

CDVCA Policy Committee Call
February 14, 2005 – 4:00 PM (EST)
MEETING NOTES

1. **Welcome & Introductions** by Kerwin Tesdell, President, CDVCA
 - a. Identification of each person on the call by name and organization

2. **The CDFI Fund and the President's FY 2006 Budget Proposal: Strengthening America's Communities Initiative**
 - a. Kerwin provided an overall summary of the proposal that would consolidate 18 community and economic development programs from a variety of agencies and move them to the Department of Commerce. The CDFI Fund is one of the programs that would be consolidated under the proposal. The President has requested that \$8 million be appropriated for the CDFI Fund, which is just enough to administer the New Markets Tax Credit (NMTC) program and to monitor the existing awards. The proposal provides no new money for the FA, TA, Native American, or BEA programs. CDFI Fund staff have been told that they are not guaranteed jobs after October 2005.
 - b. Kerwin also noted that the President's proposal includes no new funding for the Rural Business Investment Program for FY 2006.
 - c. Bob Rapoza, President, Rapoza Associates, expressed his belief that although numerous cuts in funding will most likely have a negative effect on community development programs, the proposal to move the 18 programs to the Department of Commerce is not likely to be approved by Congress.
 - d. Jennifer Vasiloff, Executive Director, CDFI Coalition, discussed the Capitol Hill visits that took place as part of the CDFI Institute. The visits showed that the CDFI Fund has a fair amount of support in Congress. Although the President's justification for cutting funding for the CDFI Fund (and other community development programs) is that they are duplicative and do not show any proof of impact, many in Congress expressed the view that the CDFI Fund and the industry as a whole have done a good job of documenting impact.
 - e. Jennifer pointed out that the community development industry should focus its efforts on increasing appropriations for community development programs. Bob Rapoza and Alison Feighan (Vice President, Rapoza Associates) agreed that members of Congress that sit on the Appropriations Committee (and the relevant subcommittees) should be educated about the positive impact of the community development programs being cut.

3. **CRA** -- Update on proposed changes
 - a. Kerwin Tesdell discussed the importance of CRA in bringing much-needed capital to low-income communities. More than 40 percent of the capital in the CDVC industry comes from banks, and these investments are motivated in large part by the CRA.
 - b. Malcolm Bush, President, Woodstock Institute, provided an overview of CRA. He discussed the three-part test for large financial institutions that the

four regulators established in 1996 that consists of lending, services, and investments. He pointed out that this change was designed to make the implementation of CRA more effective and efficient, and it was largely successful in doing so. Over the past year, however, the CRA has come under attack as regulators have proposed changes. In particular, Malcolm Bush highlighted the OTS' policy that allows large thrifts with assets above \$1 billion to design their own CRA exams. Lending must count for 50 percent of the total grade, but the remaining 50 percent can be any combination of lending, investment, and services. As a result, thrifts can now ignore the investment test altogether.

- c. The OTS proposal allows *any* investment in rural areas to count as a qualifying investment. Malcolm Bush said that this does not deal with the central purpose of CRA, which is to benefit low-income communities.
- d. Malcolm Bush discussed the importance of weighing in on this issue by writing letters to the federal regulators opposing these changes. He also encouraged members to ask local and national banks to oppose these changes, as well.
- e. Kerwin Tesdell referred members to the webpages of CDVCA and the CDFI Coalition, which have template letters that can be personalized and sent to OTS.

4. New Markets Venture Capital (NMVC) Program

- a. Alison and Kerwin visited the SBA to discuss the \$3.2 million in debentures remaining in the budget for the NMVC Program. They proposed that these monies be distributed to the six NMVC Program funds. SBA has not yet issued a decision on this issue, and is conferring with its legal department to determine whether it even has the authority to make this money available.
- b. CDVCA has been working on this issue for a long period of time, and even asked members of Congress to write letters to the SBA requesting that the unused debenture financing be used to benefit the existing NMVC companies. CDVCA is documenting the successes of the existing NMVC companies in order to make a stronger case for awarding them the unused debenture financing.

5. Rural Business Investment Program (RBIP)

- a. Five applications have been submitted for RBICs, and the SBA has said it would choose three. The SBA is currently reviewing the paper applications and will call a certain number of applicants soon for interviews.
- b. There is no new funding for RBIP in the President's budget proposal for FY 2006.

6. New Markets Tax Credit (NMTC)

- a. Kerwin discussed CDVCA's concerns about the difficulty of using the NMTC for CDVC investments. Kerwin noted that he was pleased that during the last

NMTC Coalition meeting, other board members recognized these concerns about the credit not being used for venture capital and small business finance.

- b. Under current law, an NMTC investor is required to maintain an investment in the CDE for the full seven-year term of the Credit. Recapture is triggered if an investment is redeemed before the seven-year term is up. Kerwin pointed out that this current rule works contrary to the original policy intention, which was to provide flexible equity capital in low-income communities. CDVCA is suggesting that the seven-year vesting period be dropped in favor of a more flexible system that allows an investor to take advantage of the Credit for each taxable year that the investor's equity investment is maintained in the CDE, without the recapture penalty.
7. **Update on CDVCA Annual Conference:** March 15-16, 2005, in Arlington, Virginia
- a. Elena Chávez, CDVCA, encouraged call participants to register for CDVCA's upcoming Annual Conference.

Conference Call Participants:

Joe Ackman, CDFI Coalition
Jeff Armistead, WINCO
Ryan Brennan, Advantage Capital Partners
Gary Brooks, Allomet Partners
Malcolm Bush, Woodstock Institute
Elena Chávez, CDVCA
David Davenport, Citigroup
Alison Feighan, Rapoza Associates
Rex Fowler, South Hartford Initiative
Jacob Gray, Murex Investments
Michael Gurau, CEI
Nat Henshaw, CEI
Mark Kaplan, CEI
Maria Kareshi, ShoreBank Advisory Services
John Kauffman, Carter Ledyard & Milburn
Angela Kazmarski, Impact Seven
Tom Keleher, New Mexico Community Capital
Ron Kelly, ShoreBank Advisory Services
Evelyn Kenvin, Citigroup
Sandra Kerr, NCCA
Gloria Lee, JP Morgan Chase

Nan McIntyre, ShoreBank Enterprise
Bill McMahan, Southern Minnesota Initiative Foundation
Barbara Nagy, ShoreBank Enterprise
Bob Rapoza, Rapoza Associates
Ruth Salzman, JP Morgan Chase
Greg Sandbulte, Northeast Ventures
Charlie Schliebs, iNetworks Advisors, Inc.
Howard Sereda, Citigroup
Tony Shen, County of Humboldt
Mark Sullivan, EmTek Fund
Christopher Tan, ShoreBank Advisory Services
Kerwin Tesdell, CDVCA
Phil Thomas, Advantage Capital Partners
Stanley Tucker, MMG Ventures
Tom VanHale, Northeast Ventures
Ray Wheatley, Rural Oklahoma Capital Alliance
Kelly Williams, CDVCA