

**TESTIMONY OF DCED
BEFORE
HOUSE COMMERCE AND ECONOMIC DEVELOPMENT COMMITTEE
ON SENATE BILL 10, P.N. 1168
SEPTEMBER 17, 1997**

Introduction

Good morning Chairman Hasay, Chairman Lescovitz, and members of the House Commerce and Economic Development Committee. On behalf of the Department of Community and Economic Development, we are pleased to be here to offer background information on Senate Bill 10, which amends the Job Enhancement Act by creating the Pennsylvania Community Development Bank. This initiative was proposed as part of Governor Ridge's Project for Community Building because of the need to provide access to capital for low-income people and disadvantaged areas.

The General Assembly's approval of this bill would establish an innovative mechanism to build community organizations which foster community development and community reinvestment in the form of business opportunities and jobs for residents in both urban and rural areas. The Pennsylvania Community Development Bank will leverage significant private sector funds which benefit minorities, women, and disadvantaged communities. Initial estimates show that for each dollar of state funds allocated to the loan program, at a minimum, an additional three dollars of private sector funds will be committed to finance community and economic development projects in distressed target markets.

Chronology

The Pennsylvania Community Development Bank has the personal interest and support of Governor Ridge. While a Congressman, he helped write similar legislation, the Bank Enterprise Act, which passed as part of the federal Community Development Banking and Financial Institutions Act of 1994.

At the outset of his Administration, and drawing on his Washington experience, Governor Ridge instructed Cabinet officials and other staff to develop a means to make capital available in distressed communities. This initiative was also included in the plan to restructure the former Department of Community Affairs (DCA). That plan described the creation of a Community Development Bank as one example of what a joint community and economic development agency could accomplish. The new merged agency, the Department of Community and Economic Development (DCED), is well positioned to establish the Bank by drawing on the strengths of both former agencies. DCED will rely on the lending expertise of the former Commerce staff and community organizing and capacity-building experience of the old DCA.

Over the past year, staff from DCED, the Department of Banking and the Governor's Office have worked with representatives of community development financial institutions and the banking industry to further refine and develop this concept. In February of this year, the Pennsylvania

Community Development Bank became the flagship of Governor Ridge's Project for Community Building which was subsequently appropriated \$15 million in the 1997-98 budget. S.B. 10 provides the authorizing legislation needed to create the Pennsylvania Community Development Bank and allow the Department to spend the funds appropriated for that purpose.

Provisions of Senate Bill 10

Senate Bill 10 will create the Bank as a program within the Pennsylvania Economic Development Financing Authority. It will be administered by a 15-member committee, including four members appointed by the General Assembly, two cabinet Secretaries, and another nine members who represent the participating investors, the Community Development Financial Institutions, and the general public.

The Bank will provide both grants and loans to achieve the goals of this program. The grants made to eligible organizations will be designed to increase the number and expand the capacity of Community Development Financial Institutions (or CDFIs) in Pennsylvania. The loans will be made to CDFIs which will use these funds to make loans to individuals, businesses, and nonprofit organizations for community development purposes, specifically to support revitalization of distressed communities and buildings. These distressed communities can be either urban or rural in scope and may use either specific population groups, geographic areas, or a combination of both to define the areas they will serve.

The Bank will develop standards to accredit CDFIs to participate in the Bank's loan programs. The criteria will assure that CDFIs receiving loan funds are not only financially sound, but quality organizations because CDFIs will be given local autonomy to manage the loan capital and responsibilities for repayment of the loans.

The Bank will allow CDFIs to initiate or expand their efforts at enterprise creation loans. These activities are a diverse mix of community and economic development projects. These loans will support small business start ups, expansions, microenterprises, community facilities and job creating endeavors.

Role of Housing

We would like to take a few moments to dispel the misconception about the connection between the Bank and its support for the development of housing. While enterprise creation is the primary mission of the Pennsylvania Community Development Bank (PCD Bank), this mission is intrinsically linked to provision of affordable housing.

Even though public funds are critical to promote affordable housing, these funds alone cannot sustain a housing project. Ultimately, families and individuals earning wages and salaries must support the cost of their own housing.

Economic opportunity empowers people to gain greater wealth and independence. Increasing incomes and employment will make more housing options affordable through workers wages and salaries. The ongoing maintenance of homes and apartments, as well as housing-related utility

costs, will remain affordable by reinforcing and enhancing these employment opportunities. Providing low-income households and communities with economic opportunities will also provide upward mobility and true self-sufficiency, not just subsistence and continued dependence on government and subsidy programs.

The PCD Bank will provide both grant and loan funds to assist CDFIs in the Commonwealth. The grant funds will be used to establish seven to ten new CDFIs. These newly-formed CDFIs will be able to undertake housing development and finance affordable housing projects. In fact, they will be encouraged to develop a diverse mix of projects, including housing lending, as a means of managing the risk in their lending portfolio. These new CDFIs will become new community institutions which can support local housing efforts. CDFIs will be encouraged to leverage the wide variety of federal, state, local, and private sector sources of funding for their housing finance activities.

However, the PCD Bank Loan Fund will be restricted to economic development purposes, but this restriction will still allow CDFIs to finance mixed-use projects, e.g., a business located on the first floor with apartments on the second/third floors. The PCD Bank will also support contract financing and predevelopment loans which assist housing projects. Additionally, CDFIs will be able to access the PCD Bank Loan Fund when housing contractors or firms need business financing.

The PCD Bank's focus on enterprise creation is attributable to the greater need for business and community development projects. By comparison, there is a ratio of nearly \$39 of housing funds for each dollar appropriated to the PCD Bank. Roughly, \$581 million of state and federal funds were allocated for housing activities last year compared to only \$15 million for the PCD Bank. Financing enterprise creation activities also is generally more difficult because of the higher degree of risk compared to housing activities. The PCD Bank will permit the Commonwealth to promote community economic development, including both enterprise creation and housing financed by CDFIs, as part of a balanced approach to assist disadvantaged communities and people.

Anticipated Results

What is most important, we know that CDFIs can be successful in promoting enterprise creation. We can look at the track record of those organizations across the country. Let me give you just one example. Self Help in North Carolina is a statewide organization which last year provided 169 business, community facility and microenterprise loans, totaling \$14.4 million. A total of 55 percent of the borrowers were minority business owners, 53 percent of the borrowers were women, and 41 percent were rural residents. We think Self Help is a good model to project the operations of the PCD Bank because it has a statewide presence. Using these figures, we could conjecture that based on the size of the two states, if Pennsylvania had a comparable effort in place, last year the Commonwealth would have seen over \$25 million of lending occur in our distressed communities.

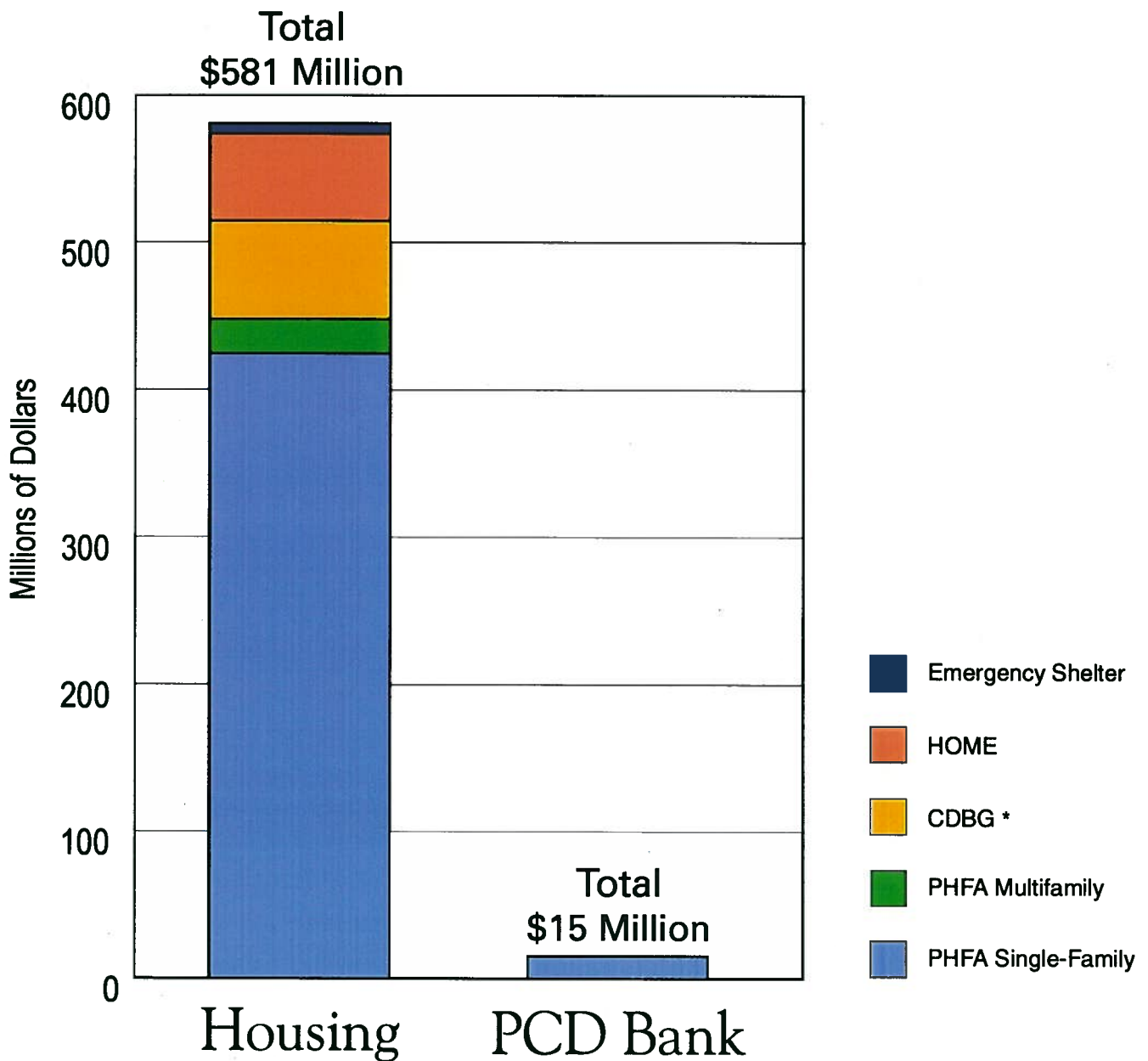
Even more astonishing is the financial track record of these organizations. You heard previously today from Mark Pinsky, Executive Director of the National Association of Community

Development Loan Funds, one of the national associations which represent CDFIs, and Jeremy Nowak, a Pennsylvania member of that organization. These 46 organizations nationally have cumulative loan losses of only 1 percent on their cumulative lending which totals \$515 million.

Clearly, it will take work to establish the Pennsylvania Community Development Bank as a source of capital for CDFIs throughout the Commonwealth. This is a new approach to community and economic development financing. The potential rewards are tremendous and well worth the effort.

Thank you and we would be happy to answer any questions you may have at this time.

Housing Resources Compared to Pennsylvania Community Development Bank



* - Note: Only 25 percent of CDBG funds are included based on statewide trends of the amount spent on housing.