

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

**HOUSE OF REPRESENTATIVES
COMMONWEALTH OF PENNSYLVANIA**

*** * * * ***

**Senate Bill 10
Community Development Banks**

*** * * * ***

**House Commerce and
Economic Development Committee**

**Main Capitol Building
Room 418, Minority Caucus Room
Harrisburg, Pennsylvania**

Wednesday, September 17, 1997 - 11:00 a.m.

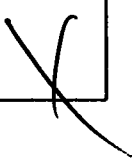
--oOo--

Before:

- Honorable George Hasay, Majority Chairman**
- Honorable Matthew Baker**
- Honorable Charles Dent**
- Honorable Robert Flick**
- Honorable George Kenney**
- Honorable Frank Serafini**
- Honorable Matthew Wright**
- Honorable Peter Zug**
- Honorable Victor Lescovitz, Minority Chairman**
- Honorable Joseph Battisto**
- Honorable John Gordner**
- Honorable Phyllis Mundy**
- Honorable Edward Staback**

**KEY REPORTERS
1300 Garrison Drive, York, PA 17404
(717) 764-7801 Fax (717) 764-6367**

1997-046



1 **ALSO PRESENT:**

2

3 **Dave Washburn,**
4 **Executive Director, Majority**

4

5 **Ron Boston**
6 **Executive Director to Representative Mundy**

6

7 **Brenda Zablotsky**
8 **Administrative Assistant**

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

	C O N T E N T S		
	WITNESSES		PAGE
1			
2			
3	Allan Jennings		5
4	Lehigh Valley Community Action Committee		
5			
6	Mark Pinski, Director		34
7	National Community Development Loan Funds		
8			
9	Dan Hoffman, Policy Director		64
10	Pennsylvania Low Income Housing Coalition		
11			
12	Jeremy Nowak, Executive Director		87
13	Delaware Valley Community Reinvestment Authority		
14			
15	Department of Community and Economic Development		
16	David Black, Deputy Secretary for Community Affairs		119
17	Emily White, Deputy Secretary of Business Financing		122
18	Edward Geiger, Staff Community Development Specialist		130
19			
20			
21			
22			
23			
24			
25			

1 **CHAIRMAN HASAY:** Good morning. Having
2 the hour of 11:00 arrive, the House Commerce and
3 Economic Development Committee will begin a
4 hearing on Senate Bill 10.

5 And we shall begin with Allan Jennings
6 of the Lehigh Valley Community Action Committee.
7 Mr. Jennings, if you're here, would you please
8 come forward? Mr. Jennings, we're going to get
9 you on the microphones; just give us a couple
10 minutes before you start.

11 Before we start, each of the House
12 Members that are here, to my far left we have
13 Representative Zug from Lebanon County and
14 Representative Flick from Chester County;
15 Representative Dent from Lehigh County;
16 Representative Mundy from Luzerne County; and
17 Representative of -- the Minority chairman;
18 Representative Lescovitz from Allegheney
19 County -- Washington County. It's a small
20 county out there.

21 To my far right is Representative
22 Staback from Lackawanna County; Representative
23 Battisto from Monroe County; Representative
24 Gordner from Columbia County; and Dave Washburn,
25 the chief of staff for Representative Lescovitz;

1 and Representative Baker from Tioga County and
2 several others. Is the microphone working?

3 MR. JENNINGS: I don't hear anything.
4 The light's on. How close do I have to get?

5 CHAIRMAN HASAY: And Representative
6 Wright is here from Bucks County.

7 MR. JENNINGS: Okay. Thank you. It's a
8 particular pleasure to appear before the
9 Committee today. I want to make it clear I'm
10 here to offer praise to the Governor for
11 proposing the Community Involvement Bank
12 embodied in Senate Bill 10 and to encourage the
13 Committee to move the proposal with haste.

14 I also want to add my special
15 appreciation to my friend and member from the
16 district that represents a community development
17 corporation we have, and that's Representative
18 Charlie Dent.

19 I hope it would not be too controversial
20 for me to start by saying that for all intents
21 and purposes, Pennsylvania has no community
22 development policy.

23 Prior to the merging of the Departments
24 of Commerce and Community Affairs, we had an
25 economic development policy and we had welfare;

1 but we had a huge gulf between the two.

2 Many of us viewed the merger of these
3 departments as an historic opportunity to create
4 a community development policy for
5 Pennsylvania's increasing desperate, low-income
6 neighborhoods.

7 Over my seventeen years with the
8 Community Action Committee of the Lehigh Valley,
9 I have watched as our economic development
10 policy attempted to create economic
11 opportunities in the vast open spaces of our
12 suburban and even rural municipalities often at
13 the expense of our urban communities.

14 To be sure, creating private wealth and
15 jobs for average Pennsylvanians is an important
16 goal; however, it does not necessarily result in
17 decent schools, tree-lined streets, green
18 spaces, decent affordable housing, safe streets,
19 or any other opportunities in the neighborhoods.

20 Precious are the very limited resources
21 available to do these things; and yet most of
22 even those efforts have been conducted on behalf
23 of and almost never with the inclusion of the
24 people who live in those desperate
25 neighborhoods.

1 Community economic development, which
2 engages the residents of those neighborhoods who
3 are ostensibly the target of those community
4 development efforts, is the new and increasingly
5 effective strategy for tackling the stubborn
6 forces of blight in the low-income
7 neighborhoods.

8 Pennsylvania is way behind the curve in
9 developing a community economic development
10 strategy, a strategy I consider to be the most
11 sophisticated form of fighting poverty.

12 The Governor's project for community
13 building and its centerpiece, the Community
14 Development Bank, is an exciting initiative that
15 I take great pleasure in endorsing before this
16 Committee today.

17 I take great pride that the work of
18 CACLV has often been cited by the Governor, his
19 policy staff, and the Department of Community
20 and Economic Development as an example of the
21 local initiative this proposal is designed to
22 support.

23 Indeed, I had the honor of representing
24 the Governor as one of his appointees at the
25 President's summit on America's future because

1 of the complimentary nature of the work we do
2 with his agenda.

3 Allow me to offer an explanation of that
4 work as the context for the few cautionary
5 comments I will offer later in my testimony.
6 CACLV operates a community development
7 corporation in the poorest neighborhoods of
8 Allentown.

9 This CDC has been in place for almost
10 three years. It operates out of a storefront
11 location with less than five full-time
12 equivalent staff.

13 We are also planning to open a similar
14 project in South Bethlehem's low-income
15 neighborhoods in January. Most of the funding
16 for these two projects comes from private
17 sources.

18 The fundamental premise of these
19 projects is that people who live in these
20 neighborhoods should have a role in their
21 development. The key word here is ownership,
22 not just of capitol, but of the problem-solving
23 process as well.

24 Community economic development then
25 combines community organizing with community

1 development. Community organizing once was a
2 threatening notion to those in power.

3 However, I believe most of us have come
4 to recognize that our society is threatened far
5 more by the desperation that breeds dependence
6 and apathy than the desperation that breeds
7 anger and activism. Hopefully, that activism
8 will lead to the creation of what I call a
9 homegrown economy.

10 While traditional economic development
11 organizations attempt to attract business or
12 expand existing ones in the hope that the
13 benefits accrue in some small way to those who
14 live in the neighborhood, our goal is to
15 identify the economic engines that exist in
16 low-income communities and develop those assets
17 in such a way that creates opportunities for
18 those who live there.

19 As capitol has fled inner-city
20 neighborhoods chasing those who have moved to
21 the suburbs, there are very few ways for the
22 residents left behind to spend their money in
23 the neighborhood.

24 We are simply trying to find ways to
25 regenerate the significant amount of money left

1 behind in such a way that it creates
2 opportunities right there.

3 Whether those economic engines are the
4 hospitals, colleges, city and county government,
5 or the collective purchasing power of the
6 residents, we're looking for ways to keep money
7 in the neighborhoods creating businesses run by
8 and employing exclusively those who live there.

9 The tools in our toolbox are several:
10 Mentors recruited from existing successful
11 entrepreneurs throughout the Lehigh Valley;
12 entrepreneurial training and the assistance with
13 the development of business plans; microloans
14 typically not exceeding \$15,000.

15 Our most innovative approach, one we
16 conceived and are pioneering, is that our CDC
17 will actually play the role of entrepreneur.
18 Creating, owning, and operating a business with
19 the intention of transitioning this so-called
20 lead employee, who is otherwise unbankable on
21 his or her own, into an ownership position
22 through profit-sharing and sweat equity. Sort
23 of applying the idea of Habitat for Humanity to
24 business development.

25 In this case, we obtain a conventional

1 loan from a local bank, secure that loan with a
2 20 percent deposit in the lending institution
3 using our privately-funded collateral reserve
4 fund and securing the remaining 80 percent
5 through the assets of CACLV, the CDC's parent
6 organization.

7 As I noted earlier, all of this is
8 pieced together with almost exclusively private
9 funds. One thing I have learned over my many
10 years at CACLV is that the Community
11 Reinvestment Act has been fairly effective at
12 making credit available for low-income home
13 buyers and businesses, start-up or otherwise.

14 We do not have so much of a credit
15 crunch as an applicant crunch. Filling that
16 void requires resources for community-based
17 organizations who are recognized and respected
18 in the neighborhood to develop bankable
19 applicants out of those depressed, inner-city
20 neighborhoods.

21 There are very few public funds
22 available for such use; therefore, I'm
23 particularly excited by the \$5 million in
24 Capacity Building Grants proposed by the
25 Governor. If our staff sat at their desks

1 waiting for the phone to ring, nothing would
2 happen.

3 Community economic development then can
4 only happen if community-based organizations
5 have the resources to actively develop the
6 homegrown economy I discussed above. Having
7 said all of this, let me offer a few specific
8 comments about the Governor's proposed project
9 for community building.

10 First, the capacity building grants are
11 essential; however, I am concerned about and
12 puzzled by the insistence that these
13 organizations seek federal certification as,
14 quote, Community Development Financial
15 Institutions, what you will hear repeatedly
16 today, CDFIs.

17 The only real reason I can see applying
18 for certification is because funds are available
19 at the federal level; however, only \$50 million
20 is available nationwide and we will all grow
21 much older waiting for that money to penetrate
22 the many communities of Pennsylvania that are in
23 need.

24 Furthermore, certification requires two
25 things: That the applicant be community-based

1 and that it conduct community development
2 lending as a primary organizational function.

3 In the Lehigh Valley, there may never
4 be an eligible organization. CACLV's CDCs will
5 be the capacity-building organizations; and we
6 expect to partner with traditional economic
7 development organizations for the lending,
8 and for that matter, banks as well.

9 In the Lehigh Valley, all of our
10 organizations respect each other's turf; and
11 that respect leads to effective partnerships.
12 Such a partnership should be eligible for DCED
13 support under this program.

14 Secondly, I urge caution on the creation
15 of the Community Development Bank. Community
16 development lending is very specialized and
17 difficult and requires enormous flexibility to
18 respond to the particular needs of each
19 prospective borrower and the community in which
20 it is borrowing.

21 There are many examples of overly-rigid
22 lending programs with bureaucracies too difficult
23 to navigate. I would encourage the Committee to
24 carefully consider the testimony of the
25 Pennsylvania Low Income Housing Coalition in

1 and he works with the Downtown Economic
2 Development Corporation and others who will
3 actually -- whose expertise is loan making.

4 And the issue -- and I'll address my
5 questions to one of the later speakers about the
6 importance of this or why it's so significant
7 that we have this CEFI designation when, in
8 fact, there are only seven in Pennsylvania.

9 And I just don't understand the reason
10 why that there will be more CDFIs created as a
11 result this legislation and if a CDFI were
12 created in our area -- and I don't know that
13 will occur. If one does become created, will
14 his organization be able to draw down this
15 money?

16 So I guess what we're saying is the bill
17 is good, but I want to make sure the people who
18 are doing the work are going to have access to
19 the funds. And I will save my questions for
20 later speakers who will be able to answer
21 questions. Thank you.

22 CHAIRMAN HASAY: Representative Mundy.

23 REPRESENTATIVE MUNDY: Thank You,
24 Mr. Chairman. Mr. Jennings, I'm hoping that you
25 can help me, a layperson in financial matters,

1 understand better how you leverage private
2 investment for your corporation. Can you sort
3 of elaborate a little bit on how you do that?
4 How you go about that?

5 MR. JENNINGS: With only mildly
6 tongue-in-cheek, the reason why we need the help
7 of an Allentown Economic Development Corporation
8 is I'm not very sophisticated in financial
9 matters either; so you may have a leg up on me.

10 First of all, most of the operating
11 costs of this program are funded by private
12 grants: Corestates Bank, Summit Bank, PP&L.

13 REPRESENTATIVE MUNDY: Is this part of
14 the banks' community reinvestment?

15 MR. JENNINGS: Oh, sure. But we also
16 have PP&L funds, Lucent Technologies, Just Born
17 Candy, all of the \$10,000 contributions and up.
18 So there's a significant private investment
19 there. The --

20 REPRESENTATIVE MUNDY: And -- excuse
21 me. They just do this for the good of the
22 community? I mean, they get nothing back? They
23 get no interest on their money or --

24 MR. JENNINGS: Right. Those are
25 outright grants. You know, we could

1 argue -- PP&L would argue that, you know, a
2 healthy community is a community you can make
3 money in. The bank would make the same kind of
4 an argument.

5 The banks are making money off of these
6 loans when we -- when we do the leveraging on
7 the specific loans, we will get a conventional,
8 bank-financed loan. We've started three
9 businesses this way.

10 We will take 20 percent of the amount of
11 the loan -- we will deposit in an account in
12 that lending financial institution from a fund
13 that we've developed called Collateral Reserve
14 Fund 20 percent cash that's sitting there to
15 secure the loan.

16 And then CACLV, which runs the Second
17 Harvest Food Bank and some shelters and so on
18 and so forth with considerable assets, a
19 \$4-million operating budget, will then secure
20 the remaining 80 percent.

21 We've had one loan go bad and we ended
22 up forking over a check for \$12,000 to First
23 Union Bank to pay off a business that didn't
24 work. It wasn't a failure for the individual,
25 but it was a failure for us. She ended up

1 making a lot of money as a realtor.

2 She had two things going and she ended
3 up spending -- this is a formerly homeless
4 person who became a realtor and got
5 certification to do paralegal work and she was
6 selling real estate while trying to create a
7 temporary paralegal firm.

8 And as you might expect, she didn't want
9 to give up too much of her business on the real
10 estate side and didn't commit the time that
11 was necessary to make the paralegal business
12 work.

13 So for her, it wasn't by any means a
14 failure. She's making \$60,000 a year selling
15 real estate, a formerly homeless person; but for
16 us, it was a failure and we ended up writing a
17 check to First Union to pay off that debt.

18 And the only banks that will get those
19 loans are the ones that have been contributing
20 to the project. So you could say that there's a
21 little bit of a tit-for-tat. But we've only
22 done three loans in three years, and each of
23 them has put up \$10,000 each; so it's more the
24 benefit of us than it is for them.

25 There are several loan funds in the

1 Lehigh Valley that are sitting on the shelf
2 collecting dust. Allentown Economic Development
3 Corporation has a multi-bank, for-profit CDC
4 that makes very, very preferential loans to
5 inner-city businesses. They're not moving that
6 money.

7 A small business development center
8 at Lehigh University has another loan pool for
9 facade improvements, small business development,
10 and minority loans. They can't move the money.
11 That's the whole point of the role that we play
12 is to create bankable applicants for them.

13 So there are institutions out there,
14 both nonprofit and for-profit, wanting to make
15 these kinds of loans. I don't want to suggest
16 that there aren't voids.

17 Microlending is still an important
18 purpose that we will probably end up
19 filling -- small loans, \$5,000 loans; but the
20 CDFI certification requires that lending be our
21 predominant function. And I don't ever see it
22 being our predominant function. Our predominant
23 function is turning poor folks in the inner city
24 into entrepreneurs.

25 That's a lot of work; and that

1 microlending will never, ever get us certifiable
2 under the U.S. Treasury rules.

3 REPRESENTATIVE MUNDY: Do you know of
4 any other organizations in the northeast that
5 might become CDFIs? If it's going to be that
6 difficult for you, what organizations are we
7 looking at that might become CDFIs in the
8 northeast? Because I'm not aware that there are
9 any in the northeast.

10 MR. JENNINGS: You know, Gene Brady is
11 very entrepreneurial. He's my counterpart up in
12 Luzerne County. There's an instructive lesson
13 that DCA had a few years ago.

14 There was a need to develop more
15 affordable housing throughout Pennsylvania, and
16 they put a carrot out there and provided
17 Capacity Building Grants to nonprofits to get
18 into housing development. It was very, very
19 successful.

20 But a lot of these organizations aren't
21 going to walk away from helping welfare
22 recipients get jobs or feeding hungry people or
23 sheltering homeless people in order to do this
24 work without some kind of the financial support
25 to do it.

1 So I bet you that Gene Brady will end up
2 going after this money. Whether he can become a
3 CDFI or not, I --

4 REPRESENTATIVE MUNDY: Well, that
5 apparently is the issue. How difficult is it to
6 become a CDFI and would some of the
7 organizations who might become CDFIs be willing
8 to go through all that and walk away from some
9 of their more primary functions?

10 MR. JENNINGS: Some -- of course, I
11 can't speak for most other organizations; but
12 some organizations will go where the money is.
13 If the money is there to do it, they'll go after
14 it. In our case, money or no money, it doesn't
15 make sense for us to duplicate what another
16 entity is doing and does well.

17 And that's the issue in our area. I
18 don't want to be forced into duplicating an
19 effort because of the availability of these
20 funds. It doesn't make any sense.

21 REPRESENTATIVE MUNDY: So can you be
22 more specific about -- my guess is that you're
23 asking that other people -- organizations other
24 than CDFIs be allowed to participate in this
25 community -- or the Community Development Bank.

1 What criteria should be placed on
2 organizations that want to participate in this
3 program that surely there should be some
4 criteria --

5 MR. JENNINGS: Absolutely, you want to
6 have somebody whose primary function is helping
7 people develop the local economy. In our case,
8 we're not doing any housing work.

9 I know there's a lot of interest in
10 housing here; but our interest is specifically
11 in business -- small business development
12 activity, in technical assistance -- you know,
13 all the capacity building functions -- technical
14 assistance, help getting financing, arranging
15 mentors.

16 We have volunteer CPAs who do the books
17 for our businesses; we have lawyers who
18 volunteer the legal time, all those different
19 kinds of things.

20 But walking somebody through the
21 business planning process, helping them get the
22 loan, helping them get their books right, making
23 sure they know how to do invoicing and how to
24 measure a room to paint it if it's a painting
25 contractor and so on are all functions that our

1 community development corporation performs.

2 REPRESENTATIVE MUNDY: Thank you.

3 CHAIRMAN HASAY: Representative Gordner.

4 REPRESENTATIVE GORDNER: Thank you,
5 Mr. Chairman. I appreciate your testimony, but
6 I'm just trying to figure out a few items here.
7 Basically, your entity is a facilitator with
8 regard to community projects it sounds like.

9 You look to find individuals or groups
10 that could embark on certain entrepreneurial
11 activities?

12 MR. JENNINGS: Right.

13 REPRESENTATIVE GORDNER: I'm just
14 reading through the purpose here of this bill.
15 It says, The purpose is to create a program to
16 more effectively address the capital needs of
17 local community development and economic
18 development institutions by encouraging and
19 supporting the creation, development, and the
20 operations of community development financial
21 institutions through a program of grants and
22 loans.

23 From what I'm hearing from you and at
24 least the Lehigh Valley, as far as you're
25 concerned, there is a sufficient amount of

1 capital available for these projects; is that
2 correct?

3 MR. JENNINGS: I wouldn't be that -- I
4 wouldn't say there's absolutely no need for it.
5 I'm saying that there is a lot of capital that's
6 sitting on shelves, you know, in banks and other
7 organizations that is going nowhere because
8 nobody is bringing bankable applicants to the
9 lender.

10 There are no microloan funds in the
11 Lehigh Valley. I expect that we will probably
12 fill that void. I can fill that void with
13 church and private and foundation contributions.
14 We're not talking about a significant amount of
15 money in that case.

16 Now, when you get into doing shopping
17 centers, that's a different matter; but, again,
18 they still should be relatively bankable. I
19 don't think that, you know, the taxpayer's going
20 to be any more willing to accept bad loans than
21 bank shareholders are.

22 So we still need to try to create
23 bankable, sensible borrowers out of this whole
24 thing. And that's what we're trying to do is to
25 deliver bankable customers to the bank. And

1 that's a lot more -- I mean, the metaphor I use
2 is we're about people who don't golf.

3 I mean, they don't know the network;
4 they don't know the system; they don't have all
5 of the kind of things that folks have that are
6 in the normal credit stream. And that's the
7 role that we're playing.

8 REPRESENTATIVE GORDNER: What I foresee
9 as the purpose of this bill is to try to bridge
10 a gap where there isn't monies or loans
11 available. Again, from what I'm hearing from
12 you at least in the Lehigh Valley area, there
13 are monies available; all you need are the folks
14 to take those monies and create a business.

15 MR. JENNINGS: Remember I also suggested
16 that you be very flexible on how the Community
17 Development Bank gets used because we do have
18 small pockets of gaps. You know, we've talked
19 to a lot of business owners that started a
20 restaurant and couldn't get the restaurant
21 financing and so on.

22 But when the Administration started
23 talking about this a few years ago, my advice to
24 them at the time was that the Community
25 Development Bank is a good idea; but let's not

1 have another pot of money sitting around that
2 doesn't have anybody applying for.

3 I'm afraid I'm not answering your
4 question. But there are credit gaps. They are
5 not as significant, as I said, the applicant
6 crunch that we have. We need to deliver
7 bankable applicants to those lenders, whether
8 it's the Community Development Bank or local
9 funds or banks, private conventional financing,
10 or whatever that lending source might be.

11 REPRESENTATIVE GORDNER: I appreciate
12 your comments; but, again, what this bill seems
13 to do is just basically set out a pool of money
14 and doesn't help at all in the training or the
15 providing of knowledge to potential applicants.

16 MR. JENNINGS: That's what the \$5
17 million does in the Capacity Building Grants.
18 It's \$10 million in it for the Community
19 Development Bank that would leverage tens of
20 millions of other dollars from banks in
21 Pennsylvania.

22 Then there are these \$5 million in
23 capacity building funds for nonprofits. And I'm
24 saying I want this money and I'm not going to
25 get it because I don't anticipate ever being

1 federally certified because of the way the
2 federal government defines a CDFI.

3 My thinking is the Department ought to
4 define its own CDFIs or make its own
5 certification or some means of that sort.

6 REPRESENTATIVE GORDNER: Thank you.

7 CHAIRMAN HASAY: Representative Wright.

8 REPRESENTATIVE WRIGHT: Thank you,
9 Mr. Chairman. Mr. Jennings, it's implied -- and
10 it might be here; but I didn't quite see it in
11 the bill. The loans that are going to be made
12 eventually to community groups or businesses or
13 people, can they -- are they just going to be
14 used in areas to be revitalized or can they also
15 be used in any part of the state?

16 MR. JENNINGS: My understanding -- and
17 you'd have to direct that question I think to
18 Deputy Secretary Black, who's testifying
19 later -- my understanding is this is for
20 distressed communities.

21 REPRESENTATIVE WRIGHT: It might be.
22 When I read the bill, I didn't quite see it
23 there and I wasn't too sure.

24 MR. JENNINGS: That would certainly
25 be my preference.

1 **REPRESENTATIVE DENT:** Mr. Chairman.

2 **CHAIRMAN HASAY:** Representative Dent.

3 **REPRESENTATIVE DENT:** In answer to
4 Matt's question, I think in the analysis
5 provided to us by DCD it says federal
6 empowerment zones or enterprise zone communities
7 are eligible: Poverty, 20 percent or more below
8 poverty; median income, 80 percent of median
9 income. But basically distressed areas as they
10 define it.

11 **REPRESENTATIVE WRIGHT:** Okay.

12 **REPRESENTATIVE DENT:** DCD defines it, I
13 guess.

14 **REPRESENTATIVE WRIGHT:** Thank you.

15 **CHAIRMAN HASAY:** Representative Mundy.

16 **REPRESENTATIVE MUNDY:** I'd just like to
17 point out that you're correct that it says that
18 in the Department's analysis of the bill, but it
19 doesn't say that in the bill; and there's a lot
20 that the bill doesn't say.

21 **CHAIRMAN HASAY:** Chairman Lescovitz.

22 **REPRESENTATIVE LESCOVITZ:** Just one
23 follow-up question. I guess my point would be
24 how far do we open this up?

25 **MR. JENNINGS:** Just enough to let us in.

1 REPRESENTATIVE LESCOVITZ: Just enough
2 to let you in. Well, we'll probably have
3 someone else come up later and they want in; and
4 my concern is you have to put the line
5 somewhere. And I'm not disagreeing in what good
6 your association does.

7 You mentioned that this will open up
8 other dollars -- the community reinvestment
9 money, federal block grant money. Why aren't
10 those monies available to you currently and how
11 will this provide you the necessary tools to
12 open those other doors?

13 MR. JENNINGS: The private funds are
14 absolutely available to us. This is -- I
15 don't -- what I said in my testimony is that
16 there isn't much public money out there to do
17 this kind of activity.

18 I can guarantee you -- and in the bill
19 it states specifically -- I think it's in the
20 bill -- that this would require matching
21 contributions from local communities.

22 We can generate a lot of matching funds,
23 and I think that these kinds of public resources
24 will make that possible in communities around
25 Pennsylvania that haven't had the kind of record

1 that we've got in working with the banks in our
2 community.

3 Not all -- you know, as Representative
4 Dent said, there are only maybe a half a dozen
5 federally-certified CDFIs now. Those are
6 communities obviously that are pretty visionary,
7 that have already done some good work.

8 There are many, many other communities
9 in Pennsylvania, most of the Third-class cities,
10 that don't have anything like this.

11 REPRESENTATIVE LESCOVITZ: Let me
12 clarify what you just said. You said this money
13 will make available other public dollars --

14 MR. JENNINGS: No. I said -- there is
15 very little public money. This is one of the
16 very few pots of public money available in
17 Pennsylvania to do this kind of activity.

18 REPRESENTATIVE LESCOVITZ: But you had
19 mentioned you have to have a local match from
20 the local municipality or community. Are you
21 referring to --

22 MR. JENNINGS: Private.

23 REPRESENTATIVE LESCOVITZ: Private --
24 private dollars?

25 MR. JENNINGS: In our CDC in Allentown,

1 we have out of about \$130,000 budget, only
2 \$10,000 in public money; and that's a city CDBG
3 (phonetic) grant.

4 REPRESENTATIVE LESCOVITZ: Last question
5 has to do with -- would it be your belief or do
6 you think that any provision -- since the
7 Department has eliminated any dollars for
8 minority business loans, should any provision be
9 put into community development block grant money
10 for specific minority projects?

11 MR. JENNINGS: I think it ought to be an
12 encouraged activity; but there are a lot of,
13 especially Third-class, cities in Pennsylvania
14 with a very small minority population where it
15 would be a tremendous challenge to try to find
16 minority applicants.

17 In the Lehigh Valley, Allentown, we have
18 a fairly substantial minority community; but
19 that's not the case in a lot of other cities our
20 size around Pennsylvania.

21 The Pennsylvania Minority Business
22 Development Authority has been one of the
23 examples of an overly-rigid program. It's been
24 very, very difficult to access.

25 I think we want to make a special effort

1 to create minority -- bankable minority
2 applicants; but -- and I think that will come
3 with the kind of work that -- certainly of the
4 five businesses that we've either started or
5 help start, I think four of 'em are minority
6 entrepreneurs.

7 So, I mean, that's a specific target
8 population; but I'm not sure I would create any
9 kind of a set-aside or anything. I would
10 encourage it, but not a set-aside.

11 REPRESENTATIVE LESCOVITZ: One last
12 follow-up on that: In the community in which
13 you work, is it more difficult for minority
14 people to get a business loan than it is any
15 other group?

16 MR. JENNINGS: Well, the problem is that
17 there is no required data collection on business
18 development. There is on mortgage lending. And,
19 yes, they are more likely to be rejected from
20 mortgage lending than their white counterparts;
21 but there's no comparable data collected on
22 commercial development.

23 Anecdotally, I would say that there is a
24 sincere effort being made by the traditional
25 credit streams. The problem is that it's a

1 tougher constituency to penetrate.

2 They've got generations of being told
3 that they're not going to get anything, and a
4 lot of people just flat out believe that they
5 won't so they don't even bother applying.

6 And part of what we do is try to say,
7 You can do this and we can help make it
8 possible; but you've got to meet these kinds of
9 expectations.

10 REPRESENTATIVE LESCOVITZ: Thank you,
11 Mr. Chairman.

12 CHAIRMAN HASAY: The Chair thanks
13 Mr. Jennings for coming here today to testify in
14 front of the House Commerce Committee. Thank
15 you very much for coming and giving testimony to
16 Senate Bill 10.

17 Next we have Mr. Mark Pinski. He's the
18 Director of the National Community Development
19 Loan Funds. You can either sit or whatever.

20 MR. PINSKI: I'll stand, if that's all
21 right?

22 CHAIRMAN HASAY: That'll be fine. Would
23 you hold off until your testimony get passed
24 around, please?

25 (Pause)

1 You may proceed.

2 MR. PINSKI: Good morning. It's my
3 pleasure to be here, and I thank you all for
4 giving me the opportunity. Let me say a special
5 good morning to Representative Wright, as a
6 fellow Bucks Countian.

7 As the Chairman indicated, my name is
8 Mark Pinski. I'm executive director of the
9 National Association of Community Development
10 Loan Funds, or NACDLF, which is a national
11 financial intermediary that represents 49
12 community development financial institutions, or
13 CDFIs, and 122 other organizations and
14 individuals nationally.

15 Three of our member CFIs are based here
16 in Philadelphia: The Community Loan Fund of
17 Southwest Pennsylvania; Community First Fund,
18 Lancaster; and the Delaware Valley Community
19 Reinvestment Fund in Philadelphia. And my
20 colleague, Jeremy Nowak, will be speaking a
21 little bit later.

22 Our offices are based in Philadelphia.
23 I'm also chairman of something called the
24 Coalition of Community Development Financial
25 Institutions, which represents CDFIs nationally

1 of all types.

2 I'm going to say a little bit more in a
3 minute about the different types of CDFIs. The
4 Coalition also is based in Philadelphia in our
5 offices.

6 And I want to really begin my comments
7 by commending this Committee and Governor Ridge
8 for this initiative to develop what I think can
9 be a top-rated program to strengthen and support
10 CDFIs in this state. I think the idea can work
11 well here and I think that the proposal as I
12 understand it has the components in place to do
13 that.

14 Today as I go through my comments, I
15 want to offer some national perspective on
16 CDFIs. And I'm going to try and not read my
17 whole comments so that if there are some
18 questions about that I can answer them; talk a
19 little about government initiatives both at the
20 federal level and state levels to assist CDFIs;
21 and also try and lay out some lessons learned,
22 for lack of a better term, about what's worked
23 as government at various levels has tried to
24 engage with CDFIs.

25 My testimony describes a little bit

1 about my organization. I'm going to skip over
2 that and go on your testimony, if you're
3 following, on page 4 just to talk a little bit
4 about the CDFI industry in this country today.

5 There are roughly 350 CDFIs that manage
6 somewhere in excess not much in excess, of
7 \$2 billion in predominantly private capital
8 around the country working all fifty states.

9 In general, there are five types of
10 CDFIs; and I'm going to quickly run through
11 them. At the very last page of your package has
12 a chart that we've developed that just sort of
13 lays out in some detail the different types of
14 CDFIs.

15 First are community development banks,
16 which are insured depositories with a mission of
17 community development. They are owned by
18 shareholders. They're for-profit corporations
19 and there are approximately six of them in
20 operation today, the most famous of which is
21 South Shore Bank in Chicago. If you've heard of
22 any of them, that's probably the one you've
23 heard of.

24 The second grouping is Community
25 Development Credit Unions, which are

1 member-owned depositories that serve defined
2 populations. There are approximately 150
3 Community Development Credit Union's that I'm
4 aware in this country today.

5 Community Development Loan Funds are
6 private, nonprofit financial intermediaries.
7 they're not depositories, and there are roughly
8 150 of them in operation today as I think of
9 them. Community Development Venture Funds
10 provide equity financing to businesses, and
11 there are fewer than ten in operation today.

12 Finally, Microenterprise Funds are
13 similar to Loan Funds except that they have a
14 very specific purpose of financing very small
15 loans to either self-employed or small business
16 enterprises.

17 Not surprisingly, these
18 categories -- they're convenient categories. A
19 lot of CDFIs today and increasingly over time
20 are becoming what we would call multi-function
21 CDFIs. And I think when you hear about Delaware
22 Valley a little bit later you'll get some
23 impression of how that works.

24 Until 1992, there was very little
25 government support or interest in CDFIs.

1 Generally, community development strategies
2 focused on direct -- either working through
3 government, state municipal government, or
4 working directly through community development
5 corporations and other community-based
6 organizations.

7 The notion of providing support to CDFIs
8 really got a lift in some ways when President
9 Clinton decided to follow through on a campaign
10 promise he had made to create a program to
11 support a national network of CDFIs.

12 And that has resulted in what we call
13 today the CDFI Fund, which is a program within
14 the Department of Treasury in the Federal
15 Government.

16 In the processes of that -- and let me
17 just -- actually, let me make one quick comment
18 about that: There are currently in this
19 country -- just to put this in some perspective,
20 the CDFI Fund has certified about 200 -- last
21 count I heard was 206 CDFIs in this country; has
22 committed roughly about \$37 million in financing
23 through the CDFI program; has another -- is
24 about to award -- by the end of this month will
25 award another \$37 million and is likely to

1 receive another 60 to \$100 million in the
2 ongoing discussions in Washington right now.

3 In addition, as part of the CDFI Fund I
4 want to point out there's a program called The
5 Bank Enterprise Award Program that gives an
6 incentive to banks to work with CDFIs and to
7 work directly in their communities.

8 And it's particularly noteworthy that
9 that grew out of an initiative that Governor
10 Ridge when he was Congressman Ridge was a
11 cosponsor of called the Bank Enterprise Act of
12 1991.

13 When President Clinton came in and
14 Congress showed some interest in moving forward
15 on a CDFI initiative, a group of CDFI
16 practitioners got together and formed what
17 became the CDFI Coalition and decided that one
18 of the things we needed to do was set out some
19 principles that we thought should guide a
20 program like this because our fear was, frankly,
21 that we were going to have a top down,
22 bureaucratic program that used a cookie cutter
23 to try and take a model and replicate it all
24 over the country.

25 And we thought given the -- as

1 my predecessor mentioned earlier, the local
2 market conditions require sort of flexible and
3 dynamic organizations.

4 We issued a paper called
5 Principles of Community Development Financing
6 and Key Proposals for Federal Support, and we've
7 used that since the program and the CDFI Fund
8 really is organized around that.

9 But I wanted to pull from that a
10 few -- really, five points that I thought were
11 relevant in your considerations about how to
12 hopefully create a Pennsylvania Community
13 Development Bank.

14 The first was that to be effective, a
15 government program must support a spectrum of
16 Institutions that have the following common
17 attributes:

18 First, they offer financing to low, and
19 in some markets, moderate-income people; small
20 businesses; and community development projects
21 whose need for credit is not otherwise being
22 met;

23 Second, they should provide the
24 necessary technical assistance to borrowers to
25 ensure the success of financing and to expand

1 the capacity of borrowers.

2 A lot of what my members do, is provide
3 assistance before they make the loan, while
4 they're making the loan, and after they're
5 making to the loan to ensure the success of the
6 loan.

7 They should make credit decisions within
8 their own institutions. Particularly our focus
9 there is not to have a centralized, national
10 decision-making process.

11 They should foster community-wide
12 economic and social development and they should
13 empower disenfranchised individuals in
14 communities to gain self-sufficiency.

15 Second major point is that any
16 government program should fit with the broad
17 strategy for community revitalization that
18 includes business development; economic
19 development, including nonprofit facilities,
20 which is a growing area of need; and housing.

21 You know, at the state level, the
22 proposed Community Development Bank should
23 dovetail with the work of other state programs.
24 I've listed some here. I'm not an expert in all
25 of the state programs. Most CDFIs do not

1 attempt to meet all local community needs but
2 instead work closely with community partners.

3 Third, a government program should be
4 developed bottom up rather than top down. There
5 are a lot of models of success out there. Some
6 of them -- some of the best ones in this state;
7 and there's an opportunity to really develop a
8 program that's going to reflect how these CDFIs
9 actually work in communities.

10 Fourth, generally, we think that a
11 program should emphasize expansion of existing
12 CDFIs rather than simply going about and
13 creating new ones.

14 We think that the proposal on the table
15 here today actually has a good balance of
16 supporting those that are in operation and the
17 \$5 million talked about for developing new
18 CDFIs.

19 It's something that the federal
20 government has been frankly a little bit slow in
21 doing in their program, and I think that's
22 critical to the long-term success of a program
23 like this.

24 And finally, recognize that successful
25 CDFIs are built over time with incremental,

1 performance-based financial support. The
2 most successful CDFI, including Shore Bank from
3 Chicago and The Center for Community Self-help
4 in North Carolina and Delaware Valley Community
5 Reinvestment Fund here, have grown over time.

6 They haven't happened quickly; and it's
7 not a business, given the specialized nature of
8 it, that works quickly and that can grow
9 quickly.

10 Let me just say a word about the notion
11 of CDFIs and community development, to go a
12 little bit off my testimony here. The notion
13 of supporting CDFIs is the idea that you can
14 create permanent financial intermediaries that
15 are community tied and have the ability to
16 relate in an accountable way to the people that
17 we all want to try and serve, the people who
18 aren't being served on other ways.

19 And CDFIs, the real question is, Do you
20 want a program that's trying to support this
21 notion of financial intermediaries that are
22 accountable to investors and accountable to
23 borrowers or do you want a broader community
24 development strategy?

25 And I don't know enough about

1 Pennsylvania strategy to say you want one or the
2 other; but I think the question that I think is
3 really important here is, What's the role of
4 CDFIs? And I'd be happy to talk a little bit
5 more about that.

6 Let me -- at the bottom of page 6 of my
7 testimony, let me just jump to what I thought
8 were some key elements for the success of this
9 particular initiative.

10 I think that this is a good idea. I
11 think that the proposed Community Development
12 Bank here can have a significant impact. The
13 number of CDFIs in the state is small; but the
14 \$5 million program for assisting start-ups and
15 emerging CDFIs, as I said earlier, is a
16 tremendous strength of the program.

17 I think that by doing this and making a
18 multi-year commitment -- as I said, this takes
19 time; but I think there's potential to grow
20 CDFIs in many parts of the state that can be
21 effective.

22 I think that everybody recognizes this
23 is a different type of initiative for a
24 government initiative in some regards and that
25 it'll face many challenges, and I want to lay

1 out a few that I think are critical:

2 The first is that the bank must maintain
3 its own operational integrity by ensuring the
4 banks and other corporations investing in the
5 bank understand that they're making a business
6 investment and not a politically-motivated one.
7 That's a very slippery slope.

8 Second, the bank must ensure that
9 investors buy in up front to the underwriting
10 and assessment criteria that the bank will
11 use so that the bank can operate without
12 constant confusion or conflict.

13 And the notion there is that everybody
14 should know what they're getting into when they
15 go in so that the bank can operate as it sees
16 best in terms of the market it's trying to
17 serve.

18 And third, that borrowers from the
19 bank -- and by that I mean CDFIs -- must
20 understand the business nature of the
21 relationship with the bank.

22 To be successful, the bank must operate
23 as a bank must, with a pattern and expectation
24 of repayment. And CDFIs need to understand that
25 this is not give-away money in this program;

1 this is loan money.

2 The bank also must be careful not to
3 confuse its programmaticals with the needs of the
4 people it aims to serve. And by that I mean
5 CDFIs change over time as their markets change,
6 and we've seen that happen over history.

7 You have housing lenders getting into
8 business lending or business lenders realizing
9 That the businesses can't find good people to
10 work there because there isn't affordable
11 housing. And the bank -- you know, the bank
12 needs to understand that and be responsive to
13 that.

14 Finally, I want to emphasize again that
15 once you get into this, this has to be a
16 long-term proposition. And the State, if it
17 wants to make a commitment to doing this -- and
18 I hope it will -- should recognize that you're
19 not going to grow 20 or 30 CDFIs in this state
20 tomorrow. They're not going to pop up. People
21 have tried that and failed.

22 The CDFIs in turn are not quick fixes
23 for anything. This is a long-term proposition
24 where if a CDFI starts lending in a
25 community -- and I don't know if Jeremy's going

1 to talk about this -- in north Philadelphia, for
2 example, you don't do it and you don't turn
3 things around over night.

4 You've got to have a long-term strategy
5 and you've got to be willing to be there for the
6 long term and so does the State.

7 Let me close -- as I said, I've tried to
8 summarize. I'm happy to answer any questions
9 that have come up -- by again commending the
10 Committee and the Governor for this initiative.

11 I think it has a potential for huge
12 success in Pennsylvania and I think that the
13 sort of thought that has to go into it through a
14 hearing like this and other discussions will
15 help make a better program.

16 CHAIRMAN HASAY: The Chair thanks you
17 for your testimony today. I appreciate the
18 information on it. Any questions?
19 Representative Dent.

20 REPRESENTATIVE DENT: Thank you,
21 Mr. Chairman. Thank you for your testimony.
22 Page 6 of your testimony you have a paragraph
23 that says, Other states; and you talk about how
24 the other states have used the CDFI, I guess, as
25 a model in terms of developing their legislation

1 with the exception of North Carolina.

2 And you also state here that North
3 Carolina has a very strong community-based
4 development network but they don't use the CDFI
5 as a basis for their law, I trust, and it seems
6 that they have a very expansive network.

7 Should we be -- would it be
8 inappropriate for Pennsylvania in your opinion
9 to not require that all lending institutions
10 have that CDFI designation?

11 MR. PINSKI: Multiple questions there.

12 REPRESENTATIVE DENT: It's a lot of
13 questions.

14 MR. PINSKI: North Carolina is the
15 oldest of the programs and it didn't start out
16 as a CDFI program. It was a program actually
17 that was much more focused, going back about
18 fourteen or fifteen years now, to support
19 community-based development.

20 And it was, in fact, a later
21 addition -- they were putting -- they took a
22 very aggressive approach to funding, you know,
23 CDCs and other community-based organizations,
24 community action agencies, community action
25 councils.

1 And they were doing that for several
2 years before they ever started putting money
3 into CDFIs. What they realized was that, in
4 fact, to be successful -- to be successful in
5 community development in a state which has
6 certain similarities to this state that has a
7 few major urban areas and a large rural
8 area with some significant poverty that they
9 needed to be doing both/and; that it wasn't a
10 matter of do we just do CDFIs or do we just do
11 community development organizations.

12 So, you know, I think -- I certainly
13 think that there's a good case to be made for
14 supporting community development corporations
15 and other community-based organizations and
16 CDFIs.

17 The issue I think for this particular
18 program is the one that I tried to talk about a
19 little bit earlier, which is -- and it goes to a
20 question someone raised earlier -- is sort of
21 where do you draw the line and how do you decide
22 whether this is for CDFIs, which are trying to
23 play a unique role and do play a unique role in
24 a lot of communities, and what's for
25 community-based organizations more broadly?

1 As I said, I think -- and, obviously, I
2 come here heading two organizations that
3 represent CDFIs. I think that CDFIs are very
4 effective tools and have proven themselves very
5 effective tools both for serving low-income
6 communities but also for leveraging private
7 money in.

8 They couldn't do it if there wasn't a
9 community development infrastructure out there
10 of some sort.

11 REPRESENTATIVE DENT: This is my final
12 question: Do you think this legislation would
13 be enhanced if we were to add language that
14 would allow these grants to help develop the
15 technical assistance portion of the bill to
16 organizations -- nonprofit organizations that do
17 not have a CDFI designation? Do you think that
18 would in any way hurt this legislation?

19 MR. PINSKI: I think it would water it
20 down in some ways within this context. If you
21 make it into a totally different approach where
22 you're doing a broader community development
23 approach, you might do it; but I think it would
24 water down the role of CDFIs in this state.

25 What -- you know, the actual

1 certification process at the federal level is
2 not that hard. I mean, it's not a hard process;
3 but you've got to decide that being a CDFI is
4 the appropriate thing to be.

5 And not all community-based
6 organizations should be CDFIs. If you have a
7 successful program where you are able to bring in
8 capital from another source -- and there are
9 many partnerships like the one we heard about
10 earlier -- you may not need a CDFI. You may or
11 you may not. So it depends on what you're
12 trying to accomplish.

13 REPRESENTATIVE DENT: Under the
14 legislation, it appears that Mr. Jennings'
15 organization would not be eligible to draw down
16 those funds because they're not a CDFI. And he
17 mentioned in his testimony that there's \$50
18 million available nationally?

19 MR. PINSKI: There's a total of about
20 \$150 million that's been appropriated so far.
21 There have been several rounds. The first
22 round, there was \$50 million. As I mentioned,
23 37 of that went to CDFIs.

24 There's a second round now with another
25 \$50 million going to CDFIs and there will be

1 hopefully future rounds.

2 REPRESENTATIVE DENT: Okay. Thank you.

3 CHAIRMAN HASAY: Representative Mundy.

4 REPRESENTATIVE MUNDY: Thank you. It's
5 really good to have you here, Mr. Pinski,
6 because CDFIs are a puzzlement; and I'm
7 considering you are an expert on CDFIs.

8 MR. PINSKI: I'll try my best.

9 REPRESENTATIVE MUNDY: Now, you
10 said -- and you went fast and I couldn't follow
11 your testimony very well because you skipped
12 around; but I did hear you say that new CDFIs
13 are not going to pop up overnight and that it is
14 a process of building up a CDFI over time but
15 then they become permanent organizations and
16 that may be a good thing.

17 But that gets me back to Representative
18 Dent's problem and my problem in Luzerne County
19 and the northeastern portion of our state.
20 There are no CDFIs. So if they're not going pop
21 up overnight, where is the community aspect for
22 Northeastern Pennsylvania and how do we
23 participate in the Community Development Bank?

24 MR. PINSKI: The short question -- and
25 you'll have to excuse me. I don't know the

1 markets where you are -- is -- the first
2 question is determine whether a CDFI is the
3 right thing that's needed there. I don't know.

4 There may be extensive poverty. There
5 may be extensive need there. But is a CDFI the
6 right way to serve it? It depends. And so I
7 don't know that.

8 But having said that, one of the things
9 that I think is attractive about this proposal
10 is the fact that there's an up-front commitment
11 of a substantial amount of money, \$5 million,
12 that can be an inducement to folks who want to
13 try and become CDFIs.

14 To become a Federally-certified CDFI,
15 you don't per se have to be a CDFI but you do
16 have to be intending to become one. Whether
17 that's right for every community, I don't know.
18 And I don't think we should assume that it is,
19 that every community should have its own CDFI.
20 I don't necessarily see that as productive.

21 REPRESENTATIVE MUNDY: I'm just, you
22 know, somebody mentioned Gene Brady and CEO in
23 Luzerne County. And that kind of an
24 organization seems to me would make a great
25 CDFI.

1 We also have the Economic Development
2 Council of Northeast Pennsylvania. I have no
3 idea whether they intend to, whether they would
4 even consider becoming a CDFI; but I'm thinking
5 of a more regional approach.

6 I'm not suggesting that every community
7 should have one, which brings me to the issue of
8 you said that it's not that hard to become a
9 CDFI; although, Mr. Jennings seemed to indicate
10 that it was a little harder than not too hard.

11 What is required other than you be
12 community-based and that your primary function
13 be lending?

14 MR. PINSKI: Let me answer that
15 question, if I can go back to your earlier
16 comment. That was a good comment. What you
17 need to be able to do to be certified as a CDFI
18 is be able to -- really, is two things:

19 Be able to demonstrate that your mission
20 is community development and be able to
21 demonstrate that your predominant activity is
22 financing, you're financial intermediaries.

23 You can do that not -- and I don't think
24 that the role of the federal government is to
25 tell an organization like Mr. Jennings' how to

1 do this.

2 If you have a -- your overall
3 organization may do a lot of things and
4 microlending might be a piece of it; but you
5 could create a separate, you know, a separate
6 nonprofit within a subsidiary nonprofit within
7 your organization that was doing microlending,
8 that could qualify as a CDFI.

9 You know, in the overall organization
10 the predominant activity may not be financing;
11 but that subpart is. And a lot of groups have
12 done that. A lot of groups have actually gone
13 in and just created 501 C-3 under the IRS code
14 subsidiaries and applied under that subsidiary
15 and been certified.

16 So the key issue is, I think, is do you
17 want to be a CDFI in the long run? And I think
18 Mr. Jennings was right that it might not be the
19 right thing for them. That might not be what
20 they need. So I understand that concern.

21 But to actually get certified in that
22 sense is not -- really is not hard. Getting
23 money from the CDFI fund is another story. They
24 have some very substantial requirements.

25 Going back to your earlier comments, the

1 notion -- it may be that a regional approach is
2 right and that there are a number of
3 organizations that could work together or that
4 there could be a CDFI.

5 One of the things that a federal program
6 has helped to do to a certain extent is that we
7 do a lot of -- my organization, NACDLF does a
8 lot of really come in and help figure out where
9 that market exists for a CDFI and whether that
10 market exists.

11 And one of the things as I understand
12 it that this \$5 million pool of money can do is
13 for someone who's interested in becoming a CDFI,
14 if you clear that hurdle -- and that's part of
15 the issue -- is really figure out what the right
16 structure is.

17 That money, as I understand it, is
18 flexible enough that you can figure out whether
19 it's a regional approach or not. And I think
20 there's some -- I hope that that's the
21 Governor's intent and my understanding is that
22 it is.

23 CHAIRMAN HASAY: The Chair thanks the
24 gentleman for his very --

25 REPRESENTATIVE MUNDY: Excuse me,

1 Mr. Chairman. I wasn't finished.

2 CHAIRMAN HASAY: Oh, I'm sorry.

3 REPRESENTATIVE MUNDY: I know you wish
4 that I was finished; but I'm not, if you don't
5 mind?

6 CHAIRMAN HASAY: No. Go ahead.

7 REPRESENTATIVE MUNDY: Thank you. Can
8 you tell me, Mr. Pinski, what the composition of
9 the advisory board is under the Federal
10 Community Development Banking and Financial
11 Institutions Act and how involved this board is
12 in decisions relating to CDFIs and loans?

13 MR. PINSKI: I think I can tell you the
14 composition. I'm not sure if the number's
15 right. I believe it's a fifteen-member advisory
16 board. It's not a governing board. It's an
17 advisory board.

18 It has representatives of nine federal
19 agencies or programs, so from Treasury and
20 Department of Housing and Urban Development to
21 SBA.

22 And then there are six, if I'm not
23 mistaken -- six federal representatives and then
24 nine representatives from a variety of
25 groups -- CDFI groups, community development or

1 community-based organization, and others. I
2 just don't remember all the categories.

3 But it is an advisory board. It's not a
4 governing board; and so its authority over the
5 program is not as great as I'd like to see it,
6 frankly. And it's met, I think, just two times in
7 two years, which I think is not enough.

8 REPRESENTATIVE MUNDY: So my question,
9 How involved is the committee -- this advisory
10 committee in decisions? If they only meet twice
11 a year, they can't be very involved in this
12 decision --

13 MR. PINSKI: They're not involved in
14 decisions at all. They have no authority to
15 make decisions about lending or about granting
16 or even about program area. They can advise.
17 The accountability within the CDFI fund is
18 ultimately through treasury and through
19 Congress.

20 REPRESENTATIVE MUNDY: Does the federal
21 legislation give CDFIs the authority to make
22 loans for housing?

23 MR. PINSKI: Yes.

24 REPRESENTATIVE MUNDY: And can you tell
25 me -- maybe you don't know, but if you

1 do -- what types of uses are eligible?

2 MR. PINSKI: It's actually a wide range
3 of uses of funds in the federal program
4 from -- but to classify them into three, it's
5 business -- broadly defined: Business economic
6 development; housing of all types, whether it's
7 multi-family or single-family, whether it's
8 rental or home ownership and whether it's -- and
9 nonprofit facilities.

10 REPRESENTATIVE MUNDY: But I meant
11 specifically for housing, what types of uses?

12 MR. PINSKI: The way the federal program
13 is set up, it says that a CDFI should -- it
14 presumes that a CDFI knows its market best and
15 says that a CDFI -- if a CDFI says, you know,
16 believes that what it needs to do and can make
17 the case that what it needs to is multi-family
18 rental, then the fund can judge whether they
19 think they're right about the CDFI. But the
20 funds then go, in effect, into a central pool
21 and can be used for whatever.

22 REPRESENTATIVE MUNDY: Do you think it's
23 important -- well, do you think it's important
24 for community development banks to participate
25 in housing --

1 MR. PINSKI: If that's the what
2 market --

3 REPRESENTATIVE MUNDY: -- as a community
4 development activity?

5 MR. PINSKI: I think the community
6 development is a broad strategy. You can't do
7 it with business alone. You've got to have
8 housing for the people who work in the business.
9 You need affordable housing.

10 I think that any community development
11 strategy needs to look at all of that. Whether
12 there are other resources for housing, you know,
13 in a particular market or service area, you
14 know, I don't know; but I think that absolutely
15 you need to do both.

16 And here I suggest that if this
17 program's focused as it's proposed on primarily
18 on business financing as I understand it that it
19 needs to dovetail with other programs, other
20 state programs and private programs around
21 housing. And that needs to be part of a broad
22 community development strategy.

23 REPRESENTATIVE MUNDY: So you see
24 housing as integral to community development?

25 MR. PINSKI: In most markets, yes.

1 **REPRESENTATIVE MUNDY:** Do all other
2 states have community development banks?

3 **MR. PINSKI:** No.

4 **REPRESENTATIVE MUNDY:** Do you know how
5 many do?

6 **MR. PINSKI:** There are different types.
7 None of them would call themselves Community
8 Development Banks. There are four other states
9 that have some type of state level program
10 that's financing CDFIs; and they're listed in
11 here -- Ohio, North Carolina, New Jersey, and New
12 York.

13 **REPRESENTATIVE MUNDY:** And do you happen
14 to know whether these other four states include
15 housing as part of their community development
16 component?

17 **MR. PINSKI:** Ohio does not, I
18 believe; New Jersey, I believe, is business
19 financing. I could be wrong about that, but I
20 think New Jersey is; New York, they haven't
21 defined it yet. It's a new program, just got
22 the first appropriation of \$2 and a half million;
23 and North Carolina, as I mentioned earlier, is
24 a broad strategy.

25 **REPRESENTATIVE MUNDY:** Okay. Thank you.

1 very much.

2 CHAIRMAN HASAY: Are you finished,
3 Representative Mundy?

4 REPRESENTATIVE MUNDY: Thank you.

5 CHAIRMAN HASAY: Representative
6 Battisto. Please, one more question.

7 REPRESENTATIVE BATTISTO: Thank you,
8 Mr. Chair. I just want to dovetail on what the
9 Representative said about North Carolina. They
10 don't use federal criteria. I assume they have
11 their own state criteria for CDFIs?

12 MR. PINSKI: Yeah. I don't know -- I
13 don't know what they --

14 REPRESENTATIVE BATTISTO: It can't --

15 MR. PINSKI: It's not a CDFI-specific
16 program. They use money -- generally, an
17 unrestricted pool of money that's community
18 development money. And some of that they use
19 for CDFIs and some of that they use for other
20 types of community development organizations,
21 predated the federal.

22 REPRESENTATIVE BATTISTO: When they look
23 at the eligibility for becoming one, I'm
24 told -- in fact, I think it's says somewhere in
25 your comments here -- they don't use the federal

1 criteria; they must have their own state
2 criteria?

3 MR. PINSKI: They don't because it's not
4 a CDFI specific program. They'll look at
5 different types of organizations. They decided
6 they wanted to support a lot of different
7 approaches to community development as part of a
8 broad, statewide strategy.

9 Whether it's a CDFI is not essential to
10 the program. It's not a basic eligibility
11 requirement. It's whether you're doing
12 community development.

13 REPRESENTATIVE BATTISTO: If a state,
14 New Jersey, North Carolina has a pretty good
15 representation in that area of community
16 development, is that true or --

17 MR. PINSKI: I think the state has made
18 a pretty broad commitment to financing at levels
19 that started doing it were unprecedented
20 community CDFIs, although we didn't call them at
21 that time, Community Development corporations
22 and other types of community development
23 organizations.

24 REPRESENTATIVE BATTISTO: Thank you,
25 Mr. Chair.

1 CHAIRMAN HASAY: Thank you. Thank you
2 very much, Mr. Pinski. Very informative. Next
3 we have Mr. Dan Hoffman, Policy Director of the
4 Pennsylvania Low Income Housing Coalition.

5 MR. HOFFMAN: Thank you, Mr. Chairman
6 and members of the Committee.

7 CHAIRMAN HASAY: Mr. Hoffman, give
8 Brenda a chance to pass some of your testimony
9 around first, if you would, please.

10 MR. HOFFMAN: Sure.

11 CHAIRMAN HASAY: The gentleman may
12 proceed.

13 MR. HOFFMAN: Thank you. Mr. Chairman
14 and Members of the Committee, on behalf of the
15 200 members of Pennsylvania Low Income Housing
16 Coalition, I want to thank you all for holding
17 this hearing. It's an important day.

18 And I want to thank you in advance for
19 the considerations that I know you'll be giving
20 all the comments that we hear today.

21 During the past few years, there have
22 been a number of changes in the
23 housing/community development landscape in the
24 State of Pennsylvania.

25 Perhaps most notably is the demise of

1 the Department of Community Affairs and its
2 replacement by what is clearly a less
3 housing-oriented agency, the Department of
4 Community and Economic Development.

5 We've witnessed changes of funding
6 priorities within the new DCED and see a
7 continued lack of state support for housing
8 generally with a dedicated revenue source for
9 various programs.

10 We also see, frankly, the Housing
11 Finance Agency continuing to be a fairly limited
12 agency in its vision of the housing needs and
13 what it might do for the people of Pennsylvania.

14 So when we heard the Governor was
15 looking to create a Community Development Bank,
16 we were, frankly, quite excited. It was an
17 opportunity, we thought, to revitalize a
18 somewhat dormant conversation on community
19 development within the State of Pennsylvania;
20 and we were very enthusiastic about the idea of
21 doing a Community Development Bank.

22 Our membership has participated both as
23 borrowers of banks; our members have been
24 involved in the community-driven lending process
25 of banks.

1 Unfortunately as we came to understand
2 the Governor's proposal, we realized that much
3 of our membership would be excluded from this
4 bank. They could not be borrowers and there
5 didn't seem to be a place for them in the
6 decision making process.

7 We sought to meet with the
8 Administration to discuss these problems; and,
9 frankly, they didn't really want to accommodate
10 us very much.

11 And so we've been grateful that the
12 Legislature both in not giving the
13 Administration a blank check in the
14 Appropriations Bill and then by having these
15 hearings has taken a second look to see and
16 think about what community development policy in
17 the state ought to be.

18 Before discussing our three concerns
19 that we have, I want to make one important but
20 general point. And that is, quite clearly,
21 community development lending is tough to do.
22 If it wasn't, we wouldn't be here today; the
23 banks would have figured it out; we wouldn't
24 need this bill; we wouldn't care about what the
25 bill looked like.

1 It's tough to do, and so it's important.
2 And we think key in that -- and we've gotten to
3 hear that the key to community banking is
4 creativity and flexibility. And so the
5 legislation that you ultimately pass really must
6 have that as a focal point. It must allow the
7 creativity and flexibility.

8 We don't want a bill that micromanages
9 this program. The Administration doesn't want
10 that and we don't want that either. Indeed, we
11 believe that the resolution of all of our
12 concerns leads to a program that is more
13 flexible and more inclusive and enables more
14 communities to take charge of their own futures.

15 Our first concern is that this is a
16 Community Development Bank with no housing
17 mission. Housing community development is a key
18 component to community revitalization. It's
19 clearly not the only component.

20 Certainly, job generation strategies are
21 vital; but what we call for is a balanced
22 approach. And we believe Senate Bill 10
23 currently lacks a balance between the variety of
24 needs.

25 The Administration frankly has said to

1 us that the Pennsylvania Housing Finance Agency
2 is to be the source of balance. And, frankly,
3 we'd like to say that we think that that's
4 either a misunderstanding of that agency's
5 current agenda -- the PHFA has no housing
6 rehabilitation programming.

7 It does not have programming that
8 targets underinvested, blighted neighborhoods;
9 it spends few State discretionary dollars on
10 multi-family housing; nor has the agency been a
11 leader in helping to expand community loan fund
12 programs which are sort of a halfway house
13 between CDFIs and doing nothing.

14 And in many states, the housing finance
15 agencies help capitalize community loan funds as
16 a way of doing community-based housing lending.
17 So PHFA might be a balance to the community
18 development strategy the Administration is
19 looking to have; but, frankly, it isn't.

20 And so therefore this bill is very
21 important. This bill is going to be the focal
22 point of what the Administration's community
23 development strategy is going to look like.

24 Frankly, we think that the problem can
25 be solved fairly easily. We gone through this

1 big level; but, frankly, I think that there's some
2 easy ways out on this one. We don't think
3 that this is a relatively limited bill; and,
4 frankly, we could have the discussion of should
5 this bill just happen to have more money.

6 We're not going to talk about that, but
7 I think we can note that in the bad times we
8 know we wouldn't be standing here considering
9 how to spend new revenue.

10 And now we're sort of being told in
11 the -- community in the good times you're
12 entitled to maybe 1 and a half percent of the
13 state surplus. So we could have that
14 conversation of how to expand the pot.

15 But without having that conversation, we
16 could say that in keeping with a balanced
17 approach and a limited sum of money we really
18 look to authorize -- housing can be done in
19 really a couple of ways.

20 Link to economic development, what some
21 of us call "upstairs, downtown." In many
22 neighborhood commercial districts, center
23 cities, many of the smaller cities throughout
24 the state you have essentially abandoned
25 second- and third-story structures in heart of

1 downtown.

2 There may be some business going on in
3 the first floor, but the upstairs is
4 deteriorated and sometimes abandoned, not used
5 to its best economic use.

6 The idea of focusing dollars to
7 revitalize downtown communities that way to
8 create customers for the businesses that we're
9 trying to generate in this development we think
10 is an important, limited way of dealing with
11 housing.

12 And we're pleased -- I think the
13 Committee's already gotten some correspondence
14 from the Pennsylvania Downtown Center which runs
15 the State's Main Street Programming has endorsed
16 that view.

17 A second concept that we would look to
18 do is, again, deal with the conversion of
19 abandoned, obsolete office/commercial/industrial
20 space, institutional space that exists in many
21 cities principally in downtowns but not
22 exclusively so.

23 Again, this is a kind of blight that
24 deters economic development. It's targeted.
25 It's limited. It's identifiable. It's,

1 frankly, getting rid of these buildings and
2 turning them into important economic usage is
3 a -- would be a shot in the arm to a lot of
4 communities to get to turn blight into something
5 of community interest.

6 Those are some ways that we could do it.
7 And, frankly, there are no state programs that
8 are really visibly focusing on those issues.

9 The third way housing might be
10 incorporated into this activity is the way,
11 frankly, the federal law does it. And that is
12 it says that the local community development
13 financial institutions have to have a plan of
14 what they're doing.

15 And we might require the local CDFIs to
16 have a plan -- to have a housing plan. And
17 whether or not they use this money and in this
18 bill for housing or not, they would be
19 responsible for having a housing plan and being
20 involved in housing in their communities so that
21 the new CDFIs that we're looking to create would,
22 in fact, know that they will -- whether they use
23 this money or not -- they will have a housing
24 mission in their communities.

25 So we can increase housing capacities in

1 communities throughout the state that way even
2 if we're not using this specific money because
3 we're saying that there's not enough money to do
4 everything. So those are three ways which we
5 could get housing limited, targeted, would
6 encourage housing to happen.

7 Second concern that we have in the
8 program relates to the governance of the
9 program. Key to the success of these community
10 development financial institutions is the
11 linkage between community and the banking
12 functions. And, frankly, we see in this
13 proposal a great lacking.

14 The Administration strategy is to turn
15 this over to PEDFA. And while PEDFA may, in
16 fact, be a wonderful organization, frankly, it's
17 unknown and doesn't exist in poor communities.
18 You cannot walk down the street in poor
19 communities and say, How's PEDFA doing today?

20 And that's frankly has nothing, for
21 example, with the Housing Finance Agency. The
22 Housing Finance Agency, whatever its
23 shortcomings are, is known in poor communities;
24 but PEDFA, frankly, is really not.

25 It's not been their mission. It's not

1 who their board is. And giving it to them, I
2 think, really sort of breaks that linkage between
3 community and banking function which is so
4 critical to CDFIs working.

5 The Administration proposal calls for
6 the creation of a advisory board; but, again,
7 there's no specifics on how. We're frankly
8 concerned. We know the Department of Community
9 Affairs and the Department of Community Economic
10 Development has been meeting with the banking
11 community on this bill for some months.

12 That's nice that they're planning, but
13 it's also a concern in terms of who's involved
14 and who's not. Again, we think the federal
15 law's instructive.

16 While we would echo Mark Pinski's
17 comment that he would like to see more than just
18 an advisory committee, that he wished that
19 federal law gave greater power to that board,
20 the board itself in terms of how the federal law
21 was categorized is instructive.

22 They have two people out of the CDFI;
23 two people specifically out of the commercial
24 banking industry; two people out of the
25 community development -- who are national; two

1 representing consumer type interests.

2 So there are specific, designated
3 categories of who can be on this board. And in
4 the legislation, we don't know. This may be an
5 advisory board. This may be, in fact, the
6 governing board of this organization. The
7 legislation is very unclear.

8 We would prefer to see an inclusive
9 board having real power, the altogether
10 inclusive board having real power. The
11 alternative with having a exclusive board, maybe
12 it should have less power. Maybe we would take
13 that position.

14 We would prefer to see specific
15 categories to guarantee community inclusion in
16 the program. We think that that is -- it's a
17 Community Development Bank, a community is
18 currently what's missing from the proposal.

19 Final concern, frankly, is just on
20 really sort of to the guts of the program. And,
21 again, let me just sort of state again here
22 we're here for two reasons:

23 One, we want our members to be able to
24 participate in this program; and two, we really
25 want this to work and we're concerned that it

1 may not.

2 The Administration's proposal is to take
3 this \$10 million and line it up against 30 to
4 \$50 million in private money, and it's a fair
5 amount of leverage. And whether the banks will
6 really do it, I think there's reason to be
7 skeptical.

8 We've seen bank partnership programs in
9 this state and others not work terribly well
10 where the banks say, Oh, yes, in theory we're
11 all gung-ho; but when it comes to a specific
12 loan, we're sort of less interested. And we're
13 really not looking to repeat that process.

14 I think some of the comments that Mark
15 made earlier about the lenders agreeing to be an
16 investor but then getting out of the way and
17 letting the governance of this thing take place
18 are going to be very important.

19 If they are going to really sit at the
20 table and look at the loans as loans,
21 particularly if they're representing -- there's
22 sort of a duality between representing the
23 Community Development Bank and representing
24 their own bank's financial interest. That's a
25 recipe for disaster which we've really seen

1 around America and don't need to repeat.

2 So we would like to just suggest to you
3 if not actually changing the way the financial
4 structure of the way this program is set up,
5 suggesting that your legislation incorporate
6 some other options that this board might want to
7 look at in the future.

8 One thing that we might look at -- we
9 heard a lot about banking here on the other
10 presentations; and there really wasn't a whole
11 lot of distinction made between debt and equity.

12 What's being proposed here is we are
13 going to give local community development banks
14 access to new lines of debt. Frankly, to grow
15 the local community development banks, they
16 could grow better if they had access to equity.
17 And they're good at leveraging.

18 So the opportunity -- and, frankly, if you
19 were just going to give them equity with
20 whatever strings were attached to make sure they
21 didn't fritter it away, they're pretty good at
22 leveraging and they would get you this 30 to \$50
23 million on 10. They know how to do that.

24 And you wouldn't have to do quite as
25 much of the bureaucracy that you're looking to

1 create around this thing. So that might be a
2 way that you might want to -- if you really want
3 to make CDFIs grow, giving them access to equity
4 which then when those loans get repaid back stay
5 with the CDFI as a way of building their balance
6 sheets as opposed to just sending the money back
7 to the state institution, you might want to
8 consider that.

9 Second thing you might want to consider
10 is the idea of creating not a -- \$10 million
11 is \$10 million; and I have a skepticism based on
12 my experience of what lenders will ultimately
13 do. You might want to just leverage your \$10
14 million against a larger industrial development
15 bond issue.

16 If you put up \$10 million against a
17 hundred-million-dollar bond, the market would
18 understand that level of guaranty and you would
19 have something that would be debt but it would
20 be big debt.

21 And the idea that -- you would be
22 signalling, I think, to the financial markets
23 and to those wanting to get into business that
24 you're really serious.

25 Frankly, \$10 million is not a lot of

1 serious; so that you might want to think about
2 doing that. You could do larger -- more deals,
3 larger deals, community changing deals; get the
4 attention of the lending community.

5 Another thing you might do is be a
6 secondary market for these kinds of banks.
7 These -- right now in the CDFIs -- Jeremy was
8 telling me the other day he has, like, \$23
9 million or something in the portfolio.

10 Banks sort of come and kick the tires,
11 but no one really looks to buy his loans. So
12 he's stuck servicing his loans for the next
13 hundred years. Having the state come there and
14 take them out so that he could then relend the
15 money, that would be a valuable thing.

16 We have, obviously, a very sophisticated
17 secondary market. When it comes to housing,
18 doing that on the economic development side
19 would be interesting. That would be an
20 interesting demonstration to run.

21 Fourth, I just want to mention
22 briefly you might want to -- lend no money at
23 all. You might just want to capitalize an
24 insurance program of some sort for economic
25 development activity and, frankly, take the

1 shackles off the PHFA mortgage insurance program
2 on the housing side and look to, through an
3 insurance vehicle, attract private capital into
4 doing this kind of lending.

5 Frankly, I don't know if this Committee
6 is aware, tomorrow in Lancaster your
7 counterparts in the Urban Affairs Committee are
8 going to be considering just such a bill.

9 I don't know what their intention yet is
10 on that. I'll be at that hearing. But you
11 might want to talk to Chairman Reinard and find
12 out what's going on in that one.

13 I think these are all ways, frankly, of
14 looking at this problem that are likely to yield
15 more effective, more strategic use of the money
16 than what is currently being proposed.

17 If you don't actually pick one, I would
18 urge you at least to within the bill give the
19 future managers of the bill, whether they be at
20 PEDFA or this independent board or whatever, the
21 opportunity to run these kind of programs
22 because they may find themselves in a situation
23 where they come to realize that they're not
24 using the funds as strategically as they might
25 as well. Thank you.

1 CHAIRMAN HASAY: Thank you, Mr. Hoffman.
2 When or should this bill be considered by this
3 Committee, I can assure you from being around
4 here a few years that there will be amendments
5 added to this bill, I'm sure. Representative
6 Mundy, you have questions?

7 REPRESENTATIVE MUNDY: Just one really.
8 Can you tell me the Pennsylvania Low Income
9 Housing Coalition, your letterhead here just
10 says Philadelphia and Pittsburgh.

11 MR. HOFFMAN: Glenside, yes.

12 REPRESENTATIVE MUNDY: So that's where
13 your offices --

14 MR. HOFFMAN: That's our offices.

15 REPRESENTATIVE MUNDY: But who are your
16 members and where are they from?

17 MR. HOFFMAN: Our members are throughout
18 the state and we have about 200 members and
19 they're community development organizations,
20 housing advocacy groups, disability groups.
21 Jeremy is a member. Allan is a member. So a
22 number of Cap agencies are members. So it's a
23 very broad-based membership.

24 REPRESENTATIVE MUNDY: So we're not just
25 talking Philadelphia and Pittsburgh?

1 MR. HOFFMAN: Oh, no. No. We have a
2 number of members in your area.

3 CHAIRMAN HASAY: Representative Dent.

4 REPRESENTATIVE DENT: Thank you,
5 Mr. Chairman. Mr. Hoffman, I have a few
6 concerns about your testimony. You pointed
7 out -- you cited an example where there's not
8 enough state money available for second- and
9 third-story renovations in downtown areas.

10 I know from experience that there is a
11 fund in Pennsylvania that can be used to support
12 those projects: The Communities of Opportunity
13 Fund. The city of Allentown has a
14 million-dollar application for that just for
15 that very purpose.

16 Also you said that housing -- you
17 said that nothing in the legislation provides
18 for that. But on page 3 line 11, it says a loan
19 from a CDFI to low-income individuals,
20 businesses, and nonprofit organizations for the
21 purpose of revitalizing distressed communities
22 and buildings.

23 I mean, buildings would fall in the
24 definition that you described in your testimony,
25 so that issue I think is adequately addressed.

1 Also in terms of community development,
2 we have something called an Opportunity Fund in
3 this state now that somewhere between 30 and 35
4 million appropriated; and a lot of that money's
5 going to downtown areas for job creation. And
6 that's new money that wasn't there before.

7 That's economic development. It's also
8 community development. And I thought I should
9 point that out.

10 Also with respect to the Community
11 Opportunity Fund and other housing redevelopment
12 assistance, it's my understanding that the
13 practice in this state has been to use 20
14 percent of the funds for Philadelphia and 20
15 percent for Pittsburgh.

16 So 40 percent of the money from those
17 funds tends to go to two cities even though they
18 don't represent 40 percent of the population of
19 Pennsylvania.

20 I thought that perhaps your organization
21 could help those of us in the smaller cities to
22 draw down some additional state funds that are
23 presently going to the two major cities for the
24 purposes that we all think are important.

25 I guess my question is housing's an

1 important issue; we all agree to that, but why
2 must it be addressed in this legislation? I
3 don't think anything in the legislation
4 precludes housing from drawing down the funds.

5 MR. HOFFMAN: There's a number of
6 things there. First all just, let me say
7 that we do advocate statewide; and so if there's
8 an unfairness in how money gets distributed
9 around the state -- we certainly have a number
10 of rural members as well.

11 So that is of concern to us and indeed
12 we came before another Committee in the case of
13 the neighborhood tax credit program and
14 specifically talked about the need for better
15 distribution to the non-Pittsburgh and
16 Philadelphia market.

17 In regards to funding available, you're
18 correct in what you said. What I believe I said
19 was that there was no categorical program
20 existing where -- and as a result you're going
21 before -- you're going to the community
22 vitalization money and maybe you'll get it and
23 maybe you won't.

24 It's not -- maybe they'll let you know
25 in a number of months and maybe they won't. And

1 so it's much more discretionary program.
2 Whereas, if I go to a local CDFI, they run it
3 like a business and I know I'm going -- either
4 they have money or they don't; and I know I'm
5 going to get an answer in a relatively short
6 period of time.

7 State programs just frankly don't work
8 that way. And, in fact, I would -- even within
9 the state I would say, for example, PHFA when they
10 have -- they have pools of funds that they
11 designate for some programs. And the very
12 designation of those programs, they generate
13 businesses; they generate applications.

14 People say, oh, there is money
15 available, not, Can you figure out in this -- in
16 this pool it may be eligible and if there's not
17 a lot of other demand I may be able to get it.
18 By designating money for these uses, you
19 generate takers.

20 REPRESENTATIVE DENT: Are you suggesting
21 that the money that we do provide now through
22 the Community's Opportunity Fund is too much of
23 a discretionary fund?

24 I guess I'm saying if people apply and
25 they review the applications -- the Department

1 reviews the applications, of course, they're
2 going to have some discretion.

3 But in many respects, I know that that
4 funding is competitive, I mean, truly
5 competitive in terms of Allentown applied, for
6 example, for the million dollars for their upper
7 decks. They were denied. There just wasn't
8 enough money available. There were plenty of
9 applicants; others were selected.

10 And I suspect they are legitimate
11 selections. And I guess it's competitive. Are
12 you suggesting that this should be an
13 entitlement, I guess?

14 MR. HOFFMAN: No. I'm saying there
15 should be a source of funds to be able to borrow
16 from. What I understand is that Allentown or
17 whoever applied didn't get a particular grant.

18 What I'm saying is that the grant funds
19 will always be limited and the opportunity to go
20 in and borrow for these funds on a cash is
21 generally always available. Frankly, if you go
22 to PEDFA, they sort of more or less every day
23 have money. They're in business all the time.

24 It's not this year we got an
25 appropriation and this year we sort of didn't.

1 They have sufficient funding. They're basically
2 in business all the time.

3 And having programs that are designated
4 does create takers in a way that -- and of these
5 kind of projects are important. You want to
6 encourage that kind of targeting of the money.

7 Now, I'm sure the program runs a lot of
8 other useful and important things. And,
9 frankly, I know many of our members have
10 received funding from that program that you
11 talked about; although, frankly, fewer than in
12 the years past.

13 So in doing that, I would just say that
14 including it in this bill as an eligible
15 activity would be a useful signal that these are
16 the kind of activities that we would like to see
17 happen.

18 REPRESENTATIVE DENT: Thank you.

19 REPRESENTATIVE MUNDY: Can I follow-up?

20 CHAIRMAN HASAY: Representative Mundy.

21 REPRESENTATIVE MUNDY: I have one
22 follow-up question to Representative Dent's
23 questions.

24 He indicated that the bill doesn't
25 specifically exclude housing. Can you tell me

1 what it is that makes you think that housing
2 would not be included?

3 MR. HOFFMAN: The Administration I think
4 has been pretty clear on that in their briefing
5 papers and conversations with us that they don't
6 see housing as much of a market in this thing.

7 CHAIRMAN HASAY: The Chair thanks the
8 gentleman very much for his input. Thank you,
9 Mr. Hoffman. Jeremy Nowak, Executive Director of
10 the Delaware Valley Community Reinvestment
11 Authority.

12 MR. NOWAK: It's Delaware Valley
13 Community Reinvestment Fund; although, if that
14 would elevate me in some way, I'll change the
15 name. If it gives me bond financing power, I'll
16 change the name.

17 CHAIRMAN HASAY: The gentleman may
18 proceed.

19 MR. NOWAK: Thank you, Mr. Chairman and
20 distinguished Members of the Committee for the
21 opportunity to discuss the Pennsylvania
22 Community Development Bank Bill.

23 My name is Jeremy Nowak. I'm the
24 Executive Director of the Delaware Valley
25 Community Reinvestment fund. We are a \$45

1 million financial intermediary.

2 We're based in Philadelphia, but we
3 serve a ten-county area regional marketplace.
4 Five of those counties are in Pennsylvania and
5 five of those counties are in New Jersey.

6 We've been around since 1985. We've
7 provided more than \$60 million in development
8 finance. To give you a sense of how we're
9 growing, \$25 million of that was in this last
10 fiscal year alone.

11 That has been provided to more than 350
12 borrowers resulting in the creation of more than
13 2400 units of affordable housing with a million
14 square feet of commercial and community facility
15 space and several thousand construction, retail,
16 and manufacturing jobs.

17 We're a multi-service community
18 development financial corporation. We've got
19 really comprised of five programs. I'll just be
20 brief and give you a sense of the breadth of
21 what we do.

22 We first manage a \$25-million loan fund,
23 and that is comprised of investments from more
24 than 700 private investors. That's money that
25 would not be out there in north Philadelphia or

1 Chester or North Camden or other parts of our
2 area if it wasn't for us raising that money from
3 private investments.

4 They are not charitable contributions.
5 They are investments. We issue a security to
6 the State Securities Commission.

7 We also won a \$12-million bank
8 collaborative sponsored by eighteen member
9 banks. It's a construction lending pool for
10 affordable housing that makes loans of up to a
11 million dollar's transaction.

12 I'd like to think that we're one of the
13 successful bank collaboratives. We've got more
14 demand. In fact, we've got capital in that.
15 We've recently created an \$8-million venture
16 capital fund, again, based on investments from
17 private investors that will provide subordinated
18 debt and equity for early stage businesses.

19 We provide training and technical
20 assistance program and we also run a work force
21 development project that focuses efforts -- its
22 efforts in the northwest section of
23 Philadelphia.

24 Actually, the area where state
25 Representative Dwight Evans comes from. And

1 we've been in partnership with many of the
2 organizations that Representative Evans has been
3 active in for that work force program.

4 As I said, this year alone we've
5 provided more than \$25 million of new financing.
6 I think we're widely recognized around the
7 country as one of the more successful community
8 development financial institutions.

9 We were certified from the U.S. Treasury
10 Department Program and also we're happy to
11 receive a \$2 million investment from that
12 program, which was one of the larger investments
13 that they made.

14 For twelve years now, I'd say that our
15 success has been based on about a half dozen
16 core operating principles that I think are
17 important and I think it's what's made us
18 successful.

19 And if I could just say what they are, I
20 think that that would be the most important
21 thing to note. The first thing is that we think
22 that providing capital is key to poverty
23 alleviation. And while that may seem obvious,
24 seem that it's not rocket science, it is not
25 always recognized by social policy.

1 And yet we all know in our individual
2 lives that the key to social mobility is the
3 ability to get a loan for a house, build some
4 assets in a home that you own, to get a loan for
5 small businesses, to get a loan to go to school.

6 So we understand -- those of us in the
7 middle class and those of us that have got money
8 understand that credit is really key to
9 mobility. In fact, people with money know that
10 the way you get things done is with other
11 people's money. They know that better than poor
12 people. Poor people in many ways are not in
13 those markets.

14 We know that, as I said in the
15 testimony, that this is not just true as a route
16 to social mobility in Bryn Mawr and Malvern;
17 it's true in the city of Chester and it's true
18 in the city of Philadelphia. It's the same
19 economy that we operate in. The question is
20 how to make that economy work.

21 Number two, I think that we've shown in
22 what we've done that social goals and market
23 discipline don't have to be mutually
24 exclusive and when they become mutually
25 exclusive, we get into trouble. In fact, when

1 they're not joined, I think we have problems.

2 We've been one of hundreds of such
3 organizations around the country that has proven
4 that you can have a public purpose and yet you
5 can take a disciplined, performance-based
6 approach to investment decisions.

7 We've written off less than 1 percent of
8 outstanding principle. It's an enviable
9 position to be in if you talk to people in
10 commercial lending programs and banks. We
11 maintain capital ratios and reserves that are
12 consistent with best practices and we know how
13 to say no, and this is important.

14 And I go back to something Mark Pinski
15 said. We have good political relationships,
16 but we don't make politically-motivated
17 investments. The deal's got to work.

18 We've learned early on that social ends
19 are not satisfied or not met by poorly-planned
20 businesses and projects. What you've got to do
21 is figure out how to put together a community of
22 interest between investors and borrowers, how
23 to really forge that community of interest.

24 Moreover, we're here for the long-term.
25 We're not a project. We're not an initiative.

1 We're not the program of the moment. If you do
2 this and it's able to help us, that's wonderful.
3 If you don't, life will go on.

4 Before we knew we were a CDFI, we were
5 doing this, before there was that term. Being
6 here for the long-term means you've got to
7 develop the financial institution that's got the
8 institutional depth, financial savvy, and the
9 intellectual capital that's going to be relevant
10 to the ambition of our borrowers and be relevant
11 to the scale of the problem that you try to
12 address -- right?

13 And if you take a drive through
14 Camden or Chester or Philadelphia, you get a
15 sense of the scale of the problem that you're
16 trying to address if the goal is to try to
17 restore market forces to those neighborhoods.

18 A third issue that we think is really
19 critical is that capital is a necessary but
20 nonsufficient tool. It's got to be accompanied
21 by technical services. Not to get off it, it
22 also should be accompanied by good public policy
23 and a reasonable political culture; but it
24 clearly has got to be accompanied by technical
25 services.

1 The success of what we do and the real
2 cost of what we do -- a cost, in fact, that
3 private capital doesn't want to pay and in
4 some ways I understand given what they compete
5 in -- is really the technical and development
6 services that we provide:

7 Working with borrowers on a business
8 plan, going over construction specs, financial
9 management -- providing financial management
10 assistance. That's a cost that is really
11 difficult in a competitive lending and credit
12 environment for someone to do, and yet it's the
13 heart of our business.

14 It's the heart of our business. It's
15 really where the subsidy is. And that
16 relationship that comes from the integration of
17 technical and capital support I would say is a
18 powerful process and a really important
19 process. It's what's allowed us to have a
20 default rate that's so low. It's really what
21 the cost of that default rate is.

22 Fourth principle is that we think
23 there's a need for private, independent credit
24 institutions that have a clear community
25 development and poverty alleviation mission.

1 And here I just want to beg your indulgence for
2 a second.

3 While other banks -- and in terms of
4 kind of working this argument out a little bit,
5 trying to think long term, while other banks and
6 financial institutions are critical to the job
7 of rebuilding inner city and rural
8 markets -- again, I mentioned that we work with
9 banks. They're some of our biggest investors.
10 I'd say 10 or 15 percent of our capital comes
11 from banks. About 25 percent of the new venture
12 fund is bank investments -- PNC, Corestates,
13 First Union, and the like.

14 What CDFIs do is they provide a
15 long-term, mission-driven approach to credit
16 provision. This is important because we are in
17 an age when there are significant
18 transformations going on in the financial
19 services industry. Their significant and social
20 policy has not caught up with what these changes
21 are.

22 There are going to be fewer and there
23 are going to be larger banks. There's going to
24 be dominance by national and regional money
25 centers.

1 There is what I called here the kind
2 of a deconstruction of the Glass-Steagal Act,
3 which means that the distinction between
4 commercial activity banking and securities
5 really goes out the window, which may be for
6 good reason; but as that happens, banks are not
7 going to be what banks were, you know, ten,
8 fifteen, twenty years ago.

9 It's kind of a new world of financial
10 services. The question then we have to ask is
11 how do we find a niche of lenders that's going
12 to have the patience and skill and capital to
13 fuel inner-city and low-income rural growth?

14 In an era where financial services are
15 defined by the packaging, sale, and rebundling
16 of assets, where all maturities are short
17 term -- right, I mean, that's really what the
18 financial markets are about, are about
19 short-term maturities -- where placing capital
20 are increasingly decoupled, CDFIs have the
21 potential to play an important role in I think
22 redefining a prior tradition of local
23 investments relations that the old-fashioned
24 banks had and many of the small towns
25 that you represent.

1 This becomes important and I think can
2 see it with the large banks right now. They're
3 delighted in many instances to have us be their
4 retail agent. You know, they're not. They're
5 not, despite what they say, their best public
6 relations people. And I have many friends
7 in those places.

8 If you're an \$80-billion regional money
9 center let alone a \$200 billion national money
10 center, your market is not a \$50,000 loan let
11 alone a \$5,000 loan. And so their question
12 really becomes, What's the retail? What's the
13 ability to link to someone who knows that
14 market? Whose business is that market?

15 And I would say here that while the
16 Community Reinvestment Act is extraordinarily
17 important for keeping banks involved in this
18 work, what quietly has happened with the
19 restructuring of the financial services
20 industry is that our savings -- the majority of
21 America's savings, all of us -- I mean, I know
22 where my pension fund is, in mutual funds,
23 right? Probably everybody here is.

24 Your money goes into places that are
25 not -- the majority of American assets are

1 increasingly not in financial institutions that
2 have got a community investment regulation.

3 And so the Community Reinvestment Act
4 will not go away because somebody will get rid
5 of it in the federal government. It'll go away
6 because of its irrelevance because the financial
7 services industry goes through this
8 transformation. That's sort of for a larger or
9 different conversation.

10 Number five, we've learned that CDFIs
11 have a unique opportunity to create partnerships
12 with private and public sector institutions.
13 We're natural places for this.

14 We've got a public purpose and yet we
15 understand what private sector discipline is.
16 And I could sort of talk to you, if we had time,
17 about places where we've done this, particularly
18 some interesting things we've been doing in West
19 Philadelphia where we've helped create 600
20 units of housing in a relatively small area.

21 Number 6 -- and I would reflect what
22 other speakers have said -- governance diversity
23 is extraordinarily important. The effectiveness
24 of our organization has to do with the diversity
25 and breadth of our representation and talent.

1 We've always conceived of our
2 institution of standing on a three-legged stool:
3 Investors, borrowers or consumers of our
4 products, and people with specific technical
5 skills. The culture of our institution is a
6 negotiation of people in this three-legged
7 stool.

8 Have it be only driven by investor
9 interest and you'll have the best investor
10 documents in the world but you'll have trouble
11 moving money.

12 Have it only driven by technical
13 interest, you know, you'll probably have the
14 best loan servicing programs in the world on
15 your computer programs; but you'll have trouble
16 moving money.

17 Have it only driven by consumer
18 interest, you'll also have problems and you'll
19 have issues in your portfolio. Developers have
20 never seen a bad deal. Let's face it, all their
21 deals are good, right?

22 So the question really is the
23 negotiation of interests in governance and how
24 you make it work, and you can make it work. I
25 think our portfolio is a testament to that.

1 I support this legislation because I
2 think that the design and spirit of it -- and
3 here I'd like to -- I'm going to reflect later
4 on some of what was said before -- largely
5 reflects the principles that I've outlined. If
6 it doesn't in terms of the governance, I
7 would urge it to do that.

8 In closing, let me talk about two
9 things: One about the use of money and second
10 about kind of the long-term issues that I think
11 are in front of us.

12 My own perspective is that we should
13 maximize the use of money for finance programs
14 that are aimed at business ventures or hard to
15 fund community facilities programs like day care
16 centers, clinics, the like.

17 At the same time, I absolutely think
18 that the doors should be left open for CDFIs
19 that define the credit needs of their market in
20 such a way as to make a case for housing. If
21 the case is sound, then the CDFI fund should
22 respond affirmatively.

23 My experience is in Philadelphia. In
24 the Philadelphia area, for example, is that
25 while there are some early-stage debt needs for

1 affordable housing that for the most part the
2 constraint to production. For the most
3 part -- and here probably some people don't like
4 to hear this -- but for the most part, the
5 constraint to production is not debt.

6 The constraint to production has to
7 do with other things: land acquisition, the
8 cost of environmental remediation, the need for
9 increased subsidy or tax credits, better public
10 policy, better coordinated public policy, the
11 income of the population, the low appraisals
12 that you get in certain areas, and the lack of
13 more public subsidy to deal with the income
14 problem. It's not simply debt as the
15 constraint.

16 And I would also add -- and I didn't put
17 it in here and I should have -- better fair
18 housing oversight. On the other hand, I can
19 tell you that early-stage debt and equity for
20 businesses or long-term debt for an inner-city
21 day care center is not easily available.

22 Complain as I do and others may do also
23 about the secondary markets in housing, I would
24 defy anybody on this Committee to get some
25 secondary market to buy my 15-year day care

1 loans. If you can do it, God love ya and
2 they can have it. I'll discount them or
3 whatever I've got to do.

4 There just isn't a source of liquidity
5 for those kinds of things and in part because
6 the Community Reinvestment Act asks for data on
7 housing. It doesn't ask for data on really
8 anything else. There's really no accountability
9 around those kind of issues.

10 So if you want 15-year day care loans
11 in Chester and North Camden, North Philadelphia,
12 I've got 'em. I make 'em. But again, if
13 there's a CDFI that operates in Potter or
14 Washington County or anywhere else that is able
15 to demonstrate the compelling need for using
16 CDFI funds to establish a stronger rural
17 housing market, than we should not be excluded.

18 And if, in fact, they make the best
19 arguments and more money goes to housing, then
20 that's great. Ultimately I think we can all
21 agree, including the affordable housing
22 advocates here, that the problem is an income
23 problem, right?

24 I mean, we need to subsidize housing
25 because we got income problems. And so you can

1 work on these -- and it's not either or. We can
2 work from both ends.

3 But in some ways when we talk about
4 poverty alleviation we're talking about how do
5 you build peoples' income? How do you build
6 peoples' assets? How do you link them to a set
7 of economic opportunities or develop work force
8 skills and the like?

9 Finally, it's important to note that the
10 state program has to have a long-term horizon.
11 It's taken our organization more than a decade
12 of learning, experimenting -- and I should have
13 added making lots of mistakes -- to figure out
14 how to do what we do.

15 The Capacity Building Grant Program
16 that's one of the proposed engines of the State
17 initiative has to be able to look towards
18 results and outcomes that exceed the time
19 horizon of one or two administrations. And I
20 understand the political time and organizational
21 development time are often on two different
22 tracks.

23 If we want to nurture a statewide
24 network of even six to twelve strong
25 institutions able to develop substantial

1 portfolios and play important rolls in regional
2 economic change, it's going to take time. It's
3 simply going to take time.

4 The last thing I would say -- one more
5 final that I would say because it came up on
6 Allan's testimony is I think that the role that
7 they play in packaging loans is extraordinarily
8 important.

9 And I don't know his areas. I don't
10 know what the other -- where the credit gaps
11 are, where the credit gaps aren't. I don't
12 know his institutions. I don't know whether he
13 should or shouldn't be a CFDI or whether there
14 aren't some natural organizations around there
15 to create a regional CDFI.

16 He could then partner with them and
17 maybe they could go to this program to get
18 technical assistance money for it. So the
19 compelling case that I think he makes is a case
20 that I think we should try to figure out how to
21 deal with in some way, whether it's through
22 this program or some other program.

23 The problem is the slippery slope. The
24 problem is when you open up a program you want
25 to define it so that it's got a set of core

1 ideas, principles, competencies, and strategies.

2 If you open it up, you can't simply open
3 it up idiosyncratically. Then when you open it
4 up if you open it up in too broad of a way, we
5 no longer have a program.

6 If that begs the question that the State
7 needs a broader community development strategy,
8 question an issue that came up from other
9 testimony, that's great.

10 Maybe that's something that this
11 Committee or somebody else should take up and
12 sounds great to me. But let me stop right there
13 if you have questions.

14 CHAIRMAN HASAY: Thank you. Any
15 questions? Representative Mundy.

16 REPRESENTATIVE MUNDY: You'll have to
17 forgive me, Mr. Nowak. Should we open this up
18 to non-CDFIs or not? I could not tell from what
19 you said.

20 MR. HOFFMAN: My preference would be
21 that you don't open it up to non-CDFIs but that
22 you look for -- that there's opportunities for a
23 group like that to partner with a CDFI to, as
24 part of that partnership, to be able to get
25 money for doing the part of what they do that

1 creates a flow of -- a flow of deals for the
2 CDFI. That's what I would look at as a
3 possibility. That would be my view.

4 REPRESENTATIVE MUNDY: And it's clear to
5 me that you believe that housing is community
6 development, that housing is economic
7 development?

8 MR. NOWAK: Yeah. And again, it's a
9 markets issue. Representative Flick I see left.
10 But in Chester County, for example, we do. We
11 have a partnership with their Office of Housing
12 and Community Development.

13 For them, they can't find a work force.
14 For them, affordable housing is economic
15 development, absolutely. So it's a market
16 issue.

17 There is a question of, you know -- and
18 I think I was an early advocate and still an
19 advocate to the extent to which we can maximize
20 the use for business credit. Let's figure out
21 how to do that because from where I sit, it's a
22 bigger gap and it's harder to get money. So
23 there's a little bit of zero-some gain in that.

24 But would I keep it open for housing?
25 Absolutely. Absolutely. But you've got to make

1 a compelling need about your market.

2 REPRESENTATIVE MUNDY: But to not
3 specify housing in the bill and know that the
4 Department does not intend to include housing
5 makes we wonder -- it's clear to me that housing
6 will not be one of the --

7 MR. NOWAK: I think they want to
8 maximize the use for business investment, which
9 I agree with. If it helps by putting the word
10 in there, put the word in there.

11 REPRESENTATIVE MUNDY: Thank you.

12 MR. NOWAK: Absolutely. 65 percent of
13 our portfolio is residential real estate, so
14 we're not, you know (pause) --

15 CHAIRMAN HASAY: Representative Gordner.

16 REPRESENTATIVE GORDNER: Thank you,
17 Chairman Hasay. You mention in your remarks
18 that your entity helps folks with business plans
19 and their technical services. Do you take
20 advantage of small business development centers
21 and other government agencies?

22 MR. NOWAK: Yeah, a little bit. Our
23 venture fund's been working a little bit with
24 the Warden SPCD (phonetic) in terms of referrals
25 and issues.

1 I have to say we don't work with -- we
2 don't work with them all that much. We have
3 good relationships. In Philadelphia we have
4 first relationships with PIDC, Philadelphia
5 Industrial Development Corporation.

6 In fact, there's a meeting tomorrow
7 about doing some joint lending program together
8 to target areas in Philadelphia. We've been in
9 on deals with all of them, you know, both as a
10 first lender and a subordinate lender; but we
11 don't have that many structured relationships
12 with them.

13 We're out there in the market. We're a
14 deal place, you know, so we're out in the market
15 trying to move money. So if they can be helpful
16 in that way, then that's great.

17 REPRESENTATIVE GORDNER: I think a
18 concern of mine and probably the Committee as
19 well is always concerned about duplication of
20 services and whether state monies are being used
21 to do services that are already being done well
22 by other entities.

23 MR. NOWAK: Some of those entities work
24 well and some of them don't work. Let's be
25 clear here and even we can sort of go through

1 the entities.

2 Some quasi-publics -- these are the
3 quasi-publics mostly you're talking about or the
4 SPDCs. Some quasi-publics I think are pretty
5 good in particular areas.

6 Most of them are pretty -- most the ones
7 that are good are some of the industrial
8 development corporations that are particularly
9 pretty good with land acquisition issues around
10 kind of commercial real estate and industrial
11 real estate do less -- most of them do less with
12 early-stage subordinate or equity investing for
13 businesses.

14 So it depends on the credit need,
15 depends on the institution. It's uneven. I
16 just, you know (pause) --

17 REPRESENTATIVE GORDNER: Looking at some
18 material provided to us a little earlier --

19 MR. NOWAK: Can I say one other thing
20 about this duplication issue? I want to get
21 back to this point. We're not a program, so
22 we -- there's this issue. You know, we move
23 around from market -- you know, as the market
24 switches, if it changes, we'll move around to go
25 to another -- to another capital assistance in

1 another gap for another capital need.

2 We're not dependent on what the last
3 appropriation was. And this is a very important
4 difference about being a permanent, long-term
5 institution versus really what the mandate and
6 governance issues are for quasi-publics.

7 REPRESENTATIVE GORDNER: Some earlier
8 materials we received talked about the NACDLF
9 membership and the geographical areas that they
10 serve. According to this, you serve the
11 metropolitan Philadelphia area?

12 MR. NOWAK: Right.

13 REPRESENTATIVE GORDNER: Any interest by
14 you folks of expanding that area or are you
15 pretty well staying the way --

16 MR. NOWAK: You know, my
17 preference -- we've talked about this and had
18 some kind of offers from people to come into
19 different areas. My preference -- and we just
20 went through an organizational assessment where
21 it was one of the issues that came up.

22 My preference is to do more depth in our
23 area than breadth outward. That's my
24 preference. So, you know, we might pick up a
25 county here or there if it makes sense. What

1 I'd love to see are ten or fifteen organizations
2 like me around the state.

3 That would be the best solution for us
4 and we'd be -- we've certainly with a few
5 organizations, including one in Pittsburgh, been
6 available to help people think through building
7 their institution and provided technical
8 assistance at no cost, in fact.

9 REPRESENTATIVE GORDNER: So again, if
10 there is an area of the state like Northeastern
11 PA that did not have, you might be available for
12 mentoring services?

13 MR. NOWAK: I'd love to, yeah. That'd
14 be fine.

15 REPRESENTATIVE GORDNER: Just a final
16 question or comment: Do you see yourself
17 competing against the banks or filling an area
18 that's not completely serviced by the banks?

19 MR. NOWAK: We see ourselves -- about 25
20 percent of all of our loans are participation
21 loans where banks and us are in on the same
22 project. So on those loans -- give you an
23 example of a day care center in West Philly,
24 give a very good example.

25 Done by a community development

1 organization run out of an African American
2 church. In that loan, Corestates had \$500,000
3 in it; we had \$200,000 in it. Day care
4 center and there also is an early childhood
5 education center.

6 The Corestates' \$500,000 isn't in
7 without our \$200,000 because the loan-to-value
8 ratio and the debt-coverage ratio exceeded what
9 they were able to do. So it was our subordinate
10 loan that got them in. So in most instances, I
11 think, there may be some -- occasionally some
12 competition.

13 In the overwhelming majority of
14 situations, we're helping bring bank money
15 there. We're bringing it in to play. This is
16 particularly true for many of the smaller banks
17 who've got a Community Reinvestment Act
18 regulatory requirement but don't have the staff
19 to deal with it and don't know those markets.
20 That's really quite common.

21 So I'd say that if anything, we sort of
22 create borrowers for banks more than take
23 borrowers away from banks.

24 REPRESENTATIVE GORDNER: Thank you.

25 CHAIRMAN HASAY: The Chair thanks the

1 gentleman very much -- I'm sorry.

2 Representative Serafini.

3 REPRESENTATIVE SERAFINI: I may have
4 missed some of this, but I'm wondering just what
5 your investors get out of this and how you get
6 investors and what they look for when they do
7 invest and how you get away with giving marginal
8 loan opportunities with investors' interests --

9 MR. NOWAK: They all go to Heaven, first
10 of all. Our aggregate cost, we issue a
11 prospectus -- I said this once to an investor as
12 part of what he would get and it actually helped
13 with the sale.

14 Our aggregate costs of funds right now
15 is about 3 percent. So the investors invest
16 anything from lower than that to up at 4, 5, 6
17 percent. Depends on liquidity, you know, what
18 kind of liquidity that there is in the
19 investment and also the amount that they're
20 going to invest.

21 They're -- in essence, they know in a
22 fund like ours that the risk is higher, the
23 liquidity is more problematic, and they're
24 taking more risk.

25 What they understand is that we're well

1 managed; we have good reserves; we have a
2 capital asset ratio that's about 18 percent,
3 which is higher than most banks; that we know
4 what we're doing.

5 They always -- they get paid interest
6 twice a year. Our reinvestment rate of when
7 they mature and then whether they want to
8 reinvest or not is over 90 percent, so most
9 choose to go back into the fund.

10 But they know that what they're doing is
11 making an economic investment where they're
12 losing 2 or 300 basis points, even if they were
13 in a CD, right, depending on what the market is,
14 to achieve some social end, right?

15 Now, many of them have a particular
16 community of interest. So the University of
17 Pennsylvania will invest in us and they're
18 interested in West Philadelphia, not
19 surprisingly, and they want to target the money
20 toward that. Or hospitals may do it for those
21 reasons.

22 Other things that we do, our venture
23 capital fund is structured as a limited
24 partnership. They're not being promised venture
25 capital returns. What we're promising them, we

1 say in our offering memorandum, that we'll try
2 to get to the high single digits.

3 In that situation, we're trying to go
4 after a band of entrepreneurs that will not
5 deliver the multiples or the returns that
6 conventional venture capital wants but we think
7 will be successful, will be profitable, and will
8 create jobs for low-income and entry-level
9 workers.

10 We think that band out there exists. So
11 they're taking venture capital risks without
12 venture capital return, although a reasonable
13 return, 8, 9 percent.

14 For a bank collaborative, those things
15 are structured at prime. And what they
16 do -- what banks get in that situation is an
17 investment that has a big credit
18 enhancement -- our loan, which is a big credit
19 enhancement for them.

20 The role that we play, we buy junior
21 notes and then they buy those senior notes
22 in the fund. And while they get prime and they
23 could get maybe 150 or 200 basis points above
24 prime on a commercial construction loan, what
25 they don't have is they don't have the

1 transaction cost of the making the loan because
2 we take care of the transaction costs of making
3 the loan.

4 So for them, it's a wash and then they
5 get the Community Reinvestment Act credit for
6 it. So different products investors do the
7 return risk -- what's the social or
8 institutional benefit of it based on different
9 products?

10 Interestingly -- I mean, for example,
11 take NB&A, the credit card company, they never
12 invested in our 2, 3, 4 percent loan fund, which
13 always probably seemed odd to them. It is, I
14 suppose.

15 But they just made a million-dollar
16 investment in venture funds because they make
17 investments in venture funds all the time. It
18 was a part of their business that they
19 understand.

20 So it really is quite -- Safe
21 Guard Scientific just made an investment in the
22 venture fund and they've never been an investor
23 in the core funds. So really different parts of
24 what we do appeal to different investors.

25 We think of ourselves as organizing

1 money. Before I did this -- this may not give
2 you any comfort as a potential investor -- but
3 before I did this I was a community organizer.

4 I worked in a neighborhood in North
5 Philadelphia called Logan. I organized blocks
6 around crime and safety issues.

7 And I organize money the way I organize
8 people, around common interests, sitting in
9 their living rooms or in their church offices or
10 in their corporate offices and finding out about
11 them, telling them about us.

12 It's a slow -- it's the kind of retail
13 work that good politicians do, right? Slow.
14 That's what we do. It's how we raise money.

15 CHAIRMAN HASAY: Are there -- as far as
16 your investors go, the private investors, are
17 there any tax -- federal or state tax advantages
18 to invest in one of those funds?

19 MR. NOWAK: No. No. And, in fact, if
20 they invest \$250,000 or more, then there's the
21 potential that the IRS could come around and
22 impute a higher interest rate to them because
23 they would get caught by the gift lending laws
24 in the IRS.

25 So they even have the potential for, you

1 know -- but that's never happened. So there are
2 no tax advantages to them. They come in. It's
3 revenue. They pay state tax and federal tax on
4 that revenue, absolutely. There's no advantage.

5 I have to tell you, I mean, what's kept
6 us -- I mean, you know, we don't think it's hard
7 to find investors. We think as Dan said -- and
8 Dan's absolutely right -- our organization needs
9 equity.

10 I mean, organizations like ours, that's
11 what leverage that, you know -- and if you
12 wanted to create a program just for me -- which
13 you don't want to do. It wouldn't make any
14 sense statewide, you know -- I say just give me
15 all the money. I'll lever all the money, right?

16 But it doesn't serve the purpose of what
17 you've got to serve in the state. But that is
18 true. There's truth to that.

19 CHAIRMAN HASAY: Thank you very much for
20 your testimony. You've been very informative.

21 MR. NOWAK: Thank you.

22 CHAIRMAN HASAY: Next we have David
23 Black, Deputy Secretary; and Emily White, Deputy
24 Secretary. We'll take a short break.

25 (At which time, a brief break was taken.)

1 CHAIRMAN HASAY: We have David Black,
2 Deputy Secretary for Community Affairs; and
3 Emily White, Deputy Secretary of Business
4 Financing. You may proceed at your pleasure.

5 MR. BLACK: Thank you, Chairman Hasay.
6 Also with me to my left is Ed Geiger (phonetic),
7 who's a member of our staff. Ed is a community
8 development specialist now who has been really
9 working on the bank from the outset, and this
10 traces back several years as you'll hear in the
11 testimony.

12 We appreciate the opportunity to be with
13 you this morning to offer some background
14 information on Senate Bill 10. Let me also
15 introduce out here before I forget, Derek Span,
16 who's by the door on his way out, I guess.

17 Derek is the director of the project
18 of community building of which this bank is a
19 part, but his task is more to bring together
20 some of the inter-agency corporation in the
21 Governor's initiative as unveiled last year;
22 but he will not be joining us in testimony
23 today.

24 We appreciate the opportunity to be here
25 to talk about Senate Bill 10, which amends the

1 Job Enhancement Act by creating the Pennsylvania
2 Community Development Bank.

3 This initiative was proposed as part of
4 Governor Ridge's project for community building
5 because of the need to provide access to capital
6 for low-income people in disadvantaged areas.

7 The General Assembly's approval of this
8 bill will establish an innovative mechanism to
9 build community organizations which foster
10 business growth and community development for
11 both urban and rural areas needing
12 revitalization.

13 The Community Development Bank will
14 leverage significant private sector funds which
15 benefits minorities, women, and disadvantaged
16 communities.

17 Initial estimates show that for each
18 dollar of state funds allocated to the program
19 at a minimum, an additional of \$3 of private
20 sector funds will be committed to finance
21 community an economic development projects in
22 distressed target markets.

23 As means of background, the Pennsylvania
24 Community Development Bank has the personal
25 interest and support of the Governor. While a

1 congressman, he helped write similar
2 legislation, the Bank Enterprise Act, which was
3 referenced in earlier testimony today.

4 At the outset of this administration and
5 drawing on his Washington experience, Governor
6 Ridge instructed cabinet officials and other
7 staff to develop a means to make capital
8 available in distressed communities.

9 This initiative was also included in the
10 plan to restructure the former Department of
11 Community Affairs. That plan described the
12 creation of a Community Development Bank as one
13 example of what a joint community and economic
14 development agency could accomplish.

15 The new merged agency, the Department of
16 Community and Economic Development, DCED, is
17 we will positioned to establish the bank by
18 drawing on the strengths of both former
19 agencies.

20 DCED relied on the lending expertise of
21 the former commerce staff and the community
22 organizing and capacity building expertise of
23 the old DCA.

24 Over the past year, staff from DCED, the
25 Department of Banking, and Governor's office

1 have worked with representatives of community
2 development financial institutions and the
3 banking industry to further redefine and develop
4 this concept.

5 In February of this year, the PA
6 Community Development Bank became the flagship
7 of the project for community building, which was
8 subsequently appropriated \$15 million in the
9 97/98 budget and Senate Bill 10 provides the
10 authorizing legislation to create the bank.

11 I'm going to ask Emily to proceed with
12 the provisions of Senate Bill 10 which address
13 some of the mechanics of the bank.

14 MS. WHITE: Just briefly, the Senate
15 Bill 10 as it's presently written would create
16 the bank as a program within the Pennsylvania
17 Economic Development Financing Authority, which
18 is located within the department.

19 It will be administered by a 15-member
20 Committee. And it is intended that this would
21 be the operational Committee, not an advisory
22 Committee, which would include four members
23 appointed by the General Assembly; two cabinet
24 secretaries -- the Secretary of the Department
25 of Community and Economic Development and the

1 Secretary of Banking; and another nine members
2 who would represent a combination of
3 participating investors, CDFIs, or community
4 development action groups and the general
5 public.

6 The intent is for the bank to provide
7 both loans and grants to achieve the goals of
8 the program. The grants which have already been
9 referenced today are intended to be made to
10 eligible organizations that either are CDFIs or
11 that intend to become CDFIs.

12 The loans that will come from the bank
13 will be made to eligible CDFIs which will use
14 these funds to make loans to individuals,
15 businesses, and nonprofit organizations for
16 community development purposes.

17 Because these CDFIs as we presently look
18 at this will have federal certification, we will
19 be using the federal certification standards
20 that define distressed communities to determine
21 what the service areas of those CDFIs are.

22 Those can be either urban or rural in
23 scope and may target specific population groups,
24 geographic areas, or a combination of both.

25 The bank will be developing standards to

1 accredit CDFIs to participate in the program and
2 the criteria will assure that CDFIs that are
3 receiving loan funds are not only financially
4 sound but are quality organizations because they
5 will be given the local autonomy to manage the
6 loan capital and responsibility for repayment of
7 the loan.

8 The bank will allow CDFIs to initiate or
9 expand their efforts as enterprise creation
10 loans. These activities are a diverse mix of
11 community and economic development projects.

12 The intent is with regard to the
13 structure of CDFIs is that each CDFI will
14 determine on its own what makes sense for the
15 region or target population that it wants to
16 serve and then will present a plan to us that
17 explains how they intend to meet that need.

18 MR. BLACK: Thanks Emily. I'd also like
19 to take a moment in our testimony to address the
20 role of housing that we've heard discussed here
21 today.

22 While enterprise creation is the primary
23 mission of the Pennsylvania Community
24 Development Bank, this mission is intrinsically
25 linked to the provision of affordable housing.

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

6 Economic opportunity empowers people to
7 gain greater wealth and independence.
8 Increasing incomes and employment will make more
9 housing options affordable through workers'
10 wages and salaries.

11 The ongoing maintenance of homes and
12 apartments as well as housing related utility
13 costs will remain affordable by reinforcing and
14 enhancing these employment opportunities.

15 Providing low-income households of
16 communities with economic opportunities will
17 also provide upward mobility and true
18 self-sufficiency, not just substance and
19 continued dependence on government and subsidy
20 programs.

21 The Pennsylvania Community Development
22 Bank will provide both grant and loan funds to
23 assist CDFIs in the Commonwealth. The grant
24 funds will be used to establish seven to ten,
25 roughly, new CDFIs.

1 These newly-formed CDFIs will be able to
2 undertake housing development and finance
3 affordable housing projects. In fact, they will
4 be encouraged to develop a diverse mix of
5 projects including housing lending as a means of
6 managing their risk in their lending portfolio.

7 These new CDFIs will become new
8 community institutions which can support local
9 housing efforts. CDFIs will be encouraged is to
10 leverage a wide variety of federal, state, and
11 local and as we will as private resources for
12 their housing finance activities.

13 However, as we envision it, the
14 Pennsylvania Community Development Bank Loan
15 Fund will be restricted for primarily
16 economically-driven development purposes, which
17 will include a variety of activities as you've
18 heard described by some of the people previously
19 testifying.

20 However, a business located on the first
21 floor with apartments on the second and third
22 floors is clearly and ineligible type activity.
23 The Pennsylvania Community Development Bank
24 will also support contract financing and
25 predevelopment loans which assist in housing

1 projects.

2 Additionally, CDFIs will be able to
3 access the Pennsylvania Community Development
4 Bank Loan Fund when housing contractors or firms
5 need business financing. The PCD Bank's focus
6 on enterprise creation is attributable to
7 the greater need for business and community
8 development projects.

9 By comparison, there is a ratio of
10 nearly 39 housing funds available to folks in
11 Pennsylvania for each dollar appropriated to the
12 Pennsylvania Community Development Bank.

13 Roughly 581 million of state and federal
14 funds were allocated for housing activities last
15 year compared to only 15 million that is, in
16 fact, appropriated for the Pennsylvania
17 Community Development Bank.

18 Financing enterprise creation activities
19 also is generally more difficult because of
20 higher risk -- degree of risk compared with
21 housing activities.

22 The Pennsylvania Community Development
23 Bank will permit the Commonwealth to promote
24 community economic development, including both
25 enterprise creation and housing financed by

1 CDFIs as part of a balanced approach to assist
2 disadvantaged communities and people.

3 In looking at anticipated results, what
4 is most important is that we know CDFIs can be
5 successful in promoting enterprise creation.
6 We've heard that here today from Jeremy's
7 experience. We can also look to the track
8 record of organizations across the country.

9 North Carolina's been referenced here
10 today. It's a statewide organization not
11 directly affiliated with state government,
12 incidentally, which last year provided 169
13 businesses, community facility, and
14 microenterprise loans totalling \$14.4 million.

15 A total of 55 percent of the borrowers
16 were minority business owners, 53 percent of the
17 borrowers were women, an 41 percent were rural
18 residents.

19 We think self-help is a good model to
20 the project to project the operations of the
21 Pennsylvania Community Development Bank because
22 it has a statewide presence.

23 Using these figures, we could conjecture
24 that based on the size of the two states if
25 Pennsylvania has a comparatible (sic) effort in

1 place, last year the Commonwealth could have or
2 would have seen over 25 million of lending occur
3 in our distressed communities.

4 Even more astonishing is the financial
5 track records of these organizations. You heard
6 earlier today from Mark Pinski with the National
7 Association of Community Development Loan Funds,
8 which is one of the associations representing
9 CDFIs, and Jeremy Nowak that these 46
10 organizations nationally have a cumulative loan
11 losses of only 1 percent on their lending which
12 totals 515 million.

13 Now, clearly, we understand that it will
14 take work to establish the Pennsylvania
15 Community Development Bank as a source of
16 capital for CDFIs throughout the Commonwealth.

17 As you've heard other speakers say
18 today, it is a long-term process and it's not
19 going to come up over night. However, this
20 approach to community and economic development
21 financing is new, the potential rewards are
22 tremendous, and we believe we will worth the
23 effort.

24 We thank you for the opportunity to be
25 with you today and are prepared to answer any

1 questions you may have.

2 CHAIRMAN HASAY: Thank you. This would
3 be just for distressed counties, right?

4 MR. BLACK: The -- as proposed -- and it
5 really goes back to the nature of the federal
6 certification of CDFIs -- there is criteria
7 within the federal certification targeting not
8 only communities but also people with population
9 levels -- I believe it's 80 percent of median?

10 MR. GEIGER: There are several choices
11 there. It could be a population group or a
12 geographic area. If it's a population group,
13 it's 80 percent of median or below or an area.

14 And you've got several choices there.
15 It could be an area of where 20 percent of the
16 population is below the poverty level, where the
17 median income itself for that area falls below
18 that 80 percent figure, the unemployment rate is
19 50 percent higher than the national level, or a
20 population loss in rural areas that's greater
21 than 10 percent.

22 There's a set of possible choices to
23 define the area to be served, but they're all
24 distressed.

25 CHAIRMAN HASAY: Okay. So this would

1 target that specific area?

2 MR. GEIGER: Yes.

3 CHAIRMAN HASAY: Which would be
4 different than the IRCs, Economic Development
5 Councils or PETA, this would target different
6 communities?

7 MR. BLACK: Clearly. And we want to
8 make it clear that we're not duplicating what's
9 out there, that this is really an unserved
10 market or an unserved constituency within the
11 Commonwealth that really needs to be addressed.

12 However, we are -- and perhaps it's
13 caused some confusion because we're using a
14 traditional economic development tool in PEDFA
15 as kind of the umbrella or the mechanism to make
16 this money available.

17 There perhaps has been a little
18 confusion, but clearly this is a different
19 market than served by the IRCs, IDAs and LDDs of
20 the world.

21 CHAIRMAN HASAY: Representative Mundy.

22 REPRESENTATIVE MUNDY: I hope you'll
23 bear with me, Mr. Chairman; I have actually
24 several questions. And if you'd like me to
25 yield while somebody else asks a question in the

1 middle, we'll come back to me.

2 CHAIRMAN HASAY: No. Go ahead.

3 REPRESENTATIVE MUNDY: If we could go to
4 the bill for just a minute, on page 4, we talk
5 about the Operational Committee. And it says
6 the -- a 15-member committee of the board to
7 which the authority may delegate all or part of
8 its powers to operate the program.

9 Could you just clarify for me, first of
10 all, when I first read it, it occurred to me
11 that you're talking about a 15-member committee
12 of people who serve on the board of PEDFA, which
13 obviously that is not the intention; but I think
14 the language in that line is very unclear.

15 But then secondly, it says, May delegate
16 all or part of its powers to operate the program.
17 And I guess I'm very unclear on the function of
18 this operational committee, how much power does
19 it have, how is it -- if the decisions are to be
20 made by the local CDFI or the regional CDFI or
21 however this works out, then what is the purpose
22 and the function of this operational committee?

23 MS. WHITE: The Community Development
24 Bank is going -- let me answer your last
25 question first and I'll get back to the first

1 one.

2 The Community Development Bank is, in
3 essence, going to be like a wholesale bank where
4 we will collect a pool of funds. The state
5 funds will be in there plus the funds that we
6 raise from the private investors, whether they
7 be banks, foundations, utilities, insurance
8 companies -- whomever.

9 That pool of funds will be made
10 available to eligible CDFIs that they can borrow
11 from to make their loans at the local level.
12 We will not be making -- or I should say the
13 operating committee will not be making the
14 decision on which business will get a loan.
15 That decision will be made by the CDFI.

16 What the CDFI will do is work within its
17 clientele to determine who is eligible for a
18 loan, what's the business, where is the need,
19 what do they want to do -- whatever their plan
20 says that they want to focus on.

21 They will then package those loans into
22 one bundle and send a request to the Community
23 Development Bank asking for financing so that
24 they can make those loans to the individuals.

25 So the Community Development Bank will

1 be like a wholesale bank. The CDFI is a
2 retailer.

3 REPRESENTATIVE MUNDY: Again, what is
4 the function of the operational committee as
5 opposed to the function of the overall PEDFA
6 board?

7 MS. WHITE: The intent is that once the
8 legislation is enacted into law, the PEDFA board
9 by resolution will delegate it's authority to
10 this operating committee to oversee all of the
11 functions of the Community Development Bank.

12 The PEDFA board itself as it's presently
13 constituted will not oversee the bank. They
14 will delegate that authority to those operating
15 committee as it's defined here in the Act.

16 REPRESENTATIVE MUNDY: Although if you
17 look on line 8, it says, All or part of its
18 powers.

19 MS. WHITE: The intent -- I can tell you
20 the intent is to delegate whatever powers are
21 necessary to the operating Committee to operate
22 the bank. That is the intent. That will be
23 done by resolution once the legislation is
24 enacted.

25 At that point then, the operating

1 Committee will exercise whatever governing
2 authority needs to be had over the Community
3 Development Bank. Part of what they will be
4 looking at are the accreditation standards for
5 CDFIs to be eligible to come in and access the
6 funds.

7 The type of underwriting criteria that
8 they want to see the CDFIs comply with so that
9 they can ensure that there will be a return on
10 the investment that has been promised to the
11 investors. They will look at the applications
12 that come in from the CDFIs for the loan
13 financing and make that approval.

14 That doesn't cover everything that
15 they'll be doing but -- the bulk of it is that
16 they will be the governing body for the bank.

17 REPRESENTATIVE MUNDY: But then the CDFI
18 is not the ultimate authority --

19 MS. WHITE: Yes. On their retail loans,
20 yes. What they come to us for is with
21 the -- when they package it, they bring it to
22 us. We don't look at the individual loans
23 they're going to be making.

24 What we will look at is, Have you
25 complied with the underwriting criteria that's

1 been established? If you have, then you'll be
2 able to drawn down on these --

3 REPRESENTATIVE MUNDY: So this 15-member
4 operational committee is not looking at
5 individual loans and approving or
6 disapproving --

7 MS. WHITE: No.

8 REPRESENTATIVE MUNDY: -- they are
9 simply looking at the underwriting criteria,
10 et cetera?

11 MS. WHITE: Right. Right. They're
12 looking at the strength of the CDFI.

13 REPRESENTATIVE MUNDY: I see. On page 5
14 it talks about special accounts, line 1. And
15 frankly, I'm -- I'm not clear on what a special
16 account would be. What is a special account? I
17 mean, I realize that it's somewhat defined here;
18 but I'm not clear.

19 It says, The special accounts must be
20 continuously secured by a pledge of direct
21 obligations of the U.S. or the Commonwealth.
22 What is the Commonwealth on the hook for here?

23 MS. WHITE: The Commonwealth's not on
24 the hook for anything here. It's the trustee
25 that will be chosen to administer these funds.

1 We intend to place these funds with a
2 trustee. This language that you see here is
3 similar to language that can be found in other
4 legislation for different authorities that have
5 the ability to place money with trustees.

6 That language is basically lifted
7 directly from those other pieces of legislation.
8 The intent is to take the funds that we've
9 appropriated here and place them with a trustee
10 to administer.

11 A couple of reasons for that: One is we
12 want to be able to maximize the amount of money
13 that we're going to be getting here out of the
14 fund so we want to make sure that it's invested,
15 that the returns on the investment go back into
16 the fund so we can reuse them for additional
17 lending;.

18 Two, when the CDFIs are ready to draw
19 down on these funds, we want to make sure
20 the money is immediately available so that
21 there's not a long delay in getting the funds
22 out of the trustee and into the hands of the
23 CDFI because they're going to want their money
24 as soon as possible; so we want to ensure
25 quickness.

1 The other thing is with the types of
2 instruments that we're looking at right now for
3 participation by the investors, there's going to
4 be a need to keep track of how much money has
5 come in from the different investors and what
6 the various rates of returns are that are to go
7 back to those investors and at what time.

8 This is going to be a little on the
9 complicated side as far as keeping track of
10 different terms, different interest rates and so
11 on, different rates of returns.

12 The intent of this paragraph is to
13 simply give the Department the ability to place
14 these monies with a trustee to do that type of
15 financial --

16 REPRESENTATIVE MUNDY: Okay. I get you.
17 So the special account is the trustee?

18 MS. WHITE: Right. The special account
19 is the account that would be established
20 with the trustee.

21 REPRESENTATIVE MUNDY: Okay. I
22 understand. Line 22 on the same page, Such
23 other criteria as the Department deems
24 appropriate in terms of the CDFI accreditation.
25 What other criteria would be required other than

1 the federal criteria for being a CDFI?

2 MS. WHITE: The federal criteria right
3 now do not address underwriting criteria. They
4 don't address the strength of a CDFI as far as
5 its lending capability. What our additional
6 criteria will be would go to that -- would go to
7 the --

8 REPRESENTATIVE MUNDY: Would go to the
9 underwriting?

10 MS. WHITE: Would go to the
11 underwriting.

12 REPRESENTATIVE MUNDY: Well, shouldn't
13 that be spelled out here? Because, actually, that
14 was one of my big questions. Everybody's got
15 different underwriting criteria. I think it
16 makes sense to establish a statewide criteria
17 for this; but I would think that you'd want to
18 remunerate what kinds of criteria you're looking
19 at, especially underwriting.

20 MS. WHITE: I think we could enumerate
21 the types of things we would be looking at for
22 underwriting criteria. I don't know that you
23 want to put the specific underwriting criteria
24 in the legislation --

25 REPRESENTATIVE MUNDY: No. No. No.

1 No. I'm just saying instead of saying, Such
2 other criteria as the Department deems
3 appropriate, then those of us on the Committee
4 have to ask, What does that mean? And then we
5 don't know whether our local entities are going
6 to be able to become CDFIs or not.

7 MS. WHITE: Those are the types of
8 things that could be, you know, as a for example
9 type list; but that's what it's looking at is
10 underwriting criteria.

11 REPRESENTATIVE MUNDY: Underwriting.
12 It's my understanding -- and Representative Dent
13 mentioned -- that there were, I believe, seven
14 CDFIs in the state. I've heard that there are
15 only four. Then I've also heard there are five.
16 But I'm fairly certain that there are none in
17 Northeastern Pennsylvania at the moment.

18 Whether -- is there anything in the
19 bill? And I, frankly, am looking for something in
20 the bill to guarantee geographic diversity in
21 terms of the availability of this money.

22 How do we do that? How do we make sure
23 that there are CDFIs in every portion of the
24 state so that every community in the state has
25 access to these funds?

1 MR. BLACK: Part of that is the function
2 of the grants to develop CDFIs where there are
3 geographic areas unserved by CDFIs. We clearly
4 see that there's a need to have these statewide.

5 I think Jeremy articulated as well as
6 anybody that he would like to see -- I think he
7 used seven to ten. We don't have a firm number
8 in mind but enough so there is coverage
9 throughout the Commonwealth.

10 I think you had referenced or perhaps
11 Representative Dent a regional concept in areas
12 that aren't as densely populated as
13 Philadelphia. We think that's a great model.
14 We'd like to see that developed a little bit.

15 We've had requests for information by
16 several agencies and we've had
17 conversations -- I don't know whether there's
18 been anybody specifically from your area with
19 the possible exception of Gene Brady that
20 expressed an interest.

21 But, really, until we have the legislation
22 in place, it's difficult to move on. The LDDs
23 throughout the Commonwealth --

24 REPRESENTATIVE MUNDY: That would be the
25 other one I mentioned, the --

1 MR. BLACK: -- that's another regional
2 entity.

3 REPRESENTATIVE MUNDY: But, again, can you
4 point out in the bill where it talks about
5 geographic balance?

6 MR. BLACK: No. No, there's nothing
7 specifically in the bill on geographic balance.

8 REPRESENTATIVE MUNDY: Would you be
9 opposed to an amendment that would make that a
10 given?

11 MR. BLACK: We'd have to see the
12 specific language. I think we'd be open to
13 conversations on it.

14 REPRESENTATIVE MUNDY: One of my
15 other questions -- and this, forgive me, is my
16 naivete in banking matters and leveraging
17 private investment. But how will the Community
18 Development Bank be able to leverage private
19 investment for community development loans and
20 make sure that the interest rates are
21 attractive?

22 MR. BLACK: That's part of the -- as you
23 recall, the appropriation is in the discussions,
24 10 million's for the loan fund, 5 million's for
25 grants.

1 The 10 million that the Commonwealth
2 would put in would be put out in combination
3 with private sector capital. We are
4 anticipating a ratio of three-to-one.

5 The Commonwealth's money would be put
6 out at 0 percent interest thus lowering the cost
7 of interest being put out overall from what the
8 investors are expecting to get back. So if we
9 can get money from an investor at 5 to 7 percent
10 and then we add our 0 percent, that will drop
11 the available interest rate to the area of 4 to
12 5 percent, as an example.

13 We'd obviously like to get lower than
14 that, but that's an example of how it might work.

15 MS. WHITE: It's really depends on what
16 we're able to negotiate with the investors. And
17 we're well aware that -- we're walking a fine
18 line here between making sure we have a rate of
19 return here attractive to the investors but
20 keeping the cost and money low enough so that
21 the CDFIs want to borrow it.

22 It's going to be a very fine line. The
23 State money helps to bring that down; foundation
24 money will help to bring it down even further,
25 presumably; and there are some other entities

1 that we're talking to that have lower rate money
2 than what you might expect from banks or
3 insurance companies.

4 **REPRESENTATIVE MUNDY:** If I could just
5 go back to something that you mentioned earlier,
6 you talked about low-income individuals and
7 distressed communities. And my understanding of
8 what you said was that that's in the federal
9 legislation that certifies CDFIs.

10 **MR. BLACK:** That's correct.

11 **REPRESENTATIVE MUNDY:** So there's no
12 need to elaborate on those definitions in the
13 bill; is that correct?

14 **MR. BLACK:** That's correct. And in your
15 earlier conversations here at the hearing,
16 that's one reason to have the federal
17 certification in this bill that that requires
18 that's where the money goes.

19 **REPRESENTATIVE MUNDY:** So do I
20 understand from that answer that you would be
21 opposed to opening it up to non-CDFIs?

22 **MR. BLACK:** As it stands now, yes.

23 **REPRESENTATIVE MUNDY:** Okay. And on the
24 issue of housing, you may have guessed that that
25 is one of my issues that I feel very strongly

1 about. I believe that strongly that housing is
2 economic development.

3 If you don't have people in low-income
4 communities who own homes, who have enough money
5 to spend, then, you know, if
6 they're -- especially if it's microenterprise
7 we're talking about, you have a lack of a
8 work force and you have a lack of money to buy
9 goods and services in that community.

10 So I believe that housing is economic
11 development as well as community development.
12 It stabilizes communities, makes them more
13 attractive to other investors. So I feel very
14 strongly that housing should be a part of this
15 lending opportunity.

16 But in your testimony, I couldn't quite
17 figure out whether you felt that because we're
18 doing this microenterprise loaning there would
19 be more money available in the community for
20 people to be able to afford housing or whether
21 you were talking about directly loaning money
22 from this program for housing.

23 Because I've been told that in private
24 discussions with the Department, housing was
25 specifically excluded from the bill.

1 MR. BLACK: In the bill itself, it's not
2 excluded.

3 REPRESENTATIVE MUNDY: No, I understand
4 that --

5 MR. BLACK: Let me explain. Our intent,
6 our focus clearly is not towards a lot of
7 involvement in housing. It's clearly towards the
8 microenterprise development, towards the
9 lending, towards the community
10 institutions -- the day care centers that Jeremy
11 referenced and some other community facilities.
12 That's clearly where the focus is. This is a
13 relatively small amount of money.

14 However, as Emily described how CDFIs
15 will come to us for dollars, they'll have a
16 portfolio. It's not our role to tell them, yes,
17 you can do this loan; no, you can't do that
18 loan.

19 If they have a mixed portfolio and they
20 believe in their plan that that's an appropriate
21 role and it's an appropriate loan, there's
22 nothing that we can do, at least as I understand
23 it, to prevent that -- prevent that loan from
24 happening.

25 Because the traditional rate of lending

1 with CDFI is really at market rate, they're more
2 designed to provide capital at competitive rates
3 where capital previously has not existed. And
4 housing generally has to, in order to make
5 itself affordable, go for lower or below market
6 interest rates or grants.

7 We don't see a lot of demand on this
8 program for housing. But a lot of CDFIs that
9 get involved will have housing in their
10 portfolio. Perhaps they get their housing money
11 from someplace else.

12 REPRESENTATIVE MUNDY: So in other
13 words, at the community level if the CDFI
14 believes that housing is economic development in
15 their community, they could include that in
16 their portfolio of loan requests?

17 MR. BLACK: Yeah, I believe that
18 would --

19 REPRESENTATIVE MUNDY: Okay.

20 MR. BLACK: And just let me -- we're not
21 saying that we do not believe that housing is
22 economic development. We believe that housing
23 is integral to broad-based economic and
24 community development.

25 You have to have housing, you have to

1 have infrastructure of all sorts, you have to
2 have job creation, you have to have that social
3 foundation. So that's part of our overall
4 strategy as well.

5 REPRESENTATIVE MUNDY: And one final
6 point -- and I appreciate your patience, Mr.
7 Chairman. The project for community building
8 that you referenced, is there -- is housing
9 anywhere included specifically in the project
10 for community building and, if so, where and what
11 are you doing for housing in the Commonwealth in
12 terms of DCED since DCA is no longer in
13 existence and obviously PHFA is the only entity
14 that's doing housing and there's a lot that PHFA
15 is not focused on?

16 MR. BLACK: We're doing -- within the
17 project, I'll probably have -- PHFA is our
18 partner in the project focusing on housing.
19 Within the Department, we're still operating our
20 various housing programs.

21 The Housing Redevelopment Appropriation
22 referenced earlier is a State program plus the
23 Federal Housing Program, the Home Program, the
24 Community Development Block Grant Program where
25 there's a lot of housing rehab being done out of

1 both Home and CDBG.

2 The linkage of PHFA in this, they are
3 trying to develop means for low-income housing
4 tenants to actually become home buyers. They're
5 working on some models of this. I don't know
6 whether, Ed, you can expound on what they're
7 doing a little bit more.

8 MR. GEIGER: Sure. Their initiative
9 called the Housing Opportunities Initiative as
10 part of the project for community building is
11 focused heavily on how do you make tenants
12 become homeowners, in particular tenants out of
13 public housing and assisted housing.

14 Their emphasis is that there's a lot of
15 agencies and models around the state that have
16 done this previously. They're trying to
17 provide technical assistance to groups that are
18 undertaking these efforts or want to undertake
19 these efforts and have encountered barriers and
20 want to help them overcome those barriers. A
21 heavy emphasis --

22 REPRESENTATIVE MUNDY: Two of the
23 barriers are closing costs and down payments.

24 MR. GEIGER: Yes. And they have some
25 resources within the Housing Finance Agency to

1 assist in home ownership for that purpose.

2 REPRESENTATIVE MUNDY: Not much, but
3 some.

4 MR. GEIGER: What they're also doing is
5 trying to take an approach as part of that
6 technical assistance which looks at job creating
7 activities, creating microenterprising, creating
8 small businesses or getting those tenants
9 involved with employers so that they can afford
10 the cost of their housing once they become a
11 homeowner.

12 REPRESENTATIVE MUNDY: Well, I would
13 tell you that when I came into this hearing
14 today I was fully prepared to offer an amendment
15 to the bill that would specifically include
16 housing.

17 After what I've heard, I'm not sure that
18 I will pursue that; but I'm very concerned that
19 housing be included in this pot of money. So
20 I'll certainly be watching for that. Thank you
21 very much.

22 CHAIRMAN HASAY: Thank you,
23 Representative Mundy. Representative Baker.

24 REPRESENTATIVE BAKER: Thank you,
25 Mr. Chairman. As I've been listening all

1 morning and this afternoon, I really appreciated
2 the education that I've received from all of
3 those that have been testifying.

4 Just a point of further clarification
5 and if you could expound upon it, I know that
6 you know that this is the most rural population
7 that we have here in Pennsylvania. And a lot of
8 my rural colleagues are concerned about
9 eligibility for their areas.

10 And I know, in fact, you've been in my
11 legislative district about 1800 square miles;
12 and it's all very, very rural. And we do not
13 have one of these CDFIs. And do you envision
14 the local development corporations or other
15 entities seeking qualification to be able to
16 pull down some of these dollars?

17 MR. BLACK: A number of entities in
18 rural parts of the Commonwealth have expressed
19 an interest in getting involved. There are
20 some prohibitions about becoming a CDFI at the
21 federal level because of local governmental
22 involvement.

23 They have to be removed from local
24 government connection; although, a number of
25 entities are creative enough in spinning off and

1 creating other agencies that perhaps are
2 affiliated but at arm's length.

3 We see rural Pennsylvania being served
4 by, again, regional organizations that there may
5 be people in communities that are able to link
6 to the lending source because you're not going
7 to have the capacity to do a lot of these
8 throughout rural Pennsylvania.

9 But there will be people that will be
10 able to link through some of the traditional
11 agencies and programs that are out there to the
12 CDFI to use it as an additional source of
13 capital.

14 Again, I'll just reiterate for the
15 Committee, we have a very serious commitment to
16 rural Pennsylvania and the need to reach out and
17 really make this available to the entire
18 Commonwealth.

19 REPRESENTATIVE BAKER: I'm indeed
20 gratified to read in your testimony that rural
21 areas will indeed be addressed and that you're
22 following a model in North Carolina, the
23 self-help -- apparently 41 percent of the people
24 served were from rural areas.

25 So I'm absolutely delighted to hear

1 that you're going to be seeking to emulate that
2 model that they have in North Carolina. So I
3 can rest assured that areas such as rural areas
4 that have enterprise zones that have
5 unemployment rates that are higher than the
6 state and the national average, that have low
7 per capita incomes, that are very poverty
8 oriented, they're going to be qualified
9 potentially for this program.

10 And just one last question: Have you
11 already identified by way of a graphic or a map
12 of those areas in the state that would be
13 qualified?

14 MR. BLACK: No. Really, until we had
15 the legislation, we were a little hesitant to do
16 that to see whether there was anything else that
17 might be added.

18 And because, as Ed pointed out, in the
19 different demographics there are pockets within
20 larger areas that may qualify, perhaps in a
21 large rural county there might be several
22 different pockets that might be too small to
23 identify on a map or there might be individuals
24 in communities that would be eligible where the
25 entire community wouldn't be.

1 So there's so many variations. It may
2 be difficult to do, but we will take a look.
3 Population loss is another criteria, and that
4 might be something that we can develop once we
5 get legislation.

6 REPRESENTATIVE BAKER: Thank you,
7 Mr. Secretary.

8 CHAIRMAN HASAY: Representative Gordner.

9 REPRESENTATIVE GORDNER: Thank you,
10 Chairman. Joe Battisto and I were wondering if
11 this would an appropriate time to inquire about
12 the status of our CRP grants or whether we
13 should do that at another time? You don't have
14 to answer that.

15 In the \$15 million state appropriation,
16 you have \$10 million going to the loan fund and
17 \$5 million going to the grant fund. And then in
18 the item that you've attached to your testimony,
19 you have two-thirds of the \$5 million grants
20 going to existing CDFIs and a third going to
21 start up or emerging CDFIs.

22 I don't recall, was that specific
23 breakdown in the budget bill or is that just
24 what you're anticipating your policy to be.

25 MR. GEIGER: That's not in the bill

1 itself. That was just a tentative plan on how
2 we saw the funds being allocated. And, in fact,
3 that figure of the 3.3 million includes not only
4 existing CDFIs but technical assistance to both
5 new and existing CDFIs.

6 REPRESENTATIVE GORDNER: I guess that's
7 where my concern was. It seems like, at least
8 from the testimony of the one gentleman, the one
9 CDFI serving the metropolitan Philadelphia area
10 is doing gang busters. And there was some also
11 some expression that it takes a while to get a
12 CDFI up and running and in good shape.

13 And so if we're going to be
14 complimenting the four or so that are already in
15 existence by another five or six around the
16 state, it seems like we would want to make
17 sure that we're dedicating a sufficient amount
18 of money to those new ones.

19 And to the extent that you can do
20 it -- and, again, the one gentleman volunteered
21 to some degree -- if we can tie some money going
22 to the existing CDFIs to the condition that they
23 help mentor emerging ones, I think that would
24 help the new ones to get off the ground all that
25 much quicker.

1 And so, again, I'm not sure how you can
2 do that policy wise; but I'd certainly encourage
3 it.

4 MR. BLACK: Quite frankly, both Jeremy
5 and Mark Peterson in Southwestern Pennsylvania
6 have really given us a lot of their time and
7 worked with other entities own their own and
8 they've been very helpful on this and we trust
9 that they would continue to do this, just having
10 access to the loan pool that they could draw
11 down and use it as an additional tool.

12 Sorry about the misleading graphic
13 there. I'm glad you pointed it out.

14 REPRESENTATIVE GORDNER: Does the bill
15 have a grandfather clause or this is just a
16 ongoing program?

17 MR. BLACK: I believe it's ongoing.

18 MS. WHITE: It's ongoing.

19 REPRESENTATIVE GORDNER: Is there going
20 to be a review at a certain time period to see
21 how this program is working?

22 MR. BLACK: It's required in the annual
23 financial strategy review that the Department
24 has to do.

25 MS. WHITE: This program would be

1 reported on as part of our annual financing
2 strategy which we deliver to the General
3 Assembly every year.

4 REPRESENTATIVE GORDNER: I guess
5 just one other question: Do you have an
6 estimate or a guesstimate as to how many
7 federal funds may be able to be drawn down into
8 this program?

9 MR. BLACK: The federal program is 50
10 million. They are very competitive. We're
11 hoping that our commitment as a state from both
12 the Governor and the General Assembly will show
13 that we're serious about this and perhaps
14 encourage the feds to invest a little more in
15 Pennsylvania.

16 REPRESENTATIVE GORDNER: Thank you.

17 CHAIRMAN HASAY: Representative
18 Battisto.

19 REPRESENTATIVE BATTISTO: Thank you,
20 Mr. Chairman. Secretary, your testimony and
21 that of others given this morning has been very
22 informative, by the way, and very, very helpful,
23 very educational, to say the least.

24 Do you envision -- looking at -- looking
25 at the -- in fact, Representative Gordner asked

1 my question about the breakdown of grants; so
2 that's already answered.

3 Is it true that you envision about maybe
4 twelve to thirteen CFIs (sic) eventually
5 throughout the state, the existing ones and the
6 new ones? Is that what you envision?

7 MR. BLACK: Yeah, I think that's a fair
8 number. It may get a little higher than that,
9 but we don't want to have too many out there. I
10 wouldn't anticipate it ever getting above
11 twenty.

12 REPRESENTATIVE BATTISTO: In fact, is it
13 true that you'd rather have quality CFIs that
14 allow for this low default rate which in turn
15 leverages bank money or their money because you
16 have credibility with a low default rate? Is
17 that a probably your mission?

18 MR. BLACK: That's correct. That's
19 correct.

20 REPRESENTATIVE BATTISTO: But I do have
21 a question about Northeastern Pennsylvania as
22 Representative Mundy asked. We have an
23 organization like the Economic Development
24 Council for Northeastern Pennsylvania.

25 I'm wondering whether an entity like

1 that -- I don't expect you to be able to answer
2 whether they could qualify -- but would it be
3 reasonable to think that they'd be able to
4 become a CDFI?

5 MR. BLACK: They can -- agencies like
6 that and other similar agencies have other
7 arms -- 501 C-3's I believe they have for some
8 of their other loan activities that may -- and
9 I caution when I use the word "may."

10 There may be other local economic
11 development entities or community-based
12 organizations like the community action agencies
13 that may. And it all depends on their
14 structure.

15 But we're certainly willing to explore
16 it and we have had conversations with the groups
17 that I've just referenced. So they've asked
18 questions about it and there is an interest out
19 there.

20 REPRESENTATIVE BATTISTO: Thank you.
21 Thank you, Mr. Chairman.

22 CHAIRMAN HASAY: Mr. Washburn.

23 MR. WASHBURN: Thank you, Mr. Chairman.
24 Emily, a point of clarification: On the
25 bundling and then sending the package to

1 Harrisburg, my concern goes to would you like in
2 that relationship as you envision it that
3 relationship that currently exists between the
4 ALO community and the Small Business First Fun.

5 MS. WHITE: It would be similar but
6 maybe even more so because we would not be
7 looking at each individual project that the CDFI
8 intends to make a loan to.

9 What we would be looking at is the over
10 all quality of their bundle, their portfolio
11 they're selling to us and making sure that the
12 portfolio overall meets the underwriting
13 criteria.

14 MR. WASHBURN: My point being -- my
15 concern being here is before the relationship
16 between the ALOs and the old PCLF program was
17 restructured, as you know and as Secretary Black
18 knows full well it became a bit of a
19 bureaucratic nightmare.

20 The point being that Harrisburg's role
21 obviously as you've been saying should be a
22 diminished capacity here in the relationship.
23 The reason for my question if you're likening it
24 to the current relationship between ALOs and the
25 Small Business First Fund, as it presently

1 exists, as opposed to the old ALO/PCLF
2 relationship.

3 MS. WHITE: I would say it would even go
4 beyond that because we wouldn't look at those
5 individuals loans at all.

6 MR. WASHBURN: Beyond that in a more
7 positive sense.

8 MS. WHITE: In a more positive sense,
9 yeah. We just want to make sure that the
10 portfolio they sent to us complies with the
11 underwriting criteria and with their plan as
12 they've submitted it to us.

13 And if I could, getting back to
14 Representative Gordner's question, there is a
15 provision in the bill for reporting. It's on
16 page 7 starting at line 6.

17 CHAIRMAN HASAY: Representative Dent.

18 REPRESENTATIVE DENT: Thank you,
19 Mr. Chairman. For the record, how many CDFI
20 institutions are there in Pennsylvania? I had
21 said seven, but maybe I miscounted. Is it six
22 according to that?

23 MR. BLACK: Six.

24 REPRESENTATIVE DENT: There are six.

25 MR. GEIGER: Six certified.

1 REPRESENTATIVE DENT: Six certified. I
2 see there's a Community Development Bank, one in
3 Philadelphia, there's something in Aliquippa,
4 and there are two community development loan
5 funds in Philadelphia, one in Pittsburgh, and
6 then there's the Microenterprise Development
7 Loan Fund in Washington County.

8 That's how they're currently distributed
9 right now. So basically I see three in
10 Philadelphia and three in Southwestern
11 Pennsylvania in terms of institutions that have
12 been certified; is that correct?

13 MR. BLACK: Federal government, right.

14 REPRESENTATIVE DENT: Okay. I'd like to
15 get back to the issue of organizations that or
16 regions of the state where we do not have any of
17 these certified CFIs.

18 And when Allan Jennings spoke earlier,
19 he talked about the fact that he's able to
20 develop the applicant pool that he works with at
21 the city's economic development organization
22 which makes the actual loan.

23 I'm not convinced yet that these
24 organizations are going to be able to put
25 together the kind of partnership that was

1 alluded to previously that could get that
2 designation.

3 I don't know if they have the interest
4 or the capacity to want to do that because in
5 terms of the City of Allentown, the Allentown
6 Economic Development Corporation, I believe is
7 appointed by the -- people are appointed by the
8 municipality.

9 And I thought for some reason that you
10 couldn't get your CDFI designation if you have a
11 board full of appointments. So that kind of
12 shoots the partnership down that I
13 wanted -- that we would have liked to have
14 created.

15 With the administration -- you don't
16 have to necessarily answer it today; but I hope
17 you keep an open mind with respect to providing
18 an exemption from the CDFI requirement to
19 organizations that have been community-based
20 organizations throughout the Commonwealth that
21 are already in business.

22 And if I could write this rather
23 narrowly so that we could take of Mr. Jennings
24 situation and perhaps one in Northeastern
25 Pennsylvania where they have no CDFI as well.

1 So I guess what I'm asking is could you
2 keep an open mind to that kind of exemption in
3 the event that we're not going to be able to put
4 together that partnership between now and the
5 time we might have to -- be asked to vote on
6 this bill?

7 MR. BLACK: Yeah, I think we're
8 amenable to the discussion as -- I can't even
9 remember the specific issue now. Representative
10 Mundy referenced some additional discussion on
11 language.

12 REPRESENTATIVE DENT: Because we're
13 talking about seven to ten additional CFIs,
14 there are six currently, and they're really, for
15 all practical purposes, in two cities,
16 Philadelphia- and Pittsburgh-based primarily.

17 That really is missing a large part of
18 the state, rural areas and a lot of smaller
19 Third-class cities.

20 MR. BLACK: Let me just comment a little
21 bit. As Jeremy was testifying, Ed and I talked
22 and conceivably -- although Jeremy also said he
23 didn't want to expand his service area very much
24 further than what he is, that somebody like
25 Allan Jennings who packages might develop a

1 relationship with Jeremy to package and develop
2 some of these loans.

3 Could be a fee-for-service kind of
4 activity. And it might be a nontraditional
5 partner. I'm just showing this as a potential
6 example of how it might be. The key is to
7 getting access to this loan money that's out
8 there and how you do it.

9 And if somebody's packaging -- and on a
10 regional basis, there'll probably be local
11 packagers; but that relationship has to come
12 from the CDFI.

13 And the legislation -- the intent of the
14 legislation with the grants was towards building
15 capacities of CFIs as a result of the hearing
16 and the discussions. It's kind of gone beyond
17 the scope of the original legislation, and I
18 think it's something we need to talk about.

19 REPRESENTATIVE DENT: Just with respect
20 to Jeremy, it seems like they have a really top
21 flight organization down there; but how will
22 these community-based organizations feel about,
23 you know, developing these relationships which
24 they might not have now.

25 I mean, maybe they wouldn't be able to

1 partner with them for whatever reason. Might be
2 geographics down in the Philadelphia area and
3 we're sitting up there in the Lehigh Valley.

4 And I don't know that the people in
5 Northeast Pennsylvania are going to want to come
6 schlepping down into Philadelphia to put together
7 these deals. It's just going to be a -- I can
8 just see that there can be some --

9 MR. NOWAK: Just the turnpike costs
10 alone --

11 REPRESENTATIVE DENT: Exactly. That's
12 just my whole concern. We need -- he's a fairly
13 big operation down there I'm told. And, you
14 know, if somebody said he's like the Home Depo
15 and we need a little corner hardware store to
16 work with -- I guess if you understand where I'm
17 coming from, it would be great to have a
18 relationship with Jeremy.

19 I mean, I'm sure he's got a full plate
20 and our people in all likelihood are going to
21 want to deal with somebody in our region they're
22 comfortable with.

23 MR. BLACK: This issue really just came
24 up in the last couple of weeks or so. And as
25 originally drafted, the goal was to build

1 capacity of CDFIs particularly in areas where
2 they didn't exist.

3 Our goal would still be to try and find
4 an organization or a collection of organizations
5 that would come together and form a CDFI perhaps
6 to serve the Lehigh Valley and the rest of
7 Northeastern Pennsylvania as well and then have
8 local agents.

9 But we'll be happy to talk with you on
10 your --

11 REPRESENTATIVE DENT: I just feel a
12 little bit more comfortable with small rather
13 than big in this case. That's all I'm trying to
14 say. I won't pop this amendment language on
15 you. You may have seen it; you may not have.
16 But at a later point, we can discuss that. I
17 don't want to discuss it today, but we can look
18 at it after the meeting.

19 CHAIRMAN HASAY: Representative Kenney.

20 REPRESENTATIVE KENNEY: Thank you,
21 Mr. Chairman. Mr. Dent and others, they don't
22 schlepp from Northeast Philadelphia they'd know
23 that Jeremy, let alone Northeast Pennsylvania.
24 Because I don't think Northeast Pennsylvania
25 where I represent in the city has any such CDFI

1 or at least representation.

2 I guess that's my concern. You said
3 that on the chart you had given out you have
4 four existing CFIs. You said there are seven
5 certified --

6 MR. BLACK: Statewide --

7 MR. GEIGER: Six.

8 MR. BLACK: Six. Excuse me.

9 REPRESENTATIVE KENNEY: Let me go back
10 to this 3.35 million existing CDFI technical
11 assistance.

12 MR. BLACK: We --

13 REPRESENTATIVE KENNEY: That's
14 just -- it may or may not happen at that figure?

15 MR. BLACK: It probably will not happen
16 at that figure. This is a very early graphic
17 designed to show just the relationship of the PA
18 Bank to the local CDFIs. That was an example
19 that was used very early on.

20 We don't image that it'll flush out like
21 that. Clearly, we need to work with new CDFIs
22 coming up and try to build capacities with them.

23 REPRESENTATIVE KENNEY: My question was,
24 If the existing CDFIs are already doing this
25 type of work, why would they need a larger

1 amount of the assistance -- technical assistance
2 and building grant money, the easy money?

3 Since it's grant money -- it's not loan
4 money; it's just grant money -- we're just going
5 to hand over -- why would they need -- why
6 aren't those numbers reversed is my question?

7 MR. GEIGER: Well, first off, the
8 numbers don't accurately show that the larger
9 figure includes not just simply grants to the
10 existing CDFIs but technical assistance that
11 goes to existing and new CDFIs.

12 The money that would go to the existing
13 CDFIs ideally would be for program expansion
14 either into other geographic areas or to somehow
15 create new components.

16 For example, maybe they're a
17 microenterprise lender now and want to move into
18 some of the other kinds of projects that a
19 community development loan fund gets involved
20 in, much larger loans, they need the startup
21 grants to have the equity within their
22 organization to expand in that manner.

23 REPRESENTATIVE KENNEY: Just one other
24 quick -- do all -- let me ask you this, As a
25 Philadelphia resident, would every section of

1 Philadelphia qualify to create a CDFI?

2 MR. BLACK: Philadelphia is really
3 served pretty well by a number of CDFIs.
4 Jeremy's organization covers the entire
5 metropolitan region and a little bit beyond to
6 qualified neighborhoods, to qualified
7 individuals as spelled out under the federal
8 certification process that there are certain
9 qualified people.

10 So anybody in that area that would
11 qualify could go to Jeremy's organization, for
12 instance, to access the capital.

13 REPRESENTATIVE KENNEY: So you're
14 saying -- and I'm not familiar with -- I mean,
15 as a Northeast Philadelphia resident, I'm not
16 familiar with Jeremy's program. And I guess my
17 question is, But today is -- are they allowed to
18 make investments in all sections of Philadelphia
19 and they choose not -- some areas they just
20 don't get involved in.

21 MR. BLACK: In some areas there may not
22 be people coming to them for loans. They may
23 not be aware or perhaps they're accessing
24 capital elsewhere.

25 I think throughout -- and I'm not sure

1 of the neighborhood organizations in that
2 particular part of Philadelphia; but generally
3 they're linked through some of the community
4 development corporations that exist in
5 Philadelphia and some of the other
6 community-based organizations that nurture
7 clients to a certain degree then get them to the
8 bank for packaging of the loan.

9 REPRESENTATIVE KENNEY: And just -- I
10 thought that would be my last. This money was
11 appropriated in the present budget cycle?

12 MR. BLACK: Yes.

13 REPRESENTATIVE KENNEY: Do you know what
14 you will -- will that number change come -- in
15 your budget request of for 98/99?

16 I mean, in all likelihood, I doubt -- we
17 probably won't spend this \$15 million in this --

18 MR. BLACK: In answer to your question,
19 yes. I'm sorry --

20 REPRESENTATIVE KENNEY: And that was
21 my -- or do you think we'll be back with the
22 same 15 million --

23 MR. BLACK: Because of the time it's
24 taking to develop this, obviously, we won't get
25 into a lot of this money. I would anticipate

1 that a request, if any, this year will be less.

2 Because of the nature of this, it
3 is -- there is a provision to put it into a
4 separate account and to use it. But we're
5 still -- don't hold me to that. We're still
6 developing our internal budget right now.

7 REPRESENTATIVE KENNEY: Okay. Thank you
8 thank you, Mr. Chairman.

9 CHAIRMAN HASAY: Thank you. I'd like to
10 thank everyone who testified today. Your input
11 is very, very helpful to the Members of this
12 Committee. I thank the Members for their
13 attendance. This hearing is now adjourned.

14 (At or about 2:24 p.m., the hearing was
15 concluded.)

16

17

18

19

20

21

22

23

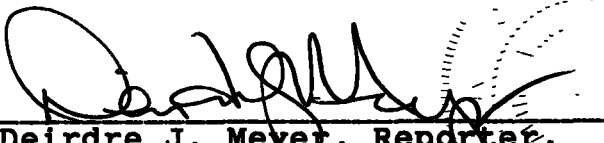
24

25

1
2
3 C E R T I F I C A T E

4 I, Deirdre J. Meyer, Reporter, Notary
5 Public, duly commissioned and qualified in and for
6 the County of Lancaster, Commonwealth of
7 Pennsylvania, hereby certify that the foregoing is a
8 true and accurate transcript of my stenotype notes
9 taken by me and subsequently reduced to computer
10 printout under my supervision, and that this copy is
11 a correct record of the same.

12 This certification does not apply to any
13 reproduction of the same by any means unless under
14 my direct control and/or supervision.

15
16
17
18 
19 Deirdre J. Meyer, Reporter,
20 Notary Public. My commission
21 expires August 10, 1998.
22
23
24
25