# THE DELAWARE VALLEY COMMUNITY REINVESTMENT FUND

Testimony before the Pennsylvania House
Commerce and Economic Development Committee

On
The Pennsylvania Community Development Bank
Senate Bill 10

Presented by
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## Introduction to DVCRF

Mr. Chairman and distinguished members of the Committee, thank you for this opportunity to discuss S10, specifically that portion of the bill that establishes the Pennsylvania Community Development Bank.

I am Jeremy Nowak, Executive Director of the Delaware Valley Community Reinvestment Fund (DVCRF), a $45 million dollar financial intermediary based in Philadelphia, Pa, serving the 10 county metropolitan region. Founded in 1985, DVCRF has provided more than $60 million in development finance to more than 350 borrowers, resulting in the creation of more than 2400 units of affordable housing, more than 1 million square feet of commercial and community facilities space, and several thousand construction, retail, and manufacturing jobs.

DVCRF is a multi-service community development financial corporation that is comprised of 5 programs: 1) a $25 million loan fund comprised of investments from 700 + investors, 2) a $12 million bank collaborative sponsored by 18 member banks, 3) a newly created $8 million venture capital fund, 4) a training and technical assistance program, and 5) a work force development project that focuses its efforts in the Northwest section of Philadelphia. This past year alone, we provided more than $25 million in new credit to businesses, community development corporations, day care centers, and community facilities.

DVCRF is widely regarded as one of the most successful community development financial institutions in the nation. In 1996 DVCRF received a $2 million investment from the U.S. Treasury's CDFI Fund, one of the largest investments of its kind. We were among the first institutions in the nation to be provided such support. We are similarly pleased that Governor Ridge has recognized the key role of credit in social change and that he understands the potential of community centered approaches to lending and social investment,

**Key Operating Principles**

For 12 years now, the success of DVCRF has been based on a half dozen core organizing principles. They might be summarized as follows:

1. **The provision of capital is key to poverty alleviation**: While this may seem obvious, it is not always recognized by social policy. And yet, all of us know that a key element to social mobility is the capacity to borrow money in an effort to start businesses, purchase homes, go to school, etc. Credit and entreprenuership fuel economic growth. And this is just as true in North Philadelphia and the city of Chester as it is in Bryn Mawr and King of Prussia.

2. **Social goals and market discipline do not have to be mutually exclusive:** DVCRF has been one of hundreds of such organizations around the country that has proven that a public purpose can take a disciplined, performance based approach to

investment decisions and servicing. We have written off less than 1% of outstanding principal during the past 12 years; we maintain capital ratios and reserves that are consistent with best practices; and we know how to say no to projects that won't work. We have learned that social ends are not served by poorly planned businesses and projects and that it desirable to forge a community of interest between investors and borrowers. Moreover, we are here for the long term and so it is important that we build a financial institution with the institutional depth, financial savvy, and intellectual capital relevant to the ambition of our borrowers and the scale of the problems we seek to address.

3. **Capital is a necessary but not sufficient tool, it must be accompanied by technical services:** The success of what we do and the real cost of what we do – a cost that is hard for conventional financial institutions to justify – is the cost of technical or development services. Working with borrowers on a business plan, construction specs, or financial management plans is at the heart of our business. The integration of technical and capital support is a powerful process – the relationship between borrower and lender becomes a partnership in the best sense of the term.

4. **There is a need for private, independent credit institutions with a clear community development and poverty alleviation mission:** While banks and other financial institutions are critical to the job of re-building inner city and rural markets (and I should mention that some of our strongest supporters and investors are banks), CDFI's provide a long term, mission driven approach to credit provision. Changes in

the financial services industry – fewer and large banks, dominance by national and regional money centers, the deconstruction of Glass-Steagal, the trend for American savings to increasingly flow into non-regulated (in terms of community investment) financial institutions – make it important for us to define a niche of lenders that will have the patience, skill, and capital to fuel inner city and low income rural growth. In an era where financial services are defined by the packaging, sale, and re-bundling of assets, where all maturities are short term, where place and capital are increasingly de-coupled, CDFI's can play an important role in re-defining a prior tradition of local investment relationships.

5. **CDFI's like DVCRF have a unique opportunity to create partnerships with private and public sector institutions:** CDFIs are natural places for public and private sector institutions to form partnerships in order to achieve common goals. As independent public purpose institutions with private sector characteristics, CDFI's can appeal to and understand the service and participation needs of the public sector and the financial accountability demands of private sector interests. We have proven this again and again – with our Venture financing and work force partnership in Northwest Philadelphia, through the creation of housing partnerships in Bucks and Chester counties, and through our work in West Philadelphia that involves banks, churches, the public sector, and the University of Pennsylvania.

6. **Governance Diversity:** The effectiveness of DVCRF is based, in large part, on a board of directors and investment committee that is broad and diverse in

representation and talent. We have always conceived of our institution as being built on a three-legged stool: investors, borrowers or consumers of our products and services, and people with specific technical skills. The culture of our organization is really a negotiation of these interests. This is the source of our creativity – to have a neighborhood leader and a banker sitting together on the same loan committee with an equal vote, able to work together to build standards, share ideas, and take risks.

I support the Pa. Community Development Bank legislation precisely because I think that the design and spirit of the legislation reflects the principles that I outlined above. It is policy based on successful practice, which is I believe the right approach. The State CDFI Fund seeks investment collaboration with private capital, will maintain a performance based investment posture, and will seek to invest money into the kinds of institutions that have an identified market and the talent to reach it. Building off of the standards established by the U.S. Treasury Department Program, the State program can be a success.

**The Use of State CDFI Funds and the Long Term Horizon of the Program**

In closing I would like to touch upon two issues: the question of the use of CDFI funds and the issue of timing or perspective. I know that there are many advocates of affordable housing that want to make certain that this program is useful for housing production needs as well as business or commercial real estate financing. My own perspective is that we should maximize the use of this money for financing programs that are aimed at business ventures or hard to fund community facilities, such as daycare centers or clinics. At the same time, I think that the door should be left open for CDFIs to define the credit needs of their market, in such a way as to make a case for housing aid. If the case is sound, than the CDFI Fund should respond affirmatively. My experience is that, while there are some early stage debt needs for affordable housing production in a place like Philadelphia, the main constraint to production is not debt: it has to do with other issues – land acquisition, the cost of environmental remediation, the need for increased subsidy or tax credits, the income of the population, the low appraisals of certain markets, etc. On the other hand, I can tell you that early stage debt and equity for businesses or long term debt for an inner city daycare center is not always easily available. Complain as we may about the secondary markets in housing, I would defy anyone on this committee to find a financial institution in this state that wants to buy my 15 year day care loans. But again, if a CDFI that operates in Potter or Washington County is able to demonstrate the compelling need for using CDFI funds to establish a stronger rural housing market, than we should not categorically exclude such a proposal.

Finally, it is important to understand that the State program has to have a long term horizon in order to be successful. It has taken our organization more than a decade of learning and experimenting to get to where we are today. The capacity building (grant) program that is one of the proposed engines of the State initiative has to be willing to look toward results and outcomes that exceed the time horizon of one or two administrations. Helping to nurture a state-wide network of even 6-12 strong institutions able to develop substantial portfolios and play important roles in regional economic change, will take time. But it will be time well worth the effort and public support.

I want to thank you once again for this opportunity to appear before the committee. I am happy to help this committee and the Administration in what any way that I can.