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Testimony of Joseph Haskins
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June 18, 2009
Washington, D.C.

Good morning. Mister Chairmen and members of the Committees, my name is Joseph Haskins and I am the Chairman, President and CEO of Harbor Bankshares Corporation ("HBC") headquartered in Baltimore, Maryland. Thank you for the opportunity to address this joint session.

HBC is certified by the United States Department of the Treasury (the "U.S. Treasury") as a Community Development Financial Institution (a "CDFI") and as a Community Development Entity (a "CDE") and was the first financial institution in the State of Maryland to hold both certifications. HBC is minority-owned, minority-controlled and counts among its assets The Harbor Bank of Maryland, a $300 million bank.

Although the scope of today's hearing is broad, I will limit my testimony to HBC's record of securing New Market Tax Credit ("NMTC") authority, HBC's record of selling NMTCs to investors, HBC's record of making qualified investments in low-income communities ("QILC"), and a few recommendations that may yield increased minority participation in the NMTC program (the "NMTC Program").

For the record, I consider the NMTC Program a vital tool for stimulating economic development in depressed communities and I support any campaign to extend the authorization of the NMTC Program beyond 2009.

I would like to make four (4) main points:

1. HBC has a long and distinguished record of successful service to low-income people and communities that otherwise lack sufficient access to credit, capital, and financial products and services;

2. HBC continually seeks to expand its capacity to provide credit, capital, and financial products and services to underserved populations and communities;

3. The NMTC Program should increase access to credit, capital, and financial products and services through the expansion of existing entities that (a) in conjunction with its affiliates on a consolidated basis principally lend to minorities; (b) principally serve low-income, predominantly minority communities (a "Minority Service Area"); and (c) are certified by the U.S. Treasury as a CDE (such entity satisfying (a), (b), and (c), a "Minority Lender"); and

4. The NMTC Program should support small business development in underserved markets.

First, HBC has a long and distinguished record of successful service to low-income people and communities that otherwise lack sufficient access to credit, capital, and financial products and services and the NMTC Program has significantly contributed to that success.

I would like to highlight a few examples of HBC's distinguished record of infusing capital, credit, and financial products and services into low-income communities.

In the past five years alone, HBC has deployed over $140 million of loans into low-income communities. HBC deployed $25.5 million into the $100 million Life Sciences Building of the Johns Hopkins Hospital & Medical Center, $10 million into a $65 million hospitality development, and deployed $14.5 million in a scientific research building in Baltimore, Maryland. In addition, HBC was the first hotel investor in Inner Harbor East, now a hotel haven; invested on an unsecured basis in a once fledgling CDFI that has transformed 80 acres around Johns Hopkins Hospital into a mixed-use, mixed-income community valued at $1.8 billion; and provided loans to a developer that paved the way for a $500 million Bio-Tech Park.

Equally important, if not more than the actual provision of capital and credit, are the derivative communal benefits of such investment. HBC has witnessed first-hand its investment's derivative effects such as job growth, educational opportunities, and the provision of social services such as shelter, drug rehabilitation, and healthcare to residents of its financial services footprint.

Second, HBC continually seeks to expand its capacity to provide credit, capital, and financial products and services to underserved populations and communities.

HBC's success is due in part to the NMTC Program, which has awarded HBC $100 million in NMTC authority. However, the demand for HBC's NMTC allocation exceeds its supply. HBC has developed a robust pipeline of NMTC projects based upon its current involvement in the community and extensive network of community referrals and contacts. HBC recently reviewed over fourteen (14) large-scale NMTC projects having total development costs of $577 million and requiring over $176 million in NMTC financing. HBC continues to respond to small business demand for NMTC financing assistance and has devised a concept and mechanism to cost effectively deploy NMTCs into smaller transactions by participating in a small business NMTC fund (the "NMTC Fund") which allows for loan funds to flow to many projects under one NMTC closing.

Yet, despite HBC's enviable track record of serving low-income communities; despite HBC's significant investment in low-income communities; despite HBC's significant capital and human resources often drawn from the same low-income communities it serves; and despite its robust pipeline of deals, HBC has not received NMTC authority on a regular basis. Although HBC received NMTC authority in 2003 and 2009, it, despite repeated applications, did not receive NMTC authority in 2002, 2004, 2005, 2006, 2007 and 2008.

HBC's business strategy is sound; its community impact reverberates on a daily basis; its management is tried; its knowledge base fortified. Considering HBC's demonstrated success in serving low-income communities, its efficient and effective use of NMTC authority, and given its repeated application for NMTC authority, it is not clear to me why HBC did not receive NMTC authority in six different rounds.

Third, the NMTC Program should increase access to credit, capital, and financial products and services through the expansion of existing Minority Lenders. Minority Lenders are CDEs that principally serve Minority Service Areas and that in conjunction with its affiliates on a consolidated basis principally lend to minorities.

Although a tremendous capacity exists for new capital in Minority Service Areas, Minority Lenders have infused their communities with such capital and support for decades and should not be overlooked in the public policy effort to attract external capital to highly distressed communities.

To be clear, my reference to a Minority Lender does not necessarily mean a CDE that is minority-owned or minority-controlled. Rather, a Minority Lender is a CDE who with its affiliates on a consolidated basis principally lends to minorities in a Minority Service Area. If a white-owned or white-controlled CDE with its affiliates on a consolidated basis principally lends to minorities in a Minority Service Area then that white-owned or white-controlled CDE is a Minority Lender. I believe that a CDE's status as a Minority Lender should be an added and important consideration in the overall application scoring and approval process for NMTC authority and in determining how to prioritize allocations among CDEs deemed qualified to serve low-income communities.

I propose a five-prong test for Minority Lender status that considers

1. The CDE's and its affiliates' track record of serving Minority Service Areas;

2. The historic proportion of the CDE's and its affiliates' low-income, minority investment as compared to overall investment;

3. Proven management capabilities, coupled with a comprehensive understanding of Minority Service Area risk factors, needs and cultures;

4. The CDE's Minority Service Area outreach commitment and depth of relationships and networks with others that focus on serving Minority Service Areas; and

5. Community Reinvestment Act ratings, as applicable.

I endorse the concept of assigning preference to CDEs that have demonstrated that with its affiliates on a consolidated basis it has a track record of successfully serving minority communities in Minority Service Areas. I give little credence to forward looking statements or expressed intentions to serve minority communities in the future by those who have not engaged in significant minority investment or significant minority lending activities in the past. It is important to be clear; a claim of Minority Lender status should not by itself necessitate an allocation preference; service in a Minority Service Area should not by itself necessitate an allocation preference; lending activity principally to minorities on a consolidated basis should not by itself necessitate an allocation preference; rather, actual, demonstrated significant lending activity to minorities on a consolidated basis together with principal service in a Minority Service Area should prime some factors in the selection process for NMTC authority but should not necessarily be the main determinate of allocation. For example, a controlling entity may own a CDE that maintains a service territory with a predominantly minority demographic and makes qualified investments in Minority Service Areas, but such activity does not necessarily mean that the controlling entity and the CDE on a consolidated basis have a material commitment to serving minority communities.

Furthermore, Minority Lenders are perhaps better suited to achieve the stated goals of the NMTC Program. The pass through rate of total dollars awarded in NMTC authority to low-income communities may be higher if administered by Minority Lenders because such institutions are much more dedicated to the concept of using capital infusions as stimulus for additional lending in the communities they serve. Rather than a statutorily required pass through rate of 85%, Minority Lenders are more likely to achieve a pass through rate in excess of 95%. I am not suggesting that CDEs without a minority focus on a consolidated basis cannot achieve an equally robust pass through rate but I do feel that Minority Lenders will be more prone to put extra capital to work in the communities they serve.

I recommend that Minority Lender status be an added and important consideration in the overall application scoring and approval process for NMTC authority and in prioritizing allocations among CDEs deemed qualified to serve low-income communities.

Fourth, the New Market Tax Credit Program should support small business development in underserved markets.

HBC has devised a cost effective mechanism to deploy NMTCs in smaller amounts to smaller transactions in low-income communities through the use of the NMTC Fund. Although the NMTC Fund streamlines costs associated with legal, accounting, and administrative fees that have traditionally hampered smaller projects, more can be achieved at the federal level to incent the use of revolving loan pools, an important resource for small business development. NMTC Program requirements favor large transactions that assist a large, single borrower over transactions that utilize revolving loan funds that can assist several small borrowers. NMTC financing for single, large borrowers allows a CDE to more easily satisfy and maintain compliance with deployment requirements. CDEs that use revolving loan funds face greater deployment challenges, as the loan funds must be recycled in a regulatory compliant fashion. The complexity and burden of additional regulatory requirements together with the potential inability of CDEs to identify large, single borrowers in their investment pipeline chill the use of the NMTC Program for small business development and may yield less than full participation in a NMTC Program that places a large emphasis on deployment to single, large borrowers.

Conclusion

Mister Chairmen, thank you for holding this important hearing and for allowing me to testify on behalf of HBC. Before closing, I also want to thank each of you and your Committees for your continued support of HBC and the CDFI Fund and your support of our shared effort to serve communities that have been historically underserved.

This concludes my formal statement and I now will speak to questions.