



COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Keynote Address by Director Annie Donovan at the 2015 CDFI Coalition Institute

Thank you, Ray, for your kind words. I also would like to thank the CDFI Coalition for giving me this opportunity to speak, and for their longstanding support for the CDFI Fund and the CDFI industry. It is an honor and a pleasure for me to join you here today at the 2015 CDFI Coalition Institute.

A National Treasure

In my first week on the job, I sent out an electronic message to the industry in which I described the network of CDFIs that exists today as a “national treasure.” This phrase resonated with many people, who either tweeted or retweeted it, or remarked to me through e-mails and personal conversations that they couldn’t agree more with that description.

Why are CDFIs a national treasure? In my view there are many reasons, but today I would like to focus on just two. The first, and most fundamental reason, is that CDFIs have demonstrated through a track record of performance over the past several decades that low-income people and low-income communities are credit worthy. Sometimes I think that because this is an assumption so many of us made when we embarked on this work, we forget to stop and reflect on just how powerful an outcome this is. CDFIs have demonstrated that low-income people and low-income communities are credit worthy.

How do we know this? Because CDFIs report default rates that are more or less commensurate with traditional financial institutions, because CDFI balance sheets continue to grow, because mainstream investors continue to invest in CDFIs, and because very few CDFIs have failed over the past two decades, even during the financial crisis.

Today, the CDFI Fund is releasing two reports that we commissioned. The first is “*Stepping into the Breach: An Impact Evaluation Summary Report*” by Michael Swack and his team at the University of New Hampshire. The second is “*Risk and Efficiency among CDFIs: A Statistical Evaluation*” by Gregory Fairchild and his team from the University of Virginia and Stanford University. You already heard from Greg Bischak and Gregory Fairchild a short time ago on the Risk and Efficiency report. Tomorrow, Greg Bischak will dive into the results from the Impact Evaluation report. The good news these reports reveal is that CDFIs are disproportionately serving distressed communities and minority borrowers. Moreover, during the great recession, when conventional financial institutions pulled back and accumulated cash on their balance sheets, CDFIs pushed forward. You stepped into the breach and acted as a countercyclical force in hard hit communities. CDFIs actually grew as a result. And, the Fairchild study found that regulated CDFIs,

though they serve markets that are assumed to be inherently more risky, are no more risky than other financial institutions.

The second reason that CDFIs are a national treasure is because CDFIs have become a platform for social innovation in low-income communities. With your ears to the ground, and your unrelenting belief in the virtue of the people you serve, you are often the first to see opportunities and create solutions that others miss. From affordable housing, to child care, charter schools, health centers, small businesses, transit oriented development, and the arts, CDFI are on it!

An example I heard about recently that I think clearly demonstrates this innovation and how it is transforming the lives of people and communities is occurring in Cuyahoga County Ohio, the county in which Cleveland is located. The Nonprofit Finance Fund and The Reinvestment Fund helped finance a social impact bond to support a program that is keeping families facing homelessness together. By fostering a partnership between women's homeless or domestic violence shelters and the Division of Children and Family Services, women with children are being provided assistance to help them acquire housing and health services quickly so that they can regain custody of their children, who are automatically placed into foster care upon arrival at the shelters. This program is an example of innovation that could reduce the number of children in foster care in Cuyahoga County by 1/3, and prove to be a significant cost saver for the county, all while stabilizing and reuniting families at a time of great need.

A Model That Works

CDFI certification is often used as a shortcut to eligibility for other government programs because your effectiveness is broadly understood. For example, the majority of funding granted by the Department of Education under its Credit Enhancement Program for Charter School Facilities goes to CDFIs. In its inaugural funding round for social impact bond intermediaries, the Social Innovation Fund this year granted more than 45% of its resources to certified CDFIs. I participate in many interagency meetings in which sister federal agency want to know: how can we leverage the power of CDFIs to accomplish our social objectives?

CDFIs are demonstrating how to leverage federal funding with private investment to create responsible savings, lending, and investment products that create economic opportunity in low-income communities. Are there inefficiencies in serving these populations? Yes, there are. Is there a need for development services and financial education to be coupled with CDFI products? Yes, in many cases there is. But I believe that CDFIs are leaders in designing and delivering smart tools for communities.

The First 20 Years – A Look Back At Our Successes

The CDFI Fund celebrated its 20th anniversary last September. I have to say, I clearly remember when the CDFI Fund was created, and it doesn't seem quite possible that it was 20 years ago.

Back in the early 1990s, there were organizations across the country that were dedicated to providing financial products and services in underserved low-income communities, of course, but there was no federal mechanism for certifying and supporting them. That changed on September 23, 1994, when President Bill Clinton signed the Riegle Community Development and Regulatory Improvement Act. The new legislation authorized the creation of the Community Development Financial Institutions Fund, a new federal agency

dedicated to creating and increasing the number of CDFIs serving our nation's low-income communities.

The Riegle Act was the upshot of candidate Clinton's proposal to create a network of community development banks in the United States. It also was the product of the dedication and hard work of a group of leading community finance practitioners that came together to contribute policy recommendations and lead a grassroots campaign to secure the passage of the bill. That group eventually became the CDFI Coalition, and all of us in the industry can be grateful for their efforts back then and in subsequent years.

I have to think that the CDFI industry that has emerged over the two decades since the signing of the Riegle Act has surpassed even the most wildly optimistic visions of the Clinton Administration and those early CDFI practitioners (and I was one of them, so I can speak for myself). Today, there are 933 certified CDFIs in the United States. That total includes 508 loan funds, 243 credit unions, 109 banks, 59 depository holding companies, and 14 venture capital funds. There are CDFIs in all 50 states, as well as the District of Columbia, Puerto Rico, and Guam.

We have demonstrated that there is a tremendous demand for our services—that low-income communities need and want the services that CDFIs provide, and use them.

We have demonstrated that low-income communities are untapped sources of innovation and creativity—that there are people in these communities who will make the most of the opportunities our services provide.

We have demonstrated that there are thousands of people all over the country who are passionate about doing this work, who will do what it takes to start a CDFI and keep it going, and who will work unbelievably hard to develop new ways to meet the needs of the communities they serve.

We have demonstrated that there are mainstream banks and other investors who want to invest in low-income communities and will form productive partnerships with CDFIs and Community Development Entities.

We have demonstrated that our programs work—that they generate new economic opportunity in communities where businesses, and jobs, and affordable housing, and opportunity have long been in short supply.

And we have demonstrated that the federal government has a critical role to play, in partnership with others, in fighting poverty and can indeed do great things to lift up low-income communities and support the local organizations that serve them.

And that's why I believe that the CDFI Fund—and the entire CDFI industry—is truly a national treasure.

Mapping The Future – A Call To Action

I also believe that those of us who have the privilege of working in this industry are charged with the responsibility for protecting this national treasure. I can assure you, that's something that all of us at the CDFI Fund are committed to. We are committed to building on the strong foundation that so many people have helped to build over the past 20 years and to doing everything we can to make sure that the future of the CDFI Fund is as great as its past.

Which brings me to the topic of the CDFI Fund's priorities going forward.

You have just heard from the panel of CDFI Fund managers about the plans for some of our key programs, and I hope it was abundantly clear from their remarks that the CDFI Fund has an ambitious plan for 2015.

But we also will be looking beyond 2015. This year, in addition to managing all the programs and services that we provide to the industry, we will be developing a new comprehensive five-year strategic plan for the CDFI Fund. We won't be developing this plan in isolation. The process will be informed by the perspectives of the CDFI Fund's Advisory Board, Treasury officials, and members of the CDFI industry.

What I want above all is for 2015 to be a year of listening for the CDFI Fund. To that end, I am pleased to announce that we will be conducting a series of listening sessions later this summer at a number of locations around the country. The goal is to get input from the industry and the public about where the field needs to go in the future and how the CDFI Fund can help it get there.

We are just now beginning to plan these listening sessions, but at this point I can say that we will be looking for comments and suggestions on six broad topics:

1. Data – How we can use data to strengthen the industry and increase our impact. While the findings in the reports released today are promising, they still don't tell the whole story of the impact CDFIs are having. There are many questions that the authors acknowledge they just can't answer because the data is limited. This is a condition we must change if we are to strengthen and grow what we've so painstakingly built over the decades.
2. Innovation – How can the CDFI Fund best support CDFIs to continue to innovate? What innovations are most needed in communities today?
3. Growth and Impact – Can we take what we've built and scale it? How do we deepen our impact? How do we support transformation and not just transactions? How do we move needles?
4. Access - What do we need to do to reach communities that need CDFIs but are not being served by them?
5. Operations and customer service – What works well at the CDFI Fund and what needs to be improved?
6. What are we missing - What are the issues that should be on our radar screen at the CDFI Fund but are not?

We will release detailed information about these listening sessions, including the schedule and locations, later this spring. Please stay tuned.

In addition to conducting the listening sessions, we will be inviting anyone and everyone to submit their comments and suggestions to us by email at thenextfiveyears@cdfi.treas.gov and on a special page, The Next Five Years, on our website.

Needless to say, we hope to hear from you. In fact, we're counting on it. The members of the CDFI Coalition have been such a vital part of the CDFI Fund's past, and we need you to be a vital part of our future.

So please join us at one of the listening sessions or at least send us your ideas, your suggestions, your dreams for the future of the CDFI Fund and the CDFI industry. If you do,

I can promise you that you will be heard. Your suggestions will be carefully reviewed during our strategic planning process and will help guide us in our thinking.

Motivation As A Foundation For The Future

You know, it's helpful to celebrate anniversaries because they mark milestones. We've come a long way over the past 20 years. And yet, we all know there is much work still to be done. I continue to be personally energized by the promise of this important work and by our continued collaboration.

Whether you've been doing this work for 20 or 30 years or you're just starting out, I encourage you to stay connected to what drew you into community development finance to begin with. For me, it was my experience as a Peace Corps Volunteer over 25 years ago. I was assigned to a rural fishing village on the eastern tip of Jamaica. One day, I had gone to a neighboring community to do some work when a heavy storm rolled in. Upon returning home, I got off the bus to find that the dirt road leading to my house had literally turned into a river. I didn't know what to do. Then I heard someone calling my name from way up on a hillside. It was my neighbor. She was waiting for me, holding a plastic bag over her head for protection from the rain. She showed me an alternative path through the bush that led to my house. It sure beat swimming home!

That experience made me realize that we are all interdependent, regardless of socio-economic status. It cemented my commitment to work to ensure that economic opportunity is as widely available as possible. Everyone deserves the opportunity to reach their highest potential in life. I am certain that there are lots of these kinds of stories in this room. I encourage each of you to recall your own story and to draw on it as we embark on the next decade of this journey to connect capital with underserved communities.

I am very much looking forward to our collaboration to protect and grow this national treasure that is the CDFI network.

Thank you!

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