Testimony of Blondel A. Pinnock
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Good Morning. My name is Blondel Pinnock, and I am President of Carver Community Development Corporation ("Carver CDE") & a Senior Vice President of Carver Federal Savings Bank ("Carver"), a leading community development financial institution which recently celebrated its 60th anniversary. Deborah Wright, Chairman and Chief Executive Officer of Carver extends her regards and we are honored to add our support and share our experiences with the New Markets Tax Credit Program.

Carver is the only African-and-Caribbean American managed thrift in the state of New York and with assets of $812 million; we are the largest in America. Nevertheless, Carver is a very small institution in the context of money-center financial institutions.

<u>Summary of GAO Report</u>
Carver's experience with applying for New Markets Tax Credits coincides exactly with the 2005-2008 period studied and the Bank's success rate is 33%. The success rate of all minority CDEs relative to all applicants was 9% according to the report.

- Applied in 2005 for the first time - awarded $59 million in 2006
- Applied in 2007 for the second time – no award received in 2007
- Applied in 2008 for the third time – no award received in 2008
- 2008 application reconsidered in 2009 based on ARR Act – awarded $65 million in 2009

Our $59 million NMTC allocation in 2006 allowed Carver, through its CDE affiliate (Carver CDE) the ability to expand and offer financing products and services that the bank, as a regulated financial institution, might not be able to offer directly. The NMTC award enabled Carver CDE to invest with community and development partners in economic projects with attractive terms, in some cases, below market interest rates. These projects provide economic revitalization to the communities that Carver serves and attracts additional capital to these underserved communities.

One of Carver CDE's NMTC loans was used to finance a health care clinic and at the same time preserve one of Harlem's architectural landmarks. Jazzmobile, a non-profit founded in 1964 as a pioneer organization committed to the preservation of Jazz musical genre, was housed in a historic building in Harlem. Jazzmobile was at risk of losing its historic headquarters building. Citicare, health care provider that has been serving residents of New York since 1982, approached Jazzmobile about acquiring the property and converting it to a community health facility. With the help of Carver CDE's

NMTC financing, Citicare was able to purchase and preserve the historic structure and develop it as the first and only free standing health facility in central Harlem. In addition, Citicare is allowing Jazzmobile to maintain occupancy of the building until they find a new and affordable home.

Through this project, Carver Bank and the NMTC Program have helped provide quality affordable medical services to a historically underserved, low-income community. Citicare handled more than 20,000 patient visits last fiscal year in a census tract that has an unemployment rate of over 19% and in which nearly half (49%) of all residents live below the poverty line.

The total cost of the Citicare renovation project was just under $8 million and Carver provided $6 million in the form of a NMTC loan. The debt was structured as interest only loan with a 5% interest rate.

Citicare Before and After Photos

Carver CDE also provided a $5.3 million pre-development loan to Abyssinian Development Corporation for the renovation of the legendary Renaissance Ballroom in Harlem which has been boarded up and vacant for over 30 years. Carver's NMTC loan will enable Abyssinian Development Corporation to bring the historic building back into service offering community and cultural space as well as up to 150 affordable condominium units. The project expects to create hundreds of construction and permanent jobs providing economic viability for a distressed area.

Carver provided $19 million of its 2006 NMTC allocation to finance a loan to Harlem Gateway Ventures, a New York based real estate developer who is developing a six story commercial facility in Harlem that will provide quality retail for the community and office space for two providers of vital community services and a third floor showroom for a national furniture retailer. The office spaces, which are in short supply in Harlem, will be occupied by Independence Care Systems, a non-profit home care patient services provider and the Association for Help for Retarded Children, a non-profit that serves more than 10,000 individuals with mental retardation and other developmental disabilities and their families. Utilizing NMTC allowed Carver to offer the developer a rate concession and other benefits that made the project possible and created as many as 100 construction jobs and 90 permanent jobs. The project is located in a low-income census tract that will benefit greatly from the services and job creation.

In addition, Carver has provided a $2 million loan to the Community Partnership Development Corporation to capitalize a revolving loan fund that provides no-interest pre-development loans and equity stakes to small minority-and-women owned housing builders and developers in New York City. The loans will promote the business growth of builders, including small, minority-owned contractors who need assistance with equity contributions and predevelopment costs. It is expected that the loans will contribute to the development of more than 800 homes or 1,000 new affordable and workforce housing units in New York City neighborhoods. These projects are expected to leverage millions of dollars in public and private sector resources and also create hundreds of construction jobs.

In just three years, Carver CDE has placed all of its initial $59 million NMTC allocation and financed 10 businesses, all of which are located in highly distressed census tracts within Carver's service area. While the average deal size of all ten projects financed with our 2006 allocation was $6 million, the impact to the community has been measurable and lasting. Smaller deals in this size range are no less impactful to our neighborhoods by way of jobs, resources and services provided.

According to the report, officials from minority CDEs identified the following as challenges that CDEs may face in applying for NMTC allocations:

- Lack sufficient pipeline to justify NMTC capital applied for
- No track record for both investing in LMI communities and in large projects that would generate significant impacts
- No capacity to complete high impact projects
- Complexity of NTMC transactions translates to higher transaction costs which is favorable to larger CDEs (minority CDEs tend to be smaller in size)
- High application costs (consulting fees, staff time, etc.) are a deterrent

Carver CDE responds to these challenges in the following way:

- **High application costs:** costs are much higher than estimated in report; from our experience and in speaking to fellow community banks, costs for outside consultants can run as high as $200,000.
    - We also would like to point out that even whether outside consultants are engaged or not, there is the cost of staff time; for minority CDEs which as the report notes, tend to be small in size and speaking for Carver CDE, filling out an application often means virtually shutting down an entire Lending or Loan Operations department to compile the necessary data for an effective application.

    - One reason for the gathering of data being so all encompassing is that we are asking people to physically go into files and extract information
    - There is a lack of resources to compile data
- **Lack of sufficient pipeline:**
    - Comments from reviewers of our 2008 NMTC application stated that "*The applicant is lacking in detail regarding specifics of pipeline deals*" I think this gets back to the issue of size and staff time. There is significant time involved in sourcing deals and beginning the due diligence process. For a small staff, this means that everyone is involved or as we say at Carver "all hands on deck". We believe that there is a clear advantage to larger CDEs with staff dedicated to completing the NMTC application.
    - Diversification of pipeline has also been an issue for Carver. We are limited to debt deals because that is what we have traditionally done so our track record speaks to this fact; equity deals require a specific skill set and focus; further the financial risks are too great for a bank the size of Carver or smaller to absorb, we simply could not afford the write-offs from non-performing equity investments
- **No capacity to complete high impact projects:** At $812 million, Carver is the largest minority CDE and community bank in the country and our deal size as a percentage of assets is capped at $13 million. This speaks to the limitations of smaller community banks as deal size is proportional in most cases to impact…a $20 million NMTC deal 99% of the time yield more housing units, community space, jobs, etc than a $13 million deal.

The reported noted that multiple factors appear to be associated with a CDE receiving an allocation:

- larger CDEs, as measured by asset size, appear to be more likely to receive NMTC awards while smaller CDEs are less likely to receive awards
- We agree with this assessment whole heartedly and can attest to the fact that for a small/minority CDE to complete an application as stated earlier takes up every available resource with our without a consultant. Invariably a small team stretched beyond limitations produces a different result than would be produced by a dedicated team or set of individuals focused on completing an application.
- after controlling for characteristics such as CDE type, asset size, and proposed projects, minority status is associated with a lower probability of receiving an allocation

  We believe that there is a direct correlation between size and minority status; it is simply a fact regardless of if statistics can back it up that minority CDEs are smaller in terms of asset size, number of employees, etc.. As a result, their ability to access larger high impact projects is limited by many factors including track record and the resources to develop a diversified pipeline. Their ability to access the capital markets and invest in their own CDEs is limited by their size and capitalization levels. However, this does not mean smaller deals have any less impact as stated earlier and can be noted from deals highlighted from our 2006 NMTC allocation.

  Other key findings from the report:

- according to industry association representatives, minority-owned banks have traditionally had a more difficult time accessing capital markets than their non-minority peers
- This is true in the case of Carver and in our assessment a result of our capitalization and liquidity ratios which correlates to our asset size.
- It was inconclusive whether it is the tendency of minority CDEs to be smaller that lowers their success rate or their minority status.
- Again, we believe that minority CDEs are by nature smaller so it is not their minority status that lowers their success rate. This is obvious in our opinion given there are no large minority CDEs to use as a basis for comparison. Minority CDEs are smaller as measured by asset size than their counterparts. This means they are starting from behind in all the categories reviewed on the NMTC application both quantitative and qualitative.
- legislative history for NMTC does not address whether Congress intended for minority CDEs to benefit directly from the NMTC program
- Agree that the intention was for low-and-moderate individuals and communities to benefit directly from the NMTC program so one would presume that the institutions in these communities who know these communities best would certainly have been given a preference.
- if Congress believes that minority CDEs have unique characteristics that position them to utilize NMTC at its maximum, then legislative changes should be considered
    - similar to provisions for certain federal grant programs, requiring that a certain port of the overall amount of allocation authority be designated for minority CDEs
    - pool of NMTC capital dedicated specifically for community banks (minority banks in most cases)
    - offer priority points to minority CDES that apply for NMTC allocations

Carver agrees with these recommendations but feels the following roadblocks still need addressing:

- track record, pipeline, capacity to complete large high impact projects, high application cost, transaction cost relative to deal size
- While we cannot offer solutions to each roadblock, one of the most pressing issues in our opinion particular in this economy is pipeline. Our proposed solution on how NMTC applicants ensure a continuous project pipeline that will not close down in periods of market volatility would be to:
    a) cultivate a scalable and diversified portfolio that is less tilted toward real estate
    b) grow the secondary market for reselling NMTC
    c) pool venture risks in an equity investment fund
    d) utilize NMTC to support greater equity investment
    e) refinance developers' existing obligations, which will free up cash flow to become working capital

Other suggested solutions to make the CDFI capital programs more accessible to minority CDEs and community banks:

1. Make small cdfi banks a priority for CDFI Fund financing

   This goal could be achieved by targeting institutions that are headquartered or have significant facilities in distressed communities or who serve this population in an operating and programmatic basis, rather than a project to project basis. There is ample precedent for such a practice. Most CDFI NOFA's now have built in preferences (in the form of extra credit points). Recent examples include targeting geographic areas of higher distress, such as FEMA Disaster Areas, after Hurricane Katrina.

   Today the lion's share of dollars granted in the New Markets Tax Credit Program, for example, is awarded to large real estate developers, money center banks/investment banks and large national non-profits. In some cases the same recipients have been awarded significant ($100 million) allocations annually for five or more years.

2. Streamline the application process (or provide more meaningful technical assistance in completing it)

   Smaller community banks and non-profits generally do not have the infrastructure to collect the extensive data and analysis required for cdfi applications and follow up monitoring. This results in lower scores and missed financial and revenue generating opportunities. Remedies include:
   -- providing funding/grants for hands on assistance during the "ramp-up" period prior to application process (i.e., grant to become CARS rated (CDFI assessment and rating system operated by the Opportunity Finance Fund recognized by the CDFI, foundations and other investors); provide technical support for compliance reporting and data mining).
   --providing favorable treatment to major financial instructions that partner with community banks to improve application readiness, thereby leveling the playing field.