COLORADO ENTERPRISE FUND

CRA Testimony on behalf of Colorado Enterprise Fund
Presented by
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August 17, 2010
Los Angeles, CA

On behalf of Colorado Enterprise Fund, I appreciate the opportunity engage in the discussion on modernizing the Community Reinvestment Act. Colorado Enterprise Fund is a CDFI that has been helping small businesses across the State of Colorado for nearly 35 years. We provide access to affordable, flexible loan capital and offer advisory services to build the management capacity of business owners and entrepreneurs. Our goal is to provide economic opportunity to low and moderate income individuals by catalyzing business formation and growth as the economic engine for healthy communities in our State.

The Community Reinvestment Act overall has fostered community and economic development well. In fact, it has supported countless organizations, strategies, and initiatives. It has proven to be an effective law because it has created economic opportunity by connecting underserved markets to capital and financial services.

However, a revitalized approach to CRA could improve it by reflecting new models of how financial institutions do business, the changing needs of their customers, and the increasing reach and sophistication of their partners. I will be discussing CRA as it relates to the needs of small business, since this is the area in which I work and which I believe needs increased focus. The current economic crisis, which started as an implosion in the home mortgage market, now has become a calamity for small businesses, which are the mainstay of jobs and economic vitality in this country, and I believe CRA can help address this calamity.

In addition, these conversations about CRA should dovetail with the findings of a series of over 40 meetings held across the country this year by the Federal Reserve on *Addressing the Financing Needs of Small Business* which identified issues that have impacted the supply of credit to small business. When the bar for safety and soundness of lending to small business is raised so high as to make it impossible to obtain a loan, economic development is halted. Both sides of the house need to be talking to each other so that different government stakeholders are not sending conflicting messages, as has been experienced in the current environment.

Lack of access to credit for businesses inhibits economic development and is a destabilizing factor in communities. The Small Business Financing Meetings of the Federal Reserve identified credit gaps that could be addressed by updated CRA policies. These gaps include the need for lines of credit and working capital, refinancing ballooning or maturing loans, small dollar loans under $200,000, patient capital for equipment and staffing-related needs that take time to generate increased revenues to service debt, and loans to distressed industries like construction, retail and service businesses. Start-up capital is almost impossible to obtain but in high demand as unemployed workers are looking to start businesses.

One possibility for addressing these credit gaps is to give CRA credit for SBA 7a loans in the same way that SBA 504 loans over $1 million already are eligible for CRA for the purchase of equipment or real estate. Encouraging banks to make more 7a loans would help businesses obtain financing for working capital, business start-ups and acquisitions, and certain debt restructures. The substantial guarantee offered by the SBA would support the banks' need for safety and soundness while helping the business obtain loan capital.

Another factor identified in the Federal Reserve's Small Business meetings was the increased use of alternative financing sources by businesses that are denied credit or perceive that they will be denied. Examples include the increased use of credit cards and personal resources such as retirement accounts, adjusting terms on receivables and payables, and using expensive factoring -- none of which are healthy for long-term and widespread use to foster economic development.

CDFIs present the option of patient, responsible and flexible business capital. As private-sector, public-purpose financial institutions – we are able to successfully execute deals perceived as "high risk" and provide access to capital in times of economic turbulence. Banks have been a critical partner with CDFIs in that effort. A modernized CRA that encourages financial institutions to expand their investments in CDFIs will extend the reach of both banks and CDFIs to foster community and economic development.

Colorado Enterprise Fund has had numerous successful bank partnerships with large national and regional banks, as well as small community banks that have provided us with investment capital for loans to small businesses for many years. To our bank partners, these investments are an efficient means of reaching markets or populations that are difficult for them to service, due to various economic and regulatory constraints, especially in "limited scope markets" where they have a smaller presence.

A new CRA should also give banks CRA credit for a range of new financing strategies and for continuing their long-term investments in a CDFI. A wonderful example of an effective new strategy that could be adapted in this context is the Colorado Credit Reserve, a capital access program that has provided a resource to fund loan loss reserves for CDFIs and leveraged these dollars by a factor of over 10 to one for the benefit of small businesses. Although this program was funded by the State of Colorado, it has provided a successful model for the extent of impact that could be replicated as a CRA strategy for banks to employ in support of CDFIs.

The need for technical assistance and business advisory services is an area that could use more support in a revitalized CRA. Home ownership counseling is an accepted and widely supported service identified in CRA recommendations. Technical assistance will help businesses better prepare for bank financing and long term viability, thus promoting sustained economic development. CRA could develop mechanisms to support community resources and CDFIs who provide business TA.

Lastly, I do not agree with some who advocate that CRA should be more permissive of investments in multi-regional funds or national CDFIs, regardless of their location or whether that national CDFI operates in the institution's assessment area. Local partnerships that address specific needs in a community and which understand the local market are the most effective, and only after banks have adequately responded to needs in their assessment areas should they be encouraged to invest beyond that area. Investments in national intermediaries are not guaranteed to trickle down to local organizations, and if they do, they likely will include an added layer of cost to compensate the national intermediary, raising the cost to the local entity.

Thank you for holding these hearings and for allowing me to comment from my perspective as a CDFI supporting small businesses. I believe that the regulatory agencies can contribute significantly to sustainable economic recovery by updating the CRA regulation. I am eager to engage with you in further dialogue on this subject and commend the regulatory agencies for opening the topic to community input. Thank you again.