



DIRECTOR

DEPARTMENT OF THE TREASURY
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND
601 THIRTEENTH STREET, NW, SUITE 200 SOUTH
WASHINGTON, DC 20005

August 24, 2009

Dear Community Development Advisory Board Members:

The authorizing statute of the Community Development Financial Institutions (CDFI) Fund charges the Community Development Advisory Board with an important responsibility of providing recommendations on the policies, programs and practices of the CDFI Fund. Last October, in the midst of the worst financial crisis in over 50 years, we established a new Advisory Board Subcommittee. This letter serves to provide an update on the progress that the CDFI Fund has made over the last five months on the Advisory Board Subcommittee's recommendations that were submitted in March.

Background

The Subcommittee's ambitious goal was to identify the impacts of the financial crisis on the institutions that are supported by the CDFI Fund - CDFIs, community development entities (CDEs), and other financial institutions that are eligible for awards through the Bank Enterprise Award (BEA) Program - and to prepare recommendations to best position the CDFI Fund to support their efforts to serve economically distressed communities.

The Subcommittee gathered information from a wide representation of the community development finance industry through written comments, public meetings, and conference calls. The information gathered from these stakeholders made crystal clear the impact of the economic crisis on the institutions supported by the CDFI Fund and the communities they serve. We also gained valuable information about the critical needs of these institutions including the increased need for capital and liquidity.

This process also helped us to begin identifying the "best practices" and innovative solutions that CDFIs and CDEs have been utilizing to deliver financial services, financial products, and capital investments in underserved communities. The efforts of the Subcommittee resulted in the formulation of important recommendations that were formally presented to the full Advisory Board and the CDFI Fund on March 5th.

The CDFI Fund's Progress to Date

Through the leadership of Director Donna Gambrell, I am very pleased to report that significant progress has been made implementing the Subcommittee's recommendations and I know Donna is committed to continuing this important effort.

Additional Appropriations for the CDFI Fund

Several recommendations from the field focused on the need for additional appropriations to the CDFI Fund. On July 16th, the U.S. House of Representatives voted 219-208 to pass the fiscal year (FY) 2010 Financial Services spending bill. The legislation, if enacted, would provide \$243.6 million for the CDFI Fund, including \$113 million for the CDFI Program, \$80 million for the Capital Magnet Fund, \$12 million for the Native Initiatives, \$1 million for a financial education pilot program, and up to \$18 million for administrative expenses, including those associated with the New Markets Tax Credit (NMTC) Program. As recommended by the Advisory Board, this legislation proposes to waive the CDFI and Native American CDFI Assistance (NACA) Programs' matching funds requirement and the award cap in FY 2010, mirroring legislative provisions enacted through the American Recovery and Reinvestment Act of 2009 (the Recovery Act).

The U.S. Senate Appropriations Committee approved \$246.75 million for the CDFI Fund in FY 2010. The Senate legislation is \$3.15 million above the President's budget request and includes a provision for a financial education pilot program. Also, as recommended by the Advisory Board, this legislation proposes to waive the CDFI and NACA Programs' matching funds requirement and the award cap in FY 2010. The small differences will be dealt with when both houses of Congress enter conference as the final appropriations legislation moves forward later this year. The strong support shown in the President's budget request – and the recent actions by Congress – clearly demonstrate new support for the CDFI Fund.

Recovery Act

Understanding the challenges faced by CDFIs and CDEs, I must commend the CDFI Fund for expeditiously implementing the provisions of the Recovery Act. Just 100 days after passage of the Recovery Act, the CDFI Fund announced \$1.5 billion in NMTC allocations, and less than 30 days after that, had awarded \$98 million in grants through the CDFI and NACA Programs.

Not only did the CDFI Fund announce these awards so quickly, for the first time in its history it also sent the awardees' Allocation Agreements and Assistance Agreements (the legal agreement between the CDFI Fund and an awardee) on the date of the award announcement. The CDFI Fund can only begin disbursing award dollars after the awardee signs the agreement. Therefore the CDFI Fund's work to expeditiously send and process these agreements will greatly accelerate the disbursement of these critically needed resources. In fact, 57 of the 59 CDFI Program awards announced June 29th already have been fully disbursed for \$86,000,000 – over 95 percent of the award dollars.

Training and Outreach Initiatives

In response to the Advisory Board's recommendations related to training and outreach, in July the CDFI Fund officially created an Office of Training and Outreach as part of a recent reorganization. This office already has its first staff member who is aggressively developing a strategic plan to quickly stand up this important initiative. The mission of this new office is to specifically focus on expanding the training and outreach activities of the CDFI Fund by

maximizing opportunities and coordinating activities with government agencies and non-governmental organizations interested in improving conditions in low-income communities.

The Training and Outreach Office will also work on the Advisory Board's recommendation to provide direct technical assistance to new and existing CDFIs to increase their capacity. In this regard, the CDFI Fund announced last Friday the launch of a new Capacity-Building Initiative that will provide specialized technical assistance and training for CDFIs. The Capacity-Building Initiative will utilize the procurement of third-party vendors through a Blanket Purchase Agreement (BPA) solicitation. The BPA is a federal procurement tool that allows multiple vendors to be selected and then engaged for specific tasks geared toward the vendor(s) expertise. The BPA solicitation includes four key task orders that align with the Advisory Board's recommended training initiatives: 1) training to specialized CDFIs such as organizations serving rural communities or other market niches; 2) training in affordable housing lending, loan workouts; 3) training in business lending, portfolio management, risk assessment; and 4) training in CDFI business processes, assistance with liquidity and capitalization.

The CDFI Fund is also in the last stages of submitting a new task order under the existing BPA for the Native Initiatives. The task order requires the vendor to conduct a study of the impact of the Native Initiatives training and technical assistance activities. The study will determine the effectiveness and impact of the training and technical assistance the CDFI Fund has provided under the Native Initiatives. It will also identify the types of training and technical assistance needed to move Native Communities along the continuum of development.

Capital Magnet Fund

One source of new capital for CDFIs will be the Capital Magnet Fund; a recommendation from the Advisory Board was to seek direct appropriations for this program. Working closely with the new Administration, the CDFI Fund was able to secure the request for \$80 million for the Capital Magnet Fund in the President's FY 2010 budget. The CDFI Fund is now moving quickly to stand up the Capital Magnet Fund and published in March a Request for Public Comment notice in the Federal Register inviting comments and suggestions regarding how the CDFI Fund should design, implement, and administer the Capital Magnet Fund. The CDFI Fund received a total of 37 letters by the May 5th deadline and is now developing proposed program regulations and a Notice of Funds Availability (NOFA) for publication in the Federal Register in the spring of 2010. The NOFA will include performance metrics that applicants will be required to achieve, should they receive an award. The public comments have been made available on the CDFI Fund's website.

New Markets Tax Credit Program

As for our recommendations related to the NMTC Program, the CDFI Fund has held multiple meetings with the Treasury Department's Office of Tax Policy to exempt NMTC investments from the Alternative Minimum Tax (AMT). The Office of Tax Policy is in the process of determining, based on data that the CDFI Fund has prepared for them, the budgetary impact of such a proposal. I am happy that the new Administration has requested in the President's FY 2010 budget that Congress extend the NMTC Program through 2010, with \$3.5 billion. No

determinations have been made yet regarding whether a longer term reauthorization can be supported but discussions will continue on this important issue. I am pleased to report that legislation has been introduced in both the House and Senate that would extend the NMTC Program for five additional years and make available \$25 billion in NMTC allocation authority.

Several recommendations addressed statutory changes that would enable NMTC investments to be used for home mortgages, increase investments in small businesses, or to make the tax credit deeper. Director Gambrell has met with Assistant Secretary Michael Barr to discuss potential changes for the NMTC Program, but it has not yet been determined whether these changes will be pursued. The CDFI Fund believes that many desirable outcomes could be achieved through changes to the IRS regulations and the CDFI Fund is already pursuing further discussions with the Office of Tax Policy on these matters.

Regarding the targeting of NMTCs, the CDFI Fund believes that it has been successful in steering NMTC investments to severely distressed communities via the application process. To date, approximately 75 percent of NMTC investments have been made in census tracts with a poverty rate of 30 percent or greater; a median family income at or below 80 percent of area median family income; and/or an unemployment rate of at least 1.5 times the national average. Nevertheless, the CDFI Fund recently put out a solicitation for comments relating to the NMTC application review and selection process; and will certainly give further consideration to this issue, based upon the comments that it receives. I encourage all of you to share your comments regarding the NMTC Program application.

Certification

In regards to the Advisory Board's recommendations on the certification process, the CDFI Fund has taken the first steps toward instituting a new recertification process. Specifically, the CDFI Fund has verified all CDFIs currently in operation and has revised its internal policies. The next steps include updating the certification/recertification application and the review procedures, which is expected to commence this month. These procedures will include revisions to better define and shorten the review process in order to reduce the overall application cycle time. The intake and review of actual recertification applications is targeted to commence this coming fall.

Additionally, the CDFI Fund has revised the CDFI and NACA Programs' Certification of Material Events form to more efficiently gather the required information, thereby reducing the process burden on both applicants and CDFI Fund staff. Updated procedures for the Material Events reporting process will be included in the updated application and review procedures, and the revised Material Events form will be published in the Federal Register for comments, in accordance with the Paperwork Reduction Act in the coming months.

Liquidity

As for our recommendations related to increasing the liquidity of CDFIs, I am pleased to report that I have had meetings with Assistant Secretary for Financial Institutions Michael Barr, Assistant Secretary for Financial Stability Herb Allison, and Counselor to the Secretary Gene

Sperling. I have shared with them several of the Advisory Board's recommendations on liquidity enhancement and I am looking forward to further discussions in the very near future.

Research Agenda

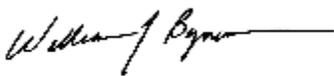
Finally, in regards to the Advisory Board's last recommendation on needed research, a proposed research agenda has been developed for FYs 2010 and 2011, but its full implementation depends on receiving sufficient funding from Congress. The proposed research agenda includes, among other items, conducting a comprehensive, longitudinal evaluation on the CDFI Program, which has never been evaluated in the CDFI Fund's almost 15 year history.

Budget constraints aside, the CDFI Fund's research staff has moved forward on several fronts, including exploring ways to streamline data requirements of past award recipients through the Institutional Level Report (ILR) and Transaction Level Report of the CDFI Fund's Community Investment Impact System, or CIIS; and to use this insight to craft a streamlined document to serve as the quarterly ILR that is required by recent award recipients through the Recovery Act.

In addition, the CDFI Fund's research unit has developed alternative measures of economic distress based on more contemporary data. A set of distress indices has been compiled for different geographic areas based on state and multi-county data derived from the following measures and data sources: the Department of Housing and Urban Development's (HUD) 2008 annual state and county-level estimates of housing foreclosure starts; 2008 state and county-level annual average unemployment rate data from the Bureau of Labor Statistics, Local Area Unemployment Statistics; and Census Bureau 2007 data from the American Community Survey on median family income and poverty. These data and alternative distress indices may be used to inform the CDFI Fund's policy deliberations in FY 2010.

In closing, , I am pleased with the numerous steps the CDFI Fund has taken to incorporate the recommendations from the Advisory Board, and that it continues to work diligently on outstanding matters. We hope to soon schedule an Advisory Board meeting in October that will be held at the Treasury Department, when we will discuss this progress and additional important issues.

Sincerely,



William Bynum
Chairman
Community Development Advisory Board