

# **Community Development Financial Institutions: Their Unique Role and Challenges Serving Lower-Income, Underserved and Minority Communities**

**House Financial Services Committee  
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## **Written Testimony for CDFI Fund Director Donna J. Gambrell**

### **Introduction**

Good afternoon Chairman Frank, Ranking Member Bachus, and the distinguished Members of the House Financial Services Committee. My name is Donna J. Gambrell, and I am the Director of the U.S. Department of the Treasury's Community Development Financial Institutions Fund—known as the CDFI Fund. I am truly honored to be here today to speak before you about the CDFI Fund and our role in helping to promote economic recovery in these challenging times.

Since its founding in 1994, the CDFI Fund has been committed to creating opportunity in disadvantaged communities. But in the past year there has been a growing recognition that the work of the CDFI Fund—and of the more than 800 certified CDFIs across the nation—is more important than ever. The financial crisis has only magnified the daunting challenges that low-income communities have long faced, and the CDFI Fund has been called upon to expand its work and to play a larger role in promoting economic recovery in communities that have been hardest hit by the recession.

I am pleased to report that the CDFI Fund has served with distinction in answering that call. In my testimony today I will outline the many ways in which, since the beginning of the recession, the CDFI Fund has worked to build small businesses and to create jobs in low-income communities, to develop affordable housing, and to expand the capacity of community-based social service organizations, such as community healthcare centers. I will also look at some of new proposed initiatives we hope to undertake in the coming year to ensure that the recovery that is now under way will be shared by all.

Above all, I would like to assure the Members of this Committee that the CDFI Fund is more than prepared to continue answering the call. We are uniquely positioned to serve low-income and economically distressed communities. We have welcomed every new responsibility with which we have been entrusted in the past year, and we will welcome every new responsibility going forward. Just last week I spoke before the Congressional Black Caucus, which includes 10 Members of this Committee, to share with them the same important message: The CDFI Fund stands ready to play an even greater role in bringing economic opportunity to those who need it most.

## The Work of the CDFI Fund

I would like to begin by providing a brief overview of the origins and the work of the CDFI Fund.

In the early 1990s, Congress recognized that many of the critical social problems facing our nation's distressed urban, rural, and Native American communities were caused in part by a host of crippling economic problems—stagnant economic growth, widespread unemployment and deep poverty, inadequate financial access and education, and the lack of economic opportunity. To address these issues, Congress in 1994 enacted the Riegle Community Development and Regulatory Improvement Act (P.L. 103-325), which included a provision that established the CDFI Fund.

The mission of the CDFI Fund is to promote economic revitalization and community development through an investment and assistance program for Community Development Financial Institutions (CDFIs). CDFIs are community-based financial institutions that specialize in serving low-income people and economically distressed communities. There are four main types:

- **Community development banks** are for-profit corporations that provide capital to rebuild economically distressed communities through targeted lending and investment. Of CDFI banks, 54 percent are defined by the FDIC as Minority Depository Institutions, indicating that these banks are minority-owned or are focused on serving the needs of a minority community;
- **Community development credit unions** are member-owned non-profit cooperatives that promote ownership of assets and savings, and provide affordable credit and retail financial services to low-income people;
- **Community development loan funds** (usually non-profits) provide financing and development services to businesses, organizations, and individuals in low-income urban and rural areas, and can be further categorized based on the type of client served: micro-enterprise, small business, housing, and community service organizations; and
- **Community development venture capital funds** include both for-profit and non-profit organizations that provide equity and debt-with-equity features for businesses in distressed communities.

CDFIs typically offer loan rates and terms that are more flexible than those offered by traditional financial institutions. They also provide financial services—such as technical assistance for small businesses, and home buying and credit counseling for consumers—that help to ensure that borrowers use credit effectively.

The CDFI Fund currently seeks to build the capacity of CDFIs through a number of programs, including:

- **CDFI Financial and Technical Assistance** - Provides capital grants to certified CDFIs, which in turn provide loans, investments, financial services (including financial education) and technical assistance to underserved populations and low-income communities; also provides technical assistance grants to certified CDFIs and entities that will become certified as CDFIs within three years.
- **Native Initiatives** - Provides financial assistance awards, technical assistance grants, and training to CDFIs created specifically to serve Native Communities and to other Native entities proposing to become or create Native CDFIs.
- **Bank Enterprise Award** - Provides monetary awards to FDIC-insured banks to increase their investment in low-income communities and/or in CDFIs. The CDFI Fund is proposing not to fund the BEA in FY 2011. Instead, the CDFI Fund will evaluate the enhancements made to the BEA in FY 2009 and FY 2010 and apply this analysis to future funding decisions.
- **New Markets Tax Credit** - Provides tax allocation authority to certified Community Development Entities (CDEs), enabling investors to claim tax credits against their federal income taxes; the CDEs in turn use the capital raised to make investments in low-income communities.
- **Capital Magnet Fund** - Authorized under the Housing and Economic Recovery Act of 2008, the Capital Magnet Fund provides a source of funding for CDFIs and other non-profits to finance the development, rehabilitation, and purchase of affordable housing for low-income persons. The CDFI Fund is proposing not to fund the CMF in FY 2011. Treasury will undertake a careful review of the impact of FY 2010 funding, and future resource decisions will be informed by this review.

Since its creation in 1994, the CDFI Fund has made more than \$1.1 billion in awards to CDFIs. As of December 18, 2009, there were 824 certified CDFIs. During FY 2009, 55 new CDFIs were certified, 14 more than were certified in the prior year. This increase in the number of certified CDFIs will no doubt increase the number of applications in future funding years.

### **The CDFI Fund's Expanded Role in the Economic Recovery**

In the current environment there is a renewed discussion of the importance of community development finance and its role in promoting economic recovery. The result of this discussion is that CDFIs have been asked to play a critical role in helping to revitalize the nation's economy. Indeed, President Obama views the CDFI industry as a key part of his strategy to address the financial crisis, and Congress and the Administration have taken major steps to expand the CDFI Fund's mission and impact.

The first of these steps was the passage of the American Recovery and Reinvestment Act on February 17, 2009. The Recovery Act provided the CDFI Fund extra funding—\$100 million beyond our annual appropriation for fiscal year (FY) 2009—to enhance the lending capacity of CDFIs. The new legislation also contained an additional \$3 billion of New Markets Tax Credit allocation authority. In addition, the Administration supported strong levels of funding for the CDFI Fund in FY 2010.

We at the CDFI Fund have been mindful of the tremendous responsibility that we have been given in the midst of the financial crisis, and we have worked tirelessly to ensure that we implement the Administration's agenda as quickly and effectively as possible. Our key accomplishments in 2009 include:

- **Rapid disbursement of Recovery Act resources** – Less than 100 days after the enactment of the Recovery Act, the CDFI Fund announced financial assistance awards through the Recovery Act to 59 CDFIs and to 10 Native CDFIs. Just two months later—in record time—we disbursed all \$98 million available for grants from the Recovery Act to these CDFIs.

In addition to disbursing the Recovery Act awards, we made 193 financial and technical assistance awards totaling \$160.8 million (compared to 118 awards totaling \$62.4 million in FY 2008) through our CDFI and Native American CDFI Assistance (NACA) programs. We also solicited and reviewed over 200 additional applications through supplemental NACA and CDFI financial and technical assistance award rounds in FY 2009.

- **Creation of a new Advisory Board Subcommittee** – As the financial crisis deepened in late 2008, Bill Bynum, the Chairman of the Community Development Advisory Board and CEO of the Enterprise Corporation of the Delta, and I agreed to form a new Advisory Board Subcommittee to assess the impact of the crisis on the institutions that the CDFI Fund supports and to offer policy recommendations to increase that support. The Subcommittee presented its recommendations in March 2009, and the CDFI Fund has made significant progress in implementing those recommendations. For example, in July 2009 we created a new Office of Training and Outreach that focuses on expanding training and outreach by coordinating activities with government and non-governmental organizations interested in improving conditions in low-income communities.
- **Enhancement of key business processes** – In 2009, we made several administrative changes designed to enable us to get funds more quickly than ever to the communities that need them. We now make decisions on all new applications for CDFI and CDE certification within 90 days after we receive them. We send out assistance agreements on the same day we make award announcements. And on average we now disburse awards—a process which used to take over 12 months—in 60 days.
- **Launch of a new Capacity-Building Initiative** – This new initiative seeks to ensure the growth and sustainability of CDFIs by providing expanded technical assistance and training opportunities. Among its key components:

- **Assistance for specialized CDFIs** - Enables CDFIs to grow their capacity to address complex problems in their specialized markets, and helps to establish new CDFIs in markets where financial institutions have not historically existed.
- **Affordable housing lending** – Provides assistance to CDFIs in identifying the best strategies for restructuring troubled loans, as well as developing new lines of business.
- **Small business lending** – Helps CDFIs that make small business loans—and that may be seeing their clients struggle or even disappear—develop adequate resources and new lines of business.
- **CDFI business process** - Provides technical assistance to enable CDFIs to manage their portfolios, to minimize risk, to address liquidity and capitalization issues, and to expand into new markets.
- **Launch of a new Community Development Capital Initiative** – This new initiative gives certified CDFI banks, thrifts, and credit unions access to capital investments under the Emergency Economic Stabilization Act at a dividend rate of two percent for the first eight years and nine percent thereafter. This new initiative will offer affordable capital to CDFIs across the country, which will help expand the offering of credit to small businesses seeking to expand and to create jobs.

**The Impact of CDFIs**

The financial crisis has presented extraordinary challenges to our nation’s distressed communities. The entire nation is living and working in a new and uncertain environment.

The CDFI Fund and the CDFI industry have chosen to accept this new environment as it is—as something not simply to endure but to face head on, to understand, and to navigate as skillfully and effectively as possible. I do not want to minimize the challenges confronting the CDFI industry in the wake of the economic downturn, but I most certainly believe that there is another side to the story, a very positive side. Indeed, I can assure you that, despite the very real challenges it presents, the new economic environment has offered very real opportunities for CDFIs to expand their impact in the communities they serve.

I am pleased to report that the CDFI industry has made exceptional progress in realizing those opportunities. Consider the accomplishments of CDFI Fund awardees reported in 2009:

<b>Performance of CDFI Awardees During 2008</b>	
1. Number of Full Time Jobs Created or Maintained (77)*	70,260
2. Number of Small Businesses Financed (104)*	10,792
3. Number of Commercial Real Estate Properties Financed (55)*	1,676
4. Number of Affordable Housing Units Financed (22)*	2,133
5. Number of Homebuyers Who Obtain Financing (50)*	1,998
6. Number of Accounts Opened to the Unbanked (11)*	4,235

7. Dollars, in millions, Leveraged with Private Investments*	\$1,298
8. Number of Individuals Provided with Financial Literacy and Other Training (126)*	159,546
9. Individual Development Accounts (IDAs) Provided by CDFIs (53)*	6,478
10. Dollar amount, in millions, of IDAs (54)*	\$5.86

\* Numbers in parentheses are the number of CDFI Program awardees reporting on this particular measure.

Our industry’s performance in 2008 speaks volumes about its resilience, commitment, and creativity. At the same time, however, I would like to encourage everyone who reviews our record to look beyond the statistics, for there is much more to the story than numbers alone. Each business financed, each job created, each home purchased, each Individual Development Account opened represents a critical step in the transformation of a life, a family, and a community.

After all, that’s what our work is really about. It’s not just about creating programs and providing services; these are just the means to a greater end. It’s about changing lives and building stronger, more productive communities. And that’s why we keep working every day to do what we do even better.

### **CDFIs as Innovators**

But CDFIs are not only focused on transforming lives and communities. They are also helping to transform the financial services industry by creating innovative financing tools to serve the unique needs of their clients. Let me give you just a few examples of the CDFI industry’s capacity for innovation.

The Montana Community Development Corporation (MCDC), a CDFI based in Missoula, is known for working on complex, multi-partner deals with “triple bottom line” impact. In one such deal, MCDC was the coordinator of a loan to a 100-year old dairy. The loan financed a \$1.2 million methane digester that has enabled the dairy to recycle 100 percent of its waste into fertilizer, and has turned the dairy into an environmental leader. Eventually the dairy plans to sell Carbon Credits. MCDC led the project with its own financing as well as funds from two economic development groups, two banks, and four federal grant programs. Montana Senator Jon Tester recently recognized this effort as one of the leading triple bottom line economic development projects in the state.

The Reinvestment Fund (TRF) is another CDFI exploring ways to promote “green” values. The Philadelphia-based organization partnered with The Food Trust, a nonprofit dedicated to making healthy food available to all, to develop and implement a sustainable energy model for supermarkets in underserved communities in Philadelphia. The initiative recently completed a small grocery store demonstration project with energy audits and a revenue tracking system, and is now working with TRF’s supermarket financing program to identify sites for large, neighborhood green supermarkets. As result of this initiative, TRF is able to help new and existing supermarkets identify and evaluate energy efficiency measures, such as high-efficiency lighting and refrigeration equipment, which can translate into savings.

One more example: the New Hampshire Community Loan Fund, in Concord, NH, was founded in 1984 to use capital and technical assistance to help people change their lives. The organization made its first loan to thirteen families facing eviction from their manufactured housing park when the park's owner decided to sell the property to condominium developers. The loan enabled the families to buy the park and manage it as a cooperative. It also launched the Community Loan Fund's Manufactured Housing Park Program, which, since 1984, has helped more than 5,000 families and individuals from 93 manufactured housing parks throughout New Hampshire to buy the land beneath their homes and convert their parks to cooperative ownership. The program offers an outstanding example of what can happen when a CDFI keeps its eyes open and works hard to develop innovative solutions to the problems in the communities it serves.

These are just three examples of the quality of innovation to be found at CDFIs. While these three organizations may seem exceptional, I can assure you that they are anything but rare. Our industry is filled with innovators who are dedicated to developing uncommon solutions to pressing economic problems. And I believe that this spirit of innovation can help to bring about an economic recovery that is strong and stable and shared by all Americans.

### **Moving Forward Together**

As we celebrate the 15<sup>th</sup> anniversary of the creation of the CDFI Fund, this is an opportune time not just to reflect on what the CDFI Fund has accomplished but also to look forward to envision the next steps we can take to create opportunity in our nation's most distressed communities.

We have recently released a request for public comments and plan to take a holistic review of our entire authorizing statute, looking not only at technical and substantive revisions to existing provisions, but also at provisions that have not yet been exercised. As an important part of this process we will also hold listening sessions with CDFIs across the country to discuss the community economic development challenges they face and to get insight firsthand from the communities they serve. The information we gather from the public comments and listening sessions will no doubt guide us as we develop plans for the CDFI Fund's future.

But some of our next steps are already clear. The President's FY 2011 Budget builds on the CDFI Fund's recent momentum by requesting \$250 million in funding, including resources for two new exciting initiatives in which the CDFI Fund will play a key role. The first of these is the Bank on USA initiative that will help expand access to mainstream financial services to help families avoid predatory lending traps and high fees for check-cashing and other alternative financial services. The initiative will promote broader access to bank accounts, basic credit products, and other financial services to help these families build savings and solid credit histories. The FY 2011 Budget proposes \$50 million to establish for the Bank on USA initiative.

The President's FY 2011 Budget also provides funding for a second new initiative—the Healthy Food Financing Initiative, which is a new multi-year, multi-agency effort to increase the availability of affordable, healthy foods in underserved urban and rural communities. Forming a pillar of First Lady Michelle Obama's *Let's Move!* campaign to solve the epidemic of childhood obesity within a generation, the initiative will emphasize the development or equipping of

grocery stores and other healthy food retailers. The USDA, HHS, and Treasury will provide funding to organizations with sound strategies for providing healthy foods to underserved markets. The initiative includes \$250 million in New Markets Tax Credit investment authority, \$25 million in grants to CDFIs, and technical assistance to help finance businesses dedicated to achieving the goals of the initiative.

The budget also includes an extension of New Markets Tax Credit and important enhancements to the credit. The NMTC attracts investments by allowing investors to claim a 39 percent credit against their federal income taxes in return for making equity investments in Treasury certified Community Development Entities (CDEs), which in turn invest in businesses and real estate projects that serve distressed communities. The FY 2011 Budget requests \$5 billion in NMTC authority in both 2010 and 2011 and is also proposes that the NMTC be used to offset not only investors' regular federal income taxes but also the taxes they owe under the Alternative Minimum Tax (AMT), and that AMT relief should apply to all NMTC investments that have yet to be made, whether from prior allocation rounds or from the 2010 and future rounds.

Applying AMT relief to all future NMTC investments will attract new private investors that will help strengthen the current market for NMTC credits that have already been allocated, and would establish a clear and consistent policy that would eliminate confusion among investors. If enacted, this proposal would enable the NMTC to speed recovery in the hardest hit communities by greatly increasing its ability to attract private investors.

These are just three steps that we hope to begin in 2010. We must also continue our strong commitment to help CDFIs expand the critical work they do supporting recovery in distressed communities across the country.

Not long ago I was in a meeting with Representative Danny Davis and he said to me, "My District is an island of need looking for a sea of opportunity." There are many islands of need out there today, many looking for a sea of opportunity that in the past year has become more difficult than ever to find.

But I believe that there is real hope for these communities. There is real hope because CDFIs and the CDFI Fund are committed to ensuring that economic development and job growth reach the communities that need them most. In 2010 and beyond, we will continue building partnerships with other government and non-governmental organizations that are dedicated to strengthening low-income communities. And we will do our very best to bring economic opportunity to each and every island of need in the nation.

On behalf of the CDFI Fund, I would like to express our gratitude for the support of Congress and the Financial Services Committee. We look forward to continuing to work with you in the future.