Remarks by Tony T. Brown, Director

Community Development Financial Institutions Fund
U.S. Department of the Treasury

to

2004 CDFI Institute - Increasing Impact in a New Era

Thursday, February 5, 2004

Hyatt Regency Washington
Washington, DC

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFI) FUND

FOR IMMEDIATE RELEASE
February 5, 2004

Contact: Bill Luecht
(202) 622-8042

Remarks by Tony T. Brown, Director
Community Development Financial Institutions Fund
U.S. Department of the Treasury
to
2004 CDFI Institute - Increasing Impact in a New Era

Hyatt Regency Washington
Washington, DC

Demonstrable Community Impact = Credibility = Capital

Good afternoon! Thank you Kerwin, for your kind introduction and to all of you who have traveled through snowy weather and cold temperatures to be here - welcome. Some of you may know that this coming September 24th will be the tenth anniversary of the day Congress passed the legislation that created the CDFI Fund.

Ten years ago, many of you in this very room were busy at work helping to create a national fund to invest in community development financial institutions. You spent long hours amongst yourselves in discussions and debates, you walked the halls of Congress and met with Representatives and Senators, you helped put ideas down on paper to begin the process of creating what is now the CDFI Fund.

And your CDFI Fund has helped to develop a network of over 2,000 community development financial institutions (CDFIs) and other entities that are dedicated to improving the lives of people who live in economically distressed rural and urban communities.

Between 1994 and 1996, Congress and the Treasury Secretary gave your Fund the authority to award $50 million in funding to CDFIs. During FY 2004, your CDFI Fund will award and allocate over $3.5 billion in funds and New Market Tax Credits to spur economic development in our nation's low-income areas.

What a difference a decade has made!

Ten years ago, we talked about community and economic development as if it was a movement. Today, we have made community and economic development finance an industry. You manage financial institutions - an industry with aggregate assets estimated in excess of $9 billion. And as CDFIs, where others may characterize you as lenders of last resort, we view you as financial institutions with high hopes.

As CDFIs, you know the value of America's human spirit and you are investing capital to raise the level of human dignity in our nation's low-income communities and among other target populations who have replaced hope with despair.

Yes, September 24, 2004 will mark the tenth anniversary of the day Congress passed legislation that created the CDFI Fund. Yet, this feat is not the reason for celebration. The work you do is the important reason for celebration and for this we applaud your efforts!

This very Institute is but one example of how you have worked together to advance this industry! So I congratulate you, the CDFI Coalition and all those who have worked with the Coalition over the past ten years. Congratulations! You should give yourselves a round of applause.

The President has made our nation's security and economic prosperity his top priority. In August 2001, when I was first appointed to my post, I was told to make the successful implementation of the $15 billion New Markets Tax Credit Program my highest priority at Treasury and to make significant reforms to the CDFI Program.

I recall standing before this body two years ago full of vision and promises about the Fund and the Administration's commitment to community and economic development.

[After 90-days in Washington, I quickly learned that if you want to survive in this city, vision needs to turn to reality fast and actions must be measured in a fiscal year.]

First, I promised process improvements. We have made successful changes that have streamlined our awards process. In FY 2002, we successfully reduced the amount of time required for our award processes. Nearly 80 percent of the awards announced in FY 2002, closed by the end of December that same year.

In FY 2003, Treasury operations were severely affected by the immediate need to focus on homeland security. The Fund's operations were part of the hiring freeze initiated by Treasury with the agency realignments to the Department of Homeland Security.

I share this to let you know that in spite of a near 180-day delay to hire new staffing, my teammates at the Fund worked tirelessly to initiate significant new reforms and were still able to process in excess of $2.6 billion in awards and NMTC allocations. Please allow me to thank my staff for their hard work and commitment of service to you.

We have begun the process of bringing on new hires, so you should begin to see the backlog in CDFI and CDEs certifications completed. We recently posted substantive revisions to the Assistance Agreements on our website, for review by FY 2003 awardees. The changes in the Assistance Agreement are designed to better manage our post-award process without penalizing you for mere production goals beyond your control.

The intent of our approach to grants management and compliance is to hold you accountable to the markets you target to serve and the products you commit to market with our money, and to measure the impact of your efforts. We hope we have captured these key initiatives in the changes to our Assistance Agreements and we welcome your comments.

In fiscal year 2003, we tweaked the Financial Assistance (FA) and Technical Assistance (TA) Components of the CDFI Program and the Bank Enterprise Award

(BEA) Program. Okay, we did a little more than tweaked. We made major reforms - some you liked, others you questioned.

Let me tell you what we did about the TA Component first. In FY 2003, we published a two-year NOFA and made TA awards available on a first-come basis. We want these capacity-building dollars available to you when you need them most.

In the FY 2003 round of the TA Component, we made only ten awards for $418,000. The demand for this program was softer in FY 2003 than we expected. The current TA NOFA closes in May 2004 and I have asked staff to determine if we should maintain the TA program on an availability basis or go back to an annual competitive cycle.

I invite you to go to our website at www.cdfifund.gov and click on the "Program" tab and then the "TA Program" button to learn more about the eligible uses for TA funding. I have also asked my staff to consider raising the funding limits for TA, including the threshold limits if an applicant had received prior awards from the CDFI Fund. We'd love to hear from you. Send any comments you have about the TA program to Linda.

Let me shift to the BEA Program. The BEA Program, as many of you know, went through an OMB assessment and program evaluation in FY 2002. OMB felt that the BEA Program uses a weak subsidy formula to provide incentives for banks and thrifts to engage in community development. OMB assessed that holding these institutions compliant to the Community Reinvestment Act was a better public policy objective.

The BEA Program is expected to undergo another OMB evaluation during FY 2004. We will continue to work with Congress in setting the appropriate level of funding for this important program.

The most significant changes we made in FY 2003 were to the FA Component of the CDFI program. And, boy, did I hear from you! Yet, before I talk about the FA Component, let me recite the statutory purpose for creating the CDFI Fund:

"The purpose…is to create a Community Development Financial Institutions Fund to promote economic revitalization and community development through investments in and assistance to community development financial institutions, including enhancing the liquidity of community development financial institutions."

In FY 2003, we introduced "Hot Zones" and articulated clear programmatic priorities to better define how this Administration will prioritize our investments to promote economic revitalization and community development. These changes were significant and, as Secretary Snow shared in a video address at the National Community Capital Association conference, are supported by the Administration.

The changes you will see in the FY 2004 FA Component will balance the emphasis on our investments to promote economic revitalization and community development, with the other statutory purpose of enhancing the liquidity of community development financial institutions. Let me just give you some brief highlights as Linda Davenport, the Fund's Deputy Director for Policy & Programs, spoke yesterday and I don't want to duplicate anything she shared but want to simply emphasize the policy direction.

First, the Administration believes it is vital to establish high standards for sustainable financing activities for CDFIs, including the components of capacity that define viable financial institutions. You will note that the FA NOFA in FY 2004 indicates that the scores for a CDFI's Financial Health & Viability and for Management & Underwriting will together comprise 50% of an applicant's overall score. Our policy objective is to assure that certified CDFIs have the requisite financial and management strengths to manage their resources.

Next, Market Need & Community Development Performance scores will account for 50 percent of total possible points and will be used by the Fund to prioritize our investments that promote economic revitalization and community development. As directed by Congress, the Fund will include rural population loss and out-migration in its criteria of economic distress, in order to reach more underserved rural communities.

Economic and community development activities in "Hot Zones" are still the highest priority for funding. We have categorized priority preferences for an entire series of other activities in underserved markets served by CDFIs. We think these changes are responsive to the public comments received.

Further, we have proposed three components for Financial Assistance: (i) Category I/Small and Emerging CDFI Assistance (SECA); (ii) Category II/Core & Sustainable CDFIs Assistance (Core); and (iii) Category III/Financial Leverage and Market Expansion Assistance (FLOW). Each of these levels has defined eligibility requirements that I won't discuss in details now, but I would like to spend a few minutes and talk about Category I/SECA.

Last year, we heard that the Fund may have moved to prematurely into our "Growth Continuum" as the industry and Congress requested that we make funding available to CDFIs regardless of size and to continue the Small and Emerging CDFI Assistance Program.

Category I is what used to be called SECA. We recognize that smaller CDFIs cover greater underserved markets, produce lower volumes of activity, but serve critical market needs - these CDFIs are important. We will employ separate scoring critiera for the Financial Health, Viability, Management and Underwriting criteria for Category I applicants.

All applicants - Category I, II and III - will be scored according to their Market Need and Community Development Performance. In the NOFA we intend to make it clear that SECA applicants will be evaluated using more flexible review standards than those we will employ for the other two categories of applicants.

Now you are obviously wondering: why does this Administration continue to focus on market needs and community development performance? This is now a perfect time for me to address the theme of the 2004 CDFI Institute: "Increasing Impact in a New Era."

The President has set a management agenda where we as administrators are being held accountable for producing measurable results in our agencies. The President has directed us to be excellent stewards of taxpayers' money. He has directed us to be compassionate about the people our programs serve -- but to be unyielding when it comes to eliminating waste.

The public policy question is: "Why should the federal government continue to invest in CDFIs?"

The answer is easy:

The President and members of Congress are serious about promoting economic prosperity and stability for all Americans and in all communities, and they understand that gaps in financial service and credit availability must be addressed. The Treasury Department recognizes the unique role of community development finance and we support it.

We are investing in a vision of a national policy to strengthen and sustain this nation-wide network of CDFIs and CDEs that serve our nation's most economically distressed areas. The Administration has proposed to invest several million dollars to build an electronic database to link CDFIs so that you can tell your stories and show how billions of dollars in loans and investments impact our nation's most economically distressed areas and low-income people.

Let me share with you what former Under Secretary Peter Fisher had to say about this at his first meeting with the staff of the CDFI Fund and at the last CDFI Institute where we held a roundtable discussion with select CDFIs.

Then Undersecretary Fisher said that he knew that we, collectively, had a story to tell, but that we (the Fund) needed to figure out how to tell it. He knew that you (CDFIs) made a difference in the lives of low-income individuals, that you helped retain and create critical jobs, and that you helped to stimulate economic growth in corners of this country all too often left behind.

But what we need to be able to do as an industry, just the same as any well run business or corporation, is to demonstrate with real numbers, real data, that we are making an impact and where that impact is being made. And we need to demonstrate that our institutions will be around to provide these impacts in the long run. Using real numbers and real data, we must discuss the sustainability of loan portfolios and track the financial health of CDFIs over time with a vision towards self-sufficiency

Then Undersecretary Fisher said that when we do this, we increase the credibility of CDFIs, of the CDFI Fund and of the industry as a whole. With this credibility comes the increased capital you need to grow and sustain your efforts.

It is because of this vision that the Administration has made a significant commitment to the CDFI Fund to create the nation's leading economic development financing tracking tool: what we are calling the "Community Investment Impact System" or CIIS.

CIIS will be used by CDFIs and CDEs to demonstrate to Congress, the Administration, your investors and the public that the investments you make have real and lasting impact on the communities you serve. We hope to have CIIS fully operational by June 2004.

Now, I am not here today to "sell" you on CIIS. I am here today to "sell" you on a vision to strengthen the community and economic development finance industry and to report why I think that the collection and reporting of data will showcase our efforts.

The President, Congress and your investors want to know who you serve, where your loans are being made, how your products have impact, and how you provide sustainable economic financing activity. Some of you have the best intake and geocoding systems in the industry. This is a best practice that we are trying to replicate.

Data, both institutional level and transactional level, will foremost benefit you, the CDFIs and CDEs. This data will add even more credibility to the industry you have created. This data will show how more than $650 million invested by the CDFI Fund in this industry was money well spent. In addition, a central database filled with detailed CDFI and CDE institution and transaction-level data provides huge opportunities for research and publicity on this industry that are not currently available.

I am not afraid to build this central database. As a former banker, I interfaced with many of you and learned that you were better capable of reaching markets that we could not.

You have shown bankers that cash required to close a mortgage loan was an impediment to home ownership and the requirement of high down payments did not necessarily mitigate risk.

You have been catalysts to neighborhood revitalization, increasing the supply and quality of affordable housing and improving living conditions by taking subordinate lien risks, proving that the demand for decent homes, convenient retail services and better access to community-based services in low-income areas significantly outstripped supply. You proved that traditional methods of credit standards and loan-to-values need not apply.

When others see vacant lots, dilapidated housing and deteriorating neighborhoods, you, as community-based lenders, see an oasis of community spirit. This community spirit, the spirit of America, means that our neighborhoods and communities singularly and collectively represent who we are as a nation.

One of the challenges we face in describing our industry is its diversity. Transaction-level data allows us to break down our complex industry into its individual sectors, allowing housing CDFIs to focus on housing loan products and funders interested in economic development to focus on business loan products. For each sector - business, commercial real estate, microenterprise, mortgage, housing development, community facilities, and consumer - CIIS will be able to provide accurate information on loan terms, borrower characteristics and loan performance. This won't be easy but your Fund is willing to take on this challenge with your help and commitment.

Let me spend the next few minutes sharing with you some of the details of this data collection system and how we hope this information will help you tell a better story.

First -- from the Fund's perspective, CIIS will be the vehicle through which the Fund will collect compliance and performance data from the CDFIs and CDEs. For the first time, the Fund will collect detailed data on not just the institutional level, but on each loan or equity investment a CDFI or CDE makes. Reporting through CIIS will be mandatory for CDFI FA awardees beginning with FY 2003 and some TA awardees beginning with FY 2004; and for the NMTC Program, it will be mandatory starting with the 2002 allocatees. We will ask all others to report on a voluntary basis.

To ensure that CIIS is a high-quality system that all CDFIs and CDEs can communicate with, the Fund has contracted with EF Kearney, a technology firm based in Northern Virginia, to design and develop the system. Through Kearney, our approach to development includes the involvement of you, the user.

- To date, Kearney has conducted telephone interviews with 92 CDFIs and CDEs and held three User-Centered Design sessions at its offices.
- Seventeen CDFIs and six CDEs participated in these hands-on sessions where they were able to provide feedback on the software application and provide valuable input on the collection of transaction-level data.
- The Fund and Kearney held a Software Developers Conference for software developers who currently provide, or are interested in providing, loan monitoring, client intake, and impact tracking systems to CDEs and CDFIs.

Our surveys with CDFIs and CDEs showed that the industry uses a variety of loan monitoring, client intake, and community impact information systems. We are working with vendors of off-the-shelf software products, as well as CDFIs and CDEs that have custom-designed information systems to ensure that software that tracks and easily transmits all required CIIS data is available to you.

We understand that you may be concerned about the financial burden of implementing this effort. To address this issue, I have asked the Fund's staff to develop a streamlined application process. Our goal is to make technical assistance awards available to CDFIs to improve their systems for collecting and tracking institutional performance and community development impact data. These awards would be made available through a new component of the Fund's CDFI Program.

The draft set of transaction-level data points and IT specifications that were distributed at the Software Developers Conference are posted on our website for anyone who wants to start getting their systems ready. The data points are subject to approval by the Office of Management and Budget (OMB), which we expect in March. At that time the requirements will be finalized and posted to our web site.

The Fund's vision is to make as much of this data publicly available as is possible within the confines of privacy laws. We would like to make aggregate industry data available to researchers who are analyzing all aspects of the community development finance industry.

CDFIs - this is your data. The Fund is simply trying to be a catalyst so we can aggregate your financing activity, talk about the impact you make as an industry and use portfolio and peer analysis to build the capacity of any CDFI that lags its peers' performance as we have a statutory mandate to build your capacity.

Now from the CDFI's perspective, we believe this data will be an invaluable resource to you. You will be able to measure your institution or portfolio performance against your peers; you will be able to demonstrate to your other funders the performance of your loans and better describe the economic conditions of the communities and populations served.

For example, consider how helpful it would be to use the new transaction-level data to be collected through CIIS to produce a report that compared your penetration in the low-income community you serve to those of traditional banks and thrifts that may be serving the same community, or even other CDFIs or CDEs in your area.

Consider the ability to find out how self-sufficient your operations are relative to other CDFIs, and then analyze your sources of earned income to get ideas on how you can improve your own self-sufficiency. [Slide 1]

- In this example, ABC Loan Fund's Self-Sufficiency Rating is less than their peer's.
- You can observe that the portfolio earnings, as a source of earned revenue, is below that of their peers.

Imagine if you had the ability to show your funders how you perform relative to your peers or how you maintain portfolio quality while marketing a product or portfolio that some may perceive as very risky. [Slide 2]

- The key with CIIS is analysis by loan purpose and product type.
- ABC Loan Fund's Portfolio at Risk performance is better than the performance of its peers.

Imagine if you could then show them a map of low-income census tracts in your service area, say in Washington, D.C. [slide 3]

And then were able to layer on top of this map where in D.C. traditional banks and thrifts were making their mortgage loans. [slide 4]

And finally were able to layer on top of that where it was that you were making loans for homeownership. [slide 5]

And then finally show the economic conditions of the areas as "Hot Zones" and any other federally defined definition of distress. [Slide 6]

Though we are using hypothetical data, I'm sure you will agree with me that this type of report paints a picture that your funders would respond positively to.

You would also be able to run reports from your office computer that would allow you to analyze the demographics of your borrowers.

You could demonstrate to funders how, on a national basis, 95 percent of loans made by traditional banks and thrifts are made to individuals for home ownership with a credit score of 650 or greater, hypothetically. [slide 7]

And how you are lending to individuals whose credit scores are seen as impediments to getting a traditional bank loan as 97 percent of your loans are to a group with credit scores below 650 or who have no credit score. [slide 8]

You could append race/ethnicity or gender information. How powerful would that be? Again, this is all hypothetical data.

For the industry, CIIS will allow analysis on a regional or national level not available before. We can slice it by urban versus rural areas; you could filter by income, race, gender or product type.

The Fund's interest is to show the Administration and Congress who you serve, where your loans are originated and how your products provide access to capital and improve the lives of all Americans. The collection and grouping of this data will allow you to find other means of enhancing your liquidity, including the possible sale of your loan portfolios.

CIIS will provide the ability to analyze the types of equity investments CDFIs and CDEs are making and how those investments are performing over time; or to find out what types of collateral are accepted, and the lien position, loan fees, interest rates, and payment schedules being used. And you could do all of this by product type. The ability to analyze trends is critical as new products are being developed by the industry.

Over time, we hope CIIS will also become the central data repository on CDFI loans, providing the critical loan performance information that is needed to support secondary market sales. A source of liquidity this industry must continue to explore.

For the Fund, simply put, CIIS will provide the data needed to show that we are investing in America's most distressed communities, that we are making a real and lasting impact on these communities and the individuals that live and work there, and that the dollars appropriated to the CDFI Fund are taxpayer dollars well spent.

The collection of data, and the implementation of CIIS is central to the theme of this year's Institute - "Increasing Impact in a New Era."

Your movement is now an industry. Our next 10 years will not be summed by the number of CDFIs/CDEs certified or the amount of money we awarded.

Instead, our performance in this new era will make us poised to tell our public and private funders how we have brought hope to others when there was once despair.

Your industry in the next 10 years will be able to show how your financing activities made the American Dream possible for all Americans!

In Treasury, we can point to the network of CDFIs/CDEs to show how your efforts help the President create lasting prosperity that reaches every corner of America. We applaud you and commend you for the fine work you do to improve our nation's communities.

I know you are significant impact players in our nation's low-income communities, and with CIIS, we will be very proud to show it!

Thank you.

Peer Comparison of Self-Sufficiency Ratio and Operating Revenues*

Comparison Measure	Industry Average	ABC Loan Fund	Difference
Total Earned Revenue	$ 412,500	$ 420,000	$ 7,500
Total Expenses	$ 550,000	$ 600,000	$ 50,000
Self-Sufficiency Ratio	**75%**	**70%**	**-5%**
Sources of Earned Revenue			
Portfolio Earnings	61%	40%	-21%
Earnings on Cash	20%	50%	30%
Other Earned Revenue	19%	10%	-9%
Total Earned Revenue %	**100%**	**100%**	**0%**

* Hypothetical data.

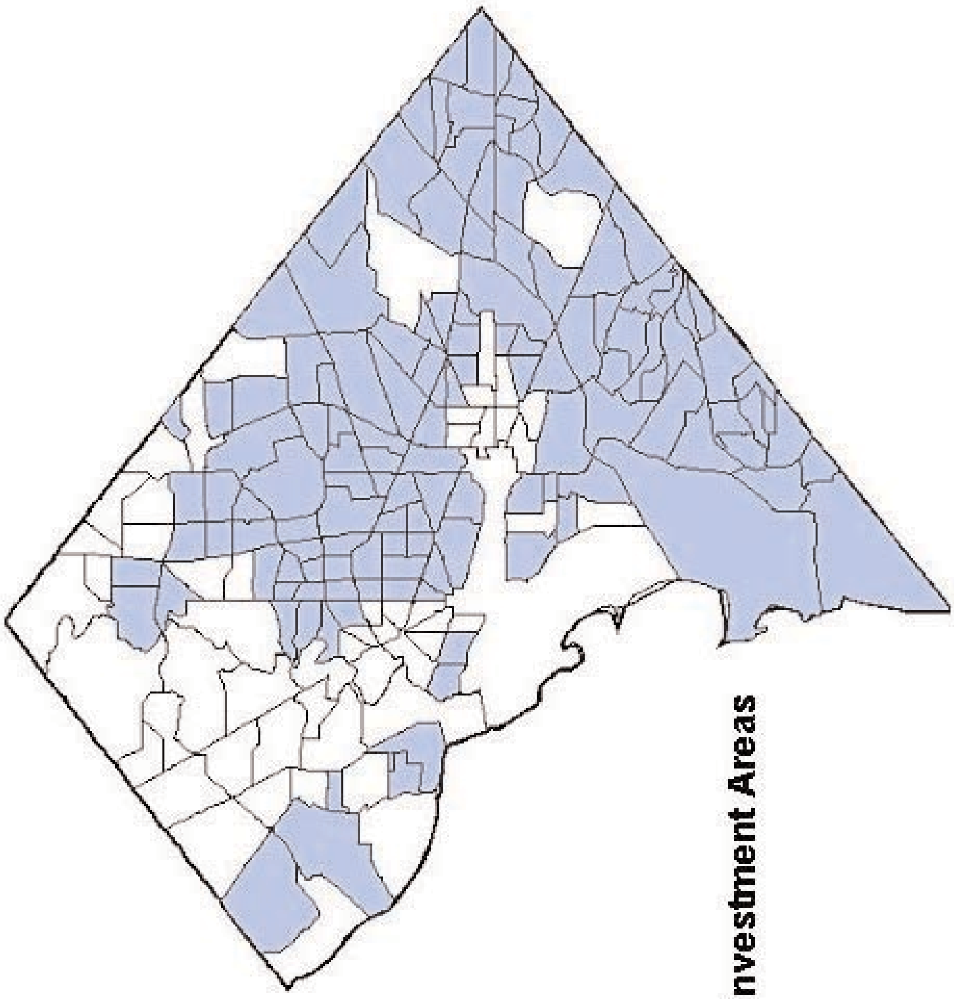
Portfolio-at-Risk

Loan Fund Peer Comparison*

Loan Purpose	Industry Average Portfolio at Risk	ABC Loan Fund Portfolio at Risk	Difference
Business-Fixed Asset	5.0%	4.0%	-1%
Business-Working Capital	5.5%	4.2%	-1%
Community Facility	9.0%	6.0%	-3%

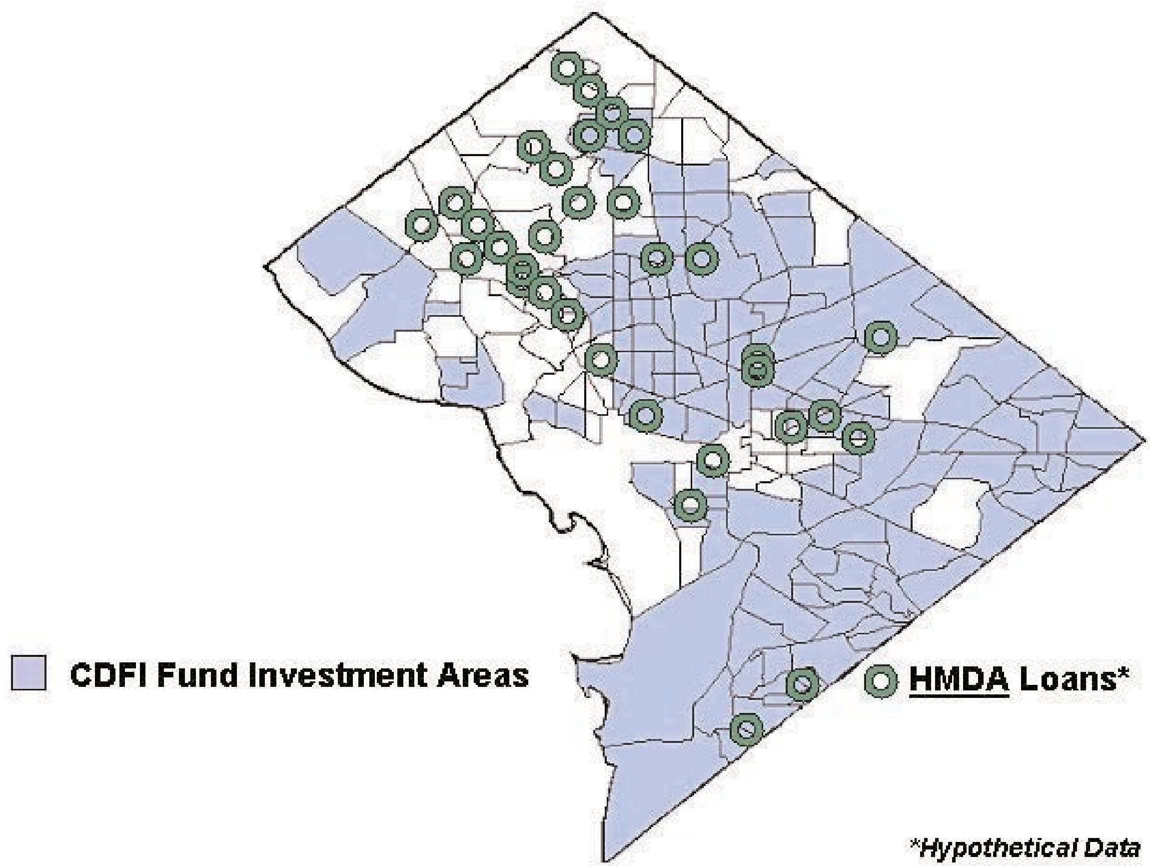
* Hypothetical data.

Washington DC: Eligible Investment Areas

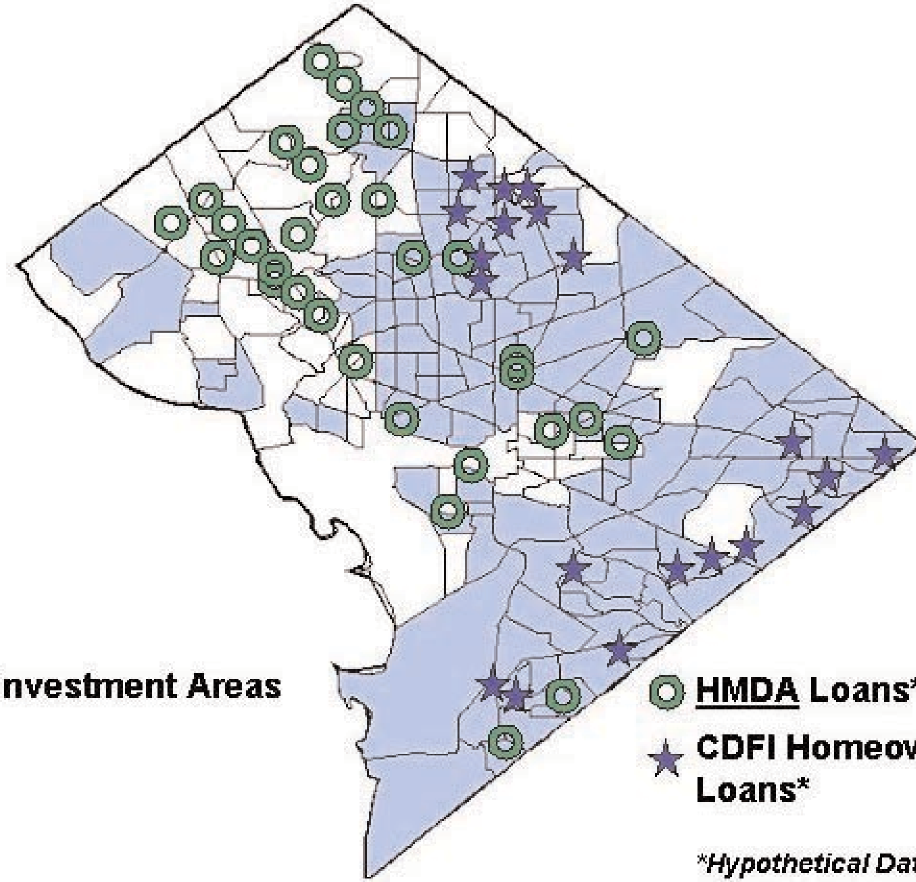


CDFI Fund Investment Areas

Washington DC: Financing Activity



Washington DC: Financing Activity



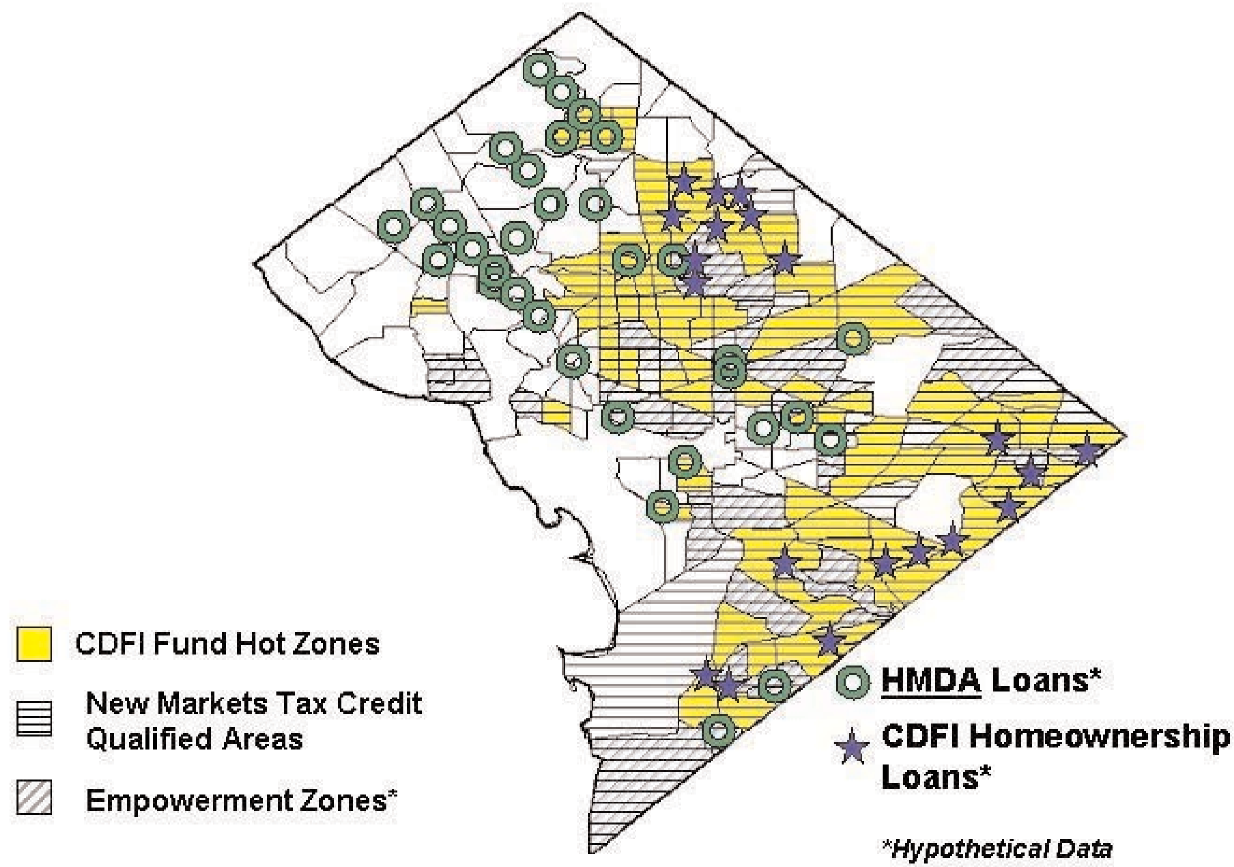
CDFI Fund Investment Areas

HMDA Loans*

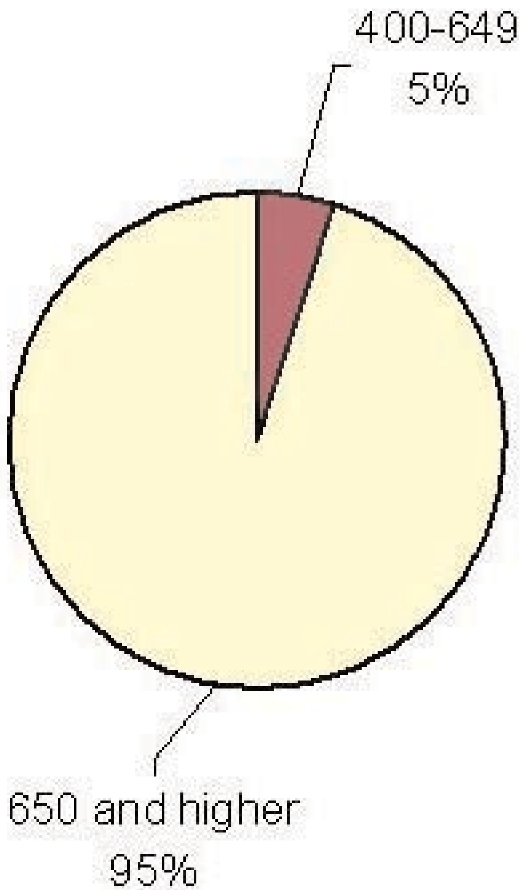
CDFI Homeownership Loans*

*Hypothetical Data

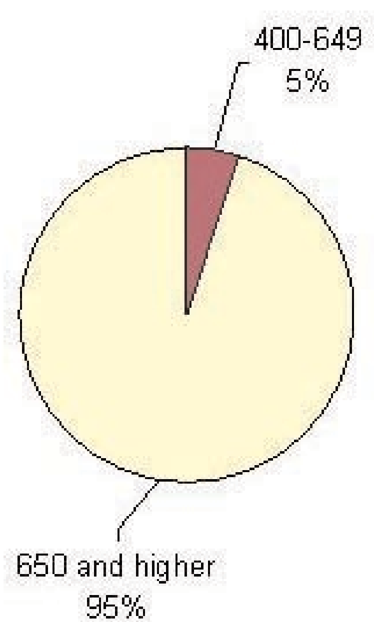
Washington DC: Federally-Defined Distress Areas



Non-CDFI Bank Mortgage Loan Borrower Credit Scores



Non-CDFI Bank Mortgage Loan Borrower Credit Scores



ABC Loan Fund Portfolio Mortgage Loan Borrower Credit Scores