November 7, 1994

MEMORANDUM FOR THE PRESIDENT

THROUGH: GENE SPERLING

FROM: Paul Weinstein

SUBJECT: **Economic Impact of Community Development Banking and Financial Institutions Act**

Passage of the "Community Development Banking and Financial Institutions Act of 1994" (CDBFI Act) fulfilled your campaign commitment to support the creation of a network of community development banks. Along with reform of the Community Reinvestment Act (CRA) and the Empowerment Zone/Enterprise Community Initiative, the CDBFI Act serves as the foundation for your economic development strategy for low-income communities.

Per your request, we asked the Treasury Department to analyze the economic impact of Community Development Banking and Financial Institutions Act of 1994, which you signed last month. In addition, please find attached a Boston Globe editorial that praises this law which will support the "so-called tugboat lenders of economic revitalization."

Currently, the community development financial institution (CDFI) industry is capitalized with approximately $700 million and has extended more than $2 billion in loans. The $500 million CDBFI Act will greatly expand the capacity of the CDFI industry and will:

- **Create approximately $5 billion in new credit for economically distressed communities** -- This number is calculated based on the non-federal matching requirement in the CDBFI Act (1:1), the leverage ratios for insured and uninsured CDFIs, and the leveraging effects of the Flake Credit Assessment provisions which are targeted towards investment and support of CDFIs.

- **Provide financial and technical support for as many as 75 new insured community development banks** -- The combination of the equity investment and technical assistance grants by the CDFI Fund and the matching investment by traditional lenders yields a total investment of $346 million in insured CDFIs (Community Development Banks and Credit Unions). Assuming $4 to $5 million required to capitalize a new institution, this investment could create as many as 75 new insured CDFIs;

- **Support as many as 916 new well-capitalized community development corporations and over 4,000 community development loan funds** — There are two sources of investment in these institutions, from the CDFI Fund and from traditional lenders. The CDFI Fund divides its uninsured CDFI investment (with traditional lender match) among larger community supported CDCs (start-up capital needs of about $500,000); smaller CDCs (start-up capital needs of about $100,000); and CDLFs (start-up capital needs of perhaps $25,000 in seed money). Traditional lenders invest in larger bank-supported CDCs (start-up capital needs of about $2 million), smaller CDCs (start-up needs of about $750,000) and CDLFs (seed money needs of about $25,000). Applying these assumptions to the assumed investment totals suggests the investment in uninsured institutions could yield as many as 916 CDCs, with seed money for more than 4,000 loan funds.

  During the campaign, you promised to create 100 Community Development Banks. The current funding level for the CDFI program can only sustain 75 new Community Development Banks. During the drafting of the CDFI legislation, we met with a considerable number of individuals, including representatives of South Shore, who urged us to broaden the definition of community development banks to include other types of community development lenders among those eligible to receive monies from the CDFI Fund -- e.g. credit unions, loan funds, microlenders, etc. For many communities, these other types of CDFI lenders are better suited to serve the need of their particular residents. However, if you combine the 75 insured CDFIs with the 916 Community Development Corporations (CDC) and 4,000 Community Development Loan Funds (CDLFs) that will be supported by the CDFI Fund, your vision of creating a network, in partnership with the private sector, of community development lenders who will spur entrepreneurship, help grow new businesses, and finance homeownership in America's inner cities and distressed rural communities, will be achieved.

- **Support nearly 40,000 in new loans to individuals and small businesses** -- Under the leveraging assumptions, the investment in insured CDFIs allows them to extend additional credit of $3.08 billion. With loan sizes ranging from $25,000 to $1 million and an average loan size of about $200,000-$300,000, based on data from HUD Profiles, insured CDFIs will make nearly **10,300** new loans. The investment in uninsured institutions by the CDFI Fund and by traditional lenders allows them to extend additional credit of about $600 million. Assume, as indicated in HUD Profiles that community-supported CDCs make loans averaging about $25,000 bank-supported CDCs make loans averaging about $150,000, and CDLFs make loans averaging about $40,00. Then the investment in uninsured institutions could yield as many as **10,700** new CDC loans and **3,700** new CDLF loans. Combined with the **15,000** new loans expected to be generated through the Flake Assessment Credit Program, Treasury estimates 39,700 new loans supported under the CDBFI Act.

- **Result in 150,000 new full-time jobs in low-income communities** -- An increase in the credit availability is assumed to support new full-time jobs at the average rate of approximately $30,000 in salary and benefits for one year. Thus, a $5 billion increase could mean 150,000 new jobs (each lasting one year).

cc: Carol Rasco
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