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Thank you very much for inviting me to address LISC's national staff conference. I am honored to be here and I am delighted to have the opportunity to talk about the important role of community development corporations today, particularly the mutually beneficial relationships being forged between banks and CDCs. LISC has been instrumental in structuring many of these relationships, which hold great promise for economic revitalization of communities across the country. And I particularly want to congratulate all of you here today for the enormously important -- and sometimes unrecognized -- work that each of you do to foster community revitalization. You give hope to individuals who have been left on the shore of our economic mainstream.

Also, before I begin, I want to again thank Michael Rubinger, Buzz Roberts, and Oramenta Newsome for organizing a fascinating community development tour for Comptroller of the Currency Jerry Hawke, myself, and other OCC staff in Washington, D.C. in October 2000. On many occasions after that, we have reflected on, and spoken about, what we learned during that tour.

I don't have to tell you that LISC has long been a leader in the community development field. If only for its national scope and for the resources it brings to bear, LISC exerts much influence over the efforts of numerous community development corporations -- CDCs -- operating at the local level. But even more than these formidable assets, LISC's professional standards, expertise, and its day-to-day operating policies and practices, are examples that local CDCs emulate and rely upon.

I thought it would be timely to discuss three topics with you today. First, since I am, after all, a *bank* regulator, I will review some perspectives on the mutually beneficial relationships that *banks* have developed with CDCs. Second, I will discuss some of the challenges we see CDCs facing in their relationships with banks, especially with regard to performance measures for the industry. Finally, I'll offer some thoughts about the new initiatives that CDCs and banks may be able to develop, such as through the New Markets Tax Credit Program.

Bank and CDC Partnerships

Over the past several years, we have seen a significant increase in the level of bank involvement with CDCs. The National Community Capital Association reports that bank investments as a proportion of CDFI-borrowed capital dollars more than doubled from 12 percent to 25 percent between 1994 and 2000. We at the OCC have seen large increases in bank investments under our Part 24 community development investment authority which allows national banks to make equity investments in CDCs, community development projects, and other public welfare activities. National banks made more than $5 billion of Part 24 investments since 1995, almost ten times more than the amount invested during the previous 30 years since Part 24 was established.

Much of this growth has occurred through bank investments in Low Income Housing Tax Credit projects with nonprofit sponsors, such as those planned and assisted by many of you here today. LISC has an impressive track record in this area, having raised some $3 billion in Housing Tax Credit investments -- over three quarters of which has come from banks.

Banks have found that these types of investments and their relationships with CDCs can dramatically further their own ability to provide a presence in targeted segments of their markets, especially segments in which banks are underrepresented. Working with CDCs, banks find lending opportunities in these areas and bring needed capital to small business expansion, affordable housing development, and social services facilities. CDCs can help evaluate the repayment ability of the borrowers and also leverage bank investments with public and philanthropic funding in order to assemble the funding mix needed for these projects. Because of their mission, CDCs provide the resources and personnel to do the necessary work to make these projects work. In fact, CDCs often bring "the deal" to the bank.

In 2000, the OCC issued the results of a survey aimed at determining the practices that contribute to banks' community development success in the housing and small business sectors. We found that community development efforts are most likely to succeed when they are supported by multi-pronged partnerships of local governments, community organizations, philanthropic and religious groups, businesses, and other relevant stakeholders in the community.

Driving factors for bank participation exist when a CDC partner does an effective job of screening deals to bring good ones to the table, and when the CDC works with potential borrowers to devise business plans and credit proposals that meet banks' underwriting requirements. This helps banks reduce transaction costs and allows the bank to deploy its own personnel and resources in the most effective manner.

Our study also found that CDCs often play a key role, not only as project managers, but also as intermediaries and facilitators, making them valuable partners for banks. For example, many CDCs provide basic financial literacy education that can help the unbanked build relationships with traditional financial institutions. CDCs have been particularly effective at tailoring these educational programs to the needs and interests of specific groups within their communities. CDCs also provide pre- and post-purchase counseling for homebuyers. This counseling may be the best way to minimize default risk, or quite simply, keep people in their homes. CDCs provide similar counseling to entrepreneurs who have taken out loans to start or expand a small business.

In addition to the project management role which CDCs play in many affordable housing developments financed by Low-Income Housing Tax Credits, CDCs increasingly also provide a range of social services for residents including day care, after school programs, and job training resources. These services help enable residents of these developments to find an affordable place to live, and provide support mechanisms to help them find ways to increase their income. This can increase the likelihood for success of affordable multifamily developments in certain markets.

Of course, the ability of CDCs to pull together complex financing packages, with funding from a number of third-party sources, is legendary. This skill is especially appreciated by small and mid-size banks that may have less experience with the complexities of community development financing. And even the largest banks recognize the benefit of the specialized expertise that CDCs can bring to structuring the multi-part financing packages that some projects require. As a result of this technical financing knowledge, CDCs can find new opportunities for banks to participate in projects, either as lenders or investors, that banks would not have been able to arrange on their own. By designing innovative financing structures, CDCs are able to involve banks in funding projects such as shopping centers, charter schools, small business incubators, or commercial office space. Banks are able to participate in capacities that make sense for them from a business and community reinvestment perspective, local community development needs are served, and, by improving the local environment and economy, banks may gain new customers and new markets.

Challenges in a Changing Economic Landscape

Yet, today the community development industry faces important challenges that arise from changes in the broader environment in which they operate. Among these changes are the shrinking and consolidation of the banking industry. Many CDCs have come to depend a great deal on banks for operating funding as well as for loans and investments, but its seems inevitable that in the future CDCs will have fewer banks to rely on for funding. Moreover, in economic downturns, as profit margins are squeezed, at least some of those remaining banks will be forced to trim their community development grant budgets. These factors bear directly on the future health of the CDC industry.

On the other hand, the federal government is changing its funding strategies in ways that favor continuing support for CDCs. Federal set-asides for nonprofits in HOME funding and Low-Income Housing Tax Credits, for example, provide critical operating and project support to CDCs. And the New Markets Tax Credit is likely to spur the development of more Community Development Entities. Indeed, the authorizing legislation calls for their creation. But none of these federal programs is designed to be the sole source of funding for CDCs. All leverage private money, which frequently comes from banks. This leads to some thoughts on factors that banks are likely to view as significant as they evaluate potential CDC relationships.

Evaluating CDCs

In a landscape where there may be fewer private sector investors to turn to, the CDCs with the soundest fundamental elements are the ones most likely to survive and to continue developing fruitful community development partnerships. Quantifying the soundness of a particular CDC is already an exercise many banks undertake when evaluating their CDC partnerships. As the supervisor of national banks that lend to and invest in these entities, we have an interest in mechanisms and initiatives that enhance the performance of CDCs and enable banks to evaluate CDCs' performance.

The primary mission of my agency, the OCC, is to ensure a safe, sound, and competitive banking system that supports the *citizens, communities, and economy* of the United States. There are many facets of what bank supervision encompasses, but at its core, effective oversight of banks has to rely in large measure on the ability of banks themselves to establish effective systems for monitoring the risks and returns associated with their various lines of business. For example, we mandate that banks develop systems to monitor the quality of their loans. So, regardless of the line of business -- from traditional lending to the most sophisticated capital markets activities -- we make it clear to the banks we supervise that they must have systems and controls in place, appropriate to the size and complexity of their business, that enable them to monitor, measure and manage their activities.

The ground rules are no different for banks' partnerships with CDCs. Banks need information to be able to monitor, measure and manage their loans to and investments in CDCs. Loans should be repaid, investments should generate returns, and grants should improve conditions in the markets in which the bank operates. We ask our banks to perform due diligence on all their investments, including ones in CDCs, because we want our banks to achieve successful results in their community development activities, just as in their other endeavors.

Banks can assess potential partnerships with CDCs more easily when the CDCs themselves have already instituted performance standards and measures. I recognize that measuring results is a challenge in many industries, and this is particularly true for CDCs. The traditional measures of dollars invested and units of housing built provide some sense of a CDC's capacity, but further measures are needed for investors to assess, for example, how well CDCs manage themselves and how their work affects the quality of life in their communities. Banks need to know that sound fundamentals back their business decisions -- and investments in CDCs are not an exception to that rule. When you consider that a Housing Tax Credit investment normally remains on the bank's books for 15 years, banks need to be confident that their CDC partners have the staying power to manage the asset through to maturity.

It is those CDCs who have sound fundamental operating procedures, who have proven themselves to be insightful managers of their internal organizations as well as their external products and services, that will be sought out by banks. So, what are some of the "sound fundamental elements" that intermediaries such as LISC can help promote?

Demonstrable results. Measurable outcomes and careful tracking allow CDC boards and management to make decisions about which programs to pursue and what changes to make, and it allows them to assess the success of the CDC's overall efforts. These same measures help successful CDCs communicate their accomplishments to their financial institution partners, funders, policymakers, and to the public at large. This is *particularly* important to banks and thrifts which must demonstrate to their regulators how CDC activities they have financed serve the needs of communities within their assessment areas under CRA. CDCs that are able to assemble geographic, income, and demographic data regarding the beneficiaries of their activities can provide bank partners with the information that bank regulators need to review as part of CRA compliance examinations. To the extent that this helps banks document their CRA performance, the more likely that CDCs that can provide such information will be sought after by additional banking industry partners.

Sound financial management. On the most basic level, CDCs must have accurate and timely financial information and effective financial management systems that will allow boards of directors and management to make sound, well-informed decisions. CDCs manage important, often scarce, resources in low-income communities. Careful stewardship of these resources is a public trust.

Talented staff. The effectiveness of CDCs depends in great part on their staffs. Many talented people who come to the community development field do so because they are committed to the mission of CDCs. Planning for the succession of these talented and accomplished people ought to be high on the priority lists of CDCs and their boards of directors.

Watchful, thoughtful boards of directors. Whether it be a bank or CDC, organizations involved with the complexities of community and real estate development need boards of directors embodying a diversity of talent and points of view -- and enough relevant expertise to effectively serve their function as overseers of the organization's management. And while continuity among board members provides needed stability to such an organization, continuity must be leavened with periodic infusions of new blood to bring in new energy and new ideas.

Operational integrity. CDC managers and directors owe duties of care and loyalty to the organization they serve -- just as do managers and directors of banks. This means they must undertake their functions with care and diligence and execute their duties with undivided loyalty to the interests of their organization. In practice, CDCs should have written policies, which are carefully monitored, covering potential trouble areas such as conflicts of interest, board member compensation, and hiring or contracting with relatives. These policies help to ensure that the organization is not inappropriately used by the employees or directors as a source of private gain. Failure to comply with duties of care and loyalty can result in unfavorable consequences ranging from negative news reports, to financial penalties under recently enacted tax laws, and could even jeopardize an organization's Federal tax exemption. The good name and reputation of any nonprofit organization is a priceless asset, on which its future may hinge. It should be safeguarded with the same vigor as the organization's financial assets.

A challenge facing the CDC industry is for more CDCs to systematically incorporate the fundamentals I have just described in their planning and operations. In this regard, the work of the National Community Development Initiative (NCDI) to promote capacity building and accountability within the CDC industry has advanced the industry significantly. As you know, NCDI combines the funding of corporations, foundations, and the Department of Housing and Urban Development and channels these monies to LISC and the Enterprise Foundation to leverage CDC activities at the local level. LISC makes these funds available through its Operating Support Collaboratives, which provide financial support for capacity building, strategy development, technical assistance, and training. The Operating Support Collaboratives also help the CDCs identify organizational strengths and weaknesses, and the receipt of these monies are usually made contingent upon the CDC's achievement of mutually agreed upon performance objectives.

In 1998, the Urban Institute studied the activities of CDCs in the 23 cities participating in the NCDI and found CDC capacity growing strongly by a number of measures. Capacity is important to investors because it enables CDCs to have a greater impact, thereby generating greater return on their investments. The number of CDCs capable of producing more than 10 housing units per year grew from 104 in 1991 to 184 in 1997. The study also found that the NCDI helped produce a 45 percent increase in the number of "top tier" CDCs with consistent production records, strong internal management, and diverse funding sources.

The Urban Institute cited the clear articulation of performance standards as a key driver of the NCDI's success. Naturally, performance standards backed by a track record of results create a degree of comfort for banking partners and their regulators. NCDI and LISC's Operating Support Collaboratives do not automatically fund every CDC nor allow the funding to be seen as an entitlement. Funding is not renewed to organizations that do not show progress in meeting standards, and disbursement of funds can be held until CDCs are able to show progress in key areas. Because of the program's effectiveness, LISC and Enterprise have been able to raise more than $350 million from foundations, banks, corporations, and the federal government under the National Community Development Initiative over the past 11 years.

I understand that through LISC's capacity building work with the Operating Support Collaboratives, you have developed a new CDC performance assessment tool —*Cap*Map— a capacity mapping approach that is being rolled-out at this conference. *Cap*Map has been designed to help CDCs create and track measures of success and also plan for growth based on their operating capabilities. I am particularly intrigued by the prospects for this tool that would allow for a more consistent set of criteria to be used in assessing capacity of CDCs across the country on critical success factors. *Cap*Map will be a true success if it can help a CDC more clearly chart its current stage of organizational capacity and what milestones it must achieve to realistically undertake further growth.

New Initiatives

So what does the future hold for the continued relationships between banks and CDCs? I am probably preaching to the choir when I say that I believe the next frontier lies in the extension of the successful partnerships we have seen in using housing tax credits to ones that will use the New Markets Tax Credit. You can successfully build homes and apartments in distressed communities, but if you are not able to change the surrounding neighborhood, your efforts will have fallen short.

As the Low Income Housing Tax Credit addressed the equity gap needed to develop affordable housing, we hope the New Markets Tax Credit will encourage capital to flow to businesses and other ventures in low-income areas. The New Markets Tax Credit will provide $15 billion over the next six years to promote investment in low-income areas, by allocating tax credits in support of for-profit enterprise development in low-income communities. Over the life of a seven-year investment, investors will be able to realize a tax credit equal to 39 percent of the amount that they have invested. To be eligible for an allocation of tax credits, an entity must obtain certification as a Community Development Entity (CDE) from the Department of the Treasury's CDFI Fund. The certification process entails providing a clear explanation of its business plan for making investments in targeted communities. By increasing their capital base, this tax credit will enable CDEs to lend and invest more, to attract additional outside capital, and to bring even more private-sector engagement to their market-priming activities.

The CDFI Fund has reported that it hopes to determine the awarding of allocations by the close of this calendar year. From our initial discussions with banks, many intend to be investors in New Markets Tax Credits. I hope to see LISC and its affiliates as active users of this new investment tool.

Conclusion

Today I've discussed the types of productive partnerships that CDCs and banks have established, shared some thoughts on challenges facing the CDC industry in order to continue its effectiveness in the years ahead, and I've described the potential that the New Markets Tax Credits provide. While most of the work that will determine continued success will occur at the individual CDC level, intermediaries such as LISC are playing a crucial role in maximizing the impact of bank/CDC partnerships in our communities. Your work is important not only through funding CDCs, but also by your efforts providing information and promoting best practices that are building a solid base for success for CDCs in the future.

Thank you, and I truly look forward to seeing more of the fruits of your good work.