

TACDC Policy Priorities

Issue: *A Texas CDFI Strategy*

Recommendations

1. *Reinstate funding for the Capital Access Program and make the program independent from the Economic Development Bank.*
2. *Create a state CDFI fund to utilize the \$250,000 set aside in the Governor's Office budget (Rider #19) for the provision of loans and grants to community development organizations to support securing assets in economically disadvantaged areas of the state. The Texas CDFI industry will use this demonstration program to show the viability of creating a \$15 million Texas CDFI Fund.*
3. *Work for funding increases for CDFIs at the federal level by working as an advocacy liaison between national trade associations and Texas non-profits.*

History of the Texas CDFI Fund

A community development financial institution, or CDFI, is a private sector entity that provides funding to individuals and small businesses in circumstances where prime credit is not available. By targeting their services to groups that cannot borrow through conventional lending institutions, CDFIs create new economic opportunities. In distressed neighborhoods, CDFIs can be engines for growth by creating sources of jobs and wealth entirely within the community.

CDFIs are funded mainly by foundations, banks, and other private entities, but the CDFI Fund operated by the United States Treasury has been a major equity contributor in recent years. Some states, notably California and Pennsylvania, have established state CDFI funds. Others, such as Texas, are still in the process of establishing a state-funded program.

The push for a state CDFI fund in Texas has been characterized by frustration. Three different attempts to establish and fund a CDFI program at the state level have ended without the program being implemented. In 1997, the proposed fund would have been managed by the Texas Department of Housing and Community Affairs. The 1999 version would have placed the fund within the Texas Department of Economic Development. Currently, the best place for the fund would be in the Governor's Office Division of Economic Development and Tourism.

In 2001, the 77th Texas Legislature directed the Texas Economic Development Department to create a \$250,000 yearly grant program for Texas CDFIs. This money was to be used for both loans and operating support. However, this program was never implemented. For this reason, creating opportunities to support CDFIs in Texas remains an active policy agenda item at TACDC for the 2005 Legislature.

The Need for a State CDFI Fund

A CDFI fund would begin to answer the borrowing needs of distressed communities. To date, there is no state-supported fund for CDFIs. At the federal level, the U.S. Treasury operates a CDFI Fund that has been in existence since 1994 and has distributed over \$500 million since its inception. However, the CDFI Fund in FY 2004 is \$14 million lower than in 2003 and \$57 million lower than in 2001. With these decreases, it is not reasonable for Texas to rely only on the U.S. Treasury to fund its CDFIs.

CDFIs leverage all money in their funds by engaging in bank partnership lending whenever possible, so that every state dollar will be matched by two to three dollars in private investment. In addition, Texas CDFIs can use the state funds as the match when applying for the U.S. Treasury CDFI Fund grants. A state CDFI Fund of \$15 million would enable additional community investments of \$45 to \$60 million. By choosing borrowers so as to minimize default risk, CDFIs are able to recycle funds for years. Dollars deployed today will continue to assist development efforts for years to come.

Loans for development are becoming increasingly harder to get in distressed areas. The recent string of bank consolidations and mergers has pulled local branches out of many low- and moderate-income communities, leaving them without a borrower who is familiar with the clientele.

Capital Access Program

The only state program that has provided support to CDFIs is the Capital Access Program. The Texas Capital Access Program allows CDFIs and other financial institutions to contribute to a loan loss reserve fund administered by the state. The state matches contributions from CDFIs to the fund at 200 percent. The availability of the fund creates a safety net against losses in the case a loan defaults. By providing a risk mitigation tool, the state is supporting CDFIs to more safely target low-income borrowers than ever before. The end result is more business capital flowing into economically disadvantaged communities across the state. In the 79th Texas Legislature, the state ceased funding the Capital Access Program.

Conclusion

The CDFIs in Texas have been extremely successful despite the absence of state funding. According to the TACDC Research Program publication *The Contributions of Community Development Corporations in Texas, Vol. 4*, through 2003, CDFIs in Texas originated over 8,500 new loans worth over \$179 million to communities. This investment created over 11,000 new jobs in distressed communities across the state.

Recommendations

1. *Reinstate funding for the Capital Access Program and make the program independent from the Economic Development Bank*

TACDC calls on the Texas Legislature to fund the Capital Access Program at a minimum of \$500,000 per year in an effort to support small businesses in economically challenged areas. At the same time, the CAP needs to be an independently funded program and not part of the Economic Development Bank, a collection of small economic development programs that operate without funding from the state.

2. *Create a state CDFI fund to utilize the \$250,000 set aside in the Governor's Office budget (Rider #19) for the provision of loans and grants to community development organizations to support securing assets in economically disadvantaged areas of the state. The Texas CDFI industry will use this demonstration program to show the viability of creating a \$15 million Texas CDFI Fund.*

The available funding could be used as a match by Texas CDFIs (both housing and business lending CDFIs) when applying for CDFI funds from the US Treasury. The state resources would then have a guaranteed match. The use of the Texas CDFI fund will demonstrate the need for funding in the state and will create a precedent for increasing funding in the future. The overall goal is to increase biennial state funding for CDFIs in Texas to \$15 million or more.

3. *Protect current funding levels for CDFIs and work for funding increases for CDFIs at the federal level by working as an advocacy liaison between national trade associations and Texas non-profits.*

The CDFI Fund was created in 1994 with an initial appropriation of approximately \$50 million. Due to the success of the program, allocation grew until the program reached its highest funding allocation on \$118 million in 2001. Since 2001, funding has been reduced and is currently at \$55 million for 2005. In President Bush's latest budget proposal, the CDFI fund is virtually eliminated. The Texas CDFI Coalition will work with national trade associations, local governments, and Texas CDFIs to call on President Bush and Congress to increase CDFI funding to \$125 million or more.

