Community Development Bankers Association
1801 K Street NW ▪ Suite M-100 ▪ Washington, DC 20006 ▪ (202) 689-8935 ▪ (202) 689-8938 fax

November 24, 2009

The Honorable Timothy Geithner
Secretary
U.S. Department of Treasury
1500 Pennsylvania Avenue NW
Washington DC 20220

The Honorable Karen Mills
Administrator
U.S. Small Business Administration
409 3rd Street, SW
Washington DC 20416

Dear Secretary Geithner and Administrator Mills:

On behalf of the members of the Community Development Bankers Association (CDBA), we commend you for your efforts to bring attention to the critical issues faced by small business amidst this economic recession and credit crunch. In particular, we are grateful for your interest in ensuring that businesses in low income communities have access to the resources they need to create jobs and opportunities for residents. Community Development Financial Institutions (CDFIs) are focused on serving these markets and are eager to expand our participation in the programs of the U.S. Department of Treasury and Small Business Administration (SBA) as a means of creating jobs and promoting economic recovery.

CDBA is the national trade association of the CDFI Bank sector. CDFI banks are FDIC-insured banks and thrifts that have a primary mission of promoting community development. Our members serve urban and rural communities that lack access to credit and are not adequately served by the traditional banking industry. Our members deliver credit and technical assistance to borrowers in a responsible manner that fits their needs and long term ability to repay. Our work helps low- and moderate income customers build wealth and assets and revitalize communities. Today there are approximately 64 banks and thrifts across the nation that are certified by the U.S. Treasury Department's CDFI Fund as targeting 60% or greater of their total business activity to low income communities and people.

The following are our recommendations for facilitating access to credit for small businesses and facilitating job creation in low income communities.

Treasury Department Support for CDFIs

TARP for CDFI Banks & Thrifts: Treasury should move expeditiously to launch the recently announced TARP program for CDFI Banks, thrifts and credit unions. Recommended provisions:

- Investment amount of up to 5% risk weighted assets
- Capital must be provided in the form of Tier 1 equity
- Pricing at 2% per annum for at least 8 years with no warrants
- Treasury must provide clear guidance to regulators about the Obama Administration's intent to maximize participation in program and ensure the vast majority of CDFI banks and thrifts are approved.
- CDFI banks and thrifts already approved for the Capital Purchase Program (CPP) should be allowed to refinance their CPP investments under the new program.

See full recommendations for this initiative attached.

TARP for CDFI Loan Funds: Treasury should work with the CDFI industry to develop mechanisms to allow TARP monies to be utilized by CDFI loan funds to address credit needs in low income communities. Loan funds are important partners for CDFI banks, thrifts and credit unions in many communities and their work should be supported.

CDFI Funding: Congress should increase financial support for CDFIs through increased appropriations and continue to waive the matching funds requirements for the CDFI Program through FY 2011. We propose that Congress provide an emergency "jobs" supplemental appropriations to FY 2010 funding. The new monies could be put to work expeditiously adding new funds to the pool of applications submitted under the FY 2010 funding rounds for the CDFI Financing Assistance and Bank Enterprise Award Programs.

New Markets Tax Credits: Extend the NMTC with $5 billion in annual allocation authority, modify regulations to facilitate greater financing of operating businesses, and provide AMT relief for NMTC investors. It is critical that the NMTC is extended and the $5 billion allocation level maintained in order to sustain vital investment that have been made in low income communities thanks to the NMTC. Furthermore, it is important to revise the regulations covering the NMTC to enable this tool to better make investments in operating businesses for machinery and equipment, working capital and lines of credit by providing a safe harbor for NMTC Qualified Low Income Community Investments (QLICIs) made for these purposes. Several options to do this have been provided to Treasury by the New Markets Tax Credit Coalition. Finally, we recommend that the IRC be amended to allow NMTC investments to offset the Alternative Minimum Tax (AMT) as is currently the case with investments in Low Income Housing Tax Credits, Historic Tax Credits, and Renewable Energy Tax Credits.

Regulatory Challenges Impairing Small Business Lending

Brokered Deposits: CDFI bank liquidity is being squeezed and the ability to originate business loans is reduced as bank examiners put pressure on CDFI banks to cease or divest of Certificate of Deposit Account Registry Service (CDARS) deposits. Despite acknowledgement by the Federal Deposit Insurance Corporation (FDIC) that CDARS behave similar to core deposits, this product is technically still classified as a brokered deposit. Congress and/or the FDIC need to clarify that CDARS deposits are not brokered.

Regulatory Burdens: As noted by House Financial Services Chairman Barney Frank in his October 29, 2009 letter to the heads of the bank and credit union regulatory agencies, one of the greatest challenges being faced by small financial institutions in keeping credit flowing within their communities is "increasingly stringent directives from regulators that can preclude banks from doing just that." Chairman Frank's letter outlined challenges created by field examiners with regard to capital requirements, asset valuation, and other issues. We wholeheartedly support the observations in the letter. We, too, urge the regulatory agencies to apply a "measured approach" to examinations as a means of creating a more stable operating environment that will enable banks and credit unions to continue to lend in their communities.

Small Business Administration Initiatives

The following recommendations are directed at ensuring Small Business Administration (SBA) programs continue to promote access to capital and economic recovery.

- Extend the American Recovery and Reinvestment Act (ARRA) of 2009 provisions that provide a 90% guarantee and eliminate borrower fees for the Small Business Administration's (SBA) 7(a) loan program.

- Congress should approve an increase in the maximum loan size for SBA's 7(a) and 504 loan programs. Small business capital needs have increased over the years and the SBA's loan programs have not kept pace. An increase in maximum loan size from $2 million to $5 million is recommended.

- The SBA 7(a) Program should be temporarily amended to allow refinancing of commercial real estate loans to business borrowers that are current on their payments, but where the properties are expected to appraise at loan-to-value ratios of greater than 65%.

- SBA 7(a) loans should be allowed on commercial properties in cases where:
    - A business borrower occupies less than 51% of the facility; and

- There are non-profit tenants (e.g. child care centers, health facilities, charter schools) and government funds provide the major source of repayment on the loan.

- Continue to encourage the SBA's secondary market through initiatives that encourage investors to continue to maintain a healthy wholesale market for the guaranteed portion of SBA loans. These markets are currently functioning. To reduce the risk of a future collapse, the SBA or Treasury should create a portfolio purchase program to instill lender confidence in the secondary markets.

- Increase the maximum loan size from $35,000 to $100,0000 for the SBA's America's Recovery Capital (ARC) Loan Program This program is important for helping small businesses in low income communities weather the economic downturn.

- Increase support for the SBA's Small Business Development Centers. During difficult economic times, businesses need clear, relevant advice and technical assistance. This is particularly important for new businesses in economically challenged neighborhoods. Utilization of business best practices clearly improves small business success rates.

We sincerely thank you for the opportunity to participate in the November 18, 2009 Small Business Lending Forum and offer comments on how CDFIs can continue to promote jobs and economic opportunity in low income communities. We believe that CDFIs can and do play a critical role in promoting economic stability and we look forward to the opportunity to continue the dialogue with the Treasury Department and Small Business Administration.

Thank you for consideration of our views.

Sincerely,

William M. Dana, Jr.
CDBA Board Chairman

Jeannine S. Jacokes
Chief Executive and Policy Officer