BANK ENTERPRISE AWARD PROGRAM

BASELINE ANALYSIS AND EVALUATION

FINAL REPORT

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Principal Research Authors
Listed alphabetically by last name

Sadie J. Bennett
Director, Division of Research and Evaluation
A. Reddix & Associates (ARDX)
5800 Lake Wright Drive, Suite 301
Norfolk, VA 23502
(757) 321-4123
Email: sadie.bennett1@ardx.net

Spencer M. Cowan
Senior Vice-President
Woodstock Institute
29 East Madison, Suite 1710
Chicago, Illinois 60602
(919) 619-4040
Email: scowan@woodstockinst.org

Advancing Economic Security and Community Prosperity

Bruce C. Mitchell
Senior Researcher
National Community Reinvestment Coalition
740 15th Street, NW, Suite 400
Washington, DC 20005a
(202) 464-2739
Email: bmitchell@ncrc.org

OPENING DOORS TO ECONOMIC OPPORTUNITY

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Angela D. Reddix
Founder, President, and CEO
A. Reddix & Associates (ARDX)
5800 Lake Wright Drive
Suite 301
Norfolk, VA 23502
(757) 410-7704
Email: angela.reddix@ardx.net
www.ardx.net

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Finally, the cooperation of leadership from more than 90 financial institutions enabled a comprehensive baseline examination of investment- and service-related activities of BEA Program applicants and awardees to gather feedback regarding the effectiveness of the BEA Program, and to identify areas for potential program enhancement.

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I. Executive Summary

Background

Congress enacted The Bank Enterprise Act of 1991[1] to incentivize greater investment by financial institutions in low-income urban and rural communities. Though the Community Reinvestment Act (CRA) of 1977[2] sought similar ends, the framers of the Bank Enterprise Act believed that the CRA was not effectively reaching deeply distressed places. Though enacted in 1991, the Bank Enterprise Act received no appropriated funding until the passage of the Riegle Community Development and Regulatory Improvement Act of 1994, commonly known as the Riegle Act. The Riegle Act modified the Bank Enterprise Act and established The Community Development Financial Institutions Fund (CDFI Fund). The purpose of the CDFI Fund is to promote economic revitalization and community development through investment in and assistance to community development financial institutions (CDFIs). Thus, the Riegle Act acknowledged and facilitated the emergence of CDFIs as a distinct class of financial institutions that serve low-income, underserved, rural, and urban communities throughout the nation, and provided a dedicated source of funding to promote and support CDFIs.[3] To address these objectives, both the Riegle Act and the Bank Enterprise Act defined distressed communities as those with higher distress criteria than were set forth in the CRA.

The BEA Program is one of five main programs administered by the CDFI Fund to promote access to capital and to stimulate economic growth in distressed communities characterized by poverty, unemployment, and low-incomes. As both the Congressional hearings and BEA Program and CDFI Fund authorizing statutes specify, members of Congress aimed to create a new program that would focus more closely on the most severely distressed urban and rural communities and give banks an incentive to make investments in those communities. The BEA Program provides financial incentives to encourage institutions insured by the Federal Deposit Insurance Corporation (FDIC) to expand investments in CDFIs and to increase lending, investment, and service activities within economically distressed areas. BEA-eligible census tracts include urban and rural communities and Native American tribal reservations where at least 30 percent of residents are below the national poverty level, and where the unemployment rate is at least 1.5 times the national average. In contrast, under the CRA, distressed census tracts have only a 20 percent poverty rate, and a bank may receive credit for activity in a census tract in which the median family income is less than 80 percent of the area of which the tract is considered a part. In addition, a tract with a higher median family income may be eligible for CRA credit if it meets Federal Financial Institutions Examination Council (FFIEC) criteria for being distressed or underserved because of population loss, unemployment, or being a remote, rural tract.

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[1] The Bank Enterprise Act of 1991 (BEA Act) originally authorized the Bank Enterprise Program (Public Law 102-242; 105 Stat. 2317) to provide CRA credits for banks' community investments. In addition, the BEA Act of 1991 established eligibility criteria of 30 percent poverty and unemployment 1.5 times greater than national average.

[2] Community Reinvestment Act (12 U.S.C. 2901; 12 CFR Part 228). Enacted by Congress to encourage financial institutions to help meet the financial needs of the communities in which they operate.

[3] The Riegle Community Development and Regulatory Improvement Act of 1994, as amended (Pub.L 103-325)

This report, the Bank Enterprise Award Program Baseline Analysis and Evaluation, was independently conducted by A. Reddix and Associates (ARDX), with assistance from Woodstock Institute, and the National Community Reinvestment Coalition (NCRC).

A major objective of this evaluation is to provide a baseline analysis of the BEA Program and to address questions posed by two previous BEA Program reviews conducted by the Office of Management and Budget (OMB) in 2002 and the General Accountability Office (GAO) in 2006.[4] In addition, this evaluation:

- Documents the history and evolution of the BEA Program, including changes in regulations;
- Analyzes administrative and secondary data to assess the distribution and utilization of BEA Program awards; reviews the geographic areas and populations served by the program, as well as the types of financial products and services offered by awardees; and compares the socioeconomic differences between the census tracts that the BEA Program serves and all CRA-eligible tracts (of which BEA tracts are a subset);
- Compares the variations in bank branch presence in areas served by the BEA Program and areas served only by CRA, and analyzes the frequency of CRA small business lending in more highly distressed BEA census tracts as compared to regulated and nonregulated CDFIs that may participate in the BEA Program;
- Presents opinions of key stakeholders on the perceptions of the BEA Program's benefits and effects on bank behavior via online surveys and interviews with a statistically valid sample of applicants and awardees.

In order to better understand the incentives of key stakeholders participating in the BEA Program, the study includes primary data collection through a survey of BEA Program applicants and awardees for award years 2012-2014 and structured stakeholder interviews of a stratified, statistically representative sample of BEA applicants and awardees. The study also explores methods for constructing a peer group design of BEA applicants and comparable non-BEA bank peers, which will guide the development and conduct of more rigorous quantitative evaluations in the future.

Four Research Questions

The *BEA Program Baseline Analysis and Evaluation* addresses the following research questions using six distinct data sources:[5]

1. **Institution type and size in relation to BEA awards:** Are the institution type and size of BEA Program applicants and awardees—whether a CDFI bank, a Minority Depository Institution, or a community bank, as classified by asset size (small, intermediate, or large)—associated with the number and amount of BEA awards?

[4] U.S. Government Accountability Office. July 2006. "Treasury's Bank Enterprise Award Program". GAO-06-824. Washington, DC. http://www.gao.gov/new.items/d06824.pdf. U.S. Office of Management and Budget. 2002. "Bank Enterprise Award Assessment". Section 1. Year of Assessment: 2002. Washington, DC. https://georgewbush-whitehouse.archives.gov/omb/expectmore/detail/10000418.2002.html

[5] The Performance Work Statement for the BEA Baseline Analysis identified seven hypotheses which the Subject Matter Experts (SMEs) included in their analysis. The seven hypotheses are included in Volume II of the report, which have been condensed into the four broad research topics outlined above.

2. **Institution type and size in relation to BEA Program financing or service activity:** Are the institution type and size of BEA Program applicants and awardees—whether a CDFI bank, Minority Depository Institution, or community bank as classified by asset size (small, intermediate, or large)—associated with the type of BEA Program activity undertaken? Eligible BEA activities include either direct financing or service activities in distressed communities, and financing of intermediary CDFIs. A related research question is, what financing activities are located inside and outside BEA tracts based on institution type and size?

3. **Bank branch location in BEA distressed areas:** How are the type and size of an institution that receives a BEA Program award related to the location of bank branches in BEA and CRA census tracts?

    - Do BEA Program participants (i.e., applicants and awardees) have a higher branch presence than non-BEA awardee banks in the more highly distressed subset of CRA tracts that are BEA-qualifying census tracts?
    - Does the presence of branches in BEA census tracts compared to CRA census tracts in general differ based on type or size of the BEA Program applicants and awardees?
    - Does the BEA Program award help mitigate the financial risks and costs of bank branches' offering of products and services in BEA census tracts, which are more highly distressed than CRA census tracts in general?
    - Do applicants report more BEA activities than required in the application process?

4. **BEA Program incentives and CRA regulatory incentives:** Are the institution type and size of BEA Program applicants and awardees—whether a CDFI bank, a Minority Depository Institution, or a community bank, as classified by asset size (small, intermediate, or large)—associated with bank perceptions of the relative importance of CRA regulatory and BEA Program incentives in bank investment decisions?

    - Does providing an award for BEA census tract investments or investment in CDFIs drive investment deeper into more highly distressed areas, as compared to other CRA census tracts?
    - Are BEA Program incentives and CRA regulatory objectives duplicative or complementary?
    - Is it more difficult or expensive to provide financial services in BEA distressed census tracts than in other geographic areas?

Data Sources

This BEA Program evaluation has analyzed a wide range of data:

- BEA administrative data, including BEA Program applicant data (FY 2012-2014) and awardee data (FY 2012-2014), CDFI Program awardee transactional data (FY 2012-2014), and distressed CRA census tract data from the FFIEC
- BEA distressed census tract data in comparison with CRA census tract data
- Home Mortgage Disclosure Act (HMDA) data in comparison with BEA home mortgage lending data
- Online surveys of all 2012-2014 BEA Program applicants and awardees

- Structured phone interviews with a stratified sample of BEA Program applicants and awardees
- FDIC database of 100,000 bank branches for BEA Program applicants and awardees

Findings

This BEA Program evaluation has yielded the following key findings:

- Overall, the findings from the program history, administrative and secondary data analysis, and surveys and interviews with bank officers provide clear evidence that participating banks have focused their lending and services activities on more highly distressed communities than required by the CRA alone.
- The analysis of the BEA Program's administrative and secondary data provides considerable evidence that the BEA Program is not duplicative of the CRA requirements. BEA Program awardees serve more highly distressed areas that have less access to bank branches and services than CRA reporting banks.
- The history of the BEA Program documents how the program evolved over time and responded to both OMB and GAO recommendations that the BEA Program focus on making awards to smaller CDFI banks and Minority Depository Institutions that are increasing their qualified activities in BEA distressed communities and to larger non-CDFIs that are investing in CDFIs that serve BEA distressed communities, instead of funding larger banks directly.
- The analysis of the BEA Program demonstrates that the program targets census tracts with much lower income levels and higher poverty rates than typically required under the CRA regulations. The study demonstrates that median family income is 23.4 percent less in BEA tracts than in the broader category of all CRA-eligible census tracts and less than half the median family income nationally. These disparities in median income and poverty rates between BEA and CRA distress levels illustrate the substantive difference between the BEA Program's objective to target the most highly distressed and underserved census tracts and the CRA's broader objective of encouraging bank investments in low- to moderate income census tracts within the banks' assessment areas.
- CDFI Fund staff analysis of the FFIEC's CRA small business lending data shows that CRA-reporting banks have a considerably lower propensity to lend in highly distressed areas than do CDFI banks and all CDFIs. Thus, it does appear that the BEA Program drives bank investment into more highly distressed communities than CRA regulatory incentives alone.
- A majority of respondents interviewed for this evaluation indicated that, while they were always concerned with CRA compliance, they viewed the BEA Program as a tool that allowed more investment into areas where, regardless of CRA, they may have severely curtailed activity or had no activity at all.
- Across all three data collections there is evidence that a bank's size influences its perception of the relative importance of CRA regulatory incentives and BEA Program incentives in shaping investments in highly distressed areas. Larger banks consistently ranked CRA incentives as more important when making decision about investing in highly distressed areas, while small and intermediate-small banks ranked BEA Program incentives as more important.

- Regardless of bank size, the interviewees reported that the BEA Program was a factor that shaped the size and scope of the financial products and services they offered to more distressed communities.
- The interviewees and survey respondents reported that the BEA Program offers banks the ability to make loans to people with limited credit histories, lower incomes, and potentially greater risk of default by offsetting some of the potential losses the bank may experience if some of these loans are not repaid.[6]
- The interviewees and survey respondents also reported that banks that make BEA Program-qualified investments in CDFIs tend to provide loans or deposits (commonly certificates of deposit) and that the CDFIs provide a way for larger banks to reach more highly distressed areas than they could otherwise.
- The feedback gathered through the primary data collection about the BEA Program provides important information about how to increase awareness of the program, to improve the application process, and to enhance the tracking of BEA qualified activities and outcomes.

Opportunities for Additional Research

While the current study is correlational and does not attempt to show whether BEA Program awardee banks are behaving differently than their peers (i.e., financial institutions that have not applied for BEA Program awards), this evaluation offers evidence to demonstrate that FDIC-insured banks maintain fewer bank branches and do less lending in more highly distressed census tracts than CDFIs do, which suggests that CRA regulatory incentives are not sufficient to drive investment into these more highly distressed areas. The study examined CDFI Program transactional data as a proxy for BEA small business lending as compared to CRA FFIEC small business lending data. This analysis demonstrated the potential for conducting a similar analysis of the complete portfolio of BEA awardee small business lending. Preliminary analysis of HMDA data and BEA mortgage lending indicates another method to explore differences in bank lending by levels of distress. These analyses provide an analytical foundation that the CDFI Fund may use to consider conducting quantitative peer group research to analyze the BEA Program's influence on bank behavior using CRA small business and farm loan data, HMDA data, FDIC branch bank data, and census data.

II. Research Methodology

The BEA Program baseline analysis utilized a mixed-method data collection approach including both primary and secondary data collection, and both qualitative and quantitative research methods. The project began with an organizational meeting on October 31, 2014, and two two-day information gathering sessions, conducted on November 6-7, 2014, and November 17-18, 2014. The information-gathering sessions with the CDFI Fund and external subject matter experts provided the context for a comprehensive literature review, secondary data analyses, and primary research designed to:

- Provide an overview of the operation and evolution of the BEA Program from its inception;

[6] Starting in FY 2015, due to the implementation of the OMB's Uniform Reporting Requirements, such uses of funds require direct tracing of actual award dollars.

- Develop a framework to examine the investment, lending, and service-related activities of the applicant and awardee pool before the BEA application assessment period, during the assessment period, and after the award;
- Provide a framework for an assessment of CDFI Partner behavior before and after receipt of investments from non-CDFI BEA Program awardees;
- Provide source data for use in designing a comparative analysis of the performance of BEA applicants and awardees, including comparison with peer banks; and
- Measure stakeholder perceptions regarding the effectiveness of the BEA Program.

Administrative and Secondary Data Analysis

The overall research objective of the secondary data analysis was to describe the distribution and utilization of BEA Program awards to better understand which areas and populations are served by the BEA Program and CRA, and what types of services are provided. The secondary data collection involved analysis of program applications and awards data to assess program performance, and was used to produce a Program Analysis Framework Report presenting a historical overview of the BEA Program and a baseline analysis of the applicant and awardee pool. The research team used program data from a BEA Program applicant and an awardee database provided by the CDFI Fund. Additional data sources were derived from the Federal Financial Institutions Examination Council American Community Survey (ACS) database, and a set of BEA Program fully and partially eligible census tract boundary files for the 2012-2014 award periods (derived from 2006-2010 ACS data). The research team conducted secondary data analysis using counts, descriptive statistics, and measures of Pearson correlation.[7] The secondary data analysis included segmentation of applicant institutions by asset size and type of organizational charter or business activity, and geographic and locational analyses to examine the distribution of activities and awards by geographic area.

The results of the secondary data analysis also served as the basis for analyzing the BEA Program applicant pool and formulating the questions used for the primary data collection summarized below.

Primary Data Collection

The objectives of the primary data collection were to examine the investment- and service-related activities of BEA Program applicants and awardees, to gather feedback from stakeholders regarding the effectiveness of the BEA Program, and to identify areas for potential program enhancement. The research team utilized a mixed-method (qualitative and quantitative) data collection approach to ensure the most comprehensive research results. Furthermore, the team used a multi-strand design where responses were captured and validated using two different data collection methods: online surveys and semi-structured interviews. The interviews were conducted in two phases: an initial triangulation sample of 20 online respondents to probe more deeply about key topics included in the online survey, and complementary interviews of 20 more respondents to explore follow up topics from the online survey results. The evaluation team conducted these qualitative interviews with a sample of 40 respondents from institutions that were proportionally representative of the population of BEA Program applicants, and administered a

[7] A bivariate correlation analysis using Pearson's product-moment coefficient as an indicator of the strength of linear relationships amongst the variables.

survey of the population of 156 institutions that applied for a BEA Program award in award years 2012-2014.[8]

As indicated above, the goal of the triangulation interviews was to explore the topics in the online survey in more depth. The key topics that formed the basis for the interview protocols included:

- How the prospect of receiving BEA Program funding influenced the institution's investment decisions;
- How BEA Program-qualified activities are different from (or complementary to) CRA regulatory requirements;
- The importance of economic factors, regulatory mandates, and corporate mission to the institution's investment decisions;
- The perceived effect of the BEA Program on BEA-qualified activities offered by the institution or the institution's ability to serve BEA distressed communities; and
- The nature and length of the relationship between CDFI partners and CDFIs.

The online survey instrument included five sections, each containing two to nine questions focused on a specific topic. ARDX programmed Section 2, Section 3, and Section 4 of the instrument to include pre-populated data based on the survey recipient's most recent application and assessment period. The topics covered in each section are shown in **Table 1**.

Table 1. Key Topics in Online Survey

Survey Section	Section Title	Topics
1	Overall Impressions of BEA Program	Perceived impacts of the BEA Program for: *Service in certain markets *Relationships with CDFIs *Increased CDFI investment *Development of new products or services *Improvement of CRA performance *Engagement in BEA-Qualified Activities
2	CDFI-related Activities including grants, equity investments, equity-like loans, loans, deposits and technical assistance to CDFIs	*Engagement and factors influencing the engagement in CDFI-related Activities *Increased investment and factors influencing the increase in CDFI-related Activities * How the prospect of receiving BEA funding influenced the institution's investment decisions in CDFI-related Activities

[8] The full content survey and interview results are presented in Volume II of this study, and Volume III, Appendix A contains a full description of the survey methodology, Appendix B includes all BEA Program Bank award data, and Appendix C includes all of the thematic coding for compiling and analyzing the qualitative data collections.

Survey Section	Section Title	Topics
3	Distressed Community Financing Activities, including affordable housing loans (mortgages), affordable housing development, home improvement loans, education loans, small business loans and commercial real estate development.	*Engagement and factors influencing the engagement in Distressed Community Financing Activities *Increased investment and factors influencing the increase in Distressed Community Financing Activities * How the prospect of receiving BEA funding influenced the institution's investment decisions in Distressed Community Financing Activities
4	Service Activities including deposits, community services, financial services, targeted financial services, targeted retail savings/investment products	*Engagement and factors influencing the engagement in Service Activities *Increased investment and factors influencing the increase in Service Activities *How the prospect of receiving BEA funding influenced the institution's investment decisions in Service Activities
5	General Feedback	Opinion regarding the greatest impact of the BEA Program on: *their institutions *residents and businesses in distressed communities Comments regarding: * the impact of not receiving a future BEA Program award * suggestions for improvements to the BEA Program

The complementary interview questions were developed based on the findings of the secondary data analysis, triangulation interviews, and online surveys.

Several key topics for exploration during the complementary interviews emerged from those findings, and formed the basis for the interview protocols (included in Volume III of Appendix A):

- Clarification of the perceived influence of BEA and CRA on bank investment decisions for highly distressed areas;
- Proportion of BEA Program-qualified activities and CRA-eligible activities in highly distressed census tracts;
- Understanding of the thought processes behind institutional investment decisions for BEA Program qualified activities;
- Understanding of how BEA Program awards affect administrative costs associated with disseminating BEA funding;
- Understanding of how institutions track investments in BEA Program-qualified activities;
- Explanation of how CDFI partners track BEA Program funds received from indirect investment institutions;
- Relationships BEA Program awardees have with CDFIs, and the nature and length of those relationships, both from the institutions' and the CDFI partners' perspectives;
- Types of investments CDFIs received from indirect investment institutions; and

- How BEA funding affects highly distressed communities, and the perceived effect of not receiving a BEA Program award.

III. BEA Legislative and Program History

The BEA Program baseline analysis presents a summary of the history and development of the program in order to understand what Congress intended the program to do. The program history and intended objectives are essential for formulating research and evaluation questions to conduct an initial program evaluation.

The legislative history of the BEA Program shows that the program was part of larger efforts to promote investment in urban neighborhoods that had experienced long-term disinvestment, a lack of access to capital from mainstream financial institutions, and more economic distress than other areas covered under the CRA. This examination of the history and origins of the BEA Program provides a better understanding of the context in which the program developed and the competing interests that contributed to the final enacted legislation for the program.

Legislative History of the Bank Enterprise Award Program[9]

Representatives Floyd H. Flake (D-NY-6) and Thomas J. Ridge (R-PA-21) proposed the original idea for the BEA Program in the Bank Enterprise Act of 1991 as part of efforts to address the plight of economically disadvantaged urban neighborhoods. Inner city neighborhoods had suffered from disinvestment for decades. The Community Reinvestment Act (CRA), passed in 1977, had attempted to make regulated banks meet the credit needs of all communities in which they were doing business, but many community development practitioners considered the CRA insufficient.[10]

Representatives Flake and Ridge intended to create a new program that would focus more closely on the most severely distressed urban neighborhoods and give banks more incentive to make investments in those neighborhoods. The definition of "distressed" in the Bank Enterprise Act of 1991 included several requirements—a 30 percent poverty rate, an unemployment rate 1.5 times the national average, and minimum population requirements—intended to increase the likelihood that the awards would go to institutions investing in distressed urban neighborhoods. Those requirements were substantially more stringent than the definition of distress specified in the CRA. The BEA Program, as proposed, would have

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[9] Additional details of the legislative history are contained in Lash, D. A., 1998. The Community Development Banking Act and the Evolution of Credit Allocation Policies, in *7 J. Affordable Housing. & Community. Dev. L. 4 (Summer)*, 385-405. Another history, with more of a focus on the BEA Program, is contained in Cunningham, C., 1999. How Banks can Benefit from Partnership with Community Development Financial Institutions: The Bank Enterprise Awards Program, in *3 N. C. Banking Inst.*, 261-290.

[10] For example, the Legislative Director of the Association of Community Organizations for Reform Now, Deepak Bhargava, summarized some of the feelings about the CRA in his testimony, saying, "The main obstacle to CRA's success has been the apathy or outright hostility of the regulatory agencies. Nearly 90 percent of lenders continue to receive 'satisfactory' or better ratings under CRA, and few merger applications have ever been denied on CRA grounds, despite abundant evidence of poor performance." Hearings before the Committee on Banking, Housing, and Urban Affairs, United States Senate, 103rd Congress. The hearings were held on July 15 and September 8, 1993, and the transcript is available from the U. S. Government Printing Office, Washington, DC. ISBN 0-16-044146-3. Transcript at page 169.

reduced Federal Deposit Insurance Corporation (FDIC) insurance premiums for targeted lending in distressed communities as defined in the Act,[11] but that funding mechanism was dropped due to objections that it would not be risk-based pricing and, therefore, would be inappropriate for an insurance program. Instead, the Act was made subject to appropriations, but Congress never appropriated funds for the program.

The legislative proposal to create the BEA Program reemerged when the Clinton administration proposed the Riegle Community Development and Regulatory Improvement Act of 1994, which, when enacted, became known as the Riegle Act of 1994. During the hearings leading to the Riegle Act, there was considerable discussion about whether funding should be directed entirely to a new class of Community Development Financial Institutions (CDFIs) based on the model of South Shore Bank (ShoreBank) in Chicago, or open to community development subsidiaries of Mainstream Financial Institutions (MFIs). Proponents of the Riegle Act, such as Senator Paul Sarbanes (D-MD) and Secretary of the Treasury Lloyd Bentsen, argued that the purpose of the CDFI Fund was to support this new class of financial institutions and that all of the funding should be reserved for them. Others making statements, such as Senators Alfonse D'Amato (R-NY) and Christopher Bond (R-MO), expressed interest in allowing MFIs to receive assistance from the CDFI Fund for their community development subsidiaries.

An additional issue in the hearings was how the concept of CDFIs interacted with the existing requirements of the CRA. Proponents of the Riegle Act of 1994 asserted that the new CDFIs would serve as a complement to the MFIs' meeting their obligations under the CRA.[12] Others, including Senator D'Amato, suggested allowing MFIs to claim CRA credit for investing in the new CDFIs in lieu of making investments in CRA-eligible communities.[13]

Representatives Flake and James Leach (R-IA-2) added the BEA Program to the Riegle Act of 1994 in the House as an amendment, with the original proposal linking the awards to investments in CDFIs. The proposal was subsequently changed to include investments in distressed communities in recognition of the fact that there were not yet certified CDFIs at the time. Senators D'Amato and Christopher Dodd (D-CT) objected to the amendment because they felt that the BEA Program was simply rewarding banks for making investments that they should be making under the CRA. During the hearings, however, a number of witnesses, including Comptroller of the Currency Eugene Ludwig, stressed the inadequacy of the CRA as an incentive for MFIs to invest in low- and moderate-income census tracts.[14] Senator Bond and

[11] The definitions of distressed communities in the Bank Enterprise Act of 1991 largely carried over to the program as finally implemented after passage of the Riegle Act of 1994.
[12] For example, in testimony concerning the Riegle Act of 1994, Secretary of the Treasury Bentsen stated, "Let me make it clear that our community development banking initiative is not – is not – a substitute for existing Community Reinvestment Act requirements. Rather, it is intended to complement those requirements." Transcript at page 18.
[13] In his opening statement, Senator D'Amato noted, "I, and my Republican colleagues on this committee, have introduced legislation that allows major banks and financial institutions to meet their Community Reinvestment Act requirements by putting up to 5 percent of their capital into institutions like those that the President is proposing here." Transcript at page 4.
[14] In his prepared statement, Comptroller Ludwig noted one particular feature of CRA that continues to be a topic of concern with community advocates, the lack of effective means for enforcing CRA obligations. He stated (Transcript at page 60):

Undersecretary of the Treasury for Domestic Finance Frank Newman both pointed out in their testimony that the BEA Program could serve as a mechanism to allow MFIs to access some of the CDFI funding, a line of reasoning that may have appealed to Senators D'Amato and Bond and others who preferred to have the role of CDFIs placed with community development subsidiaries of MFIs.

Proponents of the Riegle Act of 1994 and of CDFIs, including Secretary of Housing and Urban Development Henry Cisneros, did not appear to support the BEA Program because they seemed concerned that the program could divert funding from the CDFIs. Secretary Cisneros stated:

> It is my understanding that the administration continues to look at the issues associated with funding the Bank Enterprise Act.
>
> But one has to be very careful that what we don't do is dilute the thrust of this legislation in creating community-based organizations instead of funding larger institutions for work that is going to be only marginally related to the objectives set out here.[15]

Opponents of creating a separate class of institutions, CDFIs, however, seemed more supportive of the BEA Program as part of the bill, probably because it allowed MFIs to access funding that would otherwise have been reserved for CDFIs. As Senator Bond remarked:

> I think we are going to have to get more traditional banks and lending institutions to become involved with distressed communities, either alone or in tandem with community development banks. We need to find creative approaches that provide incentives to banks and other financial institutions to invest in distressed communities.
>
> I believe Mr. Newman mentioned the Bank Enterprise Act, which we have discussed and which encourages traditional lending institutions to open up branches in distressed communities.[16]

The final version of the Riegle Act of 1994 reflected the tension between the opposing viewpoints. The bill established CDFIs as a distinct class of financial institution and provided a dedicated source of funding to promote and support them, the CDFI Fund. At the same time, the BEA Program, incorporated into the bill,

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> Enforcement of CRA compliance currently rests largely on the banking agencies' authority to deny corporate applications from institutions with unsatisfactory CRA records. This provides regulators with some leverage over institutions that are large enough to face frequent branch opening or relocation decisions, or that are active in mergers and acquisitions. While few corporate applications received from such institutions are denied outright on the basis of CRA concerns, many are approved conditionally, with the institution being required to make improvements in its CRA performance before it can go forward with an acquisition or merger.
>
> But institutions that are not planning to make any corporate applications have, until now, faced almost no consequences for unsatisfactory CRA performance, aside from the public relations.

[15] Transcript at page 116.
[16] Transcript at page 124.

provided a mechanism for MFIs to make investments in CDFIs or distressed communities, which would allow the MFIs to receive some of the funding that was going to the CDFI Fund. The initial allocation provided one-third of the CDFI Fund's budget to the BEA Program and two-thirds to fund a program exclusively for CDFIs. Proponents of CDFIs got what they wanted, a new class of financial institution supported with a dedicated funding source. Proponents of channeling community development funding through MFIs got some of what they wanted, additional funding for engaging in community development activities in distressed communities.

The original intent of the BEA Program, as proposed by Representative Flake, was to promote investment in urban neighborhoods that were even more distressed than those covered under the CRA alone. The final definition of distress carried over from the original Bank Enterprise Act of 1991, including the requirements of a 30 percent poverty rate, an unemployment rate 1.5 times the national average, and minimum population requirements.[17] The final definition also includes some distressed rural census tracts and Indian reservations.[18] As Senator Campbell (R-CO) noted for the record, "Most of the attention is on inner-city credit access. Rural communities and Indian reservations also lack access to credit, and we must ensure this bill addresses their needs, too."[19]

Operational History and Evolution of the BEA Program

The Department of the Treasury published the initial interim rule to implement both the Community Development Financial Institutions Program (CDFI Program) and the BEA Program, both under the administration of the CDFI Fund, in October 1995.[20] As part of the introduction to the interim rule, Treasury acknowledged the role of the BEA Program as a vehicle for allowing MFIs to receive funding from the CDFI Fund for making equity investments in the new CDFIs that the CDFI Fund was supporting and for increasing their qualified activities in distressed communities.[21]

The following sections discuss the key developments in the evolution of the interim rule for the BEA Program.

Initial Interim Rule - October 19, 1995

The basic operating structure of the BEA Program, as set forth in the initial interim rule, was relatively simple. The CDFI Fund proposed to base BEA Program awards on the increase in qualified activities that an applicant, whether a CDFI or non-CDFI bank, made in BEA-eligible distressed census tracts. Within that

[17] Bank Enterprise Act of 1991, subtitle C of title II of the Federal Deposit Insurance Company Improvement Act of 1991, §233(b) (3-4).
[18] The final population requirements are: 1) having a population of at least 4,000 if in a Metropolitan Statistical Area (MSA) with a population of 50,000 or more; 2) having a population of at least 1,000 if not in such an MSA; 3) being located entirely within an Indian Reservation. In addition, census tracts may be combined to meet the minimum requirements, including the level of distress, as long as they all have a poverty rate of 20 percent or more. 12 CFR Part 1806, Subpart B, §1806.200(b).
[19] Transcript at page 153.
[20] 12 CFR Chapter XVIII and Parts 1805, 1806 and 1815, published in the Federal Register, Vol. 60 No. 202, 54110-54133.
[21] "The purpose of the BEA Program (12 CFR part 1806) is to encourage insured depository institutions to increase loans, services and technical assistance within distressed communities and to make equity investments in CDFIs. The BEA Program rewards participating insured depository institutions for increasing their activities in economically distressed communities and investing in CDFIs." Federal Register, Vol. 60 No. 202, 54113.

simple structure, however, are the key elements of the BEA Program that determine the amount of each BEA Program award:

- The determination of the amount of the increase
- The weighting factors used, including the nature of the qualified activity, whether the applicant is a CDFI or non-CDFI bank, and the asset size of the applicant bank
- Whether the census tract meets the BEA Program's definition of distress

Some of those elements, such as basing the award on the increase in the amount of qualified activities, have remained consistent over the life of the program, while others, such as the weighting to favor smaller banks, have changed.

Determination of the Amount of the Increase in Qualified Activities - October 19, 1995

In the initial proposed interim rule, the calculation of the BEA Program award started with the amount of the qualified activities within BEA-eligible distressed census tracts in the baseline period, which is the level from which the amount of increase would be measured. The applicant then estimated the amount of qualified activities it would undertake in those distressed census tracts in the assessment period, with the difference between the amounts in the assessment period and the baseline period serving as the increased amount the CDFI Fund used to calculate the estimated award. After the end of the assessment period, the CDFI Fund determined the extent to which the applicant achieved its projected level of qualified activities, and then calculated the actual award amount. The award, therefore, was made only after the investment had occurred.[22] Initially, the baseline and assessment periods were six months long, but they were extended to a full year in 2003, retaining the six-month option for that year's applicants.

The Priority and Weighting Factors Used - October 19, 1995

The determination of the amount of increased investment was only the first step in determining the amount of the award. From the initial interim rule to the present, the BEA Program has placed a higher value on some kinds of qualified activities than on others. In the initial interim rule, for example, the program placed the highest priority on equity investments[23] in CDFIs in distressed communities by designating that applicants making those investments would be the first in line for awards, in case the available funding was insufficient to cover all of the estimated awards. The second priority was equity

[22] Program participants receive monies only after successful completion of the specified activities." Federal Register, Vol. 60 No. 202, 54113.

[23] 12 CFR Part 1806, §1806.103(q) *Equity Investment* means new financial assistance provided by an Applicant or its Subsidiary to a CDFI in the form of a stock purchase, a grant (excluding grants used to support operating costs), or a loan made on such terms that it has characteristics of equity (and is considered as such by the Fund and is consistent with requirements of the Applicant's Appropriate Federal Banking Agency).

In the most recent regulations, published January 30, 2009, 12 CFR Part 1806, §1806.103(y) Equity Investment means financial assistance provided by an Applicant or its Subsidiary to a CDFI, which CDFI meets such criteria as set forth in the applicable NOFA, in the form of a grant, a stock purchase, a purchase of a partnership interest, a purchase of a limited liability company membership interest, or any other investment deemed to be an Equity Investment by the Fund; (z) Equity-Like Loan means a loan provided by an Applicant or its Subsidiary to a CDFI, and made on such terms that it has characteristics of an Equity Investment which meets such criteria as set forth in the applicable NOFA.

investments in CDFIs other than those in distressed communities, and the third priority was eligible development activities.[24]

Over time, revisions to the interim rule changed many aspects of the weighting factors, reclassifying existing qualified activities and adding new ones, changing the way the calculations of awards favored smaller institutions, and changing the percentage of the weighted increase that would be the basis for the award. The basic program structure remained the same, but the details of the calculations changed over time through revisions of the interim rule.[25]

Within the eligible development activities category, the initial interim rule established different weights for each type of qualified activity, based on "the Fund's assessment of the degree of difficulty, the extent of innovation, and the extent of benefits accruing to the distressed community for each type of activity."[26] For example, the interim rule set a factor of 1.4 for single-family home loans and 1.6 for multi-family loans. The increase for each type of activity would be multiplied by the factor for that activity to determine the weighted value, with separate calculations for development investments and the provision of financial services. If the service score was higher than the development score, the service score would be reduced to the level of the development score,[27] and the sum of those two scores was the final eligible development activity score.

The initial interim rule provided an advantage to smaller banks by ranking applicants by the ratio of their qualified activities to the bank's asset size. Finally, the awards calculations favored CDFI applicants over non-CDFI applicants. CDFIs could receive an award of up to 15 percent of their qualified activities,[28] including development and service activities. Non-CDFI applicants could also receive an award of up to 15 percent of their equity investments, but could receive an award of only 5 percent of their eligible development activities.

Revision to the Interim Rule - March 7, 1997

Treasury published a revision to the interim rule on March 7, 1997.[29] One change in the new interim rule was to clarify what the requirements were for a bank to qualify as a CDFI. It also added some new qualified activities, such as loans, deposits, and technical assistance to CDFIs "integrally involved with a Distressed Community."[30] That new category allowed additional types of assistance to CDFIs to qualify for awards, and it was given third priority, behind equity investment in CDFIs in distressed communities and

[24] 12 CFR Part 1806, §1806.204. Eligible development activities include direct investment in the distressed geography and the provision of financial services to low- and moderate-income people in the geography.
[25] These changes in weighting factors occurred through revisions in the initial interim rule published in the March and December of 1997, revisions published in 2003 that responded to a 2002 assessment of the BEA Program by the Office of Management and Budget (OMB), and a revision in 2009 in response to the 2002 OMB assessment and a 2006 Government Accountability Office (GAO) report on the BEA Program.
[26] 12 CFR Part 1806, §1806.201(b)(3).
[27] 12 CFR Part 1806, §1806.203(b). This adjustment was required by the statute.
[28] The interim rule allowed applicants to voluntarily reduce the percentage awarded in exchange for a higher ranking.
[29] Federal Register, Vol. 62 No. 45, pp. 10668-10678. The initial interim rule had been amended on January 23, 1996, February 29, 1996, and November 25, 1996.
[30] 12 CFR Part 1806, Subpart D – General Provisions.

those in non-distressed communities, but ahead of development and service activities. The revised interim rule also changed the percentage of increase used to calculate the award, as follows:

> In general, the estimated award amount for Equity Investments, CDFI Support Activities carried out by an Applicant that is not a CDFI, and CDFI Support Activities carried out by an Applicant that is a CDFI will be equal to 15, 11 and 33 percent, respectively, of an Applicant's anticipated increase in such activities.[31]

For other activities, the revised interim rule kept the award percentage at up to 15 percent for CDFIs and 5 percent for non-CDFIs. The revision also kept the preference for smaller institutions by ranking applicants on the ratio of the weighted increase to asset size.

Treasury published another revised interim rule on December 5, 1997.[32] That interim rule made only minor changes, primarily to clarify some language in the previous interim rule, along with other minor changes to make the calculation of awards slightly more favorable for banks.[33]

Revision to the Interim Rule - February 4, 2003

In 2002, the Office of Management and Budget (OMB) conducted an assessment of the BEA Program, at a time when future funding for the program was in question. The assessment offered several criticisms of the BEA Program, including that it did not require awardees to reinvest the awards in community development activities.

The OMB assessment defined the purpose of the BEA Program in this way:

> The BEA Program seeks to build the capacity of FDIC-insured depository institutions to: (1) expand their community development lending and investments within severely underserved areas, and (2) increase their investment in Community Development Financial Institutions (CDFIs) in order to build self-sufficiency and capacity. BEA encourages insured depository institutions to increase their level of activities in the form of loans, investments, services, and technical assistance within distressed communities and provides financial assistance to CDFIs through grants, stock purchases, loans, deposits, and other forms of financial assistance.[34]

As the OMB Assessment stated, "Because the CRA and BEA complement each other, the BEA Program is not unique in encouraging investments in distressed communities."[35] At the same time, OMB pointed out a fundamental issue that critics of CRA have stressed as a major shortcoming of that program:

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[31] 12 CFR Part 1806, Subpart E – Awards.
[32] Federal Register Vol 62 No. 234, pp.64440-64447.
[33] "The revisions contain a number of changes which clarify current requirements, but do not change them. This rule also simplifies current requirements and updates various references . . . ." 12 CFR Part 1806, Summary.
[34] OMB Assessment. Downloaded on January 4, 2016, from be https://georgewbush-whitehouse.archives.gov/omb/expectmore/detail/10000418.2002.html Section 1.1.
[35] OMB Assessment, Section 1.4.

> Currently, enforcement of the CRA is through the application process and thus is a significant factor for only a small portion of banks (i.e., those institutions that are active in mergers and acquisitions). The majority of BEA Program awardees are small to intermediate-small community banks that are not actively growing. As BEA Program awards are based on prior community investment activities, the BEA gives incentive to small and intermediate-small community banks where limited enforcement of the CRA does not.[36]

In addition, the OMB assessment noted that the awardees did not "support planning efforts by committing to the annual and/or long-term goals of the program . . . ."[37] Addressing the fact that the BEA Program was designed by statute to be retrospective, the OMB assessment noted that "the Fund has acknowledged this weakness in the statute and has proposed increasing the impact of the law by amending the law to allow it to make awards based on prospective commitments to engage in innovative investment activities."[38]

Finally, the OMB assessment concluded that the BEA Program "compare[d] favorably to other programs with similar purposes and goals . . . ." It stated:

> The BEA Program may subsidize lending required under the Community Reinvestment Act. However, the program appears to be more cost-effective than SBA's microloan program, which yields about $30 million in investment at a cost of $30 million. The BEA Program focuses on investing and service activities as well as lending. The types of lending encouraged include housing, small business, commercial real estate, multifamily. It also encourages applicants to engage in activities not specifically required or incentives [sic] by the CRA.[39]

Following the OMB assessment, Treasury published a major revision to the interim rule on February 4, 2003.[40] One purpose of the revision was to incorporate into the interim rule new definitions of qualified activities that had already appeared in earlier Notices of Funding Availability (NOFAs), including Electronic Fund Transfers, First Accounts, and Individual Development Accounts.[41] Those revisions responded to new financial products and initiatives that had recently been developed to facilitate the payment of benefits, to bank the unbanked, and to help people save for specific goals, such as buying a car or paying tuition. The revisions also added Community Development Entities[42] and CDFI Partners[43] to the types of institutions that could receive investments that would be eligible for a BEA Program award and included a definition of

[36] OMB Assessment, Section 1.5. This comment is similar to the one that Comptroller Ludwig made at the hearings on the Riegle Act of 1994.
[37] OMB Assessment, Section 2.3.
[38] OMB Assessment, Section 1.5.
[39] OMB Assessment, Section 4.4.
[40] Federal Register Vol. 68 No. 23, pp. 5717-5725.
[41] Electronic Fund Transfers and Individual Development Accounts appeared in the NOFA published September 1, 1999, Federal Register Vol. 64 No. 169, pp. 48062-48065. First Accounts appeared in the NOFA published September 5, 2000, Federal Register, Vol. 65 No. 172, pp 53872-53878.
[42] 12 CFR Part 1806, §1806.103(m).
[43] 12 CFR Part 1806, §1806.103(o).

"integrally involved"[44] with respect to CDFIs and non-CDFIs. This was the new interim rule that switched the BEA Program awards from being based on six-month periods to calendar year periods, preserving the six-month option for the concurrent NOFA.

One change in the 2003 interim rule that responded to the OMB review had a major impact on the allocation of BEA Program awards, especially increasing community investments.[45] Before the 2003 interim rule, CDFIs received a 33 percent award for CDFI support activities. Some CDFIs took advantage of that provision by purchasing insured Certificates of Deposit in other CDFIs that would purchase an insured Certificate of Deposit in their CDFI in return. Both then would be eligible for the 33 percent award. The 2003 interim rule allowed the CDFI Fund to prohibit that practice.[46] As a result, awards for CDFI-related activities, such as making insured deposits for periods of over three years, fell from 87 percent of award dollars in 2002 to 18 percent in 2003, which allowed awards for making direct investment and providing services in distressed communities to increase from 13 percent of BEA Program award dollars in 2002 to 82 percent in 2003.

Another major change in the new interim rule was to move the priorities and weighting from the rule to the NOFAs. In part, this simply followed what Treasury had done, starting with the NOFA for 2001,[47] when it changed the priority for awards based on development and service activities to give priority to CDFIs over non-CDFIs for awards based on that category of qualified activities. The new interim rule weighted some qualified activities, such as personal wealth building,[48] more heavily than others, such as community wealth building,[49] in calculating the total increase upon which the award would be based. Personal wealth building activities had a 3.0 priority factor, compared with 2.0 for community wealth building. The rule also changed the percentages of award for the different types of activities (**Table 2**), while preserving the 3:1 ratio for CDFIs versus non-CDFIs.

Table 2. Qualified Activity Award Percentages, 2003 Interim Rule

Qualified Activity	CDFI Awardees	Non-CDFI Awardees
CDFI Related, except Equity Investments in CDFIs	18	6
Equity Investments in CDFIs	15	5
Distressed Community Financing and Service	9	3

[44] 12 CFR Part 1806, §1806.103(gg).
[45] Treasury's Bank Enterprise Award Program: Impact on Investments in Distressed Communities Is Difficult to Determine, but Likely Not Significant. GAO-06-824 (2006), p. 13.
[46] The 2003 interim rule gave the CDFI Fund the authority to "qualify further certain Qualified Activities . . . ." ". . . an applicant that is also a CDFI cannot receive credit for any financial assistance or Qualified Activities provided to a CDFI Partner that is also an FDIC-insured depository institution or depository institution holding company." NOFA published February 4, 2003, Federal Register, Vol. 68, No. 23, p. 5729.
[47] Federal Register Vol. 66 No. 185, pp. 48934-48939.
[48] Affordable home loans, home improvement loans, small business loans and related project investments, education loans, and IDAs. NOFA published February 4, 2003, Section IX. Priority Factors, Federal Register, Vol. 68, No. 23, pp. 5727-5731.
[49] Affordable housing development loans and related project investments, and select commercial real estate loans and related project investments. NOFA published February 4, 2003, Section IX. Priority Factors, Federal Register, Vol. 68, No. 23, pp. 5727-5731.

The award process gave priority in the receipt of awards to applicants engaged in CDFI-related activities, which included equity and equity-like investments in CDFIs and support activities provided to CDFI partners. Next to receive awards are were applicants engaged in distressed community financing activities, which included direct investments such as home or commercial real estate loans in BEA-eligible census tracts. Finally, if the funding were not exhausted, awards could go to applicants engaged in service activities, such as providing banking services within a BEA-eligible census tract. The rule stated:

> Within each category, applicants will be ranked according to the ratio of the Actual Award Amount calculated by the Fund for the category to the total assets of the applicant. Within the Distressed Community Financing category as well as the Services Activities category, Applicants that are certified CDFIs will be ranked first, and then applicants that have carried out such Distressed Community Financing and Service Activities in a Distressed Community that encompasses an Indian Reservation.[50]

A major effect of the changes the 2003 interim rule made was to target program funding to smaller CDFIs and CDFIs working directly in distressed communities. That change further emphasized the distinction between the BEA Program and the CRA, the very differences that OMB recognized in its assessment. The BEA Program mostly affected small and intermediate-small banks, while the CRA mainly affected larger banks active in mergers and acquisitions.

Revision to the Interim Rule - January 30, 2009

In 2006, the Government Accountability Office (GAO) issued a report[51] that restated OMB's conclusion that the BEA Program and CRA served essentially the same purpose and that the BEA Program likely had little impact on the investment decisions that banks make. The GAO report also found that the BEA Program lacked adequate safeguards to ensure that all of the activities that served as the bases for awards actually occurred within BEA-eligible census tracts. The report stated:

> One of the most significant risks the BEA Program faces is that applicants may provide inaccurate information regarding the location of properties financed by their activities. That is, the potential exists for banks to receive BEA Program awards based on loans that finance properties, such as commercial or affordable housing development loans, that were not located in eligible distressed communities.[52]

Over the next few years, the CDFI Fund made changes to the BEA Program to address the concerns raised in both the OMB Assessment and the GAO Report. For example, in 2006, the CDFI Fund required BEA Program applicants to provide maps to show that the qualified activities they were undertaking were in BEA-eligible census tracts. The next year, the Fund geocoded all distressed community financing activities over $250,000 to ensure that they were eligible for awards (currently, all non-CDFI Related Activities are geo-coded, regardless of dollar amount).

[50] Federal Register, Vol. 68, No. 23, X. Award Percentages, Award Amounts, Selection Process, at p. 5731.
[51] See fn. 4 for GAO-06-824 Report citation.
[52] GAO Report, p. 16.

In 2009, the CDFI Fund promulgated a new interim rule[53] to further implement some of the changes that the OMB Assessment and GAO Report suggested, although not all of them. The interim rule required that the BEA Program award be reinvested in BEA Program-eligible activities.[54] It also limited the eligibility for awards for several categories of direct investment, such as affordable housing development loans, commercial real estate loans, and small business loans, to require that the borrower or property be located in a distressed community. The rule stated:

> Service Activities and Distressed Community Financing Activities must serve a Distressed Community. An activity is considered to serve a Distressed Community if it is: (1) Undertaken in the Distressed Community; or (2) Provided to Low- and Moderate-Income Eligible Residents or enterprises Integrally Involved in the Distressed Community.[55]

Summary

The impact of the changes in the BEA Program interim rule, coupled with the increase in the number of CDFI banks since the program's inception, has moved the BEA Program away from one of its initial purposes, namely giving non-CDFI banks a way to access some of the CDFI Fund's resources. Nevertheless the net effect of these cumulative changes in the interim rule has been to focus awards on banks that make investments in the most highly distressed areas, particularly on small and intermediate-sized CDFIs and banks, and on large banks that invest in CDFIs working in these distressed areas. Thus, the program has evolved in ways that address the concerns of Congress and the executive branch about the award criteria and operations of the program.[56]

IV. Administrative and Secondary Data Analysis

Introduction

The objectives of this analysis were to examine administrative data trends in the volume and distribution of awards and applications based on changing regulations and processes, and to use secondary data to address the four research questions about the BEA Program. The administrative data from applicants and awardees were analyzed to assess the effects of changing regulations on the distributions of applicants and awardees by bank size and type. In addition, the subject matter experts reviewed in detail the BEA Program application and awards data and processes used for evaluating and ranking applicant based on qualified activities to validate the awards determination procedures. A geographical analysis of the distribution of application and awards data was also conducted to provide a baseline and context for the secondary data analysis of the differences between CRA and BEA designated census tracts. The secondary

[53] Federal Register, Vol. 74, No. 19, January 30, 2009, pp. 5790-5796.
[54] CFR Part 1806, §1806.300(a)(4).
[55] Federal Register, Vol. 74, No. 19, p. 5790. That definition still left open one possibility raised in the GAO Report that the borrower might be located in a BEA-eligible census tract but the property actually being developed was not.
[56] Another revision to the interim rule was published on May 5, 2015 to implement the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. A further revision to the interim rule was issued in August 2016 which is not discussed in the foregoing analysis. See: https://www.cdfifund.gov/Documents/BEA%20Interim%20Rule%20PRA%20FR%202016-18694.pdf

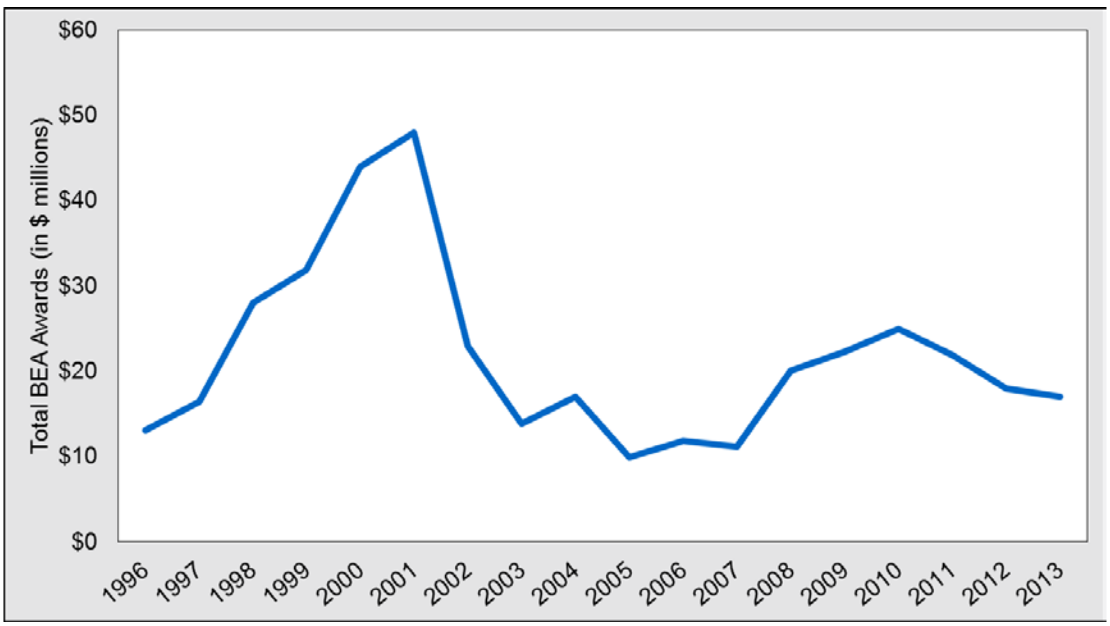
data analysis used census data, small business and mortgage lending data, and bank branch locational data to address the four research questions. The analysis examined particularly the differences in BEA and CRA census tract criteria, the incentives for investing in more highly distressed census tracts, and the differences in bank branch services and lending.

1. Institution Type and Size

BEA Program Award Distribution by Institution Type and Size

A historical analysis of award data from the inception of the BEA Program (1995) through 2013 was utilized to analyze the BEA Program applicant and awardee institutions. The purpose of this analysis was to understand patterns of the awards and to establish a profile of the applicants and awardees in recent years. This section will explore the data by award year, number of awards, bank asset size, bank type, and BEA Program-qualified activities.

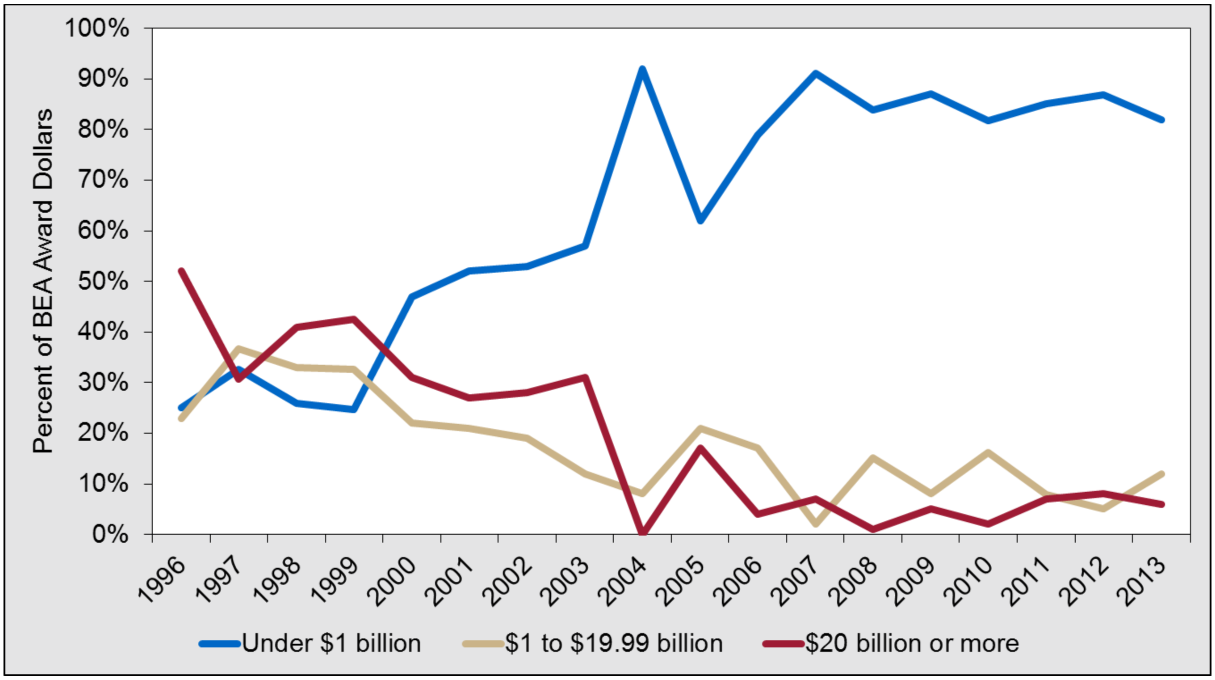
The first NOFA was published on October 19, 1995, and the first BEA Program awards were made in 1996. Since the initial round of BEA Program awards, the total amount awarded has fluctuated from a high of $48 million in 2001 to a low of under $10 million in 2005 (**Figure 1**).



Source: BEA Program Award History FY1996 to 2013, provided by the CDFI Fund, November 5, 2014.
Figure 1. Total BEA Awards, 1996-2013

One of the initial purposes of the BEA Program was to allow larger, non-CDFI banks to have access to some of the CDFI Fund appropriations in order to encourage these banks to provide capital to CDFIs. However analysis of the distribution of BEA Program awards by the size and type of awardees shows that the program's focus has evolved over time, as the number of CDFIs or CDFI-like organizations has increased.

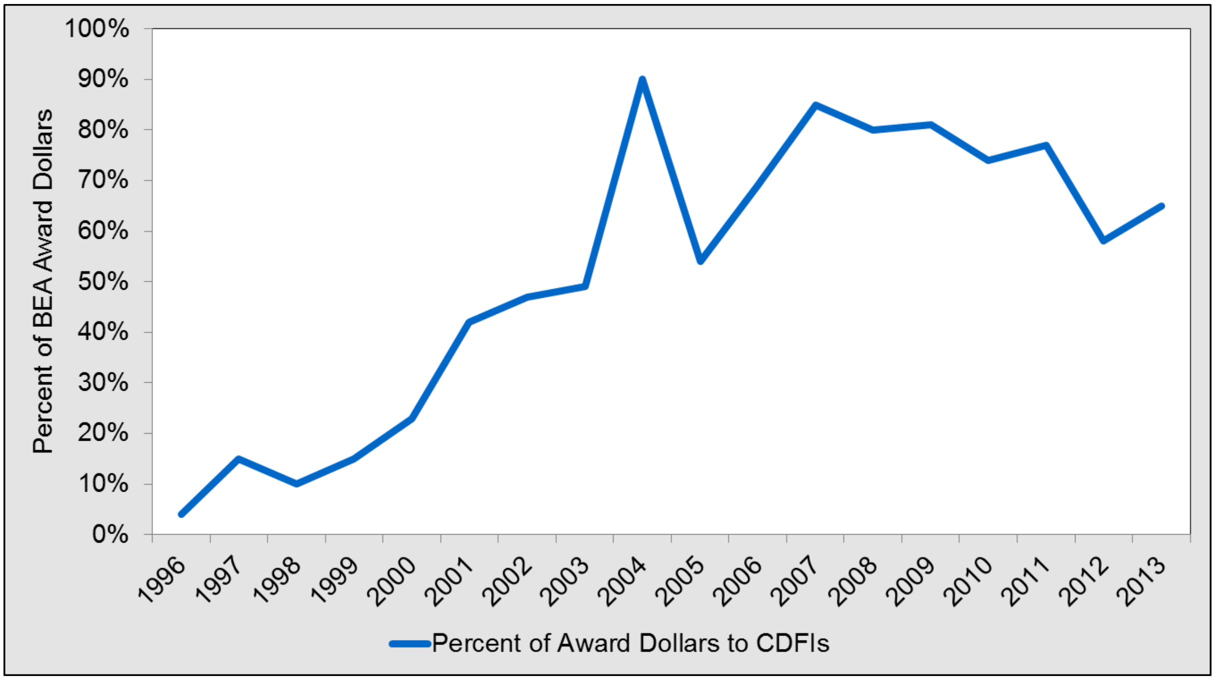
The program initially provided awards to larger mainstream financial institutions (MFIs), with more than half of the first year award dollars going to banks with assets of over $20 billion. Over the next few years, through 1999, award dollars were more evenly distributed among banks of all sizes. In 2000, the percentage going to small banks with assets of under $250 million increased to 37 percent from only 17 percent the year before. Since that time, the vast majority of award dollars have gone to banks with assets of under $1 billion (**Figure 2 below**).



Source: BEA Program Award History FY1996 to 2013, provided by the CDFI Fund, November 5, 2014.

Figure 2. Percent of BEA Program Awards, by Bank Asset Size, 1996-2013

Paralleling the shift in the asset size of awardees is a shift in the type of institution to which awards were made. In the first year of the program, 96 percent of award dollars went to non-CDFI banks. This is probably a reflection of the relative scarcity of certified CDFIs at the inception of the program. As the number of CDFI banks grew so did the percentage of award dollars they received. By 2003, the percentage of award dollars going to CDFIs had increased to 49 percent. The following year, 90 percent of all BEA Program award dollars went to CDFIs. Since 2005, between 54 and 85 percent of award dollars have gone to CDFIs (**Figure 3 below**).



Source: BEA Program Award History FY1996 to 2013, provided by the CDFI Fund, November 5, 2014.

Figure 3. Percent of BEA Program Award Dollars to CDFIs, 1996-2013

From 2012 to 2014, the CDFI Fund granted $52.9 million in BEA Program awards. Out of 271 applicants, the CDFI Fund made 213 grants with an average award size of $248,000 over the three rounds (**Table 3**). Details on each of the awardees are provided in Volume III of Appendix C.

Table 3. BEA Program Award by Year, 2012-2014

Year	Applicants	Awardees	Amount Awarded	Average Award Size
2012	74	59	$18 million	$304,569
2013	98	85	$17 million	$200,574
2014	99	69	$17.8 million	$258,754
TOTAL	271	213	$52.9 million	$248,227

Source: Treasury CDFI Fund, author's calculations.

BEA Program Awardees by Bank Asset Size

Of the 213 awards, 126 were made to unique banks for years 2012 to 2014 (**Table 4**). Out of the unique awardees, 52 were small banks (assets of less than $300 million), 48 were intermediate-small banks (assets of $300 million to less than $1.202 billion) and 26 were large banks (assets with $1.202 billion or more).[57] The asset-to-group bank-size is based on the most current CRA report or FDIC data.[58]

[57] Bank size grouping is based on the joint press release of FRB, FDIC, and OCC titled "Agencies Release Annual CRA Asset-Size Threshold Adjustments for Small and Intermediate Small Institutions" http://www.federalreserve.gov/newsevents/press/bcreg/20131219c.htm. Mid-size banks are called intermediate small banks in the CRA regulations.

[58] The asset size intervals are updated annually by the FFIEC as detailed in the above footnote.

Table 4. Award Counts by Bank Asset Size, 2012-2014. Totals are for Unique Awardees

Bank Type	Counts in 2012	Counts in 2013	Counts in 2014	Total (2012-2014)
Small	22	39	33	52
Intermediate-small	27	31	26	48
Large	10	15	10	26
Total	59	85	69	126

Source: Treasury CDFI Fund, author's calculations.

Out of 126 unique bank awardees, during the study period 26 received an award every year, 35 were awarded twice in three years, and 65 were awarded only once in three years (**Table 5**). Small and intermediate-small banks had higher recurrence of awards with 25 percent of the small banks and 22.9 percent of the intermediate-small banks receiving awards every year compared to just 7.7 percent for the large banks.

Table 5. Award Frequency by Bank Asset Size, 2012-2014

Bank Type	Total Count (2012-2014)	Awarded Every Year		Awarded Twice		Awarded Once	
		Count	Percent	Count	Percent	Count	Percent
Small	52	13	25.0%	16	30.8%	23	44.2%
Intermediate-small	48	11	22.9%	14	29.2%	23	47.9%
Large	26	2	7.7%	5	19.2%	19	73.1%
Grand Total	126	26	20.6%	35	27.8%	65	51.6%

Source: Treasury CDFI Fund, author's calculations.

The largest proportions of the total awards tended to be made to small banks every year (**Table 6**). For the period of 2012-2014, nearly 47 percent of the total BEA Program award amounts went to the small banks, 42 percent went to the intermediate-small banks, and 12 percent went to large banks.

Table 6. Total Award by Bank Asset Size, 2012-2014

Bank Type	Percent of Total Award (2012-2014)	Percent of Total Award in 2012	Percent of Total Award in 2013	Percent of Total Award in 2014
Small	46.6%	43.8%	44.2%	51.6%
Intermediate-small	41.9%	44.6%	41.3%	39.8%
Large	11.5%	11.6%	14.5%	8.6%
Total	100.0%	100.0%	100.0%	100.0%

Source: Treasury CDFI Fund

These results indicate much greater participation by small and intermediate-small institutions in the BEA Program during the 2012-2014 period. Small and intermediate-small institutions received 79 percent of the total number of awards but 89 percent of the dollar amount awarded.

BEA Program Awardees by CDFI and MDI

In addition to bank size, the CDFI Fund also considers CDFI status when making BEA Program awards. Applicant and awardee institutions were analyzed by their type, including Minority Depository Institution (MDI), Community Development Financial Institution (CDFI), or other mainstream financial institution

(MFI). Of the 126 unique awardees, 24 were both MDI and CDFI, 38 were only CDFI, four were only MDI, and 60 were neither CDFI nor MDI (**Table 7**).

Table 7. Awardees by CDFI and MDI, 2012-2014

Bank Type	Counts in 2012	Counts in 2013	Counts in 2014	Total (2012-2014)
MDI-CDFI	17	19	20	24
CDFI (non-MDI)	21	29	30	38
MDI (non-CDFI)	1	3	0	4
Other	20	34	19	60
Grand Total	59	85	69	126

Source: Treasury CDFI Fund

CDFI banks tended to receive the largest portion of total awards every year (**Table 8)**. For the period 2012-2014, about 47 percent of the total BEA Program awards went to CDFI (non-MDI) banks and 35 percent to MDI-CDFI banks. Non-CDFI MDI banks received only about 2 percent of awards, and the remaining 16 percent went to other types of banks.

Table 8. Total Award by Bank Type, 2012-2014

Bank Type	Percent of Total Award (2012-2014)	Percent of Total Award in 2012	Percent of Total Award in 2013	Percent of Total Award in 2014
MDI-CDFI	34.6%	35.2%	34.1%	34.4%
CDFI (non-MDI)	47.4%	47.2%	40.5%	54.3%
MDI (non-CDFI)	2.1%	2.3%	4.1%	0.0%
Other	15.9%	15.3%	21.3%	11.3%
Grand Total	100.0%	100.0%	100.0%	100.0%

Source: Treasury CDFI Fund

CDFI small banks tended to receive the largest portion of total awards every year, followed by CDFI intermediate-small banks (**Table 9**). Out of 126 awardees, nearly 18 percent were CDFI small banks, 11 percent were MDI-CDFI small banks, and 12 percent were other small banks. For the intermediate-small class of banks, MDI non-CDFI banks were almost 2 percent, and MDI-CDFI were nearly 8 percent.

Table 9. Total Award by Bank Asset Size, 2012-2014

	Large		Intermediate-Small		Small		Grand Total	
Bank Type	**Count**	**Percent**	**Count**	**Percent**	**Count**	**Percent**	**Count**	**Percent**
MDI-CDFI	0	0.0%	10	7.9%	14	11.1%	24	19.0%
CDFI (non-MDI)	1	0.8%	15	11.9%	22	17.5%	38	30.2%
MDI (non-CDFI)	1	0.8%	2	1.6%	1	0.8%	4	3.2%
Other	24	19.0%	21	16.7%	15	11.9%	60	47.6%
All	26	20.6%	48	31.8%	52	41.3%	126	100.0%

Source: Treasury CDFI Fund.

The results indicate a much higher award rate for small banks than for large institutions.

2. BEA Program Qualified Activity Analysis

The BEA Program provides grants to applicants for actual increases in the dollar volume of qualified activities. There are three categories of BEA Program-qualified activities:

1. CDFI-Related Activities
2. Distressed Community Financing Activities
3. Service Activities

Table 10 illustrates the type of qualified activities by funding category and cumulative activity amount for 2012-2014 based on the applications of the awardees. Applicants submit far more qualified activities than the BEA Program can fund. During 2012-2014, most of the activity amount on applications was concentrated on Small Business Loans and Project Investments (SBL) followed by Affordable Housing Development Loans and Project Investments (AHD). In terms of the three funding categories, 79 percent of the activity amount was for Distressed Community Financing Activities, 14 percent was for Service Activities, and 7 percent was for CDFI-Related Activities (**Table 11)**.

Table 10. Qualified Activities by Funding Categories, 2012-2014

Activity	Percent of Activity Amount (2012-2014)	Category
CDFI Deposits/Shares	1.2%	CDFI-Related Activities
CDFI Equity Investments	0.0%	CDFI-Related Activities
CDFI Equity Like Loans	0.2%	CDFI-Related Activities
CDFI Grants	0.8%	CDFI-Related Activities
CDFI Loans	5.1%	CDFI-Related Activities
TA Provided to CDFIs	0.0%	CDFI-Related Activities
Affordable Home Mortgage Loans	7.1%	Distressed Community Financing Activities
Affordable Housing Development Loans and Project Investments	22.4%	Distressed Community Financing Activities
Commercial Real Estate Loans and Project Investments	19.0%	Distressed Community Financing Activities
Education Loans	0.0%	Distressed Community Financing Activities
Home Improvement Loans	0.3%	Distressed Community Financing Activities
Small Business Loans and Project Investments	30.2%	Distressed Community Financing Activities
Community Services	0.0%	Service Activities
Deposits	13.5%	Service Activities
Financial Services	0.1%	Service Activities
Targeted Financial Services	0.1%	Service Activities
Targeted Retail Savings/Investment Products	0.0%	Service Activities

Table 11. Activity Amount by Funding Categories, 2012-2014

Category	Activity Amount (2012-2014)	Percent of Activity Amount (2012-2014)
CDFI-Related Activities	$163,503,264	7.2%
Distressed Community Financing Activities	$1,791,742,202	79.1%
Service Activities	$310,532,586	13.7%

Source: Treasury CDFI Fund.

The above discussion focused on how BEA Program awards are prioritized, and how increases in reported activities affect BEA Program award amounts. Priority is given to CDFIs and smaller banks, dependent on the types of BEA-eligible activities in which the bank is engaged and reported on its application. As detailed above, of the 126 banks that received BEA Program awards between 2012 and 2014, 41 percent were small banks and almost half were either CDFIs or MDI-CDFIs (49 percent combined). Smaller banks received 47 percent of BEA Program award dollars, CDFIs received 47 percent, and MDI-CDFIs received 35 percent. When asset size and CDFI status are combined, CDFI small and intermediate small banks received the largest portion of awards between 2012 and 2014. These data show the BEA Program is basing its awards on its priorities for the types of activities that qualify for BEA Program awards.

Overview of the CDFI Fund's Applicant Review and Ranking Process

This section provides an overview of the CDFI Fund's process for evaluating and ranking BEA Program applications. It also includes a brief discussion of the BEA Program eligibility data.

The CDFI Fund has a comprehensive process for evaluating BEA Program applications. Applications are initially screened to determine if all of the required information is provided. Complete applications are then screened by the CDFI Fund's IT department to determine whether the geographic-economic eligibility requirements, if applicable, for individual transactions are met. The CDFI Fund's IT Department does this by comparing the census tract or address information provided for each transaction with the relevant BEA Program eligibility data. It is important to note that not all transactions are subject to geographic eligibility requirements, particularly CDFI-Related Activities and Service Activities.

It is also important to note that on January 22, 2013, the CDFI Fund released updated BEA Program eligibility data. This was part of a larger effort to ensure that the data used to determine the eligibility for all of the CDFI Fund's programs remained current. The updated BEA Program eligibility data is based on the Census Bureau's 2006-2010 American Community Survey (ACS) and 2010 Bureau of Labor Statistics Current Population Survey (CPS) unemployment rates. These data replaced legacy BEA Program Eligibility Data that was based on the Census Bureau's 2000 decennial census and Bureau of Labor Statistics data. The CDFI Fund provided a transition period during the FY 2014 Funding Round. Applicants that applied in FY 2014 were given the option to use either data set to determine the geographic-economic eligibility of transactions. Applicants that applied in prior years were required to use the legacy BEA Program eligibility data. The CDFI Fund also completed the modernization of the CDFI Impact Mapping System (CIMS) to include BEA qualification data. To address issues related to contiguous BEA tracts that are partially qualified, a contiguity analysis for all partially qualified tracts was implemented in 2014 to enhance the application process. The CIMS modernization and the contiguity analysis helped to clarify the application process for identifying eligible transactions.

The CDFI Fund performs a general eligibility review of each applicant. All applicants receive debarment checks to ensure that those listed in the Do Not Pay System[59] are prohibited from receiving federal funds. In addition, applicants that are prior CDFI Fund awardees are reviewed by the compliance department to determine whether any have been issued a notice of default, which could deem them ineligible. In addition, independent contractors with subject matter expertise evaluate each application to determine whether the information provided is accurate and whether the transactions submitted meet all applicable BEA Program requirements. The CDFI Fund requires the contractors to disclose any potential conflicts of interest with the applicants and to sign a confidentiality agreement. The contractors are trained by the CDFI Fund and provided with detailed instructions and specific criteria for evaluating applications. To ensure consistency and accuracy, the contractors' work is supervised by CDFI Fund staff and every completed application review is approved by the CDFI Fund before it is accepted as final.

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[59] The Do Not Pay System allows agencies to check various data sources for pre-award, pre-payment eligibility verification, at the time of payment and any time in the payment lifecycle. It allows verification of the eligibility of a vendor, grantee, loan recipient, or beneficiary, which helps prevent, reduce, and stop improper payments, as well as prevent fraud, waste, and abuse. (Source: www.donotpay.treas.gov.)

Once every application has been evaluated and approved, the CDFI Fund reviews regulator agency feedback, enforcement actions, and CRA ratings to determine whether any eligibility issues were identified. If the amount of funds available during the funding round is insufficient for all estimated award amounts, the CDFI Fund ranks the applications based on the type of Qualified Activities submitted by the applicants and their CDFI status. Ranking is based on a ratio of the actual award amount calculated by the CDFI Fund for the category, to the total assets of the applicant. Certified CDFIs are given priority over non-CDFIs in each funding category. Qualified Activities are funded in this order: (1) CDFI-Related Activities; (2) Distressed Community Financing Activities; and (3) Service Activities.

Therefore, the CDFI Fund's process for evaluating BEA Program applications has been effective in ensuring that awards are prioritized according to BEA Program statutory and regulatory requirements. For example, over the study period, the majority of total award dollars (over 80 percent) was provided to certified CDFI banks. Also, over this same period, half of the total award dollars went to small banks while only about 7 percent went to large banks.

Increase in Qualified Financing and Service Activities

The principal objective of the BEA Program is to use the funding to encourage banks to engage in distressed community financing and service activities in BEA-eligible census tracts or to make equity investments in CDFIs operating in those census tracts.[60] BEA Program awards are prioritized based on qualified activity type, CDFI status, and CRA asset size (which the applicant initially indicates on the application and the reviewers verify during Phase 1 review).

CDFI-Related Activities are awarded first, followed by Distressed Community Financing Activities, and then Service Activities. Similarly, certified CDFIs are prioritized over non-CDFIs in each qualified activity category. Awards to CDFIs also are calculated using a higher award percentage. Priority is given to small banks, then intermediate-small banks, and finally, large banks. Small banks receive a priority factor of 5, intermediate-small banks receive a priority factor of 3, and large banks receive a priority factor of 1.

Based on the priority factor and award percentage,[61] the BEA Program estimates the CDFI-related ranking factor, distressed community financing ranking factor, and service ranking factor. The program then ranks applicants and estimates the recommended amount of award for each applicant. The BEA Program sets an award cap for applicants, which gives the CDFI Fund flexibility in determining the number of final awards. If the BEA Program funded the entire recommended amount, the CFDI Fund would have been able to provide awards to only a few applicants before fully depleting all of the available funds for the BEA Program. **Table 12** shows the recommended award and the actual award by funding categories. During 2012-2014, 271 applications were submitted and 213 applicants received awards. This amounts to a 78.6 percent award rate for the applicants. Although applicants requested a far greater dollar amount for qualified Distressed Community Financing Activities than for Service Activities and CDFI-Related Activities, CDFI-Related Activities are a higher priority, and, thus, more than 64 percent of the amount requested for CDFI-Related Activities was awarded, compared to 18.7 percent for Distressed Community Financing Activities and about 1 percent for Service Activities (**Table 12)**.

[60] The applicable NOFAs describe the extent to which a CDFI must be active in BEA-eligible census tracts in order for an equity investment or equity-like loan to qualify the investing bank for a BEA Program award.
[61] The award percentage is based on the applicant's status as a CDFI and the type of CDFI related activity in which the applicant engaged.

Table 12. Application Amount Compared to Award Amount by Funding Categories, 2012-2014[62]

Category	Applicants	Awardees	Estimated Application Amount (Uncapped)	Award Amount with Cap
CDFI-Related Activities	87	80	$10,937,088	$7,035,506
Distressed Community Financing Activities	190	150	$243,038,158	$45,650,484
Service Activities	19	12	$17,369,666	$168,996
Grand Total	271	213	$271,344,912	$52,886,773

Source: Treasury CDFI Fund, author's calculations.

The current formula for calculating the awards is also designed to direct more of the available award funding to CDFIs and to smaller banks. The formula for awards favors CDFIs by calculating their awards at a higher weighted percentage of the increase in qualified activities than for non-CDFI applicants. For example, "[f]or the Distressed Community Financing Activities and Service Activities categories, for a CDFI Fund Applicant, such estimated Award amount will be equal to 9 percent of the weighted value of the increase in Qualified Activity for the category. If an Applicant is not a CDFI Fund Applicant, such estimated Award amount will be equal to 3 percent of the weighted value of the increase in Qualified Activity for the category."[63] A similar 3-to-1 advantage for CDFIs applies to CDFI-Related Activities, with the respective awards being 18 percent of the weighted value for CDFIs and 6 percent of the weighted value for non-CDFI applicants. For equity investments and equity-like loans, both CDFI and non-CDFI applicants are eligible for awards of 15 percent of the weighted value of the increase in investment.

The formula for awards also favors smaller banks by weighting the amount of the increase in qualified activities by a factor of 5 for small banks, 3 for intermediate-small banks, and 1 for large banks, using the CRA asset size classification thresholds.[64] As a result, a $100,000 increase in Distressed Community Financing Activities by a small CDFI bank would qualify for the BEA Program based on a weighted value of $500,000, while the same increase by a large CDFI bank would qualify for an award based on the $100,000 amount. In addition, the applications are ranked "according to the ratio of the actual Award amount calculated by the CDFI Fund for the category to the total assets of the Applicant." That means that, within a given size category, for the same level of increase in the same category of qualified activity, the bank with fewer total assets would be more highly ranked and receive priority for an award.

Methodology for Estimating Increase in Qualified Activity

In calculating the amount of the increase in qualified activity leveraged by the BEA Program award, the total amount of the increase is used, because the award is retrospective and given for activity that has already taken place. The bank has increased its investment with the possibility of receiving a BEA Program award. In calculating the leverage of the award, the actual amount of the award is used because that is the amount that the BEA Program disburses to the bank for having increased its investment the prior year.

[62] The data are from the Ranking Spreadsheets. The analysis uses the uncapped award amount to estimate the initial recommended award amount because the uncapped amount reflects the Applicant's total, eligible increase in qualified activities. The actual amount of the award may be less because the amount allocated for BEA Program awards is not enough to fully fund the total of awards for which all applicants might qualify.

[63] Federal Register, Vol. 79, No. 79, p. 22847, NOFA dated 4/24/2014.

[64] Federal Register, Vol. 79, No. 79, p. 22847, NOFA dated 4/24/2014. The thresholds are adjusted annually. In general, small banks are those with assets of less than $280 to $300 million, intermediate-small have assets between $280-300 million and about $1.18-$1.2 billion, and large banks have assets of over $1.18 to $1.2 billion.

For example, in 2014, one bank had a recommended award of $1.7 million for qualified Distressed Community Financing Activities. That bank had $323 million in assets in 2014, which made it an intermediate-small bank with a weighting factor of 3. If the bank happened to be a CDFI, the applicable percentage award for Distressed Community Financing Activities would be 9 percent. The $1.7 million recommended award, therefore, would represent 9 percent of the increase in qualified investment, which means that the weighted increase had to be about $18.9 million ($1.7 million/0.09 ≈ $18.9 million, which is the same as $18.9 million x 0.09 ≈ $1.7 million).

The weighted increase represents the actual increase times the weighting factor for the size of the bank—in this example, 3. The actual increase in distressed community financing activities, therefore, was about $6.3 million ($18.9 million/3 = $6.3 million).

Despite qualifying for an award of $1.7 million, however, the bank received an award of $355,000, the maximum award allowed under the cap for BEA Program awards in 2014. The $355,000 award, therefore, leveraged $6.3 million in increased investment in Distressed Community Financing Activities by the bank, or nearly $17.75 in investment for every dollar of BEA Program award received.

The calculations are straightforward for the Distressed Community Financing Activities and Service Activities categories because the amount of the recommended award varies only by the type and size of the bank. In the CDFI-Related Activities category, however, equity investments and equity-like loans are treated differently than other types of CDFI-Related Activities.[65]

Analysis of Financing Activities

Analysis of the distribution of the category of qualified activities and type of bank for awardees over the period from 2012 to 2014 shows that, despite giving priority to CDFI-related investment, only slightly over 7 percent of the increase in qualified activity falls within that category. More than 89 percent of the increase in qualified activities is in distressed community financing and direct investment in BEA-eligible census tracts.

[65] For the CDFI- related category, the calculations take the differences into account by estimating the maximum and minimum possible increase, assuming that all of the increase is in activities that receive the lowest and highest percentage award, respectively

Table 13. Average Increase in Qualified Activity by Category and Type of BEA Program Awardee[66]

Type of Awardee	CDFI-Related	Direct Financing	Service	Overall	Percent by Awardee Type
	Amount (Percent)	Amount (Percent)	Amount (Percent)	Amount (Percent)	
Small CDFI	$3,035,559	$202,293,193	$735,818	$206,064,570	20.9%
Small Non-CDFI	$1,278,480	$57,299,980	$234,213	$58,812,673	6.0%
Intermediate-Small CDFI	$249,119	$356,249,522	$33,812,759	$390,311,401	39.6%
Intermediate-Small Non-CDFI	$8,100,820	$94,460,756	$214,500	$102,776,076	10.4%
Large CDFI	$0	$83,736,000	$0	$83,736,000	8.5%
Large Non-CDFI	$59,226,195	$ 84,010,533	$85,700	$143,322,428	14.6%
Total	$71,890,173	$878,049,984	$35,082,990	$985,023,148	100%
Percent by Type of Qualified Activities	7.3%	89.1%	3.6%	100%	

Source: CDFI Fund Ranking Data, 2012-2014; Author's calculations

For awardees, the results are only slightly different, with over 89 percent of qualified activities in Distressed Community Financing Activity **(Table 13)**. While the vast majority of the increase in qualified activities for applicants and awardees overall is in direct financing, the bulk of that financing, over 63 percent, is from small and intermediate-small CDFIs, with over 73 percent from CDFIs in total. Over 82 percent of equity and equity-like investment in CDFIs comes from large non-CDFIs, and another 11 percent from intermediate-small non-CDFIs. Both small and intermediate-small CDFIs provided more in services than their non-CDFI counterparts did, but large non-CDFIs provided more in services than large CDFIs did.

Because the components of the award formula, such as the weighting of the increase in qualified activities, favor small banks and CDFIs, small CDFIs receive the greatest share of the BEA Program awards. Small CDFIs received 41.0 percent of BEA Program awards over the three-year study period, intermediate-small CDFIs received 31.7 percent, and large CDFIs received 2.4 percent. Overall, CDFIs received 75.2 percent of the BEA Program awards while non-CDFIs received 24.8 percent.[67]

The extent to which BEA Program awards leverage investment in qualified activities is affected by some of the operational factors that go into determining the final award amount. First, the amount of the increase in qualified activities that any bank makes is multiplied by the weighting factor for banks of its size. That weighting causes more BEA Program award funding to go to smaller financial institutions.

Second, the CDFI Fund limits BEA Program awards because the funding is not adequate to fund all of the requested awards in full. Rather than award large amounts to relatively few banks, the CDFI Fund caps the awards in order to distribute awards to a higher percentage of applicants. For example, in the NOFA for 2013, the maximum award was capped at $2 million. In reality, the largest award for that year was $323,000, even for applicants that had increases in qualified activities that would have justified a higher

[66] The amount in the CDFI related category is the average of the maximum and minimum values calculated.
[67] Note the percentages of awards by CDFI and non-CDFIs by bank size are different than the average increases shown in Table 13.

award. Reducing awards to levels below the maximum for which an applicant qualifies increases the leverage for those awards.

Third, the awards are made after the investment. That means that applicants have already made the investment, even if they do not receive an award. The potential for receiving an award leverages those investments without any actual expenditure.

That last factor suggests that two measures of leverage are appropriate. The first is the leverage based on the ratio of the increase in qualified activities by awardees to the total award dollars distributed. That measure links the payment of the award to the investment made by banks receiving an award. A broader measure of leverage is the ratio of the increase in qualified activities by all applicants to the total award dollars distributed. That broader measure incorporates the retroactive nature of the BEA Program, making awards after the bank has made the investments, into the calculation. The bank cannot undo its investment, even if it ultimately receives no award.

Considering all applicants, the overall leverage ratio is $21.92 of increase in qualified activities for every $1 awarded. Using the narrower measure, including only awardees, the BEA Program leverages $18.63 in increase in qualified activities for every $1 awarded.

Finally, there is a difference between the overall increase for applicants and awardees because some of the increase in qualified activities does not count toward the award due to limited funding and the award cap.

Financing Activity by Geography

A geographic analysis was conducted to examine the distribution of BEA Program financing activity and awards from 2012-2014. This timeframe was chosen due to match the availability of data[68] and the socioeconomic analysis of BEA Program tracts.

A detailed geographic analysis shows the distribution of activities and awards for the program. Comparisons of BEA Program activities and awards by state were completed for the study period[69]. **Table 14** provides a summary of awards and activities, indicating the interplay of the BEA-eligible census tracts and the institutions that applied for the award. Institutions targeting investment in Mississippi showed the highest level of BEA Program activity, while institutions in California received the most funds. A concentration of both MDI and CDFI banks in Gulf Coast states and California may help to explain these results. Variations in the regional distribution of institutions' size by state and their related qualifying activities may also help explain these results.

[68] The CDFI Fund report contains data from 2011 to 2014.

[69] This portion of the analysis relied upon the BEA Program Awardee Report provided by the CDFI Fund. Award amounts are listed by institution and branch, when known and by headquarters location when awards in multiple states could not be separated. BEA Program activities attributed to census tracts utilized the state FIPS code for categorization. CDFI partner activity was categorized by partner location, when known. Due to data unavailability, some activities were not classifiable by state and are listed as "unclassifiable."

Table 14. Award and Activity Amounts by State, 2012-2014

State	BEA Award Amount	BEA Activity Amount	BEA Tracts
AL	$5,401,000	$55,529,872	223
AR	$446,787	$3,987,192	69
AZ	$646,000	$12,692,523	217
CA	$9,781,933	$382,702,480	957
CO	0	$333,230	99
CT	$1,056,334	$16,015,535	90
DC	$1,739,000	$49,127,591	52
DE	$415,000	$3,123,000	12
FL	$646,400	$21,691,933	385
GA	$1,393,494	$29,209,054	288
IA	0	$834,000	19
ID	0	$175,600	9
IL	$7,723,642	$163,031,619	427
IN	0	$8,618,875	220
KS	0	$1,639,254	57
KY	$1,524,874	$27,752,575	172
LA	$1,688,060	$125,090,996	151
MA	$45,000	$1,071,000	120
MD	$1,093,000	$16,917,963	64
MI	$1,033,000	$9,661,566	494
MN	$1,464,225	$25,193,063	55
MO	$770,000	$20,352,578	169
MS	$4,017,707	$517,795,837	180
MT	$355,000	$5,500,000	4
NC	$678,000	$18,709,548	282
NJ	0	$950,000	130
NV	0	$1,197,657	57
NY	$2,208,800	$437,773,792	564
OH	0	$194,920	559
OK	$362,451	$1,404,565	74
OR	$256,950	$8,247,563	39
PA	0	$14,668,896	342
SC	0	$7,633,985	197
SD	0	$245,000	5
TN	$373,287	$11,414,622	233
TX	$323,000	$33,572,341	588
VA	$770,000	$14,918,000	96
VT	0	$192,000	0
WA	0	$3,741,104	91
WI	$1,120,992	$18,191,004	117
WV	0	$240,000	32
Investments in CDFIs (so no geographic identifier needed)	$5,552,835	$3,310,709	
TOTAL	$52,886,771	$2,265,778,035	7,939

Source: Treasury CDFI Fund, author's calculations.

Generally, states with higher numbers of BEA Program-eligible tracts had higher levels of activity and received higher amounts of awards, although institutions in some states, such as New Jersey, Pennsylvania, and South Carolina, received no award money despite having large numbers of eligible tracts.[70]

The variations in the geographic distribution of BEA Program awards was subject to further analysis in an effort to establish likely reasons for the lower program participation by institutions in these states. **Figures 4 and 5** display the variations in activity, with higher amounts of activity in the coastal states and Midwest. However, when further analyzed, the amount of activity and awards also reflects the distribution of CDFIs, the number of BEA-eligible census tracts, and the population of states. Program eligibility criteria determined the distribution of awards across states. This is shown by the significance of the bivariate correlation analysis (using the Pearson's product-moment coefficient correlation) and the strength of the association of activity and awards with these factors in **Table 15.**

Table 15. Pearson's Correlation Coefficient for BEA Program Activity and Awards in U.S. States, 2012-2014

State Level	Population	Number of BEA Tracts	Number CDFIs
Activity Amount	.486**	.530**	.759**
Award Amount	.568**	.607**	.673**

** *p< 0.01*
Source: Treasury CDFI Fund, U.S. Census 2010, author's calculations.

[70] Additionally, awardees did not report any BEA Program-related activity in several states, including the following states with the number of eligible census tracts in parentheses: Alaska (2), Hawaii (3), Maine (12) North Dakota (3), Nebraska (17), New Hampshire (3), New Mexico (25), Rhode Island (32), Utah (15) and Wyoming (1). It is unclear why banks do not participate in this program.

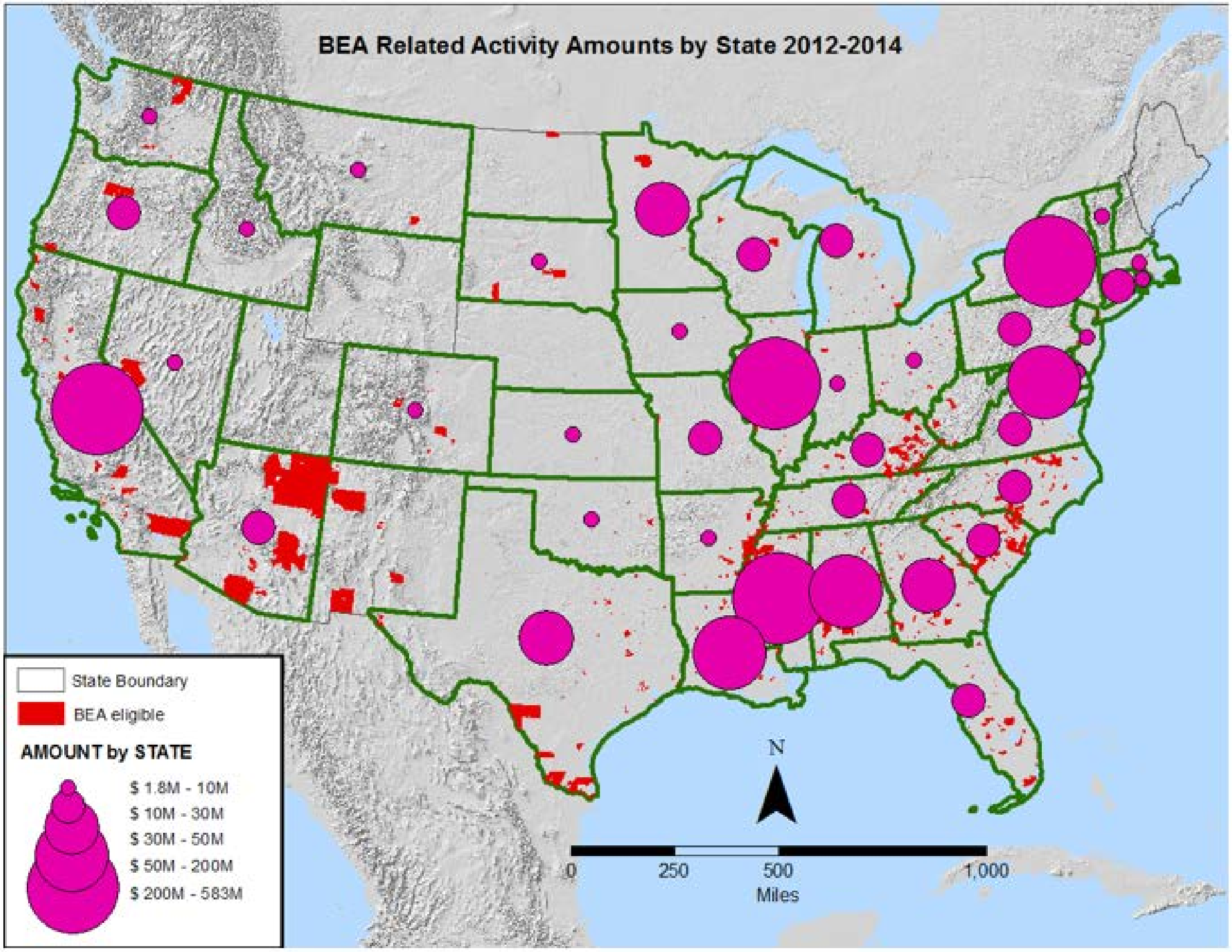

Figure 4. Map of BEA Activity by Amounts by State, Proportionally Represented, 2012-2014

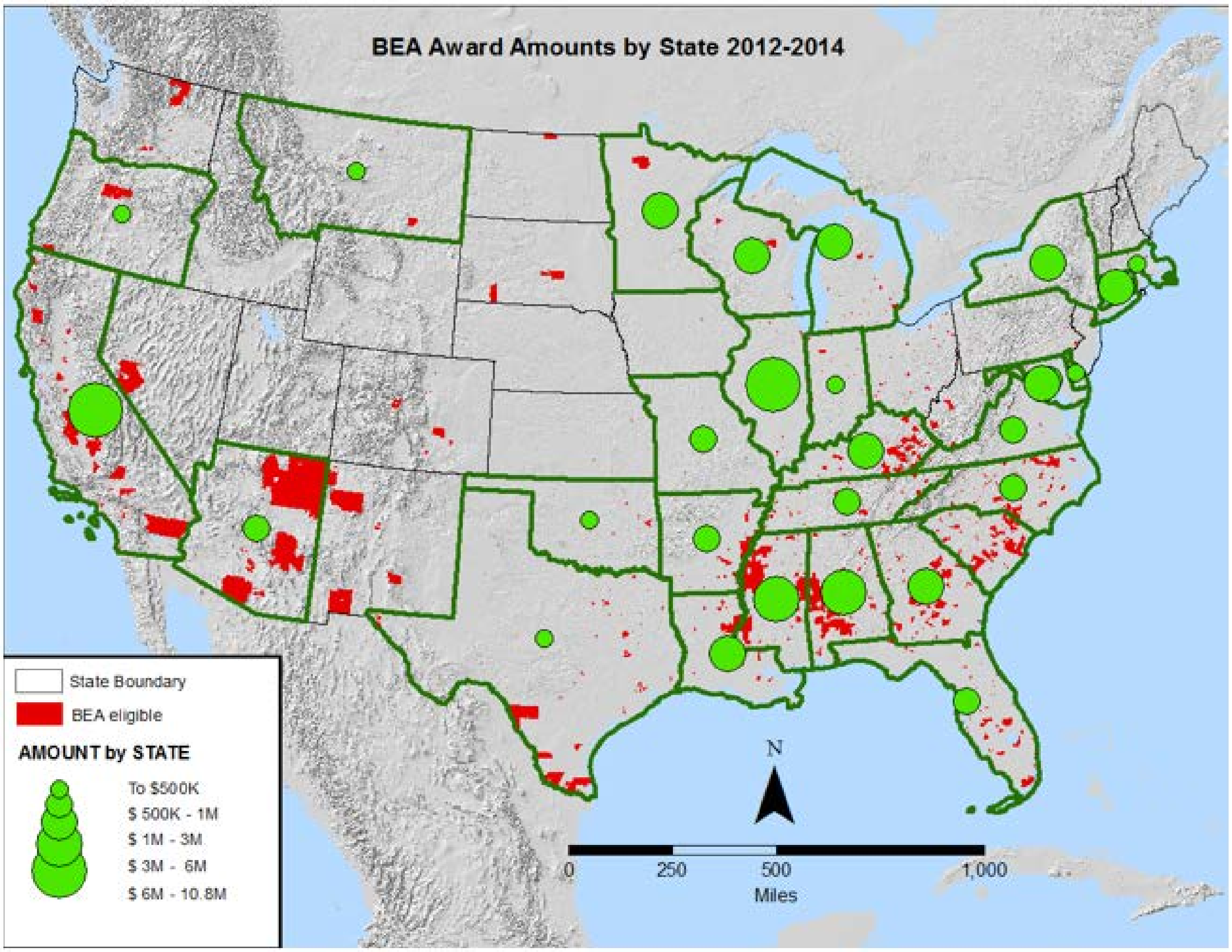

Figure 5. Map of BEA Program Award Amounts by States, Proportionally Represented, 2012-2014

Summary of Awardees by Geography:

Over the three years analyzed for this report, 2012, 2013, and 2014, the BEA Program awarded $52.9 million. This section discussed how the activities and award amounts varied across states. Institutions targeting investments in BEA-eligible Census tracts in Mississippi report the most BEA-eligible activities on their applications, while institutions in California received the most award dollars. Data on activities was gleaned from BEA applications from 41 states. BEA Program awards were made in 65.9 percent of those states. Institutions in some states, even though they had more BEA-eligible Census tracts than other states, did not receive awards. Overall, however, the amount of both activities reported on applications and award amounts reflect the states' population, the number of BEA-eligible census tracts, and the number of CDFIs in a state. These results provide a context to examine the differences between the BEA Program and the CRA in the geographic distribution of each set of eligible areas, as discussed in the next section.

3. Analysis of Differences in CRA and BEA Designated Census Tracts

Characteristics of Census Tracts Targeted

As noted in the legislative history of the BEA Program, there has been a concern from the inception of the program that it may reward banks for making investments that they are or should be making under the requirements of the CRA. The 2006 GAO report reiterated that concern and suggested that both the GAO and OMB "stated that the Community Reinvestment Act of 1977 (CRA) provides banks with incentives to make similar investments and loans that the BEA Program awards and that it can be difficult to distinguish CRA's incentives from those of a BEA Program award."[71] However, as discussed below, the BEA Program targeted a more narrow set of census tracts than CRA —those with the highest levels of distress and for which CRA credit alone may be insufficient to attract investment.

Both the BEA Program and CRA do have a similar objective: to induce banks to make loans and investments in census tracts in which they might not invest in the absence of the program. That program objective has two essential and inseparable elements. The first element is that the BEA Program and CRA are intended to influence banks' behavior and to induce them to make investments they might not otherwise make. The second element is that both are intended to get banks to make those investments in a defined group of economically disadvantaged census tracts.

Despite these similarities, there are significant differences between the BEA Program and CRA in terms of their design and targeting of highly distressed census tracts. These differences are, in large part, reflective of the concerns that the proponents of the BEA Program and CRA sought to address. As the BEA Program history shows, the objective from its inception has been to address the lack of bank investment in severely distressed urban neighborhoods. Two key components of the BEA Program that reflect that concern are its focus on highly distressed areas and the fact that all depository institutions are eligible for BEA Program awards for qualified activities in any tract that meets the program definition of distress.

In contrast, the proponents of the CRA were concerned with the "geographical mismatch of deposit-taking and lending activities . . . ."[72] Deposits represented one of the principal sources of capital for bank lending, and the proponents of the CRA wanted a way to ensure that the deposits that banks accepted went to meet the credit needs of the communities making those deposits. The CRA reflects the concern over the geographical mismatch in its emphasis on lending in low- and moderate-income census tracts (most of which do not meet BEA eligibility criteria) within the banks' assessment areas, i.e., the geographies in which the banks have locations that accept deposits. The CRA, therefore, provides an incentive for banks to lend in places where they do business, but not in other distressed areas. Unlike the BEA Program, a regional bank in New England does not get CRA credit for lending to a borrower in Appalachia.

Not only do the BEA Program and CRA provide different incentives to banks, but also they define economic distress differently. Under the current BEA regulations, a bank may receive a BEA Program award for specified activities in a census tract in which at least 30 percent of the resident population has

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[71] Treasury's Bank Enterprise Award Program: Impact on Investments in Distressed Communities Is Difficult to Determine, but Likely Not Significant. GAO-06-824 (2006), pp. 2-3.

[72] Getter, Darryl E., 2015. *The Effectiveness of the Community Reinvestment Act*, Washington, DC: Congressional Research Service, R43661.

income below the poverty level and an unemployment rate at least 1.5 times the national average. Contiguous tracts may be combined and retain eligibility as long as the combined area meets both the poverty and unemployment rate criteria.[73] Under the CRA, a bank may receive credit for activity in a tract in which the median family income is less than 80 percent of the area median family income for the metropolitan statistical area/metropolitan division of which the tract is considered a part. In addition, a tract with a higher median family income may be eligible for CRA credit if it meets Federal Financial Institutions Examination Council criteria for being distressed or underserved because it has lost population, has high unemployment, or is remote and rural. Thus, a bank receives no additional CRA credit for investing in the most distressed census tracts within its own assessment areas.

The above critiques of the BEA Program, which are based on the similarities in the objectives of the BEA Program and the CRA, consider only one of the two elements that are necessary to examine. They tend to focus solely on the impact of the BEA Program on banks' decisions to make or not to make investments.[74] From that perspective, the BEA Program and CRA requirements may appear quite similar because they share a broad objective to alter bank behavior. Analysis based on that perspective, however, is incomplete because it does not account for the geographic components of the two initiatives, specifically the scope and nature of the geographies in which the banks are being induced to make investments. The assumption in these critiques is that the geographies in which banks are encouraged to make investments under the BEA Program and CRA requirements are essentially the same with respect to geographies and the relative depth of economic distress.

Analysis of census tract-level economic indicators, however, shows that there are substantial differences between the characteristics of the census tracts that the BEA Program and CRA requirements target for qualifying investments. The scope of geographies the two programs target differ, and so do the economic characteristics of the census tracts they target. Indeed these differences in economic distress levels may influence bank investment behavior.

Differences in the Scope of Geographic Coverage

An analysis of the number of census tracts that the BEA Program and CRA target shows that the program distress criteria and incentives for promoting bank activities in highly distressed areas are not equivalent. Based on the eligibility criteria for 2013, the middle year of this study, using 2010 Decennial Census tract

[73] The full eligibility requirements include minimum population requirements and other limitations, as specified in 12 CRF 1806, §1806.200. While the population and other eligibility criteria are not described in full, their impact on eligibility is included because the analysis is based on the determination of BEA eligibility using all criteria for each census tract.

[74] For example, the GAO (2006) report concludes that ". . . independently evaluating and isolating the BEA Program's impact is difficult because other economic and regulatory incentives also affect bank behavior. For example, banks have economic incentives to lend in distressed communities because BEA-eligible loans can be profitable. In addition, CRA provides banks with regulatory incentive to undertake award-eligible activities." (p. 4). First, while some small number of loans in BEA-eligible census tracts might be profitable, the GAO's assertion with respect to economic incentives ignores the substantial body of evidence of *de facto* redlining, that is, banks not making any significant number of loans in distressed census tracts, which led to both the CRA and BEA Program. For example, Getter states that one of the motives for passage of the CRA "was to discourage *redlining* practices" (Getter, p. 1). Moreover, the same critique with respect to other economic and regulatory incentives affecting bank behavior would almost certainly be applicable to any evaluation of the impact of the CRA because the same array of factors that affect bank decision making would be present.

boundaries, there were 73,057 census tracts in the United States, of which 25,559, or 35 percent, were eligible for CRA credit, and 8,053, or 11 percent, were eligible for BEA Program awards. As the counts indicate, many more census tracts meet the CRA requirements than the BEA requirements. Those data clearly show that the BEA Program has a much smaller geographic footprint than the CRA, and that is because the BEA Program targets more highly distressed census tracts. In fact, only 7,361 CRA-eligible census tracts, or 28.8 percent of all CRA-eligible census tracts, are also BEA-eligible census tracts.

Differences in Economic Characteristics of BEA and CRA Census Tracts

The BEA Program not only provides an incentive for banks to invest in far fewer census tracts than the CRA does, but also targets census tracts with economic indicators that show a much higher level of distress than those that CRA targets. The differences in economic indicators reflect the difference between the income-eligibility criteria of the BEA Program and the CRA.

The BEA Program uses as its measure of income the federal poverty level, which is a relatively uniform, national standard.[75] For example, it would consider a family of three with one child under 18 to be under the poverty level if its income was less than $18,751 in 2013, regardless of where in the country the family lived. In order for activity in a tract to be eligible for a BEA Program award, more than 30 percent of its population would need to have income below the national poverty level.[76]

The CRA uses a different measure, the census tract's median family income as a percentage of Area Median Family Income (AMI), a denominator that varies substantially from one metropolitan area to another. In order for a census tract to be considered CRA-eligible, more than half of the families in the tract must have income that is less than 80 percent of the AMI. According to the 2010 American Community Survey 5-year estimates,[77] AMI varies from a low of $33,770 in the Brownsville-Harlingen, TX metropolitan area to a high of $102,380 in the Washington-Arlington-Alexandria, DC-VA-MD-WV metropolitan area. In the Brownsville MSA, half of the family households in a census tract would have to have incomes below $27,016 (80 percent of $33,770) in order for the tract to be eligible for CRA credit.[78] In the Washington MSA, half of all families could have incomes as high as $81,900 and the tract would still be considered CRA-eligible.

[75] The poverty level is uniform for the 48 contiguous states, with separate standards for Alaska and Hawaii.

[76] The BEA Program regulations specify that the determination of the 30 percent poverty level be based on data "published by the U.S. Bureau of the Census in the most recent decennial census for which data is available." 12 CFR Part 1806, Subpart B, §1806.200(b)(2)(i). Because the 2010 decennial census did not contain the SF-3 file, which is the one in which the data on poverty were published, the 2000 decennial census is the most recent one with the required data. The BEA Program used 2000 data to determine eligibility through the 2013 awards and in the 2014 round applicants had the option to use either the eligibility data based on the 2000 decennial census or the eligibility criteria based on the ACS 5-year data applied to the 2010 census tracts.

[77] The ACS 2010 5-year estimates are the basis for most of the FFIEC census data.

[78] A low-income census tract has a median family income of less than 50 percent of AMI; a moderate-income census tract has a median family income that is 50 percent to less than 80 percent of AMI; a middle-income census tract has a median family income that is 80 percent to less than 120 percent of AMI, and an upper-income census tract has a median family income that is 120 percent or more of AMI. In general, CRA-eligible census tracts are either low- or moderate-income.

Comparing different measures of income reveals one key difference between tracts that qualify for awards under the BEA Program and under the CRA. By all of the measures, the data show that the BEA Program targets census tracts with much lower income levels than the CRA does.

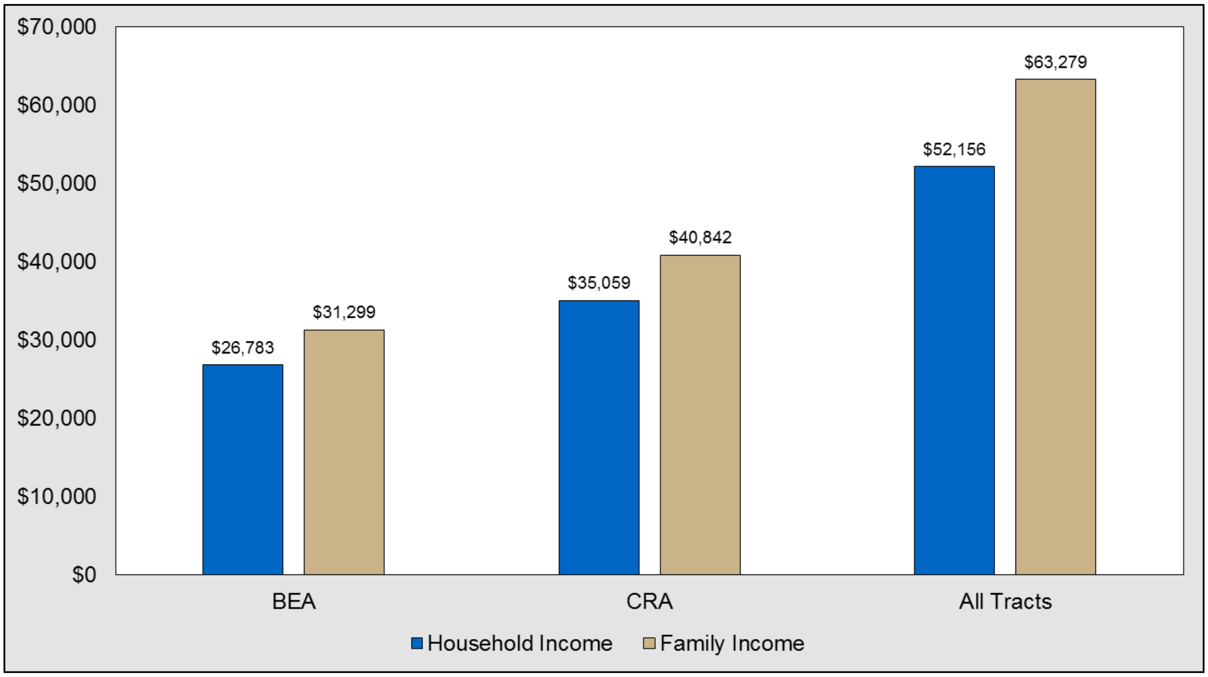
There are four different ways to measure income:

1. Median family income
2. Income categories
3. Relative income distribution
4. Poverty rate

Median Family Income

One commonly used measure for comparison is median family income, used as a component in determining census tract eligibility for CRA credit. The median family income[79] in BEA-eligible census tracts was $31,299, based on the FFIEC data for 2013,[80] compared with $40,842 in CRA-eligible census tracts and $63,279 in all census tracts (**Figure 6**). The median family income in BEA-eligible census tracts was, therefore, 23.4 percent less than in CRA-eligible census tracts and less than half the median family income nationally. While the comparisons for median household income, a measure that includes single-person households, are slightly different, they also show that the BEA Program targets census tracts that are home to families and households that are generally poorer than those targeted by the CRA. The median family or household income is a measure of central tendency and provides information about the middle of the income distribution, but not about the shape of the distribution and how the tails compare among BEA-eligible census tracts, CRA-eligible tracts, and all census tracts across the nation.

[79] A “family” is “a group of two or more people who reside together and who are related by birth, marriage, or adoption.” A “household” is “all the people who occupy a housing unit as their usual place of residence.” The vast majority of households that are not families consist of one person living alone. In almost all cases, median family income for a census tract is higher than median household income.
[80] The FFIEC data for 2013 is the same as the 2006-10 ACS 5-year data.



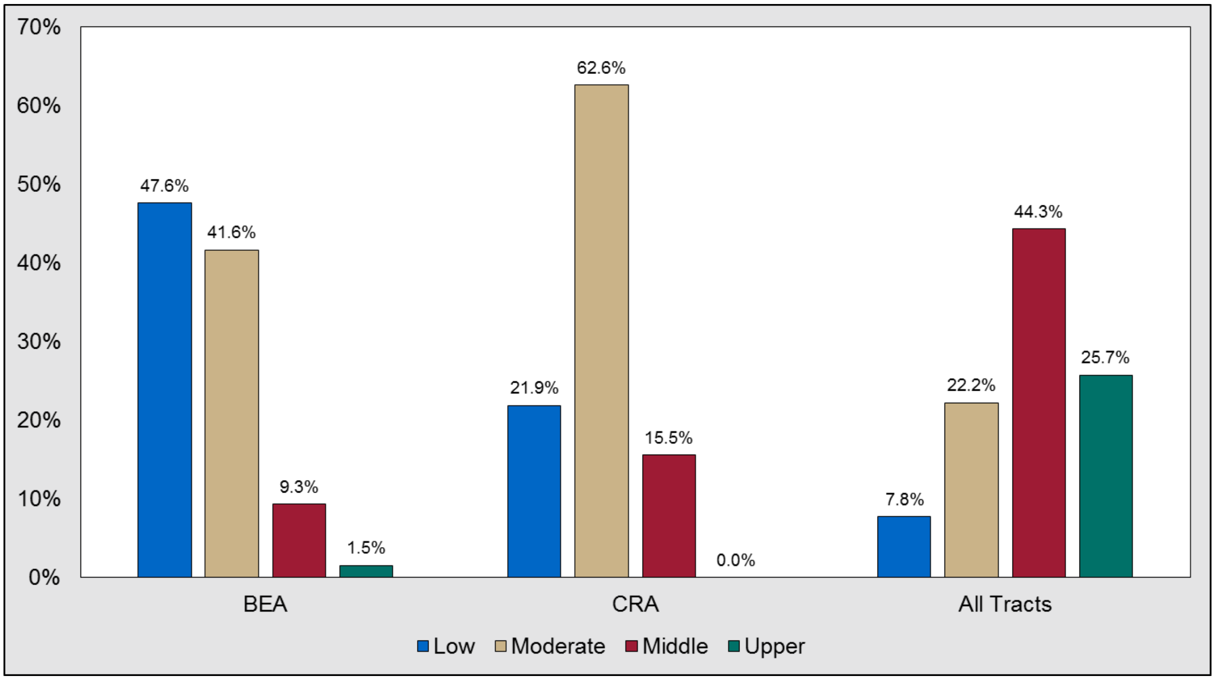
Sources: CDFI Fund list of BEA-eligible census tracts, FFIEC Census Data 2013, authors' calculations

Figure 6. Median Household and Family Income, by BEA and CRA Eligibility for Census Tracts, 2013

Income Categories

Another way to compare the targeting of the BEA and CRA programs is to use the low-, moderate-, middle-, and upper-income categories that reflect regional differences in income and that are also part of the standards determining whether a census tract is eligible for CRA credit. For the most part, CRA-eligible tracts are either low- or moderate-income, with limited exceptions for tracts that meet other criteria for distress, as noted earlier. Comparing the distribution of eligible tracts among the four income categories shows that the BEA Program targets more toward the lower end of the income distribution than the CRA does (**Figure 7**).

About 47.6 percent of BEA-eligible census tracts are low-income, with median family income of less than 50 percent of the median family income in the metropolitan area of which they are a part, while only about 24.8 percent of CRA-eligible tracts are low-income. In fact, because all low- and moderate-income census tracts are eligible for CRA credit, all of the 6,592 low-income census tracts and 15,998 moderate-income census tracts nationally are CRA-eligible, and so low-income tracts constitute only 29.2 percent of the combined 22,590 low- and moderate-income tracts potentially benefiting from the CRA. By comparison, because BEA-eligible tracts meet higher distress criteria, only 3,830 low-income census tracts, or about 58.1 percent, of all low-income census tracts, and 3,351 moderate-income census tracts, or about 20.9 percent, of all moderate-income census tracts are BEA-eligible. That means that low-income census tracts constitute 53.3 percent of all low- and moderate-income census tracts potentially benefiting from the BEA Program. Again, the data show that the BEA Program targets census tracts that are more likely to be low-income than the CRA targets. The income category comparison provides information across the broader range of the income distribution, but it also reflects the overall skew in the distribution in which about 70 percent of census tracts are either middle- or upper-income.



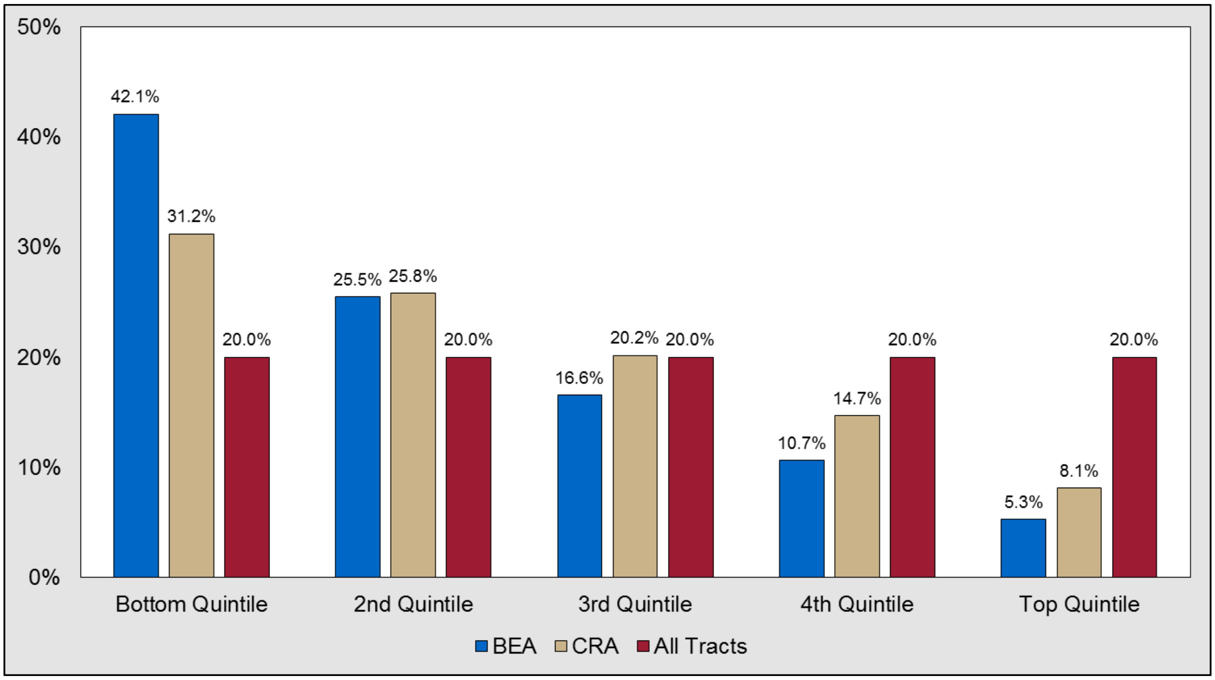
Sources: CDFI Fund list of BEA-eligible census tracts, FFIEC Census Data 2013, authors' calculations
Figure 7. Census Tract Income Ranges by Program, 2013

Relative Income Distribution
A third way to examine the income distribution even more broadly than with income categories is with a relative distribution. The relative distribution uses one distribution as a reference to establish intervals, and then applies the interval boundaries to the comparison distributions to show the percent of the comparison distributions and the range defined by the interval boundaries of the reference distribution.

For example, a comparison of the distribution of household income levels in tracts targeted by the BEA Program and the CRA can be done with reference to the national distribution of household income. The first step in analyzing the relative distribution is to determine the range of household income that defines the intervals chosen for the analysis, in this case, income quintiles. The next step is to determine the interval boundaries. Using the FFIEC household income data for 2013, the income quintile boundaries are:

- Bottom quintile - $0 to $21,471
- 2nd quintile - $21,471 to $40,129
- 3rd or middle quintile - $40,129 to $65,136
- 4th quintile - $65,136 to $102,803
- Top quintile - $102,803 or more.

The data for BEA- and CRA-eligible tracts can then be separated into segments based on those quintile boundaries to show the percentage of households with incomes in each quintile of the national distribution (**Figure 8**).



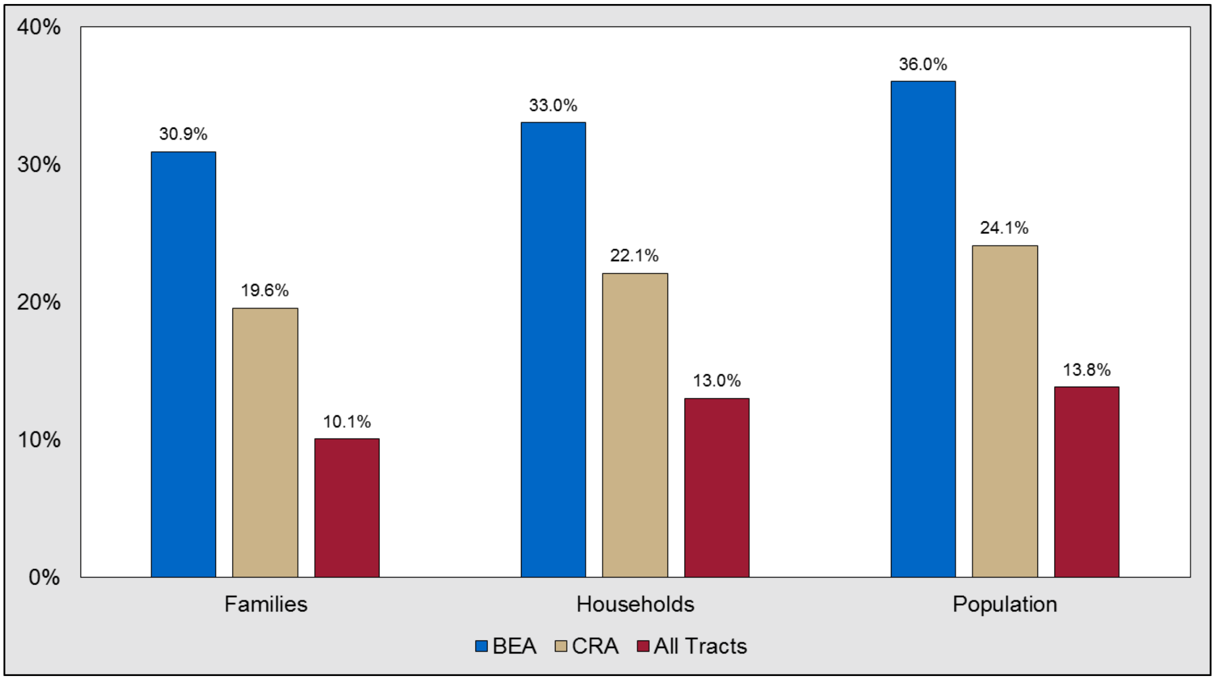
Sources: CDFI Fund list of BEA-eligible census tracts, FFIEC Census Data 2013, authors' calculations

Figure 8. Relative Household Income Distribution by National Income Quintiles, 2013

As **Figure 8** shows, 42.1 percent of households in BEA-eligible census tracts have incomes in the bottom 20 percent of incomes nationally, less than $21,471 per year, compared with 31.2 percent of households in CRA-eligible census tracts. That means that households in BEA-eligible census tracts are nearly 35 percent more likely to have incomes in the bottom quintile of the national income distribution than households in CRA-eligible census tracts. The relative distribution may also be expressed as the ratio of the percentage of the comparison distribution in the range to the percentage of the reference distribution in the range. For BEA Program tracts, the relative distribution for the bottom quintile is 2.1, meaning a household in a BEA-eligible census tract is 2.1 times as likely to have an income below $21,471 than households nationally. For CRA-eligible census tracts, the relative distribution for the bottom quintile is 1.56.

Poverty Rate

A fourth common income-based indicator of economic condition is the poverty rate, based on the national income standard, and it is one component used to determine whether activity in a census tract qualifies for a BEA Program award. The poverty rate may be based on family or household income, or may be calculated based on population data. By any of those measures, the poverty rate in BEA-eligible census tracts is roughly 50 percent higher than in CRA-eligible census tracts (**Figure 9**). For example, 30.9 percent of family households in BEA-eligible census tracts have income below the poverty level, compared with 19.6 percent of families in CRA-eligible tracts.



Sources: CDFI Fund list of BEA-eligible census tracts, FFIEC Census Data 2013, authors' calculations

Figure 9. Poverty Rate for Families, Households, and Population, by Program, 2013

4. Bank Branch, Small Business Lending, and Mortgage Spatial Analysis

A bank-branch locational analysis was conducted by census tract to compare the accessibility of banking services for residents and businesses in highly distressed BEA census tracts and in CRA census tracts. The goal was to ascertain if there are disparities.

Banking Services in BEA-eligible and CRA Census Tracts

An analysis of branch locations was conducted to assess banking service levels to BEA-eligible census tracts. Service activities related to deposits, community services, and financial services are one of the three activity areas used to evaluate a bank's qualifications for awards. Proximity to banking services is an aspect of the availability of deposit and financial service activities in distressed communities. Though mobile and internet banking services are increasingly common, a 2013 study by the FDIC found that the presence of branches in communities continues to play an important role in accessibility for many consumers.[81] The FDIC study included a survey that found that 32.2 percent of all consumers and 47.5 percent of the lowest-income consumers rely on bank tellers as their primary method of accessing banking services.[82] In addition, the acceptance and accessibility of computing and Internet resources in economically distressed communities and rural communities may be a limiting factor for lower-income consumers to realize the benefits of new banking technologies.

CRA- and BEA Program-designated tracts were compared for banking service locational access. The CRA was intended to ensure that investments are made in communities from which financial institutions'

[81] National Survey of Unbanked and Underbanked Households, FDIC
https://www.fdic.gov/householdsurvey/2013report.pdf

[82] p.53 & p.59

deposits come, but, as the Congressional Research Service has noted, the advent of interstate banking and the way in which CRA bank assessment areas are defined make this increasingly difficult to ensure.[83] BEA encourages banks to continue to invest and to increase investment in highly distressed communities. Therefore, CRA and BEA Program eligibility are based on different criteria and objectives established within their respective program guidelines. The FFIEC establishes the requirements for CRA eligibility based on the median family income of census tracts as a proportion of the MSA or non-MSA median family income of that area. Census tracts in which the median family income is less than or equal to 50 percent of the MSA in which they are located are designated low-income; those in which the median family income is between 50 and 80 percent are designated as moderate-income. There are additional criteria under the CRA to include distressed or underserved middle-income tracts. BEA Program tracts, on the other hand, are evaluated by criteria related to the area's population decline, poverty rates, unemployment rates, and designation as a Native American tribal reservation. A map of the distribution of CRA and BEA Program tracts is presented in **Figure 10,** which illustrates the broad clustering of census tracts for the two sets of qualifying tracts, although the resolution of the map cannot show overlapping tracts or the density of qualifying tracts in high population metropolitan areas.

[83] The Effectiveness of the Community Reinvestment Act by Darryl E. Getter, July 25, 2014, Congressional Research Service.

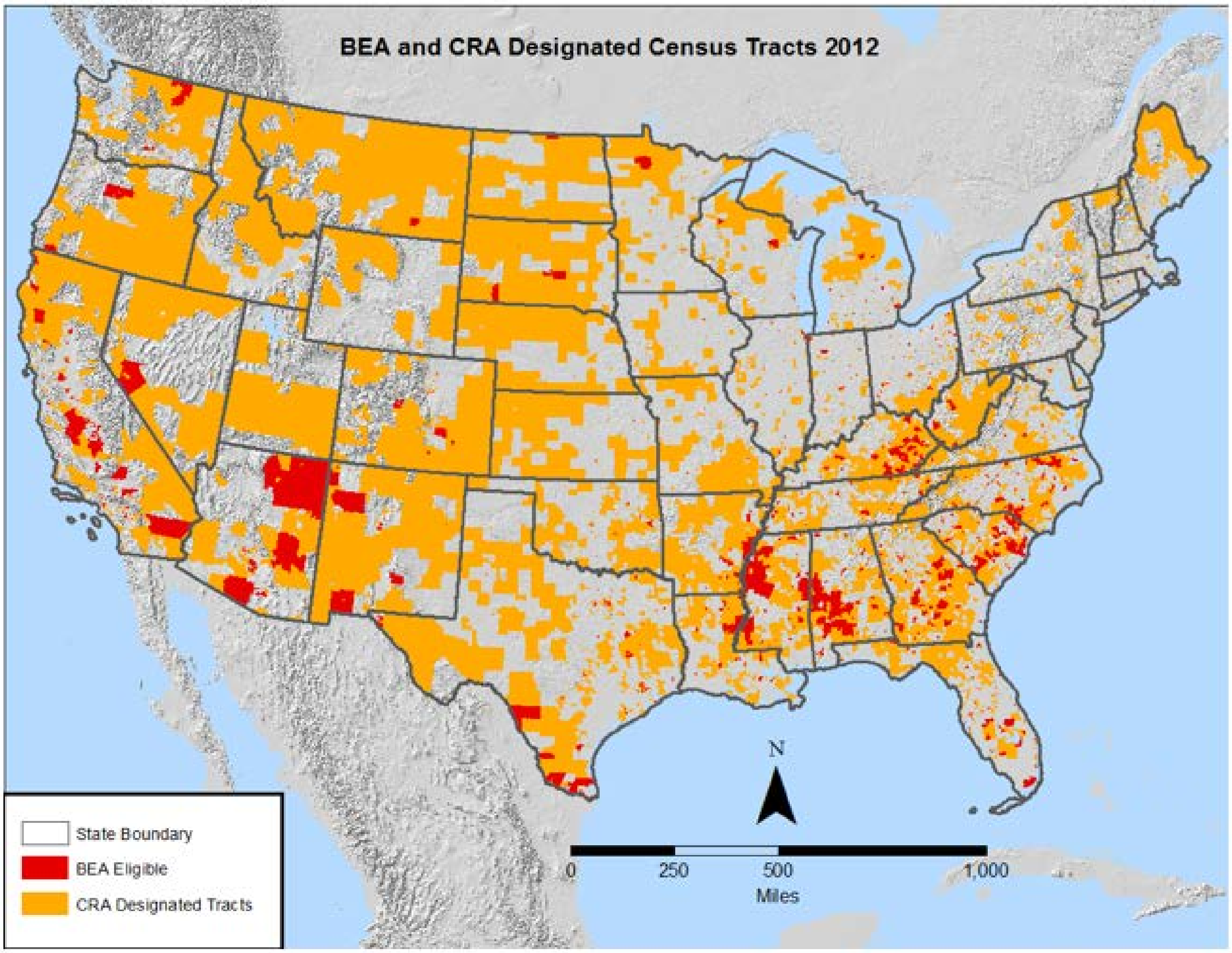


Figure 10. Map of National Distribution of 2012 BEA-eligible and CRA Low- and Moderate-Income, Distressed, and Underserved Census Tracts

CRA-designated census tracts are much more widely distributed than BEA Program-designated tracts. Large areas of the sparsely populated western U.S. are CRA designated. In contrast, the BEA-eligible census tracts indicate greater focus in distressed regions of Appalachia, the South, and western tribal areas.

Accessibility was evaluated by the number of census tracts nationwide containing banking services. As **Table 16** shows, 51.18 percent of all tracts in the U.S. contained a bank branch, and 44.34 percent of CRA[84] tracts and 34.64 percent of BEA Program tracts contained bank branches.

[84] CRA tracts are defined for study purposes as low- to moderate-income, underserved, and distressed tracts derived using FFIEC 2013 data.

Table 16. Census Tracts by BEA Program or CRA Classification Containing Bank Branches in the U.S. for 2014

Program	Tracts	Number of Tracts with Bank Branches	Percentage Tracts with Bank Branches
All Tracts*	73,057	37,389	51.18%
CRA	26,563	11,779	44.34%
BEA	8,053	2,790	34.64%

*Includes BEA- and CRA-eligible census tracts

Source: FDIC bank branch locations for 2014, geocoded: https://www5.fdic.gov/idasp/warp_download_all.asp

The lower number of banks in BEA Program tracts than in CRA tracts indicates underservice in BEA Program tracts; however, it is difficult to infer whether the comparison with all tracts nationally is meaningful. This lack of access nationally should be considered in the context that census tracts include rural areas with quite low population density. This impacts bank branch access differentially depending on location of residence. To conduct a more valid comparison, tracts within urban and rural areas were examined. The FFIEC adopts U.S. Census standards for the classification of urban, rural, and mixed urban and rural areas. These census tracts and block-level criteria are based on the relative population densities of areas. **Table 17** shows the number and percentage of census tracts containing banks in these FFIEC designated areas of the continental U.S. It indicates that bank branches are located in 47.92 percent of urban, 56.07 percent of mixed urban and rural, and 56.77 percent of rural tracts. This seemingly improved rural access is really a reflection of their low population density: rural census tracts tend to be larger and consequently require longer travel times than do census tracts located in urban areas. For example, census tracts outside of MSA boundaries average 244.94 square miles in land area, while tracts inside MSA boundaries average 82.02 square miles[85].

The percentage of BEA Program tracts containing banking locations is lower than the percentage of CRA tracts and reflects the same trend in rural/urban access. BEA Program-eligible mixed urban and rural tracts have the highest level of access, with 49.25 percent containing a bank branch, while urban tracts have the lowest level, with only 31.58 percent of tracts containing a bank branch. However, when the boundary is increased to include access to banks within half a mile of BEA Program-eligible urban census tracts, 77.43 percent have access. CRA tracts have better banking access than BEA Program tracts in all three categories, and lag only slightly behind the average for all tracts nationally. More than 50 percent of rural and mixed CRA tracts contain bank branches, 38.57 percent of urban CRA tracts contain a bank branch, and 84.52 percent of CRA urban tracts have a branch within half a mile. The consistent factor for BEA Program tracts is their lower level of bank branch access compared to regular or CRA tracts in all categories.

[85] Calculations include the continental U.S. states, excluding Alaska, Hawaii, and overseas territories

Table 17. All Tracts, CRA Tracts, and BEA Program-designated Tracts Containing Bank Branches in U.S. States

N/A	Rural Count	Rural Percent	Mixed Count	Mixed Percent	Urban Count	Urban Percent
All Tracts	8,202	All	22,883	All	41,972	All
Tracts With Banks	4,656	56.77%	12,928	56.49%	20,111	47.92%
CRA Tracts	3,848	All	5,588	All	17,127	All
CRA Tracts With Banks	2,052	53.32%	3,121	55.85%	6,606	38.57%
BEA Designated Tracts	280	All	1,202	All	6,571	All
BEA Tracts With Banks	122	43.57%	593	49.25%	2,075	31.58%

Sources: FDIC bank branch locations using FFIEC classification of 2010 U.S. Census tracts, author's calculations

The foregoing analysis indicates that BEA Program tracts have lower levels of access to banking services than do other tracts in all three geographic categories. The lack of access, combined with higher levels of reliance on bank tellers and lower levels of access to and acceptance of mobile and Internet banking documented in the cited 2013 FDIC study, makes this finding noteworthy. It indicates that residents of BEA Program-eligible census tracts, particularly in urban areas, appear to have lower levels of bank branch service availability than residents of CRA designated tracts.

Bank Branch Accessibility by Institution Type and Size

The next step was to assess the types and sizes of bank branches present in BEA Program-eligible census tracts and non-BEA-eligible census tracts. **Table 18** compares the number and percentage of bank branches in BEA and non-BEA tracts for institutions of different sizes for the 2012-2014 study period. Because of their greater number and wider geographic distribution, large financial institutions had the highest number of branches in BEA-eligible tracts. However, small, midsized, and large banks all had nearly the same proportion of their branches in BEA-eligible tracts.

Table 18. Banks by Size in BEA-eligible Tracts

Tract Designation	Institution Size						
	Small		Midsized		Large		All Sizes
	Count	Percent	Count	Percent	Count	Percent	Total
Not BEA Applicant	10528	73.23%	11370	74.70%	49007	75.78%	70905
BEA Applicant	3849	26.77%	3850	25.30%	15663	24.22%	23362
Grand Total	14,377	100%	15,220	100%	64,670	100%	94,267

Sources: FDIC bank branch locations using FFIEC classification of 2010 U.S. Census tracts

Small Business Lending Analysis of Mainstream Banks, BEA Banks, and CDFIs Serving In Low-Income Areas

As the foregoing CRA and BEA census tract analysis and the bank branch analysis have shown, there are substantial indications that the lending investment behavior of mainstream banks may vary systematically with respect to census tract distress levels. The much higher levels of distress in BEA tracts may affect bank lending and investment behavior if the perceived or actual lending risk, as reflected in "thin credit records" for such tracts, is higher. In addition, the costs of maintaining bank branches in low-income communities with lower volumes of business may contribute to the lower density of bank branches in BEA distressed tracts. Indeed, as a result of these considerations certain propositions advanced by the GAO in 2006 merit evaluation: 1) that banks have regulatory and economic incentives to invest in CRA tracts regardless of differences in levels of distress, and 2) that the BEA Program's incentives have minimal influence on bank behavior and are essentially duplicative of CRA incentives.[86] To examine these propositions more carefully, a comparative statistical analysis of mainstream bank lending and CDFI bank and CDFI loan fund lending was conducted by CDFI Fund staff using CRA small business lending data from the FFIEC for 2014.[87] The CRA data includes business and farm loans of $1 million or less originated in 2014, and this data was compared to business and microbusiness loans of $1 million or less small originated by CDFI Program awardees in 2014. CDFI Program awardees' small business transactional data was used because it includes the complete portfolio of small business transactions by reporting CDFI Program awardees. In addition, the CDFI banks and CDFI loan funds represent two stakeholder groups that benefit from the BEA Program, either directly as awardees or indirectly as CDFI partners. Furthermore, small business lending constitutes the single largest segment of qualified BEA activities submitted by BEA applicants.

Table 19. Lending by FFIEC Banks, CDFI Banks and CDFIs in Low-Income Census Tracts

Loans and Percent by Census Tract and Institution Type	Total Number of Loans		
	FFIEC Banks	All CDFIs	CDFI Banks
Loans in Low-Income Census Tracts	1,614,573	4,954	380
Loans in Non-Low-Income Census Tracts	3,871,088	4,656	241
Percent in Low-Income Census Tracts	29%	52%	61%

Sources: FFIEC and CDFI Fund data based on Low-income community classification of 2010 U.S. Census tracts

The results of the analysis shown in **Table 19** indicate that in 2014, CDFI bank awardees made a larger share (61 percent) of their loan originations in low-income qualified tracts[88] than did mainstream banks (29 percent). It also shows that all CDFIs have a greater propensity to make small business loans in more highly distressed census tracts (52 percent). It should be noted that the low-income census tracts with 20 percent poverty rates represent a lower level of distress than the BEA Program census tract requirements (at or above 30 percent poverty rate). Further analysis shows that FFIEC banks made 13 percent of their loan originations in non-metropolitan tracts, while CDFI banks made 66 percent of their total loan originations in non-metropolitan tracts. In addition, the analysis shows that CDFI bank awardees made a larger share (54 percent) of their loan originations in persistent poverty tracts than did FFIEC banks (5 percent).

These results demonstrate that a clear lending disparity exists between FFIEC banks and CDFI banks and all CDFIs in more distressed census tracts. Given that these findings are based on a lower distress standard than the BEA Program measure, this finding suggests that regulatory and economic (profitability) incentives work unevenly and may reflect differential perceived risks. Moreover, these findings indicate

[86] See GAO 2006, particularly page 11, and the reference to a Federal Reserve study on the profitability of CRA investments (see footnote 19).
[87] The FFIEC data was provided to the CDFI Fund under a strict non-disclosure agreement which prohibited sharing the data with non-Treasury employees. Thus the CDFI Fund conducted the analysis using the FFIEC data.
[88] Low-income census tracts are those at or below 80 percent of area income or with poverty rates equal to or greater than 20%.

the unique role that CDFI banks and loan funds play in serving more distressed CRA tracts. Thus, GAO's proposition that economic and CRA regulatory incentives would drive bank investment behavior regardless of distress levels is not supported by this comparative analysis. Indeed, the evidence indicates that other factors are at play in explaining the variations in transactional and bank branch presence across distress levels. Thus, the duplication hypotheses lacks empirical support from this data analysis since mainstream banks do not serve distressed tracts with equal propensity as CDFI banks and CDFIs. An alternative to the duplication hypothesis is that the BEA Program and other CDFI programs act as complements to CRA by providing additional incentives to serve more highly distressed communities, especially where CRA credit alone is not sufficient to attract greater investment. Another implication of this analysis is that it seems possible to construct statistical tests and models, including peer group analysis, to further examine the effects of the BEA and CDFI Programs as noted below in the recommended future research section.

Home Mortgage Disclosure Analysis

Affordable home mortgage lending accounted for 7 percent of the activity that was claimed and awarded under the BEA Program during the study period. All home mortgage lending activities in communities are tracked under provisions of the Home Mortgage Disclosure Act (HMDA). This includes data on the demographic and economic status of the borrower and the community receiving the loan. HMDA data provides a record of lending activity to communities, which can be used to assess the performance of different institutions. In order to compare the levels of investment in specific BEA-eligible census tracts between applicant institutions and other lenders, HMDA data and BEA applicant data were utilized.

First, the location of all activity was assessed based on its location within BEA-eligible tracts for the study period. While the national mortgage lending activity was widely dispersed, there was heavy concentrations of lending in the South and upper Midwest. Next, the concentration of loans in qualified BEA tracts was considered.

Affordable Home Loans as Percentage Activity in BEA Tracts 2013-14

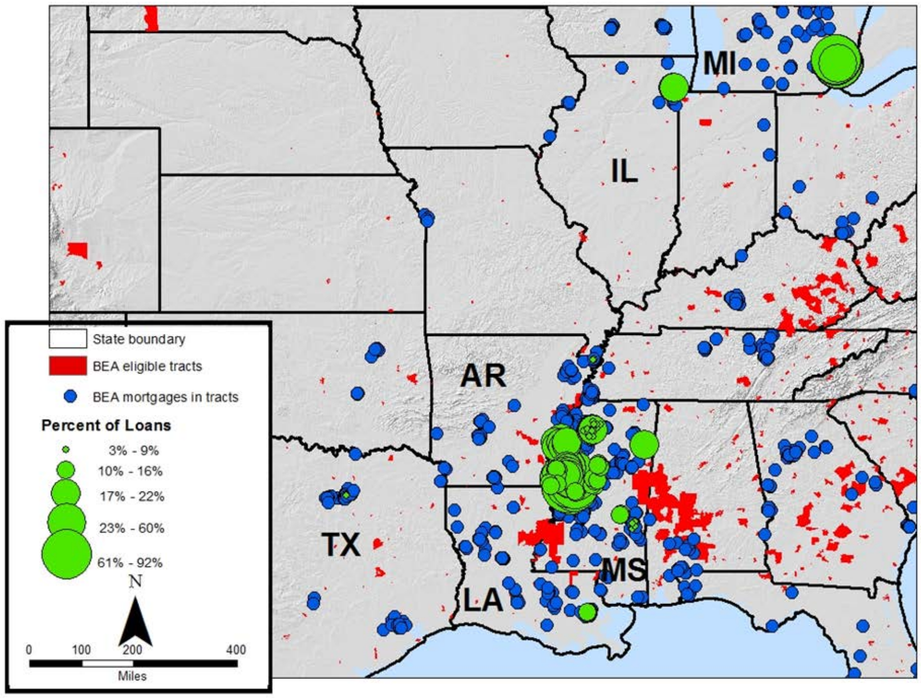


Figure 11. BEA Home Mortgage Lending Activity as a Percentage of Overall Home Mortgage Lending in Census Tracts with 10 or More Affordable Home Mortgage Loans

National data was too diffuse to clearly render in a map, so **Figure 11** focuses on tracts in areas that were highly dependent on BEA affordable home mortgage loans, particularly in Michigan and Mississippi (although the reader should note that the "percent of loans" bubbles illustrated in green often cover up the delineation of BEA Program eligible census tracts illustrated in red). Areas in and near Detroit and along the Mississippi River Delta region show locations where BEA affordable home mortgage lending was highly concentrated. The results of this analysis indicate that some BEA-eligible tracts have high levels of dependence on loans made by BEA applicant institutions. A wider application of this HMDA analysis can provide another dimension of a peer group bank analysis, which is considered below in the recommended future research section.

Summary

Taken together, the analysis of the administrative data and secondary data for the BEA Program and CRA regulations incentives provide considerable evidence that the BEA Program's incentives focus participating banks' lending and services activities on more highly distressed areas than CRA regulations require. The foregoing analyses also demonstrate the feasibility of constructing a series of quantitative peer group analyses of BEA and non-BEA banks to evaluate how CRA and BEA Program incentives may explain differences in bank behavior. These research designs are detailed in the concluding section of this report. The findings of the administrative and secondary data analyses are amplified by the following findings from the primary data collections.

V. Primary Data Collection: Online Surveys and Phone Interviews

Introduction

Objective
The objective of the primary data collection was to validate results from the secondary data analysis and to compare the results of the primary data analysis against initial hypotheses regarding bank size and type; CRA and BEA investments; and type of financing activities. The primary data collection was divided into three subsections: 1) short triangulation phone interviews, 2) an online survey, and 3) in-depth phone complementary interviews to seek additional qualitative data from the phone interviews and online surveys. While the secondary data analysis provides a quantitative assessment of the differences between bank types, CRA and BEA, and the location and type of financing and service activities, the primary data collection probed deeper on specific questions and sought additional information provided by interviewees to validate results.

Methodology and Sample Size
The respondents were generally bank officers who managed both the CRA and BEA Programs at their institutions. For the triangulation interviews, 18 of the 20 sampled applicants responded (see Volume II for sampling methodology, interview and survey questions, and detailed data analysis). For the online survey, 93 of the 142 eligible banks participated, a response rate of 65 percent. The complementary interviews involved 20 sampled respondents. Each data collection was explicitly designed to be a representative sample of all awardees and applicants, stratified by institution type and size. Each round of data collection consisted of single-response, multiple-response, and open-ended questions soliciting the expert opinion of bank officers. The structure and content of the three rounds of data collections were similar, but each succeeding stage probed more deeply into the topics at each successive stage (see Volume II of the report for detailed analysis and extensive data on the primary data collections).

Organization of Section
This section summarizes and combines the results thematically and consolidates them into a unified set of findings for each topic area. It covers four main topics:

1. The impact of bank type and asset size in participating in the BEA Program;
2. The effects of the BEA Program and its potential overlap with CRA incentives;
3. The institutional and community impact of the BEA Program on the bank investment and service activities; and
4. Feedback on the structure and operation of the BEA Program, including the application procedures.

1. Bank Type and Size
The results of the online survey provided evidence of differences in bank perceptions of the relative impact of CRA regulatory incentives and BEA program incentives on investment and service activities in highly distressed communities.

When asked which program requires more investment in distressed communities (**Table 20**), 45 percent of banks (regardless of institution type) reported that the BEA Program required more investment than CRA, and 28 percent reported that each program incentive created virtually the same outcome. MDIs and CDFIs were significantly more likely than "Other" institutions to indicate that the BEA Program requires investment in more distressed communities.

Table 20. BEA/CRA Investment Perception by Institution Type (n=92)

Requires Investment in More Distressed Communities	Institution Type				
	MDI-CDFI	CDFI-non-MDI	MDI-non-CDFI	Other	Total and Percent by Answer
Virtually the Same (% by Type)	5 (25%)	6 (35%)	2 (33%)	13 (27%)	26 28%
CRA (% by Type)	0 (0%)	0 (0%)	1 (17%)	15 (31%)	16 17%
BEA (% by Type)	13 (65%)	10 (59%)	3 (50%)	15 (31%)	41 45%
Don't Know (% by Type)	2 (10%)	1 (6%)	0 (0%)	6 (12%)	9 10%
Total and Percent of all Institution Types	20 21.7%	17 18.5%	6 6.5%	49 53%	92 100%

Source: Online Survey

With respect to bank size, as measured by asset size, (**Table 21**), when asked which program incentive had greater impact on investment decisions in distressed communities, a clear majority of large banks reported that CRA incentives were more important than BEA Program incentives; overall, one-third reported that they were virtually the same (regardless of bank size).

Table 21. Perception of BEA/CRA Impact by CRA Asset Size (n=92)

Has greater impact on distressed community investment decisions	Bank by Size			
	Small	Intermediate-Small	Large	Total and Percent by Answer
Virtually the Same (% by Type)	22 (47%)	9 (31%)	1 (6%)	32 35%
CRA (% by Type)	8 (17%)	11 (38%)	10 (63%)	29 32%
BEA (% by Type)	13 (27%)	8 (28%)	5 (31%)	26 28%
Don't Know (% by Type)	4 (9%)	1 (4%)	0 (0%)	5 6%
Total and Percent of all Bank Sizes	47 51%	29 32%	16 17%	92 100.00

Source: Online Survey

Taken together, these two findings address a key research question indicating how the type and size of financial institutions are associated with their perceptions of these incentives on bank investment and service activities in distressed communities. Yet to better understand these quantitative findings, the complementary interviews asked respondents from small, intermediate-small, and large banks and CDFI partners how their organizations were affected by either receiving or not receiving a BEA Program award.

Small Banks' Perceptions of the Effects of the BEA Program

One respondent summed up the opinion of many small banks: "The BEA Program is a much-needed program. It makes an unequivocal difference in highly distressed communities. Small banks make loans the larger banks will not. They invest in small businesses, because small businesses create jobs and stabilize communities, whether those investments are direct investments or investments in CDFIs."

Another small bank reported that it lends heavily in the highly distressed communities from which most of its deposits originate. This respondent also noted that the BEA Program allows institutions to realize the relevance of continuing to make investments in BEA distressed communities. Another small bank expressed the opinion that non-CDFI banks may not be as mission-driven to provide funding in highly distressed communities, and might not do so if there were no BEA Program available.

When asked if financial products and services in communities have increased due to the BEA Program, respondents from small banks offered a variety of opinions. One respondent believed that the level of activity for financial products and services due to the BEA Program had not increased and remained about the same. However, one of the non-awardees and one of the awardees believed that the BEA Program does increase financial products and services. Moreover, as one respondent noted, there is an even greater need for affordable housing in its institution's urban area and the BEA Program is an important source of capital that ensures banks can invest in affordable housing. BEA funds are used by this bank in all investment asset classes across its communities.

The loss of a BEA Program award for many of these banks would reduce the amount of money they spend on services, but not necessarily the provision of those services. Similar comments were echoed in the online survey and triangulation interview responses. Triangulation interview respondents mentioned that without a BEA Program award, they would have a difficult time providing services. Online survey respondents noted the BEA Program allows them to provide loans to residents and small businesses in highly distressed communities, but even without a BEA Program award, they would attempt to find a way to continue to provide those services.

Intermediate-Small Banks' Perceptions of the Effects of the BEA Program

The comments of intermediate-small bank were similar to those of small banks; one bank commented that the BEA Program award is a significant incentive "to continue or expand activities in highly distressed markets . . . . It's very efficient." The BEA Program provides money to help banks fulfill their mission to provide financial products and services to their targeted communities. As one respondent put it, the BEA funds give communities hope. For example, one bank uses the funds to offer training in its services, such as how to use checking and savings accounts and obtain loans, to the community.

To determine community needs, a respondent mentioned that the bank reaches out to its community development department, which sends a list of validated community needs that the bank then seeks to provide. Based on the identified needs, the bank has used the BEA Program award to subsidize home mortgage down payments and closing costs, as well as service activities that help customers learn how to access various banking services and to develop financial literacy.

Another bank also made numerous direct loans directly to communities, including to farms, individuals, and businesses in in its target markets. Not receiving a BEA Program award would mean that the bank would raise the standards for issuing credit and would not be able to extend credit to people with little or no credit experience. Another bank that made BEA-eligible loans in low- to moderate-income census tracts pointed out that not receiving a BEA Program award did not have a severe effect, but if the bank had received an award, it could have made more loans than it did.

Again, opinions varied on whether the BEA Program has increased financial products and services in BEA highly distressed communities. One respondent stated that financial products and services had increased in highly distressed communities. However, several bank respondents disagreed, while another said the level had remained constant, noting that in order for the services and products to increase, the BEA Program would need to provide more funding.

Large Banks' Perceptions of the Effects of the BEA Program

Comments from large banks regarding the effects of the BEA Program awards also were positive, but focused less on the need for the program than did the comments from small and intermediate-small banks. Comments from large banks instead focused more on how the BEA Program award adds to what their banks already do in their communities.

One large bank stated that banks that receive BEA Program award funds stimulate innovative ideas that create jobs and develop affordable housing solutions for people in their neighborhoods who have been unemployed for long periods of time. Based on the awardee bank's involvement in non-profits, the respondent commented that she saw the impact of the BEA Program on revitalizing entrepreneurship in the community. The bank made these statements even though it noted that the overall BEA Program award was small. This bank reported that it was able to provide six or seven grants with the BEA Program award, and that, despite the small impact of the award, the award made the bank more aware of CDFIs and investing in them. This bank felt that the BEA Program funding positively affects the community by expanding the bank's service area and enabling the bank to establish relationships with organizations in BEA-eligible highly distressed communities.

Not receiving a recent BEA Program award did affect this large bank's ability to invest in services that were planned, based on the assumption that the bank would receive an award. The bank could not offer financial products and services at the level it had when it received a BEA Program award, which was a common theme for small and intermediate-small banks, as well.

The second large bank, a non-awardee, also serves non-profits in areas that need community services. This non-awardee bank stated that receiving a BEA Program award would allow them to develop programs for the homeless, again highlighting the ability of banks to develop new programs as a result of receiving a BEA Program award.

CDFI Partners' Perceptions of the Effects of the BEA Program

Comments from CDFI partners focused on how the BEA Program adds to their overall capacity to make loans. As mentioned above, CDFI loan amounts are limited by the amount of deposits. When a BEA Program awardee invests in a CDFI partner, the partner then can make more loans in its communities. For example, one CDFI partner said that the investments it receives allows it to make microloans to small businesses, which in turn helps create jobs in its communities, although the partner noted that the size of the loans limits the impact. Another CDFI partner explained that it uses BEA Program funds to make affordable housing loans and to invest in healthy food enterprises, community facilities, and small business loans. The key benefit of the BEA Program for this partner was the ability to establish a banking relationship with an investing bank; furthermore, the bank has become an invaluable partner that helps the CDFI access other financial institutions. Another CDFI partner reported that it used the grant and equity investments it received to fulfill the unfunded portion of the CDFI partner's specific needs. The equity loan investment received from the BEA Program awardee bank allowed the CDFI partner to have more money to lend and to use for financial education for businesses statewide.

One CDFI partner indicated that financial products and services have increased due to the BEA Program awards, causing more organizations to work together to provide loans and services in highly distressed areas. Another CDFI partner disagreed, because the investment from the bank was made before it had received a BEA Program award (although the respondent noted that it was possibly included in the Assessment Period).

Findings on Bank Type and Size

There was a significant finding by bank asset size, which was consistent with a study hypothesis that large institutions were significantly more likely than small or intermediate-small institutions to indicate that the CRA has a greater impact on their distressed community investment decisions, while small institutions were more likely to indicate that the BEA Program has a greater impact. Nevertheless, across banks of all sizes, respondents reported that the BEA Program was a factor shaping the financial products and services offered to more distressed communities. Small and intermediate-small banks noted particularly that the BEA Program enhances lending to small businesses and affordable housing projects, as well as to households with limited credit history. Large banks noted that the BEA Program enhances what they do in their communities, with some noting that it helps revitalize entrepreneurship in their communities and promotes investments in community service non-profits. Furthermore, large banks indicated that they might not offer the same scale of services if it weren't for the prospects of a BEA Program award.

2. The Effects of the BEA Program and Potential Overlap with CRA Incentives

Across the three data collections, respondents provided a set of observations about the effects of the BEA Program on their markets and investments in highly distressed communities, as well as about the interactions with CRA regulatory incentives.

Triangulation Interviews

In the triangulation interviews, respondents were asked to rank and discuss their organizations' priorities when deciding how much to invest in distressed communities: whether they were economic, mission, or regulatory considerations. Mission was the most frequently cited factor in their decisions on how to invest in distressed communities, according to 83 percent of respondents. Economic considerations were the second highest ranked priority; 12 of 18 respondents ranked it first or second. Banks were more likely than CDFIs to rank economics as a top consideration. Two distinct economic themes were identified by the respondents with respect to their investment decisions and institutional motivations: prevailing economic conditions in the communities they serve, and the institution's economic considerations. Regulatory considerations were ranked first by only three of 18 participants as the chief motivation of their institution's activities. Additionally, a participant from an intermediate-small bank discounted the impact of CRA on the institution's decision-making, asserting, "I think our institution would probably be participating in investments and lending even if we weren't mandated to do that by the CRA." When regulatory compliance was discussed, CRA arose as the chief consideration, possibly because another interview question specifically asked respondents about the impact of CRA on decision-making and their decision to apply for the BEA Program.

When asked about their views on the overlap of BEA Program and CRA activities, seven of the 18 respondents saw the two programs as complementary, "working hand-in-hand" with each other. None of the respondents mentioned that the programs were competitive or duplicative. Some respondents noted that the BEA Program was sometimes seen as a way of defraying CRA costs. A participant from an intermediate-small bank explained how the BEA Program is perceived by some bank officers as a way to recoup expenses related to CRA activities, including those related to making investments in CDFI-related activities. However, this participant also used a BEA Program award as a method for leveraging support from bank management for continued investments. Although respondents ranked regulatory compliance as a lower priority than mission and economics, CRA compliance was repeatedly cited as an important aspect of decision-making, or as an institutional priority.

Online Survey: Perceptions of the Effects of the BEA Program

In the first section of the online survey, respondents were asked to rate their level of agreement with the following statements:

- The BEA Program encourages service in certain markets.
- The BEA Program strengthens relationships with CDFIs.
- The BEA Program encourages new relationships with CDFIs.
- The BEA Program encourages increased CDFI investment.
- The BEA Program encourages development of new products or services.
- The BEA Program improves CRA performance.
- The BEA Program encourages engagement in BEA Qualified Activities.

The highest percentage (91 percent) of respondents either strongly agreed or agreed that the BEA Program strengthens new relationships with CDFIs, while the lowest percentage (73 percent) either strongly agreed or agreed that the BEA Program encourages services in certain markets, and the provision of new products or services.

A series of questions were posed through the online survey to all awardees and applicants about the factors influencing their decision to engage with CDFIs and to invest in the BEA qualified activities or to increase investment in BEA qualified activities. The factors included:

- Prospect of receiving a BEA Program award
- CRA requirements
- Other regulatory requirements
- Business profit potential
- Public relations
- Corporate mission
- Investments during the year before
- The fact that they were already serving the population

- The opportunity for business diversification
- Other factors

A fairly consistent rank ordering of factors emerged from the responses across all questions about BEA qualified activities or increased investment in BEA qualified activities, with "corporate mission" ranked first most often, followed closely by "already serving the population" and then "public relations benefits" ranked next among the top two factors. "Business profit potential," "investments during the year before," "CRA requirements" and the "prospect of receiving a BEA Program award" were the consistent rank ordering of other factors across questions. When asked to specify which other factors influenced increased CDFI investments, one respondent indicated, "bank merger activity required increased CRA investments" and another respondent indicated, "public commitment associated with CRA and an acquisition." What is noteworthy about these responses is how they reinforce the findings from the interview results in understanding how corporate mission and market demographics seem to largely determine investment decision making, with other factors playing a subsidiary role. Yet the key concern for this study is the relative roles of the CRA and BEA incentives. This topic is probed more deeply in the complementary interviews.

Complementary Interviews: Effects and Perceptions of the BEA Program

Respondents mentioned several perceived effects of BEA Program awards on their communities due to additional programs and services offered by the banks.

In the complementary interviews respondents were asked about the percentages of investments in BEA-eligible activities not related to CRA, and the interview protocol provided a probe, if needed, for information regarding the effect of CRA and BEA on the bank's lending decisions. Regardless of bank size, several banks mentioned having outstanding ratings with CRA and a desire to maintain that rating.

For example, during the complementary interviews, an intermediate-small non-awardee bank explained that it invested in a CDFI to improve its CRA level of investment, and then applied for a BEA Program award when the bank discovered the CDFI investment might also be eligible for the BEA Program. The respondent for another intermediate-small bank monitors all investments to determine if they qualify for CRA; however, the BEA Program and CRA both affect lending decisions. A large bank considers CRA more when making lending decisions, because the government requires banks to make loans in low- to moderate-assessment areas. Consideration of both the BEA Program and CRA helps one bank ensure that it is meeting the needs of the community, including people in low- to moderate-income areas. For other banks, separating CRA and BEA Program investments is difficult.

Banks also cited reasons beyond BEA and CRA for making lending decisions. A large and an intermediate small bank both said lending decisions are made based on the goals given to them by their boards of directors. The large bank added that those goals are based on which strengths the bank feels it has, where the investment had significant numbers attached to them, and where the bank considered that the programs made the biggest impact.

Most banks reported considering CRA first when making investment decisions, because CRA is a regulatory requirement, although the BEA Program factors into the decision as well. The benefits of a BEA Program award is that it helps mitigate the risk of making loans when consumers have less credit experience and lower incomes.

Findings on CRA and BEA Interactions

In order to probe secondary data topics more deeply, the primary data collections sought to explore explicitly the interaction of the CRA and BEA Program incentives on investments in highly distressed communities. Taken together, the findings from the three data collections provide evidence that CRA and BEA Program incentives “work-hand-in-hand” and that that the BEA Program helps focus investment in more distressed communities.

While both CRA regulatory and BEA Program incentives were cited as contributing factors in shaping bank investment decisions, each factor was rated lower than were bank mission and the economic conditions of the banks’ markets. Indeed, intermediate-small and large banks were the respondents that cited a good CRA rating as a consideration because of merger and acquisition (M&A) prospects, but this motive would be limited to those banks seeking approval from bank regulators for M&A activities. By contrast, BEA Program incentives were cited as a consideration for investing in more highly distressed areas because the program helps both to mitigate risk of such investments and to address economic conditions of these communities. Nonetheless, the CRA regulatory and BEA Program incentives were not seen as mutually exclusive.

3. Institutional and Community Impacts of the BEA Program

Through the triangulation and complementary interviews, respondents were asked a series of questions about how the BEA Program award impacted both the recipient institutions and their offerings of products and services activities to the communities in which they operated.

In the triangulation interviews, BEA banks and CDFIs were asked about how the BEA Program affected the institution’s capacities. Respondents indicated that BEA support enhanced their banking operations by allowing them to expand their services or improve their technical capabilities. For respondents at three of the four CDFIs, BEA Program-related investment through loans or CD deposits by banks increased their liquidity. This enhanced their ability to leverage funds, thus expanding their lending capacity. There were also impacts to the operational capacities of some of the institutions that enhanced their ability to provide services in their market areas. In some cases, BEA Program activity and the award itself benefitted the financial fundamentals of the institutions, increasing the availability of their capital. These impacts are covered below, under the topics of structural support for the institution and capital availability.

Structural Support

Structural support enables banks and CDFIs to maintain their operations. While the dollar amount of BEA Program awards was relatively small, several small and intermediate-small banks and CDFIs referenced the program’s ability to incentivize greater activity by providing awards. A participant from one intermediate-small CDFI operating in a distressed rural market area discussed the overall importance of the CDFI Fund in maintaining their operations in that market, calling it “the lifeblood of many financial institutions.” This participant also implied that the BEA Program was just one tool that their institution relied upon to provide financial services in its service region. In this case, the CDFI received an award for providing community development loans.

There is some evidence that BEA Program awards were also utilized to enhance the technical capacities of banks and CDFIs. One of the respondents referenced additional modifications to products and services. One small Federal Savings Bank located in a revitalizing urban neighborhood mentioned using BEA

Program award money to retrain staff and restructure operations.[89] In this case, the bank was able to improve both its operations and its ability to serve its community as a result of the BEA Program award money.

Capital Availability

Increased availability of capital and the capability to leverage it for even greater capital access was mentioned four times in interviews as the BEA Program's most apparent benefit to the institutions themselves. The preference by intermediate-small banks for investment in CDs was referenced in the interviews with CDFIs.

The BEA Program award is seen as increasing the availability of capital and, thus, encouraging lending activity in distressed tracts, which present higher lending risks. Even small amounts of BEA Program-related investment can be used to leverage greater amounts of capital. For example, one participant from a small, urban CDFI mentioned that the CDFI has access to matching funds from its state, and so the BEA Program award the partner bank invests in the CDFI allows the CDFI to leverage additional funds. Another small CDFI discussed the necessity of capital investment from partner banks so it can maintain operations in order to provide loans for affordable housing.

Increasing the availability of capital for small institutions in order to enhance their financial activity within distressed communities is obviously one of the key objectives of the BEA Program. While this overt objective was discussed relatively few times during the interviews, the results of increased capital availability can be determined by examining community impacts.

Community Impacts from BEA-Related Products and Services

Respondents were then asked about specific activities that communities derived from BEA-related investments. The responses ranged from traditional banking services, such as deposits, to consumer and small business lending, to more targeted services and investments that address needs such as affordable housing and community development.

Bank Products and Services

Bank products and services—whether they are traditional services, such as taking deposits, providing checking accounts, or making consumer loans—were discussed with respondents as one aspect of the possible services that the BEA Program applicant institutions provided. Some of the smaller institutions viewed their mission as providing traditional and highly personalized services as a community bank within their market areas. Other institutions focused on underserved communities such as minority communities, while some urban banks had become specialized in serving the needs of a revitalizing downtown area.

Three of the respondents from small and intermediate-small rural banks described their services as modeled upon those of traditional community banks, providing personalized services to their communities. One bank noted that its approach emphasizes community associations and knowledge of the customer base. Later, the participant explained that the institution does not use credit scores alone when making lending decisions, but rather provides an alternative lending analysis. The bank's priority is based upon personal associations and knowledge within its community, which is atypical of present-day approaches that emphasize quantitative factors such as credit history.

[89] As of the FY2015 round and implementation of the Uniform Requirements, actual award dollars must be used for BEA Authorized Uses.

Another example of a traditional relationship banking approach geared towards serving the needs of underserved communities was represented by two bank respondents; one discussed how it served Asian communities in urban areas. Again, the bank emphasized community knowledge, citing the example of providing additional services through bank employees who can communicate with customers in their native languages. The ability of these banks to serve their customers' needs for basic financial services was enhanced by their BEA Program awards for activities related to small business lending and financial services.

Lending

The discussion of lending activities covered commercial, consumer, and small business lending. In most cases, BEA Program-related activities were cited as expanding these types of lending to distressed tracts. For example, an intermediate-small bank noted that the BEA Program grant acts as additional equity that can leverage more lending, including lending to distressed portions of those communities that it served. In the case of the Asian community bank, it noted how its community branches provided lending and financial services to communities underserved by large banks.

An understanding of the poor economic conditions, including high levels of unemployment and poverty, within the BEA Program distressed areas, and a desire to improve conditions were evident in many of the interviews. In one case, an intermediate-small rural institution provided commercial real estate development loans to establish a grocery store in an area that it described as a "food desert" due to poor access to affordable and healthy food sources.

Similar motivations were reflected in different local economic circumstances. A small bank in a highly urbanized area reported providing small business loans to help a small business relocate from a revitalized and gentrifying area to a distressed community, thus helping preserve the business and bringing opportunity to the bank's market area. In another case, a CDFI in a rural area financed the purchase of affordable housing so that local child services could provide supportive housing for children transitioning out of foster care. According to the participant, this continues to be a direct benefit to the community as a result of BEA Program activities.

An intermediate-small bank utilized BEA Program award proceeds to improve security in its branch and in the neighborhood by hosting a substation of the city police department in the branch. Activities like this helped to revitalize the neighborhood, which was able to take advantage of colocation effects from a nearby growing urban area. This resulted in broader activities by the bank to fund the relocation of businesses and commercial development.

One final example of BEA Program activities related to affordable housing is notable. In this case, a small rural bank provided funding for the relocation and rehabilitation of local housing in order to expand the stock of affordable housing within its community. The bank moved old faculty housing from the university campus to a subdivision, and then provided low-interest mortgages for people who bought the houses.

The wide variety of examples of community products and services attributed to BEA Program-related activities and the use of award funds illustrate the creative ways that capital can be used to improve economic conditions within distressed communities. The combination of small business lending with other financial services offers a holistic approach to expanding financial opportunities within communities.

In the complementary interviews, the study explored in greater depth the ways in which the BEA Program award may affect the institution and its capacity to improve the range of products and services it offers to distressed communities.

Leveraging

As was found in the triangulation interviews, the complementary interview respondents mentioned strategies to maximize the leveraging of funds, especially loans. Respondents noted leveraging investment by BEA Program awardees in CDFIs, which increases the CDFI's ability to make investments in small businesses, housing, and commercial real estate. Without such leveraging, the number of loans a CDFI can make is limited by its deposits. One small bank that is also a CDFI leverages funds by investing in other CDFIs. Those investments then help mitigate the risk of extending credit to customers in highly distressed communities. And as noted in the triangulation interviews, banks cited how they form partnerships with non-profits to provide service activities, another form of leveraging the BEA Program award. One specific service activity was financial education regarding payday loans.

Alternatives to Payday Loans, Risk Mitigation, and Financial Education

According to an intermediate-small bank and several other respondents, the BEA Program award helped subsidize the development of new lending services, so the bank could help people borrow small amounts from the bank instead of using payday loan outlets. BEA Program awards also help mitigate the risk of making loans to people or businesses with lower incomes or less credit experience. Several banks reported offering financial education to provide information to consumers on how to access such small-dollar loans and to avoid the high cost of borrowing from payday lenders. To further mitigate risks and leverage the funds they do invest, institutions often seek to form partnerships with non-profits and to invest in CDFI partners.

Enhanced Community Services

In the complementary interviews many of the respondents discussed service activities, and how valuable they are to their communities. Banks stated that, although service activities may not "count" as much in BEA Program award decisions, service activities still provide a method for institutions to continue to serve their communities.

Two of the banks mentioned conducting research to discover the needs of their communities prior to deciding which types of service activities to offer; one (intermediate-small bank) conducted surveys and another (small bank) conducted focus groups. Other banks, such as the large bank mentioned above with locations in supermarkets, reported obtaining information from community development departments within their institutions or from contact with their customer base. The banks then can tailor their service activities to the community's needs.

The types of service activities offered by the banks varied. Many banks mentioned providing training in financial literacy and establishing and handling credit, as well as credit counseling services. One bank even provides identity theft awareness training for its communities, while another provides financial literacy information via radio broadcasts and seminars conducted in the native language of its local area. Specific examples include a small bank and a large bank that conduct financial education for students and hope to reach the parents (many of whom do not speak English as their first language) as the students share knowledge about the bank. A large bank cited conducting a nine-week course for residents in their area on how to invest money. The bank gives course respondents matching funds to invest, and opens and subsidizes brokerage account fees for them for two years. Another large bank initiated a credit building program in conjunction with non-profit partners.

Findings on Institutional and Community Impacts

The findings from the triangulation and complementary interviews provide concrete examples of the impact of the BEA Program award on the capacity of the institution to offer an improved range of products and services that meet the unique needs of highly distressed communities. Respondents specifically cited how the structural support that the BEA Program provides awardees enables them to leverage their capital and capacity to meet small business and consumer lending needs in distressed communities.

4. Feedback on the BEA Program and the Application Process

The three data collections gathered feedback regarding how the BEA Program functions and how participants became aware of the program. The complementary interviews asked about how institutions track BEA Program qualified activities and how CDFI partners track funds from indirect investments, and about the nature and length of the relationships between CDFI partners with BEA banks. Additionally, in the open-ended questions on feedback about the program, three applicants had specific suggestions pertaining to the BEA Program application process.

Awareness of BEA

Banks became aware of the BEA Program through a wide variety of means. Sometimes CDFIs approached banks with partnership opportunities, while in other cases banks sought out CDFIs. In several cases, a bank's board or executive leadership drove BEA partnership efforts. In one case, a bank that had received relief under the Troubled Asset Relief Program and was seeking to convert to a CDFI had a consultant recommend partnership opportunities or BEA Program qualifying investments. One CDFI learned about the BEA Program at a CDFI conference, while another discovered the opportunity through a Treasury Department email announcement about the program. There was no clearly defined single or predominant way in which banks or CDFIs became aware of the BEA Program.

Although the ways in which banks and CDFIs became aware of the BEA Program were diverse, several banks expressed their preference for investments made through CDFIs. One participant from an intermediate-small bank indicated that "we generally do it related to CDFI-related activities because those are really easy for us to track." This approach was echoed by other respondents at large and intermediate-small banks that noted that they use intermediaries to help them invest directly in CDFIs.

The establishment of partnerships between banks and CDFIs for these arrangements is typical. The process can involve a high level of selectivity. For instance, one intermediate-small bank that had indicated that it would be making investments within its rural market area and community regardless of CRA requirements stated that it identified needs within the communities and then identified CDFIs, versus other organizations, that may have a presence in the neighborhoods and could meet the needs the bank identified. The bank went through this process in order to determine which CDFI(s) to invest in. This community-centered approach typified the attitude toward community investment and toward the BEA Program of most of the respondents from the CDFIs and the Federal Savings Banks, and many of the small and intermediate-small banks that saw themselves as community banks.

Difficulty of Application

Although the topic was not explicitly covered in the interview, several respondents used the open-ended feedback questions to discuss problems understanding the BEA Program criteria and/or the BEA Program application process. The chief concerns were the complexity of the program and its criteria for assessing "distressed" tracts. These concerns were both definitional and technical in nature. One participant from an intermediate-small bank in a rural area was concerned about the definition of "distressed" currently being used because of the population threshold for rural areas. In this case, the participant had the perception that less populated rural census tracts were at a disadvantage compared with more densely populated areas that may have included urban areas. In addition, there was a perceived bias, perhaps stemming from the manner in which partially eligible tracts were categorized. The participant suggested that the BEA Program "tweak the guidelines" for identifying BEA Program-eligible census tracts so that program funds could be used "where it was really needed."

Frustration with some aspects of the application process also was evident. One participant had difficulty understanding how boundaries were defined. In this case, the online mapping system hosted on the CDFI Fund's website was a source of frustration, and the participant wanted a system that would make it easier to determine if a potential loan would qualify for the BEA Program based on the location of its intended use (e.g., for development, or a home or business loan).

The complexity of the application process—in particular, the need to navigate several web sites or web pages to gather information for a once yearly application—was mentioned several times. This feedback was unsolicited during the interview, which may indicate broader concerns about program ease of access, satisfaction, and "user-friendliness."

Tracking Strategies

The complementary interviews explored how institutions track investments in BEA-qualified activities and how CDFI partners track BEA Program funds received from indirect investment institutions.

How Institutions Track Investments in BEA Qualified Activities

Complementary interview respondents' investment tracking strategies varied from reviewing the bank's portfolio of investments semi-annually, to having the BEA/CRA officer personally track BEA loans (using one or more spreadsheets), to utilizing a core processor system to track all loans by type. According to a respondent from an intermediate-small bank, core processor systems track all of the bank's loans, deposits, and other investments and services. There are four or five different core processor systems that most banks use for tracking purposes, and this particular bank added a module to the core processing system to specifically track the impact of the loans for the BEA Program. Other banks simply verify if a loan is BEA- and CRA-eligible prior to making the loan; a large bank also uses its tracking system to determine possible partnership opportunities with other banks and CDFIs.

One small bank that invested in a CDFI stated that although the bank did not track that investment, it did get a receipt for its investment. Another small bank stated that it does not track the investments in CDFIs past the underwriting and closing activities, although they do track the loans to ensure they are paid on time. And the CDFIs in which the bank invests do not report back to the bank on what they do with the money; however, the bank does geocode all investments by census tract to determine which are eligible for CRA and BEA, and creates quarterly reports on the potential impact of the loans it makes. But another intermediate-small bank's tracking method includes reviewing each certificate of deposit with a CDFI as it is ready to be renewed, and deciding if continuing that investment aligns with the bank's investment strategy.

How CDFI Partners Track BEA Program Funds Received from Indirect Investment Institutions
Two of the CDFI partners provide the BEA Program awardee banks with quarterly reports. One CDFI partner said that its quarterly financial and impact reports include the number and types of loans. Another CDFI partner also provides information on the number of loans made, to whom the loans were made, the types of businesses that received loans, the number of jobs created, and the amount of loans for businesses and individuals located in low- to moderate income census tracts or for businesses employing people from low- and moderate-income census tracts.

Overall, these responses show the variations in the ways banks track investments, ranging from obtaining a receipt for an investment, to utilizing a computer database to track all investments, to geocoding loans by census tract to verify CRA and BEA eligibility. All three of the CDFI partners that were interviewed, however, do provide quarterly reports to the BEA Program awardee banks detailing the types of loans made using those investments. To fully understand the relationships that banks and CDFI partners have, in addition to the ways the investing institutions track and report information that CDFI partners may provide, respondents were asked about those relationships.

The Nature and Length of Relationships of BEA Program Awardees with CDFIs
Indirect investment banks were asked about their relationship with the CDFI, including when and how the relationship began and if further investments were made. They also were asked if they knew how the CDFI re-invested the BEA funding. The length of a bank’s relationship with a CDFI varied from a one-time investment to a relationship spanning 10 or 20 years.

In all cases, both the banks and the CDFI partners reported leveraging these investments in several ways. Banks and CDFI partners leverage the relationship to develop additional investing relationships. CDFI partners gain access to more banks willing to invest, and the bank gains access to additional CDFIs with which to partner and in which to invest. For example, due to its relationship with one CDFI, one large bank is considering investing a fairly large equity equivalent in another CDFI. In addition, banks also have increased opportunity for potential customers (see below). And one small bank invests in CDFIs to support its CDFI peers. Because this bank is known in the CDFI community, it formed relationships with other CDFIs organically. It has been making loans to and investing in CDFIs for more than five years.

A bank’s relationship with a CDFI can be a pipeline for bank customers. One intermediate-small bank and a small bank both commented that they will refer customers to the CDFI to obtain loans; once the customer has more credit experience, the CDFI refers them back to the bank. And as stated above, bank employees often offer service activities to the CDFI’s customers—as one CDFI partner termed it, “time, talent, and treasure.”

One interesting beginning for a particular bank-CDFI relationship was common ownership between an intermediate-small bank that had received a BEA Program award and the CDFI in which the bank invested. The bank respondent did not know the length of the relationship and did not think that any additional investments had been made in the CDFI since the 2012 assessment year. The respondent also did not know what types of BEA investments the CDFI made with the deposit, because the CDFI does not typically report that information to the bank. The bank, however, does have relationships with other CDFIs.

CDFI partners also were asked about how they first established a relationship with the BEA Program awardee bank and how long that relationship had lasted, and if the bank had made further investments in the CDFI. One CDFI partner has had a long-term (more than 20 years) relationship with the BEA Program awardee bank. Another has had a more than 10-year relationship with its bank and did not know the source of the funds was from a BEA Program award.

Another CDFI partner established a relationship with the BEA Program awardee bank in 2009 (a different bank than the one above that mentioned 2009); the partner continued to receive investments from the bank until 2014. It received five-year loans with a 2 percent interest rate. An employee of the bank also served as a member of the partner's board of directors.

The Types of Investments CDFIs Received from Indirect Investment Institutions
CDFI partners reported that the key benefit of the investment they received from the BEA Program awardees was that it provided funds to invest in distressed communities. Bank investments in CDFI partners usually involved deposits in the form of certificates of deposit and loans. In addition, CDFI partners generally reported that receiving indirect investments usually allows the leveraging of funds from other banks in their areas. The bank investments in CDFI partners have an effect on their communities by increasing the availability of funds for the CDFI receiving the investment; this finding reinforced the other data collection findings on the wider community impacts and benefits arising from the BEA Program.

Implications of Findings: Feedback for BEA Program Administration
The foregoing feedback about the BEA Program provides important information about how to increase awareness of the BEA Program, how to improve the application process, and how to enhance the tracking of BEA-qualified activities and outcomes.

How respondents became aware of the BEA Program illustrates how ad hoc applicants' engagement was in their becoming involved with the program. It is noteworthy that in developing and conducting this BEA Program evaluation, the CDFI Fund and the study's contractors discussed the potential to elevate awareness of the program by working with bank regulators, including the FDIC, OCC, and Federal Reserve Board.

With respect to the difficulty of the BEA Program application process, as a direct result of the research for this evaluation, both the contractors for the study and the CDFI Fund recognized and implemented procedures to simplify the application process by conducting the contiguity analysis for all partially qualified BEA census tracts to determine a final list of all BEA Program-eligible tracts. The foregoing improvement should eliminate the ambiguity about which transactions should be included in the application process.

Moreover, while the analysis of application data does indicate that applicants do not necessarily submit more eligible transactions than required for the program application, additional guidance may be useful to clarify how to benchmark increases in lending and services against the bank's overall portfolio of activities. Further comments indicated that statutory population limits on eligibility for rural areas may create a bias against rural areas. Finally, the foregoing responses on the tracking procedures used by banks to identify eligible activities and for CDFIs to track indirect investment attributable to BEA Program award uses should provide actionable information to improve both the application process and potential enhancements to post-award reporting.

VI. Summary Findings and Conclusions

Overall, the findings from the program history, administrative and secondary data analysis, and the surveys and interviews with bank officers provide clear evidence that the BEA Program is functioning as Congress intended. Participating banks have focused their lending and services activities on more highly distressed communities than they might have in the absence of the program. The evidence supports the proposition that the BEA Program incentives, rather than being duplicative of CRA regulatory incentives, act as a lens to focus bank investments and services on more highly distressed areas than required by CRA alone. The research design of this evaluation study aimed to provide baseline data on the functioning and history of the program and correlational evidence that the program does provide incentives for banks to invest and serve more highly distressed areas, despite the perceived risks and costs associated with such markets. Specifically, the findings from this study provide direct evidence that addresses the four sets of research questions detailed at the outset of study regarding the structure and functioning of the program and its interaction with other factors that shape bank investment decisions, including CRA.

Institution Type and Size in Relation to BEA Awards

Regarding the first research question about how the institution type and size are associated with the number and amount of BEA Program awards, the program history compiled for this study shows how the program evolved over time to focus on making awards to smaller CDFIs and Minority Depository Institutions that are increasing their qualified activities in BEA distressed communities and to larger non-CDFIs that are investing in CDFIs that serve BEA distressed communities. In the early years of the program, the majority of awards went to larger mainstream financial institutions, with more than half of the first year award dollars going to banks with assets of more than $20 billion. By 2000, the percentage going to small banks with assets of under $250 million increased to 37 percent, up from only 17 percent the year before. Since that time, the majority of award dollars have gone to banks with assets of under $1 billion.

Paralleling the shift in the asset size of awardees is a shift in the type of institution to which awards are made. In the first year of the program, 96 percent of award dollars went to non-CDFI banks. This is probably a reflection of the relative scarcity of certified CDFIs at the time. As the number of CDFI banks increased, so did the percentage of award dollars they received. By 2003, the percentage of award dollars going to CDFIs had increased to 49 percent. The following year, 90 percent of all BEA Program award dollars went to CDFIs. Since 2005, between 54 and 85 percent of award dollars have gone to CDFIs. As the program history shows, these award trends largely reflect the changing programmatic objectives of the CDFI Fund, the growth of the CDFI sector, including more mission-oriented banks, changing Congressional appropriations priorities for the CDFI Fund's programs, and the oversight recommendations from OMB and GAO.

Institution Type and Size in Relation to BEA Program Financing and Service Activity

The study examined whether there was an association between the size and type of BEA applicant institutions and the types of financing and service activities. The analysis of administrative data indicates that by activity amount within BEA distressed tracts, small banks were more concentrated on Distressed Community Financing Activities. Activities of intermediate-small banks were concentrated on Distressed Community Financing Activities and Service Activities. Large banks are awarded funding based on CDFI-related activities after the transactions are reviewed by the BEA Program staff. As measured by the reported dollar amount of qualifying activities, activities of large banks were more concentrated on CDFI-Related Activities and distressed communities.

The administrative data analysis shows that the BEA Program generated the greatest increase in qualified activities from small and intermediate-small CDFIs, which had over 60 percent of the total, followed by large and intermediate-small non-CDFIs, which had an additional 25 percent of the total. The CDFIs focused on direct investments in distressed tracts, while the larger non-CDFIs made nearly 94 percent of the increase in equity and equity-like investments in CDFIs.

MDIs and CDFIs invest in direct community financing activities, including commercial real estate (24 and 22 percent, respectively) and deposits (39 and 21 percent, respectively). CDFIs also invest 38 percent of their funds in small business loans.

Regarding the nature of financing activities located inside and outside BEA-eligible tracts by institution type and size, the evidence from CRA small business lending and HMDA data indicates that there are disparities between BEA census tracts and other census tracts, including CRA tracts. The CRA small business and farm lending data is clear cut in showing that there is a far higher propensity for CDFI banks and CDFIs to invest in more highly distressed census tracts than for mainstream banks. The analysis of HMDA data on mortgage lending is less definitive but does indicate clustering of BEA-related mortgage lending in some states and regions. However, this data warrants more complete portfolio-level analysis of bank mortgage lending.

Bank Branch Location in BEA Distressed Areas

The analysis of differences in the type and size of an institution (awardees and non-awardees) and the location of bank branches in BEA and CRA census tracts demonstrates that there are clear differences in the distribution of bank branches among these two types of tracts. The percentage of BEA Program tracts containing banking locations is lower than the percentage of CRA tracts and displays the same trend in rural/urban access. BEA Program-eligible mixed urban and rural tracts have the highest level of access, with 49 percent containing a bank branch, while urban tracts have the least access, with only 32 percent containing a bank branch. However, when the boundary is increased to include access to banks within half a mile of BEA Program-eligible urban census tracts, 77 percent have access. CRA tracts have better banking access than BEA Program tracts in all three categories, and lag only slightly behind the average for all tracts nationally. More than 50 percent of rural and mixed tracts contain a bank branch; 39 percent of urban tracts contain a bank branch and 85 percent have a branch within half a mile of their location. The consistent factor for BEA Program tracts is their lower level of bank branch access compared to regular or CRA tracts in all categories. However, there are only slight differences in the presence of branches in BEA and CRA census tracts based on type or size of the BEA Program applicants and awardees.

The secondary data analysis and primary data collection provide both quantitative and qualitative evidence that the BEA Program award helps mitigate the financial risks and costs of operating bank branches or offering products and services in highly distressed BEA census tracts. Indeed, this finding is strongly supported by the primary data collection, and banks, regardless of size, indicated that the BEA Program helps mitigate risk in supplying financial products and services to highly distressed areas.

BEA Program Incentives and CRA Regulatory Incentives

The primary data collection findings provide clear evidence that bank size influences the perception of the relative importance of CRA regulatory incentives and BEA Program incentives in shaping investments in highly distressed areas. Larger banks consistently ranked CRA as more important in their investments, while small and intermediate-small banks ranked BEA Program incentives as more important for investment decisions in highly distressed communities. Nonetheless, across banks of all sizes, respondents reported that the BEA Program was a factor that shaped the size and scope of financial products and services offered to more distressed communities.

The quantitative analysis of FFIEC CRA small business and farm lending data demonstrate a considerably lower level of lending in highly distressed census tracts by FFIEC CRA reporting banks than both CDFI banks and all CDFIs, which lend at far higher rates in more distressed census tracts. Recall that these findings are based on a lower distress standard than the BEA Program measure; however, the differential between mainstream and CDFI bank investments is noteworthy. These findings suggest that the BEA Program, and other CDFI programs act as complements to CRA by providing additional incentives to serve more highly distressed communities. Neither the lending analysis nor the qualitative analysis from the online survey and interviews support the proposition that economic and CRA regulatory incentives alone would drive bank investment behavior regardless of distress levels.

Feedback on the BEA Program and Application Process

As noted above, the feedback from applicants and awardees on the BEA Program provides actionable information about how to increase awareness of the program, to improve the application process, and to enhance the tracking of BEA qualified activities and outcomes.

VII. Recommendations and Suggestions for Future Research

The foregoing analysis and findings provide substantial evidence that the BEA Program does function differently than CRA alone, and that BEA Program awards are used to support a range of product and service offerings in highly distressed communities provided by mission-driven banks. As a result of this baseline research and evaluation effort, this study has developed research designs that could be used to further understand the causal effects of the BEA Program on the investment behavior of banks and on the communities that these banks serve. The final section of this study presents an outline of feasible research designs that the CDFI Fund or other researchers may conduct to better understand the impact of the BEA Program.

Peer Group Analysis Design

The administrative and secondary data analyses conducted in this study are correlational and do not attempt to conduct causal (or quasi-experimental) analyses. The design approach was dictated by data availability, allocated funds, and limitations on access to non-public data from bank regulators. To supplement the current design approach, the CDFI Fund requested that the evaluation contract team assess the feasibility of developing a peer group design to conduct a causal analysis based on non-public data from the FFIEC to capture small business lending and other loan level transactions for all CRA reporting banks and public HMDA data, census data, and FDIC bank branch locations at the census tract level. The goal was to assess the feasibility of using these data sets to have Treasury staff construct and conduct a transactional peer-group analysis. While the CDFI Fund was able to make limited use of the

FFIEC data in time for the current study (see **Table 19** above), it was primarily used for this study to consider how it could be used to conduct future research detailed below.

Census Tract Distress, Bank Branches, HMDA, Small Business Data

Analysis of the economic conditions of BEA-eligible census tracts showed lower income and higher poverty levels than in census tracts eligible for CRA credit in general. Bank branch location analysis showed that BEA-eligible census tracts had less access to banking services than other tracts. Analysis of HMDA data suggests that some BEA-eligible census tracts are highly dependent on BEA Program applicants for access to affordable home mortgages. A preliminary analysis of small business lending by BEA banks compared to mainstream banks shows greater BEA service in non-metropolitan areas and lower-income, more highly distressed areas.

However, the current study only examines activities of BEA Program applicants and does not show whether those banks are behaving differently than their peers (i.e., financial institutions that have not applied for BEA Program awards). A future examination of the extent to which the BEA Program influences bank behavior will assist the CDFI Fund in measuring the impact of the BEA Program.

Bank asset size, assessment areas served, and institution type would be core considerations in constructing peer groups for the BEA Program applicants. Special sampling techniques, such as propensity score matching, would be used to reduce selection bias resulting from inherent differences in characteristics between BEA Program applicant banks vs. non-applicant banks, and to ensure the accuracy of performance results. In addition, the analysis plan could include a comparison of BEA Program applicants to the population of FDIC banks within pre-determined strata.

The peer group analysis could utilize HMDA data and CRA loan-level data, available under a non-disclosure agreement with the FFIEC, as well as FDIC call report data for the banks, to examine lending patterns. The analysis could examine the number and amount of mortgage and small business loan investments in BEA-eligible census tracts, CRA tracts, and all tracts for BEA Program applicants and their peers. A research step necessary for conducting such analysis requires that CDFI staff determine whether the BEA Program applicants' transactional data on eligible program activities are representative of the relevant segment of the banks' portfolios. If necessary, the program staff may need to acquire additional portfolio and transactional data. The analysis could also look at how the BEA investments compared with the overall investment levels for each group as a percentage of the banks' overall activity within each category of investment. The analysis could also examine branch locations and the types of services available through banks in the different groups, although such analysis would require some spatial estimates of service areas for each bank.

Based on these considerations, below are three methodological approaches for possible quasi-experimental design studies to consider for modeling the potential causal effects of the BEA Program on bank investment and service activities.

1. **Geographical Transactional Approach to BEA Tract Discontinuity Analysis.** With additional transactional, bank-level data, an analysis could be conducted at the census tract level using regression discontinuity analysis to analyze bank investments in BEA tracts. By estimating the impact of the BEA Program awards on bank investments in BEA tracts, there are likely to be unobservable local characteristics that are correlated with BEA tract location that would cause Ordinary Least

Square estimates to be biased. To control for the endogenous selection, evaluators could use an exogenous BEA-eligibility cutoff (25 percent to 29 percent poverty rates versus 30 percent to 31 percent poverty for BEA tracts) and compare census tracts that are just eligible for BEA eligibility to those that are just ineligible in terms of bank branches or BEA direct and indirect activity. The development of control groups will allow for a baseline that can help to adjust for changes in the national economy and to conduct a causal—not simply correlational—analysis of outcomes **(Figure 12).**

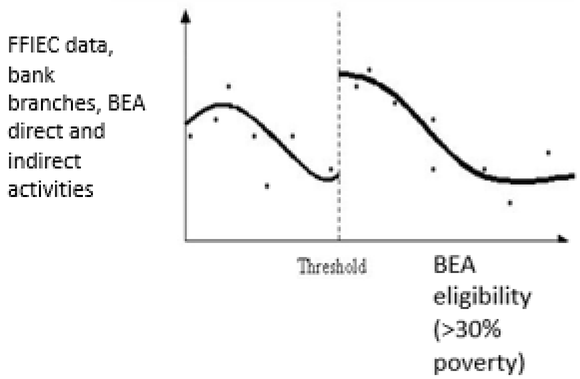


Figure 12. FFIEC Data and BEA Eligibility

2. **Institutional Discontinuity Analysis.** With additional portfolio bank data, one could examine the institutional impact of the BEA grants on BEA Program awardees, BEA applicants that are rejected at the discontinuity point and share similar characteristics to awardees, and a matched sample that includes banks that did not apply for the BEA Program award but are of similar size and geographical presence to those that applied (using propensity score matching). The development of control groups would allow for a baseline that can help to adjust for external factors (**Figure 13**).

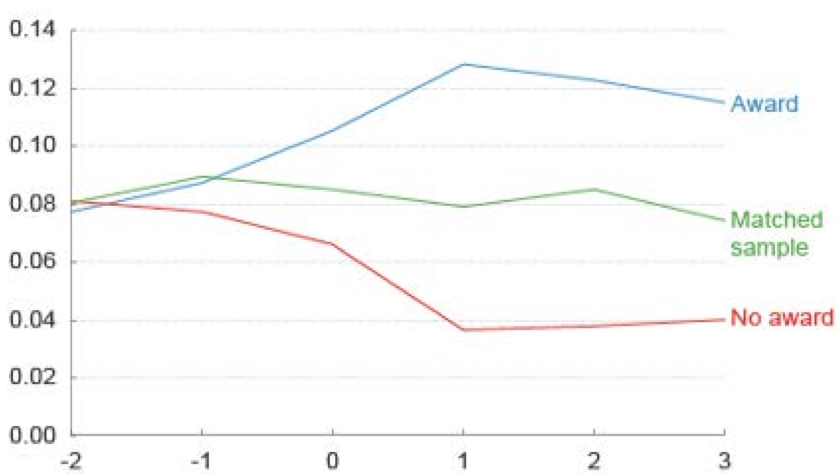


Figure 13. Example of quasi-experimental, retrospective, BEA peer-group analysis with control group at discontinuity point of award score. Institutional-level Impacts (FFIEC portfolio loan growth).

3. **FFIEC/CRA Small Business Data, HMDA Data, and Bank Branch Data for Discontinuity Analysis.** Conduct an analysis of bank small business transactions using FFIEC CRA data, HMDA data on mortgages, and bank branch data. The small business loans, HMDA data, and bank branch data for BEA Program awardees (intervention), BEA applicants that don't receive awards (control group 1), and a matched peer group (control group 2) can be used to design a causal analysis of how BEA Program awards may contribute to small business loans, mortgages, and branches in distressed areas.

Primary Research

In addition to the quantitative modeling, further research could explore conducting semi-structured interviews with CRA policy experts from the Office of the Comptroller of the Currency, FDIC, and Federal Reserve Board to gather their opinions about how the CRA and BEA Program may shape bank investment behavior in CDFI-related activities and in low- to-moderate-income and more highly distressed census tracts. In addition, such an engagement should also help develop collaborative work with the bank regulators in promoting awareness of the BEA Program.