February 21, 2017

Honorable Steven Mnuchin
Secretary of the Treasury
Washington, D.C.

Dear Mr. Secretary:

Congratulations on your confirmation. We were heartened by your comments at the confirmation hearing on the value of incentives to revitalize economically distressed communities.

We write to you as the presidents of two national membership organizations that support the work of the Treasury Department's Community Development Financial Institutions (CDFI) Fund: the CDFI Coalition and the New Markets Tax Credit Coalition. The CDFI Fund programs use a relatively small amount of federal money to leverage and inject an enormous amount of investment into communities underserved by the private market, creating jobs, growing businesses and promoting the revitalization of local economies. For this reason, we urge you to support the Fund and its programs.

The CDFI Fund was established in The Riegle Community Development and Regulatory Improvement Act of 1994 (P.L. 103-525). As defined by the Riegle Act, the purpose of the Fund is to promote community development in economically distressed urban and rural communities. The basis for establishing the CDFI Fund was that community revitalization depends on access to capital. The capital gap in distressed areas deprives small businesses of the investment dollars and support they need to set up shop and expand. Lack of capital impedes the construction or renovation of community facilities, modernization or expansion of industrial and commercial facilities, and development of affordable housing, all of which creates jobs, economic opportunity and improves the quality of life.

The need for patient, flexible capital is as great as ever in low- and moderate-income rural, urban, and Native American areas. A 2011 study by the Initiative for a Competitive Inner City found that "firms in low-income census tracts received 21 percent fewer loans than would be expected, based on the number of firms in the tracts," even with a healthy demand for capital and an untapped consumer base.

The decades' long trend of community bank closures and consolidation has hit rural areas particularly hard. In fact, the number of community banks in the United States has declined by an average of 300 per year over the past 30 years, according to data from the Federal Deposit Insurance Corporation. The Office of the Controller of Currency found that residents of Indian Country face challenges securing commercial credit, including "limited access to brick-and-mortar offices of regulated financial institutions. There is the perception by tribal business enterprises, even those with adequate collateral and good credit histories, that commercial bank financing is difficult to secure; there is a lack of diversity in funding sources; a lack of equity resources, collateral, and credit history, that result in commercial credit denials for Indian small business owners."

Financial Assistance to CDFIs

Under the Riegle Act, the CDFI Fund provides financial assistance to Community Development Financial Institutions (CDFIs). CDFIs are mission-based financing entities that provide financial services for individuals; make loans and investments to businesses in dozens of industries; and finance housing, community facilities and provide other financial and development services to people and in places not served by traditional financial institutions. Examples of CDFIs include nonprofit loan funds, venture funds, community development banks, community development credit unions and micro-enterprise organizations. All are mission-driven lenders and investors that provide financial products and services in some of the most economically distressed rural and urban communities in America and work with low-income individuals and families living in areas that range from small-town and farming communities to blighted urban neighborhoods.

By law, CDFI Fund financial assistance must be used in disadvantaged communities or to benefit disadvantaged populations. The CDFI Fund provides financial assistance to CDFIs that provide financial products and services to low-income communities and populations, to CDFIs serving Native American communities, and provides technical assistance to small and emerging CDFIs. Through the Bank Enterprise Act, CDFI Fund provides awards to FDIC-insured banks and thrifts that have increased their investment activity in communities with high rates of poverty and unemployment.

CDFI's leverage more than $12 in private sector capital for every dollar of CDFI Fund awards. Between 2011 and 2016, reporting CDFIs received $1.04 billion in financial assistance awards from the CDFI Fund and made $14.19 billion in loans and investments, thereby helping fill the yawning credit, capital, and financial services gap encountered in many communities. The result is more financing for small businesses, improved housing and community facilities, and greater economic opportunity in areas that have been left outside the economic mainstream.

An examination of the activity in Fiscal Year 2016 indicates that CDFIs made over 39,000 loans or investments, totaling over $3.6 billion, and financed over 11,000 small businesses. CDFIs also financed over 33,000 affordable housing units.

Some of the details of this activity include:

- 13,300 microloans totaling $897 million;
- 11,000 consumer loans totaling $37 million; and

- 11,600 home improvement or home purchase originations totaling $806 million.

According to a recent study, 81 CDFIs managing $1.8 billion in assets provided more than $2.9 billion in financing with a cumulative loss rate of 1.8 percent, consistently low delinquencies, and no losses of investor principle. The University of Virginia's Darden School of Business found that despite serving predominately low-income markets, CDFI banks and credit unions had virtually the same level of performance as mainstream financial institutions.

The New Markets Tax Credit

The New Markets Tax Credit was established in 2000 in the Community Renewal Tax Relief Act (P.L.106-554), a bipartisan effort to stimulate investment and economic growth in low-income urban neighborhoods and rural communities that lack access to the patient capital needed to support and grow businesses, create jobs, and improve local economies. The original authorization was for seven years (2001-2007) and $15 billion. Presidents of both political parties and Congresses controlled by either or both Democrats or Republicans have supported extensions of NMTC. The most recent extension was included in the bipartisan PATH Act of 2015 (P.L. 114-113), which extended NMTC for five years and authorized $17.5 billion in annual credit authority; the largest and longest extension in the history of the Credit.

The NMTC is authorized under section 45D of the Internal Revenue Code and it is classified as a business tax expenditure. The NMTC program attracts capital to eligible communities by providing private investors with a federal tax credit for investments made in businesses or economic development projects located in some of the most distressed communities in the nation – census tracts where the individual poverty rate is at least 20 percent or where median family income does not exceed 80 percent of the area's median income.

The Credit is a financing tool for mayors, business leaders, investors, and leaders in communities left behind. Moreover, it is not a top-down program, in which Washington picks winners and losers. All financing decisions are made at the local level. NMTC supports everything from industrial and commercial facilities to healthcare and daycare centers to small business loan funds. For example, the NMTC might finance: a grain elevator in Eastern Washington, renovation and expansion of a critical care hospital in Atlanta, or a construct a new facility for a manufacturer of heating equipment in rural Missouri.

Between 2003 and 2015, $42 billion[1] in direct NMTC investments were made in businesses. In turn, these NMTC investments leveraged nearly $80 billion[2] in total capital investment to businesses and revitalization projects in communities with high rates of poverty and unemployment.

- Between 2003 and 2012, the NMTC generated over 750,000 jobs[3], at a cost to the federal government of less than $20,000 per job;

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[1] CDFI Fund's FY 2016 Agency Financial Report

[2] NMTC Coalition Estimate

[3] A Decade of the NMTC (2003-2012), NMTC Coalition (December 2014).

- By law, all NMTC investments must be made in economically distressed communities. However, more than 72 percent of all NMTC investments have been in communities exhibiting severe economic distress, including unemployment rates more than 1.5 times the national average, a poverty rate of 30 percent or more, or a median income at or below 60 percent of the area median; and
- The New Markets Tax Credit generates economic activity, providing a return on investment to the federal government. The federal tax revenue generated by NMTC investments more than pays for the cost of the program.

In November 2016, with credits authorized by the PATH Act for 2015 and 2016, the Treasury Department made allocation awards to some 120 Community Development Entities (CDEs). These awards totaled $7 billion and the expected impact of these awards will be substantial including:

- Creation of 166,000 construction and fulltime jobs;
- $2.8 billion in total project financing to rural America;
- Financing for 139 industrial and manufacturing businesses;
- Loans and investments in 350 community facilities;
- Creation or expansion of 38 grocery stores; and
- 84 mixed-use facilities.

CDFI Bond Guarantee Program

The CDFI Fund's Bond Guarantee Program (BGP) was established by the Small Business Jobs Act of 2010 (P.L.111-240). The BGP has demonstrated the capacity of CDFIs to successfully and effectively adapt market driven financing tools to work in underserved and undercapitalized communities. BGP increases the ability for CDFIs to invest in community projects that were stalled due to a lack of affordable long-term capital financing. Using BGP in just three years CDFIs have made more than $333 million in long term, fixed-rate capital is at work in community development infrastructure projects – including in active loans to charter schools, community healthcare and childcare facilities, and commercial real estate projects - at no cost to the taxpayer. The BGP is a tool that can be used and adapted to address the financing needs of a community – whether financing the Edison Charter School in Detroit or Somerset Recycling in rural Kentucky.

As you assume the many responsibilities of Secretary of the Treasury, we urge you take a careful look at the outstanding record of the CDFI Fund and its programs. For many economically distressed communities, the financial products, services and assistance from CDFIs, as well as the capital investments through the New Markets Tax Credits and the Bond Guarantee, are essential tools for revitalization, improving communities and lives.

President Trump can make good on his promise to bring jobs and opportunity back to forgotten communities by continuing the tradition of bipartisan support for the CDFI Fund and its programs. Both the House and Senate provided appropriations for the CDFI Fund for FY 2017 and the House of Representatives approved $250 million for the CDFI Fund, the highest appropriation in the history of the CDFI Fund. The House and Senate Appropriations bills also included extensions and new authority for the Bond Guarantee program.

On February 16, Members of the House and Senate introduced identical bipartisan legislation making permanent and expanding the NMTC,the New Markets Tax Credit Extension Act of 2017 (H.R.1098/S.384). The bills were introduced by a bipartisan coalition of senior Members of Congress, including: Reps. Pat Tiberi (R-OH) Richard Neal (D-MA) and Tom Reed (R-NY) in the House and Sens. Roy Blunt (R-MO) and Ben Cardin (D-MD) in the Senate.

The CDFI Fund's programs blend the market incentive of Jack Kemp's Enterprise Zones with the flexible, community-driven approach of private foundations and nonprofits. CDFI Fund initiatives achieve their purpose at a relatively low cost to the federal government, particularly when compared to traditional economic development grant programs. Perhaps most importantly, CDFI Fund supported lenders and investors drive new investments to communities, creating a ripple effect of economic development in some of the poorest and hardest hit areas in America. You inherit an economic development portfolio that will be an important asset to the president. We look forward to working with you in the coming years.

Sincerely,

James Klein
President, CDFI Coalition

Robert Davenport, President
New Markets Tax Credit Coalition