

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

**Minutes**

**Date:** Thursday, November 16, 2017

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

**Presiding:** Shane Jett, Chair of the Community Development Advisory Board (CDAB),  
Citizen Potawatomi Community Development Corporation

**Board Members in Attendance:**

Shane Jett, Chair of CDAB, Citizen Potawatomi Community Development Corporation  
Faith Bautista, National Asian American Coalition  
Cara Dingus Brook, Foundation for Appalachian Ohio  
Jovita Carranza, U.S. Department of the Treasury  
Judy Chapa, Financial Services Roundtable  
Clint Gwin, Pathway Lending  
Anne Hazlett, U.S. Department of Agriculture  
Robert R. Jones III, United Bank of Atmore  
Bill Manger, U.S. Small Business Administration  
Todd McDonald, Liberty Bank and Trust  
Neal Rackleff, U.S. Department of Housing and Urban Development

**Remarks and Presentations:**

The Hon. Steven T. Mnuchin, Secretary of the Treasury  
Chris Campbell, Assistant Secretary for Financial Institutions, U.S. Department of the Treasury  
Kipp Kranbuhl, Deputy Assistant Secretary for Small Business, Community Development and  
Affordable Housing, U.S. Department of the Treasury  
Annie Donovan, Director, CDFI Fund

Daniel Aiello, Associate Program Manager, Capital Magnet Fund, CDFI Fund  
Joseph Bateman, Consultant, Summit Consulting  
Greg Bischak, Program Manager, Office of Financial Strategies and Research, CDFI Fund  
Spencer Cowan, Executive Research Consultant, Woodstock Institute  
Robert Ibanez, Program Manager, New Markets Tax Credit Program and Bank Enterprise Award  
Program, CDFI Fund  
Lisa Jones, Program Manager, CDFI Bond Guarantee Program, CDFI Fund

Amber Kuchar-Bell, Program Manager, CDFI Program and Native Initiatives, CDFI Fund

**Also Present:**

Bill Luecht, Designated Federal Official for the CDAB, CDFI Fund

**Welcome and Review of Agenda, by CDFI Fund Director Annie Donovan**

At 8:33 a.m., Director Donovan welcomed all in attendance to the Treasury Department for the fiscal year 2018 meeting of the CDFI Fund's Community Development Advisory Board.

Director Donovan extended a special welcome to the Board Members, noting that each one is a new Member of the Board, and expressed gratitude to them for serving on the Board.

Director Donovan provided an overview of the agenda and then recognized four federal Board Members of the Advisory Board—Jovita Carranza, Anne Hazlett, William Manger, and Neal Rackleff—who had taken the oath of office on their first day of federal service.

Director Donovan then introduced Kipp Kranbuhl, who serves as the Deputy Assistant Secretary for Small Business Community Development and Affordable Housing at the Department of Treasury, and invited him to offer some opening remarks.

**Welcome Remarks by Kipp Kranbuhl, Deputy Assistant Secretary for Small Business, Community Development and Affordable Housing, U.S. Department of the Treasury**

Deputy Assistant Secretary Kranbuhl thanked Director Donovan for her introduction and explained his role as Deputy Assistant Secretary for Small Business, Community Development and Affordable Housing Policy within the Department of Treasury's Office of Financial Institutions.

Deputy Assistant Secretary Kranbuhl thanked the Board Members for their service, noting that whether they are serving our country full-time or part-time in an advisory capacity, their commitment to the nation and to all of its communities is invaluable. Deputy Assistant Secretary Kranbuhl also thanked Director Donovan and her team for organizing the meeting and for everything they do on an ongoing basis to ensure that the CDFI Fund's programs are in top form and are running as efficiently as possible.

Deputy Assistant Secretary Kranbuhl stated that Treasury's primary goal is to promote economic growth through policies that support job creation, investment, and economic stability, and that achieving that goal starts at the local level in the communities that shape our counties, states, and nation. Deputy Assistant Secretary Kranbuhl stated that Director Donovan and her team are experts at understanding the needs of the communities they serve.

Deputy Assistant Secretary Kranbuhl stated that the Board Members will play an important role in assisting the CDFI Fund as it continues to build out community-based economic development policies and to advance its activities. Deputy Assistant Secretary Kranbuhl welcomed the new members of the Community Development Advisory Board as they begin to help the CDFI Fund

tackle this great task.

**Introduction of Chris Campbell, Assistant Secretary for Financial Institutions, U.S. Department of the Treasury, by CDFI Fund Director Annie Donovan**

Director Donovan thanked Deputy Assistant Secretary Kranbuhl for his remarks.

Director Donovan stated that Assistant Secretary Chris Campbell would be introducing Secretary of the Treasury Steven Mnuchin, and provided a brief overview of Assistant Secretary Campbell's role and responsibilities.

Director Donovan invited Assistant Secretary Campbell to speak.

**Introduction of Secretary of the Treasury Steven Mnuchin, by Chris Campbell, Assistant Secretary for Financial Institutions, U.S. Department of the Treasury**

Assistant Secretary Campbell thanked Director Donovan and the CDFI team for their dedication to ensuring that the CDFI Fund is well administered.

Assistant Secretary Campbell reflected upon the value of having the Board meet to discuss the impact and policy goals of the CDFI Fund and to lend its expertise as Secretary Mnuchin, Director Donovan, Deputy Assistant Secretary Kranbuhl, and Assistant Secretary Campbell himself seek to find the best path forward for advancing the important work of the CDFI Fund.

Assistant Secretary Campbell introduced Secretary of the Treasury Steven T. Mnuchin and invited him to speak.

**Remarks by Steven T. Mnuchin, Secretary of the U.S. Department of the Treasury**

Secretary Mnuchin thanked Assistant Secretary Campbell for his introduction and welcomed the audience to the Treasury Department. Secretary Mnuchin thanked the Board Members for their service to help further economic opportunities for all Americans.

Secretary Mnuchin discussed the role that CDFIs have played across the nation, stating that by leveraging public-private partnerships with banks, foundations, and state and local governments, CDFIs are providing underserved communities with access to credit and capital as well as technical assistance.

Secretary Mnuchin thanked the Board Members for their willingness to lend their expertise and insight as the CDFI Fund continues in its mission of providing access to capital and credit in underserved areas.

**Swearing in of Private Citizens Appointed to the Community Development Advisory Board, by Treasury Secretary Mnuchin**

Director Donovan thanked Secretary Mnuchin for his remarks and invited the seven private

citizens appointed to Community Development Advisory Board to come to the head of the table.

Secretary Mnuchin administered the oath of office to the seven private citizens: Ms. Faith Bautista, Ms. Cara Dingus Brook, Ms. Judy J. Chapa, Mr. Clinton B. Gwin, Mr. Shane Jett, Mr. Robert B. Jones III, and Mr. Todd O. McDonald.

### **Roll Call, Convening of Meeting, Election of Board Chair, by Director Donovan**

Director Donovan formally began the meeting with a roll call of the Advisory Board, noting that the White House is working to fill two remaining Advisory Board positions and that the Department of Commerce and the Department of Interior will name their designees to the Advisory Board in the next few months.

Director Donovan instructed the Board Members in attendance to respond “present” when she called their names. Board Members Bautista, Brook, Carranza, Chapa, Gwin, Hazlett, Jett, Jones, Manger, McDonald, and Rackleff each responded “present.” Director Donovan called the meeting to order and noted that participation in the discussion is limited to the Board Members, CDFI Fund staff, and Treasury Staff.

Director Donovan then invited the Board Members to briefly introduce themselves by stating their name, title, federal agency or organization, and their city and state.

Director Donovan then called for the election of the Advisory Board Chair, noting that the Chair is elected by the nine private citizens on the Board. Director Donovan asked for a nomination from the floor, and Board Member Chapa nominated Board Member Jett. Board Member Gwin seconded the nomination.

Director Donovan called for a vote from the seven private citizens in attendance, and Board Member Jett was elected with a unanimous vote in the affirmative. Director Donovan invited Board Chair Jett to offer a few remarks.

### **Remarks by Shane Jett, Chair of the Advisory Board**

Board Chair Jett thanked Director Donovan and stated that it is an honor to be elected by this incredible group of professionals who have dedicated their professional lives to making the lives of others better.

Board Chair Jett stated that he probably has less experience working in low-income communities than other Board Members do, but that he has seen lives changed by the work that CDFIs do all over the United States. Board Chair Jett reflected that joining the Opportunity Finance Network six years ago and serving on their board enabled him to see stories of lives changed, jobs created, and roofs put over people's heads that have made this country a better place. Board Chair Jett stated that he is committed to the President’s vision of creating more jobs across the United States and creating them in pockets of poverty, just as the Board Members and more than 1,100 CDFIs across the country are doing.

Board Chair Jett reflected that, as a Cherokee from Oklahoma, he felt that it is a tremendous honor to be a part of the Board and that it has been an incredible opportunity to be able to make a difference every day. Board Chair Jett stated that it was a special honor to be joined on this adventure with Director Donovan, and he thanked Director Donovan for the opportunity to serve.

### **CDFI Fund Director's Report, by Director Annie Donovan**

Director Donovan thanked Board Chair Jett and began her review of the CDFI Fund's accomplishments in fiscal year (FY) 2017.

Director Donovan stated that the CDFI Fund's budget for FY 2017 was \$248 million—an increase of \$14.5 million over FY 2016. Director Donovan added that Congress authorized \$500 million in guarantee authority for the CDFI Bond Guarantee program, and that the CDFI Fund's FY-2017 appropriation included up to \$3 million for Financial Assistance and Technical Assistance awards to enable CDFIs to expand investments to individuals with disabilities, which is a new initiative for the CDFI Fund.

Director Donovan stated the New Markets Tax Credits Program is currently authorized to allocate \$3.5 billion annually through calendar year 2019.

Director Donovan stated that the number of certified CDFIs has grown from 196 at the end of 1997 to roughly 1,100 today, and that the assets of the CDFI industry have expanded from \$4 billion to more than \$135 billion. Director Donovan noted that, since 1996, the network of CDFI Fund program awardees has provided more than \$29 billion in loans and investments across America.

Director Donovan then offered the following brief reviews of the CDFI Fund's programs:

- **Community Development Financial Institutions Program (CDFI Program)** – The CDFI Fund has awarded more than \$2.2 billion over the first 22 rounds of its flagship program, the CDFI Program. The program uses limited federal resources to build the capacity of CDFIs, and, since the first awards were made in 1996 to 31 CDFIs, has enabled the national network of CDFIs to expand to more than 1,100 organizations located in every state, the District of Columbia, Guam, and Puerto Rico.
- **Native Initiatives** - The Native Initiatives program was formed in response to the CDFI Fund's Native American Lending Study, released in 2001, and the first awards through the Native Initiatives were made to Native CDFIs in 2002. Since then, there has been tremendous growth in the Native CDFI sector; there are now more than 70 Native CDFIs creating economic opportunity in American Indian, Alaska Native, and Native Hawaiian communities. Director Donovan noted that there is much more to be done, and that the CDFI Fund is looking forward to doing that work.
- **Bank Enterprise Award Program (BEA Program)** - The CDFI Fund has awarded more than \$500 million over the first 22 rounds of the BEA Program, which provides awards to FDIC-insured banks and thrifts that increase investment in CDFIs and

distressed communities throughout the nation.

- **New Markets Tax Credit Program (NMTC Program)** - Over the 17-year history of the NMTC Program, the CDFI Fund has awarded \$50.5 billion to spur growth and breathe new life into neglected, underserved, low-income communities by attracting private investment capital.
- **CDFI Bond Guarantee Program** - Over the first five rounds of the CDFI Bond Guarantee Program, which provides CDFIs with access to fully guaranteed loans with up to 30-year terms at below-market interest rates, 26 Eligible CDFIs have been issued bonds totaling \$1.4 billion.
- **Capital Magnet Fund (CMF)** – The CMF is currently in its third round of funding. The application period closed at the end of August, and the CDFI Fund received 122 applications requesting more than \$550 million in funding for the FY 2017 round of the program. The CDFI Fund expects to announce the awards in the second quarter of FY 2018.

Director Donovan then provided the following updates on administrative initiatives the CDFI Fund undertook during FY 2017 to maximize performance, efficiency, and program results:

- **Awards Management Information System (AMIS)** – AMIS is a Cloud-based platform that will support all CDFI Fund programs through each phase of the program life cycle, including certification, program awards and allocations, data analysis, and reporting. To date, the CDFI Program, NACA Program, and BEA Program have been integrated into AMIS, and portions of the NMTC Program and CMF also have been integrated, with the remainder of the conversions into AMIS currently ongoing. In addition, some CDFI certification processes have been built into AMIS.
- **BEA Program Baseline Analysis and Evaluation** – This report, which was commissioned by the CDFI Fund and released in 2017, is an independent, third-party review of the BEA Program that provides an evaluation of program outcomes, as well as a baseline analysis of the program in order to understand incentives for participation.
- **CDFI Program Assessment and Risk Management Framework (ARM Framework)** – The ARM Framework is a suite of tools that the CDFI Fund will use to assess CDFI Program applicants' and awardees' financial and programmatic risk in order to enhance data-driven decision making and to mitigate post-award compliance reporting risks. Development of the ARM Framework began in 2017, and its data and analytic tools will support the needs of multiple CDFI Fund business units. The combination of the AMIS platform and the ARM Framework will increase the CDFI Fund's efficiency and ability to make data-driven decisions.
- **Compliance Review of the New Markets Tax Credit Program** - This third-party, independently produced report was commissioned by the CDFI Fund and addresses questions and recommendations posed by the Government Accountability Office

regarding the distribution of benefits among NMTC Program stakeholders, the rates of return for investors, and the role other public investments play in NMTC investments. It was completed in August of 2017 and examines the degree to which NMTC Program recipients have complied with program requirements, and whether their activities have aligned with the program's objectives.

- **Activity in persistent poverty counties** - The Consolidated Appropriations Act of 2017, the bill that funded the CDFI Fund, mandates that 10 percent of the FY 2017-appropriated funds awarded by the CDFI Fund support activities in persistent poverty counties. One-third of the CDFI Program and NACA Program awardees indicated that they will be providing lending and investment services in persistent poverty counties, and the CDFI Fund expects to well exceed the 10 percent requirement that Congress mandated.
- **Training for minority Community Development Entities (CDEs)** – The CDFI Fund contracted with the National Community Investment Fund to develop training to inform minority-owned and minority-controlled CDEs on how to participate in the NMTC Program. Forty-four CDEs participated in two separate trainings, and 10 CDEs received individualized technical assistance to address the specific challenges they face when participating in the NMTC program.

Director Donovan expressed gratitude to the CDFI Fund's staff for the exceptional dedication and hard work that made these accomplishments possible, and stated that these accomplishments clearly demonstrate that the CDFI Fund continues to succeed in its mission to increase economic opportunity and to promote community development in distressed communities throughout the nation.

Director Donovan stated that the CDFI Fund will continue its efforts to maximize performance, efficiency, and program results in FY 2018 and will focus on completing the implementation of AMIS and the ARM Framework. Director Donovan noted that moving all of the data from the Community Investment Impact System (CIIS) to AMIS will be a heavy lift, but that the CIIS tool, which is already very powerful, will get even better as it is integrated into AMIS. Director Donovan stated that the new tools will enable the CDFI Fund to map where all of the CDFIs that receive funding from the CDFI Fund are making their investments and to evaluate how well they are targeting distressed communities.

Director Donovan stated that in FY 2018 the CDFI Fund also will be completing its policy review of the criteria for CDFI certification that were defined in the Riegle Act of 1994. Director Donovan noted that the financial services sector has changed tremendously since the Reigle Act was passed, and so it is time for the CDFI Fund to update the certification criteria and to modernize how it implements certification.

Director Donovan added that in FY 2018 the CDFI Fund will continue to advance all five of the goals it identified in its FY 2017-2022 Strategic Plan.

Board Chair Jett thanked Director Donovan and announced that the Board would take a 15-

minute break.

### **Break**

The meeting went off the record at 9:14 a.m. and resumed at 9:33 a.m.

### **Introduction of CDFI Fund Senior Staff Members, by Board Chair Jett**

Board Chair Jett introduced the four CDFI Fund senior staff members who would be providing updates on the programs they oversee: Ms. Amber Kuchar-Bell, Program Manager of the CDFI Program and the Native Initiatives; Mr. Robert Ibanez, Program Manager of the New Markets Tax Credit Program and the Bank Enterprise Award Program; Ms. Lisa Jones, Program Manager of the CDFI Bond Guarantee Program; and Mr. Daniel Aiello, Associate Program Manager of the Capital Magnet Fund.

Board Chair Jett invited Ms. Kuchar-Bell to give her presentation.

### **Program Update of the CDFI Program and the Native Initiatives, by Ms. Amber Kuchar-Bell, Program Manager of the CDFI Program and the Native Initiatives**

Ms. Kuchar-Bell explained that the CDFI Fund uses the CDFI Program and Native Initiatives, which includes the Native American CDFI Assistance Program (NACA Program), to invest in and build the capacity of CDFIs across the country, and accomplishes that mission by providing Financial Assistance (FA) and Technical Assistance (TA) awards through a competitive application process and also by providing training opportunities. Ms. Kuchar-Bell added that the CDFI Fund also administers the Healthy Food Financing Initiative (HFFI), a supplemental award to encourage investments in businesses that provide healthy food options in communities.

Ms. Kuchar-Bell stated that, on September 19, 2017, the CDFI Fund announced the largest and most diverse award round in the history of the CDFI Fund, making awards totaling \$208.7 million to 303 organizations through the CDFI Program, NACA Program, and HFFI. Ms. Kuchar-Bell noted that those awards included 224 Financial Assistance awards and 41 Technical Assistance awards totaling \$171 million through the CDFI Program; 20 Financial Assistance and 18 Technical Assistance awards totaling \$15.6 million through the NACA Program; and 13 awards totaling \$22 million through the HFFI.

Ms. Kuchar-Bell noted that 90 CDFIs, or about one-third of the recipients, received \$19.4 million in FA awards specifically targeted to support investments in persistent poverty counties.

Ms. Kuchar-Bell stated that in fiscal year (FY) 2017, of the 224 FA awardees, 12 percent were banks or bank holding companies, 22 percent were credit unions, 64 percent were loan funds, and 2 percent were venture capital funds. Ms. Kuchar-Bell noted that this was a very diverse group that largely mirrored the applicant pool. Ms. Kuchar-Bell also noted that the awardees serve communities across the United States, making investments in all 50 states and the U.S. territories.



Ms. Kuchar-Bell stated that, in FY 2017, the CDFI Fund launched a new application and application evaluation process aimed at increasing the emphasis on impacts and outcomes and allowing CDFIs to tell their story in a streamlined manner. Ms. Kuchar-Bell noted that the CDFI Fund surveyed all of the CDFI Program, NACA, and HFFI applicants, and that almost 80 percent of the respondents said that the application allowed them to accurately describe their organization's mission and the impact they could make with the award. Ms. Kuchar-Bell added that the survey also indicated that the revised application was easier to understand, less repetitive, and less time consuming to complete.

Ms. Kuchar-Bell noted that the new FA application also required each CDFI applicant to commit to achieving one of four FA objectives: increase the volume of its current products and services, provide a new product or service, expand operations into a new geography, or serve a new targeted population. Ms. Kuchar-Bell noted that this requirement was a new concept that enhanced the impact of the FA awards.

Ms. Kuchar-Bell stated that in FY 2018, the CDFI Fund would continue to refine the process, incorporate the feedback that it receives from its CDFIs, and continue to grow, improve, and serve the CDFI industry.

### **Questions and Comments for Ms. Kuchar-Bell**

Board Chair Jett thanked Ms. Kuchar-Bell for her presentation and asked Board Members if they had any questions.

Board Member Rackleff noted Ms. Kuchar-Bell's remarks about an increased emphasis on impacts and outcomes and asked what kind of impacts and outcomes the CDFI Fund measures.

Ms. Kuchar-Bell stated that the CDFI industry is trying to determine how to measure impacts and outcomes, and that the CDFI Fund asked CDFIs more open-ended questions about the short- and long-term outcomes of the CDFIs' investments in their communities in order to understand where they are creating change—for example, are they just creating a job, are they creating a job that is going to allow people to come out of poverty? Ms. Kuchar-Bell briefly discussed the types of responses that many credit unions and banks have provided—for example that their products have created wealth by offering reduced interest rates or alternatives to predatory lending and have promoted savings and asset building as well as financial education.

Board Member Rackleff stated that he is particularly interested in the HFFI and discussed how, when he was the director of Housing and Community Development for the city of Houston, his department helped a local grocer develop a new store in a food desert. Board Member Rackleff noted that, while it is not difficult to identify food deserts, it is extremely difficult to find the kind of economic incentives in public/private partnerships to develop a grocery store. Board Member Rackleff asked Ms. Kuchar-Bell to speak further about the HFFI and asked if its focus is on food deserts.

Ms. Kuchar-Bell stated that the HFFI is absolutely directed at food deserts, noting that the HFFI requires that 75 percent of the award dollars have to be investments in food deserts and their target market.

Board Member Rackleff stated that he is very interested in financing directed at food deserts, noting that he had learned that grocery stores operate on razor-thin profit margins—1 or 2 percent—and so persuading a major grocer to enter a market that its research says is not going to be economically viable is very, very difficult. Board Member Rackleff expressed interest in learning more about the HFFI and seeing what HUD can do to partner its community development block grant funds to do economic development and address food deserts.

Ms. Kuchar-Bell replied that the CDFI Fund has been administering the HFFI since 2011 and has many lessons learned to share. Director Donovan added that one of the benefits of this kind of board meeting is that it brings issues to light and fosters collaboration, and stated that the CDFI Fund would love to follow up with Board Member Rackleff on his suggestion.

Director Donovan also noted that, while the HFFI is housed within the CDFI Program, the CDFI Fund sees healthy food financing happen in its other programs as well. Director Donovan cited the New Markets Tax Credit Program as an example, noting that organizations are overcoming the mismatch between the cost of developing in a food desert versus the value of the property once it is developed by using New Markets Tax Credits to address that loan-to-value issue and to bring down the cost of debt.

Board Member Rackleff reflected that with grocery stores, as opposed to a multifamily property where the real estate asset is the income producer, the building is not what drives the economic model—it is the high volume and very low margin; and so trying to figure out how to get those kinds of stores in areas where the market doesn't seem to support them is very challenging. Board Member Rackleff suggested exploring a distribution methodology that would improve the economics in those areas.

Director Donovan reaffirmed her interest in following up with Board Member Rackleff.

Board Member Carranza expressed appreciation that the CDFI Program and NACA Program had removed the complexity from their applications, noting that complex applications sometimes deter people from applying. Board Member Carranza added that the simpler applications reduce the costs CDFIs bear to have staff to support that type of compliance.

Board Member Carranza asked Ms. Kuchar-Bell how the CDFI Fund came up with the questions it asked in its survey of CDFI Program and NACA Program applicants, in particular whether it was through a group analysis of the outcomes the CDFI Fund was trying to track or achieve.

Ms. Kuchar-Bell stated that the process of developing the questions was aligned with the strategic plan the CDFI Fund had developed last year. Ms. Kuchar-Bell stated that those objectives stated in the strategic plan included easing the customer experience, improving the breadth and reach of CDFIs, and increasing the effectiveness of the application process. Ms.

Kuchar-Bell noted that the overwhelming response to the changes in the applications was positive, adding that, while the CDFI Fund still has room to improve, it takes all of that feedback seriously and will use it in FY 2018 as best as possible.

Board Member Chapa asked Ms. Kuchar-Bell to clarify how it gets feedback to establish the effectiveness of the application—whether it is done through a survey sent out with the applications rather than through actual research.

Ms. Kuchar-Bell stated that this was the first application round in which the new, streamlined application with the FA objectives was used, and that this was a proof-of-concept year. Ms. Kuchar-Bell stated that the CDFI Fund believed that it had proven the concept, and that now it is all about refining and improving it and doing deeper research. Ms. Kuchar-Bell stated that the CDFI Fund would launch the 2018 application round in early 2018, and after that will solicit even more feedback and do a very directed and deeper analysis of the application.

Board Member Chapa asked Ms. Kuchar-Bell to elaborate on how CDFIs incorporate financial education into some of their financing programs.

Ms. Kuchar-Bell explained that to be a certified CDFI, a CDFI must primarily be a financing entity but must also provide development services. Ms. Kuchar-Bell stated that this is the hand-in-hand concept—providing loans to small business owners as well as technical assistance to help them execute their business plans. Ms. Kuchar-Bell discussed how, as a consumer loan officer at a CDFI credit union, she would integrate financial literacy and education at the time applicants were applying for a credit card or car loan, and talk to them about whether they could really make the payments and what their long-term growth goals were.

Ms. Kuchar-Bell stated that this kind of financial education and development service is built into the operations of every CDFI, but that each CDFI presents development service in ways that are appropriate to its own community, so that it is responding to the community rather than dictating to it.

Board Member Chapa asked if CDFIs have done any follow-up to see if their financial education programs have enabled people to transition into formal financial institutional relationships.

Director Donovan replied that the CDFI Fund has not evaluated that issue, but that one of the things the CDFI Fund was trying to accomplish with the remake of its application and the review process behind it was to make sure that the application allowed groups that do financial service provision, like credit unions, to better tell their story through the application.

Director Donovan stated that serving people—getting the unbanked or the underbanked into safe and affordable products—is a high-volume, high-touch business compared to commercial real estate with big transactions and multiple, complex layers of financing, and so telling a story about serving people is very different. Director Donovan stated that the CDFI Fund wanted to make sure that its application allowed everybody to tell their story and not just

those who were doing real estate-based financing, and that it was very pleased with the feedback it got.

Director Donovan noted that the survey was just a feedback loop—it wasn't research but was just a way to get feedback on how groups feel the CDFI Fund did. Director Donovan stated that the CDFI Fund was pleased with the feedback it received from the survey and with the results of the application round, in terms of the types of organizations and the places the resources went to.

Director Donovan stated that the afternoon session of the meeting would include a discussion of two research projects the CDFI Fund has undertaken in the last few years: the evaluations of the Bank Enterprise Award Program and the New Markets Tax Credit Program. Director Donovan stated that the CDFI Fund has not conducted an evaluation of the effectiveness of financial education, however.

Director Donovan added that the CDFI Fund's recent Access to Capital and Credit in Native Communities Report includes a chapter on financial inclusion and financial capability that shows a dramatic increase in the provision of financial education among Native CDFIs.

Board Member Gwin noted that Ms. Kuchar-Bell had mentioned the oversubscription of the CDFI Program and the NACA Program. Board Member Gwin asked if CDFIs are still able to get match funding at the levels they have gotten in the past. Board Member Gwin added that most CDFIs are dealing with cuts to funding at the state and local levels that have been used for those matches in the past.

Ms. Kuchar-Bell stated that because the CDFI Fund had issued more CDFI Program and NACA awards this year, it reduced the average award size. Ms. Kuchar-Bell noted that the largest award was a little more than \$1 million, while in the past the largest was \$2 million. Ms. Kuchar-Bell stated that the CDFI Fund felt that it still created a meaningful award size and that every CDFI receiving an award would still reap the benefit of the award.

Ms. Kuchar-Bell stated that the reduction in award size helped mitigate the matching funds challenge. Ms. Kuchar-Bell discussed the standard loan product, an innovation that the CDFI Fund came up with a few years ago to address the issue. Ms. Kuchar-Bell provided an example to illustrate how the standard loan product is helping meet the needs of the industry.

Board Member Gwin expressed his appreciation for the changes to the application around target market expansion. Board Member Gwin raised a question about how certification works, asking if the CDFI Fund requires a CDFI to be lending in a market before it can be certified in that market, thus creating some incentive for the CDFI to get into a market.

Ms. Kuchar-Bell stated that that is a question that the CDFI Fund has struggled with. Ms. Kuchar-Bell noted that the application doesn't specifically say "expand your target market;" it says "expand your geography," which allows flexibility for the recipient to use the award to begin lending into a new market prior to being required to change its official target market certification.

Ms. Kuchar-Bell discussed an example of the “serve a new geography” FA objective involving a CDFI that has a certified target market of five parishes in Louisiana but does not have a branch in one of the parishes. Ms. Kuchar Bell stated that the CDFI could use the “serve a new geography” FA objective to expand its services in the parish without a branch, as long as less than 5 percent of the CDFI’s activities are in that parish. Ms. Kuchar-Bell stated that the CDFI Fund considers it a new geography if the CDFI has five percent or less of its portfolio invested in that geography.

Ms. Kuchar-Bell stated that this incentivizes people by creating flexibility within the target market discussion. Ms. Kuchar-Bell added that CDFIs have to do 60 percent of their activities within their target market and 40 percent outside of it, and that this new geography is trying to help facilitate that.

Ms. Kuchar-Bell discussed an example involving a regional CDFI that is considering expanding into the next state over, where there is not a lot of CDFI activity. Ms. Kuchar-Bell stated that the CDFI Program provides the kind of money that can be high-risk capital to allow the CDFI to put its toe in the water of this new state, and that if the CDFI finds that it works, it can re-certify itself and expand its target market.

Ms. Kuchar-Bell noted that it is the responsibility of the CDFI to manage its target market itself, and that this money is trying to create the flexibility to bridge those two.

Board Member Gwin stated that the flexibility is great and that the money is the best money in the market for CDFIs that are always struggling for net assets.

Director Donovan added that the CDFI Fund is going through a process of looking at certification criteria, and that this is a key issue. Director Donovan stated that the CDFI Fund does not want to disincentivize CDFIs from making good loans in the places where the CDFI Fund wants them to be investing, and does not want the way that CDFIs have drawn their target markets to limit that activity if that activity is serving distressed communities.

Board Member Brook stated that the CDFI Program had helped her CDFI with a food desert in Appalachian Ohio, and echoed Board Member Ratzleff’s interest in interagency collaborations, because the marketplace of grocery is changing with the merger of Whole Foods and Amazon. Board Member Brook noted that one of the communities her CDFI serves had lost its grocery store and people were driving up to an hour to get food. Board Member Brook stated that exploring collaborations to address food deserts is a really good direction for the Board to be exploring.

Board Member Gwin added that his CDFI has experienced some major manufacturing closings in some of its rural markets, and that there is a lag before the data—the unemployment rate and the other things that go with that—catch up. Board Member Gwin noted that the 60/40 split is very helpful, but that it is sometimes challenging to try to get ahead of that increase in unemployment and still maintain all the ratios.

Board Member Hazlett added that USDA has a number of tools in rural development and recognizes that food insecurity is a very real issue in many rural communities. Board Member Hazlett stated that USDA would love to be part of a partnership to address the issue.

Board Chair Jett noted that the Citizen Potawatomi Nation received an HFFI award and has one of the largest big box grocery stores in Oklahoma. Board Chair Jett added that the tribe had met a lot of opposition from Oklahoma City, because people would drive long distances to get groceries in Oklahoma City and the grocers did not welcome a local Indian tribe providing grocery alternatives.

Board Chair Jett stated that the HFFI was vital in enabling the tribe to get the volume so its store could compete with prices in Oklahoma City. Board Chair Jett added that the tribe still had to go to Texas to get the buying power necessary to compete, because the tribe was excluded from participating in the grocers' association, which didn't want the competition in the rural area.

Board Chair Jett noted that a lot of collaboration is sometimes needed for the development of best practices, because not everyone is excited about rural development or the financial independence of minority communities. Board Chair Jett noted that the Citizen Potawatomi Nation has opened two additional satellite grocery stores further out into the rural community because of the buying power it has. Board Chair Jett thanked the CDFI Fund and HFFI for making that possible.

Board Member Bautista asked if the CDFI Fund encourages CDFIs to work with ethnic supermarkets through the HFFI. Board Member Bautista noted that ethnic communities often are among the unhealthiest, because of their diets.

Ms. Kuchar-Bell replied that the HFFI does not specifically work with ethnic communities but is flexible enough to allow anyone to participate. Ms. Kuchar-Bell noted that the CDFI Fund had offered a training program through the Capacity Building Initiative to encourage CDFIs to participate in the healthy foods arena.

Director Donovan added that there is a lot of activity in ethnic markets through the HFFI, and that the program provides the flexibility for that.

Director Donovan also noted that, because the HFFI is a line item in the CDFI Fund's appropriation, the CDFI Fund is never sure from year to year if the HFFI is going to stay. Director Donovan stated that if the HFFI does not appear in the CDFI Fund's FY 2018 budget, CDFIs can still finance healthy food projects through the CDFI Program's FA program, as well as through the New Markets Tax Credit Program.

Board Chair Jett thanked Ms. Kuchar-Bell for her presentation and invited Mr. Robert Ibanez to give his presentation on the Bank Enterprise Award Program and New Markets Tax Credit Program.

**Program Update of the Bank Enterprise Award Program, by Mr. Robert Ibanez, Program Manager of the New Markets Tax Credit Program and the Bank Enterprise Award**

## **Program**

Mr. Ibanez stated that he would begin his presentation with an update on the Bank Enterprise Award Program (BEA Program).

Mr. Ibanez provided a brief overview of how the BEA Program works, stating that the program gives awards to FDIC-insured, federally regulated depository institutions that increase investments in certified CDFIs or increase their own lending, investing, or service-related activities in eligible BEA distressed communities.

Mr. Ibanez stated that “BEA distressed communities” are defined as census tracts where at least 30 percent of the population lives in poverty and the unemployment rate is at least one and a half times the national average. Mr. Ibanez noted that those distress criteria are higher than in any of the other CDFI Fund programs.

Mr. Ibanez stated that the BEA Program awards are retrospective in nature, which is also unique among the CDFI Fund’s programs. Mr. Ibanez stated that the BEA Program is a performance-based grant program in which the award amounts are calculated as a percentage of the demonstrated increase in BEA-qualified activities from one annual reporting period, referred to as the baseline period, to the next annual reporting period, referred to as the assessment period.

Mr. Ibanez stated that, over the past three years, more than 90 percent of the BEA Program award recipients were FDIC and insured depository institutions defined as either small or intermediate-sized banks, based on Federal Financial Institutions Examination Council Community Reinvestment Act size thresholds.

Mr. Ibanez stated that during this same period, BEA Program award recipients increased their investments, lending, and technical assistance to certified CDFIs by \$190.5 million, increased their lending and direct investment in distressed communities by more than \$1 billion, and increased the provision of financial services in distressed communities by \$61.9 million.

Mr. Ibanez stated that the 2017 round of the BEA Program opened at the end of FY 2017 and is making \$23 million available, which the CDFI Fund expects to award in early calendar year 2018. Mr. Ibanez added that the CDFI Fund expects to open the 2018 round of the program in summer 2018 and does not anticipate making any significant changes to the application.

Regarding the Awards Management Information System (AMIS), Mr. Ibanez stated that the CDFI Fund is looking to automate census tract verification for BEA applicants, which will be a significant improvement that will be welcomed by applicants, particularly those that are submitting a significant number of transactions.

## **Questions and Comments for Mr. Ibanez about the BEA Program**

Board Chair Jett asked the Board Members if they had questions or comments for Mr. Ibanez about the BEA Program.

Board Member Jones commented that one of the strengths of the BEA Program is that it is retrospective and makes awards to insured depositories for the investments they have already made. Board Member Jones noted that these institutions face funding challenges as the CDFI insured depository industry grows, and that the BEA Program is an invaluable program for depositories.

Mr. Ibanez noted that Board Member Jones's bank has been very successful over the years with the BEA Program. Mr. Ibanez added that in the last round of the program, there were 102 awardees and 19 percent of them were Minority Depository Institutions, which speaks to the program's inclusiveness. Mr. Ibanez stated that the program also has been very successful in attracting not only CDFIs but also non-banks that partner with CDFIs in making CDFI-related investments.

Mr. Ibanez noted that the fact that the BEA Program is retrospective and performance-based lends credibility to the program, because its awards are based on what has occurred and show very significant impacts in very highly distressed communities.

Board Member Jones noted that one challenge insured depositories face is the additional regulatory pressure for financial performance. Board Member Jones stated that to initiate some of the programs required innovation and outside-the-box expenditures, and that the BEA Program provides the flexibility to make those investments that depositories otherwise would have more difficulty doing.

Board Member Jones stated that the BEA Program creates an opportunity for depositories to reach into underserved markets with creative programs and financial literacy training. Board Member Jones noted that such programs require the allocation of staff and resources, but that the BEA Program allows depositories to recoup those expenses, which enables them to expand those capabilities.

Mr. Ibanez added that the BEA Program is not a static program, noting that the BEA Program team is very responsive to the marketplace and the industry. Mr. Ibanez described how, several years ago, when the banking industry became interested in small dollar lending, the BEA Program team picked up on that and added the provision of small dollar loans as an eligible activity.

Board Member Jones noted that small dollar loan programs have to be adapted to each bank's market and customers. Board Member Jones stated that his bank is aware of its loss experience, and that the BEA Program has allowed it to set up reserves for its small dollar loan program and to offer the financial literacy training that is a required part of the program. Board Member Jones stated that the BEA Program really makes a difference in making it possible to meet those demands.

Board Member Bautista asked how many minority financial institutions applied for BEA Program awards and how many received them.

Mr. Ibanez replied that 19 percent of the 102 awardees—or 19 or 20—during the last round were



minority institutions. Director Donovan noted that that is a very high rate of success.

Board Member Bautista commented that many minority banks, especially in California, do microlending, which is very expensive for banks. Board Member Bautista encouraged the CDFI Fund to allocate more money to microlending, because microlenders need the capacity to do it.

Mr. Ibanez stated that in the past, the CDFI Fund may not have realized how much microlending was being done by BEA Program applicants, because the CDFI Fund asked applicants to choose which transactions to submit for their award and applicants typically submitted larger transactions rather than small dollar transactions such as microloans. Mr. Ibanez stated that the CDFI Fund now asks applicants to submit their entire portfolio of transactions and is much more interested in understanding the full breadth of the portfolio.

Board Member McDonald commented that his institution has received BEA Program funds and has used them for its small dollar lending programs.

Board Member McDonald reflected on bank consolidations, noting that a lot of institutions, especially Minority Depository Institutions, close down and go through a process of transitioning to a much larger institution in which assets are retained and physical locations are closed. Board Member McDonald asked if there has been any thought about providing a capital instrument to help banks in this space absorb some of those smaller institutions.

Mr. Ibanez replied that there has not been any consideration of that issue up to this point. Mr. Ibanez stated that when the BEA Program was conceived, it was viewed as a program for large financial institutions rather than for CDFIs and smaller institutions. Mr. Ibanez stated that, as the BEA Program evolved, the CDFI Fund wanted to use the benefit of a scarce resource for those that are not as financially successful and moved to a model prioritizing CDFIs, then smaller institutions, then intermediate-size institutions, then larger institutions. Mr. Ibanez added that larger institutions are definitely not locked out of the program, because, of the three categories of activities it provides awards for, CDFI-related activities are the first, and so larger institutions are still able to support smaller institutions and receive an award.

Board Member McDonald asked if it is possible to make introductions from the larger institutions to the smaller institutions that may be struggling to find capital out there.

Mr. Ibanez stated that banks and CDFIs often have an awareness of the BEA Program but not of the existence of potential partners, and that linking banks and CDFIs can be very easy. Mr. Ibanez stated that the CDFI Fund offers material on its website that CDFIs can use, and that the CDFI Fund would be happy to have conversations with a CDFI's bank partners to explain the BEA Program to them.

Board Member Carranza asked if at the next board meeting Mr. Ibanez would be able to report on how many microloan transactions may have occurred but were not considered in the BEA Program award applications.

Mr. Ibanez stated that the BEA Program team may be collecting that information now. Mr.

Ibanez noted that there will be a time lag before the team receives the information and that he is unsure how detailed the information will be, but that he will be able to report back on the status of the request. Board Member Carranza stated that that would be helpful.

Board Member Manger asked if there is a way for the CDFI Fund to evolve the BEA Program further to encourage larger banks to become more of a player in this space. Board Member Manger noted that, as Mr. Ibanez had said, larger banks should be doing this on their own but sometimes need an additional incentive beyond getting CRA credit, which is limited in scope compared to what the BEA Program does.

Mr. Ibanez stated that he was unsure what role the regulatory agencies of the depository institutions play in creating an awareness of the BEA Program among larger institutions. Mr. Ibanez stated that CDFIs should be reaching out to the larger institutions and that the incentive for larger institutions to participate in the program is that they will receive a financial reward for doing so. Mr. Ibanez shared an anecdote about a conversation he had had at Opportunity Finance Network conference with a banker who knew nothing about the BEA Program but became more interested in it the more Mr. Ibanez explained the program to him. Mr. Ibanez added that the CDFI Fund could look into whether the FDIC and other regulatory agencies are doing outreach to their members about the BEA Program.

Board Member Jones commented that the challenge for the BEA Program is not that there is a lack of applicants but that the amount of dollars to be awarded has gone down and has not kept pace with the growth of the CDFI insured depositories, and so the average award is decreasing to the point that it becomes marginal to consider reaching out to develop the program. Board Member Jones stated that more competition for awards is not the answer; more appropriations that would allow full deployment of these programs is part of the answer.

Mr. Ibanez stated that that is a very good point, noting that the CDFI Fund has seen the cap go down all the time, and that in order to be able to recognize the BEA Program's service activity category, which the CDFI Fund is very passionate about, the CDFI Fund is capping distressed community financing because it does not want to discourage people from submitting those types of transactions for an award.

Board Chair Jett briefly discussed his experience sitting on the board of the First National Bank and Trust, a tribally-owned bank that has received a BEA Program award with a partnership with an Oklahoma CDFI called MetaFund and also received a BEA-qualifying loan for the first time last year.

Board Chair Jett noted that a lot of smaller banks are not aware of the BEA Program and that the awards are a diminishing target, having decreased from \$750,000 and \$500,000 at one time to \$227,000.

Mr. Ibanez added that the program didn't used to have as many applicants.

Board Chair Jett also noted that another issue is the restrictions on an award once a bank receives it. Board Chair Jett stated that if a bank is making that contribution to a CDFI's portfolio, it has

already checked the box of doing good, and so let them use the award for whatever reason and do not create an additional barrier that it has to overcome for it to do the right thing.

Mr. Ibanez replied that the application process for the BEA Program is as straightforward as any at the CDFI Fund, because it is retrospective in nature. Board Chair Jett agreed but stated that it is easy only when compared to other bureaucratic processes. Mr. Ibanez acknowledged humorously that the CDFI Fund is part of the Department of the Treasury; laughter followed. Director Donovan acknowledged that Board Chair Jett's point was well taken.

Board Chair Jett thanked Mr. Ibanez for his report on the BEA Program. Mr. Ibanez continued with his report on the New Markets Tax Credit Program.

**Program Update of the New Markets Tax Credit Program, by Mr. Robert Ibanez, Program Manager of the New Markets Tax Credit Program and the Bank Enterprise Award Program**

Mr. Ibanez provided an overview of how the New Markets Tax Credit Program (NMTC Program) works, noting that it provides a credit against federal income taxes for investors who make Qualified Equity Investments (QEIs) in certified financial intermediaries called Community Development Entities (CDEs); and that the CDEs in turn use the proceeds of these QEIs to make qualified low income community investments, such as business loans in low-income communities.

Mr. Ibanez stated that in the 13 application rounds to date of the NMTC Program, the CDFI Fund has received 3,481 applications from CDEs requesting a total of about \$315 billion in tax credit allocation authority. Mr. Ibanez added that during this period the CDFI Fund has made a total of 1,032 allocation awards totaling \$50.5 billion in allocation authority, which means that approximately 30 percent of the applications have received awards since the program's inception.

Mr. Ibanez noted that for every round of the program, the CDFI Fund specifies the maximum allocation authority that CDEs can request, and that CDEs request up to that amount, even though they would be able use more allocation authority than is available. Mr. Ibanez stated that the \$315 billion figure is therefore a very, very conservative number, and the 30 percent figure speaks to the competitiveness of the program. Mr. Ibanez stated that the CDFI fund doesn't have enough allocation authority to make awards to all of the highly qualified applicants in the pool.

Mr. Ibanez stated that the previous round combined the 2015 and 2016 rounds and offered a total of \$7 billion in allocation authority, \$3.5 billion for each year, and that the 2017 round, which opened in May, also offers \$3.5 billion in allocation authority. Mr. Ibanez noted that the CDFI Fund has received 230 applications requesting \$16.2 billion in allocation authority for the 2017 round, and will probably make 70 to 75 awards. Mr. Ibanez added that the CDFI Fund will announce the awards in early 2018, and will open the 2018 round in the spring.

Mr. Ibanez stated that the CDFI Fund does not anticipate making any significant changes in the 2018 round, but is making two changes to the application, incorporating a project pipeline table and a fee table, in order to reduce the applicants' burden, as well as to improve the consistency of

the responses, which will facilitate the evaluation of this information by application reviewers. Mr. Ibanez added that the CDFI Fund wanted to make the transition to a tabular format while the application was being developed in AMIS.

Mr. Ibanez briefly discussed the successful training workshops that the CDFI Fund offered in Chicago and Washington, D.C., to inform Minority CDEs of the ways they can participate in the NMTC Program. Mr. Ibanez noted that the training materials from the workshops are available to the public on the CDFI Fund's website.

### **Questions and Comments for Mr. Ibanez about the NMTC Program**

Board Chair Jett invited Board Members to comment or ask questions.

Board Member McDonald stated that, as a citizen of New Orleans, he knew firsthand that the NMTC Program credits had been critical in the rebuilding efforts after Hurricane Katrina.

Board Member McDonald commented that he is part of a couple different banking associations and organizations, and believes that some applicants to the NMTC Program who have not received awards in the past have felt discouraged about participating in future rounds. Board Member McDonald asked if the CDFI Fund had given any thought to creating a separate scoring mechanism that would allow successful and unsuccessful applicants to partner together.

Mr. Ibanez stated that he thought that there was already a mechanism in place for larger CDEs that have received an allocation—i.e., investing in other CDEs that do not have an allocation—but that a lot of the larger CDEs do not take advantage of that. Mr. Ibanez noted that the CDFI Fund continues to discuss internally whether or not there are opportunities, either through the scoring system or some other means, to create more access to the program, and that those conversations are ongoing.

Mr. Ibanez stated that the last round of the program showed that if the program had more allocation authority, a lot of highly qualified applicants that are left out of the winners' circle would receive an allocation. Mr. Ibanez noted that Minority CDEs did far better in this last round than in the past.

Director Donovan added that the CDFI Fund thinks very deeply about how it can create on-ramps for new and emerging organizations, or smaller organizations, noting that the statute enacting the NMTC Programs doesn't help much, because, unlike the Riegle Act, which said the CDFI Fund should build the capacity of CDFIs, the NMTC Program's legislation just says to get capital into low-income communities. Director Donovan stated that the CDFI Fund keeps looking at that.

Mr. Ibanez noted that there has been a desire for more investment in Native lands, but that the CDFI Fund does not have the statutory authority to carve out allocation authority specifically for Native lands or to prioritize Native lands over other geographies through the NMTC Program. Mr. Ibanez stated that the CDFI Fund created an "innovative use" question on the NMTC Program as a way to signal to the industry that it would like to see CDEs consider other types of

investments that they were not undertaking, which included investing in federal Indian reservations, trust lands, Hawaiian home lands, and Alaska Native village statistical areas.

Mr. Ibanez briefly discussed other ways in which the CDFI Fund has used the application to encourage other types of investment, including investment in unrelated CDEs that do not have NMTC Program allocations, in states that have received fewer dollars of Qualified Low-Income Community Investments (QLICs) historically, and in non-real estate activities, such as in working capital, inventory, or equipment purchases.

Board Member Jones commented that his CDE was fortunate to be an allocatee in the last round of the NMTC Program, and that its journey to qualify had been lengthy as it developed its expertise and partnered with other CDEs. Board Member Jones noted that, as a rural institution, his CDE faces a unique set of challenges, but that the impact of the NMTC Program as an economic multiplier that brings quality jobs and investments to small and rural communities cannot be overstated. Board Member Jones stated that the beauty of the program is that it is so laser-focused on the areas that need the most investment, adding that many programs and general tax relief don't get to the ground level the way the NMTC Program does. Board Member Jones stated that his institution spent a lot of time educating project and economic developers about the program, but that it is absolutely an effective program that makes an impact, particularly in rural America.

Mr. Ibanez commented that in 2006 Congress passed the Tax Relief and Healthcare Act, which amended the statute so that rural counties were required to receive an allocation of Qualified Equity Investments that is proportional to that which metropolitan counties receive. Mr. Ibanez stated that since then, the NMTC Program has required that 20 percent of the QLICs that will be made with the QEI proceeds need to be directed to non-metropolitan counties, and that a Government Accounting Office audit confirmed that the CDFI Fund was meeting that 20 percent target.

Board Member Rackleff commented that he has seen the benefits of New Markets Tax Credits in lots of different communities, and the fact that the program is as oversubscribed as it is points to the huge appetite for the program, and the great work that it is doing in low income communities. Board Member Rackleff noted that the program is extremely complicated, and asked Mr. Ibanez to confirm whether it would be correct to say that, if a CDE got an award of \$10 million in New Markets Tax Credits, that would result in about \$3 million of real equity going into the project.

Board Member Rackleff asked if there is a way to increase that amount, and also if there is a way to lower the transaction costs and fees on these deals, noting that lowering the transaction costs and making the program less complex or increasing the number of years of the credit from seven to ten would make the program even more beneficial to the communities it is serving.

Mr. Ibanez replied that increasing the credit period would be statutory in nature. Mr. Ibanez added that several years ago, the CDFI Fund did listening sessions with CDEs and investors regarding transaction costs and fees, and heard from them that transaction costs and fees had gone down. Mr. Ibanez stated that he assumed that that was the case, even though there might be unique circumstances associated with a particular transaction that might lead to higher

transaction costs and fees.

Mr. Ibanez stated the NMTC Program is market-driven and that, although the CDFI Fund can't control what the market is doing, it is looking at transaction costs and fees when it makes award determinations.

Board Member Rackleff stated that, in his time at HUD he has had ideas about how to reform various programs, and has found that the staff was painfully aware of every issue but that almost all of those issues were rooted in statutory requirements. Board Member Rackleff still wondered if the NMTC Program's transaction costs become a barrier on entry on small projects and hold back the program from doing even more good.

Mr. Ibanez stated that the CDFI Fund does know of CDEs that are doing small dollar transactions, and that he believes that the NMTC Program is very capable of making those accommodations. Mr. Ibanez noted that the CDFI Fund does not have New Markets Tax Credit regulations; rather, the NMTC regulations are in section 45D of the IRS code. Mr. Ibanez stated that simplifying the program regulations to help reduce transaction costs and fees would fall under the purview of the Internal Revenue Service.

Board Member Rackleff indicated that he understood those issues. Board Member Rackleff offered a final comment, noting that the fact that transaction costs may have decreased does not mean that they weren't large to begin with.

Mr. Ibanez agreed.

Board Member Rackleff added that the fact that some of the issues he has raised may not be within the CDFI Fund's purview does not mean that they don't merit consideration from a policy perspective. Board Member Rackleff stated that if the CDFI Fund and Board could improve the NMTC Program and yield a higher net benefit to the low-income communities they are serving, it would be great. Board Member Rackleff expressed interest in having a discussion of that nature to see what the NMTC Program would need in terms of regulatory and statutory changes and so on.

Board Member Bautista asked who makes the decisions in giving awards through the NMTC Program and how they choose the organizations that receive them.

Mr. Ibanez stated that the two components of the application that the CDFI Fund looks at first and foremost are the applicant's business strategy and the resulting community outcomes that the applicant is projecting. Mr. Ibanez stated that these two sections of the application are scored and used to determine who gets allocation authority.

Mr. Ibanez stated that the CDFI Fund uses independent review teams of three reviewers to evaluate applications, and that it secures those reviewers from a vendor with whom the CDFI Fund has a contract. Mr. Ibanez added that the three reviewers assigned to each application do not collaborate with each other but work independently and remotely, and that each reviewer evaluates 10 to 12 applications.

Mr. Ibanez stated that this is what is called the Phase 1 review process, and that its purpose is to identify the applications to be considered for an award. Mr. Ibanez stated that the CDFI Fund then steps in and determines allocation amounts to be awarded.

Board Member Bautista asked if the independent reviewers are located in Washington, D.C.

Mr. Ibanez stated that they are dispersed throughout the country.

Board Member Bautista asked how the vendor that provides the reviewers gets the contract from the CDFI Fund.

Mr. Ibanez stated that the CDFI Fund has a vendor now and issues task orders to that vendor, adding that the vendor has a pool of reviewers for the NMTC Program.

Director Donovan added that the vendor publicly recruits, and that, each time a new round of the NMTC Program opens, the CDFI Fund sends out notifications asking prospective reviewers to sign up. Director Donovan noted that the CDFI Fund gives the vendor a set of criteria defining the kind of expertise the CDFI Fund is looking for in the reviewers, and that the vendor selects the reviewers based on those criteria.

Board Member Bautista asked if the CDFI Fund is the one selecting the vendor.

Director Donovan replied that it is. Mr. Ibanez added that the CDFI Fund is very satisfied with the vendor.

Board Member Bautista asked if the CDFI Fund uses the same vendor over and over again.

Mr. Ibanez stated that it does not, and that sometimes a vendor graduates out of the SBA 8(a) program, noting that the vendor that the CDFI Fund used for the BEA Program in recent years graduated.

Director Donovan noted that when it contracts with a vendor, the CDFI Fund has to follow a set of very prescribed procurement rules and also has targets for contracting with small businesses, 8(a) firms, that are set by the SBA.

Board Member Bautista asked if the CDFI Fund considers minority vendors.

Director Donovan and Mr. Ibanez both indicated that the CDFI Fund absolutely considers minority vendors.

Board Member Chapa asked who can apply for an award and how the message gets out to small organizations and communities in the most rural parts of America.

Director Donovan asked if Board Member Chapa was specifically referring to the NMTC Program. Board Member Chapa replied that she was referring to the CDFI Fund's programs in

general.

Director Donovan stated that each program at the CDFI Fund does webinars when it launches its award round, and that each month the CDFI Fund's CDFI certification team also does a webinar. Director Donovan added that the word also gets out through CDFI industry associations.

Director Donovan asked Board Members if they had any thoughts on this topic as practitioners in the field.

Board Member Jones discussed his institution's participation, noting that much of it has come about through affiliations with other institutions. Board Member Jones stated that the beauty of the community banking model in this country is that, while all community banks have very similar missions, each is customized to the markets it is in and, once it finds the niche where it fits, begins to develop its capacity and capability.

Board Member Jones stated that his institution has done outreach symposiums to encourage bankers to look at the CDFI certification process, but that getting plugged into this can be difficult. Board Member Jones noted that he had been in the banking industry a long time and never knew that the CDFI world existed.

Board Member Chapa noted that that was her point.

Board Member Jones stated that many banks had found that they were doing this work before they even knew that they were, adding that continued outreach is needed. Board Member Jones also stated that as institutions demonstrate a level of success and competency, others wonder what their business model is and how they can accomplish some of the same things, and so it is an evolutionary process, although not an easy one.

Board Member Bautista stated that many financial institutions do not know what CDFIs are and are not investing in them, and so a lot of outreach is needed. Board Member Bautista discussed attending the Opportunity Finance Network conference and stated that it was amazing, but noted that not a lot of organizations do that kind of outreach. Board Member Bautista expressed hope that it could be the mission of the Board to go out there and preach about what a CDFI is, and that eventually some banks would invest a lot more in this.

Board Member Jones commented that if you look at the map of CDFIs across the United States, you see pockets of density, and that these pockets develop because there is a network in these places to help people interface with each other and learn more about CDFIs. Board Member Jones added that in places where there is not that density, there is a lack of awareness.

Board Member Jones stated that the Board knows where those underrepresented geographic markets are and has to find a strategy to get into those markets, especially in underserved rural areas.

Ms. Kuchar-Bell stated that that is exactly what the CDFI Program's Financial Assistance (FA) objectives are trying to do—to push CDFIs into areas that traditionally have not been served. Ms.



Kuchar-Bell also stated that the CDFI Program also offers Technical Assistance (TA) capacity funds of up to \$125,000 to CDFIs that are certified as well as to CDFIs that are not certified. Ms. Kuchar-Bell stated that the CDFI Fund has tools in place to help organizations get certified and has significantly shortened the TA application to reduce the burden on applicants.

Director Donovan noted that in the most recent round of the CDFI Program, the CDFI Fund made many more awards in many more places, and had 50 new awardees last year that had never received an award through the CDFI program.

Ms. Kuchar-Bell added that of the FA recipients, 89 CDFIs, or 29 percent, primarily serve rural areas. Ms. Kuchar-Bell stated that this illustrates the impact that those CDFIs have in their communities, which is rewarded in the new application process.

Board Member Bautista asked if the TA applications are evaluated by the CDFI Fund or by another committee.

Ms. Kuchar-Bell replied that the TA awards are made through a competitive application process and that the applications are processed by the CDFI Program team. Ms. Kuchar-Bell added that those funds go directly either to certified CDFIs, which can use them in any way that builds their capacity, or to uncertified organizations, which can use them to get certified.

Board Member Brook commented that she is from Ohio and that, while her state has done very well in the NMTC Program, Appalachia—the rural one-third of the state that has concentrated poverty—has not been as successful, and so it is hard to make change. Board Member Brook noted that Board Member Jones's state, Alabama, which includes a lot of rural and impoverished areas, seems to be truly a bright spot. Board Member Brook encouraged everything the Board has been discussing in order to help with the TA organizations' need to make connections. Board Member Brook expressed gratitude to Board Member Jones for bringing out the importance of partnering with on-the-ground players in economic development.

Board Member Jones commented that it is always nice to hear Alabama doing something well.

Board Member Carranza stated that she is very focused on supporting sustainable outcomes and asked if the CDFI Fund will realize a generational financial independence when it provides funds in a community in a very rural area—for example, if it will enable entrepreneurs whose businesses usually turn over after three or five years to have long-term success, or if it will enable a charter school to foster success in the form of higher graduation rates or lower student loan default rates.

Board Member Carranza stated that financial resources play a significant role in the generational development of financial astuteness, and that the CDFI Fund plays a significant role in some very systemic issues when it does make significant investments into the billions.

Ms. Kuchar-Bell noted that the CDFI Program is just one part of a whole ecosystem of financing but that the FA awards are organization-based awards and are not project-based awards. Ms. Kuchar-Bell stated that what the CDFI Fund really evaluates is the comprehensive business plan

of an organization. Ms. Kuchar-Bell noted that one of the innovations of the new application process is that after the CDFI Fund ensures an organization is minimally financially safe and sound, the organization then moves on to the next step, in which the CDFI Fund evaluates its business plan to ensure that it is comprehensive and sound. Ms. Kuchar-Bell stated that if the organization moves to the next step, the CDFI Fund evaluates the impact the CDFI would have with the award based on the policy objectives.

Ms. Kuchar-Bell stated that the CDFI Fund is evaluating the CDFI's business plan and response to the needs of its community, and that a CDFI's business model can range from providing microloans to real estate loans to consumer financial services. Ms. Kuchar-Bell stated that it is very important on the application that the CDFI Fund remain incredibly flexible so that it can evaluate the capacity of the organization to execute its mission. Ms. Kuchar-Bell noted that the CDFI Fund asks questions that allow applicants to demonstrate their comprehensive thinking about their objective as a CDFI to create those short- and long-term impacts in their communities.

Board Chair Jett announced that the Board would break for lunch.

### **Lunch**

The meeting broke for lunch at 11:18 a.m. and resumed at 12:29 p.m.

### **Program Update of the CDFI Bond Guarantee Program, by Ms. Lisa Jones, Program Manager of the CDFI Bond Guarantee Program**

After reconvening the meeting, Board Chair Jett invited Ms. Lisa Jones to give her presentation on the CDFI Bond Guarantee Program.

Ms. Jones explained some of the key features of the Bond Guarantee Program. Ms. Jones stated that the program provides long-term debt capital to CDFIs to invest in underserved communities and has been issuing bonds since 2013.

Ms. Jones stated that the program is designed to function at a zero subsidy, which means that there is no appropriation for losses. Ms. Jones stated that that translates into very high credit quality for the CDFIs that are in the program.

Ms. Jones stated that the bonds are 100 percent guaranteed by the Secretary of the Treasury, and that the minimum bond issue is \$100 million, the minimum bond loan is \$10 million, and the bond maturity cannot exceed 29 and a half years. Ms. Jones stated that the program provides great long-term debt capital for CDFIs at a fixed-rate, which is the type of capital that has been absent in the market.

Ms. Jones stated that due to the 100 percent guarantee, all the bonds are required by OMB Circular A-129 to be purchased by the Federal Financing Bank, a quasi-governmental entity within Treasury.

Ms. Jones explained how the Bond Guarantee Program works, stating that the CDFIs take the bonds and have five years to disburse them into 12 asset classes, including rental housing, commercial real estate, health care centers, charter schools, small businesses, and owner-occupied homes.

Ms. Jones noted that in 2017, the program had \$500 million in guarantee authority and applications of \$432 million and that two bond issues closed for \$245 million. Ms. Jones added that those bond issues represented nine CDFIs for that particular cohort.

Ms. Jones stated that since the CDFI Fund started issuing the bonds in FY 2013, \$1.362 billion in bonds have been closed and \$514 million of that amount, or 38 percent, has been disbursed. Ms. Jones noted that that amount represents 11 bond issues, or 26 CDFIs, and so the program is growing and is geographically dispersed.

Ms. Jones stated that about 38 percent of the investments to date have occurred in charter schools, about 29 percent in rental housing, 19 percent in commercial real estate, 6 percent in healthcare facilities, and 2 percent in small businesses. Ms. Jones stated that the multi-purpose arena financed through the Citizens Potawatomi Community Development Corporation is an example of a commercial real estate project financed through the program.

Ms. Jones stated that the CDFI Fund anticipates more small business lending in the next round it will close. Ms. Jones stated that the CDFI Fund also anticipates that with the round that just closed, the entities will focus more on owner-occupied homes, or single family mortgages. Ms. Jones stated that of the \$245 million that was closed in September 2017, \$115 million is dedicated solely to single family housing.

Ms. Jones stated that the current round opened in November and the applications are due January 23, 2018. Ms. Jones noted that the program's focus this year is looking at how small and medium-size CDFIs can be part of bond issuances and at the current requirements around lending for rural infrastructure.

Ms. Jones stated that the CDFI Fund offers outreach sessions each year to explain how to apply to the program, and that once the applicants are approved and the bonds close, the CDFI Fund brings the CDFIs back for another meeting to explain how these CDFIs get access to the funds and handle the reporting, and all the information they need to understand how the program works.

### **Questions and Comments for Ms. Jones about the CDFI Bond Guarantee Program**

Board Chair Jett thanked Ms. Jones for her presentation and invited Board Members to comment or ask questions.

Board Member Chapa asked in which states the charter schools were set up.

Ms. Jones replied that the charter schools were set up in Arizona, California, Connecticut, Illinois, Maryland, Minnesota, Michigan, Missouri, New York, New Jersey, Ohio, and

Pennsylvania.

Board Member Chapa asked if there has been a recent increase in this program being used for charter schools.

Ms. Jones replied that the CDFI Fund always envisioned that the program could be used for charter schools, and that charter schools were one of the original twelve asset classes

Board Member Rackleff asked if the debt is tax-exempt debt.

Ms. Jones replied that the bonds are not taxable, and that they are purchased by the Federal Financing Bank and do not have Community Reinvestment Act credit.

Board Member Rackleff asked Ms. Jones to speak more about the rural infrastructure work that the program is financing.

Ms. Jones stated that rural infrastructure is a current asset class, but that CDFIs said that there were a variety of impediments to using the Bond Guarantee Program for that purpose. Ms. Jones stated that the CDFI Fund has met with CDFIs to figure out what changes it needs to make to that asset class to make it more attractive to them. Ms. Jones noted that one such impediment is that many rural infrastructure projects are very small and that the Bond Guarantee Program is structured in a way that makes it difficult for CDFIs to undertake them. Ms. Jones stated that the CDFI Fund is revising its requirements to encourage this type of investment.

Director Donovan added that the CDFI Fund would love to see some activity in this program on rural infrastructure, but that not many CDFIs are involved in rural infrastructure right now. Director Donovan stated that there is a role for CDFIs in rural infrastructure, but that the lack of rural infrastructure projects coming through the Bond Guarantee Program is indicative of what CDFIs are actually doing out in the field.

Board Member Rackleff asked if there may be opportunities for the CDFI Fund to work with HUD in that space.

Ms. Jones replied that there may be.

Board Member Rackleff stated that many people are surprised to learn that, out of the Community Development Block Grant funding that his group is responsible for, HUD is financing numerous small-town, rural infrastructure projects, including about 500 projects in Texas. Board Member Rackleff noted that these projects are going on all over the country and that it would be great to see if HUD and the CDFI Fund can find ways to combine that.

Director Donovan and Ms. Jones each indicated that the CDFI Fund would love to follow up with him on that.

Board Member McDonald commented that many community banks are in search of capital and asked if there is a way for a CDFI, possibly non-bank, to receive a bond to distribute to CDFI

banks.

Ms. Jones replied that the program has an asset class, CDFI to CDFI lending, so that a CDFI can take the bond proceeds and lend to other CDFIs.

Board Member Bautista asked why the use of the Bond Guarantee Program is so low and what changes would she make to increase that. Board Member Bautista also asked how many applicants are approved each year.

Ms. Jones replied that the application process is robust—that the CDFI Fund has \$500 million in guarantee authority and \$432 million in applications. Ms. Jones noted that in the CDFI Fund’s outreach session, it typically takes people about a year to really understand the program, because it is general recourse secured financing and very different from what most CDFIs are used to.

Ms. Jones added that CDFIs have to go to their respective boards to ask if they can incur this debt on their balance sheet, and that that takes time as well.

Board Member Manger asked Ms. Jones to elaborate on how the program is going to focus more on small business.

Ms. Jones replied that small business is currently an asset class, and that in the round that closed in 2017, several CDFIs put in their plan that they will be lending to small businesses, and so the CDFI Fund expects an uptick in that type of lending. Ms. Jones noted that, of \$513 million that has been disbursed, only 2 percent is in small businesses.

Board Member Jones followed up on Board Member McDonald’s comment about the use of the proceeds, noting that while it is all well and good to get a loan, the challenge that insured depositories have is capital. Board Member Jones stated that if there were a way that Treasury and the regulators could enable CDFIs to treat these loans as capital rather than as debt, it would dramatically change the dynamics of the leverage coming out of that structure. Board Member Jones added that it would be worth some conversations to see if there were a way to have that characterization changed.

Ms. Jones replied that the CDFI Fund had meetings with the Office of the Comptroller of the Currency in particular, because that was one of the questions that they raised for the CDFI Fund. Ms. Jones stated that the CDFI Fund was trying to devise different structures that could work, but that the legislation states that the funds definitely are debt capital and cannot be interpreted as equity or equity-like. Ms. Jones stated that to change that would require changing the statute.

Director Donovan stated that the CDFI Fund would be happy to engage in those discussions if there is latitude with regulators.

Board Member Hazlett asked if the program has invested in any rural infrastructure projects involving telecommunications.

Ms. Jones replied that there are no rural infrastructure projects under way or in the pipeline, and

that the CDFI Fund is trying to develop tweaks to its policies to encourage those kinds of projects. Ms. Jones stated that the CDFI Fund works continuously to try to improve its policy to get more types of investments.

Board Member Hazlett commented that USDA is very interested in rural infrastructure and feels that connectivity is the foundation for addressing many of the challenges these communities face, and so USDA encourages focus on that as well.

Director Donovan stated that the nice thing is that the Bond Guarantee Program is already set up to accommodate rural infrastructure projects, and now it is just a matter of matching the resources with the activity on the ground.

Board Chair Jett thanked Ms. Jones for her presentation and invited Mr. Aiello to give his presentation.

**Program Update of the Capital Magnet Fund, by Mr. Daniel Aiello, Associate Program Manager of the Capital Magnet Fund**

Mr. Aiello stated that Ms. Marcia Sigal, Program Manager of the Capital Magnet Fund (CMF), could not be present at the meeting today, and so he would be filling in for her.

Mr. Aiello stated that the purpose of the CMF is to spur private investment in affordable housing and related economic development efforts that serve low-income families and help revitalize low-income communities across the country.

Mr. Aiello stated that the CMF provides competitively awarded grants to CDFIs and eligible non-profit organizations to attract private capital for and increase investment in the development, rehabilitation, preservation, and purchase of affordable housing. Mr. Aiello noted that the CMF is open both to CDFIs and to qualified affordable housing non-profit organizations.

Mr. Aiello stated that each CMF award must result in eligible project costs in an amount that equals 10 times the amount of the CMF award, and so the CMF is a program that focuses on leveraging and on leveraging private capital, in particular. Mr. Aiello stated that award recipients may use up to 30 percent of their award to finance economic development activities that occur in connection with affordable housing, and that each project funded must ensure affordability of the associated affordable housing for at least 10 years.

Mr. Aiello stated that for the FY 2017 round of the CMF, which the CDFI Fund is currently managing, the CDFI Fund received 120 eligible applications requesting almost \$540 million out of \$120 million that's totally available. Mr. Aiello stated that the CDFI Fund anticipates making an award announcement in early 2018.

Mr. Aiello stated that the FY 2017 round would continue to implement the approach of the 2016 round, which focused on creating and preserving rental housing units affordable to very low-income families having 50 percent of area median income or below. Mr. Aiello noted that part of this approach is to prioritize funding applications that proposed to target 20 percent or more of

all rental units to very low-income families and also to create homeownership opportunities for low-income families, which the CDFI Fund defines as 80 percent of area median income or below.

Mr. Aiello added that another part of this approach is to prioritize funding applications that proposed to target 20 percent or more of all homeownership units to low-income families.

Mr. Aiello noted that the approach also focuses on supporting applications that proposed to leverage a higher amount of private capital to finance and/or support affordable housing activities and economic development activities, as well as on applications that propose to serve geographically diverse areas of economic stress, including metropolitan and rural areas.

Mr. Aiello stated that for FY 2018, the CDFI Fund plans to open the next round of the CMF in the fall of 2018 and intends to continue a similar approach to the one it used in FY 2017.

### **Questions and Comments for Mr. Aiello about the Capital Magnet Fund**

Board Chair Jett asked the Board Members if they had any questions or comments for Mr. Aiello.

Board Member Gwin commented that what his organization is seeing in some of its markets is a move towards mixed-income housing that uses higher rents to subsidize the lower rents. Mr. Gwin asked if, in this type of structure, the 10 times leverage requirement would need to be on the lower-income housing or could it be over the entire project.

Mr. Aiello replied that it would need to be on the maximum income counting towards the eligible project costs, which is the regulatory term. Mr. Aiello stated that an organization could certainly do units that are market rate or have no income restrictions, but that those would not count towards the eligible project costs that it is leveraging.

Board Chair Jett thanked Mr. Aiello for his presentation.

### **Introduction of Mr. Gregory Bischak, Program Manager of the CDFI Fund's Office of Financial Strategies and Research, by Board Chair Jett**

Board Chair Jett stated that data and evidence are critical to the success of any federal program, and that having accurate data about the impact of CDFI Fund's programs is essential to the CDFI Fund's ability to tell its story well and to ensure that its stakeholders have an accurate understanding of what the CDFI fund does.

Board Chair Jett introduced Mr. Gregory Bischak, Program Manager of the CDFI Fund's Office of Financial Strategies and Research, noting that Mr. Bischak oversees the development of performance data and strategic research to ensure the effective implementation of the CDFI Fund's mission.

Board Chair Jett stated that Mr. Bischak would introduce Mr. Spencer Cowan, who represents

the Woodstock Institute and would give a presentation on the report entitled The Bank Enterprise Baseline Analysis and Evaluation. Board Chair noted that the report examines the incentives for participation in the BEA Program and also evaluates the BEA Program's outcome.

Board Chair Jett stated that Mr. Bischak would also introduce Joseph Bateman, who represents Summit Consulting and would give a presentation on The New Markets Tax Credit Program Compliance Review Report, which looks at the degree to which the activities of NMTC Program recipients have complied with the NMTC Program's requirements and are aligned with the program's objectives

**Introduction of Mr. Spencer Cowan, Woodstock Institute, by Mr. Greg Bischak, Program Manager, Office of Financial Strategies and Research, CDFI Fund**

Mr. Bischak began by providing an overview of what the Office of Financial Strategies and Research does, stating that the office manages all the data collection on the performance of the CDFI Fund's programs and collects information on the compliance requirements for each program.

Mr. Bischak stated that, as Director Donovan discussed, the office also is working on modernizing its major data collection program, the Community Investment Impact System, and putting the data onto a Cloud-based platform, which will make easing of customer experience, as promised in the CDFI Fund's strategic plan, a reality.

Mr. Bischak stated that the office also updates all the program criteria for eligibility, defining low-income distressed communities for all of the CDFI Fund's programs using the latest census data. Mr. Bischak stated that this allows the CDFI Fund to ensure that it is looking at current data to identify where the most distressed areas of the country are so it is investing in low-income communities and highly distressed areas.

Mr. Bischak stated that today the Board would be hearing about two reports that are the product of the CDFI Fund's desire to scrutinize its own programs, to improve its management, and to address questions raised by the public, stakeholders, Congress, and the Administration.

Mr. Bischak introduced Mr. Spencer Cowan, who would speak about the BEA Program Baseline Analysis and Evaluation. Mr. Bischak noted that Mr. Cowan, formerly the vice-president of the Woodstock Institute and currently a senior research consultant there, was one of the principal authors of the report.

**Presentation on the BEA Program Baseline Analysis and Evaluation, by Mr. Spencer Cowan, Executive Research Consultant, Woodstock Institute**

Mr. Cowan stated that one of the things the report looked at is the history of the BEA Program, because that defines what the statutory objective is, what the BEA Program is, and why it exists. Mr. Cowan also stated that the Woodstock Institute looked at the history and saw that recurring concerns about the program had been raised, among them whether the program diverts funds from CDFIs to large banks and non-CDFIs, and whether the program duplicates the Community



Reinvestment Act (CRA). Mr. Cowan noted that these concerns have since been raised in studies by the Office of Management and Budget and the Government Accounting Office.

Mr. Cowan stated that the BEA Program, as originally designed by Rep. Flake, Democrat of New York, and Rep. Ridge, Republican of Pennsylvania, proposed a measure of distress that was much more stringent than the CRA proposed: 30 percent poverty rate and one and a half times the national unemployment rate.

Mr. Cowan stated that the Woodstock Institute's analysis looked at five basic research objectives: the kinds of products and services that the BEA Program awardees were providing in BEA-eligible census tracts; the economic characteristics of the populations in those census tracts; how those economic characteristics of the populations in BEA Program census tracts differed from the populations in CRA-eligible census tracts; the difference in bank branch presence between BEA-eligible tracts and CRA-eligible tracts; and the difference in small business lending between CRA-reporting banks, CDFIs, and CDFI banks.

Mr. Cowan stated that the report's overarching finding is that the BEA Program is working as intended and is achieving the statutory objective of increasing investment in BEA-eligible census tracts that are more highly distressed than those receiving investment under the CRA.

Mr. Cowan stated that the report also documents that the BEA Program has evolved. Mr. Cowan noted that one of the concerns raised was that the program would divert some funding for CDFIs to large banks. Mr. Cowan stated that this occurred early in the program because there were only three CDFI banks in existence, but as the industry has expanded, more and more of the funding has gone to smaller CDFIs. Mr. Cowan noted that about 65 to 70 percent of BEA Program awards currently go to CDFIs.

Mr. Cowan added that the research team looked at why institutions received BEA awards, it found that the larger non-CDFI banks received awards almost entirely for their investments in CDFIs, and so the money is going back into CDFIs rather than being diverted from them.

Mr. Cowan stated that another key finding is that the BEA Program and CRA are not duplicative because they serve different populations and affect different banks, the BEA Program affecting smaller banks and the CRA affecting larger banks.

Mr. Cowan added that the BEA Program serves census tracts that are much more distressed than those served by the CRA. Mr. Cowan stated that there are slightly more than 73,000 census tracts in the country and that about 25,500 are CRA-eligible and only 8,053 are BEA Program-eligible. Mr. Cowan added that almost half of the BEA Program-eligible census tracts would be considered low-income versus only 22 percent of the CRA-eligible tracts.

Mr. Cowan stated that the report looked at the small business lending data for CRA reporting banks from CDFIs and CDFI banks, and found that CDFI banks lent more in distressed census tracts than banks generally did and that CDFI banks lent more than CDFIs generally did.

Mr. Cowan stated that this is important because research shows that the presence of a bank

branch has a major impact on small business lending, and that when a bank branch closes, small business lending declines for a period of years, because it is relationship banking and it takes time to rebuild those relationships.

Mr. Cowan stated that the research team interviewed BEA Program awardees and found that they consistently reported that the awards helped cover some of the increased cost of lending in these more distressed tracts because it is much more high-touch and more labor-intensive lending, with lower profit margins. Mr. Cowan added that many interviewees said that the program provides extra money so they can put more money into the community.

Mr. Cowan stated that the report found that the BEA Program is functioning as it was intended to function, is increasing investment in much more highly distressed communities than CRA is, is operating on different types of banks, is an incentive for different types of banks to do that kind of lending, and has adapted and changed to address concerns as they have arisen.

Mr. Bischak stated that the CDFI Fund has many actionable steps that it has taken from this report, including compiling the findings of the report and recommendations from applicants and awardees on ways to improve the application process, collecting the portfolio-level data so that the CDFI Fund can better benchmark the full portfolio of activities against what applicants submit in their applications, and discovering ways to do better outreach with the bank regulators to promote awareness of the program.

Mr. Bischak stated that the report has really improved the management of the BEA Program, and in particular has identified the most highly distressed eligible census tracts within the nation, which people felt was a long overdue technological improvement.

### **Questions and Comments for Mr. Cowan and Mr. Bischak**

Board Chair Jett invited the Board Members to comment or ask questions.

Board Member Bautista asked Mr. Bischak how aware the regulators are about the BEA Program.

Mr. Bischak replied that the FDIC definitely knows about the program because those banks are the prime applicants to the program. Mr. Bischak stated that while the CDFI Fund has worked with the FDIC in a variety of settings and conferences, it could work further with the Office of the Comptroller of the Currency (OCC), which has invited the CDFI Fund to participate in a variety of awareness outreach programs.

Mr. Bischak added that the issue is not just awareness—the BEA Program is a small program and that the appropriations process has created some uncertainty about its future. Mr. Bischak noted that the CDFI Fund is a year behind in fielding the current application round because of the appropriations process.

Board Member Bautista noted that there is a new comptroller and asked if the CDFI Fund ever has a meeting with the OCC and big banks to talk about the BEA Program.

Mr. Bischak replied that the CDFI Fund has been in contact with OCC to discuss this topic.

Board Member Chapa commented that many of the larger institutions are competing against technology and are being challenged to move away from the branch banking model and to explore alternative ways to deliver their products and services. Board Member Chapa asked Mr. Cowan if that issue had come up in his research and if fewer financial institutions—not just in underserved communities but in general—will have branch locations.

Mr. Cowan stated that the research his team had seen showed that when a bank branch closes, particularly in a low-income census tract, small business loans decline for a period of years. Mr. Cowan added that other research has shown that many people, and probably more in the lower-income levels, are not as comfortable with the technology and are less inclined to use ATMs.

Mr. Cowan stated that branches are important for the delivery of a range of services beyond what is available through one of the more advanced ATMs and online banking. Mr. Cowan mentioned a recent report by the Cleveland Federal Reserve Bank that said that some loans offered by fintech, the financial technology industry, are not as good for the borrower as would be hoped. Mr. Cowan noted that he had analyzed some fintech loan documents and found that the interest rates on every loan that was more six months were triple digits, up to 358 percent.

Mr. Cowan stated that banks are going to have to compete against the new delivery platform but that the competition itself has issues.

Board Member Chapa stated that, as Mr. Ibanez had reported and Mr. Cowan's report has shown, the BEA Program has been very flexible and has adapted to changes over time. Board Member Chapa also stated that Mr. Ibanez had talked about small dollar loans and collecting information on microfinance, and that the way that the CDFI Fund administers the BEA Program means that it is keeping its finger on the pulse of what banks are doing and is being responsive to that.

Mr. Bischak replied that the surveys with bank officials found that the BEA Program generates a kind of felicitous synergy between large banks and small banks and allowed the small banks to extend their service in some very rural areas.

Board Member Gwin noted that Mr. Bischak's last recommendation for additional action steps discussed the additional tracking of activities by CDFI partners that are a result of BEA Program awards. Board Member Gwin stated that some of his CDFI's bank partners receive awards and downstream some capital to the CDFI. Board Member Gwin stated that those awards are typically pretty small and are a small piece of the giant jigsaw puzzle that his CDFI has put together, and so in tracking that, it is important to be aware that those dollars are typically mixed with thousands of other sources of capital to get the impacts the CDFI is trying to achieve.

Mr. Bischak stated that the CDFI Fund was struck and surprised by the fact that people actually were tracking that and had, essentially, accounts for what happened there. Mr. Bischak stated that the CDFI Fund is redesigning its tracking systems to collect more compact strategic data and

is not simply trying to collect more data.

Mr. Cowan added that the data his team looked at clearly indicated that the BEA Program award was a small piece of a very much larger investment, and that the team came to a final leverage figure of about 17 to 1—\$17 of increased investment for every \$1 of BEA award.

Board Member Manger commented that it would be good if the CDFI Fund worked with the bank regulators to see if there is a way to get enhanced credit for institutions that are willing to make loans available in BEA-certified census tracts. Board Member Manger noted that the evidence shows that CRA is good to a certain level, but that to have more impact requires going specifically into the BEA census tracts.

Mr. Cowan stated that under CRA, banks get credit only for investments in their own assessment area, and so a regional bank in New England gets no credit for investing in a BEA tract in West Virginia.

Director Donovan noted that when people hear about the 17 times leverage, they sometimes feel that it sounds almost de minimis and wonder if, because an institution is getting that much leverage, it would really matter if that one dollar were taken away. Director Donovan asked Board Member Jones if he could respond to that issue.

Board Member Jones stated that one of the things that the BEA Program allows institutions like his to do is to take that resource and do some things that they otherwise could not justify doing. Board Member Jones reflected that CDFI depositories are almost like incubators that can take some opportunities to be a little more adventuresome in how they serve their communities.

Board Member Jones noted that his institution came from being a community bank to a CDFI bank, and that the big transition was in the culture of the organization and how it becomes more attuned and sensitive to the impact it makes in the community. Board Member Jones stated that if you could measure that economically, it would be even greater than what you could even imagine, because CRA and BEA do not overlap and his bank doesn't get credit in its CRA ratings what it does in the BEA space.

Board Member Jones expressed appreciation to Treasury for taking up the updating of CRA as a discussion item.

Board Member Manger commented that he had mentioned to Deputy Assistant Secretary Kranbuhl that it would be great if he could work with some of those regulators to see if some of these rules and regulations could be updated, because banks are global and do not rely solely on their brick-and-mortar footprint anymore. Board Member Manger added that there should be a way for banks to be able to invest in other parts of the country, especially rural areas that have often been neglected, and to get enhanced credit for doing that.

Board Member Jones commented that, regarding the problems created by fintech, his bank is spending a disproportionate amount of time helping small businesses that have availed themselves of that easy credit to their detriment. Board Member Jones stated that one of the

things that a community bank does in a community is to become more than just a source of capital for a small business owner but to become a sounding board as well. Board Member Jones stated that often the best thing a community bank can do for a borrower is to tell them no.

Board Member Jones noted that that is an intangible that can't be measured, and that simply providing some technology solution does not help struggling institutions. Board Member Jones stated that experienced senior examiners are aware of this but are not in the policy roles at regulatory agencies, and that most regulators are hamstrung by Congressional action.

Deputy Assistant Secretary Kranbuhl stated that he appreciated the comments regarding CRA and that Board Member Carranza and he are leading an effort at Treasury to figure out ways to modernize and improve CRA. Deputy Assistant Secretary Kranbuhl stated that the banking industry has experienced fundamental changes since CRA was passed in 1977, and Treasury is working to be sure that CRA continues to have an impact on the communities that banks are serving.

Deputy Assistant Secretary Kranbuhl stated that CDFIs play a valuable role in helping banks receive CRA credit for their investments, as CDFIs frequently serve as a conduit for those investments. Deputy Assistant Secretary Kranbuhl also stated that he appreciates the work of those banks who are recipients of BEA awards as that program is distinct from the efforts that banks undertake for CRA credit.

Deputy Assistant Secretary Kranbuhl invited Board Members to submit any suggestions they have for ways to improve CRA.

Board Member Manger stated that the SBA's program that provides micro-loans under \$50,000 can make those loans only through not-for-profit lending intermediaries, many of which are CDFIs. Board Member Manger stated that if a for-profit lending institution makes a grant donation to enable those CDFI intermediaries to make micro-loans that for-profit lending institutions are not allowed to make, there should be some way for that for-profit lending institution to get enhanced credit for making the loans.

Board Member Rackleff commented that the leveraging ratio that Mr. Cowan referenced is remarkable, and that, given that, many of the projects would not have happened but for the catalytic funding made possible by the BEA Program. Board Member Rackleff stated that he could understand that, as Director Donovan noted, some people might wonder if that one dollar of funding is really needed, but that he believed that if the program is getting that kind of leveraging on projects that would not have happened otherwise, it is phenomenal. Board Member Rackleff added that he has never heard of a similar program with that high of a success rate for leveraging.

Board Member Gwin asked Mr. Cowan if, when the research team did the analysis of the CDFI banks and the ones that were being successful in penetrating these markets, it included any comparison of capital ratios, Tier 1 and Tier 2, and if those varied any with regard to those banks versus their peers.

Mr. Cowan stated that he would defer to Mr. Bischak on that issue because he was not involved in that portion of the report.

Mr. Bischak stated that that issue was not part of the scope of the work and was not covered in the report.

Board Chair Jett invited Mr. Bischak to introduce the next speaker.

**Introduction of Mr. Joseph Bateman, Summit Consulting, by Mr. Greg Bischak, Program Manager, Office of Financial Strategies and Research, CDFI Fund**

Mr. Bischak stated that Mr. Joseph Bateman would give a presentation on the New Markets Tax Credit Program Compliance Review Report. Mr. Bischak stated that Mr. Bateman is a consultant from Summit Consulting, which has done a lot of work for the CDFI Fund on the CDFI Bond Guarantee Program and on the CDFI Fund's assessment risk management research.

Mr. Bischak stated that the NMTC Program compliance research was a particularly interesting project that addressed questions from Treasury about the functioning of the program, as well as the CDFI Fund's our own internal questions about how it can get better compliance data and achieve more transparency in the program. Mr. Bischak added that the research also addressed questions that the Government Accounting Office (GAO) had raised about the NMTC Program in 2013 and 2014.

Mr. Bischak invited Mr. Bateman to speak.

**Presentation on the New Markets Tax Credit Program Compliance Review Report, by Mr. Joseph Bateman, Consultant, Summit Consulting**

Mr. Bateman provided some of the background that led to the research, noting that the CDFI Fund had raised questions on different aspects of the NMTC Program, including how are CDEs complying with the different requirements of the program, and what are the effects of the different financial structures used in the program?

Mr. Bateman added that the GAO had questions about the distribution of the benefit associated with the New Markets Tax Credit subsidy across the different program stakeholders, about the investors' rates of return, and about the role of other public investment in NMTC transactions.

Mr. Bateman stated that the research attempted to answer four central questions:

1. How do CDEs comply with the NMTC Program requirements and the IRS requirements?
2. What project characteristics affect the distribution of benefit among the NMTC investor, the CDE, and the project receiving the financing?
3. What is the minimum level of public funding necessary to attract private financing to projects in highly distressed areas to ensure their success?

4. What are some of the best practices that Summit observed that CDEs enact to carry out the NMTC Program and how can those be scaled across the industry?

Mr. Bateman provided a brief overview of the methodology used for the project, stating that Summit looked at more than 4,000 NMTC projects and then conducted a sampling plan to narrow that list to a manageable number so that Summit could do a deep dive into all of the project documentation.

Mr. Bateman stated that after reviewing the project documentation, Summit analyzed different aspects of the projects, such as where the project was located, the distress level of the census tract, the financing structure used, the fees charged to the business and the cost of capital, and the investor rate of return—all the different aspects of compliance that could be measured at the project level.

Mr. Bateman stated that Summit then looked at all that it had observed to determine how it matched what the CDFI Fund is receiving and reporting, and how reporting can be streamlined and more efficient and can more accurately represent what is going on in the program.

Mr. Bateman stated that, regarding the first question, the research looked at every aspect of compliance that could be observed at the project level and found no instances of noncompliance. Mr. Bateman stated that Summit looked at the flexible products that CDEs offer to the Qualified Active Low-Income Community Business Borrowers (QALICBs), found that in most cases—in fact, in two-thirds of the cases—CDEs went well beyond the minimum requirement to provide at least one flexible product and provided two or even three.

Mr. Bateman stated that the research found that most projects were concentrated in very highly distressed census tracts that go well beyond the minimum requirements of the program. Mr. Bateman noted that Summit developed a distress core methodology that looked at a census tract and compared it to all other census tracts in the United States, and that this methodology found that most of the NMTC investments that Summit looked at were concentrated in very highly distressed areas.

Mr. Bateman added that Summit looked at the question of whether these projects were in highly distressed areas that are located right next to affluent areas but can still qualify as highly distressed. Mr. Bateman stated that Summit did a spatial analysis and found that most of these investments are concentrated in highly distressed areas surrounded by other highly distressed areas, and so the investments actually are going to some of the most distressed communities in the United States.

Mr. Bateman stated that, regarding the second question, the research looked at where the residual equity that is the tax credit equity goes and who benefits from it. Mr. Bateman stated that Summit noticed that in a specific financing structure called a leveraged financing structure, which combines the NMTC investor equity with debt to make the Qualified Equity Investment, the NMTC investor equity often remains invested in the underlying business or project at the end of the seven-year compliance period as residual equity. Mr. Bateman stated that the research

showed that of all the different dollars invested, some of it remains invested in an underlying business at the end of the compliance period.

Mr. Bateman stated that the research also looked at CDE fees and what project characteristics affect the fees charged in NMTC transaction, what data is collected on this by the CDFI Fund, and whether this is accurately reflective of what happens in the projects.

Mr. Bateman stated that the research found that CDEs typically charge the same fees across all projects within their allocations, no matter where the project is located or what it is, which is consistent with what the CDEs say they are going to do in their application.

Mr. Bateman stated that the research did find that CDEs that comply with the flexible products requirement by offering interest rates that are 50 percent or more below market tend to charge slightly higher fees.

Mr. Bateman stated that Summit also looked at how CDEs report the fees that are charged to the businesses themselves and how they report the fees to the CDFI Fund, and made some recommendations to the CDFI Fund on how to better capture all of the fees that are charged and that are reported already to the businesses.

Mr. Bateman noted that since 2012 the CDFI Fund has required CDEs to provide what is called the QALICB fee disclosure form, and that Summit looked at those reports and found that what the CDEs are reporting to the businesses is sometimes more than what they are reporting to the CDFI Fund. Mr. Bateman stated that Summit also recommended reporting that information to the CDFI Fund so that it has a better understanding of the fees.

Mr. Bateman stated that, in terms of the amount of fees charged in these transactions, the research found that an average of 8.7 percent of the Qualified Equity Investment was charged as CDE fees and that there was a range of fees.

Mr. Bateman stated that the research found that bank-affiliated CDEs tend to charge the lowest fees because they received their financial return from the tax credit itself.

Mr. Bateman stated that there was a question about what influences the investor return on these transactions, and that the research found that return did not necessarily have anything to do with the project itself, but was more a relation of the market for and the price of tax credits. Mr. Bateman noted that the investor rate of return was fairly stable over time and was around 9 percent.

Mr. Bateman stated that the third question was a response to two specific recommendations made by the GAO: ensure that controls are in place to limit the risk of unnecessary duplication at the project level and funding or assistance from government programs, and issue guidance on how funding or assistance from other government programs can be combined with the NMTC Program, including the extent to which these funds can be used to leverage the tax credit.

Mr. Bateman explained the two quantitative methods—the capitalization rate method and the



financing gap method—that Summit developed to understand the complicated topic of how much public funding is actually necessary to attract private investment to highly distressed areas.

Mr. Bateman stated that Summit found that most of the projects it analyzed were very close to the industry benchmark for capitalization rates, and that the average difference between the capitalization rate and the benchmark was just 2.2 percent.

Mr. Bateman stated that Summit also wanted to understand what influences this range and why some projects have higher capitalization rate differences than others. Mr. Bateman stated that Summit looked at different project characteristics, such as where the project is located, and it seems that there might be a relationship between the project's distress score and the capitalization rate or the amount of public funding needed. Mr. Bateman stated that because of its small sample size, the research could not provide a definitive answer, and he suggested that this may be a topic for further research by the CDFI Fund.

Mr. Bateman stated that one of the only factors that explained higher rates of capitalization was self-leverage—i.e., when the underlying business provided the leverage to an NMTC financing.

Mr. Bateman stated that the research found that approximately half of projects in the sample combined some other form of public funding with the NMTC financing, and that approximately half of those used that additional financing to fund the leverage. Mr. Bateman stated that because of the very small sample size, it was hard to draw specific conclusions about the effects of using other sources of public funds on capitalization rates, but that too may be another topic for additional research.

Mr. Bateman stated that Summit has now provided the CDFI Fund with two new quantitative methods for analyzing the degree of public funding in NMTC projects, and that these two methods offer a way to begin a developing a tool to enable CDEs to analyze whether projects would succeed without the NMTC financing.

Mr. Bateman stated that, regarding the fourth question, Summit evaluated the loan policies and procedures CDEs used to originate NMTC financing in order to understand what the best practices were. Mr. Bateman stated that the recommendations that came out of Summit's research included that the CDFI elevate the best practice of "but-for" analysis to a compliance requirement or at least provide a tool to enable the industry to conduct this type of analysis.

Mr. Bateman stated that Summit also made a series of recommendations on how to enhance and streamline the reporting of different aspects of the program, noting that there are specific ways that the CDFI Fund could enhance reporting to better understand the role that complex financial structures play in NMTC transactions.

Mr. Bateman stated that Summit also suggested other areas of further research that the CDFI Fund could pursue to answer questions that Summit was not able to answer through its research or that came up because of its research.

Mr. Bischak noted that there is one implication in Mr. Bateman's last point about the further

research and the size of the sample that the research was actually able to execute. Mr. Bischak invited Mr. Bateman to speak more about the sample size and why that limits the ability to extrapolate to the population of all projects.

Mr. Bateman stated that Summit's original goal was to do 100 projects but found that there was probably an average of more than 1,000 pages of legal documentation for each project. Mr. Bateman stated that going through the documentation that and pulling out all the numbers and generating the cash flow statements for each of these projects proved to be a lot of work, and that Summit was able to get through 53 projects, which was pretty good.

Mr. Bateman stated that, because of the sample size, not all of the findings could be extrapolated to the wider universe of all NMTC projects, but that some of the findings were strong enough that even with the small sample size Summit could do so. Mr. Bateman stated that Summit has tried to be very clear and upfront about which of the findings could be extrapolated to the entire universe of NMTC projects.

### **Questions and Comments for Mr. Bateman and Mr. Bischak**

Board Chair Jett invited Board Members to ask questions and offer comments.

Board Member Chapa congratulated the authors of both studies and thanked them for their excellent work.

Board Member Hazlett asked how much other public funding is needed when NMTC projects are leveraged with public funding, and if all public funding is equal or if certain types, such as grant money or loan guarantees, are needed.

Mr. Bateman acknowledged that that is a good question, but stated that it was mostly outside of the scope of the research. Mr. Bateman added that when the report talks about public funding that is outside of an NMTC, it is referring to grants, and that Summit did not consider loans because it did not have the documentation that would show if a specific loan was below market or at market.

Board Member Hazlett commented on the rural development programs at USDA, stating that there are some communities that cannot do anything with loans but need grants instead. Board Member Hazlett noted that USDA's water program includes a successful grant/loan combination, and that USDA is looking at whether it can use a similar model in telecommunications. Board Member Hazlett stated that this might be useful information.

Mr. Bateman stated that that is an area that he would be very interested in looking into in future research.

Board Member Gwin commented that it seems unusual that Summit found no instances of noncompliance, and asked if Summit determined why that is occurring

Mr. Bateman stated that Summit had the same question. Mr. Bateman stated that when Summit

asked CDEs about this during the site visits, it found that there is a strong push within the industry to self-police and to make sure that everyone is doing what they are supposed to be doing, because they see the benefits of the program and want it to continue.

Mr. Bateman added that when people apply to the program, there are different ways that they can comply; for example, they can comply by providing either 50 percent below-market interest rates or another suite of friendly financing. Mr. Bateman stated that, as result, the applicants get to choose how they will comply, and they hold themselves to the standard that they have set.

Director Donovan added that there is a recapture provision in the NMTC Program and that it is a steep penalty. Director Donovan stated that even if a deal went bad, that wouldn't cause an event of recapture as long as the CDE redeploys the funds. However, Director Donovan added, if the CDE falls out of compliance with the CDFI Fund, it would create an event of recapture. Director Donovan stated that CDEs police themselves so heavily to ensure that that doesn't happen.

Mr. Bateman added that there are many different players invested in the projects and that there are financial incentives to make sure that these projects remain compliant.

### **Closing Business and Adjournment**

Board Chair Jett thanked Mr. Bischak, Mr. Cowan, and Mr. Bateman for their presentations.

Board Chair Jett asked Board Members if they had any closing business, and stated that, seeing none, he would entertain a motion to adjourn.

Board Member Chapa moved to adjourn.

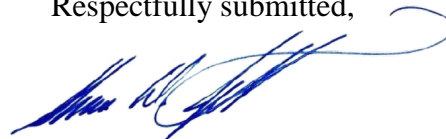
Board Chair Jett asked for a second motion to adjourn.

Board Member McDonald seconded.

Board Chair Jett stated that there is a motion to second. Board Chair Jett thanked everyone for taking time to meet, and thanked Director Donovan for hosting the meeting.

Board Chair Jett adjourned the meeting at 1:58 p.m.

Respectfully submitted,



Shane Jett

Chair

Community Development Advisory Board