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COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

UNITED STATES DEPARTMENT OF THE TREASURY

About the CDFI Fund

**Remarks by Kimberly Reed, Director, CDFI Fund
Before the Community Development Venture Capital Alliance
Annual Conference
Washington, DC
March 22, 2007**

Thank you very much for that kind introduction, Kerwin Tesdell. I am excited to be here today, both because I have the opportunity to address the members of the Community Development Venture Capital Alliance (CDVCA), and because this is my first public speech as Director of the Community Development Financial Institutions (CDFI) Fund at the U.S. Department of the Treasury.

I am delighted to serve as the CDFI Fund's new Director, and find it most fitting that my first speech is before CDVCA. In fact, it is, in part, because of one of your members – Appalachian Center for Economic Networks Ventures, also known as ACENet Ventures – that I took the job of Director of the CDFI Fund.

In my prior position as Senior Advisor to the Treasury Secretary, I worked with the CDFI Fund's prior Director, Art Garcia, and the CDFI Fund staff, on the Secretary's behalf. In 2004, I was pleased to travel to Athens, OH, and meet with ACENet Ventures and announce their \$295,000 financial assistance award. I saw first hand how the Fund's awards provide critically needed capital for economically disadvantaged areas. So, when I was approached to become Director, I knew that this was the right decision.

Also, growing up in rural West Virginia, I can appreciate the impact that the CDFI Fund makes to improve the lives in America's neediest communities.

I have been with the Fund for just under two months, and it has been a very busy time. On my first week on the job I was asked to testify before the House Financial Services Appropriations Subcommittee on the Fund's FY 2008 budget. I enjoyed discussing our common objectives and desire to see more opportunities for all Americans.

New York Congressman Jose Serrano is Chairman of the House Appropriations Committee, Subcommittee of Financial Services; and I believe that he was pleased to hear that the CDFI Fund is working hard to help low-income individuals and communities in the Bronx and around the country.

The theme of the hearing was "Financial Services for Disadvantaged Communities", and the mission of the CDFI Fund is to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and economically distressed communities in the United States.

As I begin to look at ways in which the CDFI Fund can have the greatest

impact in disadvantaged communities, the theme of that hearing continues to resonate with me. One thing that I know will help the CDFI Fund make an impact is building and maintaining strong partnerships with our friends in the private sector.

Kerwin was one of the first people I met with when I began my position at the Fund. I was glad to have met with him so I could have an opportunity to learn about the important work of CDVCA and its members.

During that conversation I learned that CDVCA and the CDFI Fund have a common mission of serving low-income people and economically distressed communities and we are both devoted to providing innovative and mission driven investments in those communities.

The member network of CDVCA provides equity capital to businesses in underinvested markets. This type of financing does more than just provide equity to businesses, it also tackles the problems of individuals and communities by building community wealth even after the investors have made a profit from their investment.

I believe this is an intelligent way to invest capital because these investments look at the whole community rather than just focusing solely on the deal. Social venture capital attempts to build the long term wealth of communities, and creates self-sustaining communities through the creation of good jobs and the building entrepreneurial capacity.

While the members of CDVCA make direct investments, the CDFI Fund attempts to undertake this mission by building the capacity of CDFIs through our CDFI Program, and allocating tax credits to Community Development Entities through our New Markets Tax Credit Program.

We know that community development venture capital funds are different and we take that into account when we develop our applications and review your business plans. Our staff have attended your conferences and we've been privileged to have Kerwin come in and provide onsite training and updates for us on more than one occasion. CDVCA's "Equity and Near Equity Primer - A Guide for Community Development Investors" is a well-used resource among our staff. We depend on your ongoing research to help us understand how you work and the impact you make. We know you're still young compared to the larger CDFI sectors. Your investments are long-term, your legal structures are complex, and your balance sheets are unique. No matter how different though, CDVCA's funds are an integral part of this important industry because your investments catalyze economic development in underserved areas. The Fund is dedicated to this mission so we're dedicated to serving you.

CDFIs

I am very pleased to count among our CDFIs a number of mission driven venture capital funds. As you well know, CDFIs are community-based specialized financial institutions that serve low-income people or work in economically distressed communities, often working in market niches that may be underserved by traditional financial institutions. As of January, 2007 the Fund has certified 778 institutions as CDFIs, of which 27 are venture funds.

I know that is a small number compared to the number of CDFIs that are banks, credit unions, or loan funds, but we know that you venture capital funds provide a unique mix of equity and equity-like products that distinguishes you from other CDFIs and provide necessary capital for economic development.

CDFI Program

Through its CDFI Program, the Fund uses federal resources to invest in and

build the capacity of CDFIs. The CDFI Program provides Financial Assistance awards and Technical Assistance grants to CDFIs and entities proposing to become CDFIs.

The CDFI Fund selects Financial Assistance (FA) and Technical Assistance (TA) awardees annually through a competitive selection process. Both CDVCA and many of its members have received awards under these programs, and I would encourage more of you to apply.

The CDFI Fund provides FA awards in the form of equity investments, loans, deposits, or grants, and must be matched dollar-for-dollar by the applicant with funds of the same type from non-federal sources.

These awards enable CDFIs to leverage private capital to respond to demand by low-income families for affordable financial products and services in economically distressed markets.

CDFIs respond to this demand by providing loans, investments, training, technical assistance, and checking or savings accounts, and, in your case, much needed equity capital.

Based on data reported to the CDFI Fund, it is estimated that, for the past two years, CDFIs have leveraged their Financial Assistance awards with nonfederal dollars up to an average of 27:1.

In addition to Financial Assistance, the CDFI Fund also provides Technical Assistance grants to build the capacity of start-ups and existing CDFIs. This can include enhancing technology, staff training, consulting services to acquire needed skills or services such as a market analysis or lending policies and procedures.

More established CDFIs also use Technical Assistance grants to build their capacity to provide new products, serve current markets in new ways, or enhance the efficiency of their operations. We encourage even the most established CDFIs, and all of you who are CDFIs to make use of our Technical Assistance awards to build your capacity.

I would like to highlight one of the venture capital funds that are using our programs to great affect in low-income communities, and also highlight its Executive Director for serving on the CDFI Fund's Advisory Board.

Ray Moncrief is Executive Vice President of Kentucky Highland Investment Corporation (KHIC). Kentucky Highlands is a community development venture capital fund that uses its financial resources to leverage employment opportunities in its nine county service area of rural Southeastern Kentucky. KHIC has over 30 years of experience in financing and developing business and industry in its economically distressed region. KHIC couples its investment with entrepreneurial development and assistance to businesses already located in the region or considering locating there.

I want to thank Ray for his service on CDFI Fund's Advisory Board and I look forward to his guidance at my next Advisory Board meeting. Ray and Kentucky Highlands is that great example of how a venture capital fund and the CDFI Fund can work to together to have an impact in the communities we serve.

Impact

As I just highlighted, our CDFI Program awardees are having significant impact in the communities that they serve.

In FY 2005, the most recent year for which complete data is available, 186

CDFI Program awardees reported leveraging their awards with \$1.4 billion in private and non-CDFI Fund dollars. These CDFIs reported that their financing helped to:

- Create or maintain nearly 14,000 full-time equivalent (FTE) jobs;
- Develop or rehabilitate nearly 27,000 affordable housing units;
- Provide home mortgages to 2,000 individuals;
- Provide checking or savings accounts to nearly 14,000 previously unbanked individuals;
- Provide Individual Development Accounts to 2,500 low-income individuals; and
- Offer financial literacy or other training to 148,000 individuals and organizations.

These new jobs, along with the increase in residential housing and commercial real estate, result in an increase in tax revenue, reduce the amount of state unemployment benefits paid out, and increase local property tax revenue.

This impact is noteworthy, not only because we are employing Federal resource in these communities, but also because we are tracking the funding impact by our funded CDFIs in low-income communities. As a steward of federal taxpayer dollars, making sure that our programs have an impact is of the utmost importance to me.

New Markets Tax Credit Program (**Bold) In addition to the CDFI Program's impact, we have also been pleased with the impact in low-income communities of our NMTC Program. The NMTC Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments (QEIs) in designated Community Development Entities (CDEs).

The credit provided to the investor totals 39% of the cost of the investment and is claimed over a 7 year credit allowance period. In each of the first 3 years, the investor receives a credit equal to five percent (5%) of the total amount paid for the stock or capital interest at the time of purchase. For the final 4 years, the value of the credit is six percent (6%) annually.

In the first four allocation rounds the Fund received a total of 1,078 applications, requesting over \$107 billion with only \$12.1 billion in total allocation authority available. This is almost nine times the amount available for the Fund to allocate. In any given round, only 21% of the total applicant pool has received awards and a large number of highly qualified applicants are left without an award.

Through four rounds of the NMTC Program, 14 CDVCA members have received 23 NMTC awards, for a total of \$1.6 billion in tax credit authority. To have 14 members receive 23 awards is a tremendous testament to the competitiveness and success of the members of CDVCA.

As an incentive program, it has been remarkable to see the amount of capital going into low-income communities, and we are also pleased to see that investors are quickly embracing the program.

To date, investors have made over \$7.2 billion of investments into these CDEs -- or approximately 60% of the total allocation authority made available. So far the 14 CDVCA CDEs have issued over \$1.1 billion in QEIs to investors.

This is a remarkable pace given that the first allocation agreements were not signed until late in 2003, and that CDEs are by statute allowed up to five years to raise their investor dollars.

NMTC transactions have increased by 34% or \$1.9 billion, from December 31, 2006, to February 16, 2007. We hope to see such trends continue in the future.

The pace of investment under NMTC Program is encouraging, but equally as encouraging is the private equity being pooled with government incentives to achieve a greater benefit that would otherwise not be there.

Two examples of how the NMTC Program is encouraging this type of investment packaging are the financing of a manufacturing expansion project in Wisconsin, and the funding of a radiology information technology company in Missouri.

The investment package by Impact Seven, Inc. in a motorcycle engines and parts manufacture in Wisconsin kept the company from possibly relocating outside of the state.

This transaction not only allowed for the company to expand its facilities and stay in the state, but also financed the acquisition of a new warehousing and distribution center, creating 85 new manufacturing jobs.

The financing of the radiology technology company in Missouri by Advantage Capital, Inc. is a good example of a NMTC deal that not only helped to bring a leading edge radiology technology that is normally only available to large hospitals to small and rural communities, but also brought investment into a downtown area to maximize community impact.

I am pleased to see that these CDEs are supporting an environment where job growth and stability as well as geographically diverse investments are encouraged. I hope to focus my time as Director on encouraging new and innovative ways to address this issue of job migration and geographic diversity in investing.

Conclusion

Before closing, I want to announce of some wonderful news for the CDFI Fund and all of its stakeholders. In addition to Ray Moncrief and eight other private citizens, our Community Development Advisory Board has six public representatives from the Departments of Agriculture, Commerce, Housing and Urban Development, Interior, Treasury, and the Small Business Administration. Their job is to advise me on the policies and activities of the fund. Today, Treasury Secretary Paulson is appointing Anna Cabral, the Treasurer of the United States, to be his designee to the Board.

I have known Treasurer Cabral for three years, and she is an inspiring and insightful woman. She brings a wealth of experience and passion for issues of mutual importance to her and the CDFI Fund, such as providing financial education and services to communities that lack them. I hope that each time you pull a dollar bill out of your wallets, you will look at Treasurer Cabral's signature and think of her and the great support she is giving to the CDFI Fund and all of our efforts.

In closing, I want you to know that I appreciate the importance of and impact that programs such as those of the CDFI Fund can make to improve the lives in and economic conditions of America's neediest communities, but I also recognize that without partners such as CDVCA and its members, we would not have the same impact.

Thank you for inviting me here today. I look forward to working with you all in the future.