BANK ENTERPRISE AWARD PROGRAM

BASELINE ANALYSIS AND EVALUATION

FINAL REPORT

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Analytical Framework and Primary Data Collection

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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

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

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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.

Appendix

Contents

LIST OF TABLES

LIST OF FIGURES

BEA Program Baseline Analysis and Evaluation

I. Analytical Framework

To guide the BEA Program Evaluation, the CDFI Fund provided a general analytical framework describing the ways in which the program's structure and objectives could potentially provide incentives that influence bank behavior and outcomes. The analytical framework served as a basis for development of the analysis plan, which included a list of the study objectives and related research questions. As indicated in The Performance Work Statement for the BEA Baseline Analysis identified seven hypotheses which the Subject Matter Experts included in their analysis, outlined in **Table 1**.

Table 1. BEA Program Evaluation Analytical Framework

Hypothesis 1: The assistance provided by non-CDFI bank Applicants to CDFIs is primarily driven by regulatory incentives and/or the ability to invest in financial intermediaries versus direct loans and investments to residents and businesses located in low-income communities. Larger institutions benefit by leveraging the physical locations and branch networks of CDFIs, community banks, and smaller institutions; and partner with

Study Objectives	Related Research Topics	Data Source(s)	Key Variables
To assess the overall level of CDFI support	Extent to which and reasons why FDIC-insured financial institutions have provided loans, investments, or assistance to various types of CDFIs (e.g., banks, loan funds, venture capital funds, and credit unions) in BEA-qualified distressed communities.	Secondary analyses Survey data Interview data	*BEA Program awardees by bank asset size *Bank locational analysis, including banking services to BEA-eligible and CRA-eligible census tracts *Institutional distribution and extent of leverage of BEA Program awards *CDFI support by institutions *Continued investments in CDFIs *Types and amounts of BEA activities, including increases in activities *Perception of BEA Program influence on investment decisions *Reasons for investments, including extent to which various factors influenced investment decisions, and decisions to increase investments *Perceived differences in investments without a BEA Program award
To identify regulatory incentives and level of influence	Extent to which the Qualified Activities that formed the basis for banks' applications were driven by regulatory incentives (e.g., CRA, CAMELS ratings, etc.).	Survey data Interview data	

Study Objectives	Related Research Topics	Data Source(s)	Key Variables
			*Perceived impact of BEA and CRA on investment decisions *Proportion of BEA activities in addition to CRA designated activities *Perception of risk mitigation
Hypothesis 2: Many small and perhaps some intermediate-sized institutions (including CDFI banks) have branch locations in or within close proximity to BEA distressed communities. Institutions with a physical presence in BEA-eligible distressed communities provide the same types of products and services included in their BEA applications to the businesses and residents of those distressed communities as a part of their normal business strategy and operations. The activities tend to be Distressed Community Financing Activities (loans to or direct investments in businesses or residents of distressed communities). For these institutions, receiving a BEA Program award is an important source of capital as well as a form of cost reimbursement. The requirement to deploy an amount equivalent to the BEA Program award is not onerous since the bank performs these activities in distressed communities during their normal course of business.			
Study Objectives	**Related Research Topics**	**Data Source(s)**	**Key Variables**
To determine program entry status	Extent to which banks had provided financial products and/or services in the distressed community before the applicable assessment period	Secondary analyses Survey data Interview data	*BEA Program awardees by bank asset size *Bank locational analysis, including banking services to BEA-eligible and CRA-eligible census tracts *Perception of BEA Program influence on investment decisions *Reasons for investments, including extent to which various factors influenced investment decisions, and decisions to increase investments *Types and amounts of BEA activities, including increases in activities *Perceived extent to which BEA subsidizes financial products and services *Use of BEA to offset administrative costs Perception of risk mitigation *Perceived differences in investments without a BEA Program award
To assess the overall leverage or influence of the BEA Program awards	Ratio between the dollar amount of the Qualified Activities that formed the basis for banks' applications and the amount of the BEA Program award calculated for the Qualified Activities	Secondary analyses	
To provide an overview of the level of distress for purposes of baseline	Poverty and unemployment levels or presence of other adverse economic conditions in the distressed communities where the Qualified Activities that formed the basis for banks' applications occurred.	Secondary analyses	

Study Objectives	Related Research Topics	Data Source(s)	Key Variables
Hypothesis 3: Larger institutions are less likely to provide financial products and/or services directly to businesses or residents of distressed communities especially when compared to the degree of investment in distressed communities by smaller institutions and/or CDFI banks relative to their overall portfolio. Consequently, larger institutions may perceive a BEA Program award as a form of cost reimbursement for undertaking activities that would typically be considered more risky or less profitable otherwise. The BEA Program award may assist in delivering a slightly better return than alternative investments along with achieving the desired regulatory results.			
Study Objectives	**Related Research Topics**	**Data Source(s)**	**Key Variables**
To determine program entry status	Extent to which banks had provided financial products and/or services in the distressed community before the applicable assessment period	Secondary analyses Survey data Interview data	*BEA Program awardees by bank asset size *Institutional distribution and extent of leverage of BEA Program awards *Bank locational analysis, including banking services to BEA-eligible and CRA-eligible census tracts *Perception of BEA Program influence on investment decisions *Perceived extent to which BEA subsidizes financial products and services *Use of BEA to offset administrative costs *Perception of risk mitigation *Perceived differences in investments without a BEA Program award *Perceived impact of BEA and CRA on investment decisions
To identify regulatory incentives and level of influence	Extent to which the Qualified Activities that formed the basis for banks' applications were driven by regulatory incentives (e.g., CRA, CAMELS ratings, etc.)	Secondary analyses Survey data	
Hypothesis 4: There is no financial incentive to report more activities in a BEA application than what will qualify an Applicant for the maximum award. Applicants typically submit more activities than what is needed to qualify them for the maximum award for two reasons: (1) at the time of application they are not aware of what the maximum award amount will be; and (2) to mitigate the risk that some activities may not qualify or may be deemed ineligible by the CDFI Fund. The total amount of Service Activities that Applicants actually engage in most likely exceeds by a significant margin what is reported to the CDFI Fund in BEA applications, since Service Activities are currently the last category of the BEA Qualified Activities funded. In addition, the total amount of Distressed Community Financing Activities that several CDFI, small institution, MDI and community bank Applicants actually engage in most likely exceeds by a significant margin what is reported to the CDFI Fund in BEA applications due to a combination of mission and having an existing customer base in some census tracts that are in BEA Distressed Communities			
Study Objectives	**Related Research Topics**	**Data Source(s)**	**Key Variables**
To provide an overview of the level of distress	Poverty and unemployment levels or presence of other adverse economic conditions in the distressed communities	Secondary analyses	*Reasons for investments, including increases in investments

Study Objectives	Related Research Topics	Data Source(s)	Key Variables
for purposes of baseline	where the Qualified Activities that formed the basis for banks' applications occurred		*Analysis of BEA designated census tracts
To examine the quantity of BEA-qualified activities	Extent to which the bank's actual Qualified Activities (i.e., not included in its application) exceed the amount included in its BEA application	Secondary analyses Survey data	

Hypothesis 5: The degree of difficulty of the activities that form the basis of an Applicant's BEA application may be comparable to the Applicant's other non-BEA activities depending on whether it located in or near a distressed community. For some institutions not located in or near a distressed community, the activities may have involved additional due diligence. For those institutions that are located in or in close proximity to a distressed community, the activities that formed the basis for the BEA application are likely to be routine and a snapshot of their overall Community Reinvestment Act (CRA)-eligible portfolio.

Study Objectives	Related Research Topics	Data Source(s)	Key Variables
To measure degree of difficulty associated with assessment activities	Effort, cost, and risk associated with carrying out the Qualified Activities that formed the basis for the banks' application	Secondary analyses Survey data Interview data	*Analysis of BEA designated census tracts, including differences in economic conditions *BEA-qualified application and award activities *Perception of BEA Program influence on investment decisions *Reasons for investments, including increases in investments *Perceived impact of BEA and CRA on investment decisions *Proportion of BEA activities in addition to CRA designated activities
To identify economic incentives related to the program and level of influence	Extent to which banks' decisions to apply for a BEA Program award was driven by economic or financial incentives (e.g., increase profitability, improve capital ratios, risk mitigation, etc.)	Secondary analyses Survey data Interview data	
To provide an overview of the level of distress for purposes of baseline	Poverty and unemployment levels or presence of other adverse economic conditions in the distressed communities where the Qualified Activities that formed the basis for banks' applications occurred.	Secondary analyses	

Hypothesis 6: The investment activity of large CRA asset-sized institutions as it relates to the BEA Program is primarily driven by Regulatory Incentives. The investment activity of smaller CRA asset-sized institutions including CDFIs, Minority Deposit Institutions (MDIs), community banks, etc. is predominantly driven by a combination of economic incentives and mission.

Study Objectives	Related Research Topics	Data Source(s)	Key Variables
To assess the level of need for subsidy	Degree to which the Qualified Activities that formed the basis for banks' applications needed enhancement through a BEA Program award	Secondary analyses Survey data Interview data	*BEA Program awardees by bank asset size *BEA Program awardees by CDFI and MDI *Reasons for investments, including increases in investments *Perceived impact of BEA and CRA on investment decisions
To identify economic incentives related to the program and level of influence	Extent to which banks' decisions to apply for a BEA Program award was driven by economic or financial incentives (e.g., increase profitability, improve capital ratios, risk mitigation, etc.)	Secondary analyses Survey data Interview data	

Study Objectives	Related Research Topics	Data Source(s)	Key Variables
			*Proportion of BEA activities in addition to CRA designated activities *Perceived impact if not receiving a BEA Program award
Hypothesis 7: BEA qualified activities are performed in highly distressed communities throughout the country and therefore, serve under-served, under-banked and un-banked people and businesses. The criteria for a BEA distressed community is much more restrictive than CRA and other CDFI Fund program requirements.			
Study Objectives	**Related Research Topics**	**Data Source(s)**	**Key Variables**
To determine the economic impact of the BEA Program	Impact of a BEA Program award on recipient banks	Secondary analyses Survey data Interview data	*Analysis of BEA designated census tracts *Perceived benefits of BEA Program award for banks *Perceived benefits of BEA Program award for CDFI partners *Perceived benefits of BEA Program award for distressed communities *Perceived impact of not receiving a BEA Program award
To determine the impact of the program on CDFIs/distressed communities	Extent to which the Qualified Activities that formed the basis for the bank's application have benefited CDFIs and distressed communities	Secondary analyses Survey data Interview data	

Prior to the start of this study, in the fall of 2013, the CDFI Fund partnered with researchers at the Federal Reserve Bank of Cleveland to conduct geographic, institutional, and transactional analyses of the BEA Program to scope feasible design approaches, including designs based on only publicly available data and designs that relied upon restricted CRA data from the Federal Financial Institutions Examination Council (FFIEC). Federal Reserve researchers concluded that only correlational studies could be conducted with publicly available data (e.g., bank branch data and HMDA data), and that more complex control studies involving a range of techniques could only be conducted using FFIEC CRA data at the institutional and transactional levels.

It should be noted that the design of the preliminary administrative and secondary data analyses conducted in this study are correlational and does not attempt to conduct "causal" studies. The design approach was dictated by careful consideration of available data and the funds allotted to conduct such a study. To supplement this approach, the CDFI Fund requested data from the Federal Financial Institutions Examination Council (FFIEC) to capture small business lending and other loan level transactions for all CRA reporting banks at the census tract level. The goal was to use these data to conduct a transactional peer-group analysis. While the CDFI Fund did not receive the FFIEC data in time for the current study, it is highly recommended for use in any follow on research.

Research Methodology

The BEA Program Evaluation utilized a mixed method data collection approach including both primary and secondary data collection, and both qualitative and quantitative research methods. Data collection began with two 2-day information gathering sessions, conducted on November 6-7, and November 17-18, 2014, respectively. 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.
- Develop a framework to examine the investment and service-related behavior of the applicant and awardee pool prior to the BEA application assessment period, during the assessment period, and after the award.
- Provide a framework for an assessment of CDFI Partner behavior prior to and following 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.
- 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 understand which areas and populations are served by BEA and CRA, and what types of services are provided. The secondary data collection involved analysis of program applications and awards 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 evaluation team used program data from a BEA Program applicant and awardee database provided by the CDFI Fund. Additional data sources were derived from the Federal Financial Institutions Examination Council (FFIEC) 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 evaluation team conducted secondary data analysis using counts, descriptive statistics, and measures of Pearson correlation.[1] 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 (utilizing ArcGIS 10.2) to examine the distribution of activities and awards by geographic area.

A set of detailed tables on BEA Program qualified activities by bank size and type was moved from the Administrative and Secondary Data Analysis section of the report to this appendix.

BEA Qualified Activities by Bank Size and Type

By activity amount within BEA distressed tracts, small banks were more concentrated on Distressed Community Financing Activities. Small bank activities in these areas accounted for 42 percent of the total amount for 'Commercial Real Estate Loans and Project Investments,' and 31 percent for 'Small Business Loans and Project Investments' during the study period (**Table 2**).

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

Table 2. Small Bank Activities as a Proportion of Total Activities, 2012-2014

Category--Activity	Activity Amount (2012-2014)	Percent of Activity (2012-2014)	Count
CDFI RELATED ACTIVITIES--CDFI Support Activities: Loans (LNS), CDFI Deposits/Shares (DS), Technical Assistance (TAC)	$8,000,000	2%	4
CDFI RELATED ACTIVITIES--Deposits Shares	$13,562,497	3%	65
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Affordable Housing Development Loans and Project Investments (AHD)	$52,735,094	14%	165
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Affordable Housing Mortgage	$26,781,440	7%	193
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Commercial Real Estate Loans and Project Investments (CRE)	$163,274,459	42%	264
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Education Loans (EDU)	$238,838	0%	5
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Home Improvement Loans (HIL)	$3,141,748	1%	329
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Small Business Loans and Project Investments (SBL)	$119,377,876	31%	535
SERVICE ACTIVITIES--Community Services (CS)	$514,856	0%	2
SERVICE ACTIVITIES--Deposits (D)	$214,410	0%	1
SERVICE ACTIVITIES--Financial Services (FS)	$19,800	0%	1
SERVICE ACTIVITIES--Targeted Financial Services (TFS)	$17,010	0%	2
Grand Total	**$387,878,028**	**100%**	**1566**

Source: Treasury CDFI Fund, BEA 8,555 qualified activities for 2012, 2013, and 2014.

Activities by Intermediate-small Banks

By activity amount, activities of intermediate-small banks were concentrated on Distressed Community Financing Activities and Service Activities. Intermediate-small banks made 29 percent of their total activity amount for 'Small Business Loans and Project Investments,' 28 percent for deposits and 22 percent for 'Commercial Real Estate Loans and Project Investments' (**Table 3**).

Table 3. Activity Amount by Types by Intermediate-small Banks, 2012-2014

Category--Activity	Activity Amount(2012-2014)	Percent of Activity (2012-2014)	Count
CDFI RELATED ACTIVITIES--CDFI Support Activities: Loans (LNS), CDFI Deposits/Shares (DS), Technical Assistance (TAC)	$22,784,882	2%	16
CDFI RELATED ACTIVITIES--Deposits Shares	$9,399,381	1%	34
CDFI RELATED ACTIVITIES--Equity Investments (CEI)	$100,000	0%	1
CDFI RELATED ACTIVITIES--Equity-Like Loans (ELL)	$600,000	0%	3
CDFI RELATED ACTIVITIES--Grants (CG)	$112,533	0%	4

Category--Activity	Activity Amount(2012-2014)	Percent of Activity (2012-2014)	Count
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Affordable Housing Development Loans and Project Investments (AHD)	$102,215,206	9%	228
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Affordable Housing Mortgage	$89,138,406	8%	842
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Commercial Real Estate Loans and Project Investments (CRE)	$242,613,895	22%	533
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Home Improvement Loans (HIL)	$3,937,212	0%	141
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Small Business Loans and Project Investments (SBL)	$322,962,195	29%	2404
SERVICE ACTIVITIES--Community Services (CS)	$326,500	0%	11
SERVICE ACTIVITIES--Deposits (D)	$306,330,776	28%	5
SERVICE ACTIVITIES--Financial Services (FS)	$1,402,449	0%	14
SERVICE ACTIVITIES--Targeted Financial Services (TFS)	$1,603,900	0%	1
Grand Total	**$1,103,527,336**	**100%**	**4237**

Source: Treasury CDFI Fund, BEA 8,555 qualified activities for 2012, 2013, and 2014.

Activities by Large Banks

It is important to note that large banks are awarded funding based on CDFI related activities after the transactions below are reviewed by the BEA Program staff. By activity amount, however, activities of large banks were more concentrated on CDFI-Related Activities and distressed communities. (**Table 4**).

Table 4. Activity Amount by Types by Large Banks, 2012-2014

Category--Activity	Activity Amount(2012-2014)	Percent of Activity (2012-2014)	Count
CDFI RELATED ACTIVITIES--CDFI Support Activities: Loans (LNS), CDFI Deposits/Shares (DS), Technical Assistance (TAC)	$83,801,136	11%	97
CDFI RELATED ACTIVITIES--Deposits Shares	$4,194,627	1%	12
CDFI RELATED ACTIVITIES--Equity Investments (CEI)	$700,000	0%	2
CDFI RELATED ACTIVITIES--Equity-Like Loans (ELL)	$3,300,000	0%	6
CDFI RELATED ACTIVITIES--Grants (CG)	$16,942,208	2%	72
CDFI RELATED ACTIVITIES--Technical Assistance	$6,000	0%	1
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Affordable Housing Development Loans and Project Investments (AHD)	$353,622,892	46%	148
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Affordable Housing Mortgage	$45,423,437	6%	369
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Commercial Real Estate Loans and Project Investments (CRE)	$25,222,429	3%	18

Category--Activity	Activity Amount(2012 -2014)	Percent of Activity (2012-2014)	Count
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Small Business Loans and Project Investments (SBL)	$241,558,058	31%	2023
SERVICE ACTIVITIES--Community Services (CS)	$31,800	0%	2
SERVICE ACTIVITIES--Targeted Financial Services (TFS)	$44,585	0%	1
SERVICE ACTIVITIES--Targeted Retail Savings/Investment Products (TSP)	$26,500	0%	1
Grand Total	**$774,873,671**	**100%**	**2752**

Source: Treasury CDFI Fund, BEA 8,555 qualified activities for 2012, 2013, and 2014.

Activities by MDIs

By activity amount, activities of MDIs were more concentrated on Distressed Community Financing Activities and Service Activities. MDIs made 39 percent of their total activity amount for 'deposits,' and 24 percent for 'Commercial Real Estate Loans and Project Investments' (**Table 5**).

Table 5. Activity Amount by Types by MDIs, 2012-2014

Category--Activity	Activity Amount (2012-2014)	Percent of Activity (2012-2014)	Count
CDFI RELATED ACTIVITIES--Deposits Shares	$5,407,919	1%	25
CDFI RELATED ACTIVITIES--Equity-Like Loans (ELL)	$800,000	0%	2
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Affordable Housing Development Loans and Project Investments (AHD)	$84,563,805	11%	147
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Affordable Housing Mortgage	$65,098,873	9%	464
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Commercial Real Estate Loans and Project Investments (CRE)	$171,019,649	23%	261
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Education Loans (EDU)	$238,838	0%	5
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Home Improvement Loans (HIL)	$4,999,213	1%	343
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Small Business Loans and Project Investments (SBL)	$111,538,582	15%	249
SERVICE ACTIVITIES--Community Services (CS)	$117,000	0%	2
SERVICE ACTIVITIES--Deposits (D)	$290,361,839	39%	4
SERVICE ACTIVITIES--Financial Services (FS)	$382,449	0%	2
SERVICE ACTIVITIES--Targeted Financial Services (TFS)	$1,618,410	0%	2
Grand Total	**$736,146,576**	**100%**	**1506**

Source: Treasury CDFI Fund, BEA 8,555 qualified activities for 2012, 2013, and 2014.

Activities by CDFIs

By activity amount, activities of CDFIs were more concentrated on Distressed Community Financing Activities and Service Activities. CDFIs made 38 percent of their total activity amount for 'Small Business Loans and Project Investments' and 22 percent for 'Commercial Real Estate Loans and Project Investments' (**Table 6**). CDFIs made 21 percent of their total activity amount for deposits.

Table 6. Activity Amount by Types for CDFIs, 2012-2014

Category--Activity	Activity Amount (2012-2014)	Percent of Activity (2012-2014)	Count
CDFI RELATED ACTIVITIES--CDFI Support Activities: Loans (LNS), CDFI Deposits/Shares (DS), Technical Assistance (TAC)	$7,325,252	1%	9
CDFI RELATED ACTIVITIES--Deposits Shares	$10,107,967	1%	52
CDFI RELATED ACTIVITIES--Equity-Like Loans (ELL)	$100,000	0%	1
CDFI RELATED ACTIVITIES--Grants (CG)	$25,000	0%	1
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Affordable Housing Development Loans and Project Investments (AHD)	$138,193,635	10%	321
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Affordable Housing Mortgage	$106,947,570	7%	1005
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Commercial Real Estate Loans and Project Investments (CRE)	$321,863,937	22%	674
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Education Loans (EDU)	$238,838	0%	5
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Home Improvement Loans (HIL)	$6,919,508	0%	463
DISTRESSED COMMUNITY FINANCING ACTIVITIES--Small Business Loans and Project Investments (SBL)	$550,175,289	38%	4247
SERVICE ACTIVITIES--Community Services (CS)	$631,856	0%	4
SERVICE ACTIVITIES--Deposits (D)	$306,330,776	21%	5
SERVICE ACTIVITIES--Financial Services (FS)	$1,397,449	0%	12
SERVICE ACTIVITIES--Targeted Financial Services (TFS)	$1,620,910	0%	3
Grand Total	**$1,451,877,987**	**100%**	**6802**

Source: Treasury CDFI Fund, BEA 8,555 qualified activities for 2012, 2013, and 2014.

Summary of Activities Submitted on Applications by Bank Size and Bank Type

Small and intermediate-small banks invest in direct community financing activities, especially commercial real estate loans and project investments and small business loans and project investments. However, for small banks, 42 percent of their investments are small business loans and 31 percent is in commercial real estate loans. For intermediate-small banks, 29 percent is invested in small business loans, 28 percent in deposits and 22 percent of their funds in commercial real estate loans. Large banks tend to invest in CDFI-related activities.

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.

The analysis thus far has discussed award amounts and investment activities by bank size (small, intermediate-small and large asset size) and by bank type (CDFI and MDI).

The results of the secondary data analysis also served as the basis for the primary data collection summarized below.

Primary Data Collection

The objective of the primary data collection was to examine the investment and service-related behavior of BEA Program applicants and awardees, gather feedback from stakeholders regarding the effectiveness of the BEA Program, and identify areas for potential program enhancement. The evaluation team utilized a mixed-method (qualitative and quantitative) data collection approach to ensure the most comprehensive research results. Further, the team used a triangulation design where responses were captured and validated using two different data collection methods—online surveys and semi-structured interviews. Data were collected in three stages.

Stage 1 - Triangulation Interview Methodology

NCRC selected a sample of 20 participants for the triangulation interviews that was proportionally representative of the population of 156 BEA Program applicants. The minimum sample size per cohort for this type of qualitative research is five (5) per cohort, which is reasonable given the relatively small population size for this study. The sample design included four (4) cohorts. Of the 20 triangulation interview participants selected, there were 8 intermediate-small banks, 5 large banks, 5 small banks and 2 CDFI Partners (CDFI Partners are not bank institutions, therefore they were not stratified by asset size). **Table 7** illustrates the specific stakeholder interview categories and the total number of unique interview guides for the triangulation interviews. The stratification process ensured a sufficient number of stakeholders for each participant group. The Indirect Activity stakeholder category interviews were administered to institutions that received a BEA Program award and indirectly invest in distressed communities through CDFI-related Activities. The Direct Activity stakeholder category interviews were tailored to institutions that directly invest in distressed communities by providing Distressed Community Financing Activities and Service Activities. The Non-awardee stakeholder interview was designed for institutions that applied for the BEA Program award in 2012, 2013 or 2014, but did not receive an award. Finally, the CDFI Partner stakeholder category interviews were conducted with CDFI organizations that are indirect beneficiaries of the BEA Program award through a partnership with an institution that received a BEA Program award.

Table 7. Stakeholder Interview Categories

Stakeholder Category	CRA Asset Size	Stakeholder Interview Protocol Type	Number of Selected Participants
1	Small	Indirect Activity (CDFI-related Activities)	1
1	Mid	Indirect Activity (CDFI-related Activities)	4
1	Large	Indirect Activity (CDFI-related Activities)	1
2	Small	Direct Activity (Distressed Community Financing Activities & Service Activities)	2
2	Mid	Direct Activity (Distressed Community Financing Activities & Service Activities)	2
2	Large	Direct Activity (Distressed Community Financing Activities & Service Activities)	4
3	Small	Non-awardee	2

Stakeholder Category	CRA Asset Size	Stakeholder Interview Protocol Type	Number of Selected Participants
3	Mid	Non-awardee	2
3	Large	Non-awardee	0
4	--	CDFI Partners	2

ARDX identified one Non-awardee bank as ineligible since their assets were acquired by another large bank who was a BEA Program awardee. Therefore, NCRC provided ARDX with a randomly selected replacement Non-awardee bank for the sample. Appendix A contains a full description of the demographics for the selected institutions.

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

1) How the prospect of receiving BEA funding influenced the institution's investment decisions;
2) How BEA Program qualified activities are different from (or complementary to) CRA regulatory requirements;
3) Importance of economic factors, regulatory mandates and corporate mission to the institution's investment decisions;
4) 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
5) Nature and length of the relationship between CDFI Partners and CDFIs.

Prior to conducting the semi-structured interviews, ARDX administered a cognitive pretest to three (3) randomly selected institutions that were stratified by interview category type, geographic area and bank asset size. The interviews fell within three (3) of the four (4) stakeholder interview categories; Direct Activity, Non-awardee and CDFI Partner. Since the Indirect Activity and Direct Activity interview protocols were somewhat similar in nature, changes that were identified during the pretest were applied to both instruments. The purpose of the cognitive pretest was to develop an understanding of participants' experiences with the interview protocols prior to the live data collection. Pretest measures included an estimate of interview duration and an assessment of respondents' comprehension of the interview questions. Modifications were made to the triangulation interview instruments based on the results of the pretest and cognitive pretest questionnaires, and pretest responses were incorporated into the evaluation results.

The pretest also assessed the recruitment, interviewing and tracking processes. These included attempting to reach participants during different timeslots during the day and on different days of the week, as well as creating interview appointments and sending reminder emails to the participants. The results of the pretest, the full interview protocols, as well as changes to the instruments were submitted to CDFI Fund in the *Triangulation Interview Pretest Results Report* on October 14, 2015.

Recruitment and Tracking

Prior to contacting individuals to complete the interviews, ARDX contacted the stakeholder institution to verify the email addresses and contact information for the designated stakeholder. Once the emails were verified, ARDX provided the email addresses to the CDFI Fund. The CDFI Fund sent an official letter announcing the interviews to ensure the validity of the study to the stakeholder, prior to ARDX scheduling the interviews.

To accurately track each stakeholder recruitment call attempt, ARDX created a tracking system in MS Excel. The tracking system measured reach rates and the number of contact attempts per stakeholder in real time, as well as served as a tool to track the specific date and time of each attempt. Each participant's time zone and state was denoted so that ARDX could ensure that participants were contacted during various timeslots within business hours, with respect to time zone. Attempting to contact participants during different times during their business day increased the likelihood of maximizing both reach rate and response rate. ARDX attempted to contact each participant a maximum of 10 times, once during each timeslot (e.g., morning or afternoon). ARDX contacted, scheduled and administered triangulation interviews with 18 of the 20 intended participants, yielding a 90% response rate.

ARDX recruited 10 of the 18 participants during calls made in the morning; the remaining eight (8) were reached and scheduled for interviews in the afternoon. The average number of call attempts per participant to schedule an interview was four (4) attempts, with a range of one (1) to eight (8) contact attempts per participant. For the two (2) unreachable participants, ARDX attempted to reach them 10 times. The non-participants fell under the Indirect Activity and Non-awardee stakeholder categories. The successful contact attempts by timeslot are shown **Table 8**.

Number of Attempts to Reach Participants	Number of Scheduled Interview Participants	Number of Scheduled Interviews by Timeslot	
		Morning (Before 11:59 a.m.)*	Afternoon (After 12:00 p.m.)*
1	3	1	2
2	3	1	2
3	2	2	0
4	2	1	1
5 or greater	8	5	3
TOTAL	18	10 (56%)	8 (44%)

*Timeslots are in respect to the time zone of the bank location.

Interview Scheduling and Conduct

ARDX scheduled the triangulation interviews for each participant to allow Subject Matter experts (SMEs) from NCRC or Woodstock Institute to participate in the interviews as well. Once ARDX was able to schedule the interview, the participant was provided with an MS Outlook invitation, a confirmation email with the day the interview was scheduled and a reminder email 24 hours prior to the scheduled interview. In addition, after the participant completed the interview, ARDX sent a "Thank You" email, thanking the stakeholder for their time and participation in the interview.

The designated SME also was sent an Outlook invitation and a tailored protocol customized to include the mission statement and award year (if applicable) of the institution for each interview. During the semi-structured interview, ARDX asked all protocol questions while remaining neutral and allowing the participant to provide detailed feedback. ARDX also asked question probes based on the individual participant's feedback to allow for a deeper and richer understanding of the response, in order to ultimately triangulate the qualitative results with the quantitative results of the online survey. ARDX used in-house resources to set up the interview conference line, and record and transcribe the triangulation interviews. All participants were asked for their permission to record the interview. Within 72 hours of the interview, ARDX provided NCRC with transcripts from the completed interviews (both pretest and live interviews) for coding and analysis purposes. Each interview was coded and analyzed to identify key themes and trends that arose from the triangulation interviews.

Stage 2 - Online Survey Methodology

ARDX contacted the population of 156 institutions that applied for a BEA Program award in award years 2012-2014 to verify the appropriate survey recipient, telephone number and email address. ARDX identified 14 institutions as ineligible due to bank closures and mergers with other banks, resulting in a final list of 142 institutions that were eligible survey recipients.

The online survey instrument included five (5) sections, each containing 2 to 9 questions focused on a specific topic. ARDX programed Section 2, Section 3 and Section 4 of the instrument to include pre-populated data based on the recipient's most recent application and assessment period. The topics covered in each section are in **Table 9**.

Table 9. 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
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	*Engagement and factors influencing the engagement in Service Activities

Survey Section	Section Title	Topics
	services, targeted financial services, targeted retail savings/investment products	*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 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

Online Survey Distribution

To maximize the response rate, ARDX used a mixed-mode approach to gain cooperation from the respondents. Six (6) respondents completed the survey during the pre-test. Initial contact with the remaining 136 banks was made by email letter from the CDFI Fund Director, Annie Donovan, on February 22, 2016. On March 3, 2016, ARDX sent the survey link to the 136 recipients by email; 17 completed their surveys after this email. ARDX sent the survey link to non-respondents the second time, as a reminder, on March 11, 2016. This second email produced 12 more responses.

On March 21, 2016, ARDX implemented the telephone portion of the recruitment strategy. ARDX developed a receipt control system in MS Excel that tracked response rates in real time and identified non-respondents for follow up. The tracking system measured reach rates of non-respondents and the number of contact attempts per Stakeholder in real time. The tracking tool tracked the specific date and time of each attempt, and whether or not the survey was completed. Each non-respondent's time zone and state was denoted so that ARDX could ensure contacting non-respondents during various timeslots within business hours, with respect to time zone. Attempting to contact non-respondents during different times during their business day increased the likelihood of both reach and response rates.

The evaluation team began calling non-respondents on March 21, 2016, and continued to call survey recipients through March 31, 2016. ARDX called survey recipients at least three times, unless the survey recipients completed the survey prior to another call, or agreed to complete the survey via telephone. As the evaluation team called banks to request participation, the contacts at the banks asked ARDX to re-send the survey link; therefore the evaluation team re-sent the survey link to all non-respondents within a few days of the start of the telephone contact. ARDX sent the survey link for the third time to non-respondents on March 24, 2016. Telephone contacts produced an additional 31 completed surveys, of which 4 were completed as telephone interviews; the third email produced an additional 27 completed surveys. Excluding pretest contacts and respondents, ARDX' recruitment effort included 299 follow-up contacts, with an average of 3.2 follow -up contacts per completed survey. **Table 10** summarizes the information.

Table 10. Recruitment Results

Schedule	Total Respondents	Follow-up Contacts	Surveys Completed	Outstanding Surveys
ARDX conducts pretest of online survey by phone	6		6	0
ARDX distributed survey links 3/3/16	136		17	119
ARDX distributed survey links (reminder) 3/11/16		118	12	107
ARDX Phone Recruitment: 3/21/16--3/31/16		106	31	76
ARDX distributed survey links (3rd time) 3/24/16		75	27	49
Totals	**142**	**299**	**93**	**49**

Online Survey Statistical Analysis

All of the BEA Evaluation Survey data were collected and stored on secure ARDX servers. Survey data were encrypted from the time of collection through storage, and results were delivered through encrypted, passcode protected comma separated values (CSV) files. For quality control purposes, ARDX called several randomly selected survey participants to validate the survey data. The evaluation team computed descriptive statistics utilizing SAS for all variables in the dataset including SAS cross-tabulations by Respondent Type (Awardee/Applicant), Institution Type (MDI-CDFI/CDFI-non-MDI/MDI-non-CDFI/Other) and CRA Asset Size (Small/Intermediate-Small/Large). Because the analyses included primarily categorical data, ARDX used the Fisher's Exact Test to test for statistical significance. Given the relatively small study population, the Fisher's Exact Test also to account for cases where expected cell sizes were less than five (5).

Stage 3 - Complementary Interview Methodology

Complementary research uses the results of one data collection mode to elucidate the findings of one or more other modes, and can help to develop or inform the other methods. In our case, complementary interviews were developed based on the findings of the secondary data analysis, triangulation interviews, and online survey, and the findings from the qualitative research expounded upon the previous research.

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

1) Clarification of the perceived influence of BEA and CRA on bank investment decisions for highly distressed areas;
2) Proportion of BEA qualified activities and CRA-eligible activities in highly distressed census tracts;

3) Understanding of the thought processes behind institutional investment decisions for BEA Program qualified activities;
4) Understanding of how BEA Program awards affect administrative costs associated with disseminating BEA funding;
5) Understanding of how institutions track investments in BEA qualified activities;
6) Explanation of how CDFI Partners track BEA Program funds received from indirect investment institutions;
7) Relationships BEA Program awardees have with CDFIs, and the nature and length of those relationships, both from the institutions' and the CDFI partners' perspectives;
8) Types of investments CDFIs received from indirect investment institutions; and
9) How BEA funding affects highly distressed communities, and the perceived effect of not receiving a BEA Program award.

The above topics guided the design of a series of protocols that were customized by stakeholder group. Similar to the process for the Triangulation Interviews, NCRC selected a sample of 20 participants for the Complementary Interviews that was proportionally representative of the population of 156 BEA Program applicants. Again, respondents were selected based on stakeholder category, of which there were four (4) stakeholder interview categories: Indirect Activity, Direct Activity, Non-awardee and CDFI Partner; and banking institutions were further selected based on asset size, small (less than $300 million), intermediate-small ($300 million to $1.202 billion), and large (at least $1.202 billion). **Table 11** shows the distribution of complementary interview potential respondents by interview category and asset size.

Table 11. Stakeholder Complementary Interview Categories

Stakeholder Category	CRA Asset Size	Stakeholder Interview Category Type	Number of Selected Participants
1	Small	Indirect Activity (CDFI-related Activities)	3
1	Intermediate - small	Indirect Activity (CDFI-related Activities)	2
1	Large	Indirect Activity (CDFI-related Activities)	0
2	Small	Direct Activity (Distressed Community Financing Activities & Service Activities)	1
2	Intermediate - small	Direct Activity (Distressed Community Financing Activities & Service Activities)	4
2	Large	Direct Activity (Distressed Community Financing Activities & Service Activities)	3
3	Small	Non-awardee	2
3	Intermediate - small	Non-awardee	1
3	Large	Non-awardee	1
4	--	CDFI Partners	3

As indicated in Section 2.0, detailed summaries of the primary and secondary research results are presented in Sections 3.0 and 4.0 of this report.

II. Primary Data Collection Results

As indicated in Section 1.0, the objective of the primary data collection was to examine the investment and service-related behavior of BEA Program applicants and awardees, garner feedback from stakeholders regarding the effectiveness of the BEA Program, and identify areas for potential program enhancement. This section summarizes the results of each phase of the mixed-method data collection—the Triangulation Interviews, the Online Survey, and Complementary Interviews.

Triangulation Interview Results

The evaluation team analyzed the results of the triangulation interviews using both deductive and inductive techniques typical of qualitative research methods. After loading the interview transcripts to a qualitative data tool (ATLAS.ti version 6.2), each response was coded using inductive techniques, allowing codes to arise from the participants' own language. The interview transcripts analyzed included both pretest and live interviews. This analysis involved coding 17 interview transcripts, and the incorporation of summary input from one unrecorded interview. After all codes were developed, they were organized by topic, and specific themes were developed. A schematic of the themes identified in the interviews is included in **Appendix C** of this report. Relevant quotes were then associated with the themes, allowing direct reference to the language of participants and meaning of interview responses. An overall framework for analyzing the transcripts was deduced from the topics covered by the interview questions involving three (3) primary issues: investment decisions, institutional impact, and community impact of the BEA Program. The results section is organized by these primary issues.

Investment Decisions

Several themes were apparent in this analysis of bank decision making, including prevailing economic conditions, institutional motives, and the process of applying for the BEA Program award. Participants discussed structural changes to their local economies such as deindustrialization, revitalization/gentrification, and demographic shifts such as rural out-migration. Recent economic factors were also mentioned, such as the lingering effects of the 2007 – 2009 housing and financial crisis. Explicit queries about institutional motives and priorities, including mission, economics and regulatory demands were part of the interview script. Finally, the process of becoming aware of, and then applying for the BEA Program award was a topic of several interviews. This revealed misunderstandings regarding the BEA Program criteria, generating several suggestions for clarifying or streamlining the BEA Program application process from the participants. Additionally, institutional size and geographic market impacted the decision-making of applicants.

Economic Conditions

Prevailing economic conditions, regionally and nationally, were referenced repeatedly during the interviews as establishing the context for institutional activities and decision making. The interviews covered bank and CDFI applications for the 2012-2014 time periods, and circumstances attributable to the 2007-2009 financial crisis were referenced occasionally. The lingering effects of the financial crisis as one circumstance shaping past and current availability of capital, as well as the present regulatory environment, were topics in several interviews. What was mentioned more frequently, however, were regional economic circumstances and the challenges present within intrastate markets.

While institutions in predominately rural or urban areas faced different challenges in their markets, issues of capital availability seemed common. In the instance referenced below, a participant from a large bank with a predominately rural presence discusses the challenge of maintaining capital availability because of a limited deposit base:

> "We're primarily a food and Ag-based institution. … It means that we operate in primarily … 'non-metropolitan communities,'… There's not a great deal of deposit base, so most of the resources seem to be allocated to the major metropolitan markets. So … that's why we decided BEA would be beneficial and that we could serve as the conduit to bring more resources to these rural communities."

In this case, the BEA Program and other potential partnerships are seen as a way of expanding capital availability within their rural market area. Similar problems of capital availability were referenced by participants from small and intermediate-small banks in urban markets. *Getting credit out into the area, so graffiti goes off of the buildings* was the way one participant viewed the role of their urban bank in neighborhood revitalization efforts. The participant went on to describe how their intermediate-small bank serves a niche market in Asian-American communities, *which have unmet needs for capital, working capital lines, small business startup,* and the perception that *a lot of the larger banks are not able to meet those needs and we are.*

Participants from several small and intermediate-small institutions in both rural and urban areas mentioned the absence of large banks in their market areas, a gap that was being filled by the smaller institutions. In this case a small urban bank relates their focus on small business lending within their community, stating, *The big banks really want to do a lot with the small businesses, but we have a lot of small business-type customers. We have a lot of lawn and maintenance companies that we do loans for them to buy big zero turn lawn mowers, and a lot of people won't do those kinds of loans.*

The differences in approaches to local markets by small and intermediate-small banks contrasted with the approach of large banks were notable, and affected BEA Program activity choices, as will be seen later. Participants from small and intermediate-small banks repeatedly referenced their institution's ability to directly serve the capital availability needs of underserved and niche markets.

Another recurrent theme was the ease with which banks and CDFIs whose primary market area was either in distressed or low to moderate income communities met the criteria for the BEA Program award. Several recounted that qualifying activities were part of their regular operations. In this case, an intermediate-small bank relates their history of BEA Program related activities:

> ...we don't put it as a mandate to do these things. It just so happens that we're in these communities. So it's the normal course of doing business for us. …. There's no regulatory pressure on doing such. There's no pressure on to receive the BEA Program award, if we should do such. It's the environment that we're in.

Participants from CDFIs noted the ease with which they met BEA Program investment criteria in distressed areas. This was particularly notable in applicants from Appalachia and the southern Black Belt regions of the U.S., where banks and CDFIs stated that they would be doing the same work regardless of

BEA Program eligibility, a topic which was made more explicit when discussing institutional motivations to invest in more distressed communities.

Institutional Motivations for BEA Investments

The participants were specifically asked to rank and discuss their organization's priorities in decision making: whether they were economic, mission, or regulatory compliance. Participants from 12 banks and 6 CDFIs and Federal Savings Banks provided the rankings in **Table 12**.

Table 12. Priority in Institutional Decision Making

Priority	Bank	Bank %	CDFI/FSB	CDFI/FSB %
Mission	6	50.00%	5	83.33%
Economics	4	33.33%	0	0 .00%
Regulatory Compliance	2	16.67%	1	16.67%
Total	12		6	

Evaluating the priorities ranked in the table as separate and distinct indicators of motivation would be a mistake. Usually the participants discussed the interplay of different motivations which overlapped one another. The rankings simply indicate the predominate concern in the institutional decision making process as it was understood by the participant.

Mission

Mission was the most frequently cited motivation for investment decisions to provide products and services in distressed communities by all categories of participants. The CDFIs and Federal Savings Banks were the institutions where respondents had the highest proportion citing mission as the motivation in making decisions on the types of services they provided. Two small Federal Savings Banks (FSB) were included in the triangulation interviews, and the priority which they placed on a mission driven motivation matched those of the majority of the CDFIs. Still, half of the applicant banks ranked mission as their primary motivation, followed by economics and regulatory demands.

Many of the participants had difficulty providing rankings, or indicated during the follow-up question that multiple priorities were considered in their organizational decision making process. The following quote is an example of the interplay of economic considerations with mission expressed by a participant from a CDFI:

> We, like most businesses, make loans to make money… Our loan interest and fees cover about 75 percent…of our budget. So we need to make money in order to survive. But our motivation is our mission. That's the main motivation. In order to do that, we have to make money and in order to maintain CDFI certification, we also have to serve the mission.

In this case the CDFI certification imposes a specific organizational mission on the institution, the goals of which can only be met with a sound economic foundation. This is indicative of why the CDFIs selected mission as their number one priority; they exist in order to fulfill a specific financial role within underserved or economically distressed communities. It is interesting that the FSBs also selected mission as their primary motive, though it would not be ideal to generalize from the responses of only two (2) participants.

Banks which placed first priority on mission were also likely to discuss it in relation to meeting their economic goals or the regulatory requirements of the Community Reinvestment Act (CRA). An intermediate-small bank cited being able to serve its community while also meeting CRA requirements as its motivators when deciding which investments to make in its communities. Even though this institution ranked mission as its first priority, the additional goal of meeting CRA compliance is referenced. A later discussion on the interplay of the BEA Program and CRA for banks will examine how entwined the Federal program and regulation have become.

Economics

Economic motivations were the second highest ranked priority for banks when deciding how to invest in communities, and 12 out of the 18 participants ranked economics as either the first or second motivation for investment decisions for their institution. Banks were more likely to rank economics as a top consideration than were CDFIs. Several factors relating to economic motivations were identified including the rate of return for banks investing in certificates of deposit (CDs) held by CDFIs, viewing the BEA Program as a sort of "rebate" on CRA related activities, and the mitigation of risk which the BEA Program award amount was seen as providing for otherwise risky investments.

Investing in CDFIs through CD deposits was the dominant form of indirect investment by banks. In seven of the cases, banks chose to make investments in CDs deposited at CDFIs a part of their BEA Program related activities. This pattern of investment choice was a predominate activity for the intermediate-small banks, which chose to make CD investments in five of the six cases. The rate of return on CDs invested in CDFIs was mentioned by three participants. One participant from an intermediate-small bank cited the relatively higher rate of return for a low risk investment as the main motivator for the bank deciding to invest in a certificate of deposit. A standard rate of return, combined with the award amount provided a seemingly purely economic incentive, though the participant from this institution ranked mission as the second motivation for the activity.

Another framing of the economic motivation, not as an investment with higher than market returns, is as a "rebate" on activities which the institution was likely to perform anyway. In this case a participant from a large CDFI bank which was engaged in making small loans in distressed communities explains, *I call it a 'rebate' … on the activities that we have performed in said communities.* However, the participant added the bank does not just make the investment to get a return through a BEA Program award, but rather makes investments to support their community.

Here, the BEA Program supports activities already undertaken in the market area of the CDFI bank. The same participant also cited another motivation linked to economic factors in the BEA Program process - mitigation of risk. Both the prospect of a rebate for activities, and use of BEA Program funds as a hedge against riskier loan investments, was part of the decision making for this intermediate-small institution, which nevertheless placed mission as its first priority, and economics as the second, but closely linked consideration.

Regulatory Compliance

While regulatory compliance was not ranked as highly as the other considerations, it was mentioned repeatedly in the course of interviews as an important factor in institutional decision-making, and investment and service priorities. It was ranked as the first or second priority in five of the interviews. When regulatory compliance was discussed, it was the CRA which arose as the chief consideration, possibly also stemming from another interview question which specifically asked participants about the impact of CRA on decision-making and their decision to apply for the BEA Program. Seven of the interviews with banks and CDFI institutions referenced CRA as a major factor in their decision making. As an example, the CRA officer with a large bank, who also applied for the BEA Program, recounts the role of CRA and the BEA Program in corporate decision making, stating that the *CRA officer reports to [CEO level management] because it is considered a high-level of importance.* This CRA officer seems to have a position of prominence due to a corporate strategy of market expansion. Another CRA officer with a large bank touches upon the relationship of the BEA Program and CRA, noting that the BEA Program award and the potential for partnerships with CDFIs were motivating factors in their BEA application and participation in the BEA Program.

In another case, a participant from a non-awardee intermediate-small bank discussed the centrality of CRA compliance for their institution:

> We try and cover all segments of our community and certainly the Community Reinvestment Act encourages banks to make sure that they do that. It's hard to argue why you wouldn't try and make loans in all areas of the community, particularly where you take deposits. So because there is government oversight on that, you absolutely make sure that you comply both with the spirit of the law and the regulation.

In most cases when CRA was mentioned, its importance in bank decision making was discussed. One issue which could possibly confound the responses, however, is that NCRC personnel were specifically introduced at the beginning of any interviews in which they participated. This, combined with the sponsorship of the study by the Treasury CDFI Fund, could have influenced the responses. Nevertheless, regulatory compliance was ranked by only three (3) 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 their 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.* A linkage between mission, corporate stewardship, regulatory compliance and the BEA Program becomes apparent in the above statements, an issue which became more explicit when the relationship of BEA Program and CRA were discussed with many participants.

Overlap of BEA and CRA

When asked about their views about the overlap of BEA Program and CRA activities, seven of the participants saw them as complementary, "working hand-in-hand" with each other. None of the participants mentioned that the programs were competitive or duplicative. As noted earlier, 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 in which to recoup expenses related to CRA activities, including those related to making investments in CDFI-related activities. However, this participant also utilized the receipt of a BEA Program award as a method for leveraging support from bank management for continued investments.

The BEA Program was seen either as a way of mitigating the cost of, or enhancing CRA compliance activities. Despite the lower ranking of regulatory compliance contrasted with mission and economics, CRA compliance was repeatedly cited as an important aspect of decision-making, or as an institutional priority.

The BEA Process

The process of applying for the BEA Program was addressed in the interviews. One question of the interview instrument asked participants who were BEA Program applicants how they first became aware of the awards program. Additionally, three applicants had specific suggestions pertaining to the BEA Program application process.

Difficulty of Application

Though not explicitly covered in the interview questions, several participants discussed problems understanding BEA Program criteria or with the BEA Program application process. The chief concerns were 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. In addition, there was a perceived bias, perhaps stemming from the manner in which partially eligible tracts were categorized. The participant suggested BEA *tweak the guidelines* for identifying BEA Program eligible census tracts so that BEA Program funds could be *used where … really needed*. In this case the participant had the perception that rural census tracts with lower levels of population were at a disadvantage compared with more densely populated that may have included urban areas. (The BEA Program statute does have population criteria for metropolitan and non-metropolitan areas.)

Frustration with some aspects of the application process was also 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 was also mentioned. In particular, the need to navigate several web sites, or web pages to gather information for a once yearly application was mentioned by several participants, between the triangulation interviews, the online survey and the complementary interviews. Overall, only three of the 18 participants in the triangulation interviews had criticism of the BEA Program application process, however, this feedback was unsolicited during the interview, which may indicate broader concerns about program ease of access, satisfaction and "user-friendliness."

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 actively sought out CDFIs. In several cases, bank board or executive leadership drove BEA partnership efforts. In one case, a bank which had received relief under the Troubled Asset Relief Program (TARP), 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 way in which banks or CDFIs became aware of the BEA Program.

Though the manner in which banks and CDFIs became aware of the BEA Program was 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 was supported by statements from several other participants at large and intermediate-small banks, noting they use intermediaries to help them invest directly in CDFIs and *… the BEA Program award has helped supplement the organizations that we currently work with that do make … loans* in distressed communities.

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

Institutional Impact

The BEA Program award impacted both the recipient institutions, and the community in which they operated. For banks and CDFIs, some participants indicated that BEA support enhanced banking operations by allowing an expansion of services, or improvement of their technical capabilities. For participants at three of the four CDFIs, BEA 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, enhancing 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 their capital availability. These impacts are covered 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, its ability to incentivize greater activity through its provision of awards was referenced by several small and intermediate-small banks and CDFIs. 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 life blood 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 the BEA Program awards were also utilized to enhance the technical capacities of banks and CDFIs. Addition and modifications to products and services were referenced directly by one of the participants. Use of BEA Program award money to retrain staff and restructure operations was mentioned by one small Federal Savings Bank located in a revitalizing urban neighborhood.[2] In this case the bank was able to improve both its operations and 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 most apparent benefit of the BEA Program to the institutions themselves. The preference by intermediate-small banks for investment in CDs was referenced in the interviews with CDFIs. This seemed to help some of the CDFIs meet regulatory requirements. In two cases, banks mentioned that regulators required their institutions to maintain higher levels of capital in the era after the 2007-2009 financial crisis. A participant from a small Federal Savings Bank discussed the impact of this:

> There's more and more pressure for banks to maintain a high level of capital, which is understandable, to maintain our risk level, but … banks may be less likely to lend… if there's some perceived risk to lending in that area. [The BEA Program award means] we'll have that money available there to lend…

The BEA Program award is seen as increasing the availability of capital thus encouraging lending activity in distressed tracts, which present higher lending risks. Even small amounts of BEA related investment can be used to leverage greater amounts of capital. For example, one participant from a small urban CDFI mentioned the CDFI has access to matching funds from its state, 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 their institution can maintain operations in order to provide loans for affordable housing, stating the CDFI *probably wouldn't exist I… today if [bank] had not invested in us at [an] early stage.*

Increasing capital availability for small institutions is obviously one of the key objectives of the BEA Program in order to enhance financial activity within distressed communities. 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 Impact

This assessment of community impact is derived from questioning during which participants were asked about specific activities which their institutions engaged in to provide financial services in distressed communities. These impacts included the benefits which communities derived from BEA related investments. They could encompass traditional banking services of deposits, consumer and small business lending which directly assist the residents of a community. In addition they could include more specific and targeted services and investments to meet the need for affordable housing, and community development. Both types of services are included in this analysis.

[2] As of the FY'2015 round and implementation of the Uniform Requirements, actual award dollars must be used for BEA Authorized Uses.

Bank Services
Bank services, whether they be traditional services like taking deposits, providing checking accounts, or consumer lending were discussed with participants as one aspect of the possible services which 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.

Traditional Services
Three of the participants from small and intermediate-small rural banks typified their services as modeled upon those of traditional community banks, providing personalized services to their communities. One bank stated they *try to … fit the needs of whoever the borrower is …within the laws or the guidelines by the FDIC*. This participant commented the bank's employees *think of ourselves as a bank that can kind of think outside the box and do things that other banks don't do. That's our… niche.* This type of approach emphasizes community association and knowledge of the customer base. Later, the participant explained their institution does not use credit scores when making lending decisions, but rather analyzes lending decisions *based on more than just a score. A*gain, the priority is upon personal associations and knowledge within this community, and is atypical of present-day approaches which emphasize quantitative factors like credit history.

Another approach typical of a traditional banking approach and serving the needs of underserved communities was represented by participants from two banks, one of which was a FSB, which served Asian communities in urban areas. Again, community knowledge is emphasized with the addition of language specialization, with 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 were enhanced by their BEA Program awards for activities related to small business lending and financial services.

Lending
Discussion of lending activities covered commercial, consumer, and small business lending. In the most basic cases, BEA related activities expanded lending to distressed tracts in general. This is addressed by a participant from an intermediate-small bank who stated that *…the potential grant … provides additional equity that can be deployed in more loans spread across the entire community, a portion of which would also be in the distressed portions of those communities that we serve.* However, as in the case of the Asian community bank, the participant discussed how their small community banks provided access to underserved communities and also provided access to financial services and lending that large banks do not.

An understanding of the poor economic conditions, with high levels of unemployment and poverty, within the BEA Program distressed areas, and a desire to improve conditions was 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 which they described as a "food desert" due to poor access to affordable and healthy food sources. Another participant, from an intermediate-small bank in Appalachia, discussed their efforts to stimulate the local economy when stating:

> We're a rural community. We …have some high poverty rates in our area…We have a high loan deposit ratio, so we're loaning as much as we can and keeping that in the community to try to stir the economy as much as we can.

Similar motivations, but with quite different local economic circumstances, were present for a participant working for a small bank in a highly urbanized area which provided small business loans to assist in relocation to their distressed community, due to gentrification. They were able to assist a small business with relocating from an area undergoing gentrification (with associated rising rents for commercial spaces) to a highly distressed area. In this case the relocation of a small business from a revitalized and gentrifying area to a distressed community acted to preserve the business, and bring opportunity to the market area of that bank. The combination of small business lending with other financial services can provide a holistic approach to expanding financial opportunities within communities, which is evident when discussing community services.

Community Services

A portion of each interview focused on the types of activities engaged in by banks and CDFIs. These included affordable mortgage financing, home improvement loans, affordable housing development loans, small business loans, commercial real estate loans, community development loans, and deposits to CDFI institutions. Activities listed in the institutions application are displayed in **Table 13**.

Table 13. Activity Types of Banks and CDFI and Federal Savings Banks

Activity	Bank	CDFI/FSB
Affordable Mortgages	3	2
Home Improvement	0	0
Affordable Housing Development	0	1
Small Business	3	1
Commercial Real Estate	3	0
Community Development	1	1
Deposits in CDs at CDFIs	7	0

During this portion of the interviews, there seemed to be confusion on the part of some of the participants whether the activities under discussion were directly related to the BEA Program award.

The discussion of activities revealed several examples of community impacts directly related to BEA Program activities. Discussing the overall effect on their community, a participant from an intermediate-small bank stated the BEA Program award *helped bring additional capital into [its] communities*, and supported the bank's mission to invest in its community. There were other instances in which banks improved the local community through altruistic investment opportunities. In one case, a CDFI in a rural area financed the purchase of affordable housing for local child services to 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.

There was also an instance in which an intermediate-small bank utilized BEA Program award proceeds to improve its own and neighborhood security, by hosting *a substation of the [city] police department in [its] branch*. Activities like this helped in efforts to revitalize the neighborhood, which was able to take advantage of agglomeration 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 funded the relocation and rehabilitation of local housing to expand the stock of affordable housing within its community, when it moved old faculty housing from the university campus to a subdivision, and then provided low interest mortgages for people who bought them.

This wide variety of community services, which stem from BEA related activities and use of award funds, provides examples of the creative use of capital to improve the circumstances within distressed communities. The addition of data from the complementary interviews provides a more complete overview of BEA Program activities and their impact on distressed communities (see section 4.3 for complementary interview results).

Summary and Conclusions

The content and the sample design structure of the triangulation interviews broadly shaped the interview responses, but allowed for considerable discussion of the participants' decision-making. This enhanced understanding of the motivations for engaging in BEA related activities, and allowed for a clearer understanding of the BEA process itself. Most banks engaging in indirect investments purchased CDs at CDFI institutions, with a few also providing grants or extending lines of credit to CDFIs. Participants whose investment choices were indirect repeatedly mentioned the impact of the CRA on their institutional decision-making, with some seeing the BEA Program award as compensation for activities related to regulatory requirements. An additional motivation referenced by participants engaged in indirect activities was support for their communities, or an extension of their market presence into adjacent distressed areas.

The forms of direct investment claimed were small business loans, affordable home mortgages, affordable housing development, commercial real estate loans, and community development investments. Participants whose institutions were engaged in direct activities were more likely to cite their presence in markets typified by distressed conditions, sometimes relating that they would be engaged in the sorts of activities recognized under the awards program regardless. Finally, participants engaged in both indirect and direct investments which discussed the CRA and BEA programs, viewing the programs as complementary to one another, not competitive or duplicative.

In addition to the general differences noted for institutions engaged in indirect and direct investments, the decision-making and community orientation of large institutions contrasted with those of small banks and CDFIs. Motivations of mission focus, and economics or regulatory compliance were equally present in the decision-making of large banks, while small banks and CDFIs were overwhelmingly mission focused. Discussion of the economic development of distressed communities was more focused on specifics within the communities when participants from small banks, intermediate-small banks and CDFIs were interviewed. They were also able to cite specific instances in which their efforts achieved tangible improvements within their communities. This is notable in the results regarding community services.

The protocols for all data collection were designed to ultimately provide information regarding the study hypotheses. The triangulation interview responses addressed some, but not all of the hypotheses.

Hypothesis 1
The assistance provided by non-CDFI bank Applicants to CDFIs is primarily driven by regulatory incentives and/or the ability to invest in financial intermediaries versus direct loans and investments to residents and businesses located in low-income communities. Larger institutions benefit by leveraging the physical locations and branch networks of CDFIs, community banks, and smaller institutions; and partner with these institutions to gain access to these communities, meet regulatory requirements, and offset some of the costs associated with serving distressed communities. This relationship also allows larger institutions access to communities that they are not as familiar with and without having to expand their service/lending areas or increasing staff and overhead in order to do so.

> Comments in the triangulation interviews indicated larger banks do invest in CDFIs to meet regulatory requirements. However, large hanks were as likely as small banks to indicate the bank's mission also influenced investment decisions. Therefore, these findings provide partial support for Hypothesis 1.

Hypothesis 2
Many small and perhaps some intermediate-sized institutions (including CDFI banks) have branch locations in or within close proximity to BEA distressed communities. Institutions with a physical presence in BEA-eligible distressed communities provide the same types of products and services included in their BEA applications to the businesses and residents of those distressed communities as a part of their normal business strategy and operations. The activities tend to be Distressed Community Financing Activities (loans to or direct investments in businesses or residents of distressed communities). For these institutions, receiving a BEA Program award is an important source of capital as well as a form of cost reimbursement. The requirement to deploy an amount equivalent to the BEA Program award is not onerous since the bank performs these activities in distressed communities during their normal course of business.

> Participants who mentioned their banks being located in distressed communities were also institutions which engaged in distressed community financing activities. These institutions also were more likely to state they would provide those services, even if they did not receive a BEA Program award. These statements support Hypothesis 2.

Hypothesis 3
Larger institutions are less likely to provide financial products and/or services directly to businesses or residents of distressed communities especially when compared to the degree of investment in distressed communities by smaller institutions and/or CDFI banks relative to their overall portfolio. Consequently, larger institutions may perceive a BEA Program award as a form of cost reimbursement for undertaking activities that would typically be considered more risky or less profitable otherwise. The BEA Program award may assist in delivering a slightly better return than alternative investments along with achieving the desired regulatory results.

> Intermediate-small bank respondents were more likely to mention investments in certificates of deposits in CDFIs. The one institution that states the BEA Program award was a "rebate" was from a large CDFI. These findings lend partial support to Hypothesis 3.

Hypothesis 4
There is no financial incentive to report more activities in a BEA application than what will qualify an Applicant for the maximum award. Applicants typically submit more activities than what is needed to qualify them for the maximum award for two reasons: (1) at the time of application they are not aware of what the maximum award amount will be; and (2) to mitigate the risk that some activities may not qualify or may be deemed ineligible by the CDFI Fund.

The total amount of Service Activities that Applicants actually engage in most likely exceeds by a significant margin what is reported to the CDFI Fund in BEA applications, since Service Activities are currently the last category of the BEA Qualified Activities funded. In addition, the total amount of Distressed Community Financing Activities that several CDFI, small institution, MDI and community bank Applicants actually engage in most likely exceeds by a significant margin what is reported to the CDFI Fund in BEA applications due to a combination of mission and having an existing customer base in some census tracts that are in BEA Distressed Communities.

The triangulation interview respondents did not make statements relevant to Hypothesis 4. However, there is support for this hypothesis in the results of the complementary interviews (see section 4.3).

Hypothesis 5
The degree of difficulty of the activities that form the basis of an Applicant's BEA application may be comparable to the Applicant's other non-BEA activities depending on whether it located in or near a distressed community. For some institutions not located in or near a distressed community, the activities may have involved additional due diligence. For those institutions that are located in or in close proximity to a distressed community, the activities that formed the basis for the BEA application are likely to be routine and a snapshot of their overall Community Reinvestment Act (CRA)-eligible portfolio.

> The same types of comments which provided support for Hypothesis 2, also lend support to Hypothesis five. Participants who mentioned their banks being located in distressed communities were more likely to state they would provide those services, even if they did not receive a BEA Program award. In addition, there is support for Hypothesis 5 in the results of the complementary interviews (section 4.3).

Hypothesis 6
The investment activity of large CRA asset-sized institutions as it relates to the BEA Program is primarily driven by Regulatory Incentives. The investment activity of smaller CRA asset-sized institutions including CDFIs, Minority Deposit Institutions (MDIs), community banks, etc. is predominantly driven by a combination of economic incentives and mission.

> Overall, the bank's mission and economic conditions were ranked higher than regulatory compliance by most respondents to the triangulation interviews. However, it was ranked as the first or second priority in five (5) of the interviews. In addition, the CRA was mentioned repeatedly during the interviews as a factor in deciding the types of investments these institutions made. Comments from large institutions indicated the priority their banks gave to the CRA, with one bank stating its CRA officer reports directly to the bank's board of directors. These statements lend partial support to Hypothesis 6.

Hypothesis 7
BEA qualified activities are performed in highly distressed communities throughout the country and therefore, serve under-served, under-banked and un-banked people and businesses. The criteria for a BEA distressed community is much more restrictive than CRA and other CDFI Fund program requirements.

Participants in the triangulation interviews did not see the BEA and CRA as duplicative programs. They either saw them as complementary, or as supportive of one another. Banks noted that the BEA Program award can both help defray the costs of implementing CRA-related investments and as a means of leveraging additional funds. These statements provide support for Hypothesis 7.

The triangulation interviews were designed to parallel the topics in the online survey, and provide additional insight into those results. Without the results of the online survey, it is difficult to compare the triangulation interview results to those of the population of institutions which applied for BEA Program awards in 2012, 2013 and 2014.

Online Survey Results

During Stage 2 of the BEA Program Evaluation, ARDX obtained OMB clearance (OMB No: 1559-0047; Expiration Date: 02/28/2018) and conducted an online survey of leadership representing Federal Deposit Insurance Corporation (FDIC)-insured financial institutions that applied for BEA Program awards during calendar years 2012, 2013 or 2014 (including awardees and unsuccessful applicants). Participation in the survey was strictly voluntary and procedures that assured confidentiality and data security were in place for all phases of the data collection. ARDX developed a customized web-based instrument for each recipient specifically programmed to include information from their most recent BEA Program award application and assessment period, and uniquely designed for the respective institution.

The survey consisted of single-response, multiple response and open-ended questions, and was designed to be completed in a single session. Additionally, ARDX programmed skip patterns and logic checks to minimize respondent burden and maximize data validity. As described in the Research Methodology Section of this report (Section 1.0), the online survey instrument captured information in the following areas—Overall Impressions of BEA Program, Profiles of BEA Program Qualified Indirect and Direct Activities, and General Feedback. Section 4.2 presents the results of the online survey.

Survey Response Rate and Population Representation

ARDX employed a mixed-mode data collection approach to achieve the highest possible response rate. Of the 142 selected survey recipients, 93 submitted the online survey, yielding an overall response rate of 65 percent. As illustrated in **Table 14**, ARDX adapted the data collection design to simultaneously conduct follow-up calls and final email follow up contacts to survey non-respondents. While response rates often decline after the first two weeks of data collection, this approach resulted in a notable response rate increase.

Table 14. Online Survey Response Rate

Schedule	Total Respondents	Follow-up Contacts	Surveys Completed	Outstanding Surveys	Response Rate (by phase)	Response Rate (cumulative)
Pretest Surveys	6		6	0	N/A	N/A

Schedule	Total Respondents	Follow-up Contacts	Surveys Completed	Outstanding Surveys	Response Rate (by phase)	Response Rate (cumulative)
Initial Survey Link (3/3/16)	136		17	119	13%	17%
Reminder Email and Survey Link (3/11/16)		118	12	107	10%	25%
Telephone Follow-up (3/21/16-3/31/16)		106	31	76	29%	47%
Final Email Follow-up and Survey Link (3/24/16)		75	27	49	40%	65%
Totals	**142**	**299**	**93**	**49**	**N/A**	**65%**

Of the 142 eligible banks (the population of 156 banks minus the 14 ineligible institutions):

- 93 surveys were completed:
  - 77 surveys were completed online
  - 6 surveys were partially completed online
  - 4 surveys were completed by telephone interview
  - 6 surveys were completed during the pretest
- 49 surveys were not completed:
  - 2 banks refused to participate in the survey
  - 3 banks did not have a person knowledgeable about BEA/CRA (due to mergers, etc.)
  - 44 banks did not complete the survey

In addition to an acceptable response rate, data quality depends on how closely the characteristics of survey respondents parallel the starting sample or the population. **Table 15** compares the distribution of institutions by Respondent Type, CRA Asset Size, and Institution Type for the population of institutions to the distribution for the final respondent base. Significance testing showed no significant differences in distribution between the population and the final sample for any of the categories examined.

Table 15. Sample Representation by Respondent Type, CRA Asset Size and Institution Type

Group	Categories	Population Distribution	Final Sample Distribution
Respondent Type	Awardees	73%	74%
	Applicants	27%	26%
	Small	45%	51%

Group	Categories	Population Distribution	Final Sample Distribution
CRA Asset Size	Intermediate-Small	38%	32%
	Large	17%	17%
Institution Type	CDFI-non-MDI	22%	19%
	MDI-CDFI	19%	22%
	MDI-non-CDFI	4%	6%
	Other	55%	53%

Respondent Characteristics

As indicated in **Figure 1**, the majority of the respondents (74%) were BEA Program awardees, and 51% of respondents represented institutions that were small in terms of CRA asset size. Of the specified institution types, (MDI-CDFI, CDFI-non-MDI, MDI-non-CDFI, Other) a slight majority (53%) of respondents represented "Other" institutions, which included Community Banks and other financial institutions.

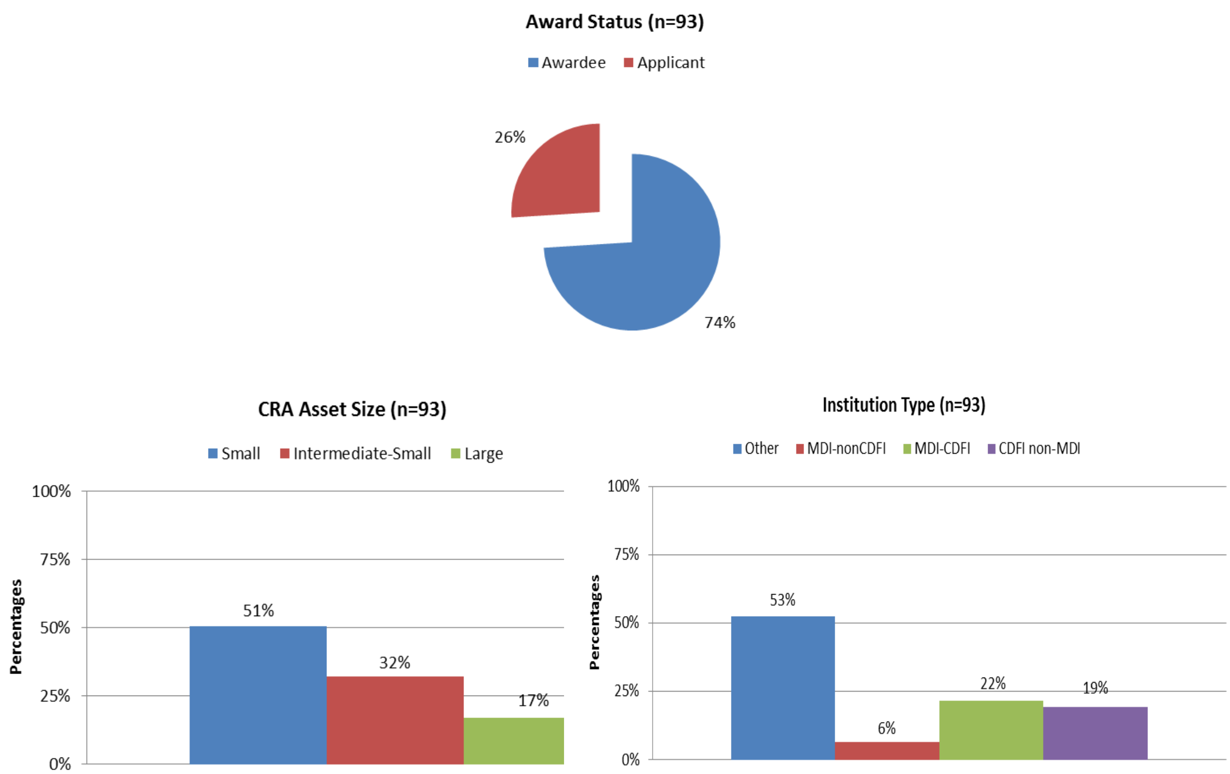


Figure 1. Respondent Demographics

Awardee Demographics

As shown in **Figure 2**, 48% of awardees represented institutions that were small in terms of CRA asset size. Of the specified institution types, (MDI-CDFI, CDFI-non-MDI, MDI-non-CDFI, Other), 45% of the awardees represented "Other" institutions. Collectively, almost half of the awardees (46%) represented CDFIs (MDI-CDFIs and CDFI non-MDIs).

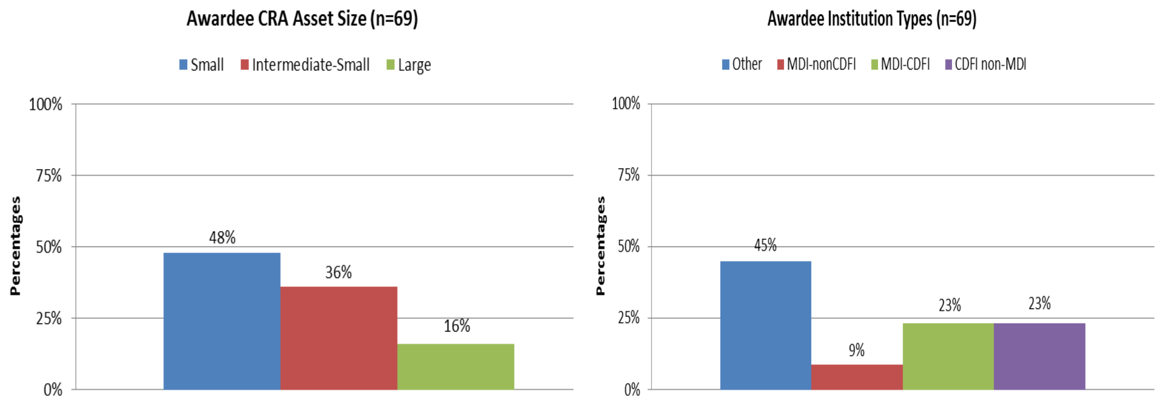


Figure 2. Awardee Demographics

Non-awardee Demographics

As indicated in **Figure 3**, approximately 58% of the unsuccessful applicants represented institutions that were small in terms of CRA asset size. Of the specified institution types, (MDI-CDFI, CDFI-non-MDI, MDI-non-CDFI, Other), 75% of the applicants represented “Other” institutions.

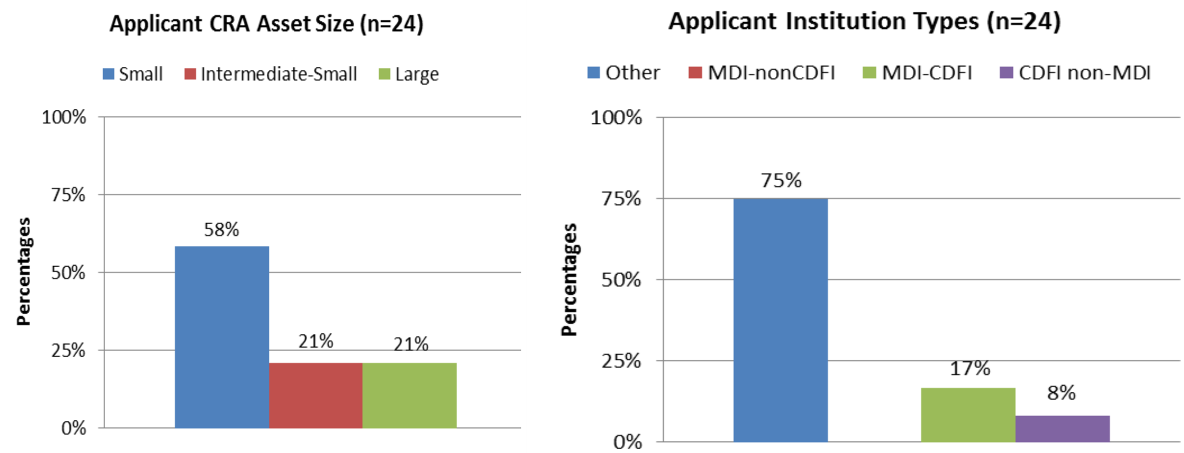


Figure 3. Applicant Demographics

As indicated in **Table 15** above, the distribution of online survey respondent demographics was not significantly different from that of the population of banks that applied for BEA Program awards in 2012, 2013 and 2014.

Following is a summary of feedback received in response to the online survey, including a discussion of meaningful differences by demographic category.

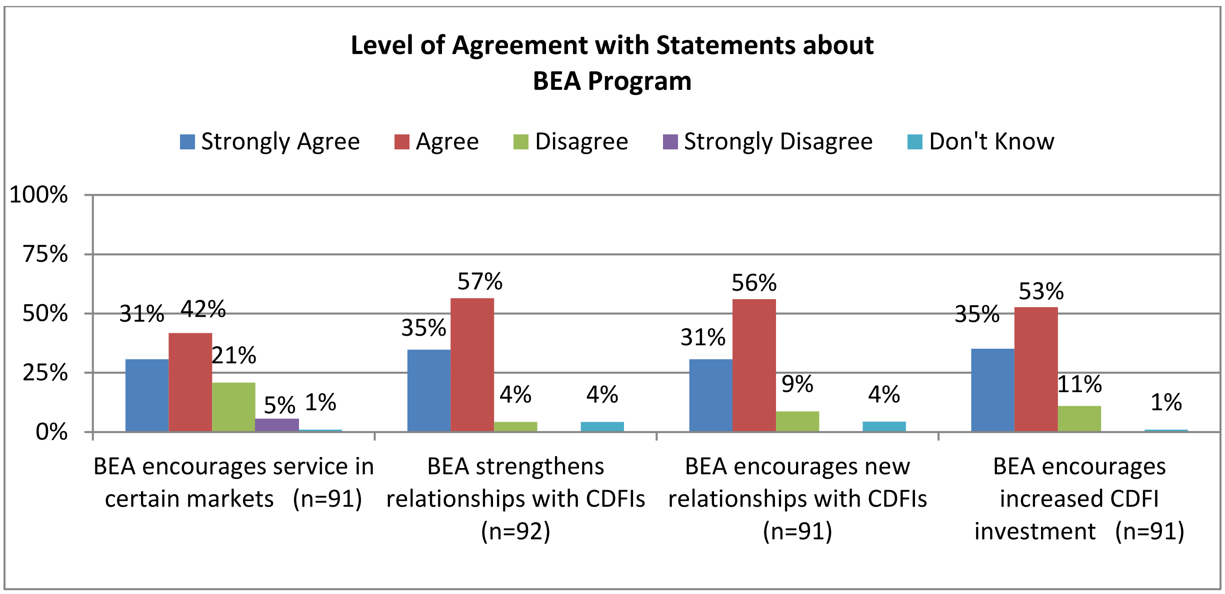
Overall Impressions of BEA Program

In the first section of the survey, respondents were asked to rate their level of agreement with the following statements. The BEA Program:

- Encourages service in certain markets

- Strengthens relationships with CDFIs
- Encourages new relationships with CDFIs
- Encourages increased CDFI investment
- Encourages development of new products or services
- Improves CRA performance
- Encourages engagement in BEA Qualified Activities

The highest percentage (91%) of respondents either strongly agreed or agreed that the BEA Program strengthens new relationships with CDFIs, the lowest percent (73%) either strongly agreed or agreed that the BEA Program encourages service in certain markets and that the BEA Program encourages development of new products or services. **Figure 4** shows the distribution of responses. No significant differences were found by awardee status, CRA asset size or institution type.



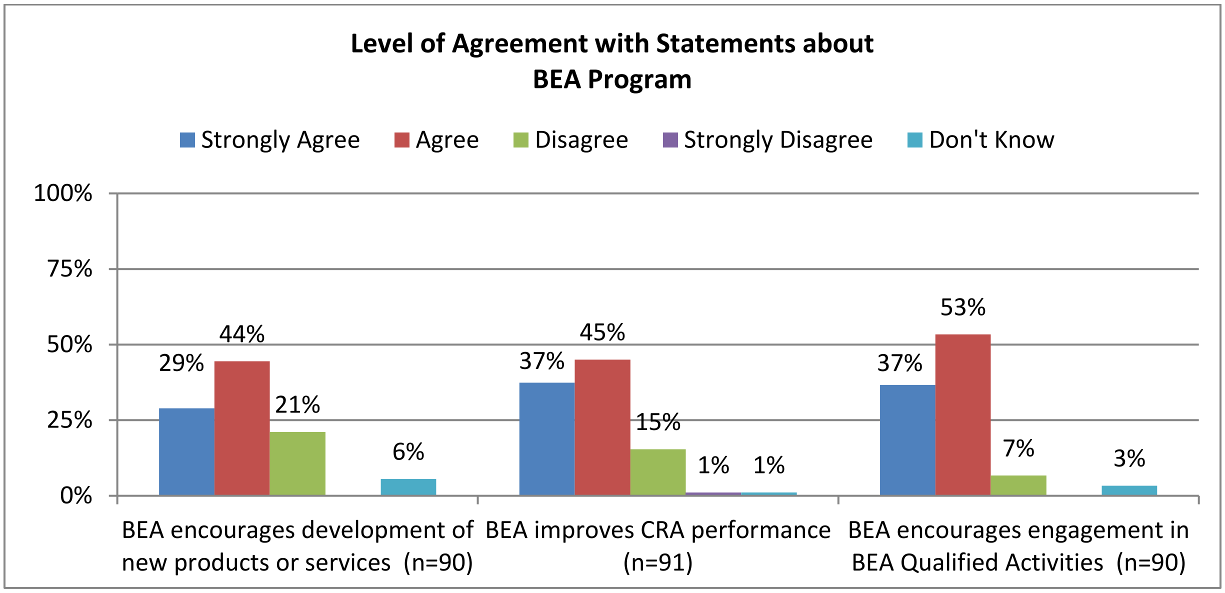


Figure 4. Level of Agreement with Statements about BEA Program

The online survey also asked participants for their opinions regarding the BEA Program and the Community Reinvestment Act (CRA) in terms of which requires investment in more distressed communities. The highest percentage of respondents (45%) indicated that the BEA Program requires investment in more distressed communities. On the other hand, 35% indicated that BEA and CRA are considered v*irtually the same* in terms of the impact on their lending or investment decisions in distressed communities. **Figure 4** displays the results of this analysis. Further investigation showed a significant relationship by institution type. As indicated in **Table 15**, MDIs and CDFIs were significantly more likely than "Other" institutions to indicate that the BEA Program requires investment in more distressed communities. In addition, approximately half of the CDFIs weighted the BEA Program and the CRA equally in terms of the impact on distressed community investment decisions, while the responses for non-CDFIs and "Other" institutions were relatively equally distributed across the response choices. Again, this result was statistically significant **(Table 16)**. There was also a significant finding by CRA asset size. Consistent with our study hypotheses, 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 **(Table 17)**.

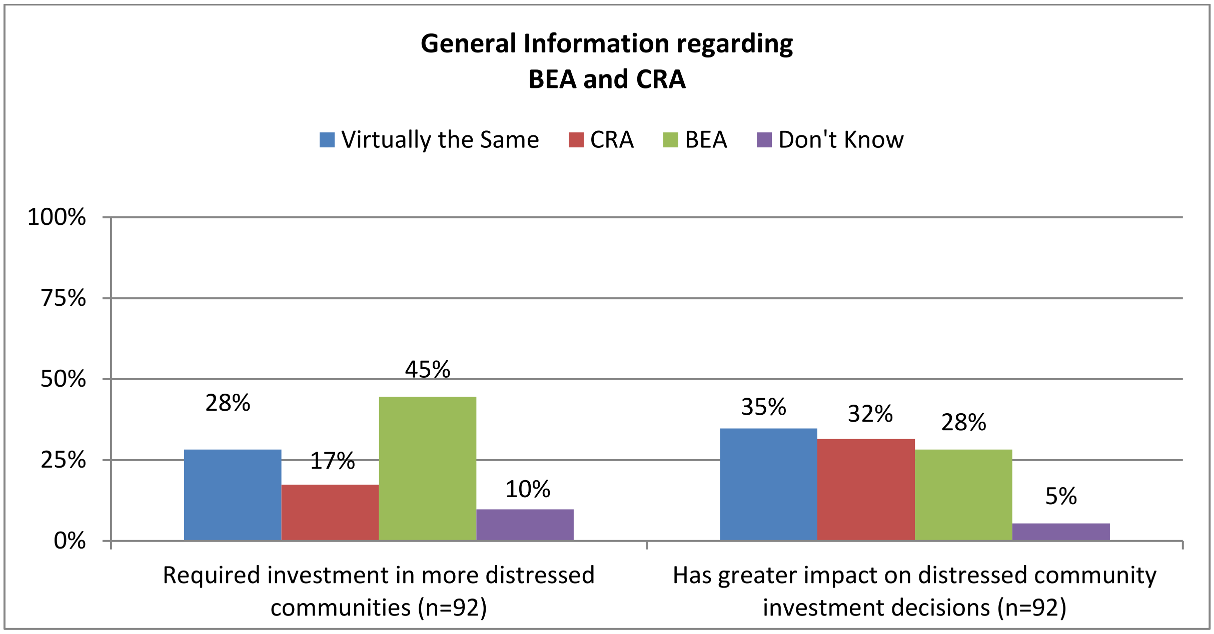


Figure 5. General Information regarding BEA and CRA

Table 16. BEA/CRA Investment Perception by Institution Type

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
Virtually the Same	5 25.00	6 35.29	2 33.33	13 26.53	26 28.26
CRA	0 0.00	0 0.00	1 16.67	15 30.61	16 17.39
BEA	13 65.00	10 58.82	3 50.00	15 30.61	41 44.57
Don’t Know	2 10.00	1 5.88	0 0.00	6 12.24	9 9.78
Total	20 21.74	17 18.48	6 6.52	49 53.26	92 100.00

Perception of BEA/CRA Impact by Institution Type (n=92)					
Has greater impact on distressed community investment decisions	Institution Type				
	MDI-CDFI	CDFI-non-MDI	MDI-non-CDFI	Other	Total
Virtually the Same	11 55.00	8 47.06	2 33.33	11 22.45	32 34.78
CRA	1 5.00	3 17.65	2 33.33	23 46.94	29 31.52
BEA	7 35.00	6 35.29	2 33.33	11 22.45	26 28..26
Don't Know	1 5.00	0 0.00	0 0.00	4 8.16	5 5.43
Total	20 21.74	17 18.48	6 6.52	49 53.26	92 100.00

Table 17. Perception of BEA/CRA Impact by CRA Asset Size

Perception of BEA/CRA Impact by CRA Asset Size (n=92)				
Has greater impact on distressed community investment decisions	Institution Type			
	Small	Intermediate-Small	Large	Total
Virtually the Same	22 46.81	9 31.03	1 6.25	32 34.78
CRA	8 17.02	11 37.93	10 62.50	29 31.52
BEA	13 27.66	8 27.59	5 31.25	26 28.26
Don't Know	4 8.51	1 3.45	0 0.00	5 5.43
Total	47 51.09	29 31.52	16 17.39	92 100.00

BEA Program Qualified Activities: CDFI-related Activities

CDFI-related Activities include grants, equity investments, equity-like loans, loans, deposits and technical assistance to CDFIs. The online survey asked participants if their institution engaged in CDFI-related Activities with any CDFIs during the Assessment Period for their BEA Program application, regardless of whether the activity was reported on their application. As illustrated in **Figure 6**, the majority of respondents (74%) engaged in CDFI-related Activities with any CDFIs during their respective Assessment Period.

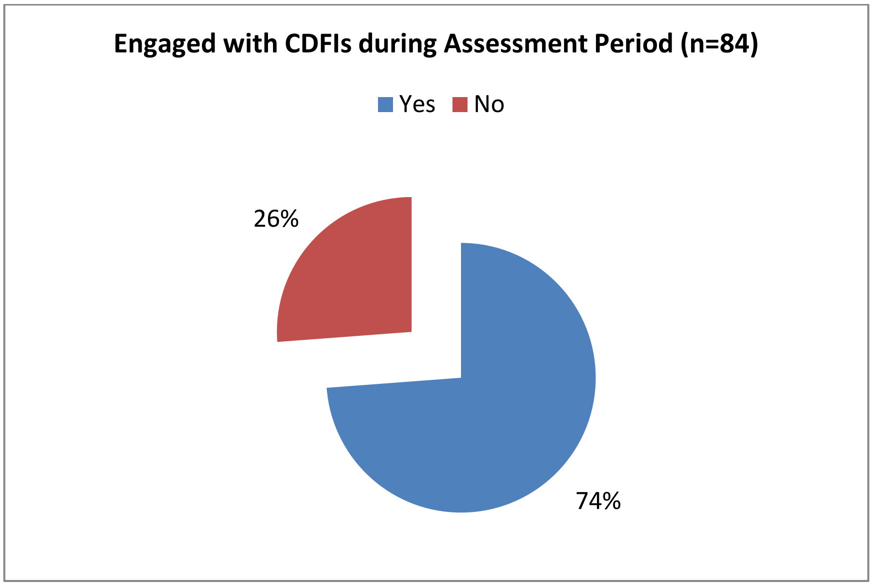


Figure 6. Engaged with CDFIs during Assessment Period

The following item asked survey recipients for their opinions on the extent that several factors influenced their institution's decision to engage in CDFI-related Activities during their Assessment Period. 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

The highest percentage of respondents (87%) indicated that *corporate mission influenced their decision* to a large or moderate extent, with more than half (56%) indicating to a large extent. When asked to specify which other factors influenced CDFI engagement, one respondent indicated, "Public Commitment associated with CRA during an acquisition." **Figure 7** shows the distribution of responses for each of the factors. While a significant relationship was found for "Other" factors by Institution Type, the finding was not particularly meaningful given the small cell sizes and the fact that only four respondent indicated to a large or moderate extent.

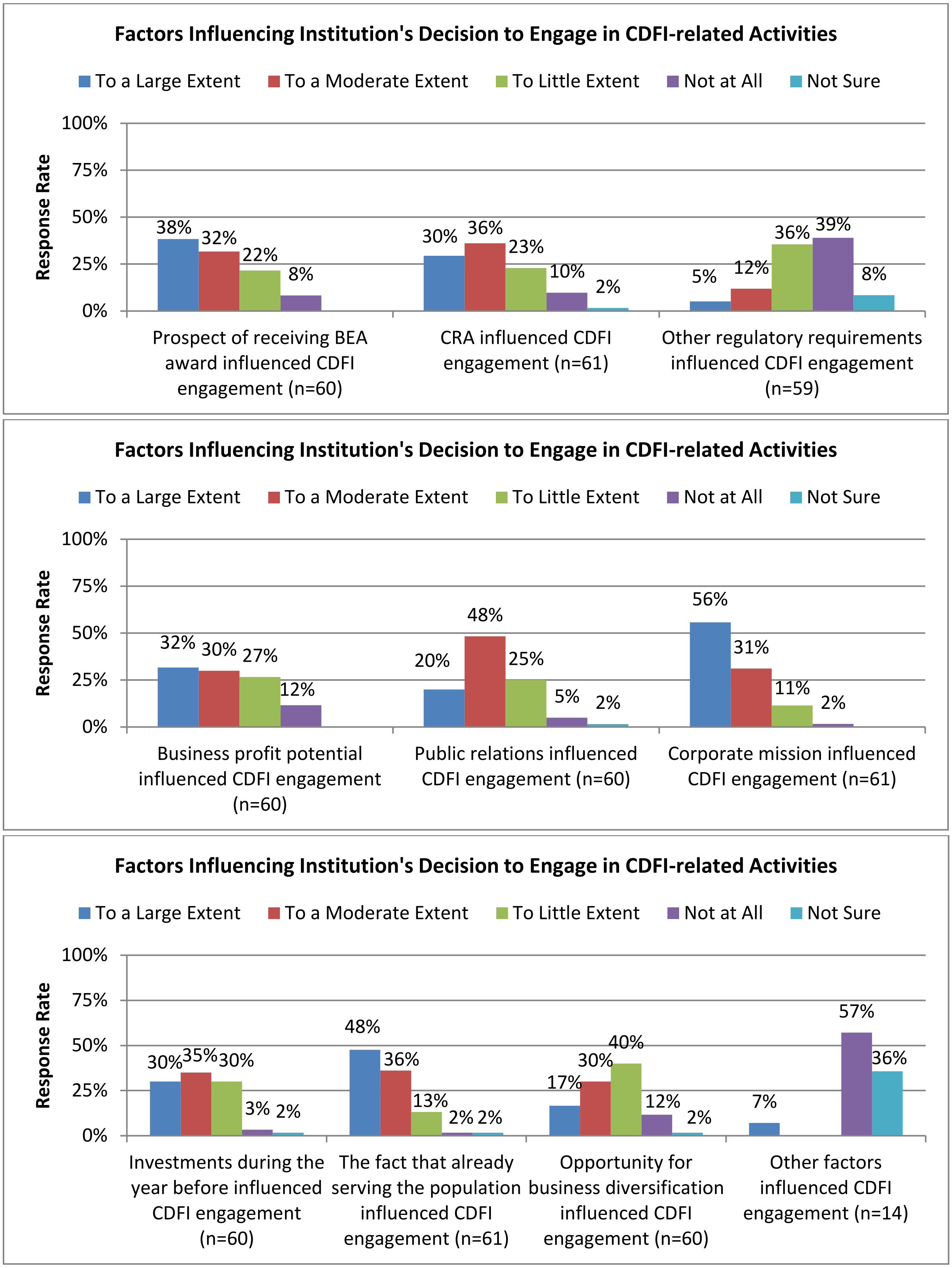


Figure 7. Factors Influencing Institution's Decision to Engage in CDFI-related Activities

The survey also asked respondents which CDFI-related Activities their institution engaged in during the Assessment Period, and asked them to select all CDFI-related Activities that applied. The list included:

- Grants
- Equity Investments
- Equity-like Loans
- Loans
- Deposits
- Technical Assistance

The majority (63%) indicated their institutions *Provided CDFI loans*. This was closely followed by *CDFI deposits* (60%). **Figure 8** shows the distribution of responses for each of the activities.

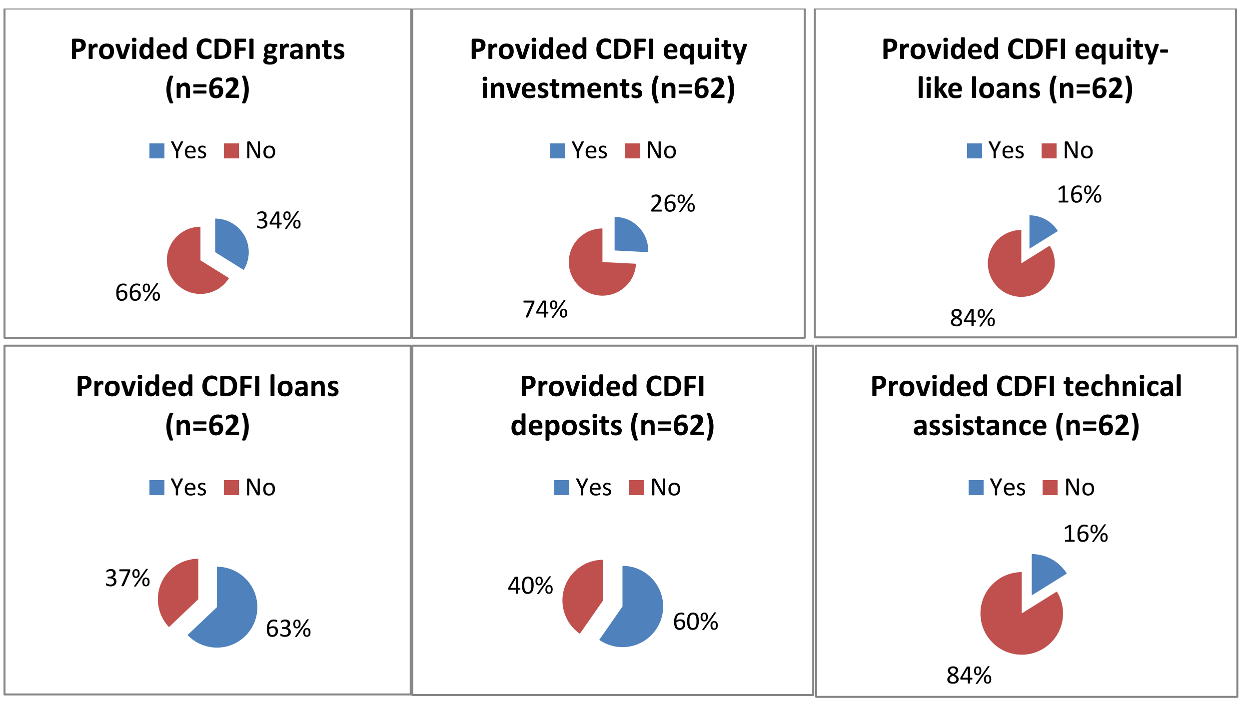


Figure 8. Provided CDFI-related Activities

The next survey item asked participants if their financial institution increased its investment in CDFI-related Activities between the Baseline Period and the Assessment Period, regardless of whether the increase was reported on their institution's BEA Program Award application. The majority (67%) increased their investment in CDFI-related Activities. **Figure 9** displays the percentages.

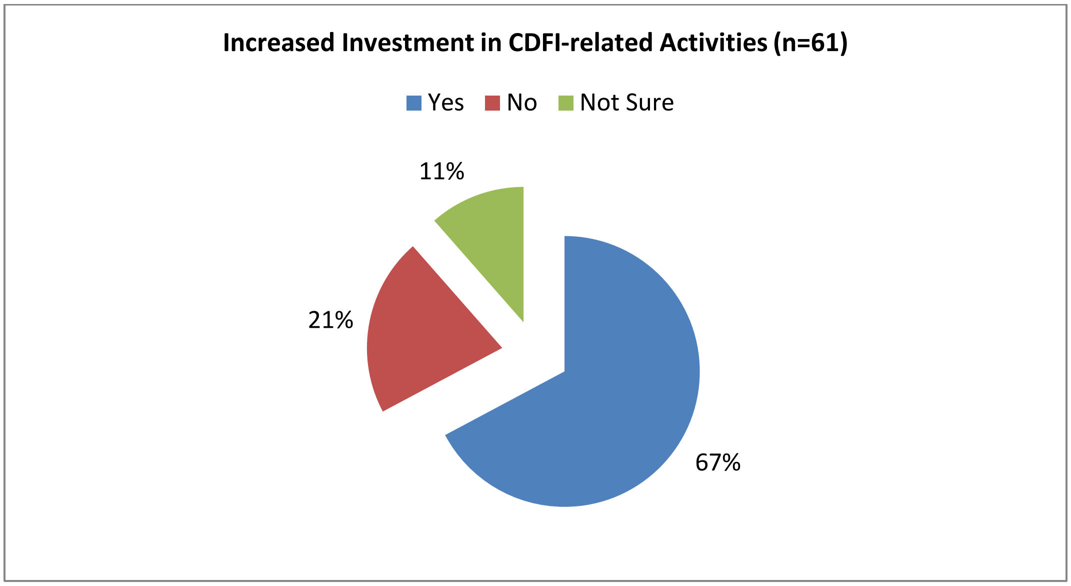


Figure 9. Increased Investment in CDFI-related Activities

The survey proceeded to ask participants if their financial institution reported the increase in its investment in CDFI-related Activities between the Baseline Period and the Assessment Period. As seen in **Figure 10**, the majority (69%) reported an increase in its investment in CDFI-related Activities.

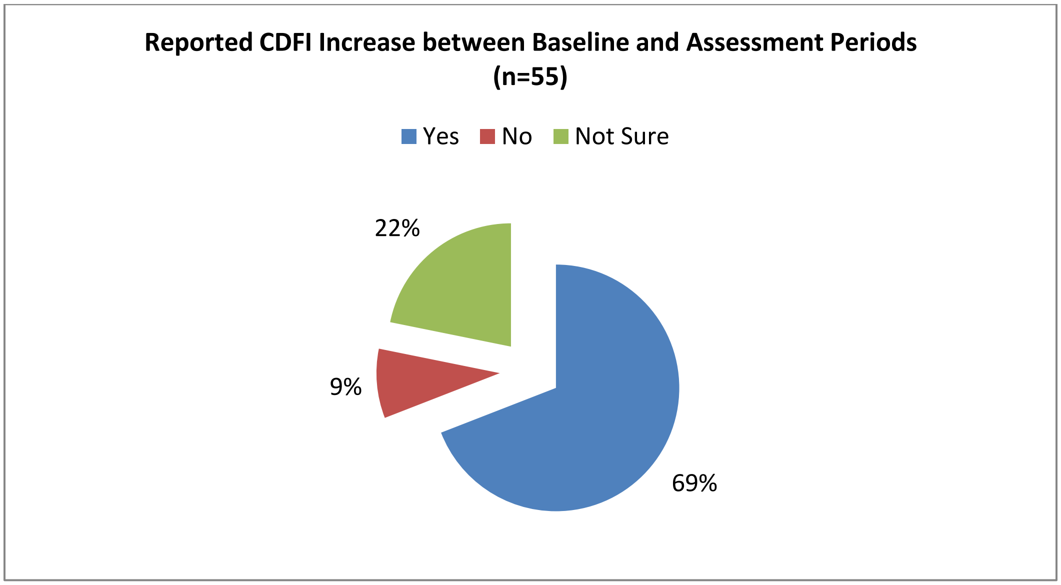


Figure 10. Reported CDFI Increase Between Baseline and Assessment Periods

The survey asked respondents if they increased investments in activities provided during the Assessment Period. While list of activities could potentially include all of the services below, respondents were only allowed to select from the investments previously selected:

- Grants

- Equity Investments
- Equity-like Loans
- Loans
- Deposits
- Technical Assistance

Consistent with the previous finding, the highest percentage (69%) of respondents who reported an increase in investments were those who provided CDFI loans (**Figure 11**).

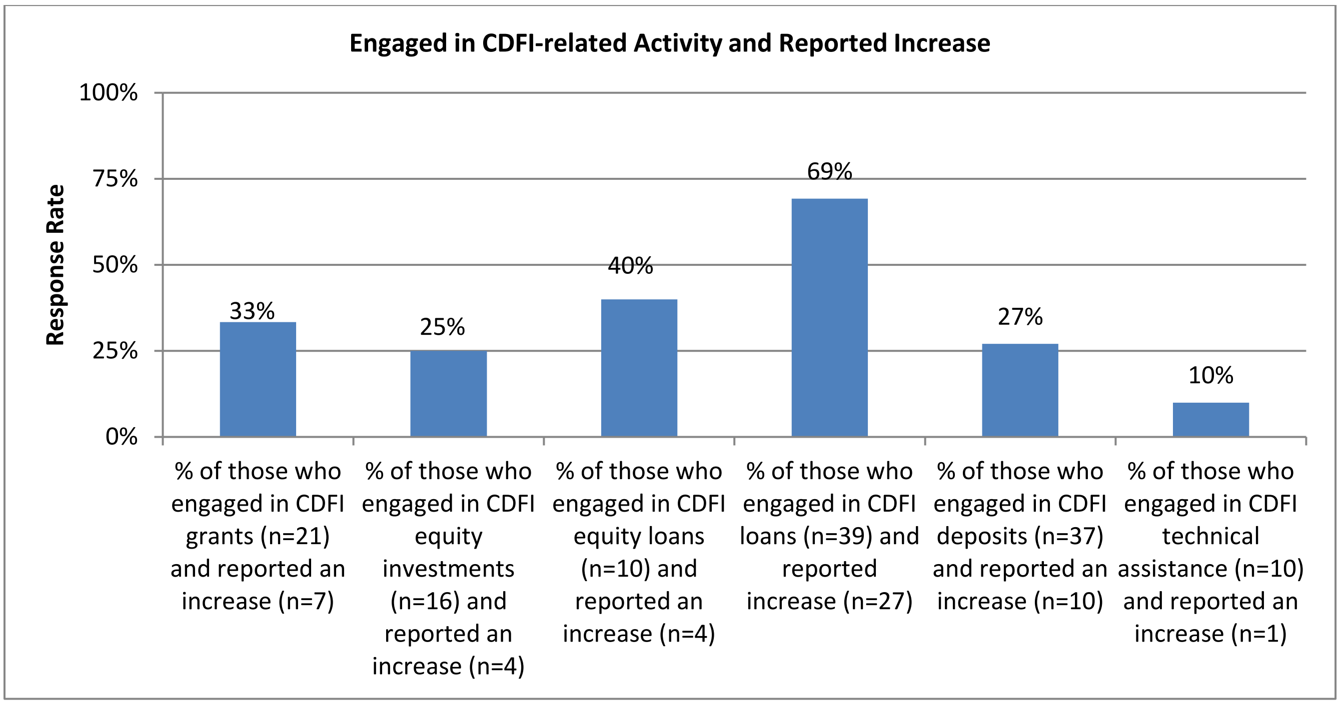


Figure 11. Engaged in CDFI-related Activity and Reported Increase

The next item asked for banks' opinions regarding the extent to which several factors influenced their institution's decision to increase investments in CDFI-related Activities between the Baseline Period and the Assessment Period. 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
- Opportunity for business diversification
- Other factors

Most of the respondents (92%) indicated that *the fact that they were already serving the population* influenced their CDFI's increased investment to a large extent or to a moderate extent. 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." **Figure 12** shows the distribution of responses for each of the factors.

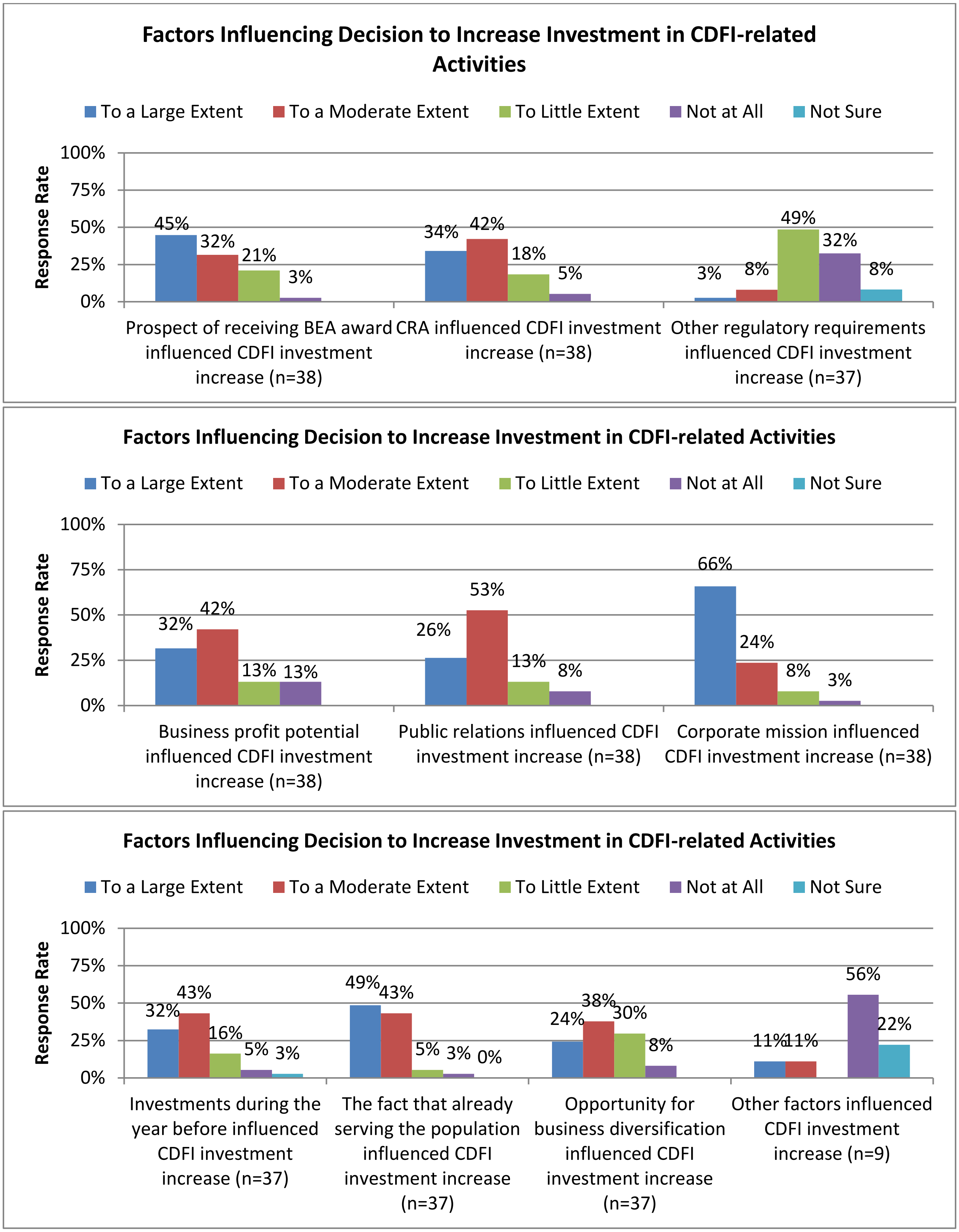


Figure 12. Factors Influencing Decision to Increase Investment in CDFI-related Activities

The following item asked survey recipients about the likelihood that their institution would increase CDFI investment at all without a BEA Program award, and the likelihood their institution would increase CDFI investments as much without an award.

The highest percentage (79%) indicated that it was *very likely* or *somewhat likely* that their institution would increase CDFI investments at all without BEA, and 67% indicated that it was *very likely* or *somewhat likely* that their institution would increase CDFI investment as much without an award **Figure 34** shows the distribution of responses for each. It is noteworthy that the BEA Program only makes awards to banks that demonstrate consistent increases in investment in BEA eligible areas. These responses imply that some bank applicants may modify their investment behavior as a result of the award decision outcome.

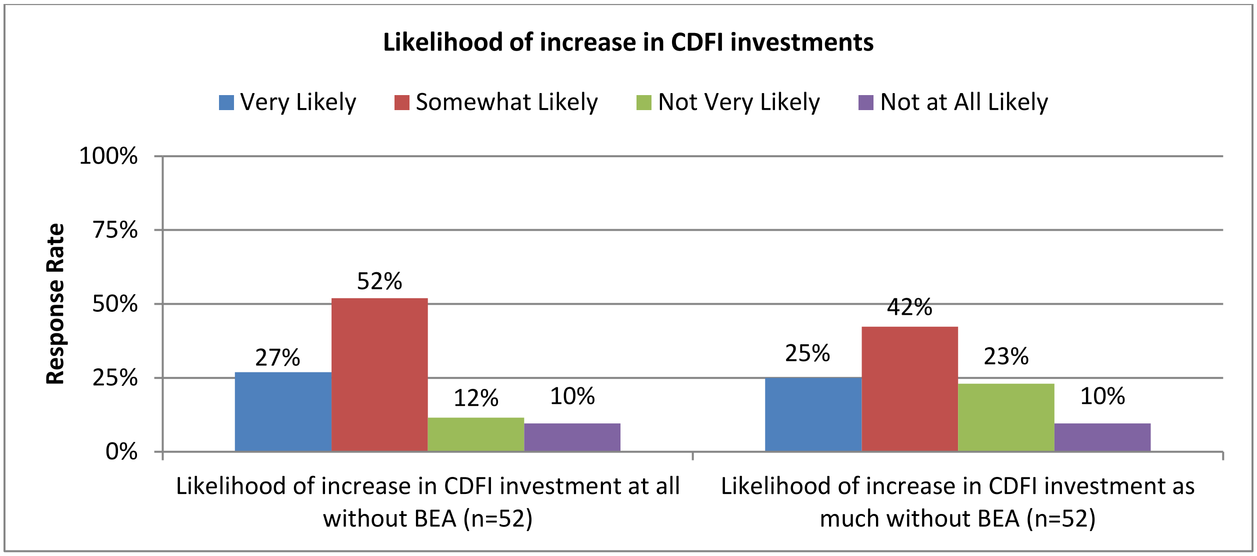


Figure 13. Likelihood of Increase in CDFI Investments

The next question asked about the extent to which institutions regard the BEA Program award as a source of continuing support for its engagement in CDFI-related Activities.

As indicated in **Figure 13**, most of the respondents (84%) indicated that their institution regards the BEA Program award as a source of continuing support for its engagement in CDFI-related Activities to a large or moderate extent.

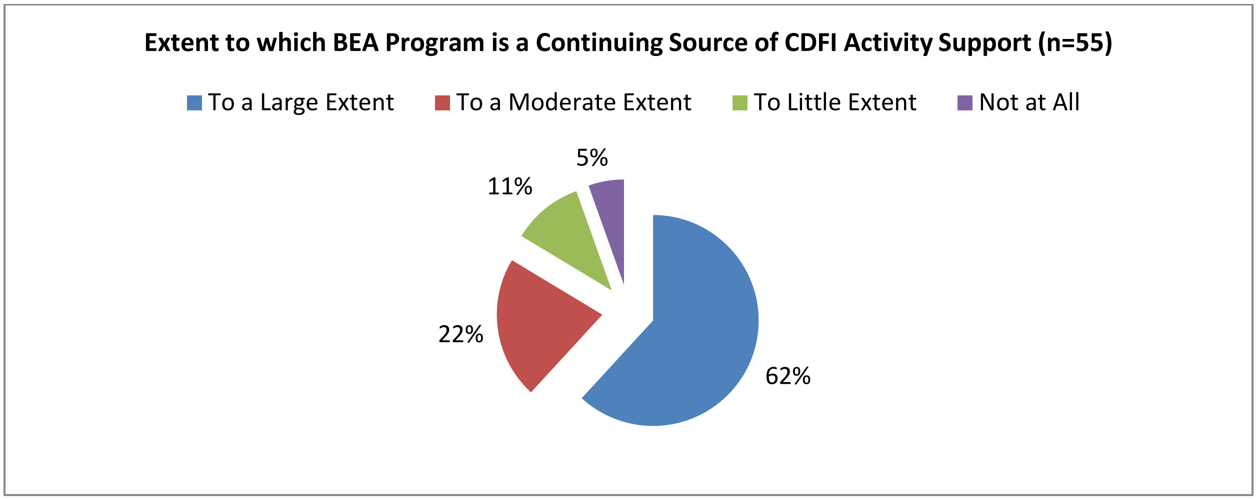


Figure 14. Extent to which BEA is a Continuing Source of CDFI Activity Support

BEA Program Qualified Activities: Distressed Community Financing Activities

Distressed Community Financing Activities (DCFAs) include loans and investments to businesses and residents of distressed communities as defined for the BEA Program for a variety of purposes, including affordable housing loans, affordable housing development, home improvement, education, small businesses and commercial real estate development.

The online survey asked participants if their institution engaged in DCFAs during their Assessment Period for their BEA Program application, regardless of whether the activity was reported on their application. Of the 82 respondents who answered this question, the majority (74%) engaged in Distressed Community Financing Activities during their Assessment Period. **Figure 15** displays the percentages.

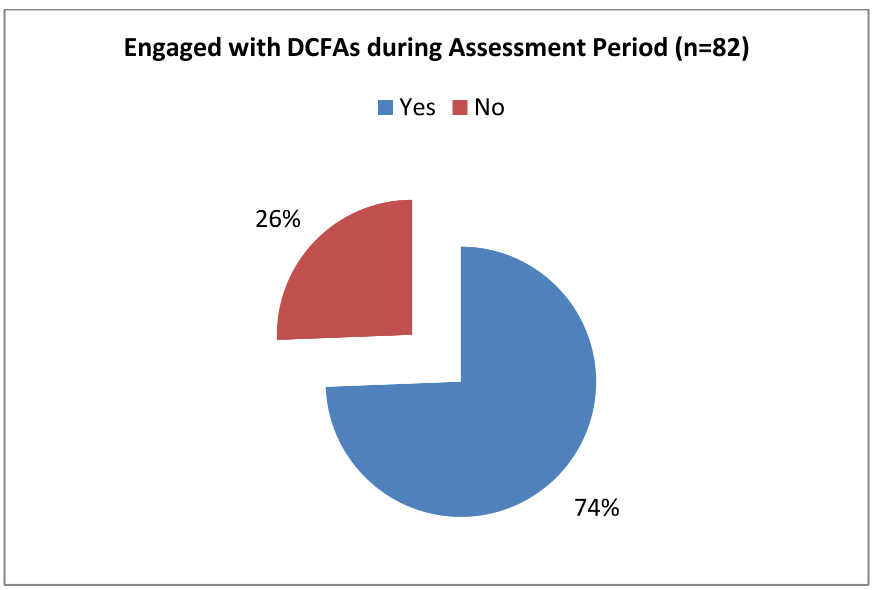
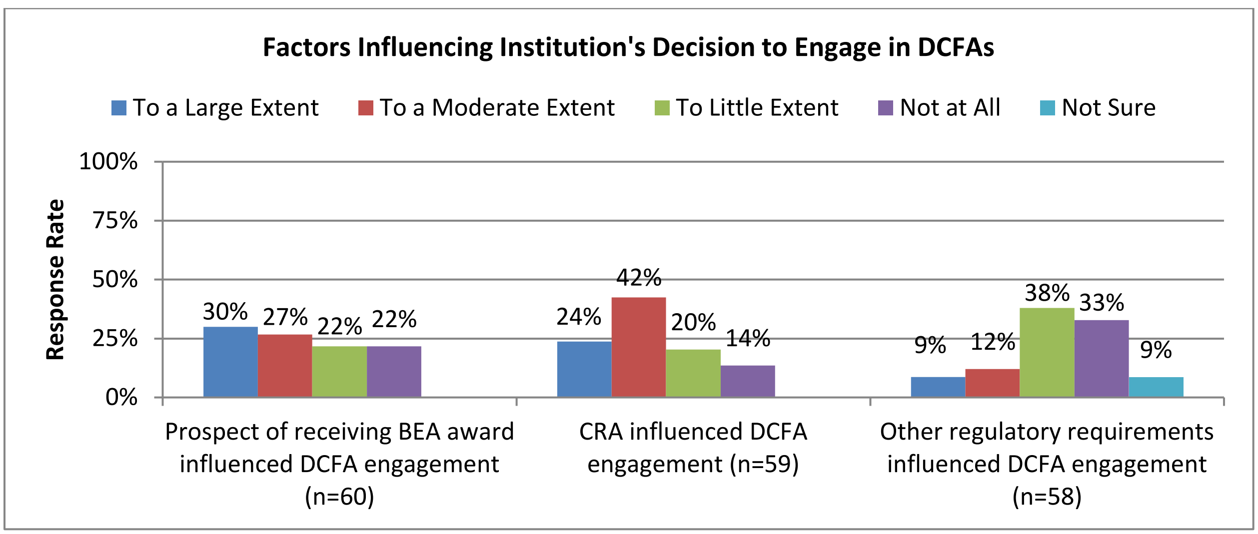


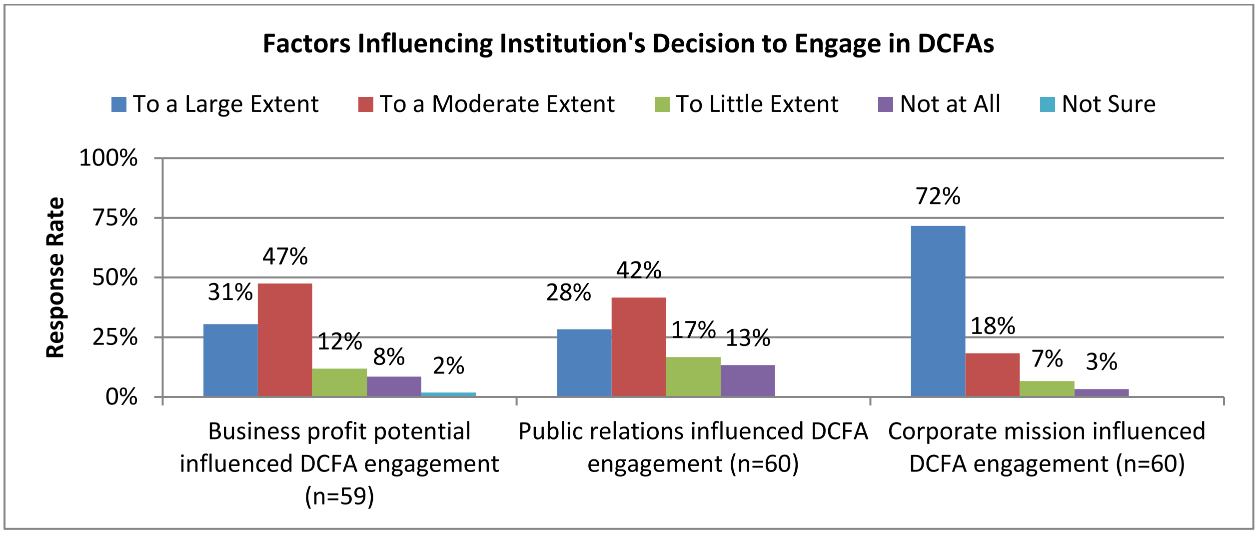
Figure 15. Engaged with DCFAs during Assessment Period

A related question asked survey recipients for their opinion on the extent to which several factors influenced their institution's decision to engage in DCFAs during their Assessment Period. 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
- Opportunity for business diversification
- Other factors

Overall, 11% to 90% of respondents indicated the above factors influenced their decision to a large or moderate extent. Again, the highest percentage (90%) indicated that *corporate mission influenced their decision* to invest in DCFAs to a large or moderate extent. When asked to specify which other factors influenced DCFA engagement, one recipient responded, "Increased Bank merger activity meant that we needed to increase our CRA investments." **Figure 16** shows the distribution of responses for each of the factors.





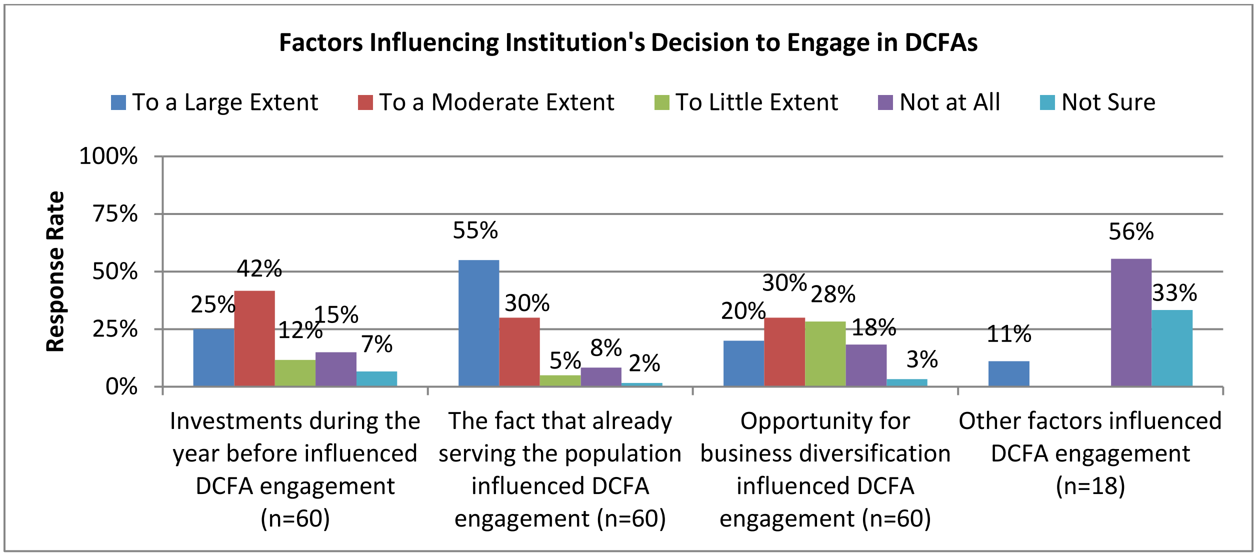


Figure 16. Factors Influencing Institution's Decision to Engage in DCFAs

The survey proceeded to ask participants which DCFAs their institution engaged in during the Assessment Period, and asked them to select all DCFAs that applied. The list included:

- Affordable housing loans (mortgages)
- Financing affordable housing development
- Home improvement loans
- Education loans
- Small business loans
- Financing for commercial real estate development

The majority (72%) of respondents indicated that their institutions *provided DCFA small business loans* or *provided DCFA financing for commercial real estate development*, respectively. **Figure 17** shows the distribution of responses for each of the activities.

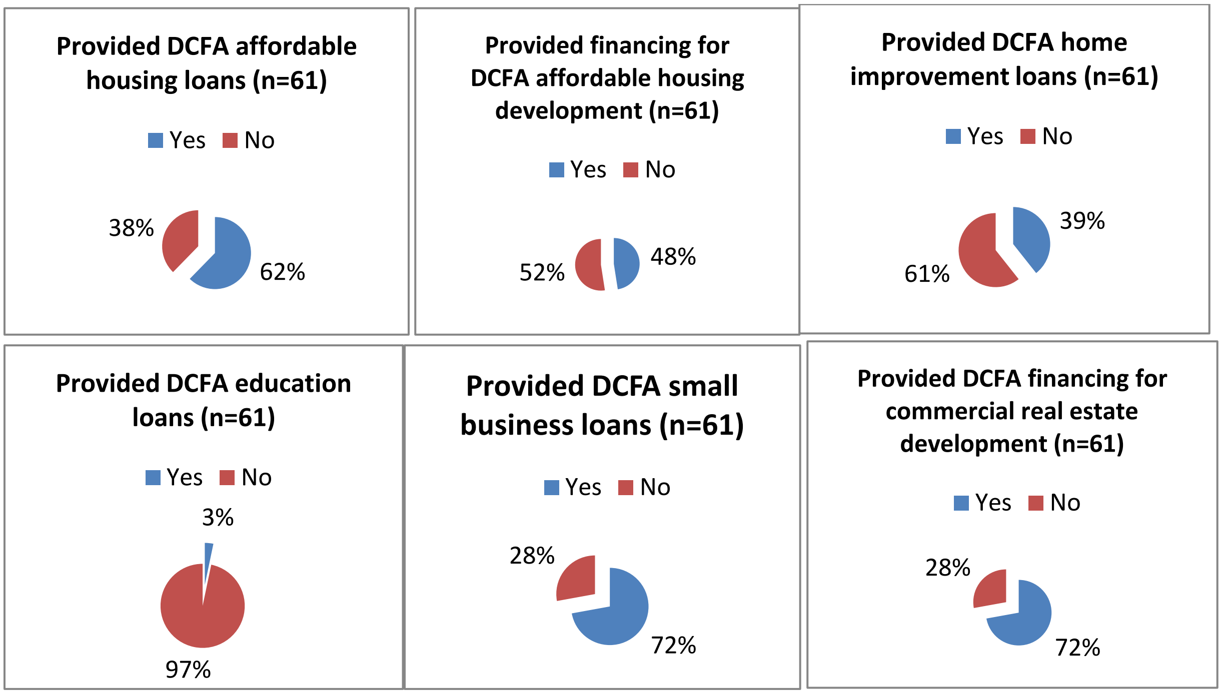


Figure 17. Provided Distressed Community Financing Activities (DCFAs)

When asked if their financial institution increased its investment in DCFAs between the Baseline and the Assessment Periods, regardless of whether the increase was reported on their institution's BEA Program award application. The majority (71%) of respondents indicated that they increased their investment in DCFAs (**Figure 18)**.

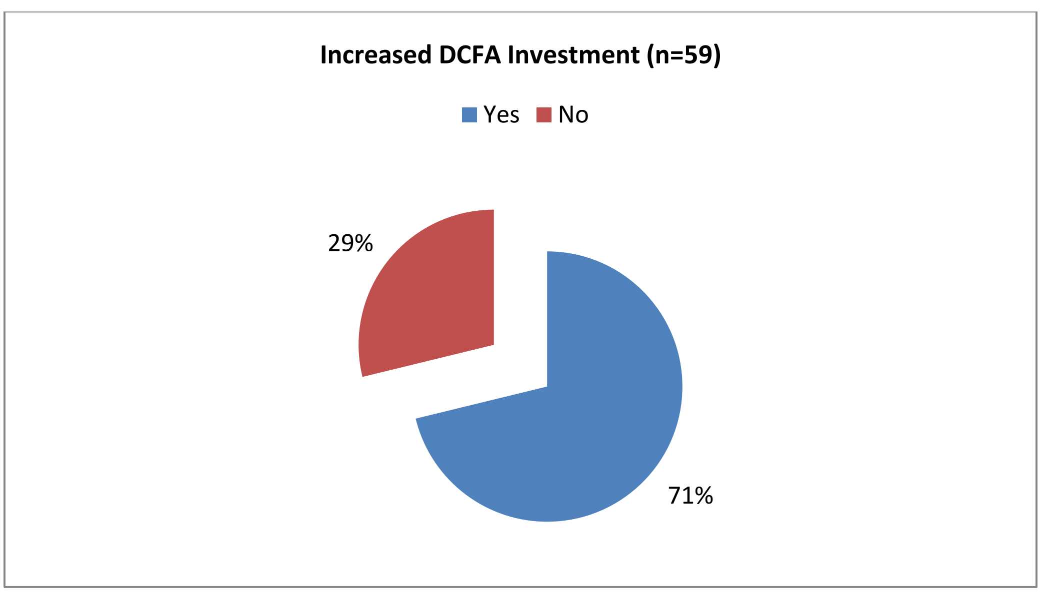


Figure 18. Increased DCFA Investments

When asked if their financial institution reported the increase in its investment in DCFAs between the Baseline Period and the Assessment Period, the majority (65%) reported an increase in its investment in DCFAs (**Figure 19**).

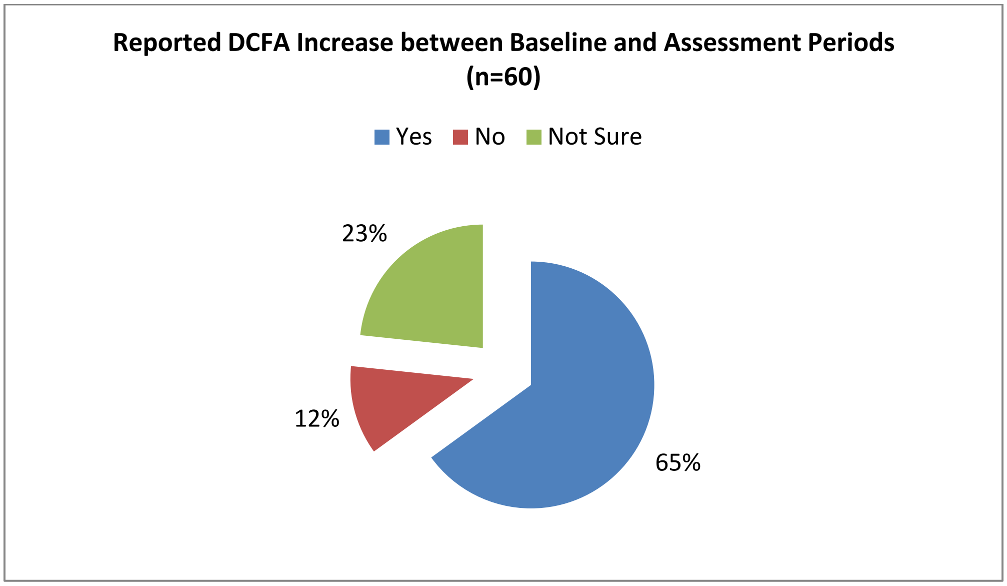


Figure 19. Reported DCFA Increase Between Baseline and Assessment Periods

Similar to the process for CDFI investments, respondents were asked if they increased investments in DCFA activities provided during the Assessment Period. Again, while the list could include all services below, available responses were limited to those that the respondent had previously selected:

- Affordable housing loans (mortgages)
- Financing affordable housing development
- Home Improvement loans
- Education loans
- Small business loans
- Financing for commercial real estate development

The highest percentage (52%) of respondents who reported an increase in investments were those who provided DCFA financing for commercial real estate development. **Figure 20** displays the results.

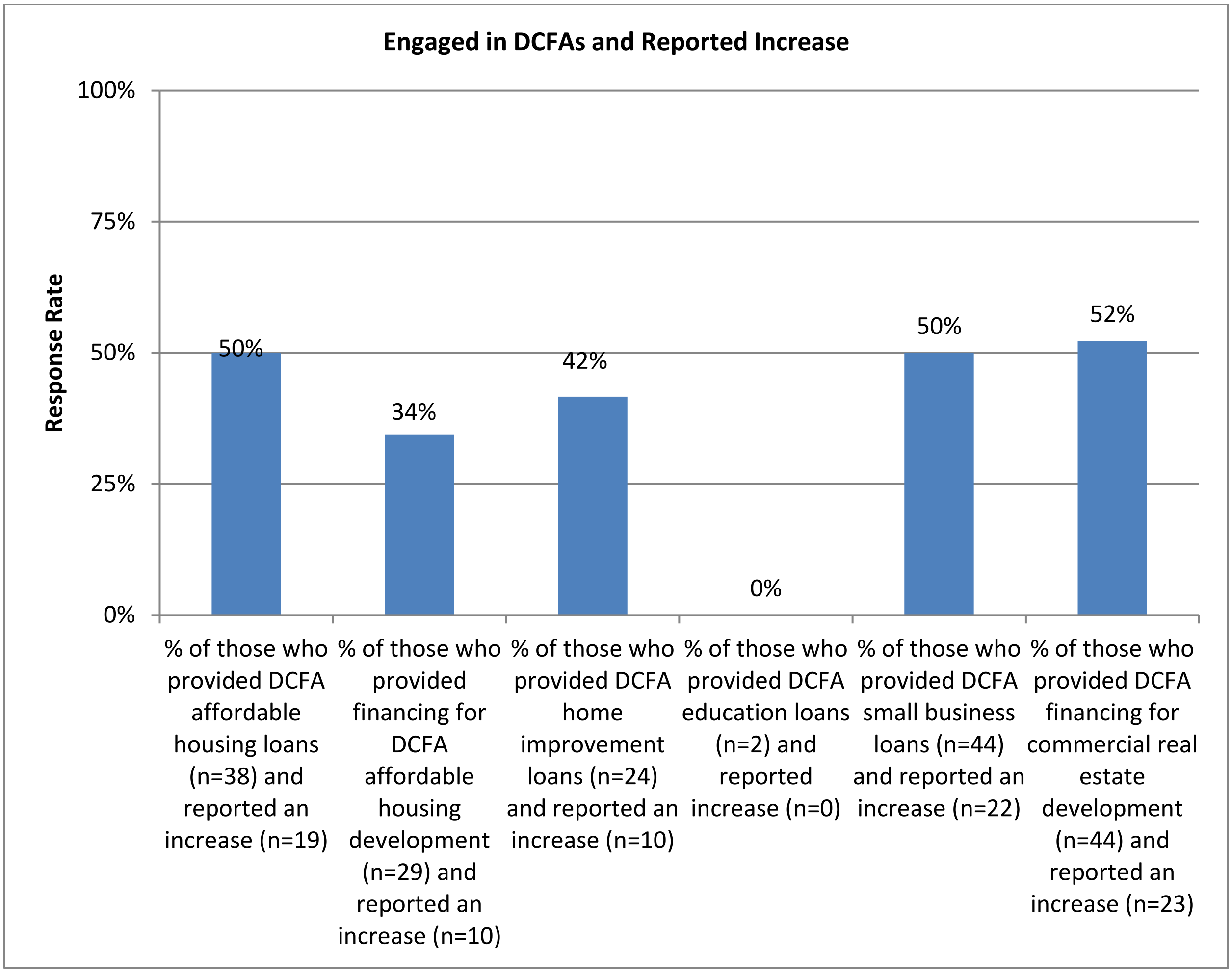


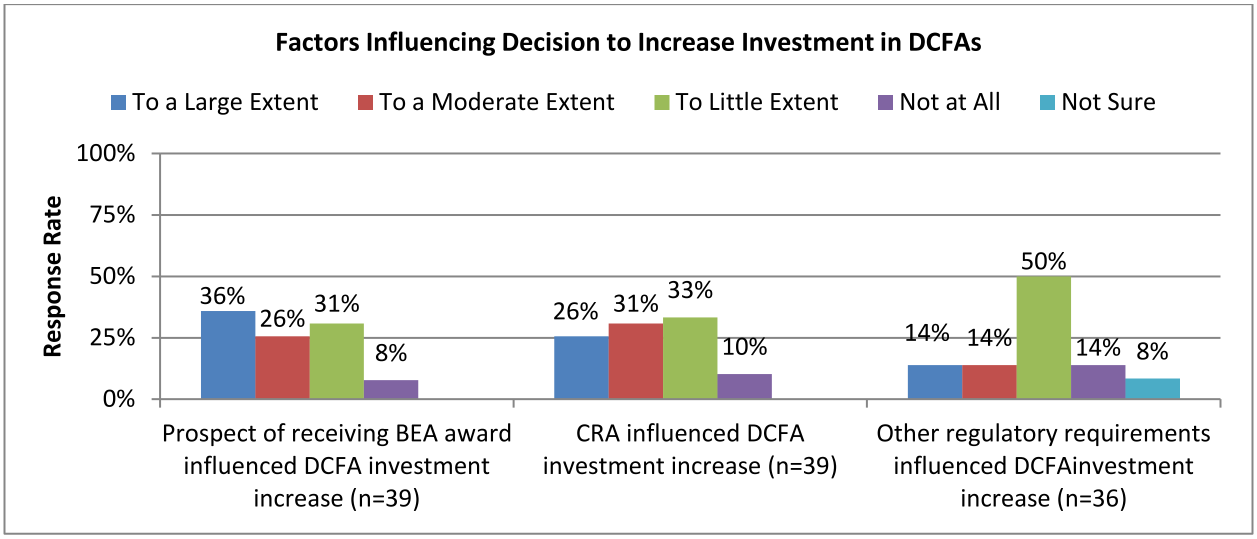
Figure 20. Engaged in DCFAs and Reported Increase

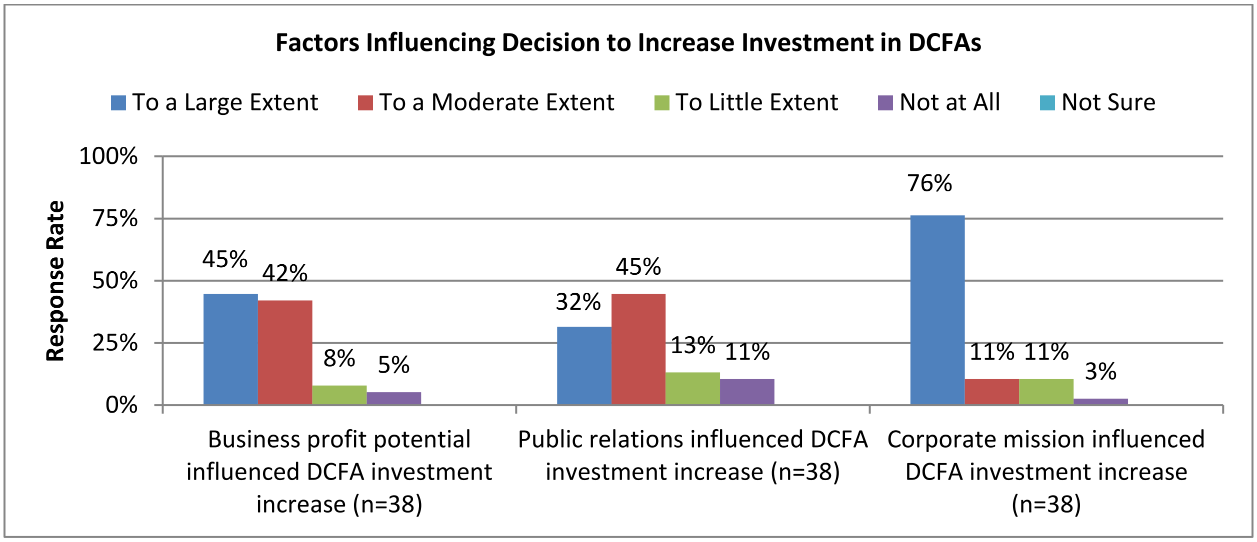
Another survey item asked participants for their opinion regarding the extent to which several factors influenced their institution's decision to increase investments in DCFAs between the Baseline Period and the Assessment Period. These factors included:

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

- Other factors

The highest percentage (89%) indicated that *the fact that they were already serving the population* influenced their DCFAs increased investment to a large or moderate extent, followed by 87% stating that *corporate mission* influenced their increased investment in DCFAs to a large or moderate extent. **Figure 21** shows the distribution of responses for each of the factors. As indicated in **Table 19**, further investigation revealed that CDFIs were significantly more likely than other institution types to state that investments during the previous year influenced their institution's decision to increase their DCFA investment.





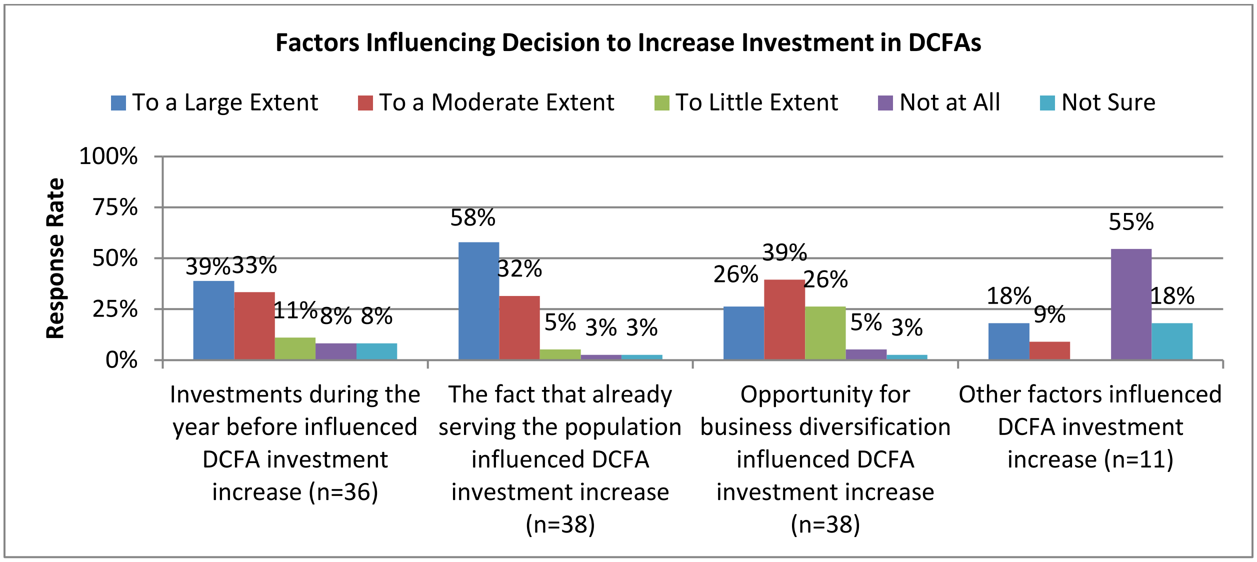


Figure 21. Factors Influencing Decision to Increase Investment in DCFAs

Table 18. Extent Prior Investments Influenced DCFA Increase by Institution Type

Extent Prior Investments Influenced DCFA Increase by Institution Type (n=42)					
Investments during the year before influenced DCFA investment increase	**Institution Type**				
	MDI-CDFI	**CDFI-non-MDI**	**MDI-non-CDFI**	**Other**	**Total**
Not at All	2 13.33	0 0.00	0 0.00	2 12.50	4 9.52
To Little Extent	3 20.00	1 12.50	0 0.00	2 12.50	6 14.29
To a Moderate Extent	6 40.00	1 12.50	0 0.00	6 37.50	13 30.95
To a Large Extent	4 26.27	5 62.50	1 33.33	6 37.50	16 38.10
Not Sure	0 0.00	1 12.50	2 66.67	0 0.00	3 7.14
Total	15 35.71	8 19.05	3 7.14	16 38.10	42 100.00

The following items asked survey recipients about the likelihood their institution would increase DCFA investment at all without BEA and the likelihood their institution would increase DCFA investments as much without BEA.

The highest percentage (87%) indicated *very likely* or *somewhat likely* that their institution would increase DCFA investments at all without BEA, whereas 76% indicated *Very Likely* or *somewhat likely* that their institution would increase DCFA investment as much without BEA. **Figure 22** shows the distribution of responses for each.

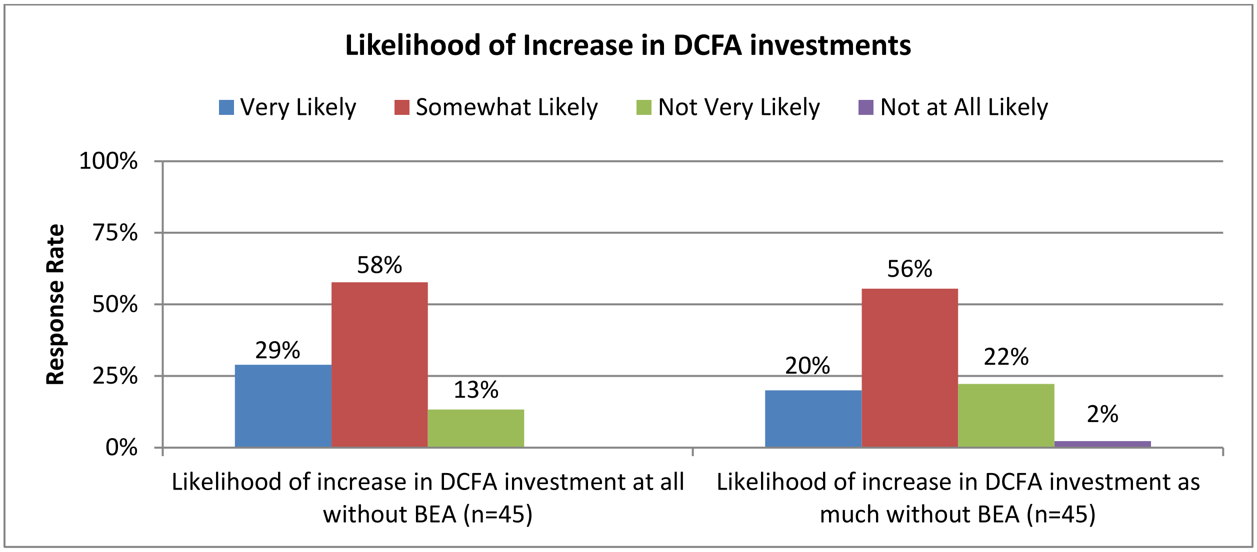


Figure 22. Likelihood of Increase in DCFA Investments

The next question asked survey recipients about the extent to which their institution regards the BEA Program award as a source of continuing support for its investment in DCFAs.

The majority (83%) of respondents indicated that their institution regards the BEA Program award as a source of continuing support for its engagement in DCFA Activities to a large or moderate extent. **Figure 23** displays the distribution.

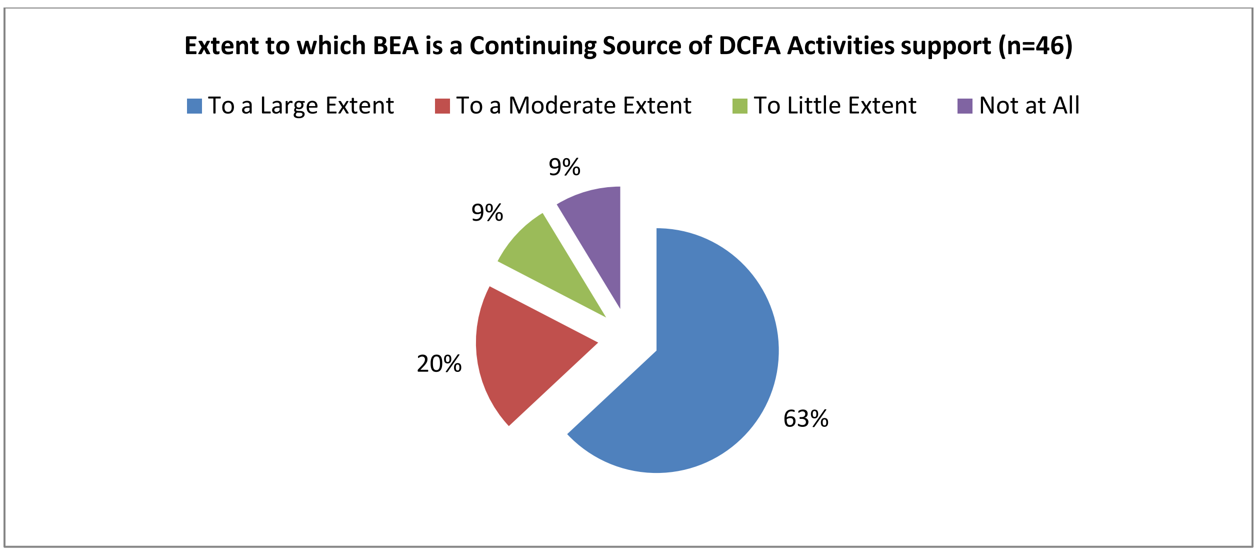


Figure 23. Extent to which BEA is a Continuing Source of DCFA Activities Support

BEA Program Qualified Activities: Service Activities

Service Activities includes financial products and services, such as checking and/or savings accounts, check cashing, financial counseling, and other financial products or services to the residents of BEA Program-defined distressed communities.

The online survey asked participants if their institution engaged in Service Activities during their Assessment Period for their BEA Program application, regardless of whether the activity was reported on their application. As shown in **Figure 24**, the majority (58%) of respondents engaged in Service Activities during their Assessment Period.

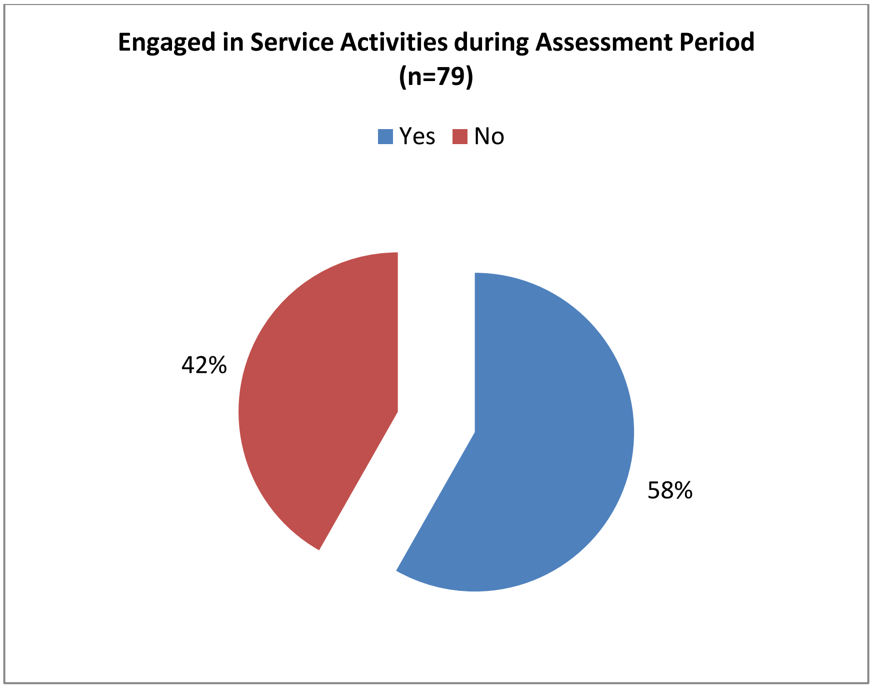
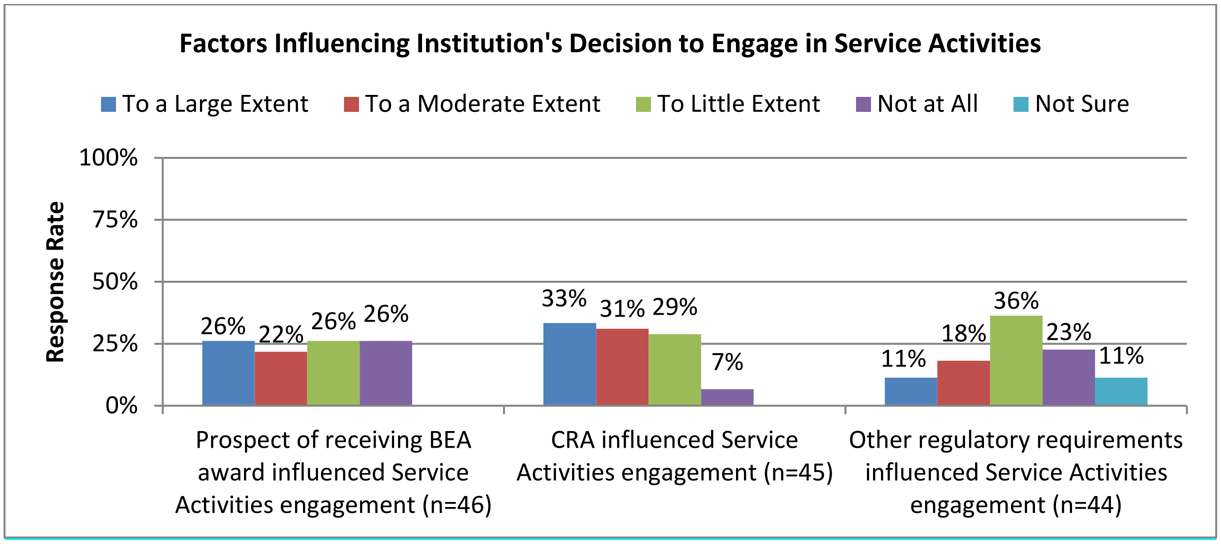


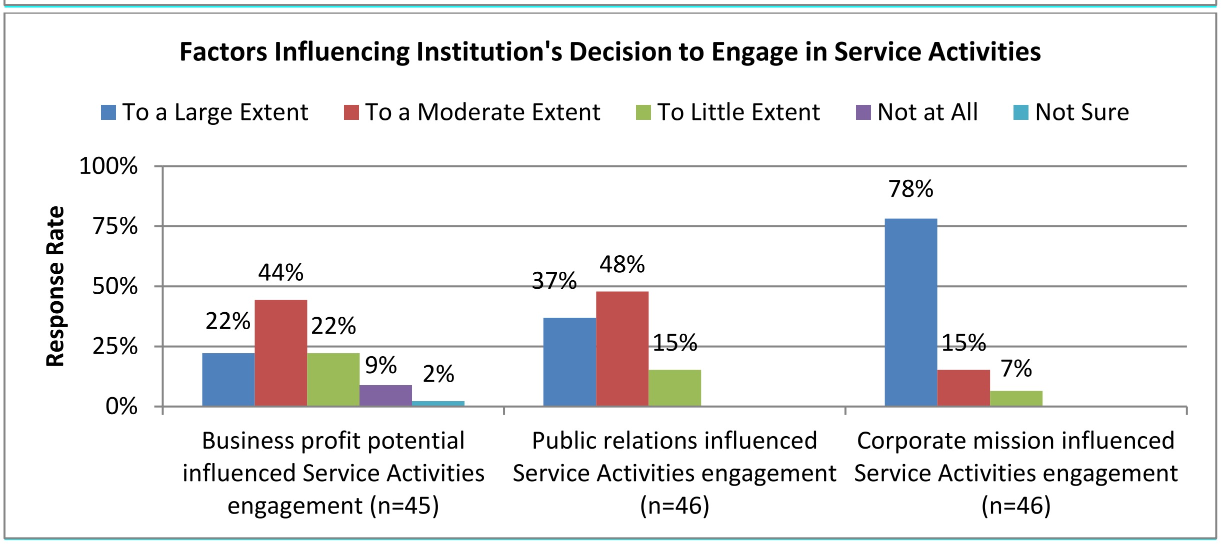
Figure 24. Engaged in Service Activities during Assessment Period

The second question asked survey recipients for their opinion on the extent that several factors influenced their institution's decision to engage in Service Activities during their Assessment Period. 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
- Opportunity for business diversification
- Other factors

The highest percentage (93%) indicated that *corporate mission* and *the fact that already serving the population* influenced their decision to a large extent or moderate extent. Of the 13 participants who responded that *other factors influenced their decisions*, the majority (85%) responded, *Not at All* or *Not Sure*. **Figure 25** shows the distribution of responses for each of the factors.





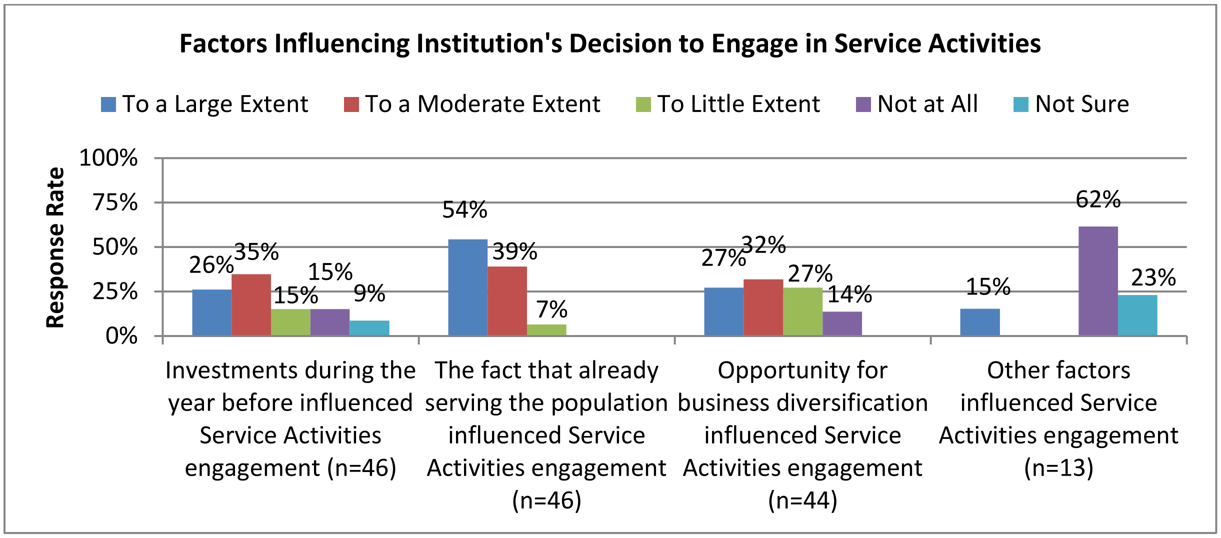
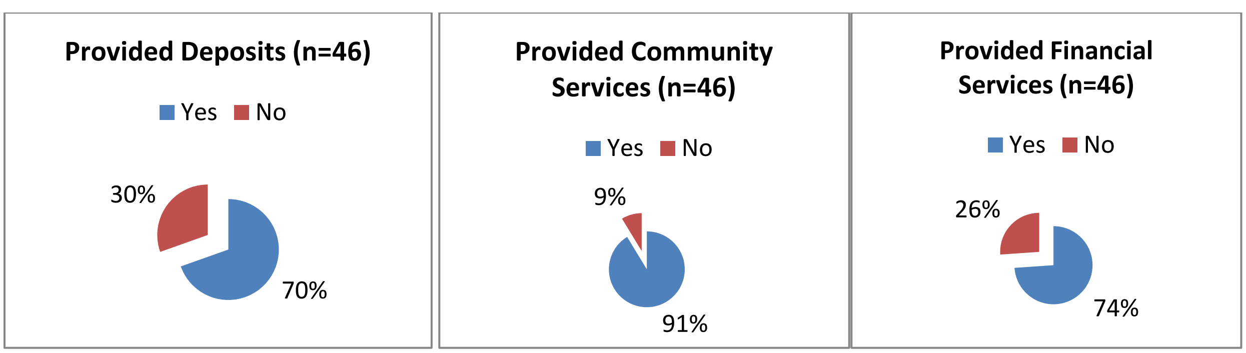


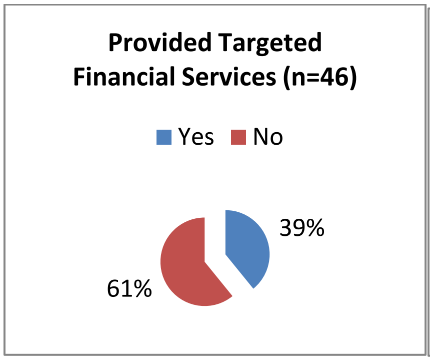
Figure 25. Factors Influencing Institution's Decision to Engage in Service Activities

The survey continued and asked participants which Service Activities their institution engaged in during the Assessment Period, and asked them to select all Service Activities that applied. The list included:

- Deposits
- Community Services
- Financial Services
- Targeted Financial Services
- Targeted Retail Savings/Investment Products

Overall, 28% to 91% of respondents engaged in the above services. The majority (91%) of respondents indicated their institutions *Provided Community Services*. **Figure 26** shows the distribution of responses for each of the activities.





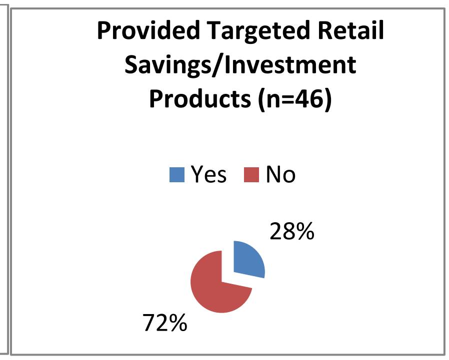


Figure 26. Provided Service Activities

The next survey item asked participants if their financial institution increased its investment in Service Activities between the Baseline Period and the Assessment Period, regardless of whether the increase was reported on their institution's BEA Program Award application. The majority (74%) of respondents increased their investment in Service Activities. **Figure 27** displays the percentages.

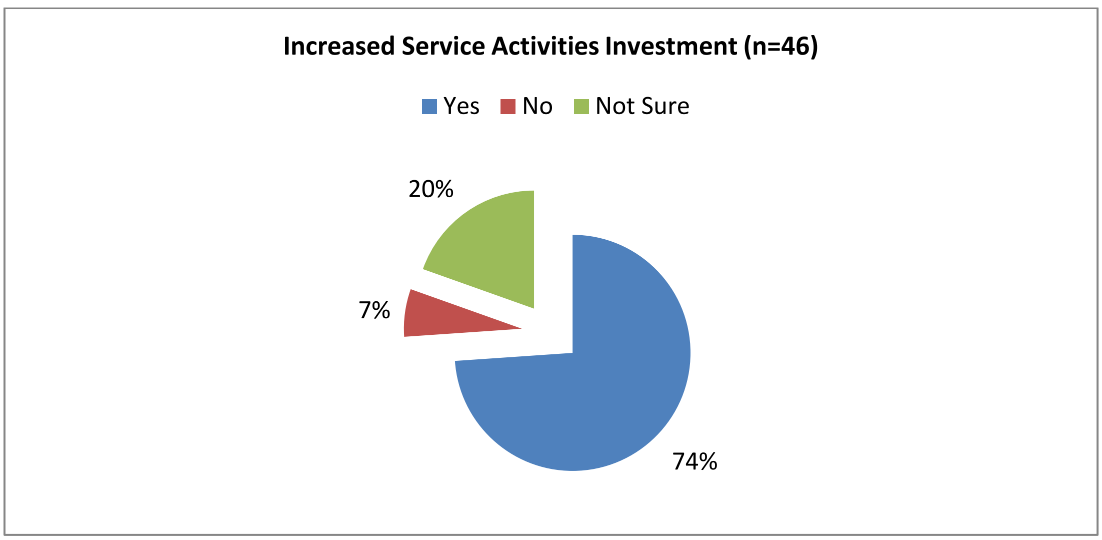


Figure 27. Increased Service Activities Investments

The following item asked survey recipients if their financial institution reported the increase in its investment in Service Activities between the Baseline Period and the Assessment Period. As shown in **Figure 28**, half (50%) of the respondents reported an increase in its investment in Service Activities, while the other half selected *No* or *Not Sure*.

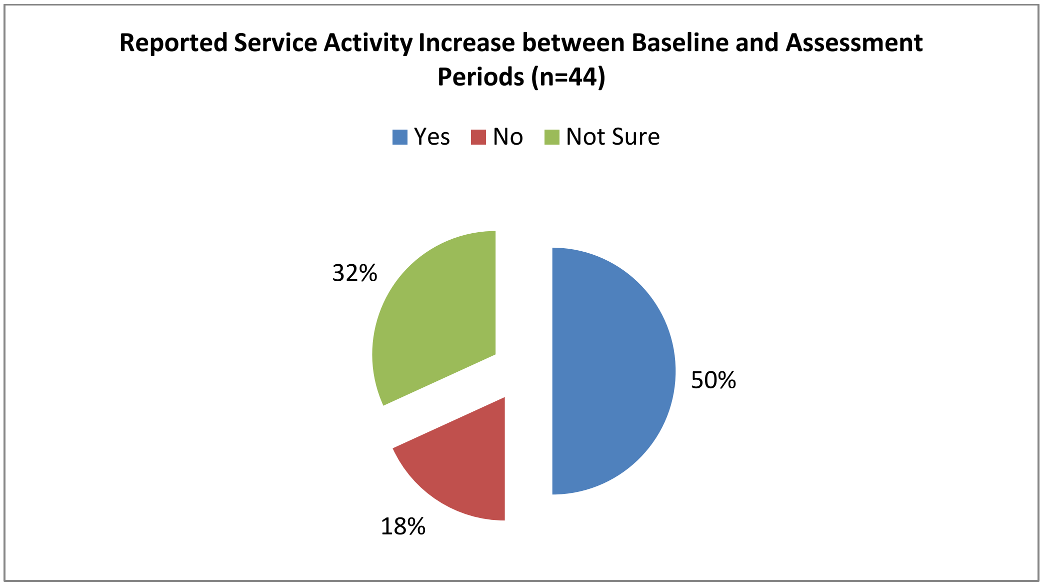


Figure 28. Reported Service Activity Increase between Baseline and Assessment Periods

The next item asked respondents if they increased investments in activities provided during the Assessment Period. The entire list could include all services in **Figure 28** and below, but was limited to those the respondent had previously selected:

- Deposits
- Community Services
- Financial Services
- Targeted Financial Services
- Targeted Retail Savings/Investment Products

The highest percentage (56%) of respondents who reported an increase in investments in service activities were those who provided Targeted Financial Services; however, 54% reported an increase in targeted retail savings/investment products. **Figure 29** displays the results.

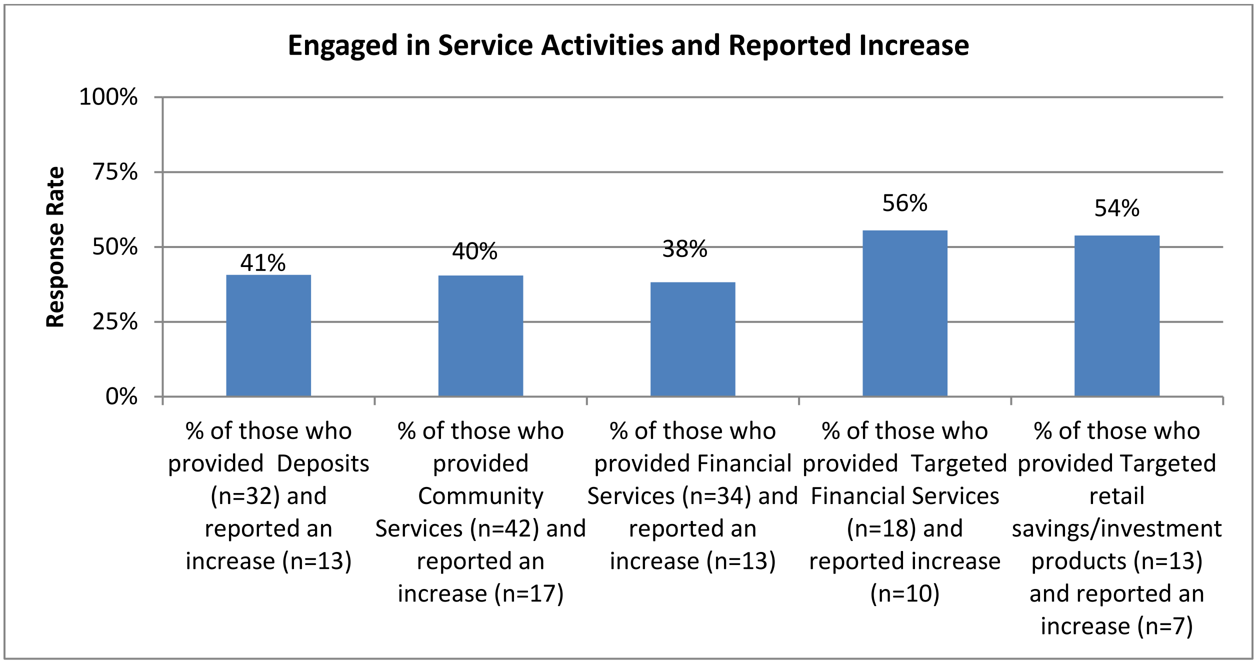


Figure 29. Engaged in Service Activities and Reported Increase

The survey continued and asked participants for their opinion on the extent that several factors influenced their institution's decision to increase investments in Service Activities between the Baseline Period and the Assessment Period. 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 already serving the population
- Opportunity for business diversification
- Other factors

The highest percentage (91%) indicated that *Public Relations, Corporate Mission,* and *The fact that they were already serving the population* influenced their increased investment in Service Activities to a large or moderate extent. **Figure 30** shows the distribution of responses for each of the factors. Consistent with the study hypotheses, small banks were significantly less likely than intermediate-small or large institutions to cite CRA requirements as an influence on their decision to increase investment in Service Activities **(Table 20)**.

Table 19. Extent CRA Influenced Service Activities Increase by CRA Asset Size

Extent CRA Influenced Service Activities Increase by CRA Asset Size (n=92)				
CRA influenced Service Activities investment increase	**Institution Type**			
	Small	**Intermediate-Small**	**Large**	**Total**
Not at All	2 16.67	0 0.00	0 0.00	2 7.14
To Little Extent	5 41.67	0 0.00	0 0.00	5 17.86
To a Moderate Extent	4 33.33	5 45.45	2 40.00	11 39.29
To a Large Extent	1 8.33	6 54.55	3 60.00	10 35.71
Total	12 42.86	11 39.29	5 17.86	28 100.00

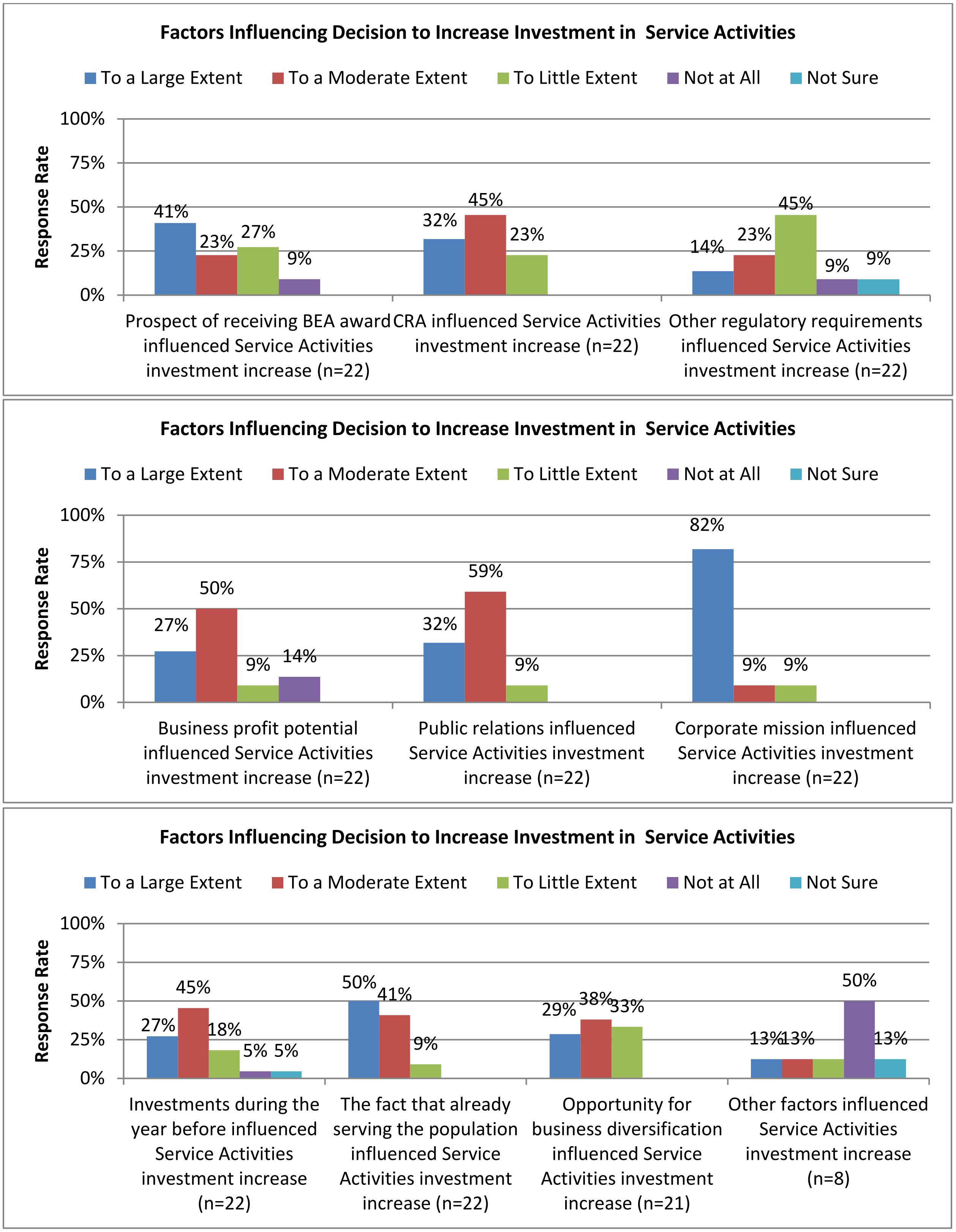


Figure 30. Factors Influencing Decision to Increase Investment in Service Activities

The following item asked survey recipients about the likelihood their institution would increase Service Activity investment at all without BEA and the likelihood their institution would increase Service Activity investments as much without BEA.

The highest percentage (83%) of respondents indicated *very likely* or *somewhat likely* that that their institution would increase Service Activity investments at all without BEA, whereas 71% indicated *very likely* or s*omewhat likely* that their institution would increase Service Activity investment as much without BEA. **Figure 31** shows the distribution of responses for each.

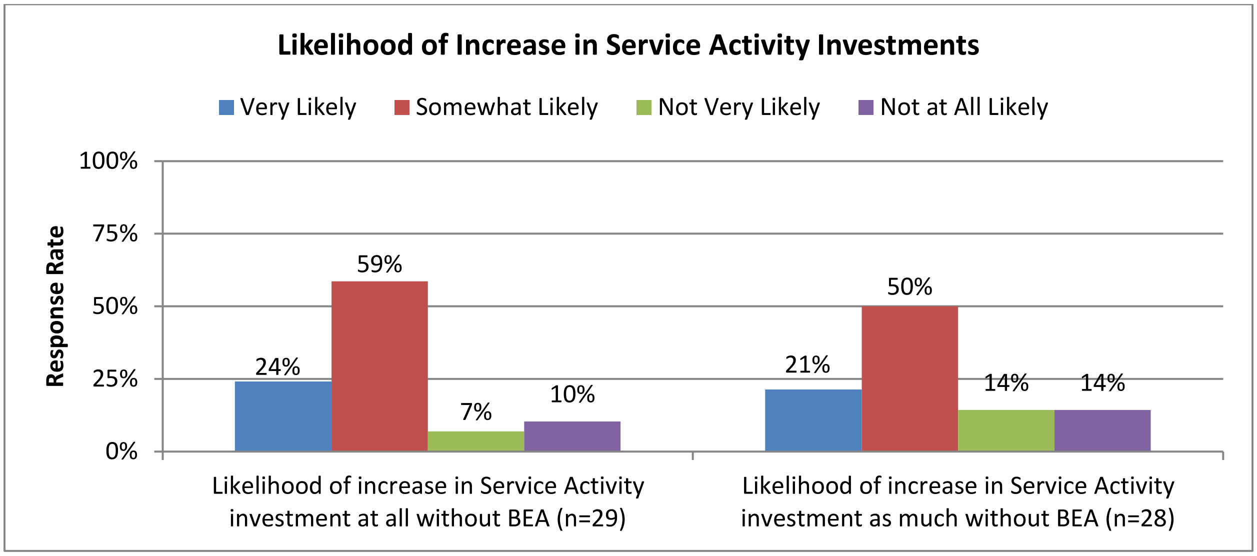


Figure 31. Likelihood of Increase in Service Activity Investments

The next question asked survey recipients about the extent to which their institution regards the BEA Program award as a source of continuing support for its investment in Service Activities.

As shown in **Figure 32**, the majority (67%) of respondents indicated that their institution regards the BEA Program award as a source of continuing support for its engagement in Service Activities to a large or moderate extent.

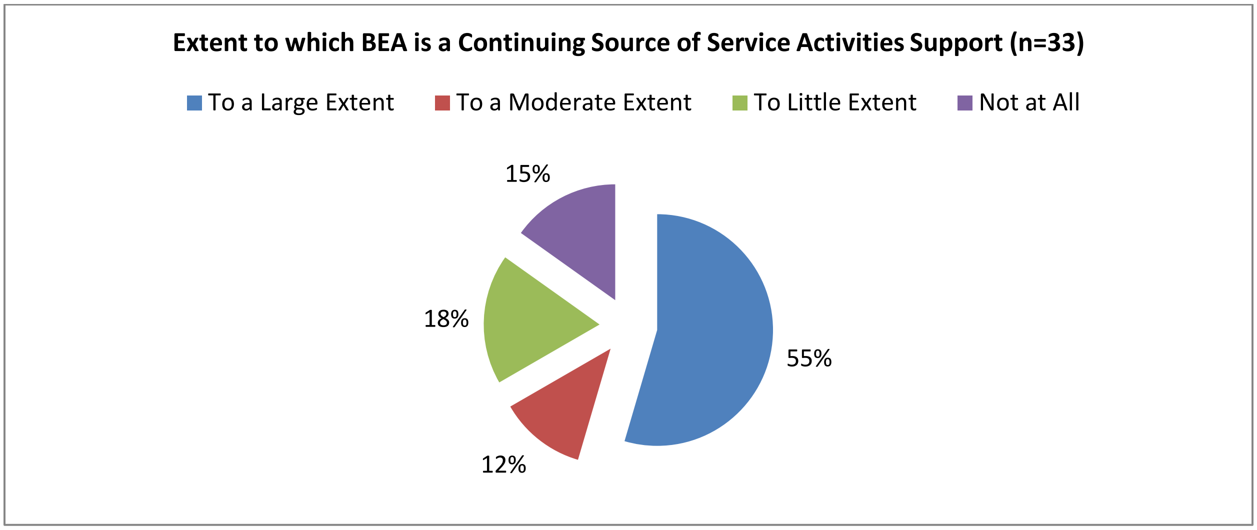


Figure 32. Extent to which BEA is Continuing Source of Service Activities Support

Quantitative Summary and Conclusions

ARDX employed a mixed-mode data collection approach to achieve the highest possible response rate. Of the 142 eligible survey recipients, 93 submitted the online survey, yielding an overall response rate of 65 percent. The online survey identified several key findings, supporting the study hypotheses. The survey asked respondents about their overall impression of the BEA Program. Of the 142 eligible financial institutions that received the online survey, 93 completed the survey, yielding an overall response rate of 65 percent. Several key findings emerged during data analysis. For example, the survey asked respondents about their perceptions of several potential attributes of the BEA Program (…whether the program increases service in certain markets, improves relationships with CDFIs, increases CDFI investments and development of new products or services, improves CRA performance, and increases engagement in BEA Qualified Activities).

When asked whether the BEA Program or CRA requires investment in more distressed communities, the highest percentage of respondents (45%) indicated that the BEA Program requires investment in more distressed communities, while only 17% indicated that the CRA requires investment in more distressed communities. The remaining respondents either selected about the same, or they were unsure. However, responses were more evenly distributed when asked about the impact of the BEA Program and CRA requirements on their lending or investment decisions in distressed communities. The largest percentage (35%) of respondents indicated that BEA Program and CRA are considered virtually the same in terms of the impact on their lending or investment decisions in distressed communities, with 32% and 28% selecting CRA and the BEA Program, respectively. Not surprisingly, significant relationships were identified by bank size and by institution type as highlighted below.

Meaningful findings were identified through further data analysis and significance testing. First, a clear majority of banks (73%) indicated that the BEA Program encourages development of new products or services and virtually all respondents (92%) indicated that the prospect of receiving a BEA Program award influenced their level of engagement with CDFIs at some level. Additionally, MDIs and CDFIs were significantly more likely than “Other” institutions to indicate that the BEA Program requires investment in more distressed communities. CDFIs were significantly more likely than other institution types to state that investments during the previous year influenced their institution’s decision to increase their

Distressed Community Financing Activities (DCFA) investment. The analysis also showed that small local banks were significantly more likely than large banks to take the BEA Program into account when making distressed community investment decisions, while larger banks were significantly more likely to take the standard Federal Government regulations into account when making and increasing investments.

The findings from the online survey particularly support the following study hypotheses.

Hypothesis 1
The assistance provided by non-CDFI bank Applicants to CDFIs is primarily driven by regulatory incentives and/or the ability to invest in financial intermediaries versus direct loans and investments to residents and businesses located in low-income communities. Larger institutions benefit by leveraging the physical locations and branch networks of CDFIs, community banks, and smaller institutions; and partner with these institutions to gain access to these communities, meet regulatory requirements, and offset some of the costs associated with serving distressed communities. This relationship also allows larger institutions access to communities that they are not as familiar with and without having to expand their service/lending areas or increasing staff and overhead in order to do so.

Hypothesis 2
Many small and perhaps some intermediate-sized institutions (including CDFI banks) have branch locations in or within close proximity to BEA distressed communities. Institutions with a physical presence in BEA-eligible distressed communities provide the same types of products and services included in their BEA applications to the businesses and residents of those distressed communities as a part of their normal business strategy and operations. The activities tend to be Distressed Community Financing Activities (loans to or direct investments in businesses or residents of distressed communities). For these institutions, receiving a BEA Program award is an important source of capital as well as a form of cost reimbursement. The requirement to deploy an amount equivalent to the BEA Program award is not onerous since the bank performs these activities in distressed communities during their normal course of business.

Hypothesis 3
Larger institutions are less likely to provide financial products and/or services directly to businesses or residents of distressed communities especially when compared to the degree of investment in distressed communities by smaller institutions and/or CDFI banks relative to their overall portfolio. Consequently, larger institutions may perceive a BEA Program award as a form of cost reimbursement for undertaking activities that would typically be considered more risky or less profitable otherwise. The BEA Program award may assist in delivering a slightly better return than alternative investments along with achieving the desired regulatory results.

Hypothesis 5
The degree of difficulty of the activities that form the basis of an Applicant's BEA application may be comparable to the Applicant's other non-BEA activities depending on whether it located in or near a distressed community. For some institutions not located in or near a distressed community, the activities may have involved additional due diligence. For those institutions that are located in or in close proximity to a distressed community, the activities that formed the basis for the BEA application

are likely to be routine and a snapshot of their overall Community Reinvestment Act (CRA)-eligible portfolio.

Hypothesis 6

The investment activity of large CRA asset-sized institutions as it relates to the BEA Program is primarily driven by Regulatory Incentives. The investment activity of smaller CRA asset-sized institutions including CDFIs, Minority Deposit Institutions (MDIs), community banks, etc. is predominantly driven by a combination of economic incentives and mission.

General Feedback

The final section of the *BEA Survey of Opinions of the Community Development Financial Institutions Fund Bank Enterprise Award Program Applicants* included four open-ended response items. The first two questions asked for respondent feedback regarding the greatest impact of the BEA Program on their institutions (Question 1) and on residents and businesses in distressed communities (Question 2). Question three requested comments on the impact of not receiving a future BEA Program award, and Question four requested suggestions for improvements to the BEA Program. The responses were coded into thematic categories. In addition to interpretation of the comments based on the thematic categories, the responses were also compared to the comments made during the triangulation interviews. The following explains how the comments were analyzed, including the thematic codes, and presents the thematic analysis.

Qualitative Analysis

There were 213 unique responses to the open-ended questions in the survey. Thematic codes were developed for the responses based on 1) the respondents' comments and 2) the codes developed for the triangulation interviews, to allow for comparison between the triangulation interview and online survey comments. As anticipated, the primary themes found in the comments were, in large part, consistent with the ones developed based on the responses for the triangulation interviews. Where needed, sub-categories also were developed to represent the diversity of responses in each category. The codes used to analyze the online survey data were:

- Positive Comments
- Activity—Comments on different types of activities for which the bank utilizes BEA funds, such as affordable housing, financial education, and others. The sub-codes for this category were:
  - Activity: Affordable Housing—This code indicates the bank sees the BEA Program award as a method for financing affordable housing.
  - Activity: Mortgage Loans—The BEA Program awards are used to provide home mortgages.
  - Activity: Education-Financial—The BEA Program allows the bank to provide financial education.
  - Activity: Consumer lending—The BEA Program award supports consumer lending.
  - Activity: Technical assistance—The BEA Program award finances technical assistance.
  - Activity: Development—The BEA Program supports community development.
- Motive, which were comments indicating the reasoning behind responses to the survey questions were based on the following sub-codes:

 - Motive: Mission—Comments indicating the banks response (e.g., its investment decisions) was based on its mission.
 - Motive: Publicity—Comments indicating an investment decision was promoted to gain publicity from the institution's participation in the BEA.
 - Motive: Profit—The BEA award was seen as contributing to the bank's profits.
 - Motive: Regulatory—Comments indicating regulatory requirements, including the ability to get credit for the Community Reinvestment Act, was the main reason the bank made investment decisions regarding BEA.
- Serve underserved communities: These were general comments about how the bank serves its communities.
- Partnership with CDFIs: The institutions mentioned investing in CDFIs.
- Mitigated exposure to riskier loans: Institutions emphasized the BEA Program awards mitigating financial risk for the bank when making loans in BEA Distressed Communities.
- Small Businesses: Institutions commented on programs and loans the bank made to small businesses.
- Allows Leveraging: These were comments about how the BEA Program awards allow the institutions to leverage additional for BEA Distressed Communities. In addition, several mentioned leveraging support from bank executives for investments and programs in BEA Distressed Communities.
- Difficulty of Process: General comments on how difficult and confusing applying for a BEA Program award appears to institutions. Two sub-codes created include:
  - Difficulty of Process: Challenging and Cumbersome—The process for applying for a BEA Program award requires access to multiple websites, and is time consuming.
  - Difficulty of Process: Make Determination of Qualified Tracts Easier on Website—Requests to make identification of activities in eligible Census tracts easier.
- Requirements: These comments were centered on BEA Program application requirements.
- Disincentives: This code was assigned to comments that mentioned the process of applying for the BEA Program can be a disincentive in and of itself.
- Timing of Payment: There were a few comments regarding the length of time from announcement of BEA Program awards and receiving the award.
- Other: Comments that were not able to be coded into the other categories

Table 21 displays each open-ended survey item and the number of unique open-ended comments provided for the question.

Table 20. Frequency of Unique Responses by Survey Question

Survey Question	Frequency of Unique Responses
1) AWARDEES ONLY: In your opinion, what is the greatest impact of the BEA Program on your institution? Where does the program make the biggest difference to your institution?	42
2) AWARDEES ONLY: In your opinion, what is the greatest impact of the BEA Program on businesses and residents in Distressed Communities?	40
1) UNSUCCESSFUL APPLICANTS ONLY: In your opinion, what would be the greatest impact of the BEA Program on your institution? Where would the program make the biggest difference to your institution?	13
2) UNSUCCESSFUL APPLICANTS ONLY: In your opinion, what would be the greatest impact of the BEA Program on businesses and residents in Distressed Communities?	13
3) In your opinion, how would not receiving a future BEA Program award impact your institution's ability to continue to lend to or invest in CDFIs and/or in Distressed Communities?	55
4) What would you recommend to improve the BEA Program?	50
Total	**213**

Because some of the responses fell into more than one thematic category, there were 258 coded responses. **Figure 33** displays the frequency of coded responses in each thematic category.

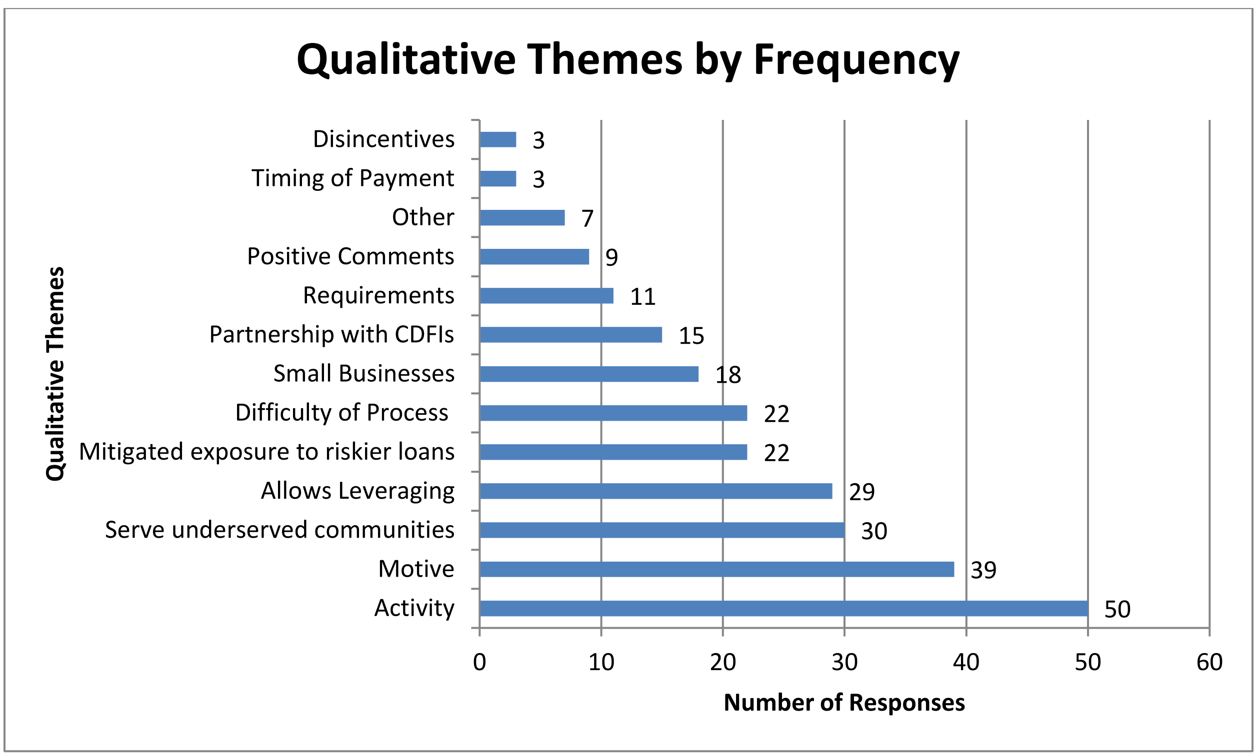


Figure 33. Qualitative Themes by Frequency

Thematic Analysis
Most of the themes found in the data from the online survey were also themes found for the responses to the triangulation interviews. Although the question items were not the same for the two data collection activities, many of the comments from institutions were. The following provides the thematic analysis of the online survey comments, as well as information on commentary from the triangulation interviews where applicable. A full analysis of the triangulation interview responses is included in Section 4.1.

Positive Comments
Although respondents were not asked specifically for comments regarding what they liked about the BEA Program, when responding to the question asking for suggestions for improvements to the BEA Program, respondents also provided positive feedback regarding the BEA Program. Respondents felt the program works well, because it recognizes investments banks make in distressed communities. The BEA also encourages banks to continue to provide those services, and develop new products and services. One respondent noted that the BEA Program has high standards and is a fair program. This bank representative also commented that the program encourages the banks' management to support services for distressed communities.

All of the positive comments came from intermediate-small and large banks. One intermediate-small bank representative commented that *the BEA Program has been a great resource for the bank*, allowing them to provide products and services to its customers. Large banks stated that the BEA is *an extra bonus* for the work they do. Another commented the program helps make management aware of lending activities that are needed in low-income communities.

Activity
Both awardees and non-awardees stated that the BEA allows for the development of services in areas generally not served by banks, such as lending and service activities. Awardees also commented that BEA Program awards help provide businesses and residents in distressed communities access to *lower cost financial services and thus more disposable income to use in personal consumption.* Other respondents noted that the biggest impact of BEA was the bank's ability to provide targeted financial services, financial education, increased community development and opportunities. BEA has provided access to affordable housing and low interest mortgages as well. Awardees also stated the BEA supports their mission to serve distressed communities and develop *neighborhood stabilization initiatives*. Much like awardees, non-awardees also mentioned BEA could impact the availability of affordable housing and mortgage loans, consumer lending, financial education, lower cost loans and other financial services.

Triangulation interview respondents also were asked about the impact of the BEA Program award for their institutions and their communities. These respondents indicated the BEA Program award enhanced their ability to make loans and provide additional services in distressed communities. The impact on their communities also aligned with the findings from the online survey, in that triangulation interview respondents mentioned providing affordable housing and mortgage loans, all at low rates for higher risk borrowers.

Not receiving a future BEA Program award would impact banks in several ways. Online survey respondents stated that their banks would not be able to provide as much, or at least not be able to increase, funding for affordable housing, business and personal loans that are riskier for the bank to provide, and financial education in distressed communities. Some programs also might be dropped altogether.

Additional comments on specific activities that banks provide (or would provide) based on the BEA Program award are presented next.

Affordable Housing/Mortgage Loans
One intermediate-small bank commented that its BEA funds have contributed to more affordable housing and more affordable loans for first time homebuyers. Not receiving a BEA Program award would impact the bank's strategic plan to increase support for creation of affordable housing in distressed communities.

Consumer Lending
Small and intermediate-small awardee and non-awardee banks indicated that BEA allows them to continue to provide more loans to residents and businesses in distressed communities, especially *in unbanked or minimally banked areas.* Two (2) small banks commented they would not be able to continue to provide as many loans in distressed areas, if they did not receive a future BEA Program award. Non-awardee banks agreed a BEA Program award would allow them to provide loans to consumers who might not otherwise qualify for the loans.

Education-Financial
One small awardee bank indicated that their BEA funds are used to create programs, which provide residents and businesses in distressed communities with financial education on *the role of banks in the community*. An intermediate-small non-awardee stated the BEA would allow programs that insure more time with borrowers to increase the likelihood of success for their businesses. Another intermediate-small bank commented that if it were to not receive a BEA Program award, it would not be able to *fund certain community service related activities, like financial literacy on a consistent basis.*

Technical Assistance
Awardee banks cited the BEA as allowing them to provide technical assistance in distressed communities as well. One CDFI stated the BEA Program *allows us to continue to offer special programs that we would not be able to continue due to the lack of profitability associated with such type programs.* Non-awardee banks also said that they would be able to provide more services *to distressed and underbanked areas.*

Respondents from awardee banks stated the BEA also allows them to provide *a wider array of appropriate and affordable products* to these areas, which respondents in these areas need. According the comments received from small and intermediate small awardee banks, these banks feel they are better able to create and promote programs targeted to BEA distressed communities. The awardee banks also commented they are able to provide targeted services, such as financial education (as noted above), for residents and businesses in these areas. Intermediate-small awardee and non-awardee bank comments especially focused on expanding their markets to serve more residents in distressed areas, and on the additional capital the BEA Program award brings to these communities.
One bank commented that, without a future BEA Program award, they would not be able to focus on creating products for distressed communities. Another bank agreed, saying:

> *The funds allow for us to create specific programs tailored for certain needs within our distressed communities such as credit building programs or small entrepreneurial business programs that we would otherwise not have funds available to create such programs without BEA.*

Five (5) small non-awardee banks stated that they would be able to provide more services in distressed communities if they were to receive a BEA Program award, including financial services and products, and targeted lending programs.

Development

Several of the BEA small and intermediate-small awardee banks stated that investing BEA funds in distressed communities contributes to *economic growth, and opportunities in areas* [where it is] *needed most.* A small bank indicated the BEA *provides access to capital and financing activities that might otherwise not be available to these communities*. Another intermediate-small bank indicated that due to the positive community development as a result of the BEA, the bank has further increased investments in these areas.

A lack of a BEA Program award would also affect community development. Banks commented they would not be able to increase investments, serve as many customers, or create relationships with businesses in distressed communities.

Motive

The triangulation interview respondents were specifically asked how the BEA supports their missions and to select the relative importance of mission, economic factors and regulatory requirements in determining the institution's investment decisions in low to moderate income communities. Online survey respondents were not asked these questions, but frequently mentioned their motivation for applying for BEA and servicing their communities, including their mission, potential profits and publicity, and regulatory requirements. Details regarding these comments are provided next.

Mission

More than half of the triangulation interview respondents noted their bank's primary motivation for investment decisions was its mission. Online survey respondents agreed. Respondents from awardee institutions, regardless of size, cited the BEA as furthering their corporate mission to serve distressed communities. They stated they were created to service those communities, and the BEA is only part of them fulfilling that mission. In addition, several banks noted that because their banks' missions are to invest in distressed communities, not receiving a BEA Program award would not impact these activities. One bank explained that the BEA provides additional funding for these activities, but not the motivation behind providing them.

A few of the small and intermediate small banks did comment there might be a small impact of not receiving a future BEA Program award, especially in activities in very economically distressed areas, because the BEA also helps protect the financial health of the bank. One small bank indicated, after not receiving an award one year, they *reduced staff but continued to lend and provide services.* .However, in general, that opinion was not expressed by the other respondents who cited their banks' missions.

Interestingly, one bank stated that community banks should be given priority in being approved for BEA Program awards, while another respondent asked only that *mission driven banks* be given priority in receiving BEA Program awards. Both banks cited their missions to serve distressed communities as the reason they believe these priorities should become part of the BEA Program.

Profit
No matter the bank size, the BEA provides funding for banks to provide banking in areas that are otherwise not served by larger banks. These additional bank branches bring banking opportunities to distressed communities, including the option to obtain loans at lower interest rates from those banks (versus borrowing from pay day and car loan lending entities), and, as one awardee intermediate-small bank noted, *residents in the distressed communities earn the trust of the local community banks*. Another intermediate-small non-awardee bank noted the BEA helps them *to redistribute the awards we receive back into the low-moderate income community*.

Both triangulation interview and online survey respondents also commented that possible losses from high-risk loans they made in distressed communities were offset by the BEA Program award. Banks are able to provide loans for affordable housing, small businesses and other community needs, leading to new customers and profits for the banks. One small non-awardee bank concurred; the respondent noted they would *be able to expand* [the bank's] *marketing territory*, and bring new customers into the bank, if they received a BEA Program award. In addition, one small awardee bank stated the BEA provides *extra interest for the CDFI deposit*.

Publicity
One online survey bank did note that, even without a BEA Program award, they would continue investments in distressed areas due to the positive public relations that accompany those investments.

Regulatory
A few of the online survey respondents from intermediate-small awardee banks, and one (1) small awardee bank, stated that the BEA funds help them meet CRA requirements, while reducing risk for investments in distressed communities. Even if there were no BEA Program awards in the future, one bank also stated the bank would continue to make loans to customers in distressed areas in order to meet CRA requirements. Triangulation interview respondents agreed that BEA investments help banks meet CRA requirements.

Serve Underserved Communities
Several of the banks, whether awardees or non-awardees, from the online survey noted that the BEA allows them to serve distressed communities they might not otherwise be able to serve, especially unbanked and underbanked areas. These types of comments were especially true for small and intermediate-small banks, although a few large banks concurred. The BEA allows banks to continue to make investments in their communities and is *a compelling reason to remain committed to the communities [they] serve.* One intermediate-small awardee noted *though we have always been CRA focused and contributed to neighborhood stabilization initiatives; the BEA provided extra support.*

Triangulation interview respondents also mentioned serving those who otherwise would not have a local bank available to them. For some banks, activities in their local markets generally meet the criteria for BEA as well. Online survey respondents and triangulation interview respondents indicated they provide support for non-profit organizations, as well as other community organizations and businesses in distressed communities. According to the online survey respondents, the BEA Program award encourages banks to continue to provide services in distressed communities, such as *financial counseling, credit and financial services*, and loans *with less stringent credit standards*. The BEA would allow non-awardees to provide the same types of services. Therefore, according to the online survey respondents, not receiving a future BEA Program award would limit, and for some programs eliminate, bank involvement in distressed communities. One large bank that did not receive an award one year stated they funded fewer grants that year; another said not receiving an award affected their ability to serve their community.

Allows Leveraging

Online survey respondents mentioned that BEA funds not only allow banks to make more loans and provide more services in distressed areas, but also are an incentive for banks to continue to provide those services to new and existing markets. One small bank noted the BEA allows them to serve *the absolute worst parts of the communities*. Banks leverage BEA funds by obtaining support from bank leadership as well as additional funding for the services they provide to distressed communities, including loans. Another small non-awardee bank noted they can *leverage the amount of the award ten to one.*

The triangulation interview respondents also mentioned leveraging the BEA Program award to increase the number of loans they could fund, for example, when investing the BEA Program award in a CDFI, the CDFI then uses the funds to create loans for small businesses in distressed communities. Both online respondents and triangulation interview respondents also mentioned the BEA allows them to leverage their awards towards CRA credit.

Two (2) online survey respondents, one an intermediate-small bank and the other a large bank, noted that, as the amount of the individual BEA Program awards decreases, the ability for them to leverage those funds, especially by gaining support from the bank's executive team, decreases as well. However, according to an intermediate-small bank, because the amounts of the BEA Program awards are decreasing, the effect of not receiving a BEA Program award also lessens. Banks did mention that some services would no longer be provided were it not for their BEA Program awards, including investments in CDFIs by large banks. Another respondent from a CDFI stated that there are more and more CDFIs, which might be why individual awards are declining. That respondent suggested limiting BEA Program awardees to CDFIs to reduce the number of eligible recipients thereby increasing the amount of individual awards.

Mitigated Exposure to Riskier Loans

Triangulation interview and online survey respondents also felt that the BEA offers banks the ability to make loans with greater risk by, as noted above, offsetting some of the loss in profits the bank may experience due to some of these loans not being repaid, and the low interest rate charged for them. Several small and intermediate-small awardee banks indicated the greatest impact of the BEA is their ability to offer loans with *challenging loan requirements for borrowers who might otherwise not qualify for bank loans.* The BEA, as noted by one non-awardee bank, helps protect the bank's financial health. Another small bank stated the BEA is an incentive for banks to be involved in making loans to these communities. Risk-mitigation was not noted in comments by online survey respondents from large banks.

Without a BEA Program award, banks would need to decrease the amount of funds available for riskier loans. More than one bank even noted that the incentive to make investments in distressed communities would diminish without the prospect of receiving a BEA Program award. Another bank pointed out they have developed loan programs for small businesses, based on their BEA Program award funds. Without those funds, the programs would cease to exist.

Small Businesses

According to the online survey respondents, banks create programs for small businesses based on the amount of BEA funding. The BEA Program helps businesses obtain loans other banks might not make; a sentiment echoed by both awardee and non-awardee small banks. For example, the BEA has helped businesses obtain loans that were too risky or too small for conventional banks to provide. One of the triangulation interview respondents mentioned providing loans for small equipment for a landscaping business as the type of loan another bank would most likely not make. Comments from intermediate-small banks focused on this ability to obtain funds for small businesses, and that the BEA Program also encourages businesses to *engage in business activities that would help distressed communities*. Larger banks referenced development of programs and the ability to obtain loans for small businesses as a by-product of receiving a BEA Program award.

According to both triangulation interview and online survey respondents, those new businesses provide employment for residents of distressed areas, as well and income for the bank and the business owner. Another byproduct of utilizing BEA monies to fund small businesses is the revitalization that occurs due to economic growth in those areas.

Partnership with CDFIs

CDFIs lend money to residents and businesses located in distressed and low to moderate income communities. According to the results of the triangulation interviews, the leading indirect investments banks make using BEA funds is investing in Certificates of Deposit (CDs) offered by CDFIs. This was especially true for the intermediate-small banks that participated in those interviews. These are low risk investments with a relatively high rate of return, which help banks meet CRA requirements, and also allow them to indirectly invest in distressed communities. Online survey respondents from intermediate-small and large bank also indicated investing in CDFIs as a result of receiving a BEA Program award. Without the BEA Program, the banks would not be able to reach parts of those communities that only CDFIs can help them access, through the banks' investments in the CDFIs. Non-awardee banks that responded to the online survey also noted a BEA Program award would allow them to create these types of relationships with CDFIs. In addition, one small awardee institution referred to the BEA Program award *as extra interest for the CDFI deposit*.

Suggestions for Improvements to BEA Program

The online survey respondents were asked to suggest methods for improving the BEA Program. Comments for this thematic code fell into four sub-codes:

- Difficulty of process
- Requirements
- Timing of payments

- Disincentives

Analysis of comments for each of these categories is presented below.

Difficulty of Process

Suggestions for ways to improve the BEA Program ranged from *no suggestions* and *it is a great program* to *simplify the application process* and provide *larger awards*. Respondents noted the application process, reporting process and requirements are all complicated and time consuming, especially when working with SAM.gov and CDFI Fund.gov. One respondent from an intermediate-small bank also stated the entire process is a disincentive to apply for a BEA Program award. Another respondent from an intermediate-small bank requested clearer *guidelines on CDFI certification and programs for community banks.* The responses did not vary by bank size. More detailed information on the process being challenging and cumbersome and requests to make it easier to identify BEA eligible Census tracts are discussed next.

Challenging and Cumbersome

Online survey respondents stated that they spend a lot of time completing the application process, and then get little to no money, especially if they are a for-profit bank. Respondents from small, intermediate–small and large banks requested the process be simplified, and the application process made easier. Respondents also suggested if a bank is re-applying for a BEA Program award, then the process should be quicker and easier. Many respondents also suggested simplifying the entire process to make it easier for everyone by requiring *less paperwork* and fewer reporting requirements. CDFI's software also was cited as *cumbersome to use;* and respondents noted the process is difficult due to needing to access several websites to apply.

Make Determination of Qualified Tracts Easier on Website

Both triangulation interview and online survey respondents commented that BEA should simplify the process of identifying Census tracts that are BEA eligible. One online survey respondent suggested being able to enter an address in the website to find out if it the address was in an eligible Census tract. Another bank requested, for a partially qualified Census tract, that a process be in place to make it easier to determine which areas in Census tracts qualify and which do not.[3] These comments came from small and intermediate-small bank respondents. Large banks did not provide comments applicable to this category of responses.

Requirements

Improvements to the BEA Program also included requests to *help regulatory agencies understand how BEA works to incentivize CRA related activities and investments.* Banks must make CRA investments, and one respondent felt that effort should be recognized with a BEA Program award, especially because CRA investments do make a difference in the communities the banks serve. One small non-awardee bank also requested that if a bank must be a CDFI to get an award, the application should indicate this requirement. Banks asked that the definition of eligible activities for BEA should be expanded to include other communities and more varied activities, at least, in part, to insure the continued financial viability

[3] The CDFI Fund addressed this issue in 2013 by identifying which partially qualified BEA census tracts were contiguous with qualified tracts and therefore were deemed eligible tracts.

of the bank. This comment was echoed by small, intermediate-small and large banks. Other suggestions regarding eligibility requirements for completing the BEA application included:

- *Get rid of constraints on institutions applying for awards that have ongoing concerns or comments in their financial statements* (small and intermediate-small banks)
- Allow for correction of typographical errors on the BEA application; this respondent indicated they felt a typographical error on their application cost them an award (small bank)
- Extend the due date for CDFIs to apply for BEA Program awards (intermediate-small bank)
- Allow CDFIs to receive credit for investing in other CDFIs, in addition to credit for investing in CDFI credit unions (intermediate-small bank)
- Have layers for awards as well. Once banks commented that *asset sized banks between $1-$10 Billion should have different benchmarks than the asset sized banks greater than $10 Billion (large bank)*

Timing of Payment
Several small banks noted the time between the announcement of BEA Program awards and when banks actually receive the monies is too long. Another bank commented it took six months to receive its award. A respondent also stated the unpredictability of when the money will be given to the bank makes it difficult to keep community programs in place while waiting for funding for them.

Disincentives
Several respondents mentioned that the BEA Program application process is cumbersome enough to discourage them applying for BEA Program awards. For example, one intermediate-small bank stated that they did not apply again due to the burdensome application process, while a respondent from a small bank commented the process *borders on not worth it*. Intermediate-small banks felt more congressional support and additional funding would encourage banks to apply for the program. Another respondent noted that the award amounts are not large enough to offset the risk involved in lending activities in distressed communities.

Other
Comments in the “Other” category included responses that were not codable into other categories, such as *not applicable* and *not at all*.

A full thematic analysis is in **Appendix B, Table B.1**. This table, *Open-ended Responses by Thematic Categor*y, shows which comments fell into the different thematic codes.

Qualitative Summary and Conclusions

There are clear differences in the focus of the comments made by small, intermediate-small and large banks. Small banks referenced their missions more often, stating they were created to provide services in distressed communities, and even without a BEA Program award would find a way to continue to provide those services. However, the amount they could invest would be less than if they received a BEA Program award. Their comments often focused on BEA mitigating risks for them when making loans, and that these loans provide additional capital to distressed communities.

Intermediate-small banks' comments were focused more on expanding services due to the availability of BEA funds. They pointed out that the BEA Program encourages banks and other businesses to invest in distressed communities, as well. Intermediate-small banks also mentioned the economic benefits to businesses and residents due to use of BEA funds for not only lending activities, but also the by-product of the jobs created by those businesses. A few intermediate-small banks also mentioned investing in CDFIs. When asked how they would be impacted if they did not receive a BEA Program award, the comments ranged from "not at all" or "little impact" to a significant reduction in investing and other services the bank would be able to provide.

Large banks comments included references to investing in CDFIs more often than intermediate-small banks. Large banks commented not only on being able to invest in CDFIs, but the benefits those investments provide to distressed communities such as financial counseling, credit and other financial services. They further stated the BEA encourages business activities in distressed communities. However, large banks rarely mentioned risk mitigation as a benefit of receiving a BEA Program award. Large banks did note that without a future BEA Program award, their ability to provide services in distressed communities would be greatly reduced.

Suggestions for ways to improve the BEA Program ranged from *no suggestions* and *it is a great program* to *simplify the application process* and provide *larger awards*. Many banks felt the application process was difficult, especially identifying eligible Census tracts and accessing multiple websites to complete the application process. These responses did not vary by bank size.

Complementary Interview Results

The complementary interviews were the final phase of the preliminary evaluation of the BEA Program. The results elucidate the findings of the secondary data analysis, the triangulation interviews, and the online survey. Similar to the process used for the Triangulation Interviews (Section 4.1), the transcripts from the complementary interview recordings were reviewed and thematic codes were developed. Comments were summarized and coded by theme, based on the content of the interviews. As expected, a few of the thematic codes match those of the Triangulation Interviews and online survey responses (e.g., Mission, Allows Leveraging, Mitigate Risk), while the remaining codes are new, due to the items asked during the Complementary Interviews. Specifically, new themes were created in to address the unique interview topics. **Table 22** maps the key topics to the thematic categories. The key topics and thematic categories are also in Appendix C.

Table 21. Thematic Codes Map to Key Interview Topics

Key Topic of Complementary Interview	Thematic Categories	Thematic Category Definition
1) Clarification of the perceived influence of BEA and CRA on bank investment decisions for highly distressed areas.	BEA and CRA Effects on Investment Decisions	How BEA and CRA factor into institutional decisions on investing funds.
2) The proportion of BEA qualified activities and CRA-eligible activities in highly distressed census tracts.	Investment Percentage	The estimated percentage of BEA investments banks make in addition to investments required by CRA
3) Understanding the thought processes behind institutional investment decisions for BEA Program qualified activities.	Mission Service Activities Mitigate Risk Allows Leveraging Payday Loans	Mission: Comments indicating the bank's investment decision was based on its mission. Service Activities: Financial products and services, such as checking and/or savings accounts, check cashing, financial counseling, and other financial products or services to the residents of BEA Program-defined distressed communities. Mitigate Risk: Institutions emphasized the BEA Program awards mitigating financial risk for the bank when making loans in BEA Distressed Communities. Allows Leveraging: These were comments about how the BEA Program award allows the institutions to leverage additional funds for BEA Distressed Communities. Payday Loans: Comments indicating services for residents of distressed communities to replace their need to use payday lenders.
4) Understanding how BEA Program awards affect administrative costs associated with disseminating BEA funding;	Mitigate Risk	See above definition
5) How institutions track investments in BEA qualified activities	Tracking Strategies	Comments regarding tracking of bank investments
6) How CDFI Partners track BEA Program funds received from indirect investment institutions.	Tracking Strategies	See above definition
7) Relationships BEA awardees have with CDFIs, and the nature and length of those relationships, both from the institutions' and the CDFI partners' perspectives.	Relationship with CDFI	Statements on the length and types of CDFI relationships and associated investments.
8) The types of investments CDFIs received from indirect investment institutions.	Relationship with CDFI	See above definition
9) How BEA funding affects highly distressed communities, and the perceived effect of not receiving a BEA Program award.	Effects of the BEA Program	Bank and CDFI partner perceived benefits provided to communities by the BEA.
N/A	Additional Comments	Unsolicited comments from respondents

Thematic Analysis

The following presents the qualitative analysis by theme. As stated above, themes were developed, based on the responses to the complementary interview items. The key topic addressed by each theme is also presented in the discussion of the results by thematic category.

BEA and CRA Effects on Investment Decisions

As shown in **Table 42**, *Clarification of the perceived influence of BEA and CRA on bank investment decisions for highly distressed areas* is addressed by the theme, BEA and CRA Effects on Investment Decisions. For the complementary interviews when asking respondents about the percentages of investments in BEA-eligible activities not related to CRA, 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. One small bank added that, because BEA eligibility requirements are more conservative than CRA requirements, BEA is a subset of how they view CRA. Triangulation interview respondents did mention that regulatory compliance, including CRA, factors into their investment decisions, as did a few of the online survey respondents.

For example, during the complementary interviews, an intermediate-small non-awardee bank explained 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 BEA. The respondent for another intermediate-small bank monitors all investments to determine if they qualify for CRA; however, BEA 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 BEA and CRA helps one bank insure it is meeting the needs of the community, including people in low-moderate income areas. For other banks, separating CRA and BEA 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 banks' boards of directors. The large bank added those goals are based on the strengths the bank feels it has and where the investment *had significant numbers attached to them, where* [the bank] *felt that the programs made the biggest impact.* The bank's mission was also mentioned by several banks as detailed below.

Investment Percentage

The proportion of BEA qualified activities and CRA-eligible activities in highly distressed census tracts are addressed by the *Investment Percentage* theme. Banks were asked what percentage of their BEA investments are in addition to what they would invest to comply with CRA. Estimates of investments that were in addition to what was reported to CRA ranged from 10 to 15 percent up to 100 percent. Bank size did not seem to be related to these estimates.

Small banks seemed to be able to better separate the BEA investments from their general CRA activities. One small bank said all of their lending is BEA-eligible, and goes to CDFIs. Another small bank uses the BEA Program award to offset the cost of servicing loans; the BEA Program award covers approximately 40 percent of those costs. Over 80 percent of an urban small bank's loans were CRA eligible; about 30 percent were BEA eligible. This information is based on an annual analysis the bank does on its loans. About 25 percent of another small bank's BEA eligible investments are in more highly distressed areas than the bank would make in order to meet CRA requirements. The respondent based this estimate on the loans tracked by the bank by census tract. A small non-awardee bank estimated 10 to 15 percent of its investments are for BEA eligible activities only.

One intermediate-small bank estimated 60 percent of its lending is in very low income areas, but all of their lending is CRA eligible. However, a large bank separated the percentages by lending activity, stating about 75 percent of its lending is in low moderate income tracts; small business loans are about 40 percent; and about 25 percent is multi-family dwellings. Approximately 30 percent of another large bank's investments are in BEA-eligible census tracts and beyond what they would report for CRA. The large awardee bank stated almost all CDFI investments are CRA. BEA-based investments are approximately 13 percent of a third large bank's investments.

One of the CDFI partners noted approximately 75 percent of its loans are in lower income census tracts, but that partner also said they were not aware the funding came from a BRA Program award. Another partner, however, said all of the money it receives from BEA Program awardees is for BEA-related activities.

Understanding how institutions decide to invest their funds is addressed by the above themes of *BEA and CRA Effects on Investment Decisions* and *Investment Percentage.* Most banks consider CRA first when making investment decisions, because it is a regulatory requirement, although BEA factors into the decisions as well. Percentages of BEA investments which are in addition to bank investments for CRA, ranged from 10 to 100 percent, supporting that BEA is a factor when deciding how to invest bank funds. Other themes which explain bank lending decisions include *Mission, Service Activities, Mitigate Risk*, *Allows Leveraging* and *Payday Loans*. A bank's mission compels the bank to serve certain communities. Offering service activities is often a way to meet a bank's desire to serve distressed communities with limited funding. The benefits of a BEA Program award is it helps mitigate the risk of making loans when consumers have less credit experience and lower incomes. Banks use leveraging to make the award available to more individuals and businesses. And, several banks mentioned offering alternatives to payday lending establishments was a motive for developing certain service activities and small loan programs. Details on each of the themes as they apply to *Understanding the thought processes behind institutional investment decisions for BEA Program qualified activities* provide further insight into this topic.

Mission

Banks did reference their missions during the complementary interviews, as they had for the triangulation interviews and in the online survey comments. Banks noted their missions compel them to provide services to their communities. These communities are generally low and moderate income, and include highly distressed BEA-eligible census tracts. In addition, the BEA helps support bank investments, but it does not cover the entire cost. In general, if these banks did not receive a BEA Program award, they would still invest in their communities; however the volume of loans and services would be less. When deciding which loans to approve, these banks often determine if the loan aligns with the mission, and for many banks, that the loan meets CRA requirements. For example, one small bank only invests in CDFIs that have a mission similar to the bank's mission.

One intermediate-small bank had not received an award in three years. Instead, the bank used its profits to meet the needs of the communities they serve. One large bank that stated its mission is to serve *hard* *working families,* has positioned its branches in supermarkets in low and moderate income areas, in order to provide services where its customers are located. For banks which had not received BEA Program awards, or which received smaller awards, providing service activities was one method used to meet the banks' mission.

Service Activities

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 for BEA Program award decisions, with limited funding from BEA or no award at all, service activities provide a method for institutions to continue to serve their communities. Many of the triangulation interviewees and online survey respondents also discussed the importance of providing service activities, and that the BEA Program award allows them to provide a *wider array* of those services.

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 through surveys (intermediate-small bank) and another through focus groups (small bank). Other banks obtain information from community development departments within the bank, or contact with their customer base, for example, the large bank mentioned above with locations in supermarkets. Banks then tailor service activities to each community's needs.

Therefore, types of service activities offered by the banks varied. Many of the banks mentioned training on 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, in the native language of its local area. Specific examples include a small bank and a large bank that both conduct financial education for students, and hope to reach the parents through the students sharing knowledge about the bank (many of the parents do not speak English as their first language). A large bank conducts a nine week course for residents in their area on how to invest money. The bank gives course participants 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, and it was *an overnight success*.

A respondent from a small non-awardee bank stated receiving a BEA Program award would allow the bank to provide more service activities, and educate its customers, so the customers are ready to handle loans. This bank provides financial education, to meet the needs of the unbanked. They also provide advice for small businesses on lending, and have formed relationships with non-profits offering service activities in order to further help small businesses succeed.

Two of the CDFI partners commented that an employee from their BEA Program awardee bank partner serves as a member of the CDFI partner's board of directors (one bank) or on their loan committee (the second bank).

As stated at the beginning of this discussion on service activities, these services are often offered as a method for meeting community needs with lowered budgets, because bank staff is responsible for their institution's financial health. The he BEA Program also mitigates the financial risk banks take when lending money in distressed communities.

Mitigate Risk
There were many more comments on the BEA Program award mitigating risk during the triangulation interviews and the online surveys than for these complementary interviews, which may simply indicate a different focus in the complementary interviews. During the complementary interviews, banks were asked if the BEA Program funds help offset administrative costs associated with investing BEA Program grants. Respondents included comments on both risk mitigation in general, and offsetting of administrative costs in particular.

A small bank noted BEA has offset the risk of making loans, such as the administrative costs of applying for and administering BEA investments. If this bank did not receive a BEA Program award to cover these costs, the bank stated it could not make CDFI investments. Another small bank has used BEA Program awards to pay for the staff providing service activities. The bank also forms partnerships with other non-profits providing service activities to small businesses in part to help insure its own financial health, by defraying additional costs, thus further mitigating the risk of lending in highly distressed communities. A small non-awardee bank noted that having a BEA Program award would offset the cost of providing loans to consumers and businesses in distressed communities, by helping subsidize staff, overhead, and data processing expenses.

An intermediate-small bank also uses the BEA funds to defray the costs of administering program investments. Without a BEA Program award, the number and types of direct financing services offered by this bank has been reduced (e.g., loans and grants); but the bank is providing more service activities and financial education.

A large bank added the BEA Program award decreases risk exposure and increases loan capital. Because of this, if the bank did not receive a BEA Program award, they would still make loans in distressed communities, just for lower amounts, because they would not have the BEA subsidized portion available. One large bank stated that if the bank received a BEA Program award, they would not use the award to cover administrative costs.

Only small and intermediate-small banks noted not using the BEA Program award to offset administrative costs. One small bank commented the bank only uses BEA funds to provide additional loans. Banks also leverage BEA Program awards to be able to provide additional services.

Allows Leveraging
As was found in the triangulation and online survey interviews, the complementary interview respondents mentioned strategies to maximize leveraging of funds, especially loans. However, again possibly due to the focus of the complementary interviews, this was not as prevalent a theme as it was for the triangulation interviews and the online survey. Comments from complementary interview respondents included statements about leveraging investing by BEA Program awardees in CDFIs, which increases the CDFI's ability to make investments in small businesses, housing and commercial real estate. Otherwise, the CDFI is limited by its deposits in the number of loans it can make. A small bank, which is also a CDFI, also 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 stated above, banks 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.

Payday Loans
According to an intermediate-small bank (and many others), the BEA Program award helped subsidize developing new lending services, so the bank can help people borrow small amounts from the bank, rather than using payday loan type outlets. Financial education is offered by several banks, which includes information on how to access those smaller loans and avoid the high cost of borrowing from payday lenders.

The preceding themes of *Mission, Service Activities, Mitigate Risk*, *Allows Leveraging* and *Payday Loans* have added to the understanding of how institutions decide which BEA investments to make, in addition to considerations regarding meeting CRA requirements, and the investment's eligibility for BEA. Institutions determine investment strategies based on mission, and the investment's alignment with that mission, as well as the strategic goals of the bank. The types of services offered depends on community needs and whether or not the institution has received a BEA Program award, and if it uses that award to help subsidize loans, grants, or administrative costs. BEA Program awards also help mitigate the risk of making loans to people or businesses with lower incomes or less credit experience. To further mitigate risks and leverage the funds they do invest, institutions form partnerships with non-profits and invest in CDFI partners. Programs to encourage customers to utilize bank loans to avoid using payday loan facilities are one specific example of programs developed to address community needs.

Banks have increased the number of service activities to meet community needs when receiving a smaller BEA Program award or no award at all. Banks and CDFI Partners track financial products and service activities in order to use the information when reporting to their boards of directors, as well as state and federal authorities.

Tracking Strategies
To address the key topics, *How institutions track investments in BEA qualified activities* and *How CDFI Partners track BEA Program funds received from indirect investment institutions*, the thematic code *Tracking Strategies* was developed for the analysis. Each of the preceding topics is discussed separately.

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 the BEA/CRA officer personally tracking 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. This particular bank added a module to the core processing system to specifically track the impact of the loans for BEA. 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, the bank did get a receipt for its investment. Another small bank does not track the investments in CDFIs past the underwriting and closing activities. They do track the loans to insure they are paid on time. The CDFIs in which the bank invests does not report back to the bank on what they do with the money, either. The bank does however geocode all investments by census tract to determine which are eligible for CRA and BEA, and creates quarterly reports on the potential impact of loans the bank 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 her 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, jobs created and the amount of loans for businesses and individuals located in low moderate income census tracts, or businesses employing people from low and moderate income consensus tracts.

The preceding discussion shows the wide variety of tracking methods for investments by institutions, and reporting of CDFI partners back to their respective investors. Variations in tracking investments by banks went from obtaining a receipt for an investment to utilizing a computer database to track all investments to geo-coding 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 relationship banks and CDFI Partners have, in addition to tracking and reporting information CDFI Partners may provide to investing institutions, respondents were asked about those relationships.

Relationship with CDFI
Relationships BEA Program awardees have with CDFIs, and the nature and length of those relationships, both from the institutions' and the CDFI partners' perspectives and The types of investments CDFIs received from indirect investment institutions are summarized in the thematic category, Relationship with CDFI. Both of these key topics are detailed here.

Relationships BEA Program Awardees have with CDFIs, and the Nature and Length of Those Relationships, Both from the Institutions' and the CDFI Partners' Perspectives
Indirect investment banks were asked about their relationship with the CDFI, including when and how the relationship first began and if further investments were made. They were also 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, they formed relationships with other CDFIs organically. They have been making loans to and investing in CDFIs for over 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 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, banks employees often offer service activities to the CDFI's. As one CDFI partner termed it, *Time, Talent and Treasure*.

One interesting start to a bank-CDFI relationship was common ownership between an intermediate-small BEA Program awardee bank and the CDFI in which the bank invested. The bank respondent did not know the length of the relationship, and stated he did not think any additional investments had been made in the CDFI since the 2012 assessment year. The bank 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. And the bank does have relationships with other CDFIs.

CDFI partners also were asked about the how they first established a relationship with the BEA Program awardee bank, the length of that relationship, and if further investments had been made in the CDFI by the bank. One CDFI partner has had a long-term (more than 20 years) relationship with the BEA Program awardee bank; another has had a 10 plus year relationship with their bank. And, this CDFI partner did not know the source of the funds was BEA.

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. They received five year loans with a two 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

The key benefit of the investments from the BEA Program awardees is the CDFI partner receives funds to invest in communities. In addition, CDFI partners generally receive funds from several banks in their areas. CDFI investments in CDFI partners usually involved deposits in the form of certificates of deposit and loans. The bank investments in CDFI partners have an effect of their communities, through additional availability of funds for the CDFI receiving the investment. According to the complementary interview respondents, there are multiple effects of the BEA Program on communities.

Effects of the BEA Program

The last key topic, *How BEA funding affects highly distressed communities, and the perceived effect of not receiving a BEA Program award*, is addressed by the thematic code *Effects of the BEA Program*. (However, information on the effect of not receiving a BEA Program award is also included in the above thematic analyses, as applicable.) Respondents mentioned several perceived effects of the BEA Program awards on their communities due to additional programs and services offered by the banks. Other respondents mentioned that the BEA Program provides economic stability and contributes to revitalization of distressed communities; one respondent emphasized he has seen one community go from *100 percent distressed to 100 percent revitalized*.

To understand how bank size affects perceptions of the effects of the BEA Program awards, including the effect of not receiving an award, comments by respondents from small, intermediate small, and large banks are presented next. The perspective of CDFI partners is also included.

Small Banks' Perceptions of the Effects of the BEA Program

One respondent summed up the opinions of many small banks: the BEA 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; one bank *lends* *heavily* in the highly distressed communities from which most of its deposits originate. The *BEA Program allows institutions to realize the relevance of continuing to make investments in BEA distressed communities*; a small bank noted 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, opinions varied among respondents from small banks. One respondent felt the level of activity for financial products and services due to BEA has not increased; it is about the same. However, one of the non-awardees and one of the awardees disagreed; they felt that BEA does increase financial products and services. As one respondent noted, there is an even greater need for affordable housing in its urban area. BEA is an important source of capital and ensures banks can invest in affordable housing. BEA funds are used by this bank in all investment asset classes across their communities.

The loss of a BEA Program award for many of these banks would mean a reduction in services in the amount of money spent on services, but not necessarily the offering of those services. Comments similar to these 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, and even without a BEA Program award, they would find a way to continue to provide those services.

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

Intermediate-small banks' comments were similar to those of small banks, one bank commented 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 offers training on its services to the community, such as how to use checking and savings accounts and obtains loans.

To determine community needs, a respondent mentioned the bank reaches out to its community development department, and that department will send a list of validated community needs, which her department 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. Due to the service activities, customers learn how to access various banking services and develop financial literacy (more details on other types of service activities are found above in the *Service Activities* thematic analysis, section 4.3.5.2).

Another bank also made loans directly to communities, including *farms, individuals and businesses*; they make *numerous loans in* [their] *target markets.* Not receiving a BEA Program award would mean the bank would raise the standards for issuing credit. They would not be able to extend credit to people with little or no credit experience. Another bank which made BEA –eligible loans in low moderate income census tracts pointed out not receiving a BEA Program award did not have a *severe effect* on those loans, but if the bank had received an award, they could have made more loans than they 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 have increased in highly distressed communities. However, several bank respondents disagreed, while another said the level had remained constant. This respondent added 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 were also positive, but less focused on the need for the program than small and intermediate-small banks. Their comments were more about how the BEA Program award adds to what their banks already do in their communities. One large bank stated those who receive BEA Program award funds *stimulate innovative ideas in their neighborhoods which create jobs and develop affordable housing solutions for people who have been unemployed for long periods of time*. Based on the awardee bank's involvement in nonprofits, the respondent commented she saw the impact of the BEA on revitalizing entrepreneurship in the community. These statements were made, despite the large bank noting the overall BEA Program award was small. The awardee bank was able to provide six or seven grants with the BEA Program award. Even though the impact of the award was small, the award made the bank more aware of CDFIs and investing in them. This bank felt the BEA funding positively affects the community through expansion of the bank's service area, and establishing relationships with organizations in BEA-eligible highly distressed communities.

Not receiving a recent BEA Program award did affect this large awardee's bank's ability to invest in services that were planned, based on the assumption the bank would receive an award. The bank could not offer financial products and services at the level the bank 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 bank (which did not receive a BEA award) stated receiving a future BEA Program award would allow them to develop programs for the homeless, again mentioning the ability to develop new programs due to receiving a BEA Program award.

CDFI Partners' Perceptions of the Effects of the BEA Program

CDFI partners' comments 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 can then make more loans in their communities. For example, one CDFI partner said the investments they receive allow the CDFI partner to make micro-loans to small businesses, which in turn helps create jobs in those communities. However, loans received from the BEA Program awardee by this partner were *not impactful*, because they were small amounts. Another CDFI partner explained they use BEA funds to make affordable housing loans, and invest in healthy food enterprises, community facilities, and small business loans. The key benefit of the BEA Program for this partner is they have established a banking relationship with an investing bank, which is an *invaluable partner* that helps them access other financial institutions. The grant and equity investments a third CDFI partner received were used to fill the unfunded portion of the CDFI partner's 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 expressed that financial products and services have increased due to the BEA Program wards, causing more organizations to work together to provide loans and services in highly distressed areas. Another CDFI partner disagreed, stating financial products and services have not increased due to the BEA Program in distressed communities, because the investment from the bank was before it received a BEA Program award (although possibly during an Assessment Period).

Summary of Respondent Comments of the Effects of the BEA Program
In summary, small banks feel the BEA Program is a very important program, which encourages banks to invest in highly distressed communities. If it were not for the BEA, non-mission driven banks might not make these investments. Similar comments were made by intermediate-small banks, which stated the BEA is a significant incentive for banks to expand services into highly distressed communities. Comments from large banks and CDFI partners focused more on the additive value of BEA Program awards; the funding adds to the amounts they already have available to invest in their communities. Opinions on whether or not financial products and services have increased due to the BEA Program varied, regardless of bank size or if the institution was a CDFI. Some institutions agreed they had; others stated the level remained the same. All of the institutions did say that not receiving a BEA Program award would affect the level of services they could offer. In addition, some of the respondents made additional positive comments regarding the BEA Program and offered suggestions to improve it.

Additional Comments
The last question on the complementary interview asked respondents if they had any additional feedback about the BEA Program. A few of these comments fell into two sub-categories: *Positive Comments* and *Suggestions for Improving the BEA Program*. (Other positive comments have already been detailed in the above discussions of the remaining themes.)

Positive Comments
As was true for the triangulation interview and online survey, complementary interview respondents provided unsolicited positive feedback regarding the BEA Program. One respondent said they hoped they would be a BEA Program awardee again, and BEA *is a terrific program*. Another complimented CDFI Fund staff, stating they are *wonderful to work with.*

Suggestions for Improving the BEA Program
And as with the online survey and triangulation interview respondents, even though the complementary interviews did not specifically ask for suggestions to change the BEA Program, several respondents asked that the application process be simplified. Respondents noted that applying for a BEA Program award is a complicated and costly activity. Respondents also suggested giving more weight to service activities when making award decisions, and expanding the BEA Program to meet more community needs.

The preceding discussion focused on responding to the questions that were key topics addressed in the complementary interviews. Because the hypotheses formed the framework for this evaluation, it is important to also understand how the complementary interview responses address each of the study hypotheses, as they designed to ultimately do.

Response to Hypotheses
This section lists each hypothesis for the Bank Enterprise Award (BEA) Program evaluation, and comments made by complementary interview respondents in reference to them. Overall, most respondent comments seemed to support the hypotheses.

Hypothesis 1

The assistance provided by non-CDFI bank Applicants to CDFIs is primarily driven by regulatory incentives and/or the ability to invest in financial intermediaries versus direct loans and investments to residents and businesses located in low-income communities. Larger institutions benefit by leveraging the physical locations and branch networks of CDFIs, community banks, and smaller institutions; and partner with these institutions to gain access to these communities, meet regulatory requirements, and offset some of the costs associated with serving distressed communities. This relationship also allows larger institutions access to communities that they are not as familiar with and without having to expand their service/lending areas or increasing staff and overhead in order to do so.

> One large bank stated they did not have physical locations; the bank has branches located in retail establishments. The CDFI in which they invest is located in the highly distressed community, however. And an intermediate-small bank makes investments in CDFIs that serve areas in which the bank is not located. The CDFIs are closer to low-moderate incomes areas than this bank. These statements support Hypothesis 1.
>
> However, one large bank opened a branch in a major minority immigrant section of their area. This statement may not support Hypothesis 1. Thus, these findings provide conflicting support for Hypothesis 1.

Hypothesis 2
Many small and perhaps some intermediate-sized institutions (including CDFI banks) have branch locations in or within close proximity to BEA distressed communities. Institutions with a physical presence in BEA-eligible distressed communities provide the same types of products and services included in their BEA applications to the businesses and residents of those distressed communities as a part of their normal business strategy and operations. The activities tend to be Distressed Community Financing Activities (loans to or direct investments in businesses or residents of distressed communities). For these institutions, receiving a BEA Program award is an important source of capital as well as a form of cost reimbursement. The requirement to deploy an amount equivalent to the BEA Program award is not onerous since the bank performs these activities in distressed communities during their normal course of business.

> Several small and intermediate-small bank respondents stated the bank is located in the area it serves. One small bank noted that all of its lending is done in areas from which its deposits come. Currently, its deposits are from highly distressed communities. These comments support Hypothesis 2.

Hypothesis 3
Larger institutions are less likely to provide financial products and/or services directly to businesses or residents of distressed communities especially when compared to the degree of investment in distressed communities by smaller institutions and/or CDFI banks relative to their overall portfolio. Consequently, larger institutions may perceive a BEA Program award as a form of cost reimbursement for undertaking activities that would typically be considered more risky or less profitable otherwise. The BEA Program award may assist in delivering a slightly better return than alternative investments along with achieving the desired regulatory results.

> The larger banks tended to view BEA Program awards as providing additional funds to supplement what they already invest. They also mentioned the risk mitigation of a BEA Program awards. These findings support Hypothesis 3.

Hypothesis 4
There is no financial incentive to report more activities in a BEA application than what will qualify an Applicant for the maximum award. Applicants typically submit more activities than what is needed to qualify them for the maximum award for two reasons: (1) at the time of application they are not aware of what the maximum award amount will be; and (2) to mitigate the risk that some activities may not qualify or may be deemed ineligible by the CDFI Fund.

The total amount of Service Activities that Applicants actually engage in most likely exceeds by a significant margin what is reported to the CDFI Fund in BEA applications, since Service Activities are currently the last category of the BEA Qualified Activities funded. In addition, the total amount of Distressed Community Financing Activities that several CDFI, small institution, MDI and community bank Applicants actually engage in most likely exceeds by a significant margin what is reported to the CDFI Fund in BEA applications due to a combination of mission and having an existing customer base in some census tracts that are in BEA Distressed Communities.

> Hypothesis 4 appears supported for service activities, with several banks stating they did not report service activities, because they do not "count" enough towards the CDFI Fund's decision to award BEA Program grants.

Hypothesis 5
The degree of difficulty of the activities that form the basis of an Applicant's BEA application may be comparable to the Applicant's other non-BEA activities depending on whether it located in or near a distressed community. For some institutions not located in or near a distressed community, the activities may have involved additional due diligence. For those institutions that are located in or in close proximity to a distressed community, the activities that formed the basis for the BEA application are likely to be routine and a snapshot of their overall Community Reinvestment Act (CRA)-eligible portfolio.

> Of the respondents, estimates of activities done in BEA eligible census tracts that are in addition to CRA requirements fell between 10 to 15 percent up to 100 percent. Small banks estimated between 10 and 100 percent. Intermediate-small bank percentages were 13, 25, 30, 60 and 80 percent. Depending on the type of loan for one large bank (affordable housing, small business and multi-family dwellings), its estimates ranged from 25 percent to 75 percent. The other large bank estimated 13 percent of its investments were in highly distressed communities, and made in addition to investments reported to CRA, while a third large bank estimated 30 percent. Overall, however, when asked, larger banks tended to view BEA Program awards as additional funding for CRA activities, while small and intermediate-small banks tended to view BEA as the basis of funding for financial products and services in highly distressed communities. There is some support from the complementary interviews for Hypothesis 5.

Hypothesis 6
The investment activity of large CRA asset-sized institutions as it relates to the BEA Program is primarily driven by Regulatory Incentives. The investment activity of smaller CRA asset-sized institutions including

CDFIs, Minority Deposit Institutions (MDIs), community banks, etc. is predominantly driven by a combination of economic incentives and mission.

> Mission was a factor in investment decisions mentioned by more small and intermediate-small banks. However, it was also mentioned by one of the large banks. In addition, a large and an intermediate small bank both said lending decisions are made based on the strategic goals for their banks. However, most banks stated CRA is a factor in lending decisions, and more so than BEA. Hypothesis 6 is not supported by the comments from the complementary interviews.

Hypothesis 7
BEA qualified activities are performed in highly distressed communities throughout the country and therefore, serve under-served, under-banked and un-banked people and businesses. The criteria for a BEA distressed community is much more restrictive than CRA and other CDFI Fund program requirements.

> Respondents to the complementary interviews have indicated using BEA Program awards to provide financial education to those who are unbanked and under-banked. One respondent stated that the BEA requirements are *more conservative* than those of the CRA. These comments help support Hypothesis 7.

Summary and Conclusions

This set of complementary interviews of 20 respondents (100 percent response rate) from indirect investment, direct community financing activity, and non-awardee banks, as well as CDFI partners were conducted to better understand the results of the online survey and the secondary data analysis. Specifically, topics covered in the complementary interviews ranged from the perceived influence of BEA and CRA on investment decisions by stakeholders; the proportion of BEA qualified activities and CRA-eligible activities in distressed communities; why institutions make the investment decisions they ; how those investments are tracked not only by banks, but by CDFI partners as well; the nature and length of partnerships between banks and CDFI partners; the investments CDFIs received from banks; to the effects of BEA funding on highly distressed communities.

Clarification of the Perceived Influence of BEA and CRA on Bank Investment Decisions for Highly Distressed Areas
All size banks (small, intermediate-small and large) consider CRA at some point in their decision-making process regarding investments. Banks often stated they had high CRA ratings, and wished to continue to have those ratings. BEA is considered when deciding on the type of investment; one bank's BEA investments are usually loans, because the bank regards loans as more acceptable on a BEA application.

The Proportion of BEA-qualified Activities and CRA-eligible Activities in Highly Distressed Census Tracts
The proportion of investments in BEA qualified activities that were beyond investments required for CRA varied, regardless of bank size. Small bank estimates ranged from 10 to 100 percent; intermediate-small banks estimated 25 to 75 percent. Large bank estimates varied by type of loan (affordable housing, small business and multi-family dwellings), but ranged from 13 to 75 percent for the three large banks. CDFI partners' estimates were 75 percent for one partner, and 100 percent for the other that answered this question. Estimates were based on tracking of loans and grants in which the banks and CDFI partners invested. These estimates also lend support to topic one; they show consideration of BEA when making investment decisions.

Understanding the Thought Processes behind Institutional Investment Decisions for BEA Program-qualified Activities

For some banks, their missions or strategic goals drive their investment decisions. Even without a BEA Program award, these banks would provide financial products and services for their communities, but most likely not at the same level. Banks conduct research to determine what those community needs are; due to smaller BEA Program awards, or not receiving a BEA Program award, banks offer more service activities, such as financial literacy, investment training and even identity theft training. Several banks mentioned creating financial education so that people would know they could come to the bank for small loans at a lower interest rate, instead of borrowing from payday lending facilities. In addition, institutions form partnerships with CDFIs and non-profit organizations to mitigate the risk of offering loans for people with a limited credit history or lower incomes. These partnerships also allow the banks to leverage investments and services to benefit even more people. However, the responses to the first two topics do make the point that banks also consider CRA and BEA when making investment decisions.

Understanding How BEA Program Awards Affect Administrative Costs Associated with Disseminating BEA Funding

Small, intermediate-small and large banks stated they use, or would use, BEA Program awards to defray the administrative costs associated with disseminating BEA funds. The funds would be used to pay for staff (to administer loans and deliver service activities), overhead and data processing.[4] Some small and intermediate-small banks, however, commented their banks invest all BEA Program award funds in highly distressed communities, and do not use them to offset administrative costs.

How Institutions Track Investments in BEA-qualified Activities

Tracking of investments in BEA qualified activities also varied from apparently sophisticated computer systems, to database spreadsheets, portfolio reviews, and keeping individual receipts. Several banks noted they did not know how the CDFI in which they invested utilized the BEA Program funding.

How CDFI Partners Track BEA Program Funds Received from Indirect Investment Institutions

All three of the CDFI partners did say they provide quarterly reports to their investors. Two of them specified those reports include the number and type of investments, as well as the perceived impact of the investments on the communities.

Relationships BEA Program Awardees Have with CDFIs, and the Nature and Length of Those Relationships, both from the Institutions' and the CDFI Partners' Perspectives

Relationships between indirect investment banks and CDFIs spanned anywhere from a one-time investment to up to 20 years. Many of these relationships were formed from membership in common business organizations or attendance at various community activities. The biggest benefits of the relationships between CDFIs and indirect BEA Program award investors, in addition to the investment being a BEA eligible activity, were:

1) The banks gain access to more CDFIs in which to invest;
2) The CDFIs gain access to more banks as potential investors;

[4] As of FY 2015 BEA awardees are restricted to using only 15% of the BEA Award for such administrative support.

3) Banks refer customers for whom they cannot provide loans to the CDFIs;
4) Once the customers establish a credit history, the CDFIs refer them back to the banks;
5) The banks leverage investments in CDFIs to provide services to highly distressed communities;
6) The CDFIs have a larger deposit base, and therefore can provide more loans.

The Types of Investments CDFIs Received from Indirect Investment Institutions
CDFIs generally received investments from several banks in their areas. These investments were usually in the form of loans and deposits.

How BEA Funding Affects Highly Distressed Communities, and the Perceived Effect of Not Receiving a BEA Program Award
Most banks expressed the positive effects of the BEA Program overall. Small and intermediate-small banks emphasized the BEA Program encourages banks to invest in highly distressed communities. If it were not for the BEA, non-mission driven banks might not make these investments. Large banks and CDFI partners mentioned the additive value of BEA Program awards, which allow them to provide more services than not having an award would allow. Some institutions agreed financial products and services have increased due to the BEA Program. Other banks stated the level had remained constant, and suggested the way to increase the level of financial products and services would be for the dollar amount of BEA Program awards to increase.

> Banks stated that not receiving a BEA Program award would limit the number and types of services they could offer to their communities. Many would continue to provide services, usually due to their missions and CRA requirements, but at lower dollar amounts for loans and grants, or in the form of service activities, rather than monetary investments.

Hypotheses
In general the comments from the complementary interview respondents at least partially supported the hypotheses, except for Hypothesis 6:

> The investment activity of large CRA asset-sized institutions as it relates to the BEA Program is primarily driven by Regulatory Incentives. The investment activity of smaller CRA asset-sized institutions including CDFIs, Minority Deposit Institutions (MDIs), community banks, etc. is predominantly driven by a combination of economic incentives and mission.

Overall, the responses to the triangulation interviews, the open-ended comments at the end of the online survey, and the complementary interviews provided insight into the rationale behind bank decision-making, including the importance of meeting CRA requirements, variations in BEA-eligible activities by bank size, leveraging of funds, mitigation of risk, relationships with CDFIs and the importance of the BEA Program.