

**Policy Committee Call**  
December 16, 2004 – 4:00 PM (EST)  
MEETING NOTES

***Future 2005 Policy Committee Conference Calls:***

- Monday, February 14, 4 PM EST
- Wednesday, April 6, 4 PM EST
- Wednesday, June 1, 4 PM EST
- Wednesday, August 3, 4 PM EST
- Wednesday, October 5, 4 PM EST
- Wednesday, December 7, 4 PM EST

1. **Welcome & Introductions** by Kerwin Tesdell, President, CDVCA
  - a. Identification of each person on the call by name and organization
2. **Community Development Financial Institutions (CDFI) Fund** – FY 2005 funding and issues regarding the Fund's programs
  - a. Kerwin Tesdell discussed Art Garcia's appointment last May as Director of the CDFI Fund. He believes that Art Garcia is making some positive changes that provide more flexibility overall and that better accommodate CDFIs. The most recent examples of these changes are the increased flexibility provided by award application forms and the apparent elimination of the PLUM rating system.
  - b. Jennifer Vasiloff, Executive Director, CDFI Coalition, reported that Congress appropriated \$55.5 million to the CDFI Fund Program for FY2005, which is more than the President requested but less than what the CDFI community believes is necessary. She also highlighted deadlines for the following programs:
    - CDFI's Technical Assistance Programs: January 25, 2005. Application and charts are now posted on the CDFI Fund website.
    - Native American Initiatives: February 1, 2005. Can apply for both technical and financial assistance.
    - Financial Assistance Programs: February 24, 2005. \$22 million in grants are available. The application combines both electronic and paper submissions, which provides applicants with more flexibility in providing additional information. The application should be posted online by Monday, December 20<sup>th</sup>.
  - c. Jennifer Vasiloff reported that the political climate in Washington, DC will be shaped primarily by new committee assignments after the inauguration of the 109<sup>th</sup> Congress on January 4, 2005. The CDFI Coalition is particularly focused on the Appropriations Committee. Jennifer Vasiloff pointed out that regardless of the new members, the Appropriations Committee will continue to face severe budget constraints.
  - d. Kerwin Tesdell took an informal survey of those who were planning to apply for CDFI funds. Several participants stated that they would be applying for TA and FA funds.

- e. CDFI's are required to apply for recertification after a certain number of years. CDVCA has spoken to the CDFI Fund staff about the process, and the Fund is currently working to resolve ambiguities in this process. Jennifer Vasiloff said her understanding was that those in a position to be recertified were simply receiving blanket extensions. She encouraged people to talk directly to Fund staff (specifically Pam Williams) about this issue.
  - f. Kerwin Tesdell encouraged members to email CDVCA with their thoughts and concerns about the certification and recertification process.
3. **Rural Business Investment Program (RBIP)**- update on the application process for this round and future funding for the program.
- a. Bob Rapoza highlighted the two provisions for RBIP in the Appropriations bill. The first allocates \$10 million in the budget authority for the financing of \$60 million in debentures as well as for operational assistance of RBICs. The second provision establishes a fee structure similar to the current fee structure for SBICs. Five organizations have submitted applications, and the program will fund three. Each will receive \$20 million in debentures and \$1 million in operational/technical support. The approval schedule has been accelerated so that final decisions will be made in February or March of 2005.
  - b. Kerwin Tesdell reported that the \$10 million approved in the Appropriations bill was a tough fight, and credited Bob Rapoza and Alison Feighan for their efforts.
4. **New Markets Venture Capital Program**
- a. Alison Feighan discussed the \$3.2 million in debentures that were not allocated under the NMVC Program. CDVCA made a request over the summer that the excess be distributed to the six NMVC Program funds. SBA has not yet issued a decision on this issue, and is trying to figure out whether it even has the authority to make this money available. Rapoza Associates is trying to set up a call with SBA, CDVCA, and others to address this issue.
5. **CRA**
- a. Kerwin Tesdell underscored the importance of CRA to the CDVC industry. Commercial banks, motivated in large part by CRA, account for approximately 36% of all private investments into the industry.
  - b. Brian Schmitt provided call participants with an overview of CRA. Since the 1990s, four regulators (the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Federal Reserve) have overseen the same CRA regulations. However, OTS has moved out on its own by proposing changes to the regulations that are very detrimental to the CDVC industry. Current CRA regulations followed by all four regulators provide that CRA compliance be tested 50 percent through lending, 25 percent through investment, and 25 percent through services. It is the investment portion of the test that motivates most bank investments in CDVC funds. OTS has proposed that compliance with the investment and services portions of the test be optional. This proposal comes after the OTC announced a unilateral change raising the threshold for the definition of

“small banks,” which are exempt from the investment test, from \$250 million in assets to \$1 billion in assets.

- c. Brian Schmitt urged people to (1) send a letter to OTS, (2) work with legislators on the issue, and (3) use the media to bring attention to the issue by writing op-eds, etc. A sample letter is on CDVCA’s website at [www.cdvca.org](http://www.cdvca.org).
- d. John Taylor, President of the National Community Reinvestment Coalition, pointed out that people can weigh in on the OTS changes to CRA by visiting NCRC’s website, [www.ncrc.org](http://www.ncrc.org). He emphasized the importance of having as many people as possible respond so that regulators will clearly see the public opposition. He believes that the other regulators will follow suit if OTC implements these proposed changes. The deadline for submitting comments is January 24, 2005.

## **6. New Markets Tax Credit (NMTC)**

- a. Kerwin Tesdell reported that the NMTC Coalition conference occurred on December 7, 2004. He also discussed a recent change made to the NMTC legislation as part of the corporate tax bill passed at the close of the 108<sup>th</sup> Congress. The change will allow CDEs to target NMTC investments to low-income target populations as well as qualified low-income census tracts. The original legislation required that all NMTC investments be located in qualified census tracts. This is a very positive change for the CDVC industry.
- b. Kerwin Tesdell discussed the reauthorization of the NMTC legislation in 2007. CDVCA will be working with Rapoza Associates, the NMTC Coalition, and others to develop a series of priorities for reauthorization and to develop a strategy to move the legislation through Congress. While the NMTC is authorized through 2007, the Coalition hopes to have a consensus bill introduced this year. As the NMTC legislation currently stands, several mechanisms that are central to how the credit operates (particularly the seven-year investment period) make the credit less valuable for venture capital. In particular, venture capital investors will seek to change the current recapture provisions so that an early exit would allow an investor to take a partial credit.
- c. Alison Feighan reported that Rapoza Associates, on behalf of the NMTC Coalition, is surveying all of the first round NMTC Allocatees and will use the information collected to develop a status report on the Credit, which will be distributed to Members of Congress and other policy makers. Rapoza Associates also plans to bring together a broad working group next spring to work on changes to the reauthorization bill.
- d. Rick Larson, Managing Director of SJF Ventures, pointed out that threat of recapture resulting from the seven-year investment period was the main reason SJF decided against pursuing the NMTC. Kerwin Tesdell urged members to let CDVCA know about these concerns.
- e. Stanley Tucker reported that he will be meeting with Senator Mikulski (D-MD) in the next two weeks to discuss the NMTC. Kerwin Tesdell offered the assistance of CDVCA and the CDFI Coalition in preparing for the meeting.

## **7. CDVCA 2005 Annual Conference**

- a. Kelly Williams gave a brief overview of public policy issues that will be addressed at the Annual Conference, encouraged people to attend, and listed the topics of the relevant breakout sessions.

#### 8. **Schedule of Upcoming Policy Committee Conference Calls**

- a. Elena Chávez listed the dates of the 2005 Policy Committee conference calls (at the beginning of this document).

#### **Conference Call Participants:**

Terry Burm, Merrill Lynch  
Elena Chavez, CDVCA  
Kiara Ellozy, CDVCA  
Joseph Falkson, Native American Capital,  
LP  
Alison Feighan, Rapoza Associates  
Len Goeller, Tohono O'odham Nation  
Tracey Gordy, CFED  
Marten Jenkins, The Conservation Fund  
Mark Kaplan, CEI  
John Kauffman, Carter, Ledyard & Milburn,  
LLP  
Rick Larson, SJF Ventures  
Tom Loy, MetaFund  
Dennis Manshack, Enterprise Corporation of  
the Delta

Eric Mills, Kentucky ICC Network  
Pete November, Pacific Community  
Ventures  
Mark Phillips, Northeast Ventures  
Bob Rapoza, Rapoza Associates  
Greg Sandbulte, Northeast Ventures  
Brian Schmitt, CDVCA  
Mark Sullivan, EmTek Fund Manager  
John Taylor, NCRC  
Kerwin Tesdell, CDVCA  
Phil Thomas, Advantage Capital  
Stanley Tucker, MMG Ventures, LLP  
Jennifer Vasiloff, CDFI Coalition  
Kelly Williams, CDVCA  
Scott Zajac, Advantage Capital Partners