COMMUNITY DEVELOPMENT ADVISORY BOARD

Community Development Financial Institutions Fund
United States Department of the Treasury

Minutes

Date: Wednesday, May 20, 2015

Place: Main Treasury Building
The Cash Room
1500 Pennsylvania Avenue N.W.
Washington, D.C. 20005

Presiding: Annie Donovan, Director, CDFI Fund
Calvin Holmes, Chair, Community Development Advisory Board

Board Members in Attendance:

Calvin Holmes, Chair of the Advisory Board, Chicago Community Loan Fund
Brian E. Argrett, City First Bank of D.C.
Ann Marie Bledsoe, Department of Interior (for Kevin Washburn)
Audrey Choi, Morgan Stanley Global Sustainable Finance
Xavier de Souza Briggs, Ford Foundation (by phone)
Matt S. Erskine, U.S. Department of Commerce
Tanya M. Fiddler, Four Bands Community Fund
Kristen Grifka, U.S. Department of Agriculture (for Lisa Mensah)
David C. Lizarraga, TELACU Education Foundation
Douglas H. Low, Kidz Express
Ann Marie Mehlum, U.S. Small Business Administration
Ronald Phillips, Coastal Enterprises Inc.
Rosie Rios, U.S. Department of the Treasury
Harriet Tregoning, U.S. Department of Housing and Urban Development

Also Present:

Amias Gerety, U.S. Department of the Treasury
Kathryn Malague, U.S. Department of the Treasury
Tanya McInnis, CDFI Fund, U.S. Department of the Treasury
Jamie Seman, CDFI Fund, U.S. Department of the Treasury

Remarks and Presentations by:

Gregory Bischak, CDFI Fund
Bill Bynum, HOPE Enterprise Corporation

Gregory Fairchild, University of Virginia
Ira Goldstein, The Reinvestment Fund
Bob Ibanez, CDFI Fund
Lisa Jones, CDFI Fund
Mark Kudlowitz, CDFI Fund
Jacob J. Lew, U.S. Department of the Treasury
Dennis Nolan, CDFI Fund
Michael Swack, University of New Hampshire

Call to Order: Opening Remarks by Director Donovan

At 9:22 a.m., Director Donovan convened the 2015 meeting of the Community Development Financial Institutions Fund's Community Development Advisory Board and welcomed the Board Members, as well as the audience in attendance and those watching the meeting via the webcast. Director Donovan extended a special welcome to the two new federal representatives to the Board—Harriet Tregoning and Ann Marie Mehlum—and to three private citizens—Brian Argrett, Xavier de Souza Briggs, and Calvin Holmes—appointed to the Board by President Barack Obama since the last meeting of the Board.

Director Donovan stated that the meeting would begin with remarks by Treasury Secretary Jacob Lew, and she thanked Secretary Lew for his unwavering commitment to the CDFI Fund and the communities the organization serves. Director Donovan then introduced Acting Assistant Secretary for Financial Institutions Amias Gerety, who introduced Secretary Lew and offered a summary of Secretary Lew's longstanding support for the CDFI Fund.

Remarks and Swearing in of New Advisory Board Members by Jacob J. Lew, U.S. Department of the Treasury

After thanking Mr. Gerety, Director Donovan, and the Board Members, Secretary Lew noted that the CDFI Fund had celebrated its 20th anniversary in September 2015, and he congratulated everyone who had helped make that anniversary possible and thanked them for making a difference in communities across the country.

Secretary Lew reviewed the CDFI Fund's achievements, reflecting on the many ways that the agency knocks down barriers so hard-working Americans have a chance to get ahead, including providing capital to hard-hit communities; helping develop affordable housing for low-income Americans and health-care centers for uninsured families; increasing senior citizens' access to healthy, nutritious food; and providing financing for small businesses in distressed neighborhoods, affordable financial services for those earning the minimum wage, and job training for downsized workers.

Secretary Lew noted that the number of Community Development Financial Institutions has grown from less than 200 in 1994 to nearly 1,000 today, and that, during that period, the CDFI Fund has awarded more than $2 billion to financial institutions across the country and also has awarded $40 billion dollars of tax credit authority through the New Markets Tax Credit Program, spurring even greater private sector investment in low-income communities.

Secretary Lew discussed President Obama's commitment to the CDFI Fund since the beginning of his Administration, noting that the when the President took office, the nation was in the grips of the recession and the President looked to the CDFI Fund and the nation's network of Community Development Financial Institutions to help stabilize the economy from the grass roots up. Secretary Lew also discussed the Administration's substantial investment in the CDFI Fund, which more than doubled the financial and technical assistance awards distributed through the CDFI Fund's CDFI Program and significantly expanded the New Markets Tax Credit Program. Secretary Lew also noted that, under the Obama Administration, two new programs were added to the CDFI Fund's arsenal: the CDFI Bond Guarantee Program and the Healthy Food Financing Initiative.

Secretary Lew then stated that it was important not just to focus on the CDFI Fund's achievements but also to build a foundation for the future. He urged the Advisory Board, the staff of the CDFI Fund, and all who are dedicated to the work of community development to strengthen the CDFI Fund and make sure the organization succeeds.

Secretary Lew then offered a brief preview of the meeting, noting that the audience would hear from researchers who had studied the effectiveness of CDFIs during the recession and concluded that, despite serving predominantly low-income markets and taking on supposedly higher-risk customers, CDFIs performed at virtually the same level as mainstream financial institutions through the financial crisis.

After again thanking the members of the Community Development Advisory Board for their hard work and dedication, Secretary Lew swore in two new Board Members: Brian E. Argrett, President and CEO of First Citibank of D.C., and Calvin Holmes, President of the Chicago Community Loan Fund.

<u>Roll Call, Call to Order, Introduction of Board Members, Election of Board Chair</u>

Director Donovan conducted the roll call of the Board members and called the meeting to order. After providing a brief overview of the agenda, Director Donovan thanked the members of the Advisory Board for their service to the CDFI Fund, and also thanked Deputy Assistant Secretary Jessica Milano for her support for the CDFI Fund.

Director Donovan stated that the meeting would be structured to facilitate discussion about the future of the CDFI Fund. Director Donovan then asked the Board Members to introduce themselves.

After the introductions were completed, Director Donovan called for the election of the Chair of the Advisory Board and asked for a nomination from the floor. Board Member Low nominated Board Member Calvin Holmes and Board Member Lizarraga seconded the nomination. Director

Donovan called for a show of hands from Board Members, and the Board elected Mr. Holmes as the Chair of the Board.

Remarks by Calvin Holmes, Chair of the Advisory Board

Chairman Holmes thanked Director Donovan and pledged to ensure that the gavel he wielded would facilitate discussion among Board members so that the Board could advise the CDFI Fund during this important time for the CDFI industry. Chairman Holmes also thanked Board Member Low for his nomination.

Chairman Holmes acknowledged three women who had played important roles in his life: his mother, Leola Holmes; Donna Gambrell, the former Director of the CDFI Fund; and Fannie Lou Hamer, the 1960s Mississippi civil rights leader.

Chairman Holmes observed that the CDFI Fund's framework for the CDFI industry mirrors Ms. Hamer's philosophy of decentralization, creating an arena in which CDFIs of all sizes, specializations and geographies can take advantage of the resources the CDFI Fund provides to help lower wealth people and communities thrive. Chairman Holmes pledged to work with each Board Member and the staff of the CDFI Fund, and thanked them for the opportunity to lead.

CDFI Fund Director's Report by Director Annie Donovan

Director Donovan stated that it is an honor to serve as the Director of the CDFI Fund and, noting that she is the first person to occupy the position who comes from the CDFI industry, reflected that she has seen firsthand how valuable the CDFI Fund is to communities and how innovative the tools the agency has created still are after 20 years. Director Donovan added that she is passionate about protecting what the CDFI Fund has created and growing its impact in communities.

Director Donovan stated that the CDFI Fund's agency's budget for fiscal year 2014 was $226 million, and that the agency had $3.5 billion in allocation authority for the New Markets Tax Credit Program (NMTC Program) and $750 million in guarantee authority for the CDFI Bond Guarantee Program. Director Donovan added that in 2015, the agency's budget increased to $230.5 million, with $3.5 billion for the NMTC Program and $750 million or the CDFI Bond Guarantee Program.

Director Donovan expressed sincere thanks to President Obama, his Administration, and Congress for the strong support they have provided to the CDFI Fund, noting that these resources have come at a time when demand for the CDFI Fund's programs has continued to exceed the availability of funds.

Director Donovan stated that, later in the meeting, four senior staff members of the CDFI Fund would provide a more detailed update on recent developments in several CDFI Fund programs. Director Donovan then discussed the Capacity Building Initiative, noting that the Initiative was conceived during the financial crisis by the Advisory Board to provide training and technical assistance to CDFIs. Director Donovan stated that, since that the CDFI Fund has provided more than 60 training workshops and more than 5,000 hours of technical assistance to CDFIs through the Initiative, and that all of the information that has been produced for these workshops is available in the Capacity Building Initiative Resource Bank on the CDFI Fund's website.

Director Donovan briefly discussed two two-year training programs that the CDFI Fund launched in 2014 through the Capacity Building Initiative: Expanding CDFI Coverage in Underserved Areas and Building Native CDFIs' Sustainability and Impact.

Director Donovan stated that in 2014 the CDFI Fund released two independent evaluations of the effectiveness of CDFIs; she noted that the researchers responsible for those evaluations would speak later on in the Board meeting. Director Donovan also stated that the CDFI Fund is conducting a study of access to capital in Native Communities, which will be released in 2016.

Director Donovan stated that the CDFI Fund is rebuilding all of its technology to support its programs in a way that will be cloud-based and integrated, which will improve the CDFI Fund's customer service and ability to use data to make decisions.

Director Donovan briefly discussed another current initiative, the CDFI Program risk-rating model, which is intended to establish minimum and prudent standards for CDFIs that are receiving awards from the CDFI Fund and to evaluate the various risks in the CDFI Fund's programs.

Director Donovan discussed the creation of the CDFI Fund's data and evidence working group, a cross-functional team that is exploring how CDFIs can better utilize data. Director Donovan noted that evidence-based policy is a trend that is gaining steam inside and outside of government, at the federal and local levels, and that the CDFI Fund intends to keep pace with the practice.

Director Donovan also discussed the CDFI Fund's outreach and communications efforts, noting that the CDFI Fund is updating its materials to ensure that they have a consistent look and feel, and will launch its new website in 2015.

Director Donovan discussed the CDFI Fund's priorities for the future, stating that in 2015 the CDFI Fund is focusing on creating a "Framework for the Future" that will serve as both an external articulation of the key priorities of the CDFI Fund and an internal guide for allocating administrative resources.

Director Donovan stated that the development of the framework will be informed by the perspectives of the CDFI Fund's stakeholders. That process of engagement, she stated, would begin with strategy discussions with the Advisory Board during the meeting. Director Donovan added that the CDFI Fund will conduct a listening tour in five cities this summer to engage stakeholders out in the field.

Director Donovan concluded the Director's report by announcing the launch of the CDFI Fund Innovation Challenge. Director Donovan explained that the goal of the Innovation Challenge is to finance the development of methods that CDFIs can use to build their capacity or increase their investments in underserved markets, and that she looks forward to seeing what solutions are generated from the field.

Comments and Questions on the Director's Report

Chairman Holmes asked if seeking an award through the Innovation Challenge would limit an institution's ability to receive an award through any of the CDFI Fund's other award programs. Director Donovan replied that it would not.

Mr. Gerety asked Director Donovan to explain further how the CDFI Fund intends to use the ideas generated through the Innovation Challenge. Director Donovan stated that the purpose of the competition is to support innovations that can be shared with the field. She stated that the CDFI Fund is open to a range of ideas—for example, ideas that tackle poverty alleviation in areas of persistent poverty or use new technologies to reach new markets in new ways—and that in return organizations that participate in the Challenge will generate data and share their results with the field.

Board Member Tregoning asked if Board Members would be able to obtain a copy of the Director's Report, and Director Donovan replied that they would.

Strategy Discussion - Introduction

Chairman Holmes stated that the next two hours of the meeting would be devoted to a strategy discussion that would include small group discussions among Board Members. He explained that, upon completing its discussion, each small group would report to the full Board and the public upon completing its group discussion. Chairman Holmes added that the small group discussions are being recorded, and that a transcript of the recording would be available to the public on the CDFI Fund's website, along with the minutes of the meeting.

Chairman Holmes introduced Ms. Kathryn Malague, the Director of the Treasury Department's Office of Strategic Planning and Performance Improvement, and stated that Ms. Malague and her staff would be facilitating the strategic discussion.

Ms. Malague stated that the strategy discussion would begin with remarks about industry trends by former Advisory Board Chair William Bynum and by Mr. Ira Goldstein, after which the Board Members would break into small groups for a discussion.

Chairman Holmes acknowledged Mr. Bynum's prior service, and also acknowledged Mr. Goldstein.

Strategy Discussion - Industry Trends: Remarks by William Bynum, CEO, Hope Enterprise Corporation and Hope Credit Union

Mr. Bynum thanked Chairman Holmes and Director Donovan, and reflected on the privilege of having served on the Advisory Board for 10 years.

Mr. Bynum stated that he is the CEO of Hope Credit Union and HOPE Enterprise Corporation, a 20-year-old CDFI based in Jackson, Mississippi, that works in Mississippi, Arkansas, Louisiana, and Tennessee. He noted that the region his organization serves is a very different environment, and that many CDFIs serve unique parts of the country, citing Board Member Fiddler's CDFI as an example of a CDFI that serves a unique region that is under siege from the growing gaps in income and wealth that the nation is facing.

Mr. Bynum discussed a map showing counties in the United States that are classified as persistent poverty counties. He noted that these counties have had a 20 percent poverty rate for over three decades and are concentrated from the Appalachians, through the Black Belt, through the Delta and Colonias, and American Indian country. He observed that 97 of the 334 persistent poverty counties in the country are located in the region his organizations serve, and that remarks would reflect that fact.

Mr. Bynum discussed showed bank deserts—counties with one bank branch or none. He noted that since the recession, more than 1,800 bank branches have closed their doors, 93 percent of them in low-income census tracts. He observed that CDFIs are often the only provider of basic financial services in those areas.

Mr. Bynum discussed the percentage of unbanked and underbanked people across the country, noting that Arkansas, Louisiana, or Mississippi are ranked in the top five, and that in Arkansas 72 percent of African-Americans are unbanked or underbanked. He also noted the significant difference in Mississippi between the percentage of unbanked and underbanked in African-American and in white households.

Mr. Bynum observed that one important trend in his region is that, although poverty affects everyone in rural places, it affects people of color disproportionately. He discussed how this trend limits access to small business capital, which in turn limits the ability of people to climb out of poverty, and stated that access to capital, along with access to home mortgages, is still one of the most effective ways to build wealth in low- to moderate-income families.

Mr. Bynum noted that since the start of the recession, prime mortgage lending in Mississippi is returning to above the recession level for whites but remains 15 percent below the recession level for African-Americans in the mid-South. Board Member Bynum observed that this is further evidence of the widening gap, an uneven economic recovery, and that CDFIs have a unique opportunity to fill that gap.

Mr. Bynum discussed disparities in education, noting that 77 percent of the majority white school districts in Mississippi were are rated A or B but only 5 percent of the majority black school districts were rated A or B. He commented that this was another effect of the lack of wealth, lack of access to capital, and the inability to generate a tax base.

Mr. Bynum described CDFIs as a Swiss Army knife for economic development. He noted that a variety of services—housing, consumer services, healthy food, mortgages, and non-profits that provide critical support services—have been struggling to get financing since the recession, and that because there are fewer banks in low-income communities, these critical services are dying on the vine. He stated that there is a great need for CDFIs to step in

Mr. Bynum observed that, unfortunately, CDFIs are increasingly struggling to gain access to the resources that they need. He noted that the CDFI Fund's resources have been critically important but that those resources are oversubscribed. He noted that the absence of large banks that are obligated to make CRA investments in rural and low-income areas and the lack of community development resources from state governments mean that federal resources are critical. Mr. Bynum added that no one tackles these issues better than CDFIs, because they are highly versatile.

Mr. Bynum discussed the impact of his organization's children's saving account program, which is designed to help children get to a position where they can leave high school with several thousand dollars in savings instead of with a negative net worth. Board Member Bynum discussed a recent study by Harvard University that examined the impact of moving from an impoverished community to a more stable community. He recalled his own experience, as well as his younger sister's experience, moving from East Harlem to North Carolina, and expressed his belief that the longer someone remains in a more prosperous and more stable community, the better they do.

Mr. Bynum concluded his remarks with the observation that CDFIs are the last and best hope for many people in bank deserts and persistent poverty areas.

Strategy Discussion - Industry Trends: Remarks by Ira Goldstein, President of Policy Solutions, The Reinvestment Fund

Mr. Goldstein thanked Director Donovan and the Board for inviting him to share his observations from the field. Mr. Goldstein explained that he is both a researcher and a community development practitioner and that his remarks would reflect his intention to find the "sweet spot" between doing rigorous research and making the results of that research actionable in the field.

Mr. Goldstein stated that he is seeing an increasing awareness among public officials of the importance of making evidence-based decisions, but that the physical and intellectual infrastructure needed to gather and to analyze the data needed to make those evidence-based decisions is constrained.

Mr. Goldstein also observed that public officials are confronting the difficulty of changing the environment based on competing interests rather than the evidence about what is happening in a marketplace. He expressed the hope that this would improve but stated that some help will be needed.

Mr. Goldstein noted that the threshold of evidence that public officials need to make decisions is always a challenge. He explained that there is a gold standard for gathering data and testing the effectiveness of a program, but that meeting that gold standard is very expensive, time-consuming, complicated, and consultant-oriented, and ultimately constrains the ability to innovate. Mr. Goldstein stated that some assistance with thinking about what constitutes good evidence would be a tremendous help to people who are trying to do this work.

Mr. Goldstein stated that, as he has traveled from city to city to do his work, he has observed philanthropic fatigue around community development work over the past few years. He stated that community development has tended to focus more on projects that are flashier and newer, and less on projects that are brick-and-mortar community development, so when cities and non-profits try to put programs together to move communities forward, the last little bit of philanthropic help often is missing.

Mr. Goldstein observed that, despite the importance of CDFIs, when he goes into a community and speaks with a mayor or a deputy mayor or a chief of staff for a community development director, he still has to spend the first 15 minutes of the conversation explaining what a CDFI is. He stated that it is important to increase the industry's ability to get the message out there in a very proactive way about what CDFIs do.

Mr. Goldstein observed that the complex financing structures for creating affordable housing have made it very difficult to create affordable housing deals, particularly in the aftermath of the recession. He stated that this trend is exacerbated by tighter underwriting rules for consumers seeking mortgages, and that these deals involve financing structures that mainstream financial institutions and regulators have difficulty figuring out. Mr. Goldstein observed that it is important for the industry to help people understand that it is necessary for lenders to cobble together a lot of different resources to make things work.

Finally, Mr. Goldstein stated that there is a need to proliferate some conscionably priced small mortgages in the marketplace. He observed that rules and regulations often have unintended consequences, and that it would be good to contemplate as many of those unintended consequences as possible, because for people who are trying to acquire housing or developers who are trying to create it, the rules have created a very difficult environment.

<u>Strategy Discussion – Industry Trends: Comments and Questions on Mr. Bynum's and Mr. Goldstein's Remarks</u>

At the conclusion of Mr. Goldstein's remarks, Chairman Holmes thanked Mr. Goldstein and Mr. Bynum, and invited Board Members to offer comments and questions.

Board Member Fiddler thanked Mr. Bynum and Mr. Goldstein for raising a variety of issues—persistent poverty, the unbanked, and the decline of philanthropic support—relevant to Native

Communities, and noted that less than one percent of philanthropy makes its way to Native Communities and more than half of Native places have no banks.

Board Member Fiddler observed that, while the verbiage and dynamic in this country focus on job creation in metropolitan areas, many CDFIs are trying to create strong economies in remote places with the support of the CDFI Fund and Treasury. Board Member Fiddler suggested that the Board discuss items such as waiving the match, because if CDFIs don't have access to philanthropic, state, or bank resources, their hands are tied.

Commenting upon Mr. Bynum's remarks, Board Member Erskine stated that the previous day, at the OECD Rural Development Policy Conference, he had taken part in a roundtable brought together by the White House Rural Council to discuss persistent poverty in rural areas, and that the Delta Region figured prominently in that discussion. Board Member Erskine stated that the roundtable was composed principally of national and local foundations, and looked at how the federal government, working together with state and local partners, can involve the philanthropic and foundation community in potential solutions. Board Member Erskine expressed his hope that the discussion today about the CDFI Fund could be tied into the broader federal discussion on how, with constrained resources on all fronts, we partner across many different levels.

Commenting upon Mr. Goldstein's remarks, Board Member Erskine stated that EDA has been working for two years on new performance metrics to evaluate the impact of the investments it makes, and that he believed that similar efforts are underway at HUD and SBA. Board Member Erskine stated that it is important for members of the industry to be more coordinated, to ensure that they are not siloed in their evaluation of performance metrics, and he expressed an interest in having further discussion on how the industry can do a better job of measuring the impact of federal dollars as well as state and local partners.

Board Member Lizarraga commented that there is a huge and growing population of Hispanics and Latinos in the South, and expressed his hope that the Board would discuss how it is going to expand the CDFI umbrella to service this community, as well as how it is going to develop data around service to this community.

Board Member Lizarraga stated that his own organization was fortunate to have been one of the few Community Development Corporations in the country to have received funding from the OCC to create a community bank. He noted that the organization was able to leverage OCC dollars and community investments to create a thrift, rather than a bank, in its community.

Board Member Lizarraga stated that this is important because he believes that banks do not see much potential to create any lending within this community. Board Member Lizarraga noted that his organization has demonstrated that there is a real benefit to lending in Hispanic and Latino communities. Board Member Lizarraga suggested that the industry should do more to empower community organizations.

Mr. Bynum thanked everyone for their comments. Mr. Bynum expressed his belief that the South is a canary in a coal mine in terms of the issues just discussed. He observed that many types of communities suffer from persistent poverty, and stated that if the industry can find solutions for these communities that are applicable across the country—for example, solutions such as increasing the focus on targeting investment in institutions with a track record of serving minority and underserved populations in areas of persistent poverty—it could make a lot of progress.

Strategy Discussion: Breakout Session #1

Ms. Malague announced that the first of two small group discussions would begin and stated that in the first discussion, Advisory Board members would take 15 minutes to reflect on the presentations they just heard and identify three to five key industry trends that they have observed, and then share their observations with the large group. Ms. Malague also stated that others in the room could share their ideas for key industry trends by posting their ideas on whiteboards in the back of the room.

The Board members then gathered in their small groups. After 15 minutes Ms. Malague asked the groups to report their observations. Ms. Malague first asked Board Member De Souza Briggs, who was participating in the meeting via telephone, to share his observations.

Board Member De Souza Briggs stated that his first comment related to the role of financial services in economic opportunity. He observed that CDFI practitioners have worked on a given set of perceived customer needs for many years, but 20 years on — from the founding of the program at Treasury — we have learned much more, from research and other sources, about the financial lives of low and moderate income people and entrepreneurs. He questioned if CDFIs are clear on what they need to prioritize for the end customers.

Board Member De Souza Briggs stated that his second comment related to the shifting marketplace of financial services. He asked what the biggest trends suggest about the spaces CDFIs should or should not seek to serve—is it some kind of residual proposition, or should CDFIs seek to lead in certain kinds of innovation, even if they aspire to being displaced by mainstream institutions, for example, by proving the market?

Board Member De Souza Briggs also reflected on the shifting marketplace for the investment and other support that the CDFI Fund offers. He noted that certain kinds of capital remain hard to come by and risk appetite remains a huge issue, but that impact investment, small business assistance, and the other tools in the Swiss Army knife, as Mr. Bynum referred to them, continue to evolve. Board Member De Souza Briggs posed the question, "What is the highest and best use of a CDFI Fund, and are we clear on that?

Ms. Malague thanked Board Member De Souza Briggs and asked that each of the three small groups in the room present their comments.

Chairman Holmes stated that his group talked about the need for CDFIs to get their arms around new tools that are at their disposal to promote growth and help distressed communities. Chairman Holmes also stated that group discussed whether the EB-5 program could be a potential new partner in the investments that CDFIs make, as well as how crowdfunding vehicles could co-invest in initiatives that CDFIs are leveraging in their local communities.

Chairman Holmes stated that there was a general sense in the group that CDFIs should also join the conversation around new paths to wealth creation, and might re-examine the notion of the American Dream of homeownership and other ways to help low-wealth families build equity. He noted the importance of considering the role that foreign immigration could play in repopulating our shrinking cities and communities so that they can move towards growth.

Chairman Holmes stated that the group also discussed the notion that CDFIs should spread their wings and consider an expansion into consumer finance broadly, and also become more effective small business lenders. Chairman Holmes also noted that CDFIs increasingly are being seen as quarterbacks of community development initiatives in new markets, and that that trend is expected to continue.

Board Member Lizarraga stated that his group concentrated on the themes of partnerships and opportunities for CDFIs and felt that CDFIs spoke to the whole concept of integrating resources. He stated that CDFIs are extremely important and can provide leadership in the community, but that being a CDFI alone isn't enough. He stated that CDFIs not only need the vision and desire to serve communities but also need people with the capacity to access the resources that the federal, state, and local governments can provide and bring them to the local level. The way to get those resources to the local level, he stated, is to strengthen CDFIs and to invest in long-term relationships. Board Member Lizarraga noted that there are many silos in the system, and that the CDFI is going to be the integrator.

Board Member Lizarraga invited Board Member Erskine to offer further comments.

Board Member Erskine stated that the federal government has to do a better job of coordinating and integrating its of resources, because the government is still too siloed. While he acknowledged that great work is being done in those silos and that there are reasons for their existence, he stated that in an era of constrained resources it is important to improve coordination and be more strategic in investing in communities from the federal level. Board Member Erskine added that, on the local level, the partners spend much time navigating the different federal funding opportunities, and so the federal government must do a better job of streamlining the process and finding a local quarterback or integrator in the community.

Board Member Erskine stated that the group also discussed another crucially important issue—that the existence of silos often means that plans are siloed, and so it is important to tie federal investment to a long-term multi-jurisdictional, multi-partner, sustainable economic development plan. Board Member Erskine briefly discussed an example of such a plan—a Coordinated Economic Development Strategy that EDA's regional commissions and economic districts must develop to tie together the federal investment and leverage the state and local investment around a comprehensive long-term plan.

Board Member Fiddler stated that her group began by discussing income disparity as one of the trends that would affect the industry, noting that the growing racial wealth gap is bringing more customers to CDFIs. CDFIs are getting more customers.

Board Member Fiddler stated that the group also discussed the diversity of CDFIs operating in rural and urban settings, and the importance of recognizing that there can be no cookie-cutter, one-size-fits-all solutions for these different environments.

Board Member Fiddler stated that the group also discussed that it is important for CDFIs to use the federal resources that are available every year. She stated that budgets for federal agencies are decreasing, but CDFIs are leaving money on the table. She stated that if CDFIs don't try to utilize those funds, agencies will believe that CDFIs don't need the funds and will decrease their budgets further. Board Member Fiddler briefly described how her agency is developing pilot programs to utilize unused USDA funding in her community.

Board Member Fiddler stated that the final trend that her group discussed was that with increased risks come increased costs. Board Member Fiddler noted that the populations that CDFIs are supposed to serve are risky populations. She stated that the trend her group saw was the decrease in CRA, and she wondered why CDFIs bear the risk and cost, and CRA-compliant banks do not have to share some of that risk. Board Member Fiddler added that the disparate wealth gap will continue if CDFIs do not have access to banks, capital, and assets.

Ms. Malague thanked the speakers for sharing their insights regarding industry trends, and invited Mr. Holmes and Director Donovan to comment on what they had heard from the groups.

Chairman Holmes stated that he was impressed with the range of ideas and how, at a time when unemployment is still double digits in communities of color, and many neighborhoods have lost a generation of wealth, the CDFI Fund can be as instrumental as ever. He stated that the ideas just presented and co-creation of a powerful strategic plan going forward are critical, and that he appreciated the work that the Board was doing.

Director Donovan expressed her thanks for really good thinking. She noted that one of the values of having a group like this is it is so diverse and brings lots of different perspectives that are very rich and important for the CDFI Fund to hear.

Strategy Discussion: Breakout Session #2

Ms. Malague provided instructions for the second small group discussion, stating that each of the three groups would consider two different questions, so that collectively the three groups would consider six questions. She stated that the questions were posted on the whiteboards in the back of the room and invited the others in the room to submit their responses to the six questions. Ms. Malague stated that the groups would discuss the questions for about 25 minutes, then return to report their observations.

The Board members returned to their small groups and reconvened after 25 minutes. Ms. Malague asked the groups to report their observations, starting with Board Member De Souza Briggs, who was participating via telephone.

Regarding the question of access, Board Member De Souza Briggs stated that the approach known as banking without banks needs exploration as a practical matter, given resource constraints. Second, regarding the question about innovation—in particular, innovation for the household consumer rather than for small business or others—Board Member De Souza Briggs stated that the capability-building innovations are still in their infancy and are in desperate need of and deserving of more support.

Ms. Malague asked if Board Member Hall-Green was on the phone and available to offer her observations. When informed that Board Member Hall-Green was not on the phone, Ms. Malague asked Ms. Grifka to speak and begin by identifying the question she was responding to and then giving her response.

Ms. Grifka stated that she would start by talking about blind spots: What are the issues that should be on the CDFI Fund's radar screen but are not?

Ms. Grifka stated that her group wanted to reinforce the issues it discussed in their first discussion: integration at the federal level, capacity-building at the local level, and ensuring that rural, underserved areas are reached. Ms. Grifka stated that the group also discussed the CDFI Bond Guarantee Program—the complexity of it and the resulting difficulty of matching projects with the program. Ms. Grifka reported that the group also discussed the pressure upon CDFIs to be rigorous in performance, which is fostering a trend toward risk aversion that is making it harder for CDFIs to serve underserved areas.

Ms. Grifka then asked Board Member Phillips, who had been delayed at the airport and had just joined the meeting, to offer further observations.

Board Member Phillips offered three points. The first was that the CDFI Fund should keep an eye on efforts to develop a new tax credit for high-wealth individuals who are impact investors—socially-conscious investors who are trying to do better things with their money. Board Member Phillips noted that these investors are a source to tap into, although the industry needs a more specific, tailored tool for doing that.

Board Member Phillips's second point was that to build capacity and to support research and development and innovation, the CDFI Fund should consider providing multi-year awards for its programs. He stated that this would keep CDFIs from having to submit applications year by year, and instead would enable them help to put in an application with a three- to five-year development plan and receive funding as long as there were appropriations and the CDFIs met certain goals along the way.

Board Member Phillips's third point was that rural and non-metro communities make up 20 percent of the population, and that the CDFI Fund should be certain that at least 20 percent of the funds it allocates go to non-metro areas. Board Member Phillips acknowledged that the CDFI Fund does very well at this.

Board Member Phillips also briefly mentioned the importance of advocating for the permanency of the New Markets Tax Credit Program.

Board Member Choi then reported on the group's discussion of its second topic—data, and how the CDFI Fund can support the use of data to strengthen the industry and increase its impact.

Board Member Choi stated that the group reflected on the challenges that CDFIs face in learning about and navigating so many different federal programs and thought that the Advisory Board, with its multi-agency representation, is well positioned to help Director Donovan get the attention of the Administration's chief innovation officer and advocate for the development of an electronic dashboard and database that would enable CDFIs to identify all of the different programs available in the places where they are working and learn how those programs integrate.

Board Member Choi stated that the group also reflected on Mr. Goldstein's comments about how philanthropies and other funders increasingly want more information about outcomes, but that non-profits and CDFIs often report that outcome-tracking for funders is onerous and non-standardized, and keeps them doing the work that they can uniquely do. Board Member Choi stated that the group wondered if there would be some way for the CDFI Fund to leverage data to help the CDFI industry do outcome reporting more efficiently and effectively.

Board Member Choi also stated that the group raised the issue of whether, in order to help build the story about CDFIs, the CDFI Fund could collect data from CDFIs and integrate the data with anecdotal storytelling.

Board Member Choi stated that the group also discussed capacity building at CDFIs. She noted that the group recognized that one of the challenges CDFIs face is the need to retain staff, and so individual CDFIs hire consultants to do confidential studies of their employee compensation relative to the market. Board Member Choi stated that the group felt that if the CDFI Fund could aggregate data on compensation and best practices around credit ratings and other issues and make it available to the industry, it would save individual CDFIs from having to do their own studies. Board Member Choi also stated that the group raised the question of how the data and best practices the CDFI fund already has in its different capacity building programs can be shared more effectively, especially with rural CDFIs and others in smaller communities that are less able to access those programs.

Board Member Fiddler stated that her group's first topic was program effectiveness—Are the CDFI Fund's programs working optimally for communities? What should be improved and how?

Board Member Fiddler stated that the group concluded that the CDFI Fund's programs are working but that several issues need to be addressed: the ongoing need for capacity building; the limited funding for and oversubscription of the programs; the need for developing integrated solutions with other agencies; and the need to educate private industry and leaders at the state and local levels about the work of CDFIs. Board Member Fiddler stated that the group suggested two things that the CDFI Fund could do: be the quarterback that disseminates information about best practices; and coordinate the efforts of other federal agencies.

Board Member Fiddler stated that the group's second topic was access—What more can the CDFI Fund do to reach communities that need CDFIs but are either not being served by them or have limited access to CDFI funders' support?

Board Member Fiddler stated that the group discussed several ideas: funding for research and pilot programs in places that are not being served; a working group on data to identify gaps in services; ongoing technical assistance to help organizations and communities access the CDFI Fund; targeted outreach and capacity building as populations are identified; building on existing infrastructure to go deeper and do more; and coaching to help CDFIs expand their market and get to scale.

Board Member Tregoning stated that her group considered two topics: innovation and scaling, and customer service. Regarding innovation and scaling, Board Member Tregoning stated that the group discussed the need to build stronger relationships not just with foundations, but also with other capital sources. Board Member Tregoning also said the group thought that another area that might be ripe for investment by CDFIs is community-serving infrastructure.

Board Member Tregoning invited Chairman Holmes to discuss the next issue—inclusion and capital-building. Chairman Holmes briefly discussed the importance of ensuring CDFIs pull more of the relevant partners into the work so that they can leverage other resources and be more effective.

Board Member Tregoning stated that the group discussed the CDFI Bond Guarantee Program and the opportunity it presents to increase small business lending. Board Member Tregoning stated that the group also discussed the potential for CDFIs to partner with other organizations to develop financial literacy and wealth building strategies in communities with predatory lending.

Board Member Tregoning noted that talent and capacity are an area that is ripe for innovation by CDFIs, because the kind of very sophisticated and complicated work that CDFIs do often demands salaries that are beyond what CDFIs typically pay. Board Member Tregoning stated that the group discussed ways that the industry could attract talented retirees to help build the capacity of CDFIs.

Regarding getting to scale, Board Member Tregoning discussed the possibility of developing regional CDFIs and also exploring ways to bring some of the ideas that have worked well for CDFIs to Community Development Corporations.

Board Member Tregoning asked Chairman Holmes to talk about the second topic—customer service. Chairman Holmes acknowledged that the CDFI Fund is doing a lot of good things and has been very deliberate about supporting CDFIs of all sizes, all institution types, and all geographies. Chairman Holmes also noted that the CDFI Fund is particularly efficient in administering billions of dollars of high-leveraging financing.

Chairman Holmes then discussed some opportunities to help the CDFI Fund be more effective. Chairman Holmes stated that he understood the statutory limits regarding when CDFIs can access the CDFI Fund's help desk during competitions for CDFI Fund awards, but that it would help if the help desk could be more elastic during these times while still observing the statutory requirements.

Chairman Holmes also stated that it would be helpful if the CDFI Fund could have some type of regional presence, maybe in combination with other federal agencies, so that CDFIs could have someone in their local markets to talk with face to face. Chairman Holmes also discussed the need for the CDFI Fund to evolve its ability to confer with the industry early and often.

Ms. Malague thanked the participants for sharing their insights and expertise, and turned the meeting over to Director Donovan.

Director Donovan briefly discussed the CDFI Fund's plan to conduct a national listening tour in five sites to give the field an opportunity to offer their thoughts on the same questions that the Advisory Board just discussed. Director Donovan also mentioned the CDFI Fund's intention to create subcommittees of the Advisory Board on Native American issues as well as strategic planning.

LUNCH

Update on CDFI Fund Programs

Chairman Holmes introduced four staff members from the CDFI Fund—Mark Kudlowitz, the Acting Program Manager of the CDFI Program and Native Initiatives; Bob Ibanez, the Program Manager of the New Markets Tax Credit Program and the Bank Enterprise Award Program; Lisa Jones, the Program Manager of the CDFI Bond Guarantee Program; and Dennis Nolan, the Deputy Director of the CDFI Fund—to provide updates on their programs.

Presentation by Mark Kudlowitz, Acting Program Manager of the CDFI Program and Native Initiatives

Mr. Kudlowitz stated that the Fiscal Year 2015 round of the CDFI Program and the NACA Program was off to a good start, noting that the staff released the NOFAs for both programs early, despite having to implement changes to the NOFAs required by the OMB uniform code. Mr. Kudlowitz stated that the staff is working to implement the OMB Uniform Code requirements into the Fiscal Year 2015 CDFI and NACA Program Assistance Agreement and Regulations, and will do outreach to educate award recipients of the new requirements when they are released.

Mr. Kudlowitz stated that the CDFI Fund recruited more than 100 well-qualified reviewers to review CDFI, NACA, and HFFI applications. Mr. Kudlowitz noted that Congress waived the matching funds requirement for NACA FA and SECA applicants, and so the CDFI Fund allowed current NACA FA and SECA applicants to modify their award request and provided another application opportunity for new NACA FA and SECA applicants. Mr. Kudlowitz stated that it hoped to make the award announcement for the Fiscal Year 2015 funding round in late August or early September.

Mr. Kudlowitz stated that the CDFI Fund is drafting the NOFAs for the Fiscal Year 2016 funding round and released a Federal Register Notice seeking public comments on supplying Fiscal Year 2016 CDFI and NACA Program application information in a CDFI Fund-managed Web-based portal. Mr. Kudlowitz stated that responses to the request had been highly supportive and that capturing data in a Web-based form would make it easier for applicants to apply for federal resources.

Mr. Kudlowitz stated that the CDFI Fund has several Capacity Building Initiative series in full swing this year, and that complete materials from past and present series are available on the CDFI Fund's public website.

Mr. Kudlowitz provided an update on the CDFI Fund report Access to Capital and Credit in Native Communities, which builds on the 2001 Native American Lending Study and will provide a current assessment of access to capital and credit in Native Communities. Mr. Kudlowitz stated that the data compiled for the report will be released in Fiscal Year 2015 and that the full report will be released in Fiscal Year 2016.

Chairman Holmes opened the floor to questions and asked Mr. Kudlowitz to speak about what the CDFI Fund has learned from its technical assistance work that may increase scaling opportunities and identify gaps in coverage in certain areas, especially in the Latino market.

Mr. Kudlowitz discussed the different ways the CDFI Fund has sought to approach the longstanding problem of gaps in coverage. Mr. Kudlowitz stated that the Capacity Building Initiative series provides different models to help CDFIs scale existing operations to reach into new geographies, and also provides thousands of hours of free technical assistance to CDFIs. Mr. Kudlowitz also noted that the CDFI Fund's new Innovation Challenge offers another approach to expanding coverage, and that the CDFI Fund's Financial Assistance Program has tried to increase coverage by dedicating some of its awards to smaller CDFIs and Native CDFIs. Mr. Kudlowitz also stated that in the near future the CDFI Fund will be providing more and more data that shows where CDFIs operate and provides a better understanding of where gaps exist.

Chairman Holmes asked if the CDFI Fund was moving towards a scenario where, if it has identified certain gaps in coverage, it will increase weighting towards CDFIs that serve those geographies or populations. Mr. Kudlowitz discussed the geographic and institutional diversity of CDFIs selected for awards. Mr. Kudlowitz stated that one of the unique things about the Financial Assistance program is that the CDFI Fund is a balance-sheet funder and looks at the entirety of a CDFI's business operations and assess how they can leverage the award to increase its financing activity in its target market.

Board Member Phillips observed that the CDFI Fund's rural investment allocation is high, nearly 20 percent, and asked how this comes to be and whether it will be maintained. Mr. Kudlowitz stated that in some years Congress has directed the CDFI Fund to provide a certain percentage of its awards to persistent poverty counties, which normally overlays with rural counties. Mr. Kudlowitz also stated that the way the CDFI Fund dedicates a portion of its CDFI Program, NACA, and HFFI awards to smaller CDFIs and Native CDFIs naturally means that there will be a higher percentage of rural applicants and awardees.

Director Donovan noted that the CDFI Program's SECA Program separates out the small CDFIs so they are not competing for awards against large CDFIs, and that, in general, the CDFI's programs are designed to maintain diversity in terms of geography, institution type, and activity.

Board Member Phillips asked if Technical Assistance funds can be used for research and development, and Mr. Kudlowitz discussed the eight eligible purposes—including product development—for which the funds can be used. Chairman Holmes noted that the Innovation Challenge is another resource that will promote R&D.

Board Member Argrett asked if Mr. Kudlowitz could provide any feedback on the CDFI Fund's capacity-building efforts to date. Mr. Kudlowitz discussed how after the training the CDFI Fund captures output data on increases in learning. Director Donovan noted that the CDFI Fund has an opportunity to link the Capacity Building Initiative with the strategic directives that that CDFI Fund develops.

Presentation by Bob Ibanez, Program Manager of the New Markets Tax Credit Program and the Bank Enterprise Award Program

Bob Ibanez, the Program Manager of the New Markets Tax Credit Program (NMTC Program) and the Bank Enterprise Award Program (BEA Program), provided an overview of how the NMTC Program works and stated that for the 2014 round of the program, the CDFI Fund received 263 applications requesting $20 billion of allocation authority. Mr. Ibanez noted that the CDFI Fund had $3.5 billion in allocation available for the round and would make an award announcement in late May or early June.

Mr. Ibanez added that after the awards are announced, the CDFI Fund will conduct site visits at selected Community Development Entities (CDEs) to learn more about the how they have implemented their NMTC Program awards. Mr. Ibanez stated that, following the site visits, the CDFI Fund will prepare for the 2015 round of the program, which still awaits Congressional reauthorization. Mr. Ibanez also discussed the CDFI Fund's plan to award a contract for training and technical assistance for minority CDEs that want to participate in the NMTC Program.

Mr. Ibanez provided an overview of the BEA Program and stated that the CDFI Fund opened the FY 2015 round of the program earlier in May and expects to award the $18 million available by fiscal year end. Mr. Ibanez noted that for the current round small-dollar consumer loans will be considered a new qualified activity in the distressed community financing activities category and youth savings accounts will be considered a targeted financial service in the services activities category. Mr. Ibanez added that applicants also will be required to indicate in their applications how they intend to use their BEA Program award.

Mr. Ibanez stated that an evaluation of the BEA Program is now under way and explained that it is designed to assess several factors: the effectiveness of the program as a mechanism for providing performance-based awards; the influence of the program on bank behavior and investment patterns, the impact of the program on award recipients in distressed communities; and the impact of BEA Program-eligible investments on CDFIs and in distressed communities.

Board Member Argrett asked if the CDFI Fund has discussed resuming the practice of providing feedback to organizations that applied for but did not receive an award through the NMTC Program in order to help those organizations improve their applications in the future. Mr. Ibanez acknowledged the value of that practice but stated that it had been discontinued due to CDFI Fund resource constraints. Mr. Ibanez stated that the CDFI Fund will continue to provide applicants with a debriefing document that identifies the characteristics of a high-scoring application that the CDFI Fund particularly wanted to recognize. Mr. Ibanez also explained that in the forthcoming award round the CDFI Fund will provide an organization with information that shows how it performed relative to other applicants in the pool. Mr. Ibanez noted that the NMTC Program is highly competitive, and so applicants can have a strong application but still may not be selected.

Chairman Holmes observed that, because the NMTC Program has become so competitive, applicants need to have a nearly perfect score to receive an award. Chairman Holmes asked if Mr. Ibanez had any thoughts on how deserving CDEs could enter into the program and compete successfully with the CDEs that have mastered the program and thus now have far more experience than would-be neophytes. Mr. Ibanez discussed the various ways that organizations can participate in the NMTC Program, in addition to applying for an allocation.

Presentation by Lisa Jones, Program Manager of the CDFI Bond Guarantee Program

Lisa Jones, the Program Manager of the CDFI Bond Guarantee Program, provided an overview of the history and purpose of the program, stating that over two years, the CDFI Fund has had two bond issues totaling $525 million and has eight CDFIs that are part of the program. Ms. Jones also discussed the types of projects that the borrower CDFIs will able to invest in.

Ms. Jones stated that for the fiscal year 2015 round of the program, the CDFI Fund has launched the application and has guarantee authority of $750 million. She added that the guarantee applications are due June 12, 2015, and that the CDFI Fund has done several outreach sessions to encourage organizations to apply.

Ms. Jones discussed the program's new Alternative Financial Structure, which the CDFI Fund introduced for the current round at the request of the industry. Ms. Jones stated that the purpose of the Alternative Financial Structure is to create an off-balance sheet vehicle that allows a parent or controlling CDFI to create an affiliate that will have the bond loan on its balance sheet.

Board Member Phillips stated that he applauded the CDFI Fund's effort to create the Alternative Financial Structure, and asked if the structure is being implemented. Ms. Jones replied that the structure has been implemented for the current application round, and that detailed information about the structure is available on the CDFI Fund's website.

Board Member Argrett stated that he also applauded the development of the Alternative Financial Structure, and asked if the CDFI Bond Guarantee is a permanent program and how much guarantee authority it has left. Ms. Jones replied that the program is not permanent and must be reauthorized each year.

Director Donovan stated that in the FY 2016 budget, the President requested one billion dollars in guarantee authority for the program. Director Donovan also noted that the program differs from other CDFI Fund programs because it does not provide direct investment but guarantees bonds backed by the full faith and credit of the United States government. The credit threshold is much, much higher. Director Donovan stated that Ms. Jones has built a stellar team with a new set of skills in underwriting CDFIs and managing portfolios.

Chairman Holmes expressed his gratitude to the CDFI Fund for rolling out the program and expressed the hope that, as the fourth round of the program approaches, there is still room for additional dialogue on some features so that the efficacy of the program can be elevated. Ms. Jones replied that the dialogue is continuing and that the CDFI Fund has received a lot of good feedback in its outreach sessions.

Director Donovan stated that she advises her staff to take the long view on this program despite the fact that annually the CDFI Fund has to get authority for it. Director Donovan stated that the program represents a big change for the industry because it provides 30-year money, and so a whole new machine has to be built to deliver it.

Director Donovan added that the FY 2016 budget proposes that the minimum bond size be reduced from $100 million to $25 million, which will help a lot.

<u>Presentation by Dennis Nolan, Deputy Director of the CDFI Fund</u>

Deputy Director Nolan provided an overview of the Capital Magnet Fund, stating that the CDFI Fund ran one round of the program in 2010, providing 23 awards totaling $80 million with funding appropriated by Congress.

Deputy Director Nolan stated that at the end of 2014, the Federal Housing Financing Agency instructed Fannie Mae and Freddie Mac to begin setting aside and allocating funds to the Capital Magnet Fund in 2015. Deputy Director Nolan noted that the program has no staff now, but that the CDFI Fund is in the process of hiring a manager for the program and is authorized to hire eight additional staff thereafter.

Deputy Director Nolan discussed the impact of the Capital Magnet Fund, noting that it has created 5,400 new construction jobs and financed 189 projects.

Deputy Director Nolan stated that $2 million was set aside for the program in the President's Budget for Fiscal Year 2016. He stated that the CDFI Fund is reviewing and redrafting the program's regulations, and will begin putting together the NOFA and application when the new manager comes on board. Deputy Director Nolan stated that Director Donovan has committed to being ready to disburse the funding as soon as possible from the time it is received. He estimated that the CDFI Fund will release the application in October or November 2015 and receive the funding in April 2016.

Chairman Holmes invited the Board Members to ask questions about the Capital Magnet Fund.

Board Member Phillips discussed the challenges that the program's leverage structure presents, especially for rural organizations. Deputy Director Nolan stated that the leverage structure is one of the policy issues that the CDFI Fund is looking at, so any feedback is appreciated.

Board Member Choi commented that as the speakers have gone over each of the programs she was struck by the huge gulf between unmet demands versus the actual awards, and she asked if it would be possible to mine out the data in the applications to better understand what is happening in the industry.

Director Donovan stated that that is one of the questions she asked when she came to the CDFI Fund, because she felt that there is so much richness in both the funded and unfunded applications. Director Donovan stated that the CDFI Fund has created a data and evidence working group, and that how the CDFI Fund mines what is already right in front of them is one of the first things the group needs to look at.

Chairman Holmes invited the Board Members to ask any more questions they had about the programs just discussed.

Board Member Mehlum asked Mr. Ibanez what the average award size is for the BEA Program. Mr. Ibanez replied that the average is in the neighborhood of $200,000 dollars. Board Member Mehlum then asked if those awardees are CDFI institutions. Mr. Ibanez replied that they can be CDFI or non-CDFI institutions, but that the program is designed to incentivize and reward smaller asset-sized banks, but that larger banks continue to participate.

Board Member Mehlum then asked Ms. Jones where the slide deck that explains the CDFI Bond Guarantee Program can be found. Ms. Jones stated that the slide deck is available on the CDFI Fund's website.

Chairman Holmes asked all four of the presenters to reflect on how the CDFI Fund could stage its various award competitions so that they do not happen at the same time. Ms. Jones stated that the CDFI Fund tries to be as sensitive as possible to this concern, but that there are constraints around when Congress passes the budget and the CDFI Fund has to obligate the money. Mr. Nolan added that the CDFI Fund has had many discussions about the best time to open the Capital Magnet Fund but has not come to a final decision on the matter.

Research Reports

Chairman Holmes introduced three speakers who would discuss their recent research on CDFIs: Gregory Bischak, the Program Manager of Financial Strategies and Research at the CDFI Fund; Gregory Fairchild, the E. Thayer Bigelow Associate Professor of Business Administration at the University of Virginia's Darden School of Business; and Michael Swack, Professor at the University of New Hampshire's Peter T. Paul College of Business Economics and Carsey School of Public Policy. Chairman Holmes invited Mr. Bischak to speak.

Presentation by Gregory Bischak, Program Manager, Financial Strategies and Research, CDFI Fund

Mr. Bischak discussed efforts to mine data from applications to the CDFI Fund's programs, noting that Mr. Swack has mined the data in doing his research and that the CDFI Fund is sharing data with other research outfits, including the Chicago Federal Reserve Bank.

Mr. Bischak also discussed two current research projects at the CDFI Fund. He stated that the first project, the evaluation of the BEA Program, is currently underway and is looking at the types and levels of activities undertaken by applicants and awardees in order to assess the evolution of the program and its impact. Mr. Bischak spoke in detail about how the research is being conducted.

Mr. Bischak stated that the second project, an analysis of NMTC Program compliance research, will address issues related to monitoring program outcomes and mitigating compliance risks throughout the seven-year tax credit period. Mr. Bischak stated that the project is in the procurement stage and is expected to launch in 2016.

Presentation By Gregory Fairchild, Associate Professor of Business Administration, University of Virginia Darden School of Business

Mr. Fairchild discussed his report, Introduction to Risk and Efficiency among CDFIs: A Statistical Evaluation using Multiple Methods.

Mr. Fairchild stated that his research compared CDFI banks and credit unions to non-CDFI institutions, and sought to determine if those CDFI institutions are viable and sustainable, and if they are more likely to fail, more vulnerable to mortgage market downturns, and more inefficient than are their mainstream counterparts.

Mr. Fairchild noted that his research did not include CDFI loan funds because they do not report data systematically. Mr. Fairchild stated that his research compared depository institutions organizations along a number of variables, such as asset size and type of market, to ensure that it compared organizations that were truly comparable on important variables.

Regarding the issue of bank failures, Mr. Fairchild stated that the research looked at data from 3,000 banks and 600 credit unions over a 12-year period. He stated that banks were slightly less likely to fail during this period than were credit unions, and that CDFI banks were no more likely to fail than were mainstream banks. Mr. Fairchild also noted that rural and low-income credit unions were less likely to fail than were their non-rural and non-low-income counterparts.

What these findings indicate, Mr. Fairchild stated, is that, contrary to the stereotype, CDFI institutions—these organizations that tend to operate in so-called risky markets—tend to fail less.

Mr. Fairchild stated that the research also looked at the issue of mortgage market interconnectedness—how the activities of a single financial institution are influenced by the activities of other financial institutions with which it shares market space—and found that there was no greater systemic risk for CDFIs than for mainstream institutions.

Mr. Fairchild stated that the research also found that CDFIs were no less efficient than were comparably sized institutions and, in some cases, CDFIs were actually more efficient.

Mr. Fairchild concluded his remarks by discussing some of the other research issues he would like to explore with the CDFI Fund, including measuring the management of CDFIs; understanding the process within and across CDFIs that facilitates performance that is no riskier even though they work in more challenging places; understanding issues of market dominance and information access; using models that allow CDFIs to assess their efficiency and risk of failure; developing models for evaluating other types and sizes of CDFIs; understanding the impact of technology; and understanding the impact of the CDFI Fund's appropriations over time.

<u>Presentation by Michael Swack, Professor, University of New Hampshire Peter T. Paul College of Business and Economics</u>

Mr. Swack discussed the report he co-wrote for the Carsey School of Public Policy, CDFIs Stepping into the Breach: An Impact Evaluation - Summary Report.

Mr. Swack stated that the report looked at two questions: What is the outcome of the investment that CDFIs make—how are people better off? And what difference does the CDFI Fund make—what difference does it make to have an agency that provides financial support to CDFIs?

After discussing the methodology of the study, Mr. Swack discussed the report's key findings, including that CDFIs, much more so than conventional lenders, are concentrating their lending activity in census tracts with high poverty or unemployment rates; that CDFI lending does not appear to have attracted mainstream lending into these areas, but rather fills market gaps; that CDFI awards have played an important role growing assets in lending but that the CDFI field is bifurcated, so there are a relatively small number of high performing CDFIs and a much larger number of relatively inefficient CDFIs; and that many CDFIs struggle to meet the market needs for longer-term loans.

Mr. Swack also discussed some of the key recommendations presented in the report, including the importance of focusing additional research on the most effective strategies to support growth and the need to develop shared measurement systems with standardized financial information and standardized measurement of social impact. Mr. Swack added that convening a working group to develop standardized definitions would be helpful.

Among the other recommendations that Mr. Swack discussed were the idea of developing proxy measures that CDFIs can use to assess the potential impact of certain types of lending, and the need to create a CDFI infrastructure and innovation fund. Director Donovan then stated that the CDFI Fund had just announced the CDFI Fund Innovation Challenge, a development that Mr. Swack heartily supported.

Mr. Swack's final recommendation was that, as investment in CDFIs by banks decreases, there is a growing opportunity for the industry to attract individual investors, as well as investment advisors, to the field of community investment.

Comments and Questions on Mr. Bischak's, Mr. Fairchild's, a Mr. Swack's Remarks

Chairman Holmes invited Board Members to ask questions.

Board Member Lizarraga asked if the Board Members could get copies of the reports just discussed. Director Donovan replied that links to the reports are online and have been emailed to Board Members.

Board Member Mehlum asked Mr. Swack if his research found a correlation between an institution's size and the amount of lending activity in underserved areas. Mr. Swack replied that there was no correlation between size and the type of markets served. Mr. Fairchild stated that his research found a correlation between size and efficiency. Mr. Bischak added that, while the CDFI Fund hasn't done a statistical analysis, it did look at the descriptor statistics and found that the industry is underinvesting in certain underserved communities such as Ferguson and West Baltimore.

Chairman Holmes asked if the research had found any correlation between how CDFIs were able to grow and how successful they were in raising strategic, outside-of-the-CDFI-Fund equity capital. Mr. Swack stated that he understood that CDFIs struggle to raise equity, but that his research did not look into the different ways they raised equity. Mr. Fairchild added that he had not looked at the question.

Board Member Argrett asked Mr. Fairchild if his research measured efficiency by using bank efficiency ratios or by measuring other outputs, such as production, deposit growth, or balance sheet growth. Mr. Fairchild discussed the various inputs and outputs used in his research.

Board Member Choi asked Mr. Fairchild what he has done, beyond publishing his very impressive report, to get out the message that CDFIs are not more risky or inefficient than mainstream institutions. Mr. Fairchild discussed his efforts to increase awareness of CDFIs, including doing case studies, publishing in business academic journals, and speaking with people at places such as Morgan Stanley.

Chairman Holmes thanked the speakers and observed that their research will help the industry get to where it needs to go.

Closing Business

Chairman Holmes stated that the CDFI Fund would like to form two subcommittees—a strategy development subcommittee and a Native issues subcommittee—of the Advisory Board and asked if there was a motion to create them. Board Member Phillips seconded the motion. Chairman Holmes called for a vote and, following a show of hands, stated that the motion was approved.

Director Donovan acknowledged the forthcoming retirement of Board Member Phillips after 39 years at Coastal Enterprises, and thanked him for his leadership and commitment to social justice.

Chairman Holmes appointed Board Member Fiddler the Chair of the Native issues subcommittee and Board Member De Souza Briggs Chair of the strategy development committee, and discussed recruiting volunteers for the subcommittees.

Chairman Holmes and Director Donovan thanked the group for attending. Chairman Holmes adjourned the meeting at 3:56 p.m.

Respectfully submitted,

William B. Luecht, Jr.
Designated Federal Officer
CDFI Fund