

Reinvestment rule comes to aid of Capitol City

By Kat Greene
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A decades-old congressional act may become a saving grace for minority-owned **Capitol City Bank & Trust**.

The Community Reinvestment Act, passed in 1977, requires financial institutions to lend to individuals and businesses in low- and moderate-income areas within their footprint.

For Capitol City, which has been working on raising its capital for much of the second half of this year, it could translate into an infusion from other banks.

Capitol City was placed under a consent order with the **Federal Deposit Insurance Corp.** in 2008. Since then, it has raised more than \$1 million from small community investors who put in \$500 to \$5,000 each. The bank filed in September for a stock sale to help raise money, and its board has chipped in at least \$1 million.

The bank wants to raise \$12.5 million by the end of the year, and it's getting closer, CEO George Andrews said. It's a little more than halfway to reaching its goal, he said. One of the primary sources of capital is coming from other banks, he noted.

At least two banks have committed \$4 million to Capitol City, he said, declining to name the banks in the deal. Those banks are investing in his to meet the requirements set forth in the Community Reinvestment Act, he said.

"That bank has to lend a certain portion of loans to community banks in census tracts that have low income," Andrews said.

That the act could boost capital at certain Georgia banks is a novel idea, said David Oliver, spokesman for the **Georgia Bankers Association**.

"There are very few stones that have gone unturned for trying to raise capital," he said.

The act itself was put in place to ensure banks were serving their entire communities and not only certain customers.

"It requires banks to serve a certain demographic in the community," he said. "It would be a very specialized institution that could benefit from that."

Enter Capitol City.

It's one of only seven banks in the state that is minority-owned and minority-serving, according to data from the Federal Reserve.

Community reinvestment

How the Community Reinvestment Act helps banks

- Boosts volunteer activity
- Increases visibility in community
- Certain banks can gain investments from other banks looking to comply

Capitol City lends to churches, businesses and individuals in southern Atlanta's African-American community.

That group has been one of the hardest hit in the economic downturn, with unemployment at nearly 17 percent, 6 percentage points higher than the Atlanta average rate.

When people are unemployed or have fallen on hard times, they are unable to tithe to the churches, Andrews said. That makes it hard for the churches to pay their bills, which cuts into Capitol City's income.

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Georgia Bankers Association

The bank increased its Tier 1 risk-based capital by \$1 million since 2010, according to data from the FDIC.

In that same period, its total interest income dropped to \$7.4 million from \$7.9 million. Net income attributable to the bank rose into the black, to \$327,000 from a loss of \$256,000 a year earlier.

Its status as a minority bank makes it a compliant investment for banks looking to meet CRA requirements.

Private Bank of Buckhead is in a smaller category and isn't required to lend to banks like Capitol City to comply with the CRA, said CEO Charlie Crawford.

Still, the act helps banks stick to their original purpose, he said.

"If a bank is doing what it should be doing, then you will very much be complying with the Community Reinvestment Act," Crawford said. "The spirit of it is to make sure you're providing full service to your assessment area."

Some of the midsized and large banks are lending to Small Business Investment Companies (SBIC), as well as investing in banks such as Capitol City, in order to comply, Crawford noted.

That way, the bank doesn't have to over-extend itself trying to find qualified borrowers — they leave that up to the SBICs.

Crawford's employees bring the bank into compliance by volunteering in the community, he said.

"They're volunteering because that's a core value of ours, but that gives us credit when the regulators look at how this bank is supporting the community," he said. "That's the kind of thing we should be doing."

The Community Reinvestment Act may be a boon for Georgia's struggling community banks, but it hasn't always garnered praise.

The act has been blamed, by some politicians and pundits, for causing the housing crisis. It lowered lending standards, some say, pushing banks to lend to people who couldn't afford to repay the debt.

The relaxed lending standards encouraged by requirements to lend to low- and middle-income borrowers and businesses were eventually adjusted; at one time, the law allowed banks to remove ATMs from rural areas and rely solely on CRA loans for compliance. That has since been changed: It was revised in August 2005.

Financial regulators are assessing whether it should be changed again in the wake of the housing crisis.

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