

## Community Development Financial Institutions

By Joe Akman, CDFI Coalition

### Background

The Treasury Department's Community Development Financial Institutions (CDFI) Fund is an innovative federal program that leverages private investment to benefit economically disadvantaged people and communities. Funded as an independent agency in the VA-HUD appropriations bill, the CDFI Fund administers a competitive grant program that provides capital grants, loans, equity investments and awards to fund technical assistance to community development financial institutions (CDFIs). The CDFI Fund is unique among federal agencies because it takes an entrepreneurial approach to its programs, funding and strengthening institutions rather than specific projects.

CDFIs are private sector financial intermediaries whose primary mission is community development. They include community development banks, community development corporations, community development credit unions, community development loan funds, community development venture capital funds and microenterprise loan funds. CDFIs implement capital-led strategies to fight poverty and to tackle tough economic infrastructure issues such as: quality affordable housing, job creation, wealth building (Individual Development Accounts), financial literacy and education and microenterprise development and training. CDFIs also provide basic financial services to the unbanked. They operate in all 50 states and the District of Columbia, and currently serve 98% of the nation's most distressed communities.

The CDFI Fund is the largest *single* source of funding for CDFIs, and plays an important role in attracting and securing *non-federal* funds for CDFIs. CDFIs compete for federal support based on their business plan, market analysis, performance goals and ability to provide at least a 1:1 match of non-federal funds. Since its first round of funding in FY 1995, the Fund has made more than \$700 million in awards to community development organizations and financial institutions. CDFIs are now exploring new and innovative products to serve their markets—from venture capital investments to products aimed at combating predatory lending—for which they need the kind of flexible capital and capacity-building assistance provided by the CDFI Fund. Currently, over 1,000 CDFIs manage more than \$10 billion (approximately 14 times the Fund's investment) in predominantly private capital. The loan portfolios of CDFIs capitalized under CDFI Fund programs exhibit loss rates below two percent, comparable to the nation's best banks.

The CDFI Fund administers three main programs: The Community Development Financial Institutions (CDFI) program, the Bank Enterprise Award (BEA) program and the New Markets Tax Credit (NMTC) program. The CDFI program provides direct financial and technical support to CDFIs. The BEA program provides incentives for bank and thrift investments in distressed communities. The NMTC program encourages private sector investments in communities experiencing persistent poverty.

Beginning in 2004, the Fund began implementation of a new data collection system that assesses CDFIs by their financial strength and community development impact. The system is called CIIS (Community Investment Impact System), and will help the Fund articulate key variables for managing a successful community development finance program. The Fund eventually hopes to be able to state a required rate of impact for every dollar they award a CDFI.

### Certification

Eligibility for CDFI Fund programs is limited to CDFIs that meet criteria for certification by the Fund (or, in some cases, demonstrate capacity and a plan for becoming certified). There are six certification criteria. The institution must:

1. Have a primary mission of promoting community development
2. Be a financing entity
3. Principally serve a target market
4. Provide development services in conjunction with financing activities
5. Maintain accountability to its defined target market
6. Be a non-governmental entity and not controlled by any governmental entities.

Certification expires after 3 years, at which time CDFIs must submit applications to become re-certified. Institutions applying for the Financial Assistance (FA) program or FA funding under the Native American Initiatives must be certified or have submitted a certification application and be certifiable as a CDFI in order to qualify for FA funding from the CDFI Program.

The CDFI Fund also administers a certification program for organizations desiring New Market Tax Credit (NMTC) allocations. Only certified Community Development Entities (CDEs) can apply for NMTC allocations. In order to be certified as a CDE, an organization must:

1. Be a legal entity at the time of the application
2. Have a primary mission of serving, or providing investment capital for, low-income communities (LICs) or low-income persons
3. Be accountable to the LICs that it serves.

CDE certification lasts for the life of the organization, as long as the organization submits an annual update to the CDFI Fund.

### CDFI Program

In 2005, the CDFI Program is organized into the following three components: Financial Assistance, Technical Assistance, and the Native American Initiative. Visit the CDFI Fund website ([www.cdfifund.gov](http://www.cdfifund.gov)) for complete descriptions of the program criteria, the most recent Notification of Fund Availability (NOFA) and an on-line help desk.

- The *Financial Assistance component* makes FA grants to certified CDFIs that show market need, past performance, community development impact, financial soundness, and the management skills required to administer a funding award. FA funding will be made to certified CDFIs regardless of asset size; however, larger CDFIs are expected to leverage greater degrees of non-federal dollars (above the required 1:1 ratio) for their FA awards and serve more targeted markets. In 2005, the Fund has included new separate criteria and monetary set-aside for Small and Emerging CDFI Assistance (SECA) within the Financial Assistance program. Applications are usually due in late winter/early spring, with awards being announced in late summer/early fall. Previous awardees with late reports or outstanding balances are ineligible for funding. For the FA program, a \$2 million cap applies to awards.

In an effort to direct money to the neediest areas of the country, the CDFI Fund is focusing on hot zones. Hot zones are urban and rural geographic areas that have a minimum population of 2,500 and a poverty rate at or above 20%. There are two types of hot zones: Economic Development Hot Zones (geographic areas with high unemployment and poverty rates) and Housing Hot Zones (geographic areas with high housing costs burdens).

- The *Technical Assistance (TA) component* provides TA grants to CDFIs with the goal of building the capacity of the CDFI industry. TA grants may be used to finance consulting services; paying staff salary for the limited purposes of building organizational capacity; acquiring technology items; and acquiring training for staff or management. Ongoing operating expenses are not eligible for funding. The Fund has a \$50,000 soft cap on awards under the TA program.
- The *Native American CDFI Assistance component (NACA)* is designed to help build the capacity of CDFIs serving Native American, Alaska Native and Native Hawaiian communities (which is defined as conducting more than 50% of past and projected activities in Native American communities). This component provides technical and financial assistance to Native American tribes, tribal entities and a range of other organizations exploring the feasibility of establishing a CDFI. The Fund has a \$150,000 soft cap on Technical Assistance grants and a \$500,000 soft cap on total awards including both FA and TA.

### **Bank Enterprise Award Program**

The Bank Enterprise Award (BEA) Program recognizes and rewards the key role played by traditional financial institutions in community development lending and investing. It provides cash incentives for banks and thrifts to invest in CDFIs and to increase their financial services, lending and investments in distressed communities. Banks and thrifts may receive awards for qualified CDFI Related Activities (Equity Investments, Equity-Like Loans and CDFI Support), Distressed Community Financing and Service Activities. Eligible CDFI Related Activities include investments in CDFI partners undertaking new or expanded initiative in hot zones. Loans, deposits and technical assistance given to CDFI partners with “limited assets” (under \$500 million for CDFI banks and under \$25 million for CDFI Credit Unions and non-regulated CDFIs) will also qualify. Distressed Community Financing includes affordable housing loans, affordable housing development loans, education loans, commercial real estate loans, home improvement loans, and small business loans. Service Activities consist of financial services, community services, targeted financial services, and targeted retail savings/investment products. Award percentages for eligible activities have been reduced across the board, and maximum award amounts are \$0.5 million per applicant.

### **New Market Tax Credit**

The New Markets Tax Credit (NMTC) Program provides \$15 billion in tax incentives to encourage private sector investments in low-income communities. The NMTC program offers individual and corporate investors a credit against federal income taxes for making a qualified equity investment in a certified Community Development Entity (CDE). CDEs apply to the CDFI Fund for an allocation of New Market Tax Credits which are awarded by the Fund on a competitive basis. Individual CDEs make the tax credits available to investors making private

equity investments in the CDE. CDEs must use this capital to invest in or lend to businesses located in a low-income community. The credit provided to the investor totals 39% of the cost of the investment and is claimed over a seven-year credit allowance period.

### Status

The CDFI Fund was authorized by the Riegle Community Development Banking and Financial Institutions Act of 1994. Although the CDFI Fund has historically enjoyed broad, bipartisan support, the Bush Administration has demonstrated only lukewarm support for the CDFI Fund. Tight budgetary conditions and stiff competition for federal funds have resulted in both reduced funding requests in the President's budget and lower appropriation levels authorized by Congress. Appropriations for the CDFI Fund reached a high of \$118 million in FY 2001, but have since decreased to \$55.5 million in FY 2005. President Bush has proposed the elimination of the Financial Assistance components as part of the Strengthening America's Communities Initiative.

At the same time, applications for CDFI Fund awards continue to significantly exceed the supply of funds. For example, since 1996 applicants to the Core/Financial Assistance Component have requested more than four times the amount awarded.

### What You Can Do

Join the CDFI Coalition *Action Network* to help promote CDFIs. Sign-up at [www.cdfi.org](http://www.cdfi.org). Contact your Senators and Representatives, especially if they are members of the Senate VA-HUD Appropriations subcommittee or the House of Representatives' Transportation, Treasury, and HUD Appropriations subcommittee. Encourage them to support increased funding for the CDFI Fund to help keep up with demand for financial services and capital in low-income communities. Conduct site visits for your Senators or Representatives so they can meet borrowers or investors in your communities and see the difference that CDFIs are making with their constituencies. Write an op-ed piece or hold a press event to generate publicity for the good work that CDFIs do. Contact the CDFI Coalition if you have thoughts on how the CDFI Fund could better serve the CDFI field: e-mail [info@cdfi.org](mailto:info@cdfi.org) or call (703) 294-6970. Involve banks that have received BEA Awards for their work with you by asking them to contact legislators.

#### FOR MORE INFORMATION

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## **The Community Reinvestment Act**

By Josh Silver, National Community Reinvestment Coalition

### Background

The Community Reinvestment Act (CRA) and the nation's fair lending laws have leveraged a tremendous increase in affordable home lending for minority and low- and moderate-income communities. After a dramatic surge in the 1990's, increases in lending for underserved neighborhoods slowed down in the last few years. At the same time, predatory lending threatens the progress in reinvestment by dispossessing homeowners of their wealth through foreclosures. CRA and the nation's fair lending laws must be strengthened in order to enhance progress in revitalizing formerly redlined communities. Yet, regulatory officials are proposing to dramatically weaken CRA exams and enforcement.

Tougher enforcement of CRA and the fair lending laws, coupled with higher levels of public participation in the CRA process, has resulted in increases in lending above and beyond what the economic boom in the 1990's by itself would have produced. In 1990, low- and moderate-income borrowers received only 19 percent of all home mortgage loans made in this country. By 2001, their share had surged to 28.4 percent. From 1993 to 2001, low- and moderate-income borrowers enjoyed an 82.3 percent increase in the number of home purchase loans they received, while upper-income borrowers only received 59.7 percent more loans.

The economic expansion alone cannot account for all of the increase in lending to underserved populations since lending increased faster for this segment of the population than for the overall population. Factors related to CRA and fair lending laws play an important part of the story.

Starting with the George H. W. Bush Administration, the Department of Justice settled lawsuits with more than a dozen lending institutions over violations of the CRA, the Fair Housing Act, the Equal Credit Opportunity Act, and other fair lending and consumer protection laws. These settlements required the lending institutions to make millions of dollars in loans to compensate victims of discrimination and to implement new policies and programs to reach minority and lower income neighborhoods that had been redlined. Increased enforcement sent a strong reminder to the financial industry that they have an obligation to lend in a non-discriminatory manner to all the communities in which they are chartered and from which they take deposits.

The CRA reforms implemented in the 1990s enhanced the rigor of CRA exams by emphasizing results (measuring actual lending) and discarding process-oriented exams (e.g., looking at minutes of bank board meetings to see if board members were involved in bank CRA exam programs). Policymakers also enhanced the information disclosed under the Home Mortgage Disclosure Act (HMDA) and CRA to provide the general public and regulatory agencies with more detail on home and small business lending in underserved neighborhoods. Improved data disclosure led to enhanced accountability on the part of lending institutions, which, in turn, led to increases in lending to underserved neighborhoods.

The CRA reforms empowered communities to become active in the CRA process. The National Community Reinvestment Coalition (NCRC) calculates that community organizations have negotiated CRA agreements with lending institutions that total more than \$4 trillion dollars.

CRA agreements are promises to make a specified number of loans and investments for low- and moderate-income communities over a certain number of years.

By the late 1990's, however, the dramatic spike in lending to underserved communities had slowed. The low- and moderate-income share of home mortgage loans increased 8 percentage points from 19 percent of all loans in 1990 to 27 percent in 1995. However, the loan share of these income groups stagnated from 1995 through 2001 (the share hovered around 28 percent during these years). Ironically, while some observers credit subprime lending with a surge in low- and moderate-income homeownership, the greatest gains in affordable homeownership opportunities occurred in the first half of the decade before the surge in subprime lending.

When passing the Gramm-Leach-Bliley Act of 1999, Congress "modernized" the financial industry by eliminating most of the remaining limitations on cross-industry mergers of banks, insurance companies and securities firms. The statute will intensify lending activity by non-traditional lenders such as insurance agents that will be making home loans on behalf of newly affiliated depository institutions. Most of the non-traditional lending activity will remain outside of the purview of CRA since the Gramm-Leach-Bliley Act does not apply CRA to the new lenders.

Additionally, provisions were added to the Gramm-Leach-Bliley Act that weaken existing CRA law and practice. Under the statute, small banks (under \$250 million in assets) will undergo CRA exams once every four or five years instead of every two or three years. Residents of smaller towns and rural areas depend on small banks, which number about 6,800 or 75 percent of the nation's banks, for home loans and banking services. Reducing the frequency of CRA exams reduces the accountability of small banks for making loans in their community.

The Gramm-Leach-Bliley Act also instituted the so-called CRA "sunshine" provision that mandates detailed disclosures of CRA agreements and other contracts concerning CRA made by community groups, banks, and other private sector entities. By imposing onerous reporting provisions, this provision may deter private sector contracts to make (and purchase) loans in low- and moderate-income communities. In a potential violation of the First Amendment, the sunshine disclosure requirements are triggered by certain CRA-related discussions among banks, community organizations, and federal banking agencies.

### Status

Congress must pass the Community Reinvestment Modernization Act that updates CRA to keep pace with the revolutionary changes in the financial industry. In addition, Congress must support provisions in the CRA Modernization Act that repeal the stretch-out of the small bank exams and the onerous sunshine disclosure requirements.

Shortly before the Presidential election and continuing after the election, regulatory officials appointed by the current administration have proposed and implemented changes to the CRA regulations and examinations that will dramatically weaken CRA's effectiveness. During the summer of 2003, the Office of Thrift Supervision (OTS), led by a recent appointee James Gilleran, changed the CRA exams for savings and loans with assets between \$250 million and \$1 billion. Before the changes, CRA exams made sure that these thrifts were making loans,

investments, and services (including branches) available in low- and moderate-income communities. Effective in October of 2004, the mid-size thrifts will have CRA exams that only consist of a lending test. As low- and moderate-income communities combat disinvestment and the rise of high-cost fringe lenders and abusive payday lenders, it is counterproductive to let savings and loans avoid making investments and branches available to low- and moderate-income communities.

The FDIC, has a similar proposal pending for banks with assets between \$250 million and \$1 billion in assets. A FDIC final decision on its proposal is expected in early 2005. Finally, the OTS has just proposed to water down CRA exams for thrifts with assets above \$1 billion. The OTS' proposal is open for public comment until late January. If the OTS goes ahead with this latest proposal, all savings and loans will have easier CRA exams that will fail to ensure that thrifts are responding to all community needs as required by the CRA statute.

#### What You Can Do

Visit NCRC and NCCED's websites for up-to-date information regarding the ongoing battle over the CRA regulations and sample letters to send to the regulators. Finally, NCRC can help you conduct data analysis and make your views known during CRA exams or bank merger applications, which are critical times for CRA enforcement.

#### **FOR MORE INFORMATION**

**Federal Deposit Insurance Commission**

<http://www.fdic.gov/>

**Federal Reserve**

<http://www.federalreserve.gov/>

**Office of Comptroller of the Currency**

<http://www.occ.treas.gov>

**Office of Thrift Supervision**

<http://www.ots.treas.gov>

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## Earned Income Tax Credit and Child Tax Credit

By John Wancheck, Center on Budget and Policy Priorities

### Background

Over 20 million low-income workers will get help making ends meet in 2004 through the Federal Earned Income Tax Credit (EITC). This year, the EITC is expected to add over \$37 billion to the pockets of low-income workers. Since most EITC benefits are spent locally, the EITC helps to improve state and local economies, and is especially helpful to low-income neighborhoods. In 2002, the EITC lifted 4.9 million people out of poverty, more than half of them children of working families. Community development corporations (CDCs) play an important role in educating eligible workers about the EITC and how to apply.

In 2001, Congress enacted rules which make millions of low-income families eligible for a refund from the Child Tax Credit (CTC), a benefit many were unable to claim in the past. This refund is worth, on average, a few hundred dollars, but it can be well over \$1,000 for many families. CTC refunds are in addition to EITCs families may receive.

### What is EITC?

The Earned Income Tax Credit is a tax benefit for people who work. To be eligible for the credit, individuals must have worked some time during the year and *must file a tax return*. Receiving the EITC greatly adds to the wages of low-income families and individuals:

- The average family, with children, that receives the EITC will get about \$2,100.
- Workers with income less than \$30,338 in 2004 and raising one child can receive an EITC of up to \$2,604.
- Workers with income less than \$34,458 in 2004 and raising two or more children can receive an EITC of up to \$4,300.
- Workers not raising children are eligible for a modest credit of up to \$390. To qualify, workers without children must have been between 25 and 64 years old by the end of 2004, with income of less than \$11,490.
- Each of the EITC income limits above is \$1,000 higher for *married* workers, who must file a joint return to claim the EITC.

Children who have lived with the worker for more than 50 percent of the year in the U.S. can be claimed for the EITC, including:

- Sons, daughters, grandchildren, stepchildren, and adopted children;
- Brothers, sisters, stepbrothers, or stepsisters — as well as descendants of such relatives — if they were cared for as members of the family;
- Foster children placed with the worker by an authorized government or private placement agency;
- Children under age 19, or under age 24 if they are full-time students. (Totally and permanently disabled children of any age also qualify.)

### What is the Child Tax Credit (CTC) refund?

The Child Tax Credit (CTC) may be claimed by taxpayers with dependents under age 17. It can reduce income tax liability up to \$1,000 per child. Many low-income workers can get a CTC refund even if they owe little or no income tax. Workers who earned income in 2004 above \$10,750 and claim children under age 17 as dependents on their tax returns may be able to claim a CTC refund. (IRS Form 8812 is required.)

The EITC offsets payroll taxes for low-income families, and supplements the incomes of families and individuals whose wages leave them below the federal poverty line (about \$18,850 for a family of four in 2004). Those who qualify for the EITC will be refunded part or all of the tax dollars that were taken out of their pay during the year, in the form of a reduction in income tax owed, or refund check from the IRS. Workers who claim children can also choose to get EITC Advance Payments, which provide part of the Credit in the worker's regular paycheck. Both full- and part-time workers can qualify for the EITC and CTC. In general, neither credit counts as income to determine eligibility for cash assistance (e.g., Temporary Assistance for Needy Families, Medicaid, SSI, food stamps, or federally subsidized housing assistance). Refunds which are saved may be counted toward resource limits in such programs, but they are excluded for specified periods of time. Refunds saved in Individual Development Accounts (IDAs) do not count as resources at all if the IDA is administered under TANF or the federal Assets for Independence Act rules.

The EITC and CTC provide families with funds for rent payments, rental housing security deposits, or homeowner down payments. EITC and CTC refunds may be deposited into IDAs and receive matching contributions. Refund dollars can also be used to pay: utilities, home repairs, debts (such as medical bills), childcare, transportation, health insurance, or children's clothing and furniture.

### What You Can Do

An EITC campaign can help CDCs strengthen communities, increase their visibility, and improve the lives of their constituents. Through outreach on the EITC (and the CTC), CDCs can contribute to on-going efforts to build trust in their communities. CDCs can inform low-income families about the EITC through their affordable housing, job training, or childcare programs. They can also help expand outreach through their connections with religious institutions, government agencies, and other nonprofit organizations. CDCs can also alert families to the availability of free tax filing assistance programs as an alternative to expensive commercial tax preparation fees.

EITC outreach can also help build or strengthen partnerships between corporations and CDCs, especially with business associations and local businesses or merchants that employ a CDC's constituents. Businesses are a logical and important partner in any EITC campaign. The EITC supplements employees' wages at no cost to employers. Because the EITC helps workers take care of day-to-day needs, it can help them keep their jobs and promote a more stable workforce. CDCs should work with local businesses to deliver the message to both employees and customers.

## FOR MORE INFORMATION

To join the EITC Campaign, request a free EITC outreach kit from the Center on Budget and Policy Priorities. The kit contains posters and flyers in English and Spanish, fact sheets, and a strategy guide on how to run an EITC promotional campaign. For your free copy of the EITC kit, write or call the EITC Campaign – be sure to include your name, organization, address, and telephone number:

### **EITC Campaign**

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NCCED's EITC website at <http://www.ncced.org/eitc.html> includes information to help CDCs provide tax preparation services. The site includes links to national organizations, articles on CDCs that set up services, and answers to common questions from CDCs.

## **Fannie Mae and Freddie Mac**

By Allen Fishbein, Consumer Federation of America

### Background

Fannie Mae and Freddie Mac were established at different times by Congress to ensure the smooth flow of mortgage credit throughout the nation. Fannie Mae and Freddie Mac make important contributions to expanding the mortgage market and increasing homeownership levels. Fannie Mae and Freddie Mac purchase residential mortgages from originating lenders that then use these proceeds to make additional mortgages. Although they hold some mortgages to hold in their portfolios, most mortgages are placed in mortgage pools to support Mortgage Backed Securities (MBS) that are issued and are either sold to investors or held in their retained portfolios. They also guarantee the timely payment of interest and principal on MBS that they issue. Through these functions Fannie Mae and Freddie Mac have been highly successful at bringing capital into the housing loan market from domestic and international sources which, in turn, works to make mortgage credit available more broadly to U.S. consumers.

Fannie Mae and Freddie Mac today own or guarantee more than \$3 trillion in mortgages – almost half of all outstanding mortgage debt issued – and fund nearly 60 percent or more of the estimated total of all non-governmental insured mortgages. Their substantial presence in the mortgage market has promoted standardization in the mortgage market, which in turn, has increased the availability of mortgage credit. They are able to use this market presence to help expand housing opportunities for consumers and act as de facto regulators against predatory lenders.

In addition to serving the broad mission to promote homeownership, Congress decided more than a decade ago to require the GSEs to apportion more of their investment capital to serving special demands for low- and moderate-income housing finance. Fannie Mae and Freddie Mac by statute are required to meet three annual percentage -of- business goals – a low- and moderate- income goal, an underserved geographic areas goal, and a special affordable goals directed at very low income and low income households. These mandates were established in 1992 and annual goal levels for these goals are set by the U.S. Department of Housing and Urban Development, Fannie Mae's and Freddie Mac's mission regulator.

### Status

The goal levels adopted by HUD last year represent a substantial increase over the previous housing goal levels set in 2000. For example, for this year the two GSEs are required to devote 52% of their mortgage purchases benefiting low- and moderate-income households, rising to an eventual 58% in 2008.

Critics maintain that the GSEs, particularly in recent years, have been too profit-driven in their mix of activities. Both Fannie Mae and Freddie Mac are pledging to be more aggressive towards mission investments. According to HUD, both GSEs almost always meet their goal levels. In general, Fannie Mae's performance in meeting the goals and in other areas of affordable housing has been better than Freddie Mac's. But like Freddie Mac, Fannie Mae's average performance over the years has been below market levels and they have tended to be less successful in

purchasing goals-qualifying mortgages than they have for the overall mortgage market. More recent HUD data indicates that Fannie Mae's share of this market has increased.

Notwithstanding their general success in meeting their goals there remain important segments of the affordable housing market where data shows that both GSEs have not been as successful at serving the available market. In particular, they have tended to have a lower share of the first-time homebuyer and minority first-time homebuyer market than the primary market. The GSEs also account for a relatively small share of the market for important segments, such as underserved lower income and minority communities, the rental housing market, including loan purchases for rehabilitation of these properties, and for seasoned loans made by lenders for CRA purposes. Data for 2003 (the last reported year), however, indicates that Fannie Mae approximated or even led the primary market for some of these segments and that Freddie Mac has made significant progress toward this as well.

We believe the setting challenging goal levels can bolster GSE performance in at least some of the areas in which they lag. CFA and NCCED joined with other leading national low income housing, consumer, and community organizations to submit public comment in support of the establishment of higher housing goal levels as part of the HUD rulemaking on this subject. In our comment we emphasized the usefulness of higher and appropriate goal levels. Goals that lead the GSEs to match or exceed the primary market remains an appropriate benchmark for measuring GSE performance. Yet the fact that the GSEs' can meet their goals but not be as active as they need to be in certain affordable housing markets signals that need to refocus these requirements.

#### What You Can Do

Accounting scandals at both GSEs have resulted in new leadership and Congressional action to create a stronger regulator for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. Legislation passed the Senate Banking Committee in the 108<sup>th</sup> Congress and is expected to be reintroduced in the 109<sup>th</sup>. As Congress considers regulatory reform for the GSEs, urge your legislator that changes lead to increases in the housing activities and mission investments of the GSEs. Specifically:

- Require Fannie Mae and Freddie Mac to set aside a percentage of their annual profits to provide new capital to support sponsors of affordable housing and important affordable housing needs.
- Improve targeting and enforcement of Fannie Mae's and Freddie Mac's affordable housing goals. Bringing the income targets for these goals more in alignment with the CRA income requirements for banks and thrifts institutions would help direct more mortgage credit to truly lower income households and severely underserved communities.
- Codify Fannie Mae's and Freddie Mac's responsibility to provide financing for underserved markets that lack adequate credit for low and moderate income families through conventional lending sources.
- Improve the utility of the GSE Public Use Data Base currently provided by HUD.

**FOR MORE INFORMATION**

**Fannie Mae**

3900 Wisconsin Avenue, NW  
Washington, DC 20016-2892  
<http://www.Fanniemae.com>

**Freddie Mac**

8200 Jones Branch Drive  
McLean, VA 22102-3110  
<http://www.FreddieMac.com>

**Consumer Federation of America**

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## Federal Home Loan Bank Overview

By Amy Randel, Council of Federal Home Loan Banks

*FHLBanks and their members are the largest source of residential mortgage and community development credit in the United States.*

### Background

*A Regional Cooperative of Twelve FHLBanks:* There are twelve Federal Home Loan Banks (FHLBanks), each with its own president and board of directors, located in different regions of the country, serving the System's 8,000 member financial institutions. Each regional FHLBank manages and is responsive to its own members, while the twelve FHLBanks use their combined size and strength to obtain the necessary funding at the lowest possible cost.

*How FHLBanks Help Communities:* The FHLBanks provide hundreds of billions of dollars of primary liquidity to approximately 80% of the nation's financial institutions. By providing this assured liquidity to its members, the FHLBanks allow member financial institutions to remain active lenders in all economic cycles to help their local economies grow.

**Mission:** The mission of the FHLBanks is to improve access to housing finance and to support community investment. They accomplish this through two primary services:

- *FHLBank Advances.* Advance lending is the FHLBanks' main business line. Advances currently represent almost two-thirds of all the FHLBanks assets. These loans, known as advances, are well-collateralized loans used by members to support mortgage lending, community investment and other credit needs of their customers.
- *Mortgage Programs.* The FHLBank mortgage programs provide an alternative to the secondary mortgage market. The programs split the associated risks according to expertise of the member financial institutions and FHLBanks. Member financial institutions keep the credit risk and maintain the customer relationship, while the FHLBanks manage the interest rate risk.

**How FHLBanks Help Low-Income Housing and Community Development:** The FHLBanks deliver on their commitment to promote community development through two of the nation's most successful housing programs: the Affordable Housing Program (AHP) and the Community Investment Program (CIP).

- Since 1990, the FHLBanks have provided more than \$2 billion dollars in AHP grants to help finance more than 400,000 housing units.
- AHP grants subsidize the interest rates for loans to member financial institutions and provide direct subsidies to members making loans for the purchase, construction and rehabilitation of very low, low and moderate-income owner-occupied and rental housing.
- Since 1990, the FHLBanks have provided \$35 billion in CIP-funded loans, financing over 530,000 housing units and thousands of local community-development projects.

- CIP makes loans available, generally at cost, for home purchase or rehabilitation to families whose incomes do not exceed 115 percent of the area's median. CIP also finances commercial and economic development that benefits low-to moderate-income families and neighborhoods.

How FHLBanks Raise Money: FHLBank System's Office of Finance, on behalf of the FHLBanks, issues debt to institutional investors. These products are rated AAA by Moody's and Standard & Poor's respectively. FHLBank debt is the joint and several, or shared, liability of all the FHLBanks.

**FOR MORE INFORMATION**

**Federal Housing Finance Board**

1777 F Street, NW  
Washington, DC 20006-5210  
Ph: (202) 408-2500  
<http://www.fhfb.gov>

**Council of Federal Home Loan Banks**

1255 23<sup>rd</sup> Street, NW  
Suite 200  
Washington, DC 20037  
Ph: (202) 955-0002  
Fax: (202) 835-1144  
<http://www.cfhlb.org>

## **NCCED's Perspective on the Federal Home Loan Bank System – A Major Resource for Housing and Community Development**

By Carol Wayman, NCCED

### Background

The National Congress for Community Economic Development (NCCED) encourages CDCs to be active partners with the Federal Home Loan Bank System (the System) and its member institutions. Nonprofit developers have found the Affordable Housing Program (AHP) to be a relatively flexible source of financing that they use as a private match with tax credits, CDBG, HOME, or other government funds. AHP serves as a critical introduction program; it brings CDCs and bankers together in the first of many future collaborations in rental and homeownership projects.

Increasingly, more CDCs use additional FHLB programs to access loans. These include the Community Investment Cash Advances (CICA), Letters of Credit, and Small Business Investment Corporations. Some of the twelve regional FHLBanks offer subsidy programs for economic development projects. In the past several years, some Banks created pilot projects to encourage more community economic development deals. These include economic development grant programs in the FHLB Atlanta and Pittsburgh regions; lease/purchase mortgages in the FHLB Seattle region; multi-family housing financing in the FHLB New York region; and easier access for multi-family mortgages in the Atlanta region. In addition, the Atlanta Bank offers a one million dollar fund to encourage its members to use the New Market Tax Credit program. To try and further the impact of these programs, NCCED has increased the participation of community development practitioners on the Board of Directors of individual FHLBanks. We also share information on Bank activities with Bank boards and advisory committees.

As part of the CICA process, each of the twelve regional FHLBanks must develop a Community Lending Plan that explains the needs in the community and how such needs will be addressed. Each Bank's Community Lending Plan is available at the Federal Housing Finance Board's website. The Finance Board is the regulator of the Federal Home Loan Banks. An overview of the community development and housing activities of each regional FHLBank is outlined in the table following this article.

### Status

The most significant issue facing the Federal Home Loan Bank System today is the proposal to create a new regulatory entity for the FHLBs together with Fannie Mae and Freddie Mac. There is considerable concern that such consolidation could result in the reduction of the FHLBs' economic development and affordable housing activities. Also, the bill that passed from Senate Banking in 2004 would substantially change the structure of the board of directors. Each Bank currently has at least six public interest directors that the bill would reduce to two. The bill would also prohibit paying board members for their substantial investment of time and oversight.

### What You Can Do

CDCs are encouraged to visit their FHLB member institutions and ask for support for their projects. Recent legislative and regulatory changes can result in expanded economic development and affordable housing lending and equity investments. The Banks have more flexibility than ever before in financing deals.

Start by researching your Bank's community lending plans. Connect your projects to some of the Bank's annual goals. Then, contact your FHLBank's Community Investment Officer (CIO) for help with projects, training, awards programs, equity investments, and/or partnership opportunities. A list of CIOs is on the following page. To learn of training, awards, and solicitations for public comments, make sure to ask to be put on the CIO's Public Interest Groups' list. The CIO can recommend member banks for financing the deals. Many Banks list their members on their websites.

#### **FOR MORE INFORMATION**

##### **Web Resources**

[http://www.fhfb.gov/FHLB/FHLBS\\_banks.htm](http://www.fhfb.gov/FHLB/FHLBS_banks.htm) List of each bank with links to their CIOs

[http://www.fhfb.gov/fhlb/FHLBP\\_economic\\_CLP.htm](http://www.fhfb.gov/fhlb/FHLBP_economic_CLP.htm) Community Lending Plans of each Bank

##### **Federal Housing Finance Board**

1777 F Street, NW  
Washington, DC 20006  
(202) 408-2500  
<http://www.fhfb.gov>

## FOR MORE INFORMATION

### **Federal Home Loan Bank of Atlanta**

Lynn Brazen, Community Investment Officer  
1475 Peachtree Street, NE  
Atlanta, Georgia 30348  
(404) 888-8435 x. 8177  
[lbrazen@fhlbatl.com](mailto:lbrazen@fhlbatl.com)

### **Federal Home Loan Bank of Boston**

John Eller, Community Investment Officer  
111 Huntington Avenue  
Boston, MA 02199-7614  
(617) 292-9677  
[John.eller@fhlbboston.com](mailto:John.eller@fhlbboston.com)

### **Federal Home Loan Bank of Chicago**

Eldridge Edgecombe  
Community Investment Officer  
111 East Wacker Drive, Suite 700  
Chicago, Illinois 60601  
(312) 565-5705  
[eedgecombe2fhlbc@com](mailto:eedgecombe2fhlbc@com)

### **Federal Home Loan Bank of Cincinnati**

Carol M. Peterson, Community Investment Officer  
Atrium Two, Suite 1000 221 East Fourth Street  
Cincinnati, Ohio 45202  
(513) 852-7615  
[peteroncm@fhlbcon.com](mailto:peteroncm@fhlbcon.com)

### **Federal Home Loan Bank of Dallas**

Bruce Hatton, Community Investment Officer  
8500 Freeport Parkway South, Suite 100  
Irving, TX 75063-2547  
(214) 441-8586  
[Bruce.hatton@fhlb.com](mailto:Bruce.hatton@fhlb.com)

### **Federal Home Loan Bank of Des Moines**

Curt Heidt, Community Investment Officer  
907 Walnut Street  
Des Moines, Iowa 50309  
(515) 281-1175  
[Cheidt@flhbdm.com](mailto:Cheidt@flhbdm.com)

### **Federal Home Loan Bank of Indianapolis**

Pat Gamble-Moore, Community Investment Officer  
8250 Woodfield Crossing Boulevard  
Indianapolis, Indiana 4620  
(317) 465-0368  
[pgamble@fhlbi.com](mailto:pgamble@fhlbi.com)

### **Federal Home Loan Bank of New York**

Donald J. Wolff, Community Investment Officer  
200 Park Avenue  
New York, NY 10166  
(212) 294-1770  
[wolff@fhlbny.com](mailto:wolff@fhlbny.com)

### **Federal Home Loan Bank of Pittsburgh**

John J. Bendel, Community Investment Officer  
601 Grant Street  
Pittsburgh, Pennsylvania 15219-4455  
(412) 288-2820  
[john.j.bendel@fhlb-pgh.com](mailto:john.j.bendel@fhlb-pgh.com)

### **Federal Home Loan Bank of San Francisco**

James Yacenda, Community Investment Officer  
600 California Street  
San Francisco, California 94108  
(714) 633-1271  
[yacendaj@fhlbsf.com](mailto:yacendaj@fhlbsf.com)

### **Federal Home Loan Bank of Seattle**

Jennifer Ernst, Community Investment Officer  
1501 Fourth Avenue, 19<sup>th</sup> Floor  
Seattle, WA 98101-1693  
(206)340-8737  
[jernst@fhlbsea.com](mailto:jernst@fhlbsea.com)

### **Federal Home Loan Bank of Topeka**

Christopher Imming, Community Investment Officer  
2 Townsite Plaza 120 East 6<sup>th</sup> street  
Topeka, Kansas  
(785) 233-0507  
[Chris.Immington@fhlbtopeka.com](mailto:Chris.Immington@fhlbtopeka.com)







## Financial Literacy

By Carol Wayman, NCCED

### Background

In many low-income communities, or in communities with many recent immigrants, the need for financial literacy education is great. “Unbanked” populations, those without traditional savings or checking accounts, are more likely to pay expensive fees, receive high interest rates, and be hurt by predatory loans from check cashers and payday lenders.

CDCs realize that predatory lending is the undoing of community development. They are increasingly making financial literacy a higher priority for their organizations. CDCs include financial literacy components in many of their programs including housing and business counseling, tax preparation assistance, and Individual Development Accounts.

CDCs have also supported federal government efforts to develop oversight and education programs to help families become financially literate. In 2003, Congress created the Financial Literacy and Education Commission and charged it “to develop a national strategy to promote financial education and financial literacy among all Americans.” The Commission, chaired by Secretary of the Treasury John Snow, consists of members representing 20 federal departments, agencies and commissions. Each agency’s programs are detailed on the Treasury website below. Two of the major programs include:

### **Office of the Comptroller of the Currency**

The U.S. Treasury Department’s Office of the Comptroller of the Currency (OCC)’s mission includes “ensuring access to credit throughout communities and helping national banks recognize how new business opportunities that revitalize or stabilize low- or moderate-income geographies can be addressed in a safe and sound manner.” It works toward this mission by encouraging bank involvement in community development activities including, for example, banks’ Community Reinvestment Act (CRA) contributions.

The OCC also monitors financial literacy programs through its Community Affairs office. Types of programs include: basic banking and asset building, credit management and repair, homeownership counseling, education regarding abusive lending practices, and small business and microenterprise technical assistance. The OCC has published a Financial Literacy Resource Directory, which is available on the web (see *For More Information* below). The Directory provides descriptions and contact information for organizations whose primary mission includes financial literacy initiatives.

### **Federal Deposit Insurance Corporation**

The Federal Deposit Insurance Corporation (FDIC) has created a training program called *Money Smart* to help adults outside the financial mainstream enhance their financial skills and create positive banking relationships. The *Money Smart* curriculum was developed to help individuals build financial knowledge, develop confidence, and use banking services effectively.

The Money Smart program is available *free* to organizations interested in sponsoring financial education workshops. The FDIC encourages collaboration between banks and nonprofit

organizations to educate individuals who may be unfamiliar with the benefits of having a relationship with an FDIC-insured bank. FDIC staff is available to provide technical assistance and to help facilitate partnerships among interested parties. Participation in *Money Smart* can help banks fulfill part of their CRA obligations.

### What You Can Do

Partner with a local bank to promote financial literacy in your community through education initiatives. Contact a local bank officer or your area or a FDIC Consumer Affairs Officer (see link below) to get involved. Remember, financial institutions are often motivated to help provide financial literacy education in order to fulfill their federal CRA requirements and to expand their customer base by adding those that are currently unbanked.

### FOR MORE INFORMATION

#### **Web Resources**

<http://www.occ.treas.gov/cdd/finlitresdir.htm> OCC financial literacy resources  
<http://www.fdic.gov/consumers/consumer/moneysmart/index.html> FDIC Money Smart Program  
Order curriculum online – CD ROM or hard copy  
[www.fdic.gov/consumers/consumer/moneysmart/cao.html](http://www.fdic.gov/consumers/consumer/moneysmart/cao.html) FDIC Consumer Affairs Officers by region

#### **Department of the Treasury**

1500 Pennsylvania Avenue, NW  
Washington, D.C. 20220  
(202) 622-9372

#### **Office of the Comptroller of the Currency**

Washington, D.C. 20219

<http://www.occ.treas.gov>

<http://www.treas.gov/offices/domestic-finance/financial-institution/fin-education/resources/>

#### **Federal Deposit Insurance Corporation**

550 17th Street, NW  
Washington, DC 20429  
Attention: Money Smart Order Desk,  
PA-1730-7070B Fax: (202) 416-2111  
<http://www.fdic.gov/>

## Individual Development Accounts

By Tracey Gordey, CFED

### Background

Individual Development Accounts (IDAs) were created to enable working-poor families to save for an asset, build wealth, and enter the financial mainstream. IDAs are matched savings accounts restricted to three uses: (1) buying a first home; (2) receiving post-secondary education; or (3) starting or expanding a small business. Individual and matching deposits are not commingled; all matching dollars are kept in a separate, parallel account. When the IDA accountholder has accumulated enough savings and matching funds to purchase the asset (typically over two to four years) and has completed a financial education course, payments from the IDA are made directly to the asset provider to complete the asset purchase.

- *Children's Savings Accounts.* The Savings for Education, Entrepreneurship, and Downpayment Policy and Practice Initiative (SEED), a multi-year national initiative to test and promote matched savings accounts and financial education for children and youth. The initiative seeks to set the stage for universal, progressive American policy for asset building by bringing together national and community partners to design, administer, and document specific aspects of children's savings programs.
- *Entrepreneurship.* The National Fund for Enterprise Development (NFED), an affiliate of CFED, administers a grant and loan program for statewide microenterprise associations and state microenterprise intermediaries that are engaged in activities which can lead to replicable break-through developments in the growth and sustainability of state level microenterprise development. CFED's Rural Entrepreneurship through Action Learning (REAL) program provides curricula, training and resources to make entrepreneurial training accessible to the people of all ages and communities of all sizes.

### Status

*The Savings for Working Families Act* is a federal legislative proposal that would create a tax credit to support IDAs and make them available for hundreds of thousands of lower-income Americans. Financial institutions would be reimbursed up to \$500 per IDA, per year, for each IDA to which they contribute matching funds. Financial institutions would also be eligible for an annual \$50 per account tax credit to cover the costs of establishing and administering these accounts. The tax credit may also be transferred, thus allowing credit unions to engage in IDAs created with the tax credit. In 2004 an effort to pass the Savings for Working Families Act was considered by both the 107<sup>th</sup> and 108th Congress with significant movement and bipartisan support in 2004. It is expected to be reintroduced in 2005.

*Assets for Independence Act:* In 1998 Congress passed the Assets for Independence Act (AFIA), a federally funded IDA demonstration. AFIA was authorized at \$125 million over 5 years (\$25 million per year), Congress authorized \$10 million for its first two years and \$25 million for its next. Congress provided \$24.9 million for FY 2005.

## What You Can Do

Join national organizations that promote Individual Development Accounts. Network with other practitioners who administer these asset creating programs. Promote new legislation and protect other programs that support IDAs:

*The ASPIRE Act* was introduced in the U.S. House of Representatives and the Senate on July 22, 2004. It will encourage savings, promote financial literacy, and expand economic opportunity by creating a Kids Investment and Development Savings (KIDS) Account for every child born beginning January 1, 2006. Each account will be endowed with \$500 from the federal government. In addition, children in families earning below the national median income will receive another deposit of up to \$500 and their own savings will be matched dollar-for-dollar up to \$500 per year. Savings in a KIDS Account will grow until the child turns 18, at which time s/he may make tax-free withdrawals for post-secondary education, a first home, or a retirement savings account. CFED plans to reintroduce it in the 109<sup>th</sup> Congress.

*Office of Refugee Resettlement gets Congressional support for using funds for IDAs:* With increasing demands on fewer discretionary resources, there has been significant concern about the fate of IDA programs administered by the Office of Refugee Resettlement (ORR). Members of Congress, however, made their support for ORR-funded IDAs explicit. The conferees urged ORR to continue supporting discretionary grant activities, such as the individual development accounts

### FOR MORE INFORMATION

**Office of Community Services**

U.S. Department of Health and Human Services  
901 D Street, SW Suite 500 West  
Washington, D.C. 20447  
Ph: (202) 401-4626  
[AFIPProgram@acf.hhs.gov](mailto:AFIPProgram@acf.hhs.gov)  
<http://www2.acf.hhs.gov/assetbuilding>

**CFED**

777 North Capitol Street, NE Suite 800  
Washington, D.C. 20002  
Ph: (202) 408-9788  
Fax: (202) 408-9793  
<http://www.CFED.org>  
<http://www.idanetwork.org>

## **New Markets: New Markets Tax Credit**

By Carol Wayman, NCCED

### Background

Enacted on December 21, 2000 as part of the Community Renewal and New Markets Act of 2000, the New Markets Tax Credit (NMTC) is designed to generate \$15 billion in new private sector equity investment to encourage private sector investment in low- to moderate-income rural and urban communities nationwide. This tax credit encourages private investors who may never have considered investing in neglected communities to do so. Because community development credits may not redeem the equity interest for at least five years, capital stays in the community.

### **How NMTC Works**

Investors in a qualified community development entity (CDE) receive a tax credit for their investment – 39 percent of the amount invested – over seven years.

CDEs include community development corporations (CDC), community development financial institutions (CDFI), small business investment corporations (SBIC), and others. CDEs apply to the Community Development Financial Institutions Fund, an agency of the Treasury Department, for an allocation of NMTC. The credits are awarded competitively based on a CDE's performance, accountability, and record of success providing capital or technical assistance to disadvantaged businesses or communities.

Once a CDE secures an allocation of credits, it sells the tax credit certificates to private investors. In return, investors receive a tax credit certificate from the CDE to attach to their Federal income tax forms – claiming a 5 percent tax credit for the first three years, and a 6 percent credit in the last four years, during the term of the investment. A CDE has five years to market the credits they receive from the Treasury Department.

The CDE would then use the capital generated from the sale to provide loans, equity, and other forms of credit to qualified low-income community businesses, including nonprofit corporations, in targeted distressed areas.

### Status

As of 2005, the Fund has made 129 awards totaling \$6 billion in allocation authority. The Fund released its third annual NMTC Program Notice of Allocation Availability (NOAA) on August 5, 2004 and applications were due by October 6, 2004. Groups are awaiting notification of allocations. There will be \$3.5 billion available in 2006-7.

The Corporate Tax Bill (HR 4520) enacted in the Fall of 2004 included three provisions sought by community development advocates to make it easier to use the program in rural areas:

- 1) Authorizes the Treasury Secretary to designate "targeted populations" as low-income communities for purposes of the NMTC.
- 2) Provides that a census tract with a population of less than 2,000 will be treated as a

low-income community for purposes of the NMTC if the census tract is within an empowerment zone and is contiguous to one or more low-income communities.

3) Provides additional flexibility to rural counties in meeting the low-income test if they have suffered from a significant population loss. Under the revised statute, if a census tract is located in a high migration rural county, low-income is defined by reference to 85 percent (rather than 80 percent) of the statewide median family income. The provision defines a high migration rural county as any county that, during the last 20-year period ending with the year in which the last census was conducted, has a net out-migration of inhabitants from the county of at least 10 percent of the population of the county.

### What You Can Do

To ensure the best use of this credit, actively reach out to community development entities with allocations in your area and ask them to help finance your projects. The CDFI Fund website contains a list of awardees with allocations.

NCCED continues to express its concern that the Administration's proposal to exempt corporate dividends from taxation could reduce the value and utility of tax credits. It is estimated by Ernst and Young that a 2003 proposal, if enacted, would result in 40,000 fewer housing units produced with the Low Income Housing Tax Credit.

In addition, the Administration and some in Congress are stating that New Market Tax Credits replace economic development grant programs including those at the CDFI Fund, HUD, and U.S. Department of Agriculture. The NMTC does not replace grant and equity funds for two reasons. First, the NMTC is a very shallow subsidy. The LIHTC by contrast provides a 70 –91 percent return compared to the 39 percent for NMTC. Also, every NMTC dollar must be repaid at the end of the term limiting its ability to provide needed equity funds. The NMTC enhances, but does not replace, proven economic stimulus initiatives.

Finally, advocates are already working to expand the NMTC beyond its 2007 authorization.

### **FOR MORE INFORMATION**

#### **Web Resources**

<http://www.newmarketstaxcreditcoalition.org/>  
<http://www.newmarketsadvisors.com>  
<http://www.newmarkettaxcredits.com/>

#### **CDFI Fund**

601 13th Street, NW  
Suite 200 South  
Washington, DC 20005  
Ph: (202) 622-8662  
Fax: (202) 622-7754  
<http://www.cdfifund.gov>

## **New Markets: New Markets Venture Capital Firms**

By Carol Wayman, NCCED

### Background

The Community Renewal and New Markets Act, passed on December 21, 2000, included a program to aid New Markets Venture Capital (NMVC) firms. The goal of NMVC legislation is to apply the powerful engine of growth, which has driven the economic expansion in Silicon Valley and other hotbeds of business development, to the economic needs of low-income communities.

In July 2001, the first seven New Markets Venture Capital companies were conditionally designated. The program plans to aid 10 to 20 new firms. SBA expects to run a second round of the program for an additional designation of NMVC companies when funds become available.

### Status

The agreement authorizes the SBA to guarantee up to \$152 million in loans that will match \$100 million in private equity for a total of \$250 million. It also provides \$30 million in technical assistance for small businesses. SBA has nearly \$2.7 billion available for venture capital assistance.

Unfortunately, funds for the second round of the New Markets Venture Capital (NMVC) Program have been cut from the federal budget. The funds were cut as part of the Omnibus Reconciliation bill, which provided funds for most activities of the federal government in one large piece of legislation. The provision cutting funds from the NMVC program was buried in this mammoth piece of legislation. The provision was not included in either the House or Senate versions of the legislation but was slipped in literally at the last hour in the House and Senate conference negotiation process. President Bush proposed eliminating the program in FY 2004 and funding has never been restored.

### What You Can Do

Ask your legislators to send a Program Request Letter to the Chairman Judd Gregg, Commerce, Justice State and Judiciary Subcommittee of the Senate Appropriations Committee requesting \$70 million for Round II of the New Markets Venture Capital Program in the SBA budget. Submit a similar letter to Chairman Frank Wolf in the House of Representatives.

#### **FOR MORE INFORMATION**

**U.S. Small Business Administration**  
409 Third Avenue, SW  
Washington, DC 20416  
SBA Answer Desk: (800) U-ASK-SBA  
<http://www.sba.gov>

**Community Development Venture Capital Alliance**  
330 7th Avenue, 19th Floor  
New York, NY 10001  
T. (212) 594-6747  
F. (212) 594-6717  
<http://www.cdvca.org>

## Small Business Administration: Microenterprise Programs

By Carol Wayman, NCCED, with assistance from Michelle Levy-Benitez, Association for Enterprise Opportunity

### Background

The SBA Microloan Program is the largest Federal program solely dedicated to supporting the capital and technical assistance needs of microentrepreneurs, our nation's smallest business owners. The program provides loan dollars to nonprofit intermediary lenders who then provide loans of under \$35,000 to underserved entrepreneurs for the purposes of starting or expanding microenterprises. In addition to providing start-up and expansion financing, microloan intermediaries provide their borrowers with intensive, personalized pre- and post-loan technical assistance (TA). Intermediaries also receive an annual grant from the SBA to provide these TA services, which include financial and business planning, management and marketing assistance, and ongoing technical support as the business develops. Technical assistance resources are the key reason that the program has experienced a low loss rate despite the many high-risk loans it makes.

There are currently 165 intermediary lenders and 14 non-lending technical assistance providers (NTAPs) participating in the SBA Microloan Program. To date, the lending intermediaries have made more than 21,200 loans for a total of over \$246 million. The average loan to a microentrepreneur is approximately \$11,500 with more than 39 percent of the loans going to start-up ventures and more than 45 percent of these loans benefiting women-owned businesses. These microloans have enabled start-up and emerging businesses to finance their working capital, equipment, and inventory needs.

The NTAPs provide training and business technical support to microentrepreneurs for the purposes of helping them obtain private sector financing. They have assisted entrepreneurs with little or no business experience to develop business plans, secure financing, and operate successful businesses.

**CDC Success Story.** Kentucky Highlands is a community development corporation (CDC) established in 1968 to serve the Appalachian region of eastern Kentucky. In 1992, Kentucky Highlands launched their microloan program aimed at providing from \$500 to \$25,000 to small manufacturers and other businesses in the region. They initiated the *Aspiring Entrepreneur Program* targeted to individuals with an interest in starting a business. The program offers a twelve-month training curriculum that combines hands-on managerial experience with financial backing if the entrepreneur develops a viable plan.

**PRIME.** The Program for Investment in Microentrepreneurs Act (PRIME) was passed in 1999 to meet the large need for intensive microenterprise training and technical assistance among low- and very low-income entrepreneurs. Since then, PRIME funding has provided funding for microenterprise development organizations across the country at two levels: in organizational capacity building and in client services. Traditionally, more than 70 organizations from across the nation received PRIME funding on an annual basis. In FY 2004, the SBA enforced geographic limitations for PRIME applicants which drastically narrowed the pool of eligible organizations and lessened the number of current PRIME grantees to about 20.

### Status

Like many programs at the Small Business Administration, the microenterprise programs have endured several budget cuts in recent years. For FY 2006 and 2005, the President's budget proposed to eliminate the SBA Microloan and PRIME programs entirely. Despite this recommendation, Congress signaled their support for disadvantaged entrepreneurs by passing the following appropriations in the final Commerce, Justice, State, and Judiciary bill for FY 2005, which is roughly the same as 2004:

- \$14 million for SBA Microloan TA;
- \$15 million for SBA Microloan Lending Capital;
- \$12.5 million for Women's Business Centers; and
- \$5 million for PRIME.

### What You Can Do

Ask your legislators to support microenterprise programs at the SBA. Urge them to drop the geographic limits and allow a group in any state to apply for funding. Involve your for profit partners, including financial institutions in your education campaign.

#### **FOR MORE INFORMATION**

##### **U.S. Small Business Administration**

Office of Program Development  
409 Third Avenue, SW  
Washington, DC 20416  
Ph: (202) 205-6485  
<http://www.sba.gov>

##### **Association for Enterprise Opportunity**

1601 North Kent Street Suite 1101  
Arlington, VA 22209  
Ph: (703) 841-7760  
Fax: (703) 841-7748  
E-mail: [aeo@assoceo.org](mailto:aeo@assoceo.org)  
<http://www.microenterpriseworks.org>