



Opportunity Zones - What, Where And How

by [Steve Brown](#) Topics: [lending](#), [business customers](#), [funding](#)

Summary: Opportunity zones from the Tax Cuts and Jobs Act may provide community banks with new loans and new customers. We give you an update.

Dictionary.com says "opportunity" is *a set of circumstances that makes it possible to do something*. Bankers love opportunity and community bankers are especially adept at doing positive things in their communities regardless of the circumstances.

In the world of the IRS, opportunity zones exist and many went virtually unnoticed when the Tax Cuts and Jobs Act became a reality in 2017. At that time, everybody was focusing on refunds and the large tax benefits offered to companies. But, now that the dust has settled, banks are turning to page 130 of the Act. There they will find a federal tax incentive program that has the potential to bring new customers to community banks.

How does it work? Taxpayers who invest their capital gains into funds aimed at opportunity zones are able to defer tax gains through 2026. If they are patient enough and keep their investment longer than 5Ys, they will get a 10% break on their taxes, if they wait for 7Ys, they will benefit from a 15% break and finally when they reach the 10Y mark, it is a total wipeout of taxes. Sounds enticing, right?

So, what are these zones? They are low-income census tracts where at least 50% of the households have income below 60% of their area's medium gross income or a 25% poverty rate. Needless to say, some of these areas are so challenged that without the tax incentive, little would likely be done to improve these areas. But, the opportunity zones suddenly give local developers a chance to renovate schools, build multifamily homes, develop hospitals... and so forth.

Community bankers know their territory well and will be able to evaluate the seriousness of local opportunity zone projects. To start, you may want to recommend these projects to those customers of yours who may wish to reduce their own taxes in a local investment. However, make sure these customers work with their tax advisor on any projects, since there is a holding period of up to 10Ys as noted above.

For banks, these projects offer an avenue to boost lending in areas such as commercial loans, construction loans or multi-family loans to local investors. In this way, your bank can play a pivotal role in jump-starting businesses, while bringing new customers to your institution.

Where are these zones? There are more than 8,700 certified opportunity zones across the country. They are in areas such as Charlotte (NC), Columbia (SC), Detroit (MI), Philadelphia (PA), Miami (FL), Saint Louis (MO), Birmingham (AL) and a host of other cities. At least 160 funds have already been created and according to the tax consulting firm Novogradac, \$20B in capital has been raised so far.

Projects vary, of course. In West Palm Beach, FL, The Related Group is focused on market rate apartments. Elsewhere in Birmingham, AL, the long dormant former headquarters of an insurance company may be converted into affordable housing. There are also discussions around creating vertical farms in the Bronx, NY and in Baltimore, MD.

Community banks are well equipped to reach local developers and support strong deals, which are the keys for success. If this is something that interests your bank, keep your eyes open for these projects, as they continue to become available.

ECONOMY & RATES

Rates As Of: 05/29/2019 12:45PM (PDT)

Treasury	Yields	MTD Chg	YTD Chg
3M	2.35	-0.06	-0.01
6M	2.37	-0.07	-0.10
1Y	2.30	-0.08	-0.30
2Y	2.10	-0.17	-0.39
5Y	2.06	-0.22	-0.45
10Y	2.26	-0.24	-0.43
30Y	2.69	-0.24	-0.33
FF Market	FF Target	Fed Disc	
2.39	2.50	3.00	
SOFR	Prime	Unemp	
2.41	5.50	3.60	

[More Market Rates](#)

BANK NEWS

M&A

1) Pendleton Community Bank (\$308mm, WV) will acquire Bank of Mount Hope (\$121mm, WV) for \$21.8mm or 1.35x tangible book. 2) First Internet Bank of Indiana (\$3.5B, IN) will acquire the SBA division of First Colorado National Bank (\$69mm, CO) for an undisclosed sum. 3) Heritage Bank of Commerce (\$3.1B, CA) will acquire Presidio Bank (\$862mm, CA) for \$200.3mm in stock (100%) or 2.06x tangible book. 4) First National Bank (\$1.0B, SD) will acquire Advantage Bank (\$310mm, CO) for an undisclosed sum. 5) Campbell County Bank (\$102mm, SD) will acquire Menno State Bank (\$38mm, SD) for an undisclosed sum in stock (100%). 6) Southern States Bank (\$888mm, AL) will acquire Small Town Bank (\$236mm, AL) for an undisclosed sum in stock and cash. 7) Citizens Bank and Trust Co (\$832mm, MO) will acquire Summit Bank of Kansas City (\$47mm, MO) for an undisclosed sum. 8) Farmers Bank & Trust Co (\$1.5B, AR) will acquire Bank of Prescott (\$73mm, AR) for an undisclosed sum.

CU Trust

A new credit union service organization known as Credit Union Trust has obtained a bank charter that will allow it to offer trust and investment services.

Owner Fraud

[Research by the AFCE](#) on fraud finds owners and executives account for 19% of frauds.

DEPOSIT OPPORTUNITY YIELDING 2.55%

In an effort to expand our relationships, PCBB is pleased to offer community banks a money market deposit account rate of 2.55%, subject to availability. Contact operations@pcbb.com.

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