CDBA Community Development Bankers Association
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May 15, 2015

Ms. Annie Donovan
Director
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Mr. Greg Bischak
Manager, Financial Strategies and Research
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Dear Director Donovan and Mr. Bischak:

On behalf of the members of the Community Development Bankers Association (CDBA), we are writing in response to the Notice for Public Comment published on March 17, 2015 by the Community Development Financial Institutions (CDFI) Fund. The Notice seeks comments on the Bank Enterprise Award (BEA) Program Evaluation

CDFI Bank Sector:

Today there are 109 CDFI certified banks and thrifts. These mission-focused financial institutions are a specialized niche within the banking industry, representing only 1.65% of the 6,589 banks in the nation. CDFI banks, however, are very important to the CDFI sector. While certified banks and their holding companies represent only 12% and 6%, respectively, of all 933 certified CDFIs, by asset size they account for 36% (estimated) of the total assets of the entire CDFI industry.

CDBA is the national trade association of the community development banking sector, the voice and champion of CDFI banks and thrifts. CDBA represents Federal and State chartered banks, thrifts, and their holding companies that are certified by the CDFI Fund. CDBA members serve our nation’s most distressed and credit-starved communities and are engines of economic inclusion throughout the United States.

BEA Program Background:

The Treasury Department’s CDFI Fund was authorized by the Community Development Banking and Financial Institutions Act of 1994 (Public Law 103– 325) to promote community development in distressed urban and rural communities by increasing the availability of credit, investment capital, and financial services. The BEA Program was part of the CDFI Fund's original authorizing statute. The BEA Program provides incentives for FDIC insured institutions to: (1) support CDFIs through grants, loans, investments and other assistance; and (2) promote investment in the most distressed communities in the nation. Since 1996, the BEA Program has made $393 million in awards and helped facilitate billions in new investments that benefits the most difficult to serve markets.

BEA Program Evaluation Goals

We applaud the CDFI Fund for its efforts to continuously improve its programs and actively engage the CDFI industry for feedback. As stated by the Notice, the BEA Program Evaluation is designed to assess:

- The effectiveness of the BEA Program as a mechanism for providing performance-based awards;
- The influence of the BEA Program and BEA Program awards on bank behavior and investment patterns;
- The impact of the BEA Program awards on award recipients and distressed communities; and
- The impact of BEA Program-eligible investments in CDFIs and in distressed communities

Importance of BEA to CDFI Banks:

The BEA Program is of great importance to the CDFI banking industry. The evaluation should examine how the BEA Program has provided much needed resources to help CDFI banks: (1) absorb the higher costs and mitigate risk associated with serving the most distressed communities; and (2) enhance their capacity to serve their communities.

The CDFI bank sector has grown increasingly frustrated by the Department and the Administration's lack of support in its annual budget requests despite the strong performance and impact of the BEA program and its recipients. While the CDFI Fund's original authorizing statute and Congressional intent clearly contemplated CDFI banks as a focal point of the CDFI Program's Financial Assistance Program, implementation has not historically been well aligned with this goal. As a result, the CDFI bank sector has largely had to depend on the BEA Program as its primary and most reliable source of support.

Despite their importance to the CDFI industry, CDFI banks and their holding companies have only received 6.7% of the CDFI Program funds whereas they have received 52% of the BEA monies since the inception of the two initiatives. Since 1996, the BEA Program has provided $215 million to 105 CDFI banks. By comparison, the CDFI Program (including FA, CORE, SECA and TA) has made only $92 million in awards to 49 CDFI banks and their holding companies.

BEA Impact & Targeting

The evaluation should explore how effectively BEA incents applicants to engage in activities in the most distressed census tracts, as compared to other CDFI Fund Programs. We believe the best way to understand the impact of the program on communities serve by the banks is to engage in in-depth interviews with Awardees – particularly CDFI banks.

BEA-eligible lending and financial services activities must be carried out within census tracts that have a 30% poverty rate and 1.5 times the national unemployment rate. These areas are far more distressed than the Low and Moderate Income definition used by Community Reinvestment Act (census tracts with a median family income of 80% of the MSA) or the Investment Area definition used by the CDFI Program.

A 2012 analysis by the CDFI Fund reported that the BEA Program is the most targeted of all of the agency's programs. The report states that 89.5% of all monies going to the lowest low income census tracts (30% poverty plus 1.5 national unemployment). By comparison, only 61.1% of CDFI Program and 82.9% of New Markets Tax Credit Program resources were targeted to the most distressed places.

We believe the best way to understand the impact of BEA on promoting investments in CDFIs is to engage in direct interviews with banks that: (1) first engaged in such CDFI Support Activities through BEA; and/or (2) or increased their long term support for CDFIs as a result of program participation.

Over the 20 years of the BEA Program, it has incented banks to support CDFIs with grants, loans and other support at many times the multiple of funds provided through BEA. This leverage and impact needs to be fully documented. Furthermore, interviewing CDFIs that have been recipients of financial support provided by BEA Awardees would also yield rich data on the impact of the program on the entire CDFI sector.

Correcting Misinformation About BEA Beneficiaries

The program evaluation should focus on dispelling misinformation about who the program benefits. A common misperception about the BEA Program is that it primary benefits "big" banks – while data demonstrates the opposite is true.

> <u>Beneficiaries by Bank Size</u>: Actual data on the BEA Program clearly illustrates that it benefits small banks – not big banks. Over the past five years (2010-2014), 48% of all BEA dollars have been awarded to banks with total assets of less than $250 million with 85% of awards going to community banks with less than $1 billion in total assets. Only 3% of award dollars have gone to the largest "money center"

banks ($100 billion or greater). Yet, to the extent that the largest banks have received BEA monies, it has been for investing in or otherwise supporting CDFIs. See Attachment.

CDFIs as Primary Beneficiaries: Over 2010-2014, 78% of all BEA awards have gone to CDFI banks that have a primary mission of promoting community development. In 2014, 89% of awards went to CDFI banks and 30% to Minority Depository Institutions. The average size of a CDFI bank is $303 million (at Q4 2014).

Documenting BEA Leverage

The program evaluation should explore how effectively the BEA Program targets and leverages private dollars into the most distressed communities.

BEA uses a small amount of grant money to leverage significant investment in the entire CDFI field. Over 2010-2014, $57.1 million in BEA awards have leveraged $202.7 million in support to CDFIs, $1.55 billion in loans and investments in Distressed Communities, and provided $73.4 million in financial services to distressed communities. Since 2009, BEA awardees that receive $50,000 or more report on the use of their award post-receipt. Among these 2012 awardees, $15.27 million in new BEA qualified activities were performed.

Influencing Bank Behavior

A goal of the program evaluation is to understand how the BEA influences bank behavior. We believe the best way to understanding how the program influences behavior is to engage in depth interviews with: (1) CDFI banks about their Distressed Community activities; and (2) non-CDFI banks about how the program influences their CDFI Support Activities.

We understand that the CDFI Fund plans to administer an online survey of past BEA Awardees on the factors that influence their levels of engagement in BEA Eligible Activities. While such a survey will yield some broad data, the draft survey posted for public comment may be too general to capture how the program influences behavior. As a minor note, some of the draft survey questions appear to be duplicative (e.g. Question #2 and #7 under both the CDFI Support Activities and Distressed Communities Activities).

The draft survey places too heavy an emphasis on evaluating the influence of the Community Reinvestment Act (CRA) versus the BEA Program. In reality, CRA and BEA work in a highly complementary fashion, rather than compete. There are a broad range of activities a bank can engage in for CRA purposes; the BEA Program provides resources to support a subset of these activities within the most Distressed Communities and for the benefit of the entire CDFI industry. It is also critical to note that banks engage in BEA Eligible Activities because it is good business and to respond to customer demand. The BEA Program helps off- set the costs and risks of serving more difficult markets.

Performance Based Awards

The evaluation should examine the effectiveness of BEA as a Performance Base Award Program.

In recent years, the Obama Administration has developed a strong interested in the creation of performance based awards program, such as Pay-for-Success (PFS). Like such heralded initiatives, the BEA Program provides grants only to those banks that have demonstrated actual performance in increasing eligible lending and service activities. Yet, unlike the recent PFS pilots, BEA has a 17 year track record of success. The Treasury Department should highlight BEA as a proven example of a private sector PFS model.

Demand/Oversubscription:

Finally, the evaluation should explore demand and degree of over-subscription for the BEA program relative to other programs – particularly in recent years as the CDFI Fund has certified large numbers of banks as new CDFIs.

Since 2014, the CDFI Fund has certified 49 new CDFI banks – or 45% of the entire sector. For example, in 2014, only $1 in funding was available for every $12 in BEA requests; the program received $211 million in requests for $17.9 million available. By comparison $1 in funding was available for every $2.38 in requests for the Financial Assistance Program, $3.98 for Healthy Foods Financing Initiative, and $7.39 for New Markets Tax Credits.

In closing, we thank the CDFI Fund for the opportunity to comment on the BEA Program evaluation. This program is very important to the CDFI bank sector. We look forward to working with you and participating in the evaluation.

If you have any questions, please contact Jeannine Jacokes at 202-689-8935 ext. 222 or jacokesj@pcgloanfund.org.

Sincerely,

The Membership of the Community Development Bankers Association

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Albina Community Bank
Bank of Anguilla
Bank of Kilmichael
Bank of Montgomery

Bank of Vernon
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