

# **Banking Regulation, Public-Private Collaboration, and Local Leadership**

**How a Community Development Bank  
Promotes Local Economic Development in  
Low-Income Neighborhoods in Washington,  
D.C.**



# Overview of Case Study

- **Problem**
  - Access to capital to spur investment and development in lower-income communities in Washington, D.C.
- **Context**
  - Banking regulations that require/support investment and public-private collaboration to increase investment in lower-income communities
  - Roles of local institutions as investors and leaders in creating funding mechanisms and institutions
  - Business strategies necessary to respond to market need and customer base
- **Subject: City *First* Bank of D.C., a community development bank**

# The Intersecting/Complementary Roles of Business, Government, and Social Enterprise

- **Public-Private Partnerships**
  - Encourage collaboration among stakeholders
  - Increase investment and ownership of stakeholders
  - Maximize leveraging and other resources
  - Minimize risk exposure
  - Improve sustainability of projects
- **Community Leadership**
  - Brings market knowledge and vision
  - Identifies market gaps and mobilizes resident support
  - Has access to existing networks and resources to assist implementation of development projects
- **Community Development Financial Institutions**
  - Respond to gaps in market for credit, capital, and services
  - Community Development Corporations and Financial Institutions
  - Community Development Banks and Thrifts

# The Intersecting/Complementary Roles of Business, Government, and Social Enterprise – Banking Regulation

- **Fact: Communities need fair access to capital for investment and development and become self-sustaining and prosperous: Banks should be primary source of capital**
- **Banking Regulation**
  - More than three decades of policy and regulation to compel banks to lend, invest, and serve lower-income communities and populations
  - Motivated by advocacy, need to overcome history of discrimination and redlining, and necessity of private sector involvement to sustain economic redevelopment
- **Community Reinvestment Act (1977) -- Primary banking law requiring banks to facilitate access to capital in underserved communities**
  - “...regulated financial institutions...serve the convenience and needs of the communities in which they are chartered to do business.”
  - “...regulated financial institutions have continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered”
- **Bank Holding Company regulation interpretation on public welfare investments**
  - “Bank holding companies possess a unique combination of financial and managerial resources making them particularly suited for a meaningful and substantial role in remedying our social ills.”
  - Authorizes BHCs to make debt and equity investments in projects that primarily benefit low- and moderate income communities and populations
  - Similar authority for banks

# The Intersecting/Complementary Roles of Business, Government, and Social Enterprise – Funding

- **Strategic capitalization of City *First* Bank**
  - Wide range of public and private investors
  - Patient, passive capital consistent with mission/regulation
    - Federal and local government
      - Department of Housing and Urban Development
      - Department of Treasury's CDFI Fund
      - District of Columbia Department of Housing and Community Development
    - Fannie Mae
    - National Community Investment Fund
    - Georgetown University
      - Realizing importance of viable community
    - Large financial institutions
      - Meeting regulatory compliance requirements
      - Recognizing new business development opportunities

## **City *First* Bank's Business Lines – Meeting Demand and Supporting Community Economic Development**

- **Affordable Housing Redevelopment Loans**
  - Increases affordable housing stock
  - Creates entrepreneurial opportunity for local contractors
- **Small Business Development Loans**
  - Increases economic activity in community
  - Fosters revitalization
  - Supports access to retail services for residents
- **Community Institutions**
  - Houses of Faith
  - Charter Schools
  - Community Organizations

# City *First* Bank's Business Strategies – Responding to Market Needs

- **Specialized Lenders**
  - High degree of market knowledge
  - High level of sector knowledge
  - In-depth technical assistance providers
- **Flexible Underwriting**
  - Specialized credit evaluation
  - Loan terms and repayment conform to loan type and borrower
- **Unique Products**
  - Combined loans for acquisition, construction, and permanent financing
  - Expanded access to credit as borrower becomes more seasoned
  - Specialized loans that match borrower needs and business operations
- **Loan Servicing and Credit Oversight**
  - Retention of all loan servicing
  - High-touch loan monitoring

# Implications for Policy and Business in Serving Lower-Income Populations and Communities

- **Banking and Other Regulation**
  - Induces investment that may otherwise not occur
  - Presents opportunity to explore incentives across sectors to increase and leverage available funding
  - Demonstrates long-term, sustained funding is necessary
- **Businesses**
  - Modify business approach to find profit opportunities
  - Conduct market-specific research
  - Approach as a niche market, specialized providers and products
  - Prepare for human resource-intensive operations
  - Identify relevant metrics to measure and quantify success
  - Capture short-term gains, and plan for long-term impact
- **Research/Academic Community**
  - Quantify value of public good of incentives/subsidy across industries
  - Develop body of empirical evidence of appropriate level of involvement by business, government, and social enterprises in poverty alleviation
  - Contribute to policy