

**THE COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTIONS FUND**

United States Department of the Treasury



FOR IMMEDIATE RELEASE
April 22, 2005

Contact: Bill Luecht
(202) 622-8042

**Remarks by Arthur A. Garcia, Director
Community Development Financial Institutions Fund
U.S. Department of the Treasury**

at the

**The Aspen Institute's Economic Opportunities Program
&
The Federal Reserve System's**

**"Achieving Scale, Sustainability, and Impact in
Community Development Finance" Conference**

**Federal Reserve Bank of Chicago
Chicago, IL**

Good afternoon! Thank you for your kind introduction and to all of you who have traveled to be here for this important discussion. I am glad that I have this opportunity to talk to you about the important activities of the CDFI Fund and to discuss President Bush's proposed Strengthening America's Communities Initiative. I want to share this initiative with you because it will touch the community development finance industry. In anticipation of some of your questions we have developed a Frequently Asked Questions document which is posted on the Fund's website which can be found at www.cdfifund.gov. I hope you will find it helpful.

Now, before I address the President's proposed initiative, I want to bring my message to you regarding the CDFI Fund. It is – simply put – “Business as Usual” for the remainder of fiscal year 2005.

Let me be sure that every one of you here today, that does business with the CDFI Fund, understands what “Business as Usual” means. It means that the nearly \$40 million that

THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

United States Department of the Treasury



the Fund has available for its award programs this fiscal year will be obligated toward every award program the Fund administers.

“Business as Usual” means that the Fund will continue to review and evaluate all the applications we received under our programs:

- 141 applications received on February 24 for over \$24 million available through the Financial Assistance Component of the CDFI Program;
- 82 applications received for \$2 million available through the Technical Assistance Component of the CDFI Program;
- 31 applications received on February 1st for the Native American CDFI Assistance Program with \$3.9 available; and
- 84 applications received on February 14 for the nearly \$10 million available for the FY 2005 Bank Enterprise Awards Program.

It is my expectation that the Fund has received sufficient quality applications so that every penny of these appropriated funds will be obligated in FY 2005 and awarded for the important work you do in serving economically distressed communities and low-income people throughout the country.

“Business as Usual” applies to more than the Fund’s award cycles this year. As of today, the Fund has certified 740 organizations as CDFIs. “Business as Usual” means that the Fund will continue evaluating all new CDFI certification applications we received by the January 14th deadline.

“Business as Usual” also relates to the current round of the New Markets Tax Credit Program. The Fund is nearly finished with the evaluation and processing of the applications we received last fall and will announce the recipients of \$2 billion of tax credit authority next month. The Fund also plans to contract for the first independent evaluation of the New Markets Tax Credit Program later this year, as required by the President’s Management Agenda.

We are very proud of the fact that the 129 NMTC Program allocatees already awarded have collectively raised over \$2 billion in qualified equity investments from investors. These Community Development Entities will in turn reinvest these dollars in our nation’s low-income communities.

THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

United States Department of the Treasury



“Business as Usual” also relates to the topic of this conference, “Achieving Sustainability, Scale, & Impact in Community Development Finance” We have been reading the papers that have been written over the last few years on these subjects. We know that many CDFIs have been assessing how the concepts of impact, sustainability, size and scale should be viewed by their organizations and how they might benefit from using some of these concepts in their own strategic plans. The Fund is supportive of these efforts, and through our programs we assist CDFIs to become stronger and to develop smarter delivery systems for financial services and products in their markets.

Let me provide two examples. ACCION Texas and the National Federation of Community Development Credit Unions have undertaken efforts in the past few years to help themselves – and members of their networks – achieve scale economies and move towards greater sustainability and self-sufficiency.

ACCION Texas has combined their hands-on, grassroots approach with the innovative use of technology and a centralized back-office loan processing operation into a cost-efficient delivery system to serve the credit needs of its customers. Through the headquarters in San Antonio and its six branch offices, ACCION Texas provides services in Texas' 200+ urban and rural communities through a statewide network of public and private partners. The heart of its outreach involves "block walking" in the many small rural communities and colonias that are an important and unique aspect to its service area. Completed loan applications from the six branch offices across the state are sent to ACCION Texas' San Antonio headquarters where a dedicated loan officer processes the application and follows up with applicants. This successful business model has allowed ACCION Texas to become the single largest microlender in Texas, and its only statewide microlender.

(Since 1996, the Fund has supported ACCION Texas with almost \$5 million in financial assistance and technical assistance grants.)

The National Federation of Community Development Credit Unions (the Federation), is an intermediary CDFI based in New York City that will use a \$1 million financial assistance award from the CDFI Fund to introduce a new capital product – the CDCU Family Home Fund. The Family Home Fund is a branded source of mortgage loan capital for non-conforming loans to first-time homebuyers in low-income and minority communities. It was designed to increase homeownership through first mortgage financing for low-income

THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

United States Department of the Treasury



households. The Family Home Fund will purchase non-conforming mortgages made by community development credit unions, thereby enabling the CDCUs selling their loans to increase the volume of mortgage lending. The Federation will aggregate these mortgages for re-sale to larger institutions that are active buyers in the secondary mortgage market. The Federation will recycle the proceeds from selling these mortgage loans back into low-income communities by purchasing additional CDCU mortgage loans, hence offering CDCUs reliable access to capital to provide non-conforming mortgage loans to first-time homebuyers in their communities. The Federation estimates that the \$1 million grant from the CDFI Fund will leverage an infusion of an additional \$14 million of mortgage lending capital over the next three years.

(Since 1997, the Fund has supported the Federation with \$8 million in financial assistance.)

We are also here to talk about impact. Impact, and the ability to measure it, has been a special goal of the CDFI Fund, especially over the past few years. The Fund launched the Community Investment Impact System last year as a single tool that will be used by CDFIs and CDEs to measure impacts at the community level, as well as permit CDFIs to perform self-assessment on an institutional level. The Fund will ask CDFIs to engage in “business as usual” by continuing to file required reports, through CIIS, on the loans and investments they make and the services they provide. The Fund is currently analyzing FY 2003 data from over 200 CDFIs and CDEs and plans to publish a report of results by the end of the summer. The Fund has already started collecting FY 2004 data from these same institutions.

And scale, understood as the need to reach more low-income people with appropriate financial services and products, is a goal well supported by the CDFI Fund through our direct funding programs such as the Financial Assistance Component of the CDFI Program. The Fund’s Technical Assistance (TA) Component of the CDFI Program is also supportive of CDFIs in this regard. TA awards can be used to increase a CDFI’s technical capacity, often an issue in achieving scale and measuring impact on a number of fronts. In addition, a TA award can be used by a CDFI to increase its operational capacity to serve its market such by, for example, analyzing its market to determine if it is having an impact or meeting demand appropriately or by developing new products.

Lastly, the Fund will go forward this year with its plan to have an independent contractor evaluate the Financial Assistance, Technical Assistance and Training Programs.

THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

United States Department of the Treasury



The Fund will be evaluating how it could play an even more meaningful and supportive role to CDFIs through these programs. This independent evaluation will not only assess the results and impact delivered by these programs with taxpayer dollars, but also may suggest ways in which CDFIs believe the Fund's programs could assist them in new ways to increase their scale or sustainability.

Now, I would like to turn to the President's proposed Strengthening America's Communities Initiative.

Strengthening America's Communities Initiative:

- The primary goal of President's "Strengthening America's Communities Initiative" is to help communities make the transition to vibrant, strong 21st century economies, to grow the economy and focus federal economic and community development efforts on creating job opportunities for the American people.
- To help outline this initiative, I want to briefly highlight:
 - The rationale and underlying principles behind the initiative;
 - The main points of the initiative;
 - The case for reform; and,
 - The application of the initiative

Rationale and Underlying Principles

- America's changing economy is strong and getting stronger. But during times of transition, America's economic growth is not felt equally throughout the Nation.
- President Bush believes that communities can make the transition to vibrant and strong economies because of the entrepreneurial spirit, vision, and hard work of those who live there.
- The President believes that the goal of federal economic and community development programs should be to create the conditions for economic growth, robust job creation, and livable communities, thereby reducing a community's reliance on perpetual federal assistance.

THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

United States Department of the Treasury



- The job of government is to inspire, to help remove barriers to growth, to be accountable for taxpayer dollars, and to ensure results for programs aimed at helping people.
- This initiative also builds on the President's Management Agenda that government should be citizen centered; results oriented; market-based; and promote innovation through competition.

Key Elements of the Initiative

- Let me turn to the Administration's proposed fiscal year 2006 budget for the Fund, which has been designed to work alongside the President's proposed new initiative, the Strengthening America's Communities Initiative. Building on existing economic and community development efforts, the President has proposed a new initiative to help strengthen America's transitioning and most needy communities, while making better use of taxpayer dollars by reforming and restructuring many of the existing federal economic and community development programs.
- Seven major federal agencies currently provide \$16 billion through 35 grant, loan, and tax incentive programs for economic and community development efforts. The current system forces communities to navigate a maze of federal departments and programs in order to access economic and community development assistance programs, each imposing a separate set of standards and reporting requirements. This process is not only overly burdensome, but it also has a negative impact on those smaller communities and organizations that lack the technical and administrative programs that share a similar mission, the Strengthening America's Communities Initiative will help provide a more coherent, strategic and results-oriented focus to federal economic development efforts. In addition, the President's proposal will better target funds to those communities most in need of assistance.
- Under the President's proposal CDFIs and CDEs will remain eligible to receive grant funding. Rather than have multiple Federal agencies administer separate grant programs, local and State governments will have the flexibility to make awards to meet locally defined needs. In exchange for greater flexibility, there will also be a much greater focus on results and accountability. Given that most CDFIs and CDEs have demonstrated success in creating and retaining jobs, constructing and rehabilitating affordable housing units and providing financial services to those that current lack adequate access to credit, we expect that those institutions demonstrating value to their communities will continue to be supported under the Strengthening America's Communities Initiative.

THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

United States Department of the Treasury



- President Bush's proposal consolidates a subset of the federal government's economic and community development programs, transforming them into a new, two-part program: (1) the Strengthening America's Communities Grant Program, a unified economic and community development grant program, and (2) the Economic Development Challenge Fund, a bonus program for communities, modeled after the Millennium Challenge Account.
- The combined economic and community development programs will be administered by the Department of Commerce.

The Case For Reform

"The principle here is clear: A taxpayer dollar must be spent wisely, or not at all."

- There is a growing consensus among the nation's leading economists and economic development researchers and practitioners; there is a need to fundamentally rethink and refocus the federal role in support of state and community efforts to promote economic growth and spur job creation in the 21st century economy. For example, last December, the U.S. Council on Competitiveness, a leading non-partisan think tank, issued a groundbreaking report, "Innovate America." In that report, over 400 corporate and academic leaders called for the consolidation of federal development programs in order to bolster America's competitiveness.

Application/Execution of the Initiative

- The Administration looks forward to working with stakeholders, such as CDFI, and Congress as it develops enabling legislation, which will be proposed to Congress this summer. This effort will require input and coordination with the Strengthening America's Communities Advisory Committee, which met for the first time last week. The Committee will be composed of public members and will provide advice and recommendations to the Secretary of Commerce on the proposed initiative and produce a report by May 31, 2005.
- When implemented, the President's "Strengthening America's Communities Grant Program" will ensure that the communities most in need will receive assistance to transition to a broad-based 21st century economy while at the same time ensuring federal accountability for the expenditure for taxpayer dollars.

**THE COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTIONS FUND**

United States Department of the Treasury



I plan to work with my colleagues in the Administration, members of Congress and all of you over the coming months as we together make support for community and economic development important business for our nation. And please, contact me at any time in the coming year so that we can work together to improve the communities you work so hard in every day.

Thank you.