

**Final and Approved Recommendations  
presented by the  
Community Development Advisory Board  
to  
CDFI Fund Director Donna J. Gambrell  
on March 5, 2009**

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**BACKGROUND**

The purpose of the Community Development Advisory Board (CDAB) Subcommittee is to present information to the CDAB so that the CDAB can then advise the CDFI Fund on policy and program recommendations related to the impact of the current global financial crisis on the institutions that the CDFI Fund supports (E.g., CDFIs, CDEs and BEA-eligible financial institutions) and the communities they serve. As the financial system is changing dramatically, the CDFI Fund needs to ensure that it is best positioned to lead CDFIs, CDEs and BEA-eligible financial institutions through the financial crisis and into a vibrant future.

The Subcommittee has gathered information and formulated its positions and recommendations based on input from CDFIs, CDEs, and BEA-eligible financial institutions; related trade industries and other stakeholders, through formal written comments and presentations made to the Subcommittee at a meeting held in Washington, DC on December 19, 2009.

In accordance with the Federal Advisory Committee Act, all information gathered and developed by the Subcommittee will be presented to the full CDAB for consideration and deliberation. Approved recommendations will then be presented as advice by the CDAB to the Director of the CDFI Fund. The Subcommittee itself will not provide advice to the CDFI Fund directly.

**RECOMMENDATIONS**

**Recommendation #1                      Legislative Enhancements to increase the capacity of CDFIs**

- Aggressive efforts should be made in partnership with the new Administration and new Congress to significantly increase funding to a minimum of \$250 million per fiscal year to enable the CDFI Fund to support the community development finance industry. The Subcommittee supports the waiver of the matching funds requirement and the waiver of the three-year, \$5 million funding cap that is being contemplated by Congress at the time of the drafting of this document with respect to CDFI Program funding made available through economic stimulus legislation.
  
- The CDFI Fund should seek a statutory reauthorization. In the current political environment having unauthorized programs is not an immediate concern. However, with huge budget deficits, it's expected that the new Administration, Congress, and OMB will be moving to curb spending within the next two years. Having a reauthorization will be critical to ensuring the future support of the CDFI Fund. Through reauthorization, the CDFI should seek a technical correction so that matching funds are not required to be in

“like form;” and should also seek a permanent repeal of the three-year, \$5 million funding cap. This cap restrains the ability of CDFIs to grow to scale. The determination of a cap should instead be determined by the CDFI Fund on a round-by-round basis. Finally, the CDFI Fund should seek a technical correction that would standardize the definition of “low-income” across all of its programs. Currently, the criteria used to define low-income is inconsistent from program to program.

- Given the financial condition of the Government Sponsored Entities (GSEs), there is a real risk that the funds that they were otherwise supposed to capitalize the Capital Magnet Fund (CMF) will not be available, at least in fiscal year 2010. The CDFI Fund should work with the new Administration and the new Congress to appropriate \$100 million to establish this program. Grants awarded through the Capital Magnet Fund will attract private capital and increase investment in affordable housing projects that are currently stalled due to the tightening of the credit market. In light of the current housing crisis, the Subcommittee expects that the demand for this program will be significant thus recommends increased appropriations for the CMF in the future.
- The Subcommittee proposes \$2 billion in TARP funds be utilized under the Term Sheet developed by the Subcommittee (attached). To assist in the formulation of the Term Sheet specific recommendations were solicited and analyzed from various industry organizations. Representatives of CDFI trade groups estimated that their members could collectively deploy up to \$3 billion in debt or equity capital over a two-year period. In addition, the data below, when viewed with the perspective that there are currently approximately 800 certified CDFIs nationwide, supports a \$2 billion TARP request.

	<b>Number CDFIs Reporting</b>	<b>Balance Past Due</b>	<b>Total Portfolio</b>	<b>Risk Rate</b>
<b>2003</b>	211	\$83,828,164	\$3,334,826,020	2.51%
<b>2004</b>	231	\$113,476,648	\$3,633,690,848	3.12%
<b>2005</b>	183	\$69,896,448	\$3,051,555,252	2.29%
<b>2006</b>	168	\$122,446,918	\$4,798,957,623	2.55%
<b>2007</b>	111	\$100,632,039	\$4,087,368,583	2.46%

*(Based on data reported through the CDFI Fund's Community Impact and Investment System – or CIIS – by CDFIs with current Financial Assistance awards.)*

- The CDFI Fund should investigate creating a Financial Assistance award category similar to the Technical Assistance award category for utilization by organizations with the potential to become certified CDFIs – known as Emerging CDFIs. As mainstream capital sources for community investment have become more difficult to access, if accessible at all, the CDFI Fund’s strategy of making Technical Assistance awards to Emerging CDFIs to build their capacity (helping them obtain capital and complete transactions) before accessing Financial Assistance dollars, may have decreased efficacy. Small “seed” Financial Assistance awards could provide the “first in” capital no longer available to potential CDFIs, but that is needed to demonstrate the track record of activity required for CDFI Certification. As with Technical Assistance awards made to uncertified organizations, these uncertified awardees should be required, as a term of their Assistance Agreement, to become certified within a specified period of time.

**Recommendation #2                      Utilize the statutory provision to enhance the liquidity of CDFIs**

The CDFI Fund’s statute contains a provision that would enable the CDFI Fund to create a Liquidity Enhancement Program (LEP). The LEP would provide financial assistance to CDFIs and other entities to increase liquidity for CDFIs – whether through purchasing loans from CDFIs, making loans and investments in CDFIs, or through other means. The CDFI Fund would need to be provided a significant and distinct appropriation to truly get this program off the ground and up to scale.

In order to have a substantial impact in the CDFI marketplace, the CDFI Fund should request a minimum of \$250 million for this program. This LEP is especially critical given the current economic crisis, as many bank and philanthropic investors are pulling back their investments in CDFIs.

To make this program more effective, the CDFI Fund should also seek statutory revisions to remove the 3-year, \$5 million cap and, at least during the credit crisis, the requirement for matching funds.

**Recommendation #3                      The Subcommittee endorses making the NMTC permanent with new enhancements.**

The New Markets Tax Credit Program has proven to be an effective tool for raising significant private sector capital for use in our nation’s low-income communities.

- Make the New Markets Tax Credit permanent – the NMTC Program was created by Congress in 2000 as a tool to stimulate economic development in low-income communities across the country. The authorizing statute provided a federal tax credit sufficient to support \$15 billion in investments between 2001 and 2007. In 2005, Congress authorized an additional \$1 billion in credits to stimulate recovery in the Gulf Opportunity Zone in the aftermath of Hurricane Katrina. Since 2006, Congress has extended the credit on an annual basis at \$3.5 billion in allocation authority per year. It is time to make the New Markets Tax Credit permanent. Permanence would provide certainty, which would allow participants to make long-term commitments of resources and fulfill the important mission of stimulating America’s low-income communities via the NMTC Program.
- Increase the annual New Markets Tax Credit allocation authority to \$10 billion – the demand for NMTC allocations has far exceeded the supply of the credit since the inception of the program, it is time to increase the annual New Markets Tax Credit allocation authority to \$10 billion.

	Round 1	Round 2	Round 3	Round 4	Round 5	Round 6	TOTAL
<b>\$ Requested</b>	\$25.8	\$30.4	\$22.9	\$28.3	\$27.9	\$21.3	\$156.6
<b>\$ Awarded</b>	\$2.5	\$3.5	\$2.0	\$4.1	\$3.9	\$3.5	\$19.5
<b>\$ Unawarded</b>	\$23.3	\$26.9	\$20.9	\$24.2	\$24.0	\$17.8	\$137.1

*(Note: \$ in Billions)*

Also, the CDFI Fund should conduct analysis on the historical annual allocation authority authorized by Congress to the Low-Income Housing Tax Credit and the Historical Tax Credit programs as a comparison and utilize this analysis to support increased allocation authority to the NMTC Program.

- Pursue statutory changes that would enable NMTC investments to be used for home mortgages. NMTC funds can currently be used to finance businesses that purchase, rehab and sell single-family homes, but funds cannot be used to finance or re-finance mortgages for low-income homeowners. High housing costs means that foreclosure resolution will require significant capital for acquisition and rehab, as well as for subsidies to make units affordable. And absorbing the high numbers of foreclosures means operating at a larger scale. In order to offset high housing costs and volume of foreclosed properties, allowing NMTC investments to be used for home mortgages would be beneficial.

If this provision is enacted, it will also invite a host of new players into the NMTC Program. This change should only be pursued in connection with a request for increased allocation authority. For instance, if Congress were to amend the NMTC Program to allow these activities, then it would be appropriate to authorize \$10 billion, with an expectation that \$5 billion will be allocated in support of traditionally-eligible NMTC activities (e.g., loans to businesses; commercial real estate; community facilities); and \$5 billion to support mortgage re-financing and other foreclosure mitigation strategies.

- The CDFI Fund should also explore statutory changes that would allow the NMTC Program to support other strategic objectives such as fostering the creation or expansion of small businesses through equity investments made in and by community development venture capital funds, or to provide the flexibility to assist in the recovery efforts in low-income communities after a natural disaster similar to efforts post Hurricane Katrina.
- Make it a “deeper” tax credit – the NMTC program is frequently described as a “shallow subsidy,” in contrast to the deeper Low-Income Housing Tax Credit (LIHTC) incentive. Under the NMTC program, investors receive a federal tax credit equal to 39% of their investment taken over a seven-year period. Credits have a present value of approximately 30% of a taxpayer’s investment. LIHTCs, on the other hand, generally have a present value of 70%, making the case for a “deeper” New Markets Tax Credit.

We encourage the CDFI Fund to pursue efforts to create a deeper tax credit especially if it could be used to strategically incentivize investment in rural communities.

- Targeting of New Markets Tax Credits – the CDFI Fund has modified the application process to give greater weight to applications that target more highly distressed communities and the incentives are clearly having an effect. Increasingly higher thresholds and benchmarks aside, the NMTC Program, which is targeted to low-income communities, defines low-income communities principally based upon the decennial census. Nearly 39% of the census tracts in the country are eligible for the NMTC Program. This broad targeting, rather than a focus on geographies with higher distress

indicators, suggests there's an opportunity to seek authorization to target the tax credit and serve more distressed areas than allowable under current NMTC Program regulations. Specifically, we encourage the CDFI Fund to explore all opportunities to use the targeting of the tax credit to focus attention on other highly distressed communities such as certain rural communities, or to assist in the recovery efforts in low-income communities after a natural disaster similar to efforts post Hurricane Katrina.

- Establish a safe-harbor similar to the Historic Tax Credit – momentum has been building in Congress to pass legislation designed to clarify and codify the economic substance doctrine in an attempt to curtail abusive transactions that are purely motivated by tax incentives. NMTC investors and prospective investors have voiced concern that such legislation would apply to and have a negative impact on the NMTC. A Senate Finance Committee report specifically identifies the Low Income Housing Tax Credit and the Historic Rehabilitation Credit as examples of tax benefits that would not be taken into account in measuring potential tax benefits. These credits were noted as examples of the types of tax benefits that would not be considered in applying the economic substance doctrine. If legislation codifying the economic substance doctrine is signed into law, the Fund will want to insure that this interpretation stands and that the NMTC is not impacted.
- Remove AMT provisions – taxpayers who are not required to pay tax under the regular tax system may still be liable for tax under the alternative minimum tax laws. A taxpayer subject to the alternative minimum tax (the “AMT”) may use Low-Income Housing Tax Credits (LIHTC) and Historic Rehabilitation Tax Credits (HRTC) to offset their AMT liability. As a result, investors who are, or may be, subject to the AMT may benefit from investment in LIHTC and HRTC projects. Its time to put the NMTC Program on equal footing with these other tax credit programs by removing the existing AMT provisions associated with the NMTC Program. Allowing NMTCs to offset AMT liability would allow for greater participation from investors wishing to deploy capital investments in low-income communities.

In addition, there is concern that the proposed scaling back of charitable contributions limits in the 2010 budget could impact a CDE's ability to raise capital from individual investors at a time when traditional NMTC capital sources are scaling back due to the current economic crisis. The CDFI Fund should examine this and any other provisions utilized by the LIHTC and HRTC so that the NMTC Program is not disadvantaged.

**Recommendation #4                      Immediately develop and implement training and outreach initiatives.**

- The CDFI Fund should implement and fund sector-wide training and professional development programs for current CDFIs, emerging CDFIs, and in support of the creation of new CDFIs. By announcing a strategic plan toward such an effort, the CDFI Fund will make an explicit commitment to building capacity through new training programs, in addition to funding individual awardees training requests through the Technical Assistance component of the CDFI Program. This will help to further the

sustainability and growth of the CDFI industry, especially with regard to emerging CDFIs and organizations serving rural areas.

Specifically, the CDFI Fund should consider engaging the services of technical assistance providers on a contract basis building on the success of the CDFI Fund's existing Native training programs, known as the Expanding Native Opportunities initiative. This training program should provide a combination of group training sessions and on-site individualized technical assistance provided by subject-matter experts at CDFI sites nationwide. The training program should span the full range of challenges faced by CDFIs in this economic climate, from managing risk to developing new product lines. Such a training program should not only focus on strengthening existing CDFIs but also support the creation of new CDFIs in communities with chronic lack of access to credit and capital. At a minimum, the following four training categories should be considered:

- Assistance for Specialized CDFIs – a training program to support rural CDFIs, credit unions, venture capital funds, and other types of CDFIs. This program would seek to grow the capacity of existing CDFIs and help establish new CDFIs in communities where none exist.
  - Affordable Housing Lending – a training program to provide resources to conduct workouts and/or restructuring of troubled loans, as well as to develop new lines of business to take advantage of new opportunities in the affordable housing marketplace.
  - Business Lending – a training program to provide resources to conduct workouts and/or restructuring of troubled loans, as well as developing additional financial products for small business (lines of credit, receivables loans, etc.).
  - CDFI Business Processes – a training program to provide resources to address cross-cutting issues affecting all types of CDFIs. This will include technical assistance on portfolio management and risk assessment, liquidity and capitalization, and expansion of CDFI capacity to take advantage of market opportunities.
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- The Subcommittee encourages the CDFI Fund to establish a more prominent research and development function to include an “innovation bank” and other tools to support the work carried out by CDFIs. The training program described above should feed into this function by providing for the collection and dissemination of industry best practices.
  - In addition, the CDFI Fund should increase funding to and expand the scope of the Expanding Native Opportunities training initiative to address additional key Native community development needs.
  - Finally, the CDFI Fund should commission an Impact Study on its Native American CDFI Assistance Program so that it can articulate the impacts of its program efforts in American Indian, Alaska Native, and Native Hawaiian communities.

**Recommendation #5                      Reinststitute the recertification process, and strengthen the current Material Events form.**

To protect the CDFI brand and help maintain program integrity, the CDFI Fund should take measures to further ensure that certified CDFIs continue to adhere to the CDFI Certification criteria after initial certification. Such measures should include reinstituting a recertification process for CDFI Certification and further standardizing the reporting of material events that may affect the certification status of certified CDFIs.

With a potential increase in CDFI Fund appropriations and mainstream capital providers becoming more reluctant and conservative in their community investing, CDFI certification could become a crucial tool for mission-driven financing organizations seeking to maintain and/or expand their products for underserved individuals and communities.

CDFIs are able to leverage the CDFI Certification brand beyond CDFI Fund award programs through a number of sources: (1) larger mainstream financial institutions make investments/deposits in and loans to certified CDFIs to better compete for BEA Program awards; (2) several States have state-level CDFI programs, which require that participants first become federally certified CDFIs; and (3) foundations make deposits in and grants to CDFIs to further the impact of their philanthropic activities.

In the current economic environment, these capital providers may choose to direct their community investment dollars to certified CDFI instead of non-certified CDFIs, relying on CDFI Certification to help ensure achievement of the intended investment outcomes.

Additionally, the CDFI Fund should endeavor to reduce the real and perceived cycle time for processing new CDFI Certification applications. By tightening CDFI Certification review criteria and process, the time from application receipt to review decision may be shortened, thereby allowing CDFIs that are ready for certification to more quickly access CDFI Fund award programs and investment opportunities from other capital providers.

**Recommendation #6                      Streamline the types of data collected and improve compliance reporting mechanisms.**

The CDFI Fund should develop and implement immediately an improvement plan for the Community Investment Impact System (CIIS). The CDFI Fund should build upon the October 2008 report conducted by Abt Associates for the CDFI Fund that assessed the prospects of reducing the reporting burden associated with the Transaction Level Reporting (TLR) and Institutional Level Reporting (ILR).

- First, the improvement plan should focus specifically on the TLR data required from awardees. The plan should identify TLR data questions that can be effectively reported as single ILR data and ultimately eliminated from the CIIS TLR structure.
- In addition, ILR questions that are also reported at the TLR level should be evaluated for elimination from the ILR structure.

- Finally, the CDFI Fund should evaluate the merits of compliance questions that have very narrow application to the wider industry and do not otherwise impact awardee performance.

Once the CDFI Fund's internal process is completed, the recommendations should be reviewed by a representative group of CDFIs to assess how these changes affect the reporting burden.

We also recommend that the CDFI Fund have a focused discussion with the Common Data Project to evaluate the merits of the proposed revamped CIIS reporting structure to assess the potential for other efficiency gains in acquiring information and reducing reporting burdens.

Finally, the CDFI Fund should also consider re-engineering or developing a next generation of CIMS (the CDFI Fund Information and Mapping System) to make it more user-friendly and to prepare to integrate the data from the 2010 decennial census release which is expected in 2013.

**Recommendation #7            Ensure CDFI programs are being utilized in areas of high economic distress.**

Given the rapid restructuring of the nation's finance, housing and community development sectors, funding through the CDFI Fund's programs is being deployed in a dramatically changing market environment that must be assessed and monitored using strategic research initiatives. Such research on shifting and emerging market conditions is essential to understand the current and future development prospects of underserved and economically distressed communities so that policy makers and administrators can frame policy options and target program resources most efficiently.

Specifically, the CDFI Fund should consider the following research initiatives:

- Strategic research to analyze how changing economic and demographic conditions have affected the operating environment of the CDFI Fund's programs, and altered the supply and demand for capital, credit and financial services in underserved communities. Once formulated, the CDFI Fund should distribute this research proposal to the key industry constituencies for comment, and implement the resulting research as soon as possible.
- Develop a plan to utilize new housing foreclosure estimates from HUD, unemployment rate data from the Bureau of Labor Statistics, Local Area Unemployment Statistics, and new Census Bureau data from the American Community Survey on median family income and poverty data to map more contemporary measures of economic distress. In addition, the CDFI Fund should explore the potential for estimating business failures and survival rates at the county level by using estimates from the BLS and Census Bureau.
- An evaluation of the BEA Program for fiscal years 2004-2008.
- The development of performance metrics for the new Capital Magnet Fund.