developmental venture capital investments in smaller enterprises located in low-income geographic areas and provide operational assistance to enterprises receiving such investments. With this announcement, SBA also withdraws the interim final rule on NMVC published on January 22, 2001. This final rule went into effect on May 23, 2001.

For more information, contact Austin Belton or Louis Cupp at 202 205-6510. Visit http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=2001_register&docid=01-12501-filed to read the full rule as published in the federal register pages 28601-32.

CARD-KEY

Community Affairs Resource Directory (CARD-KEY) is maintained by the Community Affairs unit of the Federal Reserve Bank of Richmond. This directory consists of local, state, and national organizations that provide technical assistance and, in some cases, financial assistance to organizations with missions focused on increasing community development in distressed neighborhoods. An excellent resource to bookmark: www.rich.frb.org/cao/card-key/index.cfm

ECONOMIC DEVELOPMENT FINANCE SERVICE GUIDE

Priced at \$10 (free for EDFS members), the guide includes information (vendor contact, pricing, technical support and training, key features, federal reporting compatibility) about 15 software packages that can increase the efficiency of micro- and small business development loan funds.

To request a copy, contact EDFS Project Manager Bill Amt at 202/624-8467 or bamt@nado.org.

PRIVACY RESOURCE GUIDE

The participant's notebook from the regulatory agencies' privacy preparedness training is available. In addition to a wealth of reference material, the notebook includes copies of the Federal Register with the Privacy Rule and Interagency Guidelines for Safeguarding Customer Information. It also includes several publications from the Agencies, a flow chart to help navigate the Privacy maze and finalized Privacy examination procedures.

If you were unable to attend any of the outreach sessions, you may still obtain a copy of the participant's notebook complete with all of the resource materials while supplies last. To obtain your copy, contact Mary Malone at 415/974-2871 or you may e-mail her at Mary.Malone@sf.frb.org. There is a nominal charge of \$25.00 for each notebook ordered to cover the material and duplication costs.

REVISED CRA Q&A

On July 12, the Federal Financial Institutions Examination Council (FFIEC) issued a revised "Interagency Questions and Answers Regarding Community Reinvestment" document that replaces the version published in April 2000. The revised document finalizes previously proposed guidance covering the treatment of community development activity that occurs outside a financial institution's CRA assessment area and clarifies several other interpretative issues arising under the CRA regulation. The latest Q&A can be viewed at www.ffiec.gov/cra.

COMMUNITY DEVELOPMENT VIRTUAL LEARNING

National Community Capital will be offering live, distance learning classes for community development financial institutions beginning in September. The fall schedule of classes include Small Business Loans, Financial Projections, Underwriting Construction Lending and Market Analysis.

For class dates, costs and course descriptions visit: www.communitycapital.org/training/learning_institute.html or call Yenda Jefferson-Fuller 215/923-4754, ext.212.

District

— REFERENCES, RESOURCES & OTHERS —

NMVC FINAL RULE

SBA added new regulations to implement the New Markets Venture Capital (NMVC) Program, which certifies NMVC companies to make developmental venture capital investments in smaller enterprises located in low-income geographic areas and provide operational assistance to enterprises receiving such investments. With this announcement, SBA also withdraws the interim final rule on NMVC published on January 22, 2001. This final rule went into effect on May 23, 2001.

For more information, contact Austin Belton or Louis Cupp at 202 205-6510. Visit http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=2001_register&docid=01-12501-filed to read the full rule as published in the federal register pages 28601-32.

CARD-KEY

Community Affairs Resource Directory (CARD-KEY) is maintained by the Community Affairs unit of the Federal Reserve Bank of Richmond. This directory consists of local, state, and national organizations that provide technical assistance and, in some cases, financial assistance to organizations with missions focused on increasing community development in distressed neighborhoods. An excellent resource to bookmark: www.rich.frb.org/cao/card-key/index.cfm

ECONOMIC DEVELOPMENT FINANCE SERVICE GUIDE

Priced at \$10 (free for EDFs members), the guide includes information (vendor contact, pricing, technical support and training, key features, federal reporting compatibility) about 15 software packages that can increase the efficiency of micro- and small business development loan funds.

To request a copy, contact EDFS Project Manager Bill Amt at 202/624-8467 or bamt@nado.org.

PRIVACY RESOURCE GUIDE

The participant's notebook from the regulatory agencies' privacy preparedness training is available. In addition to a wealth of reference material, the notebook includes copies of the Federal Register with the Privacy Rule and Interagency Guidelines for Safeguarding Customer Information. It also includes several publications from the Agencies, a flow chart to help navigate the Privacy maze and finalized Privacy examination procedures.

If you were unable to attend any of the outreach sessions, you may still obtain a copy of the participant's notebook complete with all of the resource materials while supplies last. To obtain your copy, contact Mary Malone at 415/974-2871 or you may e-mail her at Mary.Malone@sf.frb.org. There is a nominal charge of \$25.00 for each notebook ordered to cover the material and duplication costs.

REVISED CRA Q&A

On July 12, the Federal Financial Institutions Examination Council (FFIEC) issued a revised "Interagency Questions and Answers Regarding Community Reinvestment" document that replaces the version published in April 2000. The revised document finalizes previously proposed guidance covering the treatment of community development activity that occurs outside a financial institution's CRA assessment area and clarifies several other interpretative issues arising under the CRA regulation. The latest Q&A can be viewed at www.ffiec.gov/cra.

COMMUNITY DEVELOPMENT VIRTUAL LEARNING

National Community Capital will be offering live, distance learning classes for community development financial institutions beginning in September. The fall schedule of classes include Small Business Loans, Financial Projections, Underwriting Construction Lending and Market Analysis.

For class dates, costs and course descriptions visit: www.communitycapital.org/training/learning_institute.html or call Yenda Jefferson-Fuller 215/923-4754, ext.212.

Bulletin

— INVESTMENT OPPORTUNITIES —

ELDER ABUSE CAMPAIGN

The *California Community Partnership for the Prevention of Financial Abuse* (CCPPFA) is a nonprofit organization committed to preventing the financial exploitation of elders and dependent adults. CCPPFA is seeking financial contributions from financial institutions to produce a 20-minute staff training video for distribution to California financial institutions, and to fund an initial public awareness campaign on the growing problem of financial abuse. CRA credit will be provided to financial institutions that contribute to the program.

For more information contact: Jenefer Duane, Executive Director at 415/258-9111 or via email: jduane@marin.org

RING IN THE SCHOOL YEAR WITH BOOF!

Operation Hope's Banking on Our Future program needs your help to make this next school year a success. Share your financial expertise in the classroom as a Banker-Teacher volunteer. Operation Hope supplies all the materials and coordinates the visits with schools throughout the San Francisco Bay area and Los Angeles county. For more information contact the following Operation Hope representatives:

San Francisco Bay Area

Dawn.Walker@theunitedway.com
415/772-7305

Los Angeles

Diona.Moore@operationHOPE.org
Norma.Jasso@operationHOPE.org
213/891-2900

SOUTHWEST DEVELOPMENT FUND

As the only company west of the Mississippi selected by the U.S. Small Business Administration (SBA) for the New Markets Venture Capital Program, Southwest Development Fund, LLC hopes to bring a powerful combination of investment capital and technical assistance to qualified, high-potential small businesses located in "new markets"—including low-income urban and rural communities, enterprise zones and Native American reservations.

Southwest Development Fund, a partnership between Arizona MultiBank, a nonprofit community development corporation, and Magnet Capital, a Small Business Investment Company (SBIC), was formed recently to begin addressing the need for appropriately matching sources of financial and technical support with the growth stages of small businesses. In order to qualify for federal matching funds, Southwest Development Fund needs to raise \$6.5 million by January 9, 2002.

To learn more about this investment opportunity, contact Andrew Gordon via email: agordon@multibank.org or at 602/643-0030.

TILLER RESEARCH INC.

Tiller's Guide to Indian Country: Economic Profiles of American Indian Reservations (BowArrow Publishing Co., 1996) is the only comprehensive reference addressing the economics of Indian Tribes, reservations and Alaska Native communities. Availability of current data facilitates access to capital for these low- and moderate-income communities. Tiller Research Inc. is seeking investments to underwrite the publication of a 2002 edition, which will be updated and made available as an on-line community development utility. A couple of CRA-qualified investment options are available.

For further information contact Veronica Tiller, President, at 505/797-9800 or Patrick Borunda at 360/686-0925 or via email: pborunda@earthlink.net.

ARIZONA INVESTMENT POOL

The Federal Reserve's Phoenix Leadership Council has created an investment pool to allow smaller banks an opportunity to purchase mortgage-backed securities. The securities will be fully backed by loans to low- and moderate-income borrowers and will be customized to geographies within Arizona to meet the CRA needs of individual banks. Participation in the pool should qualify as an innovative and complex investment eligible for CRA credit.

To learn more about the investment pool contact either of the following Leadership Council members:

Florence Franklin, 480/596-3673

florence.r.franklin@nordstrom.com

Darryl Tenenbaum, 602/977-3770

dtenenb@bancorp@suncombank.com

SIX ON SIXTH

The South of Market Foundation is a San Francisco-based economic development corporation that works with local businesses and residents to make South of Market (SoMa) a better place to live and work. The Foundation recently launched "Six on Sixth," an innovative community revitalization plan designed to improve SoMa's Sixth Street corridor—one of the City's most blighted areas. Under the program, financial institutions will have the opportunity to pool their funds with foundations and City agencies to offer flexible loans and grants to entrepreneurs and owners of blighted properties. The loans will be used primarily for business expansion, store beautification, facade and tenant improvements. The Foundation's goal of starting or revitalizing six businesses by June 6th of next year has been endorsed by numerous community groups.

For more information contact Roger Gordon at 415/512-9676 or download the plan at www.somafoundation.org.

COMMUNITY INVESTMENTS ARCHIVES

Would you like to read more about the topics covered in this edition? Copies of past articles from *Community Investments* are available on our website at www.frbsf.org/community/index.html or by request from Judith Vaughn at (415) 974-2978.

Census 2000 and the Power of Demographics

Creating Cultural Windows to Banking Opportunities (Volume 11 #3, December 1999)

Understanding Census Tracts and Block Numbering Area (Volume 8 #4, Fall 1996)

Melting Pot Suburbs: A Census 2000 Study of Suburban Diversity; Frey, William H., *The Brookings Institution Census 2000 Series*, June 2001, www.brookings.edu/es/urban/census/frey.pdf

Equity Equivalent Investments

Qualified Investments: How to Make Investing In Your Communities Really Count (Volume 10 #3, Summer 1998)

Community Development Investments and the Lending Test (Volume 8 #2, Spring 1996)

Free subscriptions and additional copies are available upon request from the Community Affairs Unit, Federal Reserve Bank of San Francisco, 101 Market Street, San Francisco, California 94105, or call (415) 974-2978.

Change-of-address and subscription cancellations should be sent directly to the Community Affairs Unit. Please include the current mailing label as well as any new information.

The views expressed are not necessarily those of the Federal Reserve Bank of San Francisco or the Federal Reserve System. Material herein may be reprinted or abstracted as long as *Community Investments* is credited. Please provide the managing editor with a copy of any publication in which such material is reprinted.



FEDERAL RESERVE BANK OF SAN FRANCISCO

101 Market Street
San Francisco, CA 94105

Address Service Requested

FIRST CLASS MAIL
U.S. POSTAGE
PAID
PERMIT NO. 752
San Francisco, CA

ATTENTION:

Chief Executive Officer
Compliance Officer
CRA Officer
Community Development Department