



This testimony is submitted on behalf of the New York State CDFI Coalition requesting your support for including in the 2018 budget the creation of a community development revolving loan fund program, which would be under the auspices of Empire State Development.

This proposal provides a unique vehicle to fund loans to underserved and economically distressed communities. The loan fund would be dedicated exclusively to funding loans made by Community Development Financial Institutions (CDFIs). The loans from this fund would support lending by CDFI's exclusively in low income communities for small businesses (including MWBE's), affordable housing and community facilities.

This loan fund would be the first in the nation to exclusively focus on CDFI loans, which would drive capital to low income communities throughout New York State.

CDFIs have a proven track record in New York State. These specialized financial institutions are community based and are governed by strict criteria under their U.S. Department of Treasury designation to serve low income communities in both urban and rural areas. The seventy CDFIs located across New York State have delivered by making more than \$2.4 billion available loans in their targeted communities since 2005, which have financed more than 48,000 small businesses, affordable housing developments, and community facilities. These loans have led to the creation or retention of over 41,000 jobs, plus 8,669 construction jobs. They have helped build or preserve 2,700 affordable homes and have been catalytic to the creation of over 13 million square feet of developed space adding significantly to local tax revenues. In 2015 alone, over \$117 million was extended to over 1,500 borrowers: 16% of the loans were to businesses, 63% to the creation and preservation of affordable housing, 18% to community facilities and 2% to consumers.

There is no shortage of loan demand in low income communities. A pipeline of small business and other loans await funding. There is currently insufficient funding available to meet the loan demand in these communities. CDFI's provide loans to borrowers, who are unable to obtain conventional financing. Credit issues including lack of credit history or a credit score provide barriers that CDFI's work to overcome with borrowers including MWBE's, members of the immigrant community and other non-traditional bank customers. CDFI's specialize in serving low income businesses and people in economically distressed communities. CDFIs are designed to fill the financial services gap which exists in many low income communities.

A revolving loan fund focused exclusively on providing capital access to CDFI's translates into loans for small businesses, affordable housing, and community facilities in low income and underserved communities. The net impact of a CDFI loan fund is to improve the economies in low income communities by providing opportunities for access to capital for community members. The loan fund program provides significant leverage for economic development. The state makes significant investments in specific economic development projects. This fund provides the state with a revolving investment fund which acts as a resource for economic growth in communities which are outside of the economic mainstream. Investments made by CDFIs enable these communities to improve their own circumstances.

A unique aspect of this proposed loan fund is that it creates a public private partnership. Funding is not limited to an appropriation from the state. The fund is constructed to accept funding from private entities such as banks. Contributions to the fund by banks would result in Community Reinvestment Act credits. The loan fund would provide a convenient vehicle for banks to obtain credits because it minimizes administrative requirements attached to individual investments. Banks would be able to participate in loans to economically distressed communities without having a direct relationship with the CDFI. In rural areas CDFIs often

have difficulty finding banking institutions to partner with on loans, this mechanism would provide opportunities for access to capital without the predicate of a direct relationship.

Another potential source of funding would be through the New York State Comptroller. It would be possible to seek pension fund investment in the revolving loan fund. An agreement to provide financing would satisfy both nonfinancial and financial goals for both funds.

The loan fund would relieve many small CDFIs of the administrative burden of finding capital resources. Many CDFIs expend significant administrative resources in finding funding for their loans. The availability of a revolving loan fund benefits CDFI communities because CDFIs would be able to focus on making loans and not in obtaining the capital for the loan. Additionally, the loan fund would be geared to understand the CDFI business model and their underwriting criteria. CDFIs work hard to reach borrowers with specialized lending products often with non-traditional terms and higher reserve requirements. A pool of capital to fund these loans provides both commoditization and scale necessary to penetrate this difficult market.

Most importantly the loan would benefit from the management of the fund by Empire State Development (ESD). ESD currently manages a number of loan funds and this fund would fit within their portfolio. ESD's management of the fund would provide a level of comfort to investor's in the fund.

CDFI's would be able to significantly expand their lending programs to create jobs and increased economic activity in underserved areas. CDFI's have a significant track record of community lending. This loan fund provides an efficient delivery mechanism for capital to fuel the continued expansion of loans to underserved communities. The public private partnership which is the hallmark of this fund would leverage dollars to create an outsized impact on those underserved communities.

Capital is the lifeblood of CDFI's and it is critically necessary to improve the communities which they serve. Any investment the state makes in this loan fund will be leveraged by private investment and ultimately by providing pathways to financial empowerment for low-income communities.

The New York State CDFI Coalition respectfully requests that this proposal be incorporated in the final budget.