

Creating Jobs and Transforming Communities:  
Funding for the Small Business Administration and the  
Community Development Financial Institutions Fund



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Services and General Government**  
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**Introduction**

Good morning Chairman Durbin, Ranking Member Moran, and the distinguished Members of the Senate Appropriations Subcommittee on Financial Services and General Government. 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. Thank you for inviting me to speak today about the CDFI Fund's fiscal year (FY) 2012 Budget Request and the critical ways in which the CDFI Fund is promoting economic development efforts throughout the country.

I would like to start by expressing my deep appreciation to this Subcommittee and to Congress for its long history of support. The CDFI Fund's programs stimulate the economy in communities often considered too risky for mainstream financial institutions. Community Development Financial Institutions (CDFIs) are strategically positioned to help some of the most vulnerable populations in the nation at a time when they are facing many financially challenging situations. CDFIs are often the only source of financing in underserved communities. CDFIs support productive small businesses, affordable housing for low-income Americans, high-quality community facilities, and provide retail banking services to the un-banked and others often targeted by predatory lenders.

I have been Director of the CDFI Fund for over three years, during a time when our nation has endured the greatest recession in generations. The recession has had far-reaching consequences for our entire nation, but nowhere has there been a more detrimental impact than on distressed and low-income communities. Many of these same communities were already suffering before the financial crisis, and their recovery will now take much longer than in other parts of the country.

My principal role as Director is to ensure that the CDFI Fund is doing everything possible to alleviate the economic burden on low-income communities, primarily through support of CDFIs and other institutions that focus their efforts on serving these at-risk communities.

CDFIs are financial institutions that take a variety of forms—they are loan funds, credit unions, community banks, and venture capital funds. They are local, regional, and even national organizations that spur economic and community development in distressed areas from a grassroots level. CDFIs, as a class of financial institutions, have years of experience providing financial products and credit counseling services that permit borrowers to enter into and participate



successfully in the financial mainstream. CDFIs fill a critical gap in the financial industry—they serve target markets that are historically underserved and they provide economic development services for niche areas that require specialization. The CDFI Fund encourages the growth and capacity of this valuable industry through a strategic deployment of resources.

## **The CDFI Fund's Role**

The United States Congress established the CDFI Fund as a bipartisan initiative under the Riegle Community Development and Regulatory Improvement Act of 1994 (Public Law 103-325). Recognizing the need to bolster a fledgling industry that was making significant inroads in economic development in low-income communities, the bill's authors designed the CDFI Fund to provide financial and technical support to CDFIs with the goal of improving economic conditions in low-income neighborhoods across the country. The mission of the CDFI Fund is to increase economic opportunity and promote community development investments for underserved populations and in distressed communities in the United States.

As a vital component of the Department of the Treasury, the CDFI Fund closely aligns itself with Treasury's core priority of strengthening economic growth. The CDFI Fund's programs are designed to generate a maximum economic benefit to low-income communities with a minimum federal cost.

It begins with CDFI certification. To be certified as a CDFI by the Treasury Department, organizations are required to meet a strict set of criteria, including having a primary mission of community development, as well as serving a target market that meets at least one of the CDFI Fund's definitions of a distressed or low-income community. One common type of target market is a census tract that has a poverty rate of at least 20 percent, or an unemployment rate 1.5 times the national average, or a median family income at or below 80 percent of the statewide or metropolitan average.<sup>1</sup> As organizations must be certified as CDFIs in order to be eligible for funding under many of the CDFI Fund's programs, the certification criteria allow Treasury to verify that awards are going to the neighborhoods that need them the most. Almost 200 CDFIs were certified or re-certified in FY 2010 alone, and as of April 2011 there are 949 certified CDFIs across the nation and the United States territories.

Once certified, the most common way for a CDFI to participate in the CDFI Fund's programs is through our core program, the CDFI Program. The CDFI Program provides Financial Assistance and Technical Assistance awards to qualified CDFIs. These awards are intended as seed money to attract more private capital into CDFIs and their investments in distressed communities. The awards also allow CDFIs to leverage resources to increase the size of their service area and to build their own internal capacity so that they can better serve their target markets.

Demand for CDFI Program awards has significantly increased over the years. For the FY 2011 award round, the CDFI Fund received 393 applications from CDFIs requesting a total of almost \$465.9 million in assistance, nearly three times the \$169.7 million available. Because of the continual high demand coupled with limited resources, the CDFI Fund capped the maximum award at \$1 million in FY 2009, and even lower at \$750,000, in FY 2010.



Another CDFI Fund program, the Native Initiatives, also continually faces demand well beyond its available resources. The Native Initiatives provides Financial Assistance awards, Technical Assistance grants, and training to Native CDFIs and other Native entities proposing to become or create Native CDFIs. Through the Native American CDFI Assistance Program (NACA Program) demand for financial and technical assistance continues to grow at a rate that eclipses available resources. In FY 2011, the CDFI Fund received more applications than ever in the history of the NACA Program, receiving 88 applications requesting \$35 million—a 48 percent increase over the \$23.7 million requested in FY 2010. Such an increase in demand demonstrates that the Native Initiatives is successfully reaching and building the lending capacity in communities that have lacked such capabilities until now.

The CDFI Program and the Native Initiatives are complemented by efforts to provide technical assistance and training to CDFIs. First is the Native Initiatives' "Economic Developments in Indian Country" workshops, co-sponsored by the Federal Reserve Bank of San Francisco, Seattle Branch. The 2010 workshop series featured presentations by four other federal development agencies, and allowed the participants to network and brainstorm solutions to economic development difficulties in Native communities.<sup>ii</sup> Forty percent of the FY 2011 NACA Program applicants attended at least one of the workshop sessions in 2010.

Second, the CDFI Fund's Capacity Building Initiative provides support to all forms of CDFIs in areas of key business practices or economic development interests. The Capacity Building Initiative was designed based upon input received from CDFIs nationwide to significantly boost the ability of CDFIs to deliver financial products and services to underserved communities. The initiative has already had a phenomenal response from the industry. CDFIs have demonstrated a demand for the initial four capacity-building training and technical assistance tracks, which will allow them to build their own internal capacity and expand their expertise in key areas currently affecting the communities they serve, such as affordable housing, business lending, and providing financing for healthy food activities. In addition to training, the CDFI Fund has also commissioned a research project to review CDFI coverage in distressed communities across the nation, which will allow CDFIs to determine where low-income communities are lacking access to CDFI services.

One of the key drivers of the Capacity Building Initiative is that innovation and a nimble response to changing economic conditions are stalwart traits of the CDFI industry. CDFIs have demonstrated these traits time and time again during the uncertain economy of recent years.

The CDFI Fund also administers other programs in support of community and economic development. The Bank Enterprise Award Program (BEA Program) rewards banks for completing community development investments in eligible census tracts. To date, the CDFI Fund has made over \$336 million in awards under this program, supporting increases in investments in CDFIs and low-income communities across the nation. Beginning in the FY 2009 funding round, the CDFI Fund required that all BEA awardees use their BEA awards for future CDFI support and community development activities, as defined under the BEA Program regulations. Awardees that receive awards over \$50,000 are required to report to the CDFI Fund on how the award was deployed.



No overview of the CDFI Fund's programs would be complete without the New Markets Tax Credit Program (NMTC Program), although it does not fall under the purview of this Subcommittee. The NMTC Program attracts investment capital to low-income communities by permitting individual and corporate investors to receive a tax credit against their federal income tax return in exchange for making equity investments in Community Development Entities (CDEs). CDEs in turn make loans and investments in businesses and real estate projects in low-income communities. CDEs must apply for the authority to issue New Markets Tax Credits to their investors. In any given application round, requests are generally seven to eight times higher than the available allocation authority. To date, NMTC investors have invested over \$20 billion into low-income urban and rural communities throughout the United States, approximately two-thirds of which has been invested in communities characterized by severe economic distress—census tracts with a poverty rate of 30 percent or with a median income at or below 60 percent of the area median family income.

### **Impact of CDFIs**

CDFIs serve distressed and low-income communities through innovation, specialization, and targeted services. The customers of certified CDFIs, on average, are 70 percent low income, 60 percent minority, and 52 percent female. These traditionally underserved target markets benefit from services provided by CDFIs that they could not receive from mainstream financial institutions.

For example, Boston Community Capital, a CDFI headquartered in Massachusetts, has developed a new Stabilizing Urban Neighborhoods initiative, where the CDFI partners with other organizations to buy foreclosed properties and sell them back to the original owners with a reduced mortgage payment, preventing displacement. As a result, low-income urban neighborhoods in Boston are at less risk of population loss due to unaffordable housing costs.

Another organization, Access to Capital for Entrepreneurs (ACE), which is a certified CDFI as well as an SBA Microloan Intermediary and USDA Intermediary Relender, has done excellent work encouraging the growth of small business ventures in the rural southeast. For example, an ACE microloan to Melissa Bennett allowed her to expand her cosmetics store to a second retail location in Georgia and to hire more help. The Dazzle Cosmetic Company now has eight employees in a rural area with a high poverty rate.

CDFIs have pioneered new youth financial education initiatives; encouraged the development of green industries and rural manufacturing; invested in transit-oriented development, charter schools, health care centers and other community facilities; and have created thousands of jobs through the steady support of small businesses. After both Hurricane Katrina and the Gulf Coast oil spill, CDFIs were at the forefront of re-building the Gulf Coast region and providing support for small business owners who saw their livelihoods threatened.

The CDFI Fund supports the growth of a stable community development financial institution industry that will make long-lasting and continual impacts across the nation.



## The President's FY 2012 Budget Request

The CDFI Fund's programs offer critically needed funding and resources that result in sustainable growth for the nationwide network of CDFIs. Due to the phenomenal track record of CDFIs leveraging the CDFI Fund's awards with private investment, there is a clear benefit of a large local impact for a small federal cost. In fact, CDFI Fund awardees leverage their awards with private investment by a factor of 13:1 on average, so it is possible that we may ultimately see over one billion dollars worth of investment stemming from the \$104.8 million in CDFI Program Financial and Technical Assistance awards that were announced in FY 2010. The broad impact that the CDFI Fund's awards make in low-income and distressed communities throughout the country is why the President's 2012 Budget Request included funding for the CDFI Fund.

The President's 2012 Budget Request includes funding for Financial Assistance and Technical Assistance grants for the CDFI Program. The stability inherent in a CDFI Program Financial Assistance award provides the most patient capital available to CDFIs, which is one of the reasons why this program is in such demand. The continued oversubscription of this program guarantees that there will be a high demand for the full amount of funding requested in the President's budget. In a similar vein, the funding proposed for Native Initiatives will support a growing economic development industry in Native communities that consistently request more funding than the CDFI Fund has available.

Included in the CDFI Program is grant funding for the Healthy Food Financing Initiative (HFFI). HFFI is a multi-year, multi-agency effort to increase the availability of affordable, healthy foods in underserved urban and rural communities. Through HFFI, the CDFI Fund will provide competitively awarded grants to CDFIs that are improving access to healthy food in low-income and underserved communities, particularly through the development or equipping of grocery stores, farmers' markets, and other healthy food retailers.

The CDFI Fund also requests administrative funding for FY 2012. These funds will allow staff to meet the resource demands, and to address the significantly increased compliance monitoring requirements. The CDFI Fund anticipates increased information technology and research investment needs in order to continue serving and monitoring CDFIs effectively.

The President's 2012 Budget Request also supports the Bank on USA initiative. Designed to address the troubling fact that more than one out of every four American households is unbanked or under-banked, the Bank on USA initiative will promote access to affordable and appropriate financial services and basic consumer credit products for households without access to such products and services. Bank on USA will support community-based efforts to identify strategies for serving unbanked and under-banked populations, including the development and delivery of innovative products and services.



The CDFI Fund has seen considerable support from this Subcommittee in recent years for program development and appropriations. My deepest thanks go to its Members and to Chairman Durbin for your unwavering confidence in the CDFI Fund and our programs. As the economy continues to recover, the CDFI Fund will continue to effectively administer its programs, so that the hardest-hit communities in the country have every opportunity for success and growth.

Thank you and I look forward to continuing to work with you in the future.

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<sup>i</sup> In order to become certified, an organization must submit a CDFI certification application to the CDFI Fund for review and approval. The application must demonstrate that it meets each of the following requirements:

- Be a legal entity at the time of certification application;
- Have a primary mission of promoting community development;
- Be a financing entity;
- Primarily serve one or more target markets;
- Provide development services in conjunction with its financing activities;
- Maintain accountability to its defined target market; and
- Be a non-government entity and not be under control of any government entity (Tribal governments excluded).

An eligible target market may consist of an:

- Investment Area, which is a geographic unit or contiguous geographic units that has a poverty rate of at least 20 percent; or an unemployment rate 1.5 times the national average; or a median family income at or below 80 percent of the statewide/metropolitan average; or is wholly located within an Empowerment Zone or Enterprise Community; or
- Low-Income Targeted Population, which is a geographic unit comprised of individuals whose median family income is at or below 80 percent of the statewide/metropolitan average; or
- Other Targeted Population, which is an identifiable group of individuals who lack adequate access to capital and have been historically denied credit.

<sup>ii</sup> The other federal agency participants in the 2010 Economic Development in Indian Country workshops were the U.S. Department of Commerce, the U.S. Department of the Interior's Office of Indian Energy and Economic Development, the Small Business Administration, and the U.S. Department of Agriculture Rural Development.