

**Testimony before the Committee
Joint Budget Hearing on Economic Development
February 1, 2017**

Good Morning Senator Young and honorable members of the Committee.

My name is Tristram Coffin. I am the CEO of Alternatives Federal Credit Union in Tompkins County, NY, and I am speaking on behalf of the New York State CDFI Coalition. The Coalition represents approximately seventy Community Development Financial Institutions (or CDFIs for short) across the state. Though they may be organized as banks, credit unions, loan funds, or venture capital funds, CDFIs by definition are dedicated to giving people a helping hand up the financial ladder by providing loans, technical assistance and financial education to borrowers in underserved communities throughout the state.

CDFI is a designation provided by the US Department of the Treasury to financial institutions that meet strict criteria in primarily serving low income communities. At the Federal level, CDFIs have competed for grants made by Treasury and funded by an annual budget appropriation since the mid-1990s. These awards, which are made through a competitive process on the basis of performance, leverage private dollars to help CDFIs build the capacity necessary to meet their mission of helping communities rebuild. Because of the extraordinary impact of CDFIs in New York, the State passed enabling legislation in 2007 to create a New York State CDFI Fund modeled after the successful Treasury Department program. However, to date it has not received a penny of State funding, making it New York's most underutilized resource in your efforts to revitalize our economy. The Coalition respectfully requests your consideration of a modest \$15 million budget appropriation to the New York State CDFI Fund, from which certified financial institutions would compete for grants that help carry out our mission for economic development by providing business, mortgage or consumer loans to borrowers who are underserved by traditional lenders. While modest by the standards of the New York State budget, this funding would be a game-changer for CDFIs who have demonstrated their capability to

change lives and now seek to broaden their community impact. CDFIs are a tried and proven methodology for effectively allocating capital to lower income communities. Empire State Development has demonstrated the interest and willingness to administer a New York CDFI Fund. We are confident that the use of CDFIs as a tool of economic development strategy will position New York as a national model and leader.

Leverage of Private and Federal Funds

Part of the reason for the success of CDFIs is the manner in which they leverage resources for economic development. The Treasury Department's CDFI grant program requires non-Federal matching resources, so New York CDFIs receiving state grants would immediately be eligible to use them as the basis for federal awards. State-funded CDFI grants would provide an essential asset that can leverage other sources of funding such as banks, foundations and other impact investors. Estimates for the ratio of private capital leveraged by CDFI investments have ranged from 10:1 to 20:1. Therefore, a \$15 million allocation for New York CDFIs could attract an additional \$150 to 300 million of private capital to be deployed in underserved communities throughout New York.

CDFIs and Small Business

Small Businesses have been responsible for two out of three jobs created in the last two decades.¹ But while the economy continues to improve on paper, there continues to be a lack of lending to small business.¹ In fact, whereas CDFIs continued making small business loans after the 2008 Mortgage Meltdown, many of the largest banks dramatically scaled back their lending.² The experience of

¹ <http://www.wsj.com/articles/big-banks-cut-back-on-small-business-1448586637>)

Alternatives is instructive in this regard. During a period of retrenchment for the financial industry in which business lending declined dramatically, Alternatives increased its annual business loan volume four-fold between 2007 and 2010.

Empire State Development Corporation manages a small CDFI Assistance Program that benefits those CDFIs who work with small business. CDFIs have proven themselves to be effective stewards of this assistance, using grant funds to build effective collaborations to promote successful small businesses. CDFIs provide a range of affordable loan options to micro-entrepreneurs, with a heavy concentration on women and minority business owners, along with training and educational support to help those businesses succeed.

Discussions of small business lending to under-served communities often center on prodding larger banks to do more. While this is understandable given the amount of money they have at their disposal, the potential of smaller institutions should not be overlooked. By expanding lending programs through community-based lending institutions such as CDFIs, it is possible to provide the hands-on support necessary to help small businesses grow. After all, smaller loans are the core of smaller lenders' business model. The business loans Alternatives makes average about \$25,000. The businesses we help, while successful, are not the type of venture capital startups that promise hefty future returns. Whereas businesses like those we work with will have to grow much larger before becoming attractive to large banks, CDFIs consider such loans to be the reasons we exist. Our experience shows that microloans are often what underserved rural, women and minority business owners need. These types of programs and the one to one coaching necessary to help borrowers succeed is more effectively delivered at local scale. Small business is integral to economic development. By extending capital to community lenders through an appropriation to the State CDFI Fund, we can create thousands of jobs in underserved areas.

² (https://filene.org/assets/pdf-reports/268_Commercial_Lending.pdf)

We have first-hand experience with the challenges and opportunities of making small business loans in general, and loans to minority and women-owned small businesses, in particular. In fact, more than 53% of Alternatives' business loans over the past three years are made to minority and woman-owned businesses. With appropriate support, CDFIs would lend even more. The experience of Alternatives and other CDFIs shows that more can and should be done to make loans available to qualified lower-income entrepreneurs.

There is a story behind each one of the loans we make, but here is a prime example of how community-based lenders can work with government to expand lending opportunities. While working for a catering company, Lancelot Brown was injured and unable to work. Though he had dreams of one day owning a restaurant, he had no experience in running a business. Lance said, "I did not have a strong financial base. Since my accident, I had been on public assistance and had limited funds. I had to do something to get off the system, to pull myself up." Lance found his way to a CDFI, which helped him finance a successful restaurant in Brooklyn. As Lance explained, "The loan from Accion has allowed me to enter the second phase of my business. I've been able to purchase enough equipment and expand operations Monday through Saturday for lunch and dinner. We've really been able to grow."

It's crucial that economic development strategies include CDFIs. We don't need to be prodded to do more. We are here to help. Give us the opportunity to do so.

Financing the American Dream

As you consider ways to develop the state's economy, the importance of stable communities cannot be overstated. CDFIs are leaders in financing homes for low income people. Some, such as CDFI banks and credit unions, successfully provide mortgage loans to underserved borrowers while maintaining delinquency and loss ratios superior to those of mainstream financial institutions. Loan Funds often provide the necessary bridge financing that enable large-scale construction. A predevelopment loan in September of 2015 from a CDFI, Leviticus 25:23 Fund, set the foundation for a comprehensive neighborhood revitalization effort in upstate Otsego County, New York. A non-profit developer will create twenty units of affordable rental housing for families and forty affordable units for Seniors among fourteen scattered sites. Leviticus' \$516,000 loan is financing the predevelopment costs for the project, which will eliminate blight, rehabilitate a vacant building and transform underutilized vacant lots. The properties that comprise Oneonta Heights are just north of the downtown core of Oneonta. The City of Oneonta has committed funding in recognition of the revitalization potential of Oneonta Heights to change the landscape of the community and stimulate new economic investments in the city's core. "As a regional lender, Leviticus is proud to direct financing to such an innovative project in the City of Oneonta," said Greg Maher, Leviticus' Executive Director. "This development will revitalize an important part of the city's core and will provide the residents with viable bus transportation options and accessibility for shopping, healthcare and jobs." With the ability to compete for State CDFI grants, Leviticus, a small CDFI with just four employees, would be in position to catalyze more development projects of this type.

In the aftermath of the recent Mortgage Meltdown, CDFIs have demonstrated indisputable success in providing home loans to low income borrowers. Recognizing the excessive risk taken by

lenders in the recent mortgage meltdown, New York State has taken the initiative to pursue legal action against certain banks. To the extent that proceeds of those settlements are incorporated within the budget process, we believe it is fair and appropriate that a portion of those funds be directed to our requested \$15 million CDFI Fund appropriation. After all, it is we CDFIs who have been and are still doing the work of remediating the damage done to lower income communities, offering responsible loans and financial counseling that helps provide the community stability requisite for economic development.

A delivery system for today

Any effort by the State to encourage greater small business lending, in particular, must take a holistic approach, recognizing the need for more mission-driven funding for underserved individuals and communities. CDFIs work hands-on in local communities to address some of our most vexing economic development challenges. We provide pathways to success for individuals and businesses whose needs are not being met by mainstream lending institutions. Recognizing the acute pressure on state financial resources, we stand proudly as a more efficient delivery channel to transform public capital to private jobs. We create market-based solutions that provide investment to chronically underserved communities. We leverage federal and private dollars to create an outsize impact in the community. We are locally controlled and accountable to our target market, both through Board governance as well as reporting to the US Treasury. As such, CDFIs are positioned to be more flexible and responsive to the needs of the communities we serve. Many traditional economic development models have required top-down priorities set by government. CDFIs leverage public resources in a more decentralized manner that is uniquely positioned to meet the most pressing challenges within the local communities we serve.

Frankly, with more government comes the risk of more bureaucracy, which makes it that much more expensive and difficult for community-based lenders. For example, even though SBA loans are often pointed to as a model of how lending partnerships should work, its requirements are so cumbersome to comply with that only twenty-six credit unions in NY make SBA loans, and nationwide only two hundred do so. We don't need new government lending structures; what we need is more targeted investment in the community development finance entities we have, particularly CDFIs.³

You may not be familiar with CDFIs. We are in some ways a well-kept secret. However, we cover every county in the State. With over \$3.4 billion of outstanding loans, the CDFIs of New York State have demonstrated capability to allocate capital effectively to create and protect jobs, stabilize communities and help low income consumers build and utilize credit. However, so much more is possible. Recognizing this opportunity, ten years ago our state had the foresight to create the first state-specific CDFI Fund in the nation. Unfortunately, a financial and banking crisis happened, derailing our economy and putting aside any plans to invest in this groundbreaking fund for the betterment of New Yorkers. Ten years on, we have weathered the storm of a crisis and recession, but the work of building an inclusive prosperity through which all New Yorkers can work toward their dreams remains unfulfilled. At a time in which the payout of settlement funds to the State stands as evidence of the failed approaches of the past decade, and as the State considers strategies that place local and regional economic development solutions at the forefront, the imperative to utilize the New York State CDFI Fund has never been clearer. We appreciate your consideration of our budgetary request.

Thank you very much for giving me the opportunity to speak today. Community Development Financial Institutions were created out of recognition that not everyone has equal access to financial services, and we are ready to work constructively with other stakeholders including Empire State Development Corporation and the Legislature to make sure all New Yorkers can get the loans they need

³ (<http://www.cutimes.com/2015/09/25/credit-unions-lack-sba-lending-knowledge>)

to start and grow a business, purchase a home, or meet other borrowing needs. CDFIs are a tried and proven solution to the problem of providing access to capital in underserved communities. We help grow and sustain small businesses that create jobs and pay taxes. We provide pathways to financial empowerment for individuals that result in greater self-sufficiency and help alleviate strain on other social service resources. However, just as the individuals and businesses we serve require capital to succeed, so too do CDFIs require capital in order to fulfill their mission of community economic development. While modest in related to the industry's overall funding base, public investment from the US Treasury CDFI Fund has made an essential difference in our ability to serve our borrowers, providing a funding source that can efficiently leverage private investment to achieve maximum impact. Ten years ago, New York's legislature showed great leadership in creating the nation's first State CDFI Fund. Today, the need to strengthen our communities and create jobs is as great as ever. CDFIs are making a difference each day for hundreds of thousands of New Yorkers who aspire to a better future for themselves and their families. Please don't deny the CDFIs of our state of the capital we need to meet today's opportunity. Please say yes to our request for a \$15 million appropriation to the New York CDFI Fund. Thank you for your consideration.