

COMMUNITY DEVELOPMENT ADVISORY BOARD
Community Development Financial Institutions (CDFI) Fund
United States Department of the Treasury

Minutes

Date: Tuesday, May 17, 2016

Place: Main Treasury Building
The Cash Room
1500 Pennsylvania Avenue NW
Washington, D.C. 20220

Presiding: Calvin Holmes, Chairman of the Advisory Board, Chicago Community Loan Fund

Board Members in Attendance:

Calvin Holmes, Chairman of the Advisory Board, Chicago Community Loan Fund
Brian E. Argrett, City First Bank of D.C.
Audrey Choi, Morgan Stanley Global Sustainable Finance
Xavier de Souza Briggs, Ford Foundation
Tanya M. Fiddler, Native CDFI Network
David C. Lizarraga, TELACU Education Foundation
Douglas H. Low, Kidz Express
Ann Marie Mehlum, U.S. Small Business Administration
Lisa Mensah, U.S. Department of Agriculture
Ronald Phillips, Coastal Enterprises Inc.
Rosie Rios, U.S. Department of the Treasury
Lawrence Roberts, U.S. Department of Interior
Harriet Tregoning, U.S. Department of Housing and Urban Development

Remarks and Presentations:

Annie Donovan, CDFI Fund
Adrienne Harris, White House, National Economic Council
Lisa M. Jones, CDFI Fund
Amber Kuchar, CDFI Fund
Rosa Martinez, CDFI Fund
Jeff Merkowitz, CDFI Fund
Jessica Milano, U.S. Department of the Treasury
Ray Sendejas, U.S. Department of the Treasury
Marcia Sigal, CDFI Fund
Mia Sowell, CDFI Fund
Dr. Miriam Jorgensen, Native Nations Institute

Chairman Holmes acknowledged that, while the industry realizes that it has more work to do, it appreciates the efforts of its federal partners to help the industry stabilize neighborhoods and serve people that have been left behind.

Chairman Holmes noted that Board Member Tregoning had joined the meeting and asked her to introduce herself. Chairman Holmes then invited Director Donovan to give her Director's Report.

CDFI Fund Director's Report, by Director Annie Donovan

After thanking Chairman Holmes, Director Donovan greeted all in attendance and expressed her appreciation for the work the Advisory Board and its subcommittees had done over the past year. Director Donovan recalled that 2015 was her first year as the Director of the CDFI Fund and stated that it has been a great privilege to serve in this role.

Director Donovan stated that her report would highlight the CDFI Fund's accomplishments in 2015 and its priorities for 2016.

Director Donovan began by discussing the CDFI Fund's budget, noting that the budget for fiscal year 2015 was roughly \$230 million, an increase of \$4.5 million over fiscal year 2014, and that Congress also authorized \$3.5 billion in allocation authority for the New Markets Tax Credit Program and \$750 million in guarantee authority for the CDFI Bond Guarantee Program. Director Donovan added that in fiscal year 2016, the CDFI Fund's budget increased again, reaching \$233.5 million, and that the New Markets Tax Credit Program again received \$3.5 billion in allocation authority and the Bond Guarantee Program again received \$750 million in guarantee authority.

Director Donovan expressed her deep appreciation to the Obama Administration for the 115 percent increase in funding for the CDFI Fund over this period. Director Donovan noted that during the Obama Administration, the CDFI Fund has more than doubled in size, increased the number of certified CDFIs by 20 percent, and has added new programs, including the Healthy Food Financing Initiative, the Capital Magnet Fund, and the CDFI Bond Guarantee Program.

Director Donovan also noted that, as Chairman Holmes had stated, there have been extraordinary efforts to partner with other federal agencies, and that the emphasis on integration has been very helpful to CDFIs in the field. Director Donovan stated that the CDFI Fund is humbled and empowered by this confidence.

Director Donovan reviewed the accomplishments of the CDFI Fund's programs. Director Donovan reported that through its flagship program, the CDFI Program, the CDFI Fund has awarded more than \$1.5 billion over 20 years to build the capacity of CDFIs. Director Donovan noted that since the first awards in 1996 to 31 CDFIs, a nationwide network of more than 1,000 CDFIs has developed, and that there are CDFIs in every state, the District of Columbia, Guam, and Puerto Rico.

Director Donovan discussed the Innovation Challenge, which the CDFI Fund conducted in 2015 to seek new ways to expand or increase investments in underserved communities across the country. Director Donovan reported that in November 2015, the CDFI Fund announced a \$1 million award to the Association for Enterprise Opportunity (AEO) for its proposal to develop a screening and assessment tool that would match small businesses searching for loans from banks or online lenders with a CDFI that may be able to meet their needs. Director Donovan stated that AEO is testing the platform with four CDFIs: Access to Capital for Entrepreneurs, the Intersect Fund, Justine Petersen, and LiftFund.

Director Donovan stated that during the preceding week, the CDFI Fund had published a Request for Information in the Federal Register on the CDFI Prize Competition, which will reward selected applicants with monetary prizes for proposing innovative ideas for increasing the capacity of CDFIs to make investments in underserved rural areas, especially areas of persistent poverty. Director Donovan noted that the CDFI Fund expects that it will award no less than \$1 million of fiscal year 2016 appropriated funds through the competition.

Director Donovan added that the Innovation Challenge and the Prize Competition are ways that the CDFI Fund is approaching capacity building from the bottom up, by soliciting ideas and approaches that can be tested in the field, rather than from the top down.

Director Donovan noted that, during fiscal year 2015 and through April 2016, the CDFI Fund had undertaken a variety of significant administrative measures to maximize performance, including replacing legacy information technology systems with an integrated system, the Awards Management Information System (AMIS); launching the Annual Certification and Data Collection report; developing the CDFI Assessment and Risk Management Framework; and launching the CDFI Fund's new public website.

Finally, Director Donovan discussed the development of the CDFI Fund's Framework for the Future and five-year strategic plan. Director Donovan reported that the CDFI Fund has been actively pursuing the multi-step process that began with the development of the six areas of inquiry that the Board contemplated during its meeting last May.

Director Donovan stated that last summer, the CDFI Fund took those six questions on the road, conducting a national listening tour during which nearly 400 stakeholders in five cities engaged in discussion with the CDFI Fund, as well as two conference calls for stakeholders in rural communities and in Hawaii, Alaska, and the Territories. Director Donovan noted that the CDFI Fund also developed an electronic survey to ensure that all of its stakeholders would have the opportunity to provide input, and that the survey generated 268 responses

Director Donovan reported that, after several months of sifting through this input and engaging with CDFI Fund and Treasury Department staff, the CDFI Fund has developed five guiding principles to help the CDFI Fund build out its five-year strategic plan:

1. Increase the impact of the CDFI Fund network by supporting the growth, reach, and performance of CDFIs and CDEs
2. Foster a diversity of CDFI and CDE activities and geographies while holding certified

roundtable with business and community leaders, and planned to visit a CDFI-funded small business there. Ms. Milano stated that the Secretary had recently visited a facility in Los Angeles that houses two organizations, L.A. Prep and L.A. Kitchen, that had received a combination of state, small business credit initiative funding, and New Market Tax Credit allocations that enabled them to open their facility.

Ms. Milano noted that Treasury is just one part of a broader Administration effort to support financial inclusion and community development, and stated that, as a Special Assistant to the President for Economic Policy at the White House National Economic Council, Ms. Adrienne Harris is at the front lines of this work. Ms. Milano provided a brief overview of Ms. Harris's career and capabilities, and invited the audience to welcome Ms. Harris.

Remarks by Ms. Adrienne Harris, Special Assistant to the President for Economic Policy

Ms. Harris thanked Ms. Milano and Director Donovan, and expressed her gratitude for the opportunity to join the gathering and to speak about the year ahead.

Ms. Harris stated that financial growth, financial inclusion, and access to capital have all been priorities of the Obama Administration from the beginning, and that, over the past seven years, President Obama has offered policies to advance an economy that offers opportunity for everyone willing to work hard and play by the rules. Ms. Harris noted some of the policies enacted to that end, including Wall Street reform, which made critical repairs to the financial system and put in place new consumer protections to prevent future abusive practices, and investments in innovation, education, and infrastructure, which have helped grow the economy, create jobs, and strengthen the middle class.

Ms. Harris also noted that, over the past seven years, the Administration has made substantial investments in the CDFI Fund, growing its appropriations by 115 percent. Ms. Harris stated that the financial and technical assistance awards distributed under the CDFI Program more than doubled, and that the New Market Tax Credit Program was expanded significantly. As a result, Ms. Harris stated, since the President took office in 2009, there has been a 70 percent increase in CDFI Program awards, a 400 percent increase in New Market Tax Credit real estate investment, an 85 percent increase in jobs created through New Markets Tax Credit investments, and a 20 percent increase in the number of CDFIs.

Ms. Harris noted that Secretary Lew had stated in 2015 that for financial inclusion to work, it must be comprehensive and include transaction services, savings opportunities, insurance, and access to credit. Ms. Harris stated that financial inclusion means that the informal economy will shrink as the more accountable financial economy grows.

Ms. Harris stated that, even in 2016, too many Americans, especially low-income families and families of color, remain outside the financial system, and that for those who are cut off from the formal financial system, it is almost impossible to build the savings and investments that are essential for a secure financial future.

Director Donovan replied that the CDFI has seen several leaps in capability, particularly in two areas: in Native American communities, which would be discussed later in the meeting, and in the CDFI Bond Guarantee Program. Director Donovan stated that the program is a zero-credit subsidy program; it is 100 percent guaranteed but has no federal subsidy behind it, which means that no federal entity has funded a loan loss reserve. As a result, Director Donovan stated, the money is guaranteed but the risk is borne by CDFIs. Director Donovan stated that this is a major shift in CDFIs' balance sheets and has really challenged the CDFI industry, but that the program is giving CDFIs access to 30-year, low-cost, fixed-rate capital.

Director Donovan stated that what CDFIs have to go through to access the program is Wall Street-level underwriting. Director Donovan noted that Treasury's underwriting team is very thorough in its due diligence, and that the ability of CDFIs to step up to that level of underwriting means that they are positioning themselves for the larger capital markets and impact investors.

Director Donovan stated that the CDFI Fund wants more capacity to be built in rural areas and areas of persistent poverty, and that that is where the CDFI Fund is channeling innovation dollars.

Director Donovan added that many CDFIs have broadened their scope to incorporate cross-sector strategies—for example, leading efforts in the health sector. Director Donovan stated that this reflects the capacity that CDFIs have built to be agents in their community to attract capital and to create change.

Chairman Holmes noted that another way in which CDFIs are building their capability is with the support of private sector partners, such as JPMorgan Chase, and that the CDFI Fund, through the CDFI Bond Guarantee Program, has created an opportunity for CDFIs to collaborate more effectively. Chairman Holmes stated that this new spirit of collaboration and collective action, which allows the partners to cross-pollinate each other's abilities while it shores up ability to deliver to their customers, is a new frontier for CDFIs, but one that the industry has embraced enthusiastically.

Report on the Activities of the Strategy Subcommittee, by Chairman Holmes

Chairman Holmes acknowledged the Members of the Advisory Board's Strategy Subcommittee—Board Brian Argrett, Xavier de Souza Briggs, Audrey Choi, Lisa Hall, Doug Low, Lisa Mensah, Ron Phillips, and Harriet Tregoning—and thanked them for their engagement, time, and insights over the course of the past year.

Chairman Holmes commended the CDFI Fund's leadership for doing a great job of listening during the listening tour, conference calls, and survey over the past year and a half. Chairman Holmes stated that the CDFI Fund was able to synthesize many voices from across the country into a set of principles and guidelines that the industry seems to have embraced. Chairman Holmes stated that that wouldn't have happened without Director Donovan's instinct to take the

Strategic Planning Discussion - Remarks on the Draft Strategic Goals and Objectives, by Mr. Jeff Merkowitz, Senior Advisor, Office of the Director, CDFI Fund

Mr. Merkowitz stated that he would discuss the CDFI Fund's draft strategic goals and objectives, and provide more context about what went into their development. Mr. Merkowitz noted that the goals and objectives closely reflect the five guiding principles of the CDFI Fund's Framework for the Future.

Mr. Merkowitz stated that one of the overarching themes that the CDFI Fund heard on the listening tour was the industry's desire for the CDFI Fund to use its tools to push for greater impact in the most challenging low-income communities and populations, while still maintaining flexible, organization-level funding. Mr. Merkowitz stated that the CDFI Fund network—the array of organizations supported by CDFI Fund programs—has led the way in demonstrating that there are opportunities for investment in underserved communities, but that when mainstream financial institutions move into markets behind the CDFI Fund's awardees, the CDFI Fund wants awardees to blaze new trails and find the next community that is even harder to serve.

Mr. Merkowitz stated that that is why Goal 1 of the strategic plan is to increase the impact of the CDFI Fund network by supporting the growth, reach, and performance of CDFI Fund awardees. Mr. Merkowitz stated that there are three strategic objectives under this goal: to more closely align CDFI Fund awards to applicant performance and program objectives, to drive the CDFI Fund network's growth and reach into underserved areas, and to hold certified CDFIs and CDEs to high standards of accountability to a primary mission of promoting community development.

Mr. Merkowitz stated that solutions to overcoming poverty can vary from community to community and, for this reason, Goal 2 is to foster diverse activities and geographies in CDFI Fund programs. Mr. Merkowitz stated that the intent is to support the full range of activities contemplated in the CDFI Fund's governing statutes.

Mr. Merkowitz added that, as the CDFI Fund seeks to expand its geographic coverage, it also wants to ensure that its award decisions are fairly distributed wherever there is need and take into account the unique characteristics of the country's various regions and cultures.

Mr. Merkowitz stated that on the listening tour the CDFI Fund also heard a strong desire to base efforts on evidence of what works. Mr. Merkowitz stated that the CDFI Fund shares this desire and established Goal 3—to build the capacity of the CDFI Fund and its network to capture, produce, and utilize data to improve decision-making, performance, and accountability—as a result.

Mr. Merkowitz discussed the CDFI Fund's intention to explore ways to make better use of the data it collects, as well as to share as much of that data as possible with the CDFI network. Mr. Merkowitz stated that Goal 3 includes three strategic objectives: to increase the CDFI Fund network's access to and ability to use CDFI Fund data, to use data to inform the CDFI Fund's desired program outcomes, and to make better use of data and evidence to drive CDFI Fund award decision-making.

Chairman Holmes initiated the discussion by asking how CDFIs can measure over a defined period of time whether they are helping to increase the earnings and the financial security of the low-wealth individuals they serve.

Board Member Mensah replied that she did not have a precise reaction to Chairman Holmes's question, but thought that all six strategic goals were terrific and, as Undersecretary for Rural Development, wanted to commend the CDFI Fund for establishing Goal 2, to foster diverse activities and geographies in CDFI Fund Programs.

Board Member Mensah stated that, regarding Mr. Sendejas' question, the needle to be moved is the number of CDFIs receiving awards through the CDFI Program that are from rural and Native geographies. Board Member Mensah noted that there are fewer sources of philanthropic and CRA-obligated capital for those areas, and so the federal government plays a tremendously important role in building and extending the reach of CDFIs in rural and Native geographies.

Board Member Argrett commented that the needle the CDFI Fund is trying to move is that of the individual communities and the families within those communities—their access to financial services, housing, and jobs, and the improvement of their underlying economic conditions.

Board Member Argrett stated that the challenge, for the CDFI Fund and for individual CDFIs, is how to measure that, and that it would be extraordinary if the CDFI Fund could lead the efforts of CDFIs to address that challenge. Board Member Argrett stated that this is particularly important when looking at different demographic communities, specifically minority communities.

Chairman Holmes asked Director Donovan to respond to Board Member Mensah's suggestion. Director Donovan replied that she thought both Board Member Mensah's and Board Member Argrett's suggestions were great and exactly the kind of feedback the CDFI Fund is seeking on the question of how to define success.

Chairman Holmes observed that, in recent years, the CDFI Fund has been moving in the direction of making sure that its programs are serving low-wealth communities and rural America in particular. Chairman Holmes suggested that the Program Directors' reports later in the meeting about how they think they can meet the objectives of the strategic plan would provide insight about the work that has already been done along those lines.

Director Donovan added that the challenge is where capacity meets need, and that that is why the tools the CDFI Fund has are so important. Director Donovan noted that the Capacity Building Initiative is especially important in this equation, because the ability to absorb capital has to be present in order for CDFIs to be effective. Director Donovan stated that, in many cases, CDFIs are not just making deals but are creating deals, and so the ability to get to that level of capacity building is going to be central to CDFIs' ability to make headway in some communities.

Board Member Tregoning stated that she entirely agreed with Board Member Argrett, and that improving the condition of households and individuals is the primary measure of success. Board

meaningfully toward using data and evidence?

Chairman Holmes asked Board Member Low if he wanted to comment on the issues discussed or switch to a different issue. Board Member Low replied that he simply wanted to add to what Board Members Tregoning, Briggs, and Argrett had said, noting that creating access to capital and building capacity are important, but that, at the end of the day, the issue is how these impact the individuals living in these communities. Board Member Low stated that the challenge the CDFI Fund has is defining the metrics and finding ways to determine how its programs have helped a CDFI improve the lives of individuals in its community.

Chairman Holmes replied that the CDFI Fund is really focused on pushing its partners to go deeper to find a way to support the quality of life of people who continue to exist outside of the mainstream. Board Member Low stated that, while that is something that is being attempted, it is not succeeding on the West Side of Chicago. Chairman Holmes assured Board Member Low that the CDFI Fund will keep forging ahead on that.

Chairman Holmes invited Board Member Choi to comment.

Board Member Choi stated that it is not only hard to measure impact, but that there is an issue of attribution, because there are many partners in the chain and so it is difficult to determine how a particular outcome happened. Board Member Choi acknowledged that this fact makes it difficult for the CDFI Fund to measure impact at the community level.

Board Member Choi discussed how the issue of measurement reflects the tension between growth, reach, and performance, and is about the relative weighting and importance of each of those factors.

Board Member Choi stated that one of the things that the Board should spend more time thinking and talking about is that the CDFI Fund has a unique combination of tools that allow it to make investments where other institutions cannot.

Chairman Holmes invited Board Member Rios to comment.

Board Member Rios discussed how her experience working for the City of Oakland as the Director of Economic Development shaped her perspective on using funds from programs such as the New Markets Tax Credit Program, and suggested that the Board look at the funds as an investment, a way to leverage, and a way to grow.

Board Member Rios stated that very specific metrics are used to analyze an investment, and suggested that before the Board tries to define metrics, it look at the issue in the same way that local organizations do and think of it as an investment.

Chairman Holmes invited Board Member Phillips to comment.

Board Member Phillips commended the CDFI Fund for the transparency of its strategic planning process.

Notes and putting them on the whiteboards in the back of the room.

Mr. Sendejas asked the Board Members to convene in the groups.

Strategic Planning Discussion – Summary of Group 1 Breakout Session

After 20 minutes, the Board Members returned, and Mr. Sendejas asked one representative from each group to summarize the group's discussion, after which the Board Members from other groups could offer comments.

Chairman Holmes formally welcomed Board Member Roberts, from the Department of the Interior, and Board Member Fiddler, from the Native CDFI Network, who had just joined the meeting.

Chairman Holmes stated that his group had a very interesting and complex conversation about Goal 1 and started by dividing the goal into two parts. Chairman Holmes stated that the group determined that one part of the goal was about the growth and reach of CDFIs, and thought about how the CDFI Fund affects the growth and the reach of CDFIs.

Chairman Holmes stated that the group developed some measurable data points. Chairman Holmes discussed how if the CDFI Fund could establish a baseline of what is on the balance sheets of certified CDFIs today, it could then determine where those CDFIs stood in five years.

Chairman Holmes stated that the group also looked at the idea of region and considered how many LMI census tracts the CDFI Fund reaches today. Chairman Holmes stated that if the CDFI Fund had that baseline, it could imagine a future in which there is not a single low-income census tract that is not supported by CDFI dollars.

Chairman Holmes stated that the group came back to the question of people—how do CDFIs get low-income people out of poverty, and can CDFIs be effective in that arena?

Chairman Holmes stated that the group concluded that consumer-facing CDFIs that make small loans to individuals have a direct connection with their customers and are better able to measure how their financing changes lives. Chairman Holmes stated that the group suggested that the CDFI Fund could support more of that work of documenting the effectiveness of those consumer-lending CDFIs.

Chairman Holmes noted that the group recognized that the vast majority of CDFIs are loan funds—enterprise lenders that lend to corporations that turn around and push benefit out to a beneficiary—and that measuring their effectiveness is more difficult, because enterprise lenders track data at the project level rather than at the individual level.

Chairman Holmes stated that the group thought that the CDFI Fund could work with its partners to offer best practices for capturing individual-level data and that enterprise lenders could then share those practices with their borrowers. Chairman Holmes stated that the group also

kinds of “storms” or shocks, such as appropriations risk and regional economic risk, with the group going back and forth over what is worth achieving and how it is built and measured.

Board Member Briggs stated that the group recognized that factors such as talent, succession planning, and generational change in the industry needed to be factored in, but thought that in this particular domain, the aim would be to ensure that the goals of achieving greater geographic reach and greater versatility do not make the program deemphasize quality, performance, resilience.

Board Member Briggs stated that the group concluded that, at present, there are solid foundations to build on but not necessarily anything that constitutes an industry standard that the field and the CDFI Fund could use to define growth and success, and that goals such as a greater number of CDFIs or even a greater number of versatile CDFIs felt quite incomplete.

Board Member Briggs asked the members of his group to add any comments they had.

Board Member Lizarraga praised Board Member Briggs’ summary and stated that the group’s discussion reflected the awareness that more isn’t necessarily better and that capability and self-sufficiency are the challenges to be addressed going forward.

Board Member Choi added that the group discussed thinking more strategically about where grant-making capacity investments are being made, so that organizations in underserved areas become resilient and capable organizations that can get awards from the CDFI Fund and other sources.

Strategic Planning Discussion – Summary of Group 3 Breakout Session

Chairman Holmes invited Board Member Mehlum to report on her group’s discussion of Goal 3.

Board Member Mehlum stated that while her group did not get far enough in this conversation to define a five-year vision of success, it did agree on strategic direction recommendations for the CDFI Fund.

Board Member Mehlum stated that the group attempted to envision what effective CDCs, individually and as an industry, would look like in five years, and concluded that they would be more successfully “leveraging” and “collaborating.” Board Member Mehlum stated that that led to a conversation about the need for more collaboration in policy with agencies such as USDA, SBA, and HUD, and the possibility of having a clearer road map in five years for how those agencies could support the efforts of CDFIs.

Board Member Mehlum added that the group also discussed how some policies and statutes limit the implementation of programs, which presented opportunity for progress. She noted that her group spent a significant amount of time discussing the importance of data collection, the type of data that would be helpful to follow, and the measurement of it over time to help assess the impact of a more comprehensive investment in the economic health of specific communities and

Chairman Holmes suggested staggering the programs in a way that allows CDFIs that want to apply for multiple programs to do so.

Board Member Briggs offered comments on the second objective of Goal 5. Board Member Briggs stated that the National Advisory Board on Impact Investing is charting its next chapter, which will have two main emphases: promoting helpful policy changes and building investor preparedness and commitment. Board Member Briggs stated that that is where the second objective of Goal 5 comes in to play, because there is an opportunity to have a much deeper dive on the question of how to make CDFIs a fully investible asset class for large pools of capital, especially institutional investors.

Chairman Holmes asked Mr. Sendejas to close the plenary session. Mr. Sendejas thanked Board Members for a robust discussion, and asked Director Donovan to talk about the next steps for the ideas collected during the session.

Director Donovan stated that the CDFI Fund has already begun to think about the action steps and success measures underneath each of the objectives, and will work on those over the next month. Director Donovan stated that the CDFI Fund will be looking the Board's input, as well as input from the CDFI Fund staff, and do another draft of the plan and send it Treasury for approval by the end of the fiscal year, so that the CDFI Fund will be ready to start implementing the plan when fiscal year 2017 begins. Director Donovan added that the CDFI Fund will send the final version of the plan to the Strategy Subcommittee before the plan is released to the public.

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CDFI Fund Programs Updates

Chairman Holmes introduced Ms. Amber Kuchar, the Program Manager of the CDFI Program and Native Initiatives, the first of five CDFI Fund staff members who would provide updates on the CDFI Fund's programs.

Presentation by Ms. Amber Kuchar, Program Manager of the CDFI Program and Native Initiatives

Ms. Kuchar reported that the CDFI Program and the Native American CDFI Assistance Program (NACA) in fiscal year 2015 made awards totaling more than \$200 million to almost 200 CDFIs in more than 41 states, and that 28 of those awardees were first-time recipients of a CDFI Fund award. Ms. Kuchar stated that the CDFI Fund fully integrated its fiscal year 2016 award application process and evaluation process for the programs into AMIS, the new IT infrastructure. Ms. Kuchar reported that the programs had a 20 percent increase in applications for the fiscal year 2016 round, despite the transition to the new IT system.

Ms. Kuchar added that the CDFI Fund is aligning the fiscal year 2017 application and evaluation

Ms. Kuchar stated that the emphasis over the past four years has been to deepen the strength of Native CDFIs and that, as a result, Native CDFIs have grown in staff size, assets under management, and reach. Ms. Kuchar stated that over the next five years, she wants to leverage the analysis done by Dr. Miriam Jorgensen in the *Access to Capital and Credit in Native Communities Report* and to use data and evidence to build and to direct resources to the Native Communities. Ms. Kuchar stated that the CDFI Fund would continue to add new Native CDFIs and to build existing Native CDFIs.

Board Member Fiddler commented that she believed the Native CDFI industry would see growth on both fronts.

Board Member Phillips asked Ms. Kuchar if Native CDFIs had tried to engage tribal owners and managers of casinos to access some of the cash flow generated by casino activity.

Ms. Kuchar replied that discussions about that have started with the Native CDFI Financing Officers Association, as well as with individual Native CDFIs.

Board Member Fiddler discussed how the Native CDFI Network has expanded policy advocacy this year to demonstrate strategic partnerships with the federal government and state, tribal, and municipal governments.

Board Member Argrett asked Ms. Kuchar what lessons the CDFI Fund has learned over the ten-year period it has worked to develop Native CDFIs and whether those lessons could be applied to the broader CDFI industry.

Ms. Kuchar stated that there has been a lot of thinking about how the CDFI Fund can employ a bottom-up approach and be more of a partner with the industry, instead of leading or following.

Director Donovan added that the two lessons that the CDFI Fund wants to extract from the experience over the past ten years focus on the “what” and the “how.” Director Donovan explained that the way the CDFI approached the “what” was very bottom-up, allowing Native CDFIs to define what topic areas the CDFI Fund should be covering, and that the “how” involved doing peer-to-peer and experiential learning, which has been powerful.

Chairman Holmes thanked Ms. Kuchar for her report and introduced the next speaker, Ms. Rosa Martinez, Associate Program Manager of the New Markets Tax Credit Program.

Presentation by Ms. Rosa Martinez, Associate Program Manager of the New Markets Tax Credit Program

Ms. Martinez stated that the New Markets Tax Credit Program (NMTC Program) had a very productive year making 76 awards totaling \$3.5 billion in tax credit allocation authority to Community Development Entities (CDEs). Ms. Martinez stated that the objective was to extend the program’s reach to underserved communities, including states that have received fewer

Board Member Argrett asked if the NMTC Program had developed a standard for measuring the effectiveness of its efforts to build the capacity of minority CDEs and to increase their participation in the program, and what combining the two rounds of the NMTC Program will allow the CDFI Fund to do, operationally or strategically.

Ms. Martinez addressed Board Member Argrett's first question, stating that the most important measurable outcome that the CDFI Fund wants from the minority CDE contract is to enable the CDEs themselves to assess whether or not they have the internal capacity to participate in the NMTC Program—to understand where they are and what they need to do to participate.

Ms. Martinez stated that the second objective is for the CDFI Fund is determine if there are things in the application that it can ask in a different way. Ms. Martinez noted that there are many different types of CDEs, and that the CDFI Fund's challenge is to ask questions in the application that capture the work of such a diverse set of participants.

Director Donovan addressed Board Member Argrett's second question, stating that the CDFI Fund has never done a \$7 billion allocation round of the NMTC Program, and that the size of the round means that everything will be pushed back just a little bit. Director Donovan stated that the award will come later in the year and that the 2017 round will open as early as possible in 2017. Director Donovan added that the round offers the CDFI Fund the opportunity to do bigger awards and to go down the list further.

Chairman Holmes asked if opportunities for underserved states and non-metro areas would be elevated in this round.

Director Donovan replied that the opportunities would not be especially elevated. Ms. Martinez added that the criteria for allocations to those markets were established before the round opened, and Director Donovan concurred.

Director Donovan added that the demand for tax credits exceeds the supply, and that many high quality organizations do not receive NMTC Program awards. Director Donovan state that this year the CDFI Fund is looking forward to being able provide awards to most, if not all, of the highly qualified organizations.

Board Member Argrett asked if successfully putting out \$7 billion in awards in one fell swoop put the CDFI Fund in a good position to ask Congress to increase appropriations for the NMTC Program.

Director Donovan stated that she would throw that question back to the Board, and that it is one of those questions that is better answered by the Board than by her.

Chairman Holmes thanked Ms. Martinez for her report and introduced the next speaker, Ms. Mia Sowell, Associate Program Manager of the Bank Enterprise Award Program.

and will use that information to explore ways to enhance the program and application.

Ms. Sowell stated that the BEA Program's second strategic priority relates to Goal 2, which is about fostering diverse activities in CDFI Fund programs. Ms. Sowell stated that the program will continue to demonstrate the importance of offering financial products and services to individuals in distressed communities, which is consistent with Treasury Secretary Lew's efforts regarding financial inclusion, and that program staff will seek public comment with the program's application during the summer.

Ms. Sowell stated that the BEA Program's third strategic priority relates to Goal 6, which is about creating organizational excellence by improving operational efficiency. Ms. Sowell stated that the program will use AMIS to increase efficiencies in its programmatic administration, and that staff are excited about being able to offer, for the first time, an application that is 100 percent electronic and has full system controls to perform several checks and balances that in the past have been conducted manually.

Ms. Sowell invited Board members to offer comments or questions.

Chairman Holmes asked if the CDFI banks offering small dollar consumer loans had indicated how effective they felt those loans had been to their customers, and if they felt they were building a more permanent customer base with the borrowers.

Ms. Sowell replied that feedback that the CDFI Fund has received from site visits and phone calls to its Help Desk has shown that, because the loans are more affordable, customers enjoy a sense of relief, knowing that they will be able to pay back the loan and that their payment history will be shown on their credit report.

Ms. Sowell also stated that many banks that serve these communities are interacting with people who have never established credit or have had a negative experience with a bank, and that once these customers establish a relationship, these banks can offer them accounts that do not charge a significant fee for overdraft protection or can set up automatic loan payments that come out of the account each month.

Chairman Holmes added that it is also about having a permanent relationship with an ethical lender. Ms. Sowell concurred.

Board Member Phillips noted that the beneficial effects of the BEA Program are strictly focused on census tract poverty statistics, and asked to what extent rural banks and CDFIs are benefitting from the program? Board Member Phillips went on to note that pockets of poverty are often masked within more affluent rural census tracts, and that the BEA eligibility criteria was biased towards urban census tracts.

Ms. Sowell replied that the eligibility requirements for the program are related not only to poverty, but also to the level of unemployment and the population for that particular census tract. Ms. Sowell stated that, by statute, the program serves census tracts in urban communities much more than in rural, but that the program has a tremendous impact in rural areas because of that

wanted to ensure that the guarantee authority is geographically dispersed and is being used across various asset classes. Ms. Jones stated that, with the \$852 million that has been committed to date, the CDFI Fund has representations from rural communities, the Appalachian region, urban communities, and Native Communities.

Ms. Jones described how the program lends funds to CDFIs that then lend to 12 asset classes, noting that in the current disbursement, a majority of the funds will be used for commercial real estate, rental housing, and charter schools. Ms. Jones noted that the CDFIs update their capital distribution plans annually and have the flexibility to change how they lend to particular asset classes.

Ms. Jones stated that one of the program's biggest accomplishments in the past year was to use leasehold mortgages, which allowed the program to lend to Native Communities and to CDFIs that use leasehold mortgages. Ms. Jones stated that developing this policy was a two-year effort that involved extensive work with the Department of Interior's Bureau of Indian Affairs. Ms. Jones noted that the policy allowed the program to lend directly to Native CDFIs, such as Citizen Potawatomi Community Development Corporation, and also encouraged non-Native CDFIs, such as Clearinghouse CDFI, to lend to Native Communities.

Ms. Jones stated that the program's goals connect to the strategic plan in three areas. Ms. Jones stated that the first relates to Goal 5, promoting awareness through outreach. Ms. Jones stated that, because the program is extremely complex, it provides two-day outreach sessions to help applicants understand the program, as well as daylong sessions to help CDFIs understand the processes and requirements they need to follow after the funds are issued.

Ms. Jones stated that the program's second goal is tied to Goal 4, easing the customer experience with technical assistance. Ms. Jones stated that program continues to provide very good technical assistance and customer service throughout the entire lifecycle of the loan, and intends to continue doing so.

Ms. Jones stated that the program's third goal ties to Goal 3, building capacity by providing uniform data. Ms. Jones stated that this is the real watershed moment for the program, and that the program is collecting standardized performance data on CDFIs, which will help to further the assessment of the risks of CDFIs and to attract additional capital.

Chairman Holmes invited Board Members to offer comments and questions.

Board Member Briggs asked Ms. Jones what her sense was of the absorptive capacity in the field, given the complexity and given the enormous potential of the program to be market making?

Ms. Jones stated that the program will need to do a version 2.0 and develop a viable off-balance sheet structure that would increase the demand for this program.

Board Member Choi asked whether this division of the pie chart is actually the most strategic and best uses of those dollars, and whether we should we be trying to nudge the pie charts that all

the impact of the program. Ms. Sigal stated that, through the NOFA, the CDFI Fund targeted the development of affordable housing for very low- and extremely low-income households, which was a change from the first round, and also has prioritized awards to applicants that leverage private third-party capital.

Ms. Sigal stated that the CDFI Fund also looked at ways to establish areas of high housing need based on the criteria in the statute and the regulation, including non-metro and rural areas, in order to make sure that it is the CMF's requirements for geographic diversity.

Ms. Sigal discussed how the goals of the CMF connect to the CDFI Fund's Strategic Priorities. Ms. Sigal stated that the CMF staff will advance Goal 1, which is to foster activities in diverse geographies in the CDFI Fund's programs, by looking at the applications it received and analyzing where those applications came from and where the gaps in capital for affordable housing are, so that the CMF staff can understand where its future outreach needs to be foster diversity in the program.

Ms. Sigal noted that the CDFI Fund structured the CMF application this year to ensure that it can address rural and non-metro areas, and will look at those results to see if any of that needs to be recalibrated.

Ms. Sigal stated that, to advance Goal 2, building the capacity of CDFI Fund to utilize data and improve decision-making, CMF staff plans to develop additional data sources that will help it to hone in on the areas of economic distress that can be addressed with awards.

Ms. Sigal stated that, regarding Goal 3 and creating organizational excellence, CMF is the first application to use AMIS. Ms. Sigal stated that the CDFI Fund is soliciting public comment on the application and a new interim rule, and will use those comments as part of the effort to reexamine the program to ensure that it is meeting the high standards for operational efficiency that the CDFI Fund has set.

Chairman Holmes invited the Board Members to offer comments and questions.

Board Member Lizarraga asked if CMF funds can be leveraged with HUD dollars in any way.

Ms. Sigal replied that it is allowable to have public funds to leverage, and that there is a 10:1 leverage requirement. Ms. Sigal noted that the purpose of the program is to attract private capital to distressed areas to develop affordable housing and related economic development activity, such as community facilities, and so that is the priority.

Chairman Holmes noted that CDFIs are increasingly trying to invest in large, transformative, mixed-use and multi-purpose projects, and that the current configuration of the CMF can make that more difficult. Chairman Holmes asked about the caps the percentage of funds that can be used for non-housing purposes, or whether CDFIs have some programmatic discretion.

Ms. Sigal replied that there is a regulatory cap for economic development activities of 30 percent of the CMF Award. Ms. Sigal stated that the statute specifies that the primary purpose of the

American Lending Study focused on the barriers to lending in Native Communities, the *Access to Capital and Credit in Native Communities Report* focuses on what has changed since the first report and what opportunities exist to improve the access to capital in Native Communities.

Chairman Holmes then introduced the next speaker, Dr. Miriam Jorgensen, the principal author of the *Access to Capital and Credit in Native Communities Report* and the Research Director for the Native Nations Institute at the University of Arizona and for its sister program, the Harvard Project on American Indian Economic Development. Dr. Jorgensen joined the meeting by telephone from Australia.

Presentation by Dr. Miriam Jorgensen on the *Access to Capital and Credit in Native Communities Report*

Dr. Jorgensen discussed why access to capital and credit is important to Native Communities, stating that, at current rates of growth, it will take 40 to 50 years for per capita income levels in reservation-based communities to converge with the national averages, which underscores the critical nature of access to capital and credit in Native Communities.

Dr. Jorgensen stated that the development of the *Access to Capital and Credit in Native Communities Report* was guided by two main questions: What has been learned across a set of key topic areas that relate to access to capital and credit in Native Communities, and what do we know about changes in the supply of capital in Indian Country since 2001?

Dr. Jorgensen stated that the CDFI Fund would be releasing a companion report that reviews a variety of data sources that speak to the availability of capital and credit to Indian Country. Dr. Jorgensen stated that her presentation today would focus on some of the successes related to access to capital and credit in Indian Country and also would preview some of the information found in the forthcoming companion report.

Dr. Jorgensen discussed how the research for *Access to Capital and Credit in Native Communities Report* was conducted, noting that the CDFI Fund's Native Initiatives underwrote a variety of consultations, focus groups, and virtual outreach sessions across the United States to identify the critical issues around capital and credit access that needed to be highlighted in the report. Dr. Jorgensen stated that there were six key topics that communities wanted to talk about and know more about: CDFIs, financial capability, Native entrepreneurship, housing, tribal government and tribal enterprise capital needs, and legal infrastructure that supports capital access.

Dr. Jorgensen stated that her remarks would highlight a few things that came out about each topic, and then would be available for questions from Board Members.

Dr. Jorgensen offered a brief overview of the Native CDFI field, noting that Native CDFIs are located throughout the nation and that the number of Native CDFIs began to increase in 2001, with the advent of Native Initiatives programming. Dr. Jorgensen added that, while more and more Native CDFIs have had more and more capital to work with, most Native CDFIs still have

lenders that it is safe to lend to tribes, even when they have collateral to pledge.

Dr. Jorgensen discussed the importance of legal infrastructure and how critical it is for tribal communities to develop their codes—including commercial, secured transaction, business licensing, business ethics, and zoning codes—and to strengthen their court systems so that dispute resolution is clearly depoliticized and independent, and that courts are competent to enforce the tribal laws that are in place.

Dr. Jorgensen stated that there are many opportunities to invest in Native Communities, but that many lenders still have in their minds that Indian Country is a risky place for investment. Dr. Jorgensen stated that much work still needs to be done by tribes and community members and Native CDFIs to help educate the broader population about the real risks and opportunities in Indian Country.

Dr. Jorgensen invited Board Members to offer comments and questions.

Board Member Phillips observed that there are few Native CDFIs in the eastern part of the United States, and asked what the plan is for more Native CDFIs in underserved areas.

Dr. Jorgensen acknowledged that there aren't federally recognized tribes in many of those places in the East where there might be a CDFI, and invited Board Member Fiddler to respond to that question. Board Member Fiddler concurred with Dr. Jorgensen's statement. Ms. Kuchar added that, in the last round of the Native Initiatives, the CDFI Fund gave an award to United Southeastern Tribes, a sponsoring entity that seeks to create a CDFI to serve Eastern tribes.

Chairman Holmes commented that he was excited to see that there is more financial education available in Native Communities, and asked Dr. Jorgensen what factors have driven that and what the non-Native community could learn from Native Communities about increasing financial literacy.

Dr. Jorgensen replied that the key factor was that, back in the 1990s, the Fannie Mae Foundation gave money to First Nations Development Institute, and the two organizations wrote the Building Native Communities curriculum that reflected Native Community-specific ways of thinking about financial education. Dr. Jorgensen stated that the Native Financial Education Coalition and early Native CDFIs, such as Lakota Funds and Four Bands Community Fund, helped to advance that curriculum.

Dr. Jorgensen stated that something that has made a critical difference and has been a hallmark of the Building Native Communities curriculum is its focus on training the trainer and having trainers who have the ability to adapt the curriculum and the way it is taught to the needs of each Native Community.

Board Member Briggs asked Dr. Jorgensen to elaborate on what convincing lenders to invest in Indian Country entails, and to share her thoughts about which of the many discrete recommendations in the report are most likely to reinforce each other and to be the most catalytic in terms of impact.

in Indian Country and trying to replicate it in other places is important, especially for the governments, and that regular meetings around these matters will be coming up and that the Subcommittee has natural networks that it will use to disseminate the report.

Board Member Fiddler reiterated that Indian Country is not looking to be special or different but does pay attention to the findings in the report, such as the 40-year gap between Native and mainstream per capita incomes. Board Member Fiddler stated her belief that the gap is in assets, and that if Native Communities invested in equity and asset building, they would catch up more quickly.

Board Member Fiddler stated that Native Communities are still catching up—that the history of Indian Country is a relatively new history, and that, although Native people have been here forever, they are now organized in communities that are not traditional and also are subject to non-traditional constructs of economy. Board Member Fiddler noted that financial education is important because it helps Native Communities that once knew how to thrive and survive deal with the different dynamic.

Board Member Fiddler stated that the rates of disease and dis-ease are significantly higher in Native Communities than anywhere else, and that she is committed to making sure that Native people sound off as loudly, tactfully, and passionately as they can, because the time is now.

Board Member Fiddler stated that the CDFIs in Native communities are the ones that are shining the light, and that the learning and the growth in these poverty pockets are coming from the community development groups. Board Member Fiddler also stated that the Federal Reserve has been a great partner, and discussed how the Federal Reserve helped compile some of the data about Native and non-Native creditworthiness that was included in the report.

Board Member Fiddler stated that there is so much to learn about Native Communities, and that she is excited to be able to spend the next 12 to 18 months answering questions and providing information to make the case for asset building in Native Communities, because “if you don't have assets, you can't get out of poverty.”

Chairman Holmes stated to Director Donovan that he saw two pathways forward for the task of engaging the report. Chairman Holmes stated that the first pathway is that the Native Subcommittee, led by Board Member Fiddler, would work to integrate many of the actionable recommendations from the report into the CDFI Fund's strategic plan. Chairman Holmes stated that the second pathway is that the CDFI Fund would set up a task force of government agencies to have a robust conversation about moving things forward in Native Communities.

Chairman Holmes noted that CDFIs have a lot of access to Government Sponsored Entities, and stated that another possible pathway is that CDFIs could convene conversations with GSEs and other allies to advance this work in Native Communities.

Chairman Holmes asked Director Donovan if he had correctly summarized the options for engaging the report.

Chairman Holmes adjourned the meeting at 4:20 pm.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Calvin Holmes". The signature is written in a cursive style with a large initial "C" and a long horizontal flourish at the end.

Calvin Holmes

Chairman

Community Development Advisory Board