A BILLION Dollar Opportunity for NYC:

Expanding Bank Reinvestment Resources for Equitable Economic Development

ASSOCIATION FOR NEIGHBORHOOD AND HOUSING DEVELOPMENT, INC.

EQED Equitable Economic Development Initiative

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Economic development is probably the most misunderstood and underutilized of the Community Reinvestment Act's (CRA) community development categories. The total volume of CRA-eligible investment in economic development by the financial industry is low across the country. But this problem is especially acute in New York City. ANHD's analysis finds that the percentage of local NYC economic development-related bank reinvestment is significantly lower than national averages. This low level of bank reinvestment has contributed to a lack of support and infrastructure needed for a robust economic development programs and policies. As economic inequality and economic development become priority issues for local government and community efforts, ANHD believes that the financial sector covered by the CRA should increase its involvement by partnering with government and communities to invest an additional $1 billion in programs and activities supporting equitable economic development.

While an ecosystem of programs, financing tools, and partners has been intentionally created over the years to support the construction and preservation of affordable housing, **a similar ecosystem does not yet exist for economic development.** There are also fewer consistent benchmarks and metrics to define and measure quality jobs and outcomes that result from economic development projects, which has led to much more disparate efforts and impacts. With the growing focus on inequality and the lack of economic opportunity for lower-income people and communities, it is time for the bank reinvestment community to expand its commitment and fully partner with nonprofit and government agencies to leverage these dollars and ensure that equitable economic development becomes a key component of their community development goals.

Just as the affordable housing ecosystem did not happen on its own, an equitable economic development ecosystem must also be intentionally created. This is one of the three principle themes to ANHD's Equitable Economic Development Initiative. A new ecosystem requires a comprehensive commitment of time and capital from banks and government, the expertise and collaboration of all stakeholders involved, and a commitment to work together.

ANHD proposes a CRA Equitable Economic Development working group be convened to start developing the tools and approaches needed to create this ecosystem.

This working group should include representatives from the New York City Economic Development Corporation, the New York City Department of Small Business Services, the Mayoral administration, financial institutions, and experts in the field, including Community Development Corporations, community based organizations, Industrial Business Service Providers, nonprofit developers of industrial space; workforce development providers, and organizations that focus on small business development and commercial revitalization.

Looking at a cross section of over 30 regional and national banks around the country, banks dedicated an average of 12.6% of their total CRA-eligible community development loans, investments, and grants to economic development. In contrast, local New York City banks dedicated just 7.8% towards economic development. This totaled $743 million reported by 22 banks in New York City towards economic development in 2013. This means that in 2013, the average percentage of dollars towards economic development by banks in New York City was 38% less than their counteparts nationwide.

However, the average actually obscures the level of economic development CRA investment by many NYC banks. The national median of CRA-eligible community development loans, investments, and grants to economic development was 10.6%, whereas local New York City banks' median investment was just 0.5% to economic development. We do note that New York City banks were much more in line with the national averages in the percentage of grants to economic development. The National average of CRA Grant dollars towards economic development was 10.8% with a median of 11.4%. For NYC banks, the average was 19.2% with a median of 8.8%.

However, overall a shocking half of New York City banks dedicated less than 1% of their total CRA community development dollars towards economic development.*

ANHD BELIEVES BANKS IN NYC SHOULD DEVOTE AT LEAST $1 BILLION MORE TOWARDS EQUITABLE ECONOMIC DEVELOPMENT

through community development loans, investments, and grants in order to bring the local bank reinvestment industry more in line with the national average and to raise the bar nationwide. With economic development activity by banks in NYC so dramatically trailing activity nationwide, we believe that this aspirational goal is a realistic start to support this growing emphasis on economic development, especially if the dollars are used for equitable economic development activities that have a concrete strategy to create and preserve quality jobs and economic opportunity for low-income New Yorkers and underserved communities.

Collectively, NYC banks can reach this $1 billion goal by:

(1) dedicating an additional $750 million of CRA loans, investments, and grants towards economic development,

(2) dedicating at least an additional $150 million in CRA loans, investments, and grants that fall under other CRA categories but still support quality jobs and increased economic opportunities through local hiring, workforce development, and small business supports, and

(3) dedicating an additional $165 million (50% more of the amount loaned to small businesses in LMI tracts), and use those dollars for loans to women and minority owned small businesses and immigrant entrepreneurs as well as affordable smaller dollar loans to micro-enterprises.

* A fuller discussion of this data follows in the Methodology section.

It must be noted that while ANHD believes that bank reinvestment activity should be expanded to include more equitable economic development, it should not come at the expense of affordable housing dollars, especially dollars that support permanent affordable housing for the lowest income New Yorkers. **Given the City's serious affordable housing crisis and the central role of affordable housing in community development, ANHD believes that banks in NYC must maintain - and even expand - their investment in affordable housing.** Equitable economic development reinvestment should come on top of and not in place of, banks' ongoing commitment to affordable housing.

Equitable economic development goes beyond expanding the tax base and beyond simply creating and preserving jobs. It is about the jobs being created and the people being served. **Equitable economic development is about creating the systems and environments to create a stable middle and working-class employment base and workforce that creates a meaningful path to the middle class.** It ensures that these systems and opportunities are **intentionally extended to the low- and moderate-income (LMI) and underserved communities** that need them most through targeted strategies for quality job creation, small business development, and workforce development and placement.

Economic development under the CRA deserves considerable attention and resources because of the central community development mission of addressing those systems that deny equal opportunity to those populations that need them most. The mission brings a particular focus on lower-income neighborhoods where the impact of these disparities is most visible, and therefore a government and social response can best be mobilized.

While economic development has been widely recognized as a critical need in New York City, economic development has, as discussed by ANHD in our white paper, *The Community Reinvestment Act, Bank Reinvestment, and the Opportunity of Equitable Economic Development in New York City*[1], been poorly defined in the CRA and under-resourced in our City. **Cities have typically focused on large corporate business incentives or large-scale projects purported to create or retain jobs, with little focus on the types of jobs created or the impact of the development on the broader community.**

But now, with the growing national conversation about the stark impact of our nation's growing economic inequality, equitable economic development is increasingly becoming a focus of government and social action. This is especially true in New York City, where Mayor de Blasio has made addressing inequality the core mission of almost every aspect of his administration's programs.

[1] http://www.anhd.org/wp-content/uploads/2011/07/2014-Community-Reinvestment-Act-Bank-Reinvestment-and-Equitable-Economic-Development.pdf

Equitable economic development can encompass multiple sectors and strategies. For example:

1. The **strengthening of the workforce development system** to focus on high-impact job training and job placement with industry partnerships and career pathways.
2. An **increase in support for small businesses** as economic engines, particularly for immigrant entrepreneurs and other minority and women-owned businesses.
3. An **increase in accessible lending for small businesses** many of which struggle to meet the qualifications, restrictions, or target market of existing small business lending tools.
4. The **establishment of clear, compulsory on-ramps** in all large municipality – backed development projects to ensure that local neighborhood residents and under-employed populations have entry to these opportunities.
5. The **expansion of quality jobs in the modern urban industrial sector** for underserved populations and currently low-income workers;
6. The **creation of and investment in nonprofit industrial financing tools** for the construction, rehabilitation, and management of manufacturing development space.
7. The **creation of CRA-eligible commercial revitalization tools** that support the investment in and support of existing local corridors and main streets that provide for the neighborhoods
8. The expansion of **community-based organizations as central** to connecting residents in their neighborhoods with specific skills and job opportunities.

The reasons for the disparities in investment are multi-faceted. One reason for the historically low levels of bank reinvestment in economic development has to do with how the category is defined and interpreted within the Community Reinvestment Act. The CRA should better clarify the definition of economic development and explicitly promote and encourage activities that lead to quality jobs, and not simply low-wage jobs.

The economic development category is a very specific category under the CRA, and the only one that focuses exclusively on both small businesses and jobs. In general, loans that aren't evaluated by CRA regulators as conventional small business loans (business loans of one million dollars or less) may be considered as **community development loans under the economic development category if they meet both a "size" and "purpose" test.** It meets the size test if it is determined to finance a small business as defined by SBA standards or by having revenues of one million dollars or less. To meet the purpose test, the activity must promote economic development by supporting **permanent job creation, retention, and/or improvement for persons who are currently LMI, or in LMI geographies, or in areas targeted by governments for redevelopment.**

We also recognize that some activities that support equitable economic development, but do not meet both the size and purpose test might still get CRA credit under another category. An earlier white paper goes into details on the drawbacks of the category, including confusion on what qualifies, as well as the historic focus on jobs, but less so on the quality of those jobs. We very much appreciate that federal regulators are currently evaluating this category and working to improve upon it.

Another reason for the sparse historic bank reinvestment effort on economic development is the lack of coordination with the community development sector and the lack of tools, especially higher-impact tools in this high-cost market where investments in small businesses are perceived as being much riskier than housing. The CRA has long focused on affordable housing, especially in high-cost markets like New York City, such that regulators, banks, and communities at large have set a high expectation that CRA dollars be used for affordable housing.

Even when there is a desire to invest more in economic development, the tools simply do not exist for economic development, and even less so for equitable economic development.

The ecosystem of resources, programs, tools, and partners for equitable economic development is not as well developed as it is for affordable housing. Over the 35 years since the CRA was passed, New York City has developed one of the richest ecosystems in the country to build and preserve affordable housing. The CRA has fostered collaboration among governments, developers, nonprofit organizations, and banks that has led to the creation of a robust infrastructure with a wealth of CRA motivated capital to support it.

NYC has a well-established set of nonprofit community development corporations (CDCs) and for-profit developers who have experience in building and preserving affordable housing, using all available resources – public and private. Large and sophisticated intermediaries such as the Local Initiatives Support Corporation, Enterprise Community Partners, Community Preservation Corporation, and the Low Income Investment Fund have the capacity and experience to help finance affordable housing through tax credits, below-market loans, and grants, and also to provide training and capacity building resources.

A myriad of federal, state, and city programs and agencies have been developed to support this housing infrastructure, including but not limited to the rent-regulation system; capital investments; bond financing and other mechanisms to provide below-market-rate loans; credit enhancements such as those offered through SONYMA and HPD; tax abatements such as 421-a and J-51; tax credits such as LIHTC; Section 8 vouchers; Inclusionary Zoning policies; disposition of city-owned properties; and zoning changes to allow for more residential buildings. Finally, a number of banks now have sophisticated community development teams that truly understand this system and how to engage in a meaningful way. This is not to say that the housing problem is solved – far from it – but the barriers have less to do with private capital and more to do with furthering public policies and investment to continue to effectively leverage this capital.

The tools for economic development are much more limited. In addition to philanthropic grants, the most common economic development tools are through tax credits, such as New Markets Tax Credits (NMTCs) and Historic Tax Credits, SBA loans, and commercial construction loans and mortgages. Under the CRA, NMTCs, SBA 504 loans and SBIC investments automatically meet the “purpose” test in that they are presumed to create, retain or improve permanent jobs for LMI people or in LMI geographies. Banks can also make loans to, or place deposits in, entities or loan pools that lend to small businesses, such as the New York Business Development Corporation, Credit Unions, and CDFIs. Banks can make SBA loans over $1M, such as SBA 504 loans, and make investments in SBIC’s or other SBA vehicles. Finally, banks often make standard commercial loans and mortgages to small businesses, typically qualified more by the location of the loan than by the people employed or the quality of jobs.

Increasing access to capital for small businesses also demonstrates an unmet need in New York City. A 2014 study conducted by the Federal Reserve Banks of New York, Atlanta, Cleveland and Philadelphia found that 18% of microbusinesses and 32% of small businesses applied for some form of credit in 2014; half of the applicants were denied completely while the remaining half were approved for all or part of the amount they applied for[2]. The primary products small businesses applied for were traditional business loans and lines of credit, with the vast majority asking for $250,000 or less – among microbusinesses, most needed less than $100,000. Yet collectively,

only 39% of bank small businesses loans and just over half of credit cards and lines of credit were approved.

These denials had real impacts on businesses, many of which were unable to expand as a result. They also found that 40% of New York businesses planned to apply for financing in the coming year. The 20 retail banks in our study loaned $1.1 billion to small businesses (revenues of $1M or less), but only $331 million of that went to small businesses in LMI tracts. They also made a total of $890 million in small dollar loans to businesses of any size in LMI tracts. While we understand that many loans, particularly credit cards, do not capture revenue size, it is reasonable to assume that the more traditional loans and lines of credit do take revenue into account.

The public data on small business lending is very limited and we look forward to the implementation of the section of Dodd Frank that mandates specific improvements to data collection on the loans and businesses applying for and receiving the loans. In addition to loans and lines of credit, banks can also assist small businesses by implementing formal second look programs that refer declined borrowers to nonprofit CDFI lenders who can provide the loans and technical support they need to be able to access traditional bank loans and other resources to grow their businesses and workforce.

At the same time as we are using existing tools and creating new tools for economic development, we must have the means to measure the impact. Affordable housing, while still difficult to build and preserve, begins with a clear definition that housing costs of less than 30% of one’s income is considered affordable. The housing needs of specific populations with special needs, such as senior citizens and people with disabilities, are also readily definable, and thus have led to a set of tools to provide such housing.

[1] (2015) Joint Small Business Credit Survey Report, 2014. Published by the Federal Reserve Banks of New York, Atlanta, Cleveland and Philadelphia retrieved from http://www.newyorkfed.org/smallbusiness/joint-small-business-credit-survey-2014.html

The metrics are less clear for economic development initiatives, but the need is no less urgent. The city has become increasingly divergent between higher-paying jobs that often require one or more degrees and much lower-paying service-sector jobs that require little education, will not support a family and have few opportunities for career advancement.

Yet, few standard metrics exist on what makes for an economic development investments with outcomes that yield increased economic opportunity and stability for low- and moderate-income New Yorkers.

Some impact investors and local organizations have developed models that could offer some guidance. NMTC projects capture this in some instances as well, but many CRA-eligible projects also go forward with no data on the types of jobs created and maintained. More thought needs to go into how regulators, banks, and communities can evaluate the impact of these dollars.

New York City has a unique opportunity today to invest more in equitable economic development activities through policies and public dollars that increase access to quality jobs for lower-income populations and neighborhoods throughout the city. They can only be successful if they can leverage these investments with private sector financing that will be most impactful if tools are developed by the cities and nonprofit organizations that will use them most effectively. $1 billion additional dollars towards high-impact, effective economic development opportunities will go a long way towards creating a more equitable city for all New Yorkers.

METHODOLOGY

ANHD analyzed the recently-released CRA performance evaluations (PEs) of 33 large regional and national banks with assets over $5 billion and regulated by the FDIC, Federal Reserve Board, and the OCC. The data from the FDIC and FRB are more complete as these agencies more consistently break down the categories of loans, investments and grants, although in many instances we did have to make assumptions from the narrative, and some activities remained unclassified. The OCC exams provided the fewest details for the large national banks they regulate – we were able to include the community development lending breakdown for four money center banks in their primary assessment areas.

Some performance evaluations broke down activity by year, but others did not, and exams covered different years, depending on when the exams were released. For this analysis, we analyzed total reinvestment activity over the bank's exam period. Because of the difference in exam lengths, we focused on the overall percentages and not total dollars spent. As ANHD gathers more data we can conduct longer-term analyses.

For this analysis, we did our best to categorize community development activities as one of the defined community development categories under the CRA: affordable housing, community services, economic development, neighborhood revitalization & stabilization. We understand that quality jobs can be created through categories other than economic development, but this is the only category that focuses on small businesses and permanent job creation, retention and improvement and also most likely represents businesses with less access to traditional financing. However, we encourage more investment in all categories of the CRA that lead to quality jobs and improved economic opportunities for low- and moderate-income New Yorkers.

For the past five years, ANHD has been issuing a survey to over 24 banks in New York City, including some of the largest banks in the country. We use this report to issue an annual report The State of Bank Reinvestment in NYC that analyzes all aspects of bank reinvestment in New York City. In 2013, we added a question about the percentage of community development loans, CRA-qualified investments and CRA-eligible grants dedicated to economic development. Among ANHD banks, 23 banks provided all or partial data and 22 reported on economic development, but some only reported in one or two categories. Given the gaps in data, we understand, that the percentages may be slightly higher, but that is also the case in our analysis of data from CRA exams nationwide and, from what we understand of the banks' activity in NYC, we believe these numbers still give a realistic picture of the amount and percentages of their economic development activity.

[1] http://www.brookings.edu/research/papers/2014/02/cities-unequal-berube

For the analysis in this paper, we match CRA guidelines to include HMDA/MECA multifamily community development loans in the total CRA dollars, although we split those out in our annual bank reinvestment study. While we understand that not all activities that contribute to quality jobs fall under this category, given the large numbers of dollars going towards affordable housing, healthcare, and other purposes, the amount invested remains low.

Among the national banks we analyzed in full, the average of total community development activity dedicated to economic development was 11.5% with a median of 8.6%. For 20 banks we could make a reasonable determination of current period investments, which more closely matches the data we collect. The average for those 20 banks was 12.6% with a median of 10.6%. For New York City banks the total average was 11.5% with a median of 0.5%, however removing the two high and low outliers gives a more accurate picture of bank activity, which brought it down to an average of 7.8% and the same median of 0.5%.

ANHD Bank Reinvestments by category related to economic development (2013 $'s in millions)	
Economic Development *	$743
Small loans to businesses in LMI tracts	$890
Small Business loans in LMI tracts	$331
* Two banks reported an additional $31.91 million in NMTC investments	

CRA dollars towards Economic Development among Banks Nationwide (as categorized in their most recent CRA Performance Evaluations)						
	Total			**Total minus high/low in each category**		
	#	**Avg**	**Med**	**#**	**Avg**	**Med**
% Community Development (CD) loans for economic development	32	13.50%	9.43%	30	12.50%	9.43%
% CD loans + current period investments and grants	20	12.58%	10.60%	18	11.35%	10.60%
% CD loans + all investments and grants	27	11.54%	8.60%	25	10.66%	8.60%
% Grants for economic development	16	10.79%	11.41%	14	10.08%	11.41%

CRA dollars towards Economic Development among Banks in ANHD State of Bank Reinvestment in NYC: 2014 report (2013 data)							
	Total				Total minus high/low		
	# banks	Avg	Med		# banks	Avg	Med
% Community Development (CD) loans for economic development	22	11.69%	0.46%		20	8%	0.46%
% CD loans + current period investments and	22	11.49%	0.50%		20	7.8%	0.5%
% Grants for economic development	16	19.15%	8.80%		14	17.15%	8.80%

Data was pulled from these CRA exams released in 2014 and 2015 [four National OCC banks are older]

Federal Reserve Bank: Frost Bank (TX), East West Bank (CA), BBVA Compass (AL), Iberia (LA), Comerica (TX), Silicon Valley Bank (CA), Susquehanna (PA), Commerce (MO). **FDIC**: Bank of the West (CA), NY Community Bank (NY), BB&T (OR), Investors (NJ), Pacific Western (CA), Prosperity (TX), American Express Centurion (UT), Ally Bank (UT), Apple Bank (NY), First Citizen Bank & Trust (NC), Eastern Bank (MA), United Bank (CT), BMW Bank (UT), Pinnacle (TN), International Bank of Commerce (TX), United Community Bank (GA). **OCC**: Rabobank (CA), NBT Bank (NY), First Financial (TX), Webster (CT), Park (CT), Wells Fargo (SD), HSBC (VA), Bank of America (SC), and TD Bank (DE)

Banks in ANHD study that provided all or some data on economic development activity in 2013:

Bank of America, Capital One, Citibank, HSBC, Wells Fargo, JPMorgan Chase, Santander, TD Bank, M&T Bank, NY Community Bank, Signature, Apple, Flushing, Popular Community, Astoria, Carver, Dime, Valley National, Goldman Sachs, Deutsche Bank, Morgan Stanley, and Bank of NY Mellon