# Testimony of Dorothy Bridges
# CEO & President of City First Bank of DC
# Before the Financial Services Committee
# United States House of Representatives
# March 9, 2010

**Chairman Frank, Ranking Member Bachus and members of the Committee, good afternoon and thank you for inviting me here this afternoon to discuss the important work of Community Development Financial Institutions (CDFIs) in the context of the current economic crisis. My name is Dorothy Bridges. I am CEO and President of City First Bank of DC. We are a profitable regulated commercial bank with a community development mission. Since the bank was established, we have been certified as a Community Development Financial Institution - a distinction that has been critical to the success of City First. We currently serve the Washington DC metropolitan area, with a focus on low-wealth communities in the District of Columbia. I will keep my remarks brief, but respectfully request that the full text of my testimony be submitted for the record.**

**City First is a member of the Community Development Bankers Association (CDBA), which represents national and state chartered banks and thrifts whose primary mission is to serve the underserved neighborhoods and communities in their trade areas. I also serve as a member of the American Bankers Association's Board of Directors.**

## Role of CDFI Banks

**As of the end of 2009, there were 62 certified CDFI Banks with approximately $17.37 billion in aggregate total assets and a median asset size of $163 million.[1] While we account for less than 10% of the total number of CDFIs we comprise more than 50% of the total assets of the CDFI industry. Significantly more of our business activity is concentrated in low to-moderate-income communities than traditional financial institutions. As certified CDFIs, we target at least 60% of our total lending and business activities to low-and-moderate income (LMI) communities and people.**

[1] Source: FDIC call report data at 12/31/2009

**An analysis prepared by National Community Investment Fund (NCIF)[2] of Home Mortgage Disclosure Act (HMDA)[3] and FDIC data found that CDFI Banks have nearly seven (7) times more branches in LMI areas than traditional banks and four (4) times more HMDA loans in LMI areas as a percentage of total loans than traditional banks (using a traditional bank peer group of less than $2 billion in total assets). Moreover, HMDA reportable loans provided by CDFI banks tend to be more prudently underwritten, more fairly priced, and more suitable for the borrowers. A deeper analysis by NCIF of a subset of CDFI banks found similar ratios for other types of lending in LMI areas. With permission from the Chairman and Ranking Member, I ask that the analysis conducted by NCIF be submitted for the hearing record.**

**As CDFI Banks, we focus on making a difference in the lives of tens of thousands of people in the communities we serve. In many cases, our members are often the only source of credit and financial services in these communities. Our lending has a ripple effect throughout the community far beyond our direct customers. We have observed that when we make loans to build and renovate housing or commercial development so that people have a decent place to live, work and shop, it sparks further revitalization.**

**For example, Columbia Heights is a community where City First has had positive impact. This community had been devastated by the civil disturbances of the 1960s and for more than 40 years had been all but abandoned by commercial businesses and retail establishments that were once fabric of the community. In 2005 we invested $14.4 million to finance the restoration of the Tivoli Theatre as an anchor to a broad scale development project known as Tivoli Square. The project included a Giant Food store, housing and other commercial and retail space. Our NMTC authority provided by the CDFI fund was the source of this investment. Today, this project is a huge success for the community, accounting for increased jobs for local residents and other economic benefits such as restoring the local tax base. The most striking outcome however is the renewed vitality of the neighborhood and the demonstration to other retailers, the buying power of the diverse and densely populated Columbia Heights community.**

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[2] National Community Investment Fund (NCIF) is a non-profit private equity trust that provides equity and deposits into depository CDFIs and conducts research on the performance of the industry.

[3] Source: National Community Investment Fund, Social Performance Metrics [SM], using HMDA data for the period ending 12/31/2009

**As CDFI banks, we also recognize the critical need for small business lending so that people will have jobs.**
**For example, in 2009 we made loans to 14 small businesses, two of which were start ups. These small businesses created or retained 54 jobs. The businesses we lend to, in turn, act as magnets that draw other businesses into the community.**

## Managing a CDFI Bank in the Economic Crisis

**Chairman Frank, ranking member Bachus and others on the committee, I really appreciate your public statements that community banks, particularly CDFI banks, were not a part of the problem that led to the current economic crisis; however, our communities are feeling the effects of the recession more than the rest of the banking industry.**

**Because of this disproportionate level of portfolio stress, CDFI banks have higher median non-current loans and charge off expenses than our traditional bank peers. FDIC call report data for the period ending December 2009 finds that CDFI banks reported a median Net Loan Charge-Offs rate of 1.11% and a median Non-Current Loan Ratio of 3.82%. By contrast, a peer group of traditional banks (those with less than $2 billion in total assets) reported a Net Loan Charge-Offs rate of 0.42% and a Non-Current Loan Ratio of 1.71%.**

**Due to the lack of past investments, our communities are more difficult and expensive to serve than other markets. Products are often more customized, loan sizes are smaller and less profitable and higher loan loss reserves are often necessary. FDIC call report data for the period ending December 2009 also showed that the Median Efficiency Ratio of CDFI banks was 83.85%, which is 13.22% higher than the efficiency ratio of traditional banks (using a traditional bank peer group of less than $2 billion in total assets that have a median efficiency ratio of 73.87%). The Median Return-on-Assets (ROA) was 0.02% compared to 0.48% of the same peer group. Furthermore, ROA is significantly more distressed than the peer group because we prudently take larger loan loss provisions due to the deep recession's impact on vulnerable communities in which we work.** [4]

**An obvious question is why CDFI banks are in these communities at all. The answer is that we believe our communities deserve the same opportunities for economic success as mainstream communities and that credit—business credit in particular—is the lifeblood of the economy and**

[4] Source: ibid.

**essential for recovery. CDFI banks are usually the only private sector entities that will provide such credit on sustainable terms. During the boom years there was more credit available, but much of this activity was not sustainable. Today the predators have fled and many traditional banks have curtailed their lending as they adopt more prudent underwriting to curb regulatory concerns.**

**Demand for CDFI bank services has been strong due the factors noted above. Yet, our ability to lend is not at the level our communities need and we would prefer. As the recession has continued over an extended period, CDFI banks have been increasingly unable to fully respond to the demand due to portfolio management challenges and restrictions imposed by regulators. The result is a tightening of credit and suppression of economic activity. As an example, we are seeing very conservative loan loss provisions, and decreased valuations based primarily on distressed market appraisals. Some CDFI banks have little choice but to dispose of loan assets at fire sale and foreclosure prices without regard to the fact that some of these properties may be cash flowing. The end result is not only a decline in profitability -- but also a reduction in capital ratios. Further exacerbating the problem is the encouragement by regulators to maintain higher capital ratios and raise new capital at a time when investor interest is at its lowest in decades.**

**Liquidity is also a challenge as regulators classify CDARS deposits as brokered deposits despite strong evidence that they provide a more stable source of funding for CDFIs rather than "hot" money which disappears when rates change. For City First Bank, most of the CDARS deposits are our own mission-related deposit customers who strive to balance their commitment to our mission with safety. We have sustained a 90% retention rate of our CDARS customers.**

## Impact of the CDFI Fund on the CDFI Banking Sector

**The CDFI Fund has played a critical role in the growth of City First Bank and our ability to serve our communities. We have participated in all three of the major programs of the CDFI Fund with significant success by any measurement. Since we began operations in 1998 our partnership with CDFIs has enabled City First Bank to leverage many times the amount invested to directly support lending and other business activity in our communities. Our loans to small businesses and nonprofit companies have helped to create or retain 2,356 jobs. Through our participation in the FA and NMTC programs, 5,120 children have received educational benefits from charter schools financed by City First Bank.**

**CDFI Fund resources have also enabled City First and its affiliates to finance 3,994 special needs, transitional and affordable units of housing and we have facilitated financing for neighborhood projects that resulted in the development of over 2 million square feet of commercial real estate space that sparked revitalization and created 1,017 construction and 718 permanent jobs.**

**The Bank Enterprise Award Program or BEA, has been instrumental in our ability to support non-bank CDFIs. As you may know, these community based loan funds rely upon government grants, charitable contributions and socially conscious investments to raise capital, and they in turn, make loans, generally at below market pricing, to borrowers who do not qualify for traditional bank financing. Because of the BEA program, in 2009 City First made investments of $6 million to four CDFIs. Our investments had favorable terms – below market interest rates and interest-only payments. We were only able to offer this product because these loans are eligible for an after the fact award, that in effect, reimburses us for the interest loss we would otherwise suffer. The CDFIs are generally able to leverage our investments at a ratio of 2:1 – turning the $6 million into $12 million when considering other charitable resources**

**The $270 million in NMTC allocations awarded to City First Bank's affiliate, New Markets Advisors, LLC, have also leveraged millions more in private investment capital to support financing of these high impact projects**

**Because of the size of the projects we finance through our New Markets Tax Credit authority, City First has been a major player in the redevelopment of several low income communities in Washington, such as Congress Heights and Columbia Heights. In Congress Heights, we invested in the development of a 110,000 square foot multi-tenanted community facility known as THEARC. It is the only such facility in the community – a community that is characterized by high poverty and unemployment rates, high rates of women headed households, a concentration of children under the age of 18. Each year, over 7,000 children are served at THEARC. Our financing of $9.4 million allowed major educational and community service providers like Children's Hospital, Covenant House, the Boys and Girls Club and Washington Ballet, to operate programs in southeast Washington in space built to suit their needs and at low lease rates that effectively subsidized their operations. These subsidies made it possible for poor children that otherwise would not have been able to afford the fees, to participate in their programs and receive vital services. In the long term, the favorable NMTC financing will**

**result in permanent project equity of over $2 million to THEARC, which will mean lower operating costs in perpetuity.**

**City First Bank had a profitable year in 2009, but that does not mean we have not been affected. The current economic downturn has had a serious impact on our communities in Washington, and, frankly, threatens many of the gains the communities have seen over the past decade. Even our strongest borrowers with good liquidity and equity are reluctant to begin on new projects, fearing that they will be unable to sustain their businesses or attract new customers. As a result, City First has been forced to expend considerable resources working out problem loans and on credit administration.**

**In 2009, our new loan originations dropped from about $35.4 million in 2008 to $25 million and we are seeing more deterioration in our loan portfolio. However, the bank was profitable because of the support we received from the CDFI and fee income we generated through our NMTC program. Nevertheless, we financed five public charter schools that together, will increase enrollment by an additional 350 students. And our loans last year financed 278 units of housing; 245 of those were developed and priced to be affordable to low and moderate income families.**

**<u>Recommendations on Legislation Impacting CDFIs</u>:**
**<u>FY 2011 Appropriations</u>: We strongly support the CDFI Coalition's request to modestly increase FY 2011 funding for the CDFI Fund to a total of $300 million. We are grateful that the Obama Administration has provided strong funding for the CDFI Fund in the FY 2010 budget and American Recovery and Reinvestment Act of 2009 (ARRA) stimulus act in recognition of the important role CDFIs will play to promoting recovery among people and in places hit hardest by the recession.**

**We are, however, deeply concerned that the Administration's FY 2011 budget eliminates funding for the BEA Program. Last year Congress appropriated $25 million for BEA. We believe the BEA Program has been highly effective in providing incentives for banks to: (1) work in the most distressed census tracts in the United States; and (2) invest in all types of CDFIs. The BEA Program is particularly important to CDFI banks. Over the past 6 years, nearly 77% of all BEA monies have supported CDFI banks. We urge the members of this Committee to support allocation of at least $25 million of the requested $300 million for the BEA Program. The original authorizing statute required at least one-third (33%) of all CDFI Fund program monies to be allocated to BEA. In the years since the original authorization ended, the share of funding the BEA has received has**

**gradually shrunk. In FY 2010, BEA was appropriated $25 million. This represents less than 10% of the CDFI Fund's entire $247 million appropriation. We strongly urge the members of this Committee to restore funding for the BEA.**

**Community Development Capital Initiative (CDCI): We applaud the Administration's efforts to recognize the important role that CDFIs play in underserved communities by creating CDCI. This program will infuse affordable, patient capital into depository institutions that will preserve depository CDFIs and provide capital to support lending for new business and economic development lending. We have urged the Treasury Department and regulatory agencies to administer this program in a manner that: (1) maximizes participation by insured CDFIs and recognizes the national interest in preserving financial institutions dedicated to LMI communities; and (2) provides capital in an expeditious manner. In the case of financial institutions experiencing stress, the CDCI protects tax payers by requiring a dollar-for-dollar subordinated private equity match of Federal dollars. The CDCI program will help create healthier depository CDFIs. We have urged and will continue to advocate that the U.S. Treasury extend the CDCI to include tools that will assist non-depository CDFIs with liquidity and lending resources that will help spark job creation and economic revitalization in LMI communities.**

**Certificate of Deposit Account Registry Service (CDARS): CDBA members operate in neighborhoods with modest discretionary income and limited means to raise deposits to meet credit demand. Thus, as an integral part of our strategy, we raise deposits from civic-minded and socially-motivated individuals and institutions that are outside of our target neighborhoods -- but within our defined market areas. We find investors are willing to place large deposits in a CDFI bank if they know their money is safe. The Certificate of Deposit Account Registry Service (CDARS) has become the preferred vehicle among social investors for placing deposits in CDFI banks. Currently, CDARS reciprocal deposits have been swept up into a broad regulatory effort to restrain the use of conventional brokered deposits, even though CDARS reciprocal deposits are the opposite of volatile and costly "hot money." Such treatment harms the ability of CDFI banks to serve their communities by reducing liquidity. Our CDARS Reciprocal deposits share the same characteristics as our other core deposits. In most cases, the CDARS Reciprocal customer of a CDFI bank is a civic-minded individual or institution that is already a customer or is located within our market area. Nationwide 80% of CDARS placements are within 25 miles of a branch location. No longer classifying CDARS as**

**brokered deposits would help CDFI banks continue to attract funding from socially-motivated investors that we need to serve our communities.**

**<u>Jobs Creation & Preservation during the Recession</u>: In the event there any new stimulus or jobs bills are taken under consideration this year, we urge Congress to include additional supplemental appropriations to the CDFI Fund. Last year the members of this Committee and the Congress voted to support $100 million in supplemental appropriations to the CDFI Fund in the American Recovery and Reinvestment Act of 2009 (ARRA). The purpose of this funding was to spur job creation and economic activity in LMI and minority communities experiencing the highest levels of unemployment, poverty and economic distress. Under the able leadership of Director Donna Gambrell, the CDFI Fund was able to announce ARRA awards within 60 days of enactment and distribute all awards within less than two months. The CDFI Fund's performance and speed in getting money out on the street far surpassed that of most Federal agencies. Due to strong demand created by the contraction of credit from traditional sectors, CDFIs were able to turn around and quickly deploy these resources in the form of new loans, investments and needed services such was foreclosure prevention and financial education. Given the demonstrated performance of the CDFI Fund and CDFIs under ARRA, we strongly urge Congress to include additional supplemental appropriations to the CDFI Fund in the event a new jobs bill is considered.**

**<u>CDFI Fund Authorizing Statute</u>: On March 3, 2010, the CDFI Fund issued a public notice seeking comment on needed changes to its authorizing statute. Over the coming weeks, CDBA will study the statute and make formal comments. While we are not prepared to make formal recommendations today, my remarks are guided by the underlying principals that CDBA believes: (1) the programs created by Congress in the CDFI Fund's authorizing statute are sound and well designed; and (2) the CDFI Fund is well managed and its programs effectively implemented. Any written comments submitted by CDBA will likely focus on refinements only. It should be noted that even in the absence of a reauthorization bill, we believe the programs of the CDFI Fund will continue to be effective in facilitating access to capital in LMI communities.**

1. **<u>Bank Enterprise Awards (BEA)</u>: The members of CDBA strongly believe that BEA Program has been critically important to the growth of the CDFI bank sector over the past 15 years. As noted above, certified CDFIs have been the primary beneficiaries of the program for the past six years. We believe the structure of the program has been effective in targeting resources to support**

**lending, investments and services in the most distressed communities in the nation. We have concerns about many of the potential changes outlined in the March 3 notice. CDBA will submit detailed comments and recommendations on the issues and questions raised in the notice on or prior to May 2.**

2. **<u>CDFI Program</u>**
   a. **<u>Institutional Diversity</u>: We believe the CDFI Financial and Technical Assistance Programs should support the full range of CDFI institution types. Over the history of the CDFI Program, the statute and selection process have unintentionally resulted in some CDFI types having a competitive disadvantage in applying for awards. We believe that Congress should explore strategies to address these discrepancies.**
   b. **<u>Matching Funds</u>: CDBA recommends the Committee revisit the statutory matching funds requirements. We believe matching fund requirements have helped leverage private sector capital to the CDFI field and should be continued. Refinements, however, are needed to: (1) reflect the current weak condition of capital and philanthropic markets which are expected to take many years to fully recover; (2) give the CDFI Fund the authority to waive or adjust the matching funds requirements in times of economic distress; (3) make the form of matching funds more flexible; (4) expand the timing for raising the matching funds; and (5) allow equity investments made by the CDFI Fund into certified banks and thrifts to be considered as regulatory Tier 1 capital.**

3. **<u>Certification</u>: The CDFI industry has grown and changed significantly since the CDFI Certification requirements were adopted in 1995. While the certification application has evolved, the core certification tests and how they are applied has remained largely unchanged. We know far more about the CDFI industry today than we did 15 years ago. CDBA submitted a series of the recommendations to the CDFI Fund in 2007 and 2008 to update the certification process. Generally, the recommendations focused on: (1) strategies to streamline and reduce paperwork burden; and (2) amending some of the eligibility tests to better take into consideration distinctions in the business models, capital structures and operating environments of different types of CDFIs.**

4. **<u>Liquidity Enhancement</u>: The recent meltdown in the financial services sector and the resultant credit crunch have highlighted and exasperated the systemic lack of liquidity management infrastructure and tools. CDBA believes that the CDFI industry needs to develop a more robust set of tools, strategies, and institutional infrastructure to manage liquidity. We urge Congress to update the Capitalization Assistance to Manage Liquidity of the CDFI Fund's authorizing statute to achieve this goal. Needed updates include: (a) elimination of the award cap, matching funds, and restrictions on participation in other CDFI Fund programs are needed to grow CDFI liquidity enhancement tools and infrastructure organizations to a sufficient scale to be effective; and (2) ensure the eligible uses of funds is sufficiently flexible to support a variety of strategies and applicants.**

5. **<u>CDFI Advisory Board</u>: We believe the CDFI Advisory Board should include representatives from each major type of CDFI (e.g. banks and thrifts, credit unions, loan funds, venture, and micro-lending) to ensure the CDFI Fund receives input that will enable it to effectively serve the entire industry. The statute currently does not allow the CDFI Fund Advisory Board to achieve this balance.**

**<u>NMTC</u>: We recommend that the statute authorizing the NMTC Program be clarified to facilitate investments into Community Development Entities (CDE) that are CDFIs. While the statute allows this activity, it is not clear whether such activities should be exempt from the "direct tracing" requirements. Without such clarification, using NMTC investments to support this activity is onerous and costly and effectively negates the ability of the NMTC to be used to invest in CDEs that are CDFIs.**

## <u>Conclusion</u>

**CDFI banks play a critically important in the economic life blood of the communities we serve. I thank Chairman Frank, Ranking Member Bachus and members of the Committee for the opportunity to tell you the story of City First Bank of DC, the work we do, and people served. The communities that CDFI banks serve are traditionally disproportionally impacted by negative economic trends. The members of the House Financial Services Committee can help support the important work of CDFIs by:**

- **Recognizing the important role CDFI play in restoring the economic health of low wealth communities;**

- **Recognizing that a small amount of Federal dollars create big impact in local communities and supporting our appropriations request of $300 million for FY 2011 including at least $25 million for the Bank Enterprise Award Program; Furthermore, in the event the Congress sees fit to consider another stimulus or jobs bill this year that resources are dedicated to support CDFIs working in the communities hardest hit by the recession;**
- **Providing oversight to ensure the CDCI Program is administered in a manner that: (1) maximizes participation by insured CDFIs and recognizes the national interest in preserving financial institutions dedicated to LMI communities; and (2) provides capital in an expeditious manner;**
- **Understanding the challenge CDFI Banks face in managing liquidity as CDARS deposits continue to be classified as brokered deposits;**
- **Working to ensure the New Markets Tax Credit Program maximizes the opportunity for investors to support CDFIs; and**
- **In considering any potential reauthorization issues, recognizing that the existing programs of the CDFI Fund are sound, well designed, effectively implemented and create significant positive impact in needy communities.**

**In conclusion, the members of the Committee should recognize the serious toll this deep recession has taken on low-wealth and minority communities. Realistically, it will likely take years to revitalize neighborhoods devastated by predatory lenders. We seek to work in partnership with the House Financial Services Committee to ensure that the communities we serve have a voice and are not left behind in the economic recovery.**