

Hearing on the FY 2015 Budget Request for the  
Community Development Financial Institutions Fund

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**Testimony before the Senate Appropriations Committee**  
**Subcommittee on Financial Services and General Government**  
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**Introduction**

Good afternoon Chairman Udall, Ranking Member Johanns, and distinguished Members of the Subcommittee. Thank you for inviting me to speak today on behalf of the Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund) and in support of the President's fiscal year (FY) 2015 Budget Request. I would like to start by expressing my appreciation to this Subcommittee and to Congress for its long history of support for the CDFI Fund.

During my tenure at Treasury it has always been an honor to work with the dedicated men and women at the CDFI Fund. They're talented public servants who are focused on strengthening our country and they performed with excellence under quite difficult conditions over recent years. So I want to thank them for their service and commitment.

The President's FY 2015 Budget requests your continued strong support for the CDFI Fund and its critically important mission: *To increase economic opportunity and promote community development investments for underserved populations and in distressed communities in the United States.* As a vital component of the Treasury, the CDFI Fund is closely aligned with Treasury's core priority of promoting domestic economic growth.

In FY 2015 the CDFI Fund requests \$224.9 million. This is slightly below the FY 2014 enacted level. The Budget includes:

- \$151.3 million for the CDFI Fund's flagship program, the CDFI Program, which spurs economic growth and increases access to capital in low-income communities;
- \$35 million for the Healthy Food Financing Initiative (HFFI), which supports the growth of businesses that increase access to affordable, healthy food in low-income communities;
- \$15 million for the Native American CDFI Assistance Program, which increases access to credit, capital, and financial services in Native Communities; and
- \$23.6 million for administration of the CDFI Fund.

The Budget also proposes a one-year extension of the CDFI Bond Guarantee Program, which provides a source of long-term capital to financial institutions that support lending in underserved communities.

The CDFI Fund's programs create economic growth in communities often considered too risky for mainstream financial institutions. The CDFI Fund accomplishes much of its work through a nationwide network of over 850 certified Community Development Financial Institutions, or CDFIs. CDFIs are mission-driven financial institutions that are dedicated to community development and provide financial products and services for businesses, consumers, affordable housing developers, and community service providers. CDFIs fill a critical gap in the financial industry by serving markets that are historically underserved and by providing the economic development expertise and specialized financial products and services that these communities urgently need. CDFIs provide loans for small businesses and job creation; finance the development of affordable housing for low-income Americans; support community-based social service organizations and create high-quality community facilities; and provide retail banking services to the unbanked and others often targeted by predatory lenders.

When I was in New Orleans earlier this month, I had the opportunity to see firsthand how CDFIs are providing critically needed financing for communities most in need. One of the sites I visited was Circle Foods, a grocery store that opened in 1939 and was New Orleans' first African American-owned and -operated grocery at a time when African-Americans were not allowed to shop in other parts of the city. In 2005, Circle Foods was heavily damaged by flooding in the 7<sup>th</sup> Ward caused by Hurricane Katrina. For years, the owner tried to secure financing to renovate and reopen the store, but was unable to find any willing lenders and investors.

That changed in 2012, when Hope Credit Union, a leading CDFI serving the Mid-South, provided Circle Foods with financing through a partnership that included the City of New Orleans' Fresh Food Retail Initiative. Thanks to Hope Credit Union, a new 22,000-square-foot Circle Foods reopened earlier this year and is now providing access to fresh produce and affordable food in the 7<sup>th</sup> Ward. In addition, the grocery store has created 62 new jobs, the majority of them are filled by people who live in the local community. And Hope Credit Union soon will open a branch within the new Circle Foods that will provide convenient access to financial services and give people in the community a reliable, affordable alternative to the payday lenders that moved into the Ward following Hurricane Katrina.

This story is just one of many examples of the way that CDFIs are helping to meet critical needs in underserved communities. CDFIs all across the nation are truly making a difference.

### **The Critical Role of the CDFI Fund**

One of the main factors that makes the critical work of CDFIs possible is this Committee's support of the CDFI Fund.

CDFIs take a variety of forms. There are CDFI loan funds, credit unions, community banks, and venture capital funds. There are small local and regional CDFIs that focus on serving particular communities, as well as large national CDFIs with offices in several states and cities. But all CDFIs share a commitment to stimulating economic and community development in distressed communities. These organizations have decades of experience providing financial products and services that offer the people they serve a way to enter the financial mainstream and build successful, productive lives.

The CDFI Fund is dedicated to expanding the capacity of these invaluable organizations, and it accomplishes that in two main ways: by certifying CDFIs and by providing a variety of financing and capacity building programs for CDFIs.

### **CDFI Certification**

To be eligible for most of the CDFI Fund's programs, any financial institution must be certified as a CDFI in order to participate in our programs. In addition, formal certification of a CDFI is important to many prospective financing partners, including banks and foundations. To be certified, a CDFI must meet a strict set of criteria, including having a primary mission of community development and serving a target market that meets at least one of the CDFI Fund's definitions of a distressed or low-income community. One common type of target market is a census tract that has a poverty rate of at least 20 percent, or a median family income at or below 80 percent of the statewide or metropolitan average.

In 2013 the CDFI Fund undertook a formal process to recertify all existing CDFIs whose most recent certification was more than three years old. This process was both an investment in the integrity of the certification status for organizations and a way to position the CDFI Fund for the future. During FY 2013, the CDFI Fund recertified 425 CDFIs and certified 76 new CDFIs. Today, there are over 850 certified CDFIs headquartered in all 50 states and the District of Columbia, as well as in Guam, Puerto Rico, and the U.S. Virgin Islands.

### **Programs and Initiatives**

In addition to certifying CDFIs, the CDFI Fund provides programs to support them. The oldest of these is the Community Development Financial Institutions Program (CDFI Program), through which the CDFI Fund provides financial assistance awards and technical assistance awards to enable CDFIs to expand their services and to build their technical capacity. Over the years, the demand for CDFI Program awards has continued to grow. For the FY 2014 award round, the CDFI Fund received 336 applications requesting \$393 million in funding, which was nearly three times the \$146.4 million available through the program.

Within the CDFI Program, the CDFI Fund administers the Healthy Food Financing Initiative (HFFI), an innovative interagency program created to address the problem of food deserts in underserved communities. An estimated 23.5 million Americans lack convenient access to healthy food. Through the HFFI, the CDFI Fund provides flexible financial and technical assistance awards to CDFIs that invest in businesses that increase access to healthy food in low-income communities. In FY 2014, the CDFI Fund received applications from 33 eligible organizations requesting \$85 million through the HFFI, almost four times the \$22 million available.

Another program is the Native American CDFI Assistance Program (NACA Program). As a part of the CDFI Fund's Native Initiatives, the NACA Program promotes economic opportunity in Native Communities that lack adequate access to affordable financial products and services by providing financial and technical assistance awards to CDFIs that focus on serving Native

American, Alaska Native, and Native Hawaiian communities. The Native Initiatives also include specialized training programs to help CDFIs expand their capacity to serve Native communities. Since the NACA Program's inception in 2001, the number of certified CDFIs that serve Native Communities has increased from 7 to 68. For the FY 2014 funding round of the NACA Program, the CDFI Fund received 46 applications requesting more than \$22 million in funding, almost double the \$12.3 million available.

The CDFI Fund's Capacity Building Initiative complements the CDFI Program, HFFI, and the NACA Program, by providing direct technical assistance and training to CDFIs. The Capacity Building Initiative helps CDFIs improve their ability to deliver financial products and services and to achieve long-term sustainability. By offering training workshops, webinars, market research, customized technical assistance, and informational resources, the Capacity Building Initiative helps CDFIs develop, diversify, and grow.

The Capacity Building Initiative training series focuses on specialized issues of critical importance to CDFIs and the communities they serve. Among the training series presented thus far are: CDFI Capitalization; Financing Healthy Food Options; Foreclosure Solutions; Innovations in Small Business Lending; Portfolio Management; Leadership Journey for Native CDFI Growth and Excellence; Scaling up Microfinance; Preserving and Expanding CDFI Minority Depository Institutions; Financing Community Health Centers; and Strengthening Small and Emerging CDFIs.

In addition to offering these training programs, the CDFI Fund compiles training materials, webinars, and research reports that supplement the training topics and provides them in a Resource Bank on the CDFI Fund's website. The Resource Bank is a one-stop source for current information on topics of critical importance to CDFIs, and it is available to anyone—members of the CDFI industry and the general public alike—at no charge.

The CDFI Fund's newest program is the CDFI Bond Guarantee Program, a groundbreaking effort to accelerate community economic growth and development. The CDFI Bond Guarantee Program offers CDFIs unprecedented access to significant, long-term capital. Because Treasury fully guarantees the bonds, CDFIs can borrow for up to 30 years at an attractive fixed interest rate and use the funds to finance community development projects. Because participating CDFIs must have excellent performance histories and management and be financially capable of carrying the programs strong loan requirements, the guarantees are projected to have no cost to taxpayers. For the FY 2013 round of the CDFI Bond Guarantee Program, \$500 million in guarantee authority was available, the CDFI Fund received eight guarantee applications, requesting a total of \$825 million in bond guarantees. Treasury entered into agreements to guarantee and approved term sheets for bonds totaling \$325 million.

### **The CDFI Fund's Impact and Performance**

CDFIs are dedicated to serving distressed and low-income communities, and the data indicate that they are doing just that. On average, 70 percent of the customers of certified CDFIs are low-income and 60 percent are members of a minority community. Moreover, the CDFI Fund strives to proportionately serve both urban and rural areas. In FY 2013, 53 percent of the CDFI

Program's financial assistance awardees served major urban areas, 27 percent served minor urban areas and 20 percent served rural areas. The CDFI Fund also recently released an analysis on 10 years of data provided by CDFIs on their total portfolios. The data demonstrated that 25.4 percent of loans and investments (19.2 percent of total dollars) were made in non-metropolitan rural areas by CDFIs from 2002-2012. Approximately 17 percent of Americans reside in non-metropolitan areas, so it is clear that CDFIs are giving these traditionally underserved target markets the opportunity to benefit from services that they could not receive from mainstream financial institutions.

It is also clear that these services have a tangible impact. CDFI Program awardees reported on the most recent activities in 2012 and indicated that they had:

- Created or maintained more than 35,000 full-time jobs (up from 25,600 in FY 2011);
- Originated almost 6,500 small business and microenterprise loans (up from 6,345 in FY 2011);
- Financed more than 17,700 units of affordable housing (down from 24,466 in FY 2011);
- Provided more than 293,000 individuals with financial literacy training and other financial education (up from 233,100 in FY 2011); and
- Made more than 24,000 loans and investments totaling almost \$2 billion (up from 17,500 loans and investments totaling almost \$1.3 billion in FY 2011).

In addition, all 12 of the first-round HFFI awardees reported on their first year of investments, which included 43 projects totaling \$29 million in eligible HFFI activities. Of these 43 projects, 30 were retail projects—ranging from small green grocers to large supermarkets serving low-income communities—that created 339,226 square feet of new retail space. The other 13 HFFI projects involved other activities such as production and distribution facilities needed to increase access to healthy food.

The CDFI Fund is committed to rigorous evaluations that measure the impact of its programs. In 2012, the CDFI Fund commissioned a study to examine the financial performance and social impact of its flagship CDFI Program. That study is now underway and will be completed by the end of FY 2014. In addition, the CDFI Fund has begun the "Access to Capital and Credit in Native Communities" study, a follow-up to a 2001 study that looked at access to financial services in Native American, Alaska Native, and Native Hawaiian communities, and that established some of the key guidelines of the NACA Program. The study will use a combination of existing research, consultations with Tribes, and focus groups to identify important economic issues in Native Communities. The results of both of these studies will allow the CDFI Fund to assess its programs more effectively and to determine ways to serve low-income communities even better in the years ahead.

The performance of CDFIs speaks volumes about their strength, commitment, and ability. And that's what the work of CDFIs and the CDFI Fund is all about. It's about more than creating programs and providing services; these are just the means to a greater end. The work is ultimately about expanding opportunities for families and communities to reach their full potential and contribute to the nation's economic growth.

## **Conclusion**

CDFIs have established a strong track record of leveraging the CDFI Fund's awards with private investment. Indeed, on average, CDFI Fund awardees leverage their awards with private investment by a factor of more than 6:1, which means that the total of \$201 million in program funding requested in this Budget may ultimately generate more than \$1.2 billion dollars of investment. Clearly, the funding requested offers strong potential for significant local impact at a relatively small federal cost.

The President's FY 2015 Budget reflects a careful balance of savings proposals and targeted investments in key priorities. As the numbers reflect, the CDFI Fund has been and remains one of those key priorities. Continued strong funding is needed if the CDFI Fund is to be able to continue its critical work generating new economic opportunity in communities where economic opportunity is needed most.

On behalf of everyone at Treasury and the CDFI Fund, I would like to again express our gratitude for the support of this Subcommittee, and I look forward to continuing to work with you in the future.

Mr. Chairman, this concludes my formal statement, and I will be happy to answer any of your questions.