CRF USA

Capital for Communities—
Opportunities for People℠

Memo

DATE	December 16,2008		
TO:	President-Elect Obama Treasury Transition Team	FROM:	Frank Altman, President and CEO
SUBJECT:	Policy Recommendations for Economic Stimulus		

Key Recommendations

1. Set aside $1 billion of the $700 billion EESA for capital to Community Development Financial Institutions (CDFIs) and other organizations that provide liquidity to CDFIs (Liquidity Providers) to increase lending in low- and moderate-income communities
2. Appropriate $100 million in the Stimulus Bill to the CDFI Fund to be distributed under Section 113 of CDFI Fund Statute to CDFIs and other organizations including liquidity providers
3. Establish an affirmative obligation for institutions that receive funding under the Capital Purchase Program to lend to, invest in or otherwise support CDFIs organizations and Liquidity Providers
4. Expedite the CDFI Fund's process for awarding funds made available from TARP including the streamlined two page application utilized by the banking industry
5. Reauthorize the New Markets Tax Credit at $5 billion annually for five years, and increase the Credit to 50% from 39%

Strategic Principles and Rationale for Adopting Recommendations

- Stimulate the private sector to create or retain jobs
- Leverage capital markets
- Use existing networks to speed capital to markets
- Focus on areas of greatest distress

Reducing Illiquidity and strengthening their capital will enable Development Lenders to make more loans and investments.

Nationally, there are more than 1,000 CDFIs, nonprofit Community Development Corporations, Certified Development Companies and governmental revolving loan funds (Development Lenders). They do not accept deposits, but rather raise capital from foundations, banks, and the federal agencies including the CDFI Fund, EDA, HUD and others to lend in poor communities or economically disadvantaged areas. As banks have stopped lending, Development Lenders are finding it difficult to raise capital to lend at the very time when it is needed most.

Securitization and Bond Markets are not functioning so alternate sources of financing are needed

The capital markets are severely impaired now making it impossible for Liquidity Providers like Community Reinvestment Fund, USA to attract investments from banks, insurance companies and other institutional investors, who are now reluctant to make short-term warehouse loans to such organizations when there is not market into which the loans can be sold ultimately. The only instruments that are trading at all are government-guaranteed notes or "AAA" Securities—the latter at credit spreads of up to 1,000 basis points over the Swap Curve.

Development Lenders should be part of the stimulus package because they can "get money on the street" rapidly

When the credit crisis hit, many Development Lenders had robust pipelines of loans to fund. As they have lost liquidity they have stopped lending to projects that could be part of the economic stimulus that the country requires. Because they are mission driven lenders, they actually may have more flexibility to lend right now than banks. Given adequate liquidity, they can revive their pipelines and close loans in 60 to 90 days.

New Markets Tax Credit should be strengthened because it successfully targets investments in low-income communities

Now that the Credit is an established and powerful tool for stimulating investments in low-income places, it should be increased and made permanent. However, due to the turmoil in the credit markets, many large institutional buyers of these credits are financially impaired and have limited appetite for credits, or they have gone out of business entirely. CRF alone has seen five of its largest tax-credit investors go under in this disaster. In order to attract investment at prices that can support worthy projects, President Obama should ask Congress to increase the NMTC to 50% to keep it competitive in a new era of lower leverage and higher credit spreads.