FINANCIAL SERVICES AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 2012

WEDNESDAY, MAY 25, 2011

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Richard J. Durbin (chairman) presiding.

Present: Senators Durbin, Moran, and Kirk.

SMALL BUSINESS ADMINISTRATION

STATEMENT OF HON. KAREN G. MILLS, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION

OPENING STATEMENT OF SENATOR RICHARD J. DURBIN

Senator DURBIN. Good morning. I'm pleased to convene this hearing of the Appropriations Subcommittee on Financial Services and General Government. Today we're going to examine funding provided for small business and community development programs under our jurisdiction.

I welcome my Ranking Member, Senator Jerry Moran of Kansas. And other colleagues may join us during the course of the hearing.

Also, we welcome the Small Business Administrator, Karen G. Mills and the Director of the Department of the Treasury's Community Development Financial Institutions Fund (CDFI), Donna J. Gambrell. I'll welcome the second panel of witnesses in short order.

In the face of recent pressure to reduce the deficit, we have tried to focus on those programs which make a difference and have an impact on communities. I have supported the Small Business Administration (SBA) and the CDFI Fund programs because I think they produce real outcomes. But, we continue to ask the hard questions and demand proof that is what is actually happening.

For the SBA for fiscal year 2011, we were able to maintain funding at the 2010 level, despite the need to make some painful cuts in other parts of the budget. Put simply, small businesses, we believe, are the key to economic recovery. Small businesses create nearly 2 out of every 3 new jobs, employ one-half the Nation's private sector workforce, and generate 44 percent of private payroll. The SBA has been on the front line of this economic crisis, working to help small business owners. Small businesses have faced some difficulty gaining access to capital, and turned to the SBA for help.

The SBA overseas a loan portfolio of $85 billion and, in a typical year, makes or guarantees more than $20 billion in loans.

On our second panel, Mr. Warner Cruz will tell us about how the SBA helped his small business not only stay afloat during the credit crisis, but also helped him to make a major expansion of the business, including a renovation of an abandoned building in Rolling Meadows, Illinois. Mr. Cruz's business, restoring damaged homes and businesses from flooding, fires, and storms—unfortunately, for the people who were owners, but fortunately for him—is now flourishing with 85 full-time staff and many part-time staffers.

SBA programs also supported counseling services for budding entrepreneurs and small business owners. I'm concerned about proposed cuts in those programs, which we'll talk about during the hearing.

The budget request for 2012 for the SBA is $985 million. Now, that's a $256 million, or 35 percent, increase in the current level. I said to my staff when they said that to me, "Can you be honestly realistic about that? A 35 percent increase in 1 year, in light of what we're going through?" Much of the funding has become necessary for the SBA Business Loan Program and disaster loan programs to stay operational. Some of it reflects accounting realities, which we'll get into here. We'll talk about those.

The CDFI Fund for fiscal year 2011 is provided $227 million. I placed a high priority on maintaining investment in this fund because of its unique ability to leverage private sector investment in community development, like affordable housing, retail development, and community centers, as well as lending to small businesses. Federal grants for the CDFI Fund have never been earmarked for specific projects. Instead, the Treasury makes competitive grants that can best demonstrate a capacity to help communities.

With just a small amount of seed funding, the CDFI Fund can transform communities. Nationwide, the CDFI Fund leverages an average of $13 for every Federal $1 invested. In 2010, Federal grants helped to create or maintain more than 80,000 jobs. I've got quite a bit of information here about the impact of the CDFI Fund. I visited the King Legacy Apartments in a tough part of Chicago which used to be a vacant, pretty ugly lot—you get to see it here in before and after photos. I can tell you, from driving through the area surrounding it, that this really made a difference in terms of people's attitudes toward their community, toward their neighborhood. And let me show one other example of a CDFI Fund investment in Illinois—before-and-after pictures of Wilson Yard, a major project in Chicago's uptown area. It was built on the site of a former rail yard and is now a mixed-use development. And you'll see, off to the right, a huge Target store, which took over that vacant lot, along with other businesses. And of course, former Mayor Daley's pride and joy, rooftop greenery. We have a lot of that in Chicago. We're very proud of it. And the CDFI Fund helped to make that a reality.

King Legacy Apartments area—before.

King Legacy Apartments—after.

Wilson Yard—before.

Wilson Yard—after.

Senator DURBIN. On our second panel, we're going to hear, after we've listened to the testimony of our two first witnesses, from Warner Cruz, whom I mentioned earlier—he was the Illinois small business person of the year for 2010 and an SBA borrower; Calvin Holmes, president of the Chicago Community Loan Fund who will tell us about the impact of the CDFI Fund in Illinois; and Ray Moncrief, from Kentucky Highlands, an investment corporation based in London, Kentucky, will talk about participating in the CDFI Fund and the SBA microloan program.

And at this point, I want to turn it over to my colleague Senator Moran, who told me he had three hearings at 9:30 a.m. and made this one a priority.

Thank you.

STATEMENT OF SENATOR JERRY MORAN

Senator MORAN. Mr. Chairman, thank you very much.

I've already instructed my staff that next year we're going to have visuals, as well. You have upped the ante. Although, I doubt any of ours will show greenery on the rooftops.

I thank you for calling this hearing. And I welcome our witnesses. Nice to see both of you, and I look forward to your testimony.

The American economy is facing many difficult challenges, and we need to get our country moving again. It seems to me, in two aspects of getting our financial house in order, moving toward balancing the budget, reducing our deficit spending is an important priority. At the same time, we need to grow our economy. And we need to make certain that the opportunities are there for small business and entrepreneurs to succeed.

And so, while much of the discussion in the Congress today is about reduced spending—and I support that effort—there's also another, in fact, perhaps more enjoyable way of helping us reduce our deficit, and that's putting people to work. And so, I'm particularly interested in finding the right balance with your agencies to see that we don't spend money that we shouldn't be spending, that we don't—that we're not inefficient or waste money. But, I also want to make certain that the tools are there for business to grow to succeed and, in the process of pursuing that success, put lots of Americans to work and put food on families' tables.

So, I look forward to hearing your testimony.

One of the things, Ms. Mills, that I'm particularly interested in is the role in regard to disasters. I just returned from Kansas over the weekend—Reading, Kansas—saw the tornado damage there; a small town of about 270 folks with half the homes destroyed. As a Member of the House of Representatives, I represented Greensburg, Kansas, a town totally destroyed by an F5 tornado, in which the SBA played a significant role in helping for recovery. And of course, Kansans, and all Americans, extend their sympathies and concerns to the people of Joplin and places across our country that have experienced tremendous storm damage. And so, I am interested in hearing your thoughts about your appropriations request, particularly as they relate to weather-related disasters that we're currently experiencing.

And again, Mr. Chairman, thank you for the opportunity. I look forward to hearing the testimony.

Senator DURBIN. Thank you, Senator.

Both of our witnesses will have 5 minutes each for an opening statement. Administrator Mills, please start.

SUMMARY STATEMENT OF KAREN G. MILLS

Ms. MILLS. Thank you. Chairman Durbin, Ranking Member Moran, and members of the subcommittee, I'm very pleased to be testifying before the subcommittee.

Small businesses, as the Senators have just described, are the backbone of our economy. They create 2 out of every 3 jobs, and more than one-half of working Americans own or work for a small business.

The SBA is a small agency, but we have a big mission. We put the maximum possible resources directly into the hands of small businesses, focusing on access to capital, contracts, counseling, and disaster assistance. Last year, we helped more than 50,000 small businesses get capital to grow and hire. We put about $100 billion in Federal contracts get into the hands of small businesses. We counseled more than 1 million small businesses in every State across the country. And as we speak, as the Senator from Kansas mentioned, SBA employees are on the ground, in Missouri, Kansas, Alabama, and elsewhere, assisting victims of the disasters, including some deployment that we just did overnight, to Oklahoma, where there were additional tornados.

This is the worst tornado season, as you know, in nearly six decades. We are there to help homeowners, renters, and business owners with long-term, low-interest loans. And even if a business wasn't damaged directly, but the customers are suffering and not coming into the business, the SBA can help with business interruption loans.

We're doing this efficiently. The turnaround times for disaster applications are about 10 days. After Hurricane Katrina, they were about 70 days. So, we're down from 70 days to 10 days.

We put these resources into the hands of small businesses while providing the taxpayers a big bang for their buck. For example, after credit froze in 2008, the American Recovery and Reinvestment Act (ARRA) and the Small Business Jobs Act allowed us to support more than $42 billion of SBA loan guarantees into the hands of small business, at a subsidy cost of $1.2 billion. Many small businesses suffered greatly from the recession, and our job is to support them as they grow and create jobs.

This job is not done. The President's proposed fiscal year 2012 budget for the SBA of $985 million will support up to $27 billion in loan guarantees, as well as many other tools and resources to help small businesses across the country. At the same time, the budget reflects a commitment to tighten our belts, streamline our processes, and eliminate duplication. This includes ideas from the Congress. For example, we looked hard at our technical assistance programs to be sure that each one was unique and nonduplicative. As a result, we proposed eliminating the Program for Investment in Micro-Entrepreneurs program. With the work of our microlenders and new efforts to recruit community-based lenders, which you will hear more about today, we can continue to provide technical assistance in a more cost-effective way.

The largest increase in our budget, that the Senator referred to, reflects the fact that we have reached the statutory limit for fees that we can assess. The budget reflects the need for additional subsidy because losses, including those from loans approved when collateral, such as real estate was inflated, have pushed up subsidy costs. We will also request a legislative fix to return to near zero subsidy. The budget also builds on our strong efforts over the past 2 years to remove fraud, waste, and abuse in our contracting programs. And it supports the new women's contracting program. I know that both of these issues are a high priority for many Members of Congress.

PREPARED STATEMENT

Overall, our priorities are twofold. We have placed a focus on the SBA programs that put money and support directly into the hands of small business owners in the places where they live. And we will continue to invest in oversight to preserve the integrity of these programs and to protect the interest of taxpayers.

I look forward to working with you to ensure that small businesses can continue to grow, create jobs, and lead us to a full recovery.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF KAREN G. MILLS

Chairman Durbin, Ranking Member Moran, and members of the subcommittee. I'm pleased to testify before the subcommittee.

Small businesses are the backbone of our economy. They create nearly 2 of every 3 new jobs. And more than one-half of working Americans either own or work for a small business.

The Small Business Administration (SBA) is a small agency, but we have a big mission. We put the maximum possible resources directly into the hands of small business, focusing on access to capital, contracts, counseling, and disaster assistance.

Last year, we helped more than 50,000 small businesses get the capital to grow and hire. We helped put about $100 billion in Federal contracts in the hands of small businesses. And we counseled more than 1 million small businesses in every State across the country.

As we speak, SBA employees are on the ground in Missouri, Kansas, Alabama, and elsewhere, assisting the victims of disasters, including those suffering after the worst tornado season in nearly six decades. We are there to help homeowners, renters, and business owners with long-term, low-interest loans. Even if a business wasn't damaged directly, but customers are suffering and not coming in to the store, SBA can help with business interruption loans.

And we're doing this efficiently. Turnaround times for disaster loan applications are about 10 days, down from about 70 days in the weeks after Hurricane Katrina.

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Overall, our priorities are twofold. We have placed a focus on SBA programs that put money and support directly into the hands of small business owners, in the places they live. And, we will continue to invest in oversight to preserve the integrity of these programs and to protect the interest of taxpayers.

I look forward to working with all of you to ensure that small businesses can continue to grow, create jobs, and lead us into full recovery.

Senator DURBIN. Thank you, Administrator.

Director Gambrell, your turn.

DEPARTMENT OF THE TREASURY

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

STATEMENT OF DONNA J. GAMBRELL, DIRECTOR

Ms. GAMBRELL. Good morning, Chairman Durbin, Ranking Member Moran, and distinguished members of the Senate Appropriations Subcommittee on Financial Services and General Government. Thank you for inviting me to speak today about the CDFI Fund's fiscal year 2012 budget request and the critical ways in which the CDFI Fund is creating jobs and transforming low-income communities across this country.

I've been Director of the CDFI Fund for more than 3 years, during a time when our Nation has endured the most turbulent economy in generations. The financial crisis has had far-reaching consequences for our country, but nowhere has there been a more detrimental impact than on our low-income communities. My principal role as Director is to ensure that the CDFI Fund is doing everything possible to alleviate the economic burden on those at-risk communities, primarily through support of CDFIs.

There are now almost 1,000 certified CDFIs across the Nation serving every State. These CDFIs take a variety of forms, including loan funds, credit unions, community banks, and venture capital funds. They serve local, regional, and even national markets to spur economic and community development in distressed areas, at the grassroots level.

CDFIs have pioneered new financial education initiatives, encouraged the development of green industries in rural manufacturing, and invested in transit-oriented developments, charter schools, healthcare centers, and community facilities. And they've created thousands of jobs through the steady support of entrepreneurs and small businesses.

As a vital component of the Treasury Department, the CDFI Fund closely aligns itself with the Treasury's core priority of strengthening economic growth through its support of CDFIs. The CDFI Fund's programs are designed to generate a maximum economic benefit to low-income communities with a minimum Federal cost.

On average, a CDFI Fund awardee will take their initial grant and use it to attract private investment by a factor of 13. This unique ability will enable CDFIs to generate more than $1 billion worth of investment stemming from the $105 million in CDFI Program awards that I announced last year.

Through strategic and targeted private and local partnerships, CDFIs have achieved remarkable success with their CDFI Fund grants. In fiscal year 2010, CDFI Fund awardees created or maintained more than 80,000 jobs, almost 30,000 of which were a direct result of new loans and investments. Awardees reported financing more than 12,000 businesses and nearly 6,000 affordable housing units and provided financial literacy and other training to 140,000 individuals. The CDFI Fund is critical to maintaining the growth of a strong community development finance industry, an industry that will make long-lasting and continual impacts across the Nation.

CDFI Fund programs are consistently oversubscribed. For example, in this current round of the CDFI Fund program, 393 applicants requested almost $500 million when only $145 million is available. Due to this high demand, we've been forced to cap our rewards at lower levels in order to provide grants to as many highly qualified applicants as possible. The strong and continuous demand for CDFI Fund awards and the proven impact that these awards make and the capacity of CDFIs to increase loans, investments, and financial services in low-income and distressed communities, demonstrate that it's essential to fully appropriate the President's fiscal year 2012 budget request for the CDFI Fund.

The President's request guarantees our ability to continue our valuable programs, including the CDFI Program's Financial and Technical Assistance Awards, the Healthy Food Financing Initiative, and our successful and much needed Native Initiatives. This request also includes funding for the new Bank on USA initiative and administrative requirements. Through the administration of these programs, the CDFI Fund will continue to serve our Nation's lowest-income communities.

PREPARED STATEMENT

The CDFI Fund has seen considerable support from this subcommittee in recent years for program development and appropriations. My deepest thanks go to its members and to Chairman Durbin for your unwavering confidence in the CDFI Fund and our important mission.

Thank you. And I look forward to taking your questions.

[The statement follows:]

PREPARED STATEMENT OF DONNA J. GAMBRELL

INTRODUCTION

Good morning Chairman Durbin, Ranking Member Moran, and the distinguished members of the Senate Appropriations Subcommittee on Financial Services and General Government. My name is Donna J. Gambrell and I am the Director of the Department of the Treasury's Community Development Financial Institutions (CDFI) Fund. Thank you for inviting me to speak today about the CDFI Fund's fiscal year 2012 budget request and the critical ways in which the CDFI Fund is promoting economic development efforts throughout the country.

I would like to start by expressing my deep appreciation to this subcommittee and to the Congress for its long history of support. The CDFI Fund's programs stimulate the economy in communities often considered too risky for mainstream financial institutions. CDFIs are strategically positioned to help some of the most vulnerable populations in the Nation at a time when they are facing many financially challenging situations. CDFIs are often the only source of financing in underserved communities. CDFIs support productive small businesses, affordable housing for low-income Americans, high-quality community facilities, and provide retail banking services to the un-banked and others often targeted by predatory lenders.

I have been Director of the CDFI Fund for more than 3 years, during a time when our Nation has endured the greatest recession in generations. The recession has had far-reaching consequences for our entire Nation, but nowhere has there been a more detrimental impact than on distressed and low-income communities. Many of these same communities were already suffering before the financial crisis, and their recovery will now take much longer than in other parts of the country.

My principal role as Director is to ensure that the CDFI Fund is doing everything possible to alleviate the economic burden on low-income communities, primarily through support of CDFIs and other institutions that focus their efforts on serving these at-risk communities.

CDFIs are financial institutions that take a variety of forms—they are loan funds, credit unions, community banks, and venture capital funds. They are local, regional, and even national organizations that spur economic and community development in distressed areas from a grassroots level. CDFIs, as a class of financial institutions, have years of experience providing financial products and credit counseling services that permit borrowers to enter into and participate successfully in the financial mainstream. CDFIs fill a critical gap in the financial industry—they serve target markets that are historically underserved and they provide economic development services for niche areas that require specialization. The CDFI Fund encourages the growth and capacity of this valuable industry through a strategic deployment of resources.

THE CDFI FUND'S ROLE

The United States Congress established the CDFI Fund as a bipartisan initiative under the Riegle Community Development and Regulatory Improvement Act of 1994 (Public Law 103–325). Recognizing the need to bolster a fledgling industry that was making significant inroads in economic development in low-income communities, the bill's authors designed the CDFI Fund to provide financial and technical support to CDFIs with the goal of improving economic conditions in low-income neighborhoods across the country. The mission of the CDFI Fund is to increase economic opportunity and promote community development investments for underserved populations and in distressed communities in the United States.

As a vital component of the Department of the Treasury, the CDFI Fund closely aligns itself with the Treasury's core priority of strengthening economic growth. The CDFI Fund's programs are designed to generate a maximum economic benefit to low-income communities with a minimum Federal cost.

It begins with CDFI certification. To be certified as a CDFI by the Treasury Department, organizations are required to meet a strict set of criteria, including having a primary mission of community development, as well as serving a target market that meets at least one of the CDFI Fund's definitions of a distressed or low-income community. One common type of target market is a Census tract that has a poverty rate of at least 20 percent, or an unemployment rate 1.5 times the national average, or a median family income at or below 80 percent of the statewide or metropolitan average.[1] As organizations must be certified as CDFIs in order to be eligible for funding under many of the CDFI Fund's programs, the certification criteria allow the Treasury to verify that awards are going to the neighborhoods that need them the most. Almost 200 CDFIs were certified or recertified in fiscal year 2010 alone, and as of April 2011 there are 949 certified CDFIs across the Nation and the United States territories.

Once certified, the most common way for a CDFI to participate in the CDFI Fund's programs is through our core program, the CDFI Program. The CDFI Program provides Financial Assistance and Technical Assistance awards to qualified CDFIs. These awards are intended as seed money to attract more private capital

[1] In order to become certified, an organization must submit a CDFI certification application to the CDFI Fund for review and approval. The application must demonstrate that it meets each of the following requirements:

- —Be a legal entity at the time of certification application;
- —Have a primary mission of promoting community development;
- —Be a financing entity;
- —Primarily serve one or more target markets;
- —Provide development services in conjunction with its financing activities;
- —Maintain accountability to its defined target market; and
- —Be a nongovernment entity and not be under control of any government entity (tribal governments excluded).

An eligible target market may consist of an:

- —*Investment Area*.—A geographic unit or contiguous geographic units that have a poverty rate of at least 20 percent; or an unemployment rate 1.5 times the national average; or a median family income at or below 80 percent of the statewide/metropolitan average; or is wholly located within an Empowerment Zone or Enterprise Community; or
- —*Low-income Targeted Population*.—A geographic unit comprised of individuals whose median family income is at or below 80 percent of the statewide/metropolitan average; or
- —*Other Targeted Population*.—An identifiable group of individuals who lack adequate access to capital and have been historically denied credit.

into CDFIs and their investments in distressed communities. The awards also allow CDFIs to leverage resources to increase the size of their service area and to build their own internal capacity so that they can better serve their target markets.

Demand for CDFI program awards has significantly increased over the years. For the fiscal year 2011 award round, the CDFI Fund received 393 applications from CDFIs requesting a total of almost $465.9 million in assistance, nearly three times the $169.7 million available. Because of the continual high demand coupled with limited resources, the CDFI Fund capped the maximum award at $1 million in fiscal year 2009, and even lower at $750,000, in fiscal year 2010.

Another CDFI Fund program, Native Initiatives, also continually faces demand well beyond its available resources. Native Initiatives provides Financial Assistance awards, Technical Assistance grants, and training to Native CDFIs and other Native entities proposing to become or create Native CDFIs. Through the Native American CDFI Assistance Program (NACA program) demand for financial and technical assistance continues to grow at a rate that eclipses available resources. In fiscal year 2011, the CDFI Fund received more applications than ever in the history of the NACA program, receiving 88 applications requesting $35 million—a 48 percent increase more than the $23.7 million requested in fiscal year 2010. Such an increase in demand demonstrates that Native Initiatives is successfully reaching and building the lending capacity in communities that have lacked such capabilities until now.

The CDFI program and Native Initiatives are complemented by efforts to provide technical assistance and training to CDFIs. First, is Native Initiatives' "Economic Developments in Indian Country" workshops, co-sponsored by the Federal Reserve Bank of San Francisco, Seattle branch. The 2010 workshop series featured presentations by four other Federal development agencies, and allowed the participants to network and brainstorm solutions to economic development difficulties in Native communities.[2] Forty percent of the fiscal year 2011 NACA program applicants attended at least one of the workshop sessions in 2010.

Second, the CDFI Fund's Capacity Building Initiative provides support to all forms of CDFIs in areas of key business practices or economic development interests. The Capacity Building Initiative was designed based upon input received from CDFIs nationwide to significantly boost the ability of CDFIs to deliver financial products and services to underserved communities. The initiative has already had a phenomenal response from the industry. CDFIs have demonstrated a demand for the initial four capacity-building training and technical assistance tracks, which will allow them to build their own internal capacity and expand their expertise in key areas currently affecting the communities they serve, such as affordable housing, business lending, and providing financing for healthy food activities. In addition to training, the CDFI Fund has also commissioned a research project to review CDFI coverage in distressed communities across the Nation, which will allow CDFIs to determine where low-income communities are lacking access to CDFI services.

One of the key drivers of the Capacity Building Initiative is that innovation and a nimble response to changing economic conditions are stalwart traits of the CDFI industry. CDFIs have demonstrated these traits time and time again during the uncertain economy of recent years.

The CDFI Fund also administers other programs in support of community and economic development. The Bank Enterprise Award Program (BEA program) rewards banks for completing community development investments in eligible census tracts. To date, the CDFI Fund has made more than $336 million in awards under this program, supporting increases in investments in CDFIs and low-income communities across the Nation. Beginning in the fiscal year 2009 funding round, the CDFI Fund required that all BEA awardees use their BEA awards for future CDFI support and community development activities, as defined under the BEA program regulations. Awardees that receive awards more than $50,000 are required to report to the CDFI Fund on how the award was deployed.

No overview of the CDFI Fund's programs would be complete without the New Markets Tax Credit program (NMTC program), although it does not fall under the purview of this subcommittee. The NMTC program attracts investment capital to low-income communities by permitting individual and corporate investors to receive a tax credit against their Federal income tax return in exchange for making equity investments in Community Development Entities (CDEs). CDEs in turn make loans and investments in businesses and real estate projects in low-income communities.

[2] The other Federal agency participants in the 2010 Economic Development in Indian country workshops were the Department of Commerce, the Department of the Interior's Office of Indian Energy and Economic Development, the Small Business Administration, and the Department of Agriculture,Rural Development.

CDEs must apply for the authority to issue New Markets Tax Credits to their investors. In any given application round, requests are generally 7 to 8 times higher than the available allocation authority. To date, NMTC investors have invested more than $20 billion into low-income, urban, and rural communities throughout the United States, approximately two-thirds of which has been invested in communities characterized by severe economic distress-census tracts with a poverty rate of 30 percent or with a median income at or below 60 percent of the area median family income.

IMPACT OF CDFIS

CDFIs serve distressed and low-income communities through innovation, specialization, and targeted services. The customers of certified CDFIs, on average, are 70 percent low income, 60 percent minority, and 52 percent female. These traditionally underserved target markets benefit from services provided by CDFIs that they could not receive from mainstream financial institutions.

For example, Boston Community Capital, a CDFI headquartered in Massachusetts, has developed a new Stabilizing Urban Neighborhoods Initiative, where the CDFI partners with other organizations to buy foreclosed properties and sell them back to the original owners with a reduced mortgage payment, preventing displacement. As a result, low-income urban neighborhoods in Boston are at less risk of population loss due to unaffordable housing costs.

Another organization, Access to Capital for Entrepreneurs (ACE), which is a certified CDFI as well as an SBA Microloan Intermediary and USDA Intermediary Relender, has done excellent work encouraging the growth of small business ventures in the rural Southeast. For example, an ACE microloan to Melissa Bennett allowed her to expand her cosmetics store to a second retail location in Georgia and to hire more help. The Dazzle Cosmetic Company now has eight employees in a rural area with a high poverty rate.

CDFIs have pioneered new youth financial education initiatives; encouraged the development of green industries and rural manufacturing; invested in transit-oriented development, charter schools, healthcare centers and other community facilities; and have created thousands of jobs through the steady support of small businesses. After both Hurricane Katrina and the gulf coast oil spill, CDFIs were at the forefront of re-building the gulf coast region and providing support for small business owners who saw their livelihoods threatened.

The CDFI Fund supports the growth of a stable community development financial institution industry that will make long-lasting and continual impacts across the Nation.

THE PRESIDENT'S FISCAL YEAR 2012 BUDGET REQUEST

The CDFI Fund's programs offer critically needed funding and resources that result in sustainable growth for the nationwide network of CDFIs. Due to the phenomenal track record of CDFIs leveraging the CDFI Fund's awards with private investment, there is a clear benefit of a large local impact for a small Federal cost. In fact, CDFI Fund awardees leverage their awards with private investment by a factor of 13:1 on average, so it is possible that we may ultimately see more than $1 billion worth of investment stemming from the $104.8 million in CDFI program Financial and Technical Assistance awards that were announced in fiscal year 2010. The broad impact that the CDFI Fund's awards make in low-income and distressed communities throughout the country is why the President's 2012 budget request included funding for the CDFI Fund.

The President's 2012 budget request includes funding for Financial Assistance and Technical Assistance grants for the CDFI program. The stability inherent in a CDFI program Financial Assistance award provides the most patient capital available to CDFIs, which is one of the reasons why this program is in such demand. The continued oversubscription of this program guarantees that there will be a high demand for the full amount of funding requested in the President's budget. In a similar vein, the funding proposed for Native Initiatives will support a growing economic development industry in Native communities that consistently request more funding than the CDFI Fund has available.

Included in the CDFI program is grant funding for the Healthy Food Financing Initiative (HFFI). The HFFI is a multi-year, multi-agency effort to increase the availability of affordable, healthy foods in underserved urban and rural communities. Through HFFI, the CDFI Fund will provide competitively awarded grants to CDFIs that are improving access to healthy food in low-income and underserved communities, particularly through the development or equipping of grocery stores, farmers' markets, and other healthy food retailers.

The CDFI Fund also requests administrative funding for fiscal year 2012. These funds will allow staff to meet the resource demands, and to address the significantly increased compliance monitoring requirements. The CDFI Fund anticipates increased information technology and research investment needs in order to continue serving and monitoring CDFIs effectively.

The President's 2012 budget request also supports the Bank on USA Initiative. Designed to address the troubling fact that more than 1 out of every 4 American households is unbanked or under-banked, the Bank on USA Initiative will promote access to affordable and appropriate financial services and basic consumer credit products for households without access to such products and services. Bank on USA will support community-based efforts to identify strategies for serving unbanked and under-banked populations, including the development and delivery of innovative products and services.

The CDFI Fund has seen considerable support from this subcommittee in recent years for program development and appropriations. My deepest thanks go to its members and to Chairman Durbin for your unwavering confidence in the CDFI Fund and our programs. As the economy continues to recover, the CDFI Fund will continue to effectively administer its programs, so that the hardest-hit communities in the country have every opportunity for success and growth.

Thank you and I look forward to continuing to work with you in the future.

Senator DURBIN. Thank you very much.

BUDGETING FOR DISASTERS

Administrator Mills, I visited a major insurance company in New York, and I've certainly visited a lot of them in Illinois. If they write property and casualty insurance, they focus more on weather than almost anything else. They make strategic decisions for their insurance companies as to whether they're going to continue to write insurance in given parts of the country, based on their ideas of weather patterns. A lot of companies moved out of Florida, saying they think there are going to be more hurricanes, that they're going to be increasingly expensive, and that, "We don't want to run the risk."

So, what can we make of what we're going through now, in terms of the Government's role when it comes to disasters? I happen to think we're seeing some changing weather patterns. That turns out to be a pretty hot political debate in Washington. But, insurance companies agree with me, in terms of what they're doing, how they're investing, and where they're protecting homes and businesses. What should we be thinking, at the Federal level, as these changing weather patterns suggest that our vulnerability, our liability as a Government, may increase in the years to come?

Ms. MILLS. Well, we stand, at the SBA, ready to help homeowners and small businesses in every State across the country. And, in fact, we have a state of readiness to go anywhere where we are needed. We have more than 2,000 ready reservists who are not paid——

Senator DURBIN. No, I understand that. What I'm asking you to join me in thinking about is a little bit of long-term thinking, which is hard for us in Government, even in business. But, I'm asking you—okay, look ahead—are you looking ahead? Do you see weather patterns and damage emerging that are just episodic—it's going to come and go—or is this something that we need to be thinking about and planning for the future?

Ms. MILLS. So, we look ahead. And, with National Oceanic and Atmospheric Association, we have briefings on what the assessments are for the coming seasons. I think it's very difficult to say, you know, for future years. But, certainly for the near-term hurricane seasons, we do take an assessment of how that is.

That said, no—there was no prior indication that we were going to have the worst tornado season. And we have very often, in the past, had other extraordinary events. We've had flooding, we've had terrible hurricanes. And, as I said, we have established, after Hurricane Katrina, a much elevated level of readiness. And one of the things we did is put out this ready reserve so that if there is a pocket of geographic difficulty, as there is right now, we fly in resources to that geography——

Senator DURBIN. I guess——

Ms. MILLS [continuing]. And that allows us to be where others might not be.

Senator DURBIN. I don't question what we do. I'm just questioning about whether or not we have thought about the next year and the year after, and what it means, in terms of our thinking ahead, preparing resources for the eventuality. And maybe that's just very difficult to predict.

Ms. MILLS. Well, that's a good question.

COST OF SMALL BUSINESS LENDING

Senator DURBIN. Well, let me ask you this. When it comes to this 35 percent increase in funds requested for the SBA—I think what you talked about here are actually defaults on loans, and you track that back to real estate values. And I don't question that. I think everyone involved in the credit business in America knows that's a major problem. One of the reasons businesses can't borrow is that they can't pledge the warehouse and the real estate as collateral, because there's a question of the value. Now, that has not, at this point, bottomed out. We've been plumbing for the bottom here, on real estate values, and we're still looking. And sadly, we have many people underwater in their home mortgages, and more foreclosures coming. So, is what we're seeing this year in your budget request likely to be reflected in years to come as real estate values continue to be questionable and lead to more default?

Ms. MILLS. As you mentioned, we've asked for $250 million in additional subsidy in this budget, which is an increase of $132 million from the prior year. And the reason for that is that we try to cover our subsidy costs with our fees, but our fees are capped. And we plan to come back, in future years, with a request to allow us the fee flexibility to cover subsidy costs.

Senator DURBIN. Which means raising fees.

Ms. MILLS. Yes, which means raising fees. That said, we are seeing the default rates that are causing the credit subsidy to go up. Those are from the 2005, 2006, and 2007 cohorts. So, those were the times when people borrowed against very inflated real estate costs. That piece is working its way through the system, and we are seeing it being more resolved—on the trend to being resolved rather than on the trend to increasing.

BANK ON USA INITIATIVE

Senator DURBIN. I'm going to save, for the second round, some questions about counseling. But, Ms. Gambrell, I want to go to this Bank on USA Initiative, which means a lot to me. You cannot go into the poorer sections of my State, in Springfield or Chicago, you name it, without seeing evidence of title loans, pawn shops, currency exchanges, the kind of predatory-lending practices and charges which really take advantage of people in low-income categories. It is almost a shock to know that 1 out of 4 people in America are unbanked; they have no access to banking services. And they really just survive on the street, paying exorbitant fees to cash checks and pay bills and the like.

So, Bank on USA is trying to step in and make a difference. Can you give me any kind of numbers about what we have done, what it has cost, and what the need is?

Ms. GAMBRELL. Thank you for the question, Chairman Durbin. And to your point, certainly we recognize that, when it comes to the unbanked and the underbanked in this country, we're talking about, in many ways, an epidemic. We look at the impact that it's having on low-income communities, minority communities, and others, and you see that—with alternative check-cashers and predatory lenders—that oftentimes these populations are being preyed upon, and there's a devastating impact upon that community, and overall.

The Bank on USA Initiative has multiple components to it. And what we want to do is really go beyond financial education.

Senator DURBIN. What's what I'm looking for is some kind of quantification—what we're spending, what we serve, what the universe of need is.

Ms. GAMBRELL. Okay. Thus far, with the Bank on USA Initiative, that program is not funded for fiscal year 2011. We are requesting funding and the President's budget includes this request for 2012. So, thus far, we have not spent funding on the initiative itself. But, we certainly have worked with other partners, including bank regulatory agencies and others, to get a better handle of the program, to look at the research numbers, as well.

Senator DURBIN. Can you point out any bank, or banks, or credit unions, that you think are making an extra effort to address this problem?

Ms. GAMBRELL. Yes. And actually, I think, when you look at some of the banks in your State, as well as other parts of the country, you have community banks, you also have CDFIs that are not only community banks, but clearly focused on community development—that are focused on financial education programs, but also going beyond that. They're looking for ways in which they can create affordable bank accounts and other types of affordable financial services and products for low-income communities.

Senator DURBIN. I'm going to turn it over to my colleague, but I'd ask you to follow up on that. And if you could give me the names of some of these institutions——

Ms. GAMBRELL. Absolutely.

Senator DURBIN [continuing]. I'd like to be in touch with them.

[The information follows:]

ACCION Chicago,
Chicago, Illinois
ACCION Texas, Inc.,
San Antonio, Texas
ACCION USA, Inc.,
New York, New York
African Development Center,
Minneapolis, Minesota

Alternatives Federal Credit Union,
Ithaca, New York
Appalachian Community Enterprises,
dba Access to Capital for
Entrepreneurs,
Cleveland, Georgia
Aura Mortgage Advisors,
Boston, Massachussetts
Bethex Federal Credit Union,
Bronx, New York
Broadway Federal Bank,
Los Angeles, California
Columbus Housing Initiative,
Columbus, Georgia
Communicating Arts Credit Union,
Detroit, Michigan
Economic and Community Development
Institute,
Columbus, Ohio
First Nations Oweesta,
Rapid City, South Dakota
Frontier Housing, Inc.,
Morehead, Kentucky
Grow Iowa Foundation, Inc.,
Greenfield, Iowa
Homewise, Inc.,
Santa Fe, New Mexico
Hope Enterprise Corporation/Hope
Federal Credit Union,
Jackson, Mississippi
Indianapolis Neighborhood Housing
Partnership, Inc.,
Indianapolis, Indiana
Kalamazoo Neighborhood Housing
Services, Inc.,
Kalamazoo, Michigan
Kentucky Highlands Investment
Corporation,
London, Kentucky
La Fuerza Unida Community
Development Corporation,
Glen Cove, New York
Latino Community Credit Union,
Durham, North Carolina
Latino Economic Development
Corporation,
Washington, District of Columbia
Low Income Investment Fund,
San Francisco, California
Montana Community Development
Corporation,
Missoula, Montana
Nebraska Enterprise Fund,
Oakland, Nebraska
Neighborhood Development Center, Inc.,
St. Paul, Minnesota
Neighborhood Housing Services of Waco
Inc.,
Waco, Texas
New Hampshire Community Loan Fund
Inc.,
Concord, New Hampshire
New Mexico Community Development
Loan Fund,
Albuquerque, New Mexico
Northeast Entrepreneur Fund, Inc.,
Virginia, Minnesota
North Side Community Federal Credit
Union,
Chicago, Illinois
Northwest Ohio Development Agency,
Toledo, Ohio
Northeast South Dakota Economic
Corporation,
Sisseton, South Dakota
Opportunity Fund,
San Jose, California
Oregon Microenterprise Network,
Portland, Oregon
Pacific Community Ventures, Inc.,
San Francisco, California
Premier Bancorp Inc.,
Wilmette, Illinois
Rural Community Assistance
Corporation,
West Sacramento, California
ROC USA Capital,
Concord, New Hampshire
Seedco Financial Services,
New York, New York
Self-Help Federal Credit Union,
Durham, North Carolina
St. Louis Community Credit Union,
St. Louis, Missouri
The Housing Assistance Council,
Washington, District of Columbia
The Housing Fund, Inc.,
Nashville, Tennessee
TMC Development Working Solutions,
San Francisco, California
Valley Economic Development Center,
Van Nuys, California
Vermont Community Loan Fund, Inc.,
Montpelier, Vermont
Western Massachusetts Enterprise Fund
Inc.,
Holyoke, Massachusetts
Wisconsin Women's Business Initiative
Corporation,
Milwaukee, Wisconsin
Wyoming Women's Business Center,
Laramie, Wyoming

For more information please visit http://www.cdfifund.gov/docs/Financial%20Education%20and%20CDFIs%20062911.pdf

Senator DURBIN. Senator Moran.

Senator MORAN. Chairman, thank you.

CDFIs IN RURAL AMERICA

Ms. Gambrell, I want to bring the rural aspect to your attention—of what you do. My home State of Kansas has received only 17 awards in the last 14 years, totaling $4.7 million. I think this comes from information that you provided.

Ms. GAMBRELL. Correct.

Senator MORAN. And, at this time, there's only two certified CDFIs in Kansas, one in Topeka and one in Wichita. And my question is, What are you doing—what's the agency doing to make certain that rural aspects of your mission are cared for, are provided for?

Ms. GAMBRELL. Thank you, Senator Moran. The CDFI Fund is focused on both urban and rural populations in rural communities. And, in fact, when you look at the number of CDFIs that are serving rural markets, you'll see that it's somewhere close to 24 percent. In your State of Kansas, you're right, about $4 million have been made through awards to organizations in Kansas.

But, I would call your attention, as well, to the investments that happen in your State from those CDFIs that are not located in Kansas. And it's close to about $10 million, I believe, where regional or other national organizations have looked at projects and initiatives within the State and said, "We'd like to make investments there."

Now, I'm not satisfied that there are such a low number of CDFIs in the State of Kansas. I'd like to remedy that. I think we can do better. And one of the things that we continue to do as an organization is to work with Members of Congress, but also look at ways in which we can address some of those gaps where there are not CDFIs in certain communities, and really look for ways in which we can build upon that.

Senator MORAN. Is—are the—is the circumstance in Kansas—is it representative of rural America?

Ms. GAMBRELL. No, not——

Senator MORAN. Or are we unique in what at least appears to me to be a low number of participants?

Ms. GAMBRELL. You're—you—Kansas may be a little unique. We certainly are seeing, in other rural communities, where there is a larger number of CDFIs. We're also seeing where there are larger amounts of investment. Now, that's not to say that in rural communities there are not challenges, as there are, I think, in all parts of the country. But, clearly, what we want to do is to build the capacity of those organizations and help reach out to the residents in those rural communities to identify, in a very targeted fashion, those initiatives and those projects that are actually going to help transform communities.

Senator MORAN. I look forward to—assuming that you're willing—to follow up with you and see if we can't help in that regard.

Ms. GAMBRELL. I look forward to that, Senator. Thank you.

Senator MORAN. Thank you very much.

BANKING REGULATIONS AND SMALL BUSINESS LENDING

Ms. Mills, a couple of questions. First of all, do you see a connection between what I believe, and what I hear from my bankers, is an—my commercial bankers—is an increasing regulatory environment—the uncertainty of what's next, kind of, in the financial regulatory world, that I think has a consequence upon ability to make loans? As a—if that's true—if you agree with that, that there is an increasing regulatory environment upon financial institutions, is there a greater demand, then, for the SBA guarantee and loan programs to assist those banks to make those loans more likely? Is there an increasing demand, based upon the regulatory environment that financial institutions are facing?

Ms. MILLS. Well, certainly—Senator, it certainly was the case in October 2008 when the credit markets froze, many, many banks faced increased scrutiny from their regulators, and that came down in a number of ways. As a result of that, many banks pulled back, and they were afraid to take risk. And they had to also put up greater capital reserves, and that, once again, did not allow them the latitude to back all the small businesses in their community.

We saw—when we put out the ARRA grants and we increased our guarantees to 90 percent, we saw an enormous jump in our loan volumes. And, in fact, our loan volumes are back at 2008 levels. So, we have filled the gap that was created by many banks pulling back out of the market.

We are seeing that ease, because we have pushed very hard on the regulators to be clear in their communications. And what bankers and small businesses don't like is conflicting responses. So, we have made sure that the guidance that is given around small business lending has more and more clarity and that it opens up the opportunity for these banks, particularly community banks, to come back in the lending game, in addition to the way they've come back to the SBA.

We've added 1,200 new community banks, who had not made an SBA loan since 2007, in ARRA and in the Small Business Jobs Act.

Senator MORAN. Do you see that number flattening, continuing, or decreasing the number of those loans or the number of banks making those loans?

Ms. MILLS. We see the number of banks—we have about 5,000 of the 8,000 banks that are out there that now have some kind of SBA activity on their books. So, we have very strong penetration. What we are concerned about is that the recovery has gaps in it, and some of the gaps are in small loan sizes and in underserved markets. So, we have accelerated our efforts in those two areas with programs called "Small Loan Advantage" and "Community Advantage", which actually works, with CDFIs and other financial institutions, to reach places where we don't have enough points of access now.

SBA DISASTER LOANS

Senator MORAN. Tell me about the relationship between the SBA and the Federal Emergency Management Agency (FEMA). And do the requirements for SBA assistance following a disaster—do they mirror FEMA's designation of a disaster area?

Ms. MILLS. We work extremely closely with FEMA. And I have been traveling with Secretary Janet Napolitano and with the FEMA administrator, who has been just terrific. And we colocate, in almost every location, with FEMA, when we are jointly at disasters. There are occasions where it is not a Presidentially declared disaster, it is a State disaster, and the Governor—will be a smaller disaster—the Governor would ask me, at the SBA, to declare that disaster. And we would go in independently. And in that case, we would carry the burden of, you know, helping those homeowners and small businesses. But, in all of the ones you're seeing right now, we are jointly active with FEMA.

Senator MORAN. In the absence of a Presidential declaration, a Governor's declaration of a disaster is sufficient for you to provide loan services to those affected by that disaster?

Ms. MILLS. Correct. A certain number of houses and a certain number of businesses are damaged. The Governor will ask me to declare that area. And we also do the surrounding areas, because a business in one area might draw its business from surrounding counties. So, we include those, and then they become eligible for SBA, and we drop people into the location.

Senator MORAN. You mentioned housing, and yet the word "businesses"—it's the SBA. What role do you play in assistance for housing following a disaster?

Ms. MILLS. Because we are on the ground, and in order to avoid duplication of folks there, we also take on the responsibility for making home loans to people whose homes have been affected by the disaster. So, we make three kinds of loans: injury to homes, injury to businesses, and economic injury to businesses, where your roof is still fine, but your business is affected. And this was very true in the gulf area. So, we do all three.

Senator MORAN. And the advantage to the person who suffers the disaster is the certainty of the availability of credit and a lower interest rate than would presumably be available elsewhere?

Ms. MILLS. Correct. These are long-term, low-interest loans. And we tend to provide a broader set of insurance—broader set of financing than insurance will provide. So, insurance, when they get their insurance receipts, they repay the piece of the loan, but we will generally cover more.

Senator MORAN. The recent Government Accountability Office report indicates that there is perhaps duplication between FEMA and SBA in programs. I assume that you've seen the report, read the report. Do you agree? Are there things that—are—that are duplicative in regard to your two agencies?

Ms. MILLS. I have not actually seen that piece, but we will look into it. But, I do not believe—and I have been out in the field now—I've been to the flooding in Nashville; I've been to the tornados in Mississippi; I've been to the tornados in Alabama and to see, also, hurricane damage. And we operate side by side with FEMA. If someone does not qualify for an SBA loan, we refer them to FEMA, and they may qualify for FEMA grants. So, we actually are very highly aligned and not duplicative.

LOAN SERVICING

Senator MORAN. My final question, Mr. Chairman, is I have heard, from Kansas bankers, some frustration with the level of services provided by the SBA. They attribute that to a consolidation of processing in—apparently, in a facility in Virginia. Is that a complaint that you're aware of? And is there something that's being done? And are my bankers telling me the truth?

Ms. MILLS. Senator Moran, I am aware of your Kansas bankers and their concerns. In—several years ago, we consolidated all of our loan approvals in centers around the country to ensure oversight and nonduplication. Before that, every single office had its own loan approval authority. And frankly, in order to save money and eliminate duplication and increase the quality of the credit decisions and the uniformity of the credit decisions, we centralized those functions some years ago.

Many bankers and offices miss that ability to make a local decision. That said, we track very carefully the turnaround times. They are in days. And we are very, very good now at aiding customers and processing these loans across the country. And we are happy to talk further to your bankers to make sure they're getting the service they need.

Senator MORAN. I'll do the same. I guess, my question is—I wanted to make certain that there is not an unnecessary delay in this consolidation. And I'll be glad to have that conversation with you and my bankers, perhaps at the same time.

Mr. Chairman, thank you very much.

Senator DURBIN. Thanks a lot, Senator Moran.

Senator Kirk.

Senator KIRK. No questions. I'm waiting for the second panel.

Senator DURBIN. Okay. If I can ask a follow-up question or two.

SBA MICROLOANS

Administrator Mills, let's talk about microloans for a second. The average microloan to small businesses is about $13,000. And I'm concerned, here, that your request for next year's budget dramatically cuts, by 55 percent, the amount of money available to counsel microloan borrowers. Those would seem to be the small businesses most in need of counseling. They are looking for small loans. I would guess that many are startup businesses. And we know the failure rate of businesses in the early days. So, how can we justify cutting back on counseling when it comes to this level of lending?

Ms. MILLS. The first thing I want to say is how much we appreciate your support of the Microloan Program. And, in fact, for next year, I want to emphasize that the actual amount of money going into the microloans is remaining at the current levels. We think this is a critical program. Our volumes are up, and we track it very carefully. And we have very, very good results from this program.

We looked across this issue of duplication of counseling benefits, and one of the things that we found is that we think that counseling in the microloan arena is better done by our partners, and that our contribution really should be to create more loan product, more lending dollars, and make sure that the counseling, which we think is absolutely critical, is done by our lending partners who are on the ground.

So, what we have done, in Community Advantage, is try to make a shift to doing what we do best and what we do the most efficiently, which is provide the dollars, and to work with them to make sure they take advantage, if not of the counseling and those operations, the counseling in nearby women's centers and small business development centers.

Senator DURBIN. I was going to ask you, when you say "partners", to whom are you referring to?

Ms. MILLS. Well, we have a set of counseling partners all across the country. And that involves 900 small business development centers, 110 women's centers, and 12,000 Service Corps of Retired Executives (SCORE) members and 350 chapters. We want to focus on those, making sure that those programs are functioning, they're cost effective, and that they're not duplicative, and focus our attention, in the microloan arena, in the area where I think we really give a much better bang for the buck, which is providing loan capital.

Senator DURBIN. So, let me ask you about that aspect. The Microloan program can accommodate up to 300 lenders. There are only 177 SBA-approved microloan lenders. In fact, in Illinois, there's just one: ACCION Chicago. Many small businesses in the rest of Illinois don't have easy access to SBA microloans. It appears to me, we need to increase the number of microlending partners, which mean that more small businesses will have access. What are we doing about that?

Ms. MILLS. We actually have a program that was funded in the Jobs act. The request for additional lenders just went out for intermediaries. And we are looking to add to that. In addition, we implemented "Community Advantage," where we take CDFIs and we allow them access to our 7(a) program. This is really powerful. And the community has been asking for this for many years, because the 7(a) program is a broad and powerful program with much stability. And we now allow CDFIs—many of whom are our microlending intermediaries, to come into that program. It gives them enormous capacity.

CDFI HEALTHY FOODS

Senator DURBIN. Director Gambrell, one last question. And I thought Senator Moran was going to ask this. I'll ask it instead. And it's about the Healthy Foods program. In my hometown of East St. Louis, Illinois, it was literally a food desert for the 25,000 or 30,000 people living there. There was just no place to shop. And, as a consequence, they were stuck with high prices, limited variety, and certainly not the healthiest alternatives, when it came to shopping. Then, along came Schnucks, a major grocery chain in St. Louis, opening up a store at 25th and State Street, my old neighborhood. And it transformed the town. They had a place to go. Everybody went shopping.

Same thing happened in Chicago, on Roosevelt Road. There was a day when there were just no grocery stores in that area. And now there are a lot of them, which reflects a changing population and a commitment by these grocery chains.

So, the First Lady and the President are pushing these healthy food alternatives, particularly for low-income families. And I know that they have an initiative that they've started. Can you tell me a little bit about what has been achieved to date and what you anticipate achieving in that regard?

Ms. GAMBRELL. Thank you, Senator. So, the Healthy Foods Financing Initiative is one that the Treasury Department is proud to be a partner with the Department of Health and Human Services, as well as the Department of Agriculture—three agencies that have committed to looking at ways in which to address issues in food deserts.

For the Treasury's part, the CDFI Fund is, again, a major partner. Thus far, we have sent out a healthy food supplemental questionnaire, as part of our competitive award round, under our Financial Assistance Awards, and we'll be getting that back from those applicants that have said, "Yes, we want to be a part of this initiative, and this is how we can be"——

Senator DURBIN. Who received the questionnaire?

Ms. GAMBRELL. These are from the applicants that actually have already applied for Financial Assistance Awards and indicated that they had an interest in applying for a healthy food——

Senator DURBIN. Can you generally describe them? Are they farmers' markets? Are they grocery chains?

Ms. GAMBRELL. It really runs the gamut. And that, I think, is what we have certainly seen within the CDFI Fund industry, that we are looking for those CDFIs that are interested in bringing retail outlets, grocery stores, to those low-income communities. But, they are also involved in co-op markets, farm markets, distribution channels that actually transport food from local farmers into those food outlets, as well. So, it really does run the gamut.

Senator DURBIN. Great. Thank you. Any other questions?

Senator MORAN. Mr. Chairman, I apologize for not living up to your expectations. The food deserts are an important aspect—and again, I would—of something we're trying to make certain it doesn't continue. And there—I would just want to point out, once again, and—often thought of a food desert as an urban area. And we have those circumstances in Kansas. But, it's also—very much a rural issue, as well.

And I'd again just highlight my earlier emphasis on making certain that our programs are designed to reach all areas of the country. And nutrition—in my view, one of the best things we can do for improving the healthcare of Americans, and thereby saving healthcare costs, is related—are nutrition, diet, exercise, and just this general wellness.

And so, these are important issues. And I didn't want Chairman Durbin to be disappointed in my failure to express my views. But, more importantly, I want to make sure that we follow up and work together to figure out how we address this issue that's apparently particularly Kansas oriented.

And you maybe have been telling me that there are CDFIs in Kansas City, Missouri, who are providing services in Kansas, as I thought about your answer about other States. And that makes some sense to me—our significant urban area along the Missouri border. So, look forward to having that dialogue.

Thank you.

Ms. GAMBRELL. As do I, Senator. Thank you.

Senator DURBIN. Senator Moran, thank you very much.

And as Senator Kirk and I can tell you, there are parts of Illinois, downstate, that look an awful lot like Kansas. So, we have communal interest in a lot of these issues.

Thanks, to this panel. We appreciate your testimony. And we'll be back in touch with some other follow-up questions as we prepare the budget for the next year.

I'm going to welcome our second panel to the table and introduce them as they come up. Our first witness is Warner Cruz. He secured a loan, under an SBA program, to expand his business during the worst part of the recession. Mr. Cruz is a graduate of Augustana College, in Rock Island—which Senator Kirk just visited—and has a degree in international business administration and finance, minoring in Japanese. He worked for 3 years in Japan. And even while working in Japan, he stayed integrated in the company that his father had started. He's now the president of J.C. Restoration, a small business that restores commercial and residential properties that suffered loss from fire, water, or storm damage.

Next, we welcome Calvin Holmes, president of the Chicago Community Loan Fund, a Chicago CDFI. Mr. Holmes' community development career spans 25 years—he looks too young for that, but that's what it says—including work as a budget planner for rapid transit projects and property manager of a 200-unit assisted-living housing portfolio. Under his leadership, CCLFs lending has averaged nearly $1 billion in additional public and private sector capital in more than 55 lower wealth Chicagoland communities. He holds a master's degree in urban regional planning from Cornell and a BA in African-American urban studies from Northwestern.

Finally, we welcome Ray Moncrief. He's the Executive Vice President and COO of the Kentucky Highlands Investment Corporation. He manages investing activities, including analyzing new investments. Mr. Moncrief has traveled nationally and internationally, speaking about the use of equity instruments as an economic development strategy. He sits on the board of several financial institutions and on the advisory boards for government agencies, to support community and small business development and venture capital. He's a graduate of Louisiana Tech.

We're going to start with Mr. Cruz for an opening statement, allow that to the other two witnesses, and ask a few questions.

Please be my guest.

STATEMENT OF WARNER CRUZ, ILLINOIS SMALL BUSINESS PERSON OF THE YEAR, 2010, PRESIDENT, J.C. RESTORATION, ROLLING MEADOWS, ILLINOIS

Mr. CRUZ. Good morning, Senator Durbin, Senator Moran, Senator Kirk, ladies and gentlemen. My name is Warner Cruz, and I am 38 years old. I am a husband, a father, and a proud owner of a successful family business that is overwhelmed with blessings.

I'm here before this panel to testify about the tremendous impact the SBA's 504 loan program had on my firm. In fact, I am confident that if it were not for the 504 blessing, I would not be here today.

The name of my business is J.C. Restoration (JCR), located in the suburbs of Chicago. The "J.C." stands for Jose Cruz, my father, who immigrated here from Guatemala in the early 1970s. With no money, formal education, or the ability to speak English, he eventually incorporated the business in 1982. Today, JCR is an industry leader in the disaster restoration field. Our core business is to restore commercial and residential properties that have suffered loss from fire, water, or storm damage across the United States.

In 2002, I purchased the business from Mom and Dad and became 100 percent owner. After 7 solid years of 25 to 35 percent average growth, I felt it was time for JCR to really expand. Thanks to the SBA 504, I was able to obtain a loan and more out—move our business from a 13,000 square foot warehouse to our current 102,000 square foot, state-of-the-art facility. We invested more than $3 million on seven acres in transforming this once abandoned eyesore that sat dormant on seven—beautiful acres of land off of a major expressway. Our new building gleamed with a completely new energy efficient roof, light fixtures, and mechanicals, all designed with green in mind. Life was good.

But, I haven't told you about the blessing yet. By the end of the third quarter in 2009, JCR sales plummeted 9 months in a row, due to the economic recession. The shock of moving into our new facility with great hopes of being able to handle the overabundance of work from the previous years was quite unnerving. Our sales decreased 29.4 percent, and we had to go into our own disaster response mode. The hardest thing I had to do was lay off 19 of our employees.

The true blessing was this: if it weren't for the SBA 504 that stabilized my $2 million loan at a fixed rate of 4.4 percent over 20 years, I don't know what I would have done. The program preserved my working capital to where it was needed the most. I had great ease of mind knowing a conventional banker wasn't going to call me to raise their rates or devalue my property. The SBA 504 worked beautifully in the way the program was designed to protect me from inflationary pressures that I had never anticipated would happen.

My testimony today is out of gratitude to the SBA. Not only did my business survive, today JCR is on pace to exceed sales of $20 million, after having our best year, last year, at $13.8 million. We currently employ more than 150 full-time and part-time jobs. The SBA 504 loan program helped save my business.

But, more powerful is, in 2010, JCR kept 67 businesses in business, including two hospitals and a major manufacturing plant that employs more than 300 workers, after they suffered a major disaster. The SBA should be proud in knowing they indirectly assisted in this creation and retention of hundreds of American jobs by blessing JCR with the 504 loan program.

Thank you.

Senator DURBIN. What a great story. I was just telling Senator Moran, we knew a little bit about your background, and it's just wonderful that you can come and tell us that story.

Calvin Holmes, your turn.

STATEMENT OF CALVIN HOLMES, PRESIDENT, CHICAGO COMMUNITY LOAN FUND, CHICAGO, ILLINOIS

Mr. HOLMES. Okay. Thank you, Sir. Good morning Chairman Durbin, Ranking Member Moran, and Senator Kirk. And thank you, Chairman Durbin, for showcasing two of our recent investments in low-income communities in Chicago.

It's an honor to speak with you today about the critical and effective role that CDFIs play in promoting economic growth. Thank you for the opportunity and for your long-term support of the CDFI Fund, which is the critical permanent capital financier to CDFIs.

I know that you've already heard from Director Gambrell, but I also want to thank her, because, in my humble opinion, she is the venture capitalist to the poor.

I run the Chicago Community Loan Fund (CCLF), a private, nonprofit financial institution certified by the CDFI Fund and a member of the Opportunity Finance Network. Since 1991, CCLF has been investing in nonprofit and for profit community developers, providing flexible financing and—for economic initiatives, and filling gaps in the marketplace as they arise.

At $28 million in capital, we are clearly dwarfed by regulated financial institutions. However, we have lent our dollars over and over again to help our borrowers attract more than $900 million in additional capital for their projects to make 222 loans, supporting 6,400 units of housing, 1,300 jobs, and 2.1 million square feet of commercial and facility space. Historically, we have leveraged $20 for every $1 we invest. Our cumulative charge-off rate, over all this time, remains below 1 percent. Without the CDFI Fund program investments, little of this would be possible.

Given high unemployment rates in underserved communities, we are especially proud of two recent projects. One of them is on the board. Last July, one of our borrowers opened a $150 million Wilson Yard project that included 178 units of affordable housing, a Healthy Foods, new Target and Aldi stores, and additional retail space for more goods and services. Target hired 300 workers, 80 percent of whom live within a 2-mile radius of the store. The CCLF's $1 million predevelopment loan helped the project move forward.

The CCLF is very involved in helping stabilize communities devastated by foreclosures, providing loans to small developers to rehab abandoned homes through the city of Chicago's Neighborhood Stabilization Program (NSP). Our loans are not only stabilizing housing, but keeping small firms afloat during the housing market downturn. We estimate that more than 50 percent of the 23 developers participating in the NSP might be out of business without the program, and 458 tradesmen and women have been kept employed.

Simply, a lender like us that makes a loan before all the takeout financing is in place, and to smaller organizations, must have high capital ratios. Without question, the CDFI Funds awards are the most important way we do so. Every $1 we have received from the CDFI Fund at a critical juncture has allowed us to recruit at least $3 more in private capital. For these reasons, it is vitally important that the $227 million in the President's fiscal 2012 budget requested for the CDFI Fund is appropriated. We know that there are many tough decisions to make, but supporting distressed communities in this way is critical.

I look forward to continuing to work with you, and thank you again for your support.

Senator DURBIN. Thanks, Mr. Holmes.

Mr. Moncrief, it's good to have you here. Your perspective from Kentucky is a little different that the big city perspective, so we're anxious to hear your testimony.

STATEMENT OF RAY MONCRIEF, EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER, KENTUCKY HIGHLANDS INVESTMENT CORPORATION, LONDON, KENTUCKY

Mr. MONCRIEF. Thank you, Chairman Durbin, Ranking Member Moran, Senator Kirk. It's a pleasure being here.

It's an honor to sit before you today to tell you about what we do, connecting the SBA and the CDFI Fund. I hope that, when I leave today, that my testimony shows that they don't compete, but they complement one another. And they're very vital, specifically in the area that I work, Senator Moran. I live in rural eastern Kentucky. Your comments on the radio the other day resonated with me where I live.

I work for an organization that was just 43 years old who stimulates the local economy through the creation of businesses that hire people through employment. They accomplish this through financings in equity capitals, through subordinated debt, difficult financings to do. We do this with small businesses. And by "small businesses," let me explain. The SBA defines a "small business" as any business, 500 or fewer. The average size of a small business that I deal with are 14 employees, excluding government employees, schools, et cetera. So, I deal with very small businesses that require significant counseling.

In addition to that, the banking crisis has been dramatic in our area. One example that I'd like to leave with you is that we have a manufacturer that hires 200 people whose bank was acquired by a larger regional. They were on the edge. They had not been profitable for 2 years. And they were told to seek their financing elsewhere. Because of where we are, we were able to put a financing together with another local community bank and provide a $1.5 million working capital line of credit for that facility to maintain those 200 jobs.

The Microloan program is very important to us. We've—we have borrowed more than $3.8 million since its inception in 1992. We've invested in more than 300 businesses. Last year alone, we did 36 financings for $850,000.

Administrator Mills spoke about the Community Advantage Program. We are one—we were the very first Community Advantage lender in the United States, connecting the dots between the CDFI Fund and the SBA.

The product called the SBA loan—Administrator Mills said that many of the banks in our area don't use that program. They don't, because of the rural nature, the hard-to-get-to, the size of the community banks, et cetera. So, we, as a CDFI Fund that's using the Community Advantage Program—it's vital for us to be able to offer the guaranteed loans that we do. The CDFI Fund is absolutely paramount, because we have to have the money to make the guaranteed loans. And the CDFI Fund and its FA awards allow us to capitalize our balance sheet and use those funds to indeed make those guaranteed loans under the 7(a) program.

So, it is with that I'd urge this subcommittee to keep the SBA Microloan Program alive, thriving, as well as the CDFI Fund, at its current level of funding. Both are extraordinarily important to what we do, where we do it.

Thank you.

Senator DURBIN. Thanks, Mr. Moncrief.

FORCLOSURE CRISIS AND DEVELOPMENT OPPORTUNITIES

I'm going to, in the second round, address the other two witnesses. But, I'm just going to ask Mr. Holmes a question now so the other Senators have their chance.

I've seen this movie before. I grew up in East St. Louis, Illinois. It was a town of 80,000 people, now in the range of 25,000. In the early 1960s, white flight meant that people just left their homes behind. And as they did, the homes were abandoned, burned out, gutted, eventually bulldozed, and now it looks like a victim of some aerial bomb attack; the city just has so many vacant lots. Same thing is going on in Detroit. It's going on in a lot of places. I fear what's going to happen in the Chicagoland area, because I can see the same story playing out in areas like Marquette Park, where there are high foreclosure rates in otherwise long-time stable neighborhoods with great home stock—you know, these brick homes that we valued in Chicago became the trend after the Chicago fire.

But, I'm asking you—because you talked about something that really catches my attention, of trying to help people finance the reconstruction or reoccupation of these homes. One of the obstacles I've seen in this is trying to find a bank that will cooperate. It seems that many banks are hell bent for foreclosure. And I don't understand why, because their asset is going to disintegrate to zero value if they go through foreclosure and don't have quick sale or reoccupation of the property. So, tell me—put this in perspective—tell me how it works, where you've been able to make it work to go into these foreclosure scenes, and what we might do to make sure that there's a better opportunity for that.

Mr. HOLMES. Got to remember to turn the talk button on.

Senator Durbin, let me first say, it's really heartwarming to me to hear you talk about my hometown, as well. You may recall that I'm also a native of East St. Louis and my mother still lives there, at 88th and State Street. And, as you talked about the Schnook store that came online at 25th and State, I, too, celebrated not having the entire town be a food desert. So, it's always good to see, as they say in our neighborhood, a "homeboy".

So, the foreclosure crisis, it is a pretty daunting experience, right? We are working with one- and two-person general contracting shops, many of them who would have been out of business today if they were not getting construction bridge loans for us in order to rehab these homes and to keep their crews alive. That's one of the things I very much wanted to do.

One of the reasons that we are able to operate in this environment—and you so astutely noted, earlier, that the real estate values are continuing to decline in a number of these neighborhoods. So, when we look at loan-to-value, it's hard to get your comfort there. What we have, through the NSP, is a guarantee from the city of Chicago, is that they will work with us to make sure that, one way or the other, we will get to the finish line, so that, as a lender, if—we can make sure that the construction process is handled well and goes to plan, and get that building rehabilitated. If for some reason the absorption is not there, there isn't a home buyer on the other end immediately, the city assures us that they will work with us to make sure that we don't lose our shirts. So, that's one of the ways in which we work.

Increasingly, however, in partnership with the city of Chicago and its administrator, through the MSP program, Mercy Portfolio Services, we are having a series of conversations with local banks, both regional and national, to bring them to the table so that they can provide end mortgages so that, at the end of our construction loan, there is a home buyer. And we're also working with them on other commercial mortgage products so that they can help us accelerate the rate at which we rehabilitate these homes in our devastated communities.

Senator DURBIN. My last question goes right to that point. The problem I've run into in the foreclosure situation is figuring out who makes the decision. You have a servicing bank, you have many lenders, you have all kinds of loan instruments and derivatives. It's hard to get anyone who can say yes or no. How do you break through all that to finally find someone who can make a critical decision about the future of that property—to get the bank to answer the phone and cooperate?

Mr. HOLMES. Well, Senator Durbin, it's a complicated process, as you well know. So, one of the initiatives that we're involved in, in Chicago, to be able to help the banks understand that it's in their best interest to participate with the community, is something called the Regional Home Ownership Preservation initiative, where we have a number of stakeholders, both at the public sector level, the private sector level, and the community organizations, who, through this collaboration, can get the attention of the decision-makers and get them to make decisions. And there are some successes, where we have a number of banks who are offering up portions of their real-estate-owned portfolio, so that the community can take possession, or a nonprofit, or a joint venture between a for-profit and nonprofit, and rehabilitate those homes. So, through this collaborative nature, with the public sector at the table as a convener, we're starting to make some headway.

Senator DURBIN. Thanks.

Senator Moran.

Senator MORAN. Chairman, thank you.

PUBLIC-PRIVATE PARTNERSHIPS IN CDFI PROJECTS

Mr. Holmes, the Target photograph and the story that you told, I assume that Target, or any other company, would not have made that decision without some support. And I just want you to describe for me what it was that was—you were able to do that induced Target to believe this is a profitable location.

Mr. HOLMES. Well, the simplest way to think about our role in a $150 million transaction is, we help our borrower, who's the real estate developer, acquire all of the property, take care of all the encumbrances that make it really messy for a large retailer to even think about a site like that. So, by putting $1 million on the table earlier on in the deal—and there were other CDFIs, thankfully, that were involved in the process, as well; this is a really big project, so there were some other layers of even predevelopment financing—but, we all worked together to take care of that site, so that Target knows their developer——

Senator MORAN. You created the—excuse me for interrupting, but you created the environment by which Target now believes it can succeed, as compared to providing any kind of direct benefit to Target.

Mr. HOLMES. Exactly. But, a real easy way to think about it is that Target is not going to spend its R&D time, its staff focus time, its marketing time, its business planning time if the developer that is trying to recruit Target does not have site control. If Target doesn't believe that a developer can pull off the project, then they're not going to plan to open a store there. So, our money helps the developer go to Target and say, "Don't worry about this. The city's behind us. We've got our financing lined up. We've got site control. We've taken care of all the encumbrances. We've still got other layers of financing to put in place, but you can rest assured that this project will move forward."

GROCERY STORES AND COMMUNITY DEVELOPMENT

Senator MORAN. Mr. Moncrief, you also mentioned grocery stores. For much of the time I've been in the Congress, in the House, I have told my colleagues that—it goes back to the food desert conversation we had earlier—that, particularly where I came from as a Member of the House of Representatives, economic development can be whether or not there's a grocery store in town. It's what many people would consider very much the basics.

I recall, after the tornado, in Greensburg, of now about 5 years ago. Greensburg was the town hit by the F5 tornado—destroyed the entire town. One of the first conversations that people had with me and others—community leaders—was, Is Dillon's going to rebuild the grocery store? It was a determining factor as to whether anybody was going to live there. And I wonder if you have the experiences that would help keep Kansans and others figure out how we have those basic services in communities. How do we make sure the grocery store is there?

Mr. MONCRIEF. Thank you, Senator Moran. Indeed, we have invested in grocery stores in those food deserts, where people don't have access to healthy foods.

First of all, grocery—the grocery business, if it's nonchain, is very entrepreneurial. It requires all the products that we're talking about, things like SBA microloans, things like some of the money that we use from the CDFI Fund, and others, including venture capital.

We recently did a grocery store in a rural part of Congressman Roger's district, where people had to drive 25 miles to buy any type of grocery. We worked with that business to help it grow. And ultimately, it grew to such a size that it was actually sold out to a larger chain, which really had an impetus in that particular area, so that they brought all of the multiline food products to that particular area.

The problem that we faced in the interior of Appalachia truly is one of healthy foods. There are people that don't have access to the basic amenities in the mountains of Appalachia, much less groceries. They have to drive miles and miles and miles. And according to the Appalachian Region Commission, many times Sunday lunch is a bag of Frito Lay potato chips. So, it is a problem that we're facing constantly, working with entrepreneurs to help them organize and create grocery products in those food deserts.

IMPACT OF REGULATIONS ON COMMUNITY BANKS

Senator MORAN. Mr. Moncrief, one of the other things that you mentioned that particularly caught my attention was about the ability for a local bank to provide lending to a near-failing company, I guess, or a company that was struggling. And it's one of the concerns I have that I've tried to highlight, both here in this subcommittee, but as a member of the Senate Banking Committee. In my view, the regulatory burden that community banks are facing, increasing the cost of being in business, which generally means that either a marginal bank no longer continues to exist in a community or it becomes a branch of some larger banking organization. And I was hoping that you—you don't have to confirm my belief that the regulatory environment is the cause of this, but I would love to have you confirm that there are dramatic consequences to the ability of our communities to survive, to prosper, to grow in the absence of that hometown financial institution. And if we can alleviate that trend, or reduce the likelihood—I suppose I'm willing to see small banks, small financial institutions go out of business if that's the nature of the market forces, there's no option, but for them to go out of business because Government is putting such a regulatory burden upon them that the cost of being in business is so high that they have no choice but to spread those costs among a much larger financial institution—my question to you is, Can you give me the evidence, can you support my premise, that there is a bad consequence that occurs in the absence of hometown financial institutions?

Mr. MONCRIEF. Senator Moran, I would have traveled to Washington, DC, just to answer this very question. It's a very important question. Bank consolidation is the worst threat to rural economic development that exists, so much so that we find banks that we've worked with, in the years that I've been doing this, that we no longer work with, because they've been acquired by a larger regional that's been consolidated, and the corporate headquarters are in a distant city, which means that those banks that aren't bankable, under—according to credit scoring sorts of things, don't receive the financing that they need.

There literally are trillions of dollars pent up in the banking institutions today that cannot be lent because of the regulatory environment that we in, at present. There are banks that I go to every day—a typical example is, today, I was sharing that I am in a problem with a small business, that's paying $5,000 a month for one of its loans, that breached a covenant and is in foreclosure procedures today. It will put about 35 people on the street if we don't avert that, working in the special assets section of this bank, because of regulations that says that this bank had a—or, this company had a loss, it doesn't have quite the cash liquidity, although it is servicing its debt, that bank—that company likely will be sold, likely would go out of business, if we don't avert the foreclosure procedure by that bank.

Regulation is gruesome, is brutal and burdensome, and it is the regulators that decide who to preserve on the balance sheet and take income for those loans.

Senator MORAN. I'm glad you made the trip to Washington, DC. And thank you for confirming both aspects——

Mr. MONCRIEF. Absolutely.

Senator MORAN [continuing]. Of my premise.

Mr. Cruz, thank you for your testimony. The key to our country's future of success is the ability of entrepreneurs and small businessmen and women to succeed. In the process of pursuing a profit or pursuing the creation of wealth, you put people to work. And anytime we can tell the story and see the role model, the success that you provide today, it's a great story for America. And it ought to be goal—and I'm certain that it is—the goal of every Member of the Senate to see that the American Dream can be fulfilled, as you and your family are doing so. Thank you for the inspiration.

Thank you, Mr. Chairman.

Senator DURBIN. Senator Kirk.

Senator KIRK. Well, Mr. Cruz, I also want to congratulate you as an "Augie". I just got back from Augustine, and I'm—yesterday—and President Bahls would be pretty proud of you and what you did. I just moved into, I think, a 600 square foot apartment. So, to think about a 100,000 square foot facility, that is more space than I can possibly imagine, given what I just did.

And, Calvin, you're a fellow Cornellian, and I'm very proud of you, as well, and what you've been able to do here. I don't know if you ever worked with Karen Muchin, very much in the CDFI Fund world—I've known her for 25 years, and very impressed with this—what you've been able to—done.

SBA LOAN PROCESSING

To Mr. Cruz, I should say, gracias, or more—the language you're probably more familiar with, arigato, in Japanese. Let me just ask you about what else we could do for you. One of the big reasons why I ran for the Senate was to enact the Small Business Bill of Rights—10 new policies to help out small business. One of the things I've been worried about is how burdened you are with State and Federal paperwork. And a role for the SBA also to ideally take advantage of 21st century technology and have one Web site, where all of your Federal bureaucracy is taken care of—IRS, OSHA, and EPA. What struck me is how many times you have to write your own name on all of these Federal forms—and address and TIN number and everything else. And it should be the mission of the SBA to farm all this data out to the bureaucracy, with a goal of 200 hours per year, maximum, per entrepreneur, to fill out government paperwork. But, can you describe—how much time are you spending now, and——

Mr. CRUZ. In terms of—thank you, Senator Kirk—in terms of the question on the SBA loan, we were very fortunate, where we had a local SCORE office that was very, very helpful, and we used a company called Growth Corp, who pretty much guided us through the process. And surprisingly, it was very seamless. And it wasn't until after we received the loan and we actually did the construction that I realized, speaking with other people that had tried to obtain an SBA loan, the amount of work and paperwork that they went through, that some of them even gave up. So, I'm—I was very fortunate, where I didn't have that much trouble. And meeting with Mrs. Mills last year, and thanking her for that, she had said that's one of the initiatives that the SBA is working on is, to try to make it easier for businesses, paperworkwise.

ATTRACTING INVESTMENT BY MAJOR RETAILERS

Senator KIRK. Right. Calvin, You've got a big-box store, here. And so, I am totally impressed with what you've done, and think you should keep on going. But, there are a lot of people in Chicago that say, "A Walmart shouldn't come into the community." What do you think of this view that some big boxes are okay and some big boxes—and does that hurt your ability to attract new investment and exactly what you've done?

Mr. HOLMES. So, I knew one of you would give me a very tough question. And I'm not sure I'm in a position to speak to whether or not we should have unions, or not. I can tell you that a number of our constituents really do believe in livable wages. And the union question is a——

Senator KIRK. So, you shouldn't——

Mr. HOLMES [continuing]. Big part of that.

Senator KIRK. You should not be allowed to work with a Walmart, is what you're saying.

Mr. HOLMES. What we do is not finance the big national retailers, per se. We actually finance the developer who's going to bring the brick and mortar envelope to the site for that retailer.

Senator KIRK. Would this have been a bad idea, if Walmart had come?

Mr. HOLMES. We think that it's important to have a wide variety of high-quality goods and services in working class communities, Senator Kirk.

Senator KIRK. Right.

Mr. HOLMES. And we understand that there is a range of national and regional and chainlets that can do that. We are in a community of people who are incredibly concerned about making sure that there are employers who will pay a fair and decent wage to working class families. Some of the retailers are really questionable in that respect. So, there are lots of things that we're trying to get our arms around. At the end of the day, we want a healthy mix of retailers in working class communities.

Senator KIRK. One of the other arguments against big boxes is, all the little retailers on all the other streets who would oppose a Target coming in. How did you handle that?

Mr. HOLMES. I can tell you, I don't have the exact quote, but there is a small business owner who owned a salon just a couple of blocks to the north of the Target store, near the Wilson "L" stop, and her last name actually happens to be the same as mine. And she said, when we were at the grand opening with Mayor Daley, that she welcomed the Walmart sorry, not the Walmart—the Target—because she saw it as an economic engine that was going to increase the foot traffic in the general vicinity. Therefore, she thought she would benefit from having the national retailer so close to her store.

Senator KIRK. I think that's exactly the point. I think the big boxes can totally transform a neighborhood. So, I think what you've done is exactly right. And I'm hoping that we don't have "politically correct" tests. My hope is that your job is economic development, and we keep it on that, without the SEIU or other unions coming in, saying that you cannot work with a certain party who would bring another $150 million into another neighborhood.

Thank you, Mr. Chairman.

FAMILY-OWNED SMALL BUSINESS AND SBA LENDING

Senator DURBIN. Mr. Cruz, if I'm not mistaken, I met your mother and father at a luncheon in Chicago. And I just want to make sure that, although your father receives a great deal of credit, that your mom is also acknowledged.

If you'd like to say a word about her role in the development of your business.

Mr. CRUZ. Thank you, Senator Durbin. My parents wanted to come here so badly, to be part of this, to witness this. My mother and father did, together, start this business. And as a child—I have three sisters, and I remember—there was a time where they were in their—in our small home with a small garage, and both of them were cleaning furniture after smoke damage—thinking that these two people are my heroes. And I will share your compliments with them. Thank you for asking.

Senator DURBIN. If I remember correctly, your dad came to this country with limited English skills and went to work at this business and, when the owner finally decided to give it up, offered it to your father. And that's what launched where you're sitting today.

Mr. CRUZ. That's correct.

Senator DURBIN. It's a great, great story. How did you find out about this SBA program?

Mr. CRUZ. Well, my conventional banker had mentioned the process to me. And 4 years previous, probably 5 years previous, we had started to fill out an application to see if we would be able to obtain an SBA loan. And, like I had said to Senator Kirk, the paperwork was unbelievable. So, I went to a local SCORE office, and they gave me a bunch of literature, and read it, and then found——

Senator DURBIN. For the record, tell us what SCORE is. I know, and I think most of the members do. But, let's put it in the record.

Mr. CRUZ. SCORE are local offices that share information about helping your businesses grow, and specifically the SBA and the different programs——

Senator DURBIN. These are retired

Mr. CRUZ [continuing]. That they——

Senator DURBIN [continuing]. Executives——

Mr. CRUZ. Correct.

Senator DURBIN [continuing]. That give you——

Mr. CRUZ. Correct. Ex-business owners. So, it was very great, talking with them, because they understood our challenges and the time that we didn't have to fill out all the paperwork, and what we needed to do to make it happen. They introduced us to an office that specialized in SBA loans. And again, it was seamless, this what we were able to do is amazing. And I'm extremely grateful to the program.

ADDITIONAL COMMITTEE QUESTIONS

Senator DURBIN. Great. Thank you very much.

I want to thank the entire panel. It's terrific to hear, firsthand, your experience with these Federal agencies, and demystify some of this regulatory gobbledygook, and put it into real life terms. Thank you very much for that.

And we may have some follow-up questions. We'll get back in touch with you.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED TO DONNA J. GAMBRELL

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

Question. Treasury's fiscal year 2010 Performance and Accountability Report states that the Community Development Financial Institutions (CDFI) Fund awardees created or maintained more than 80,000 jobs through loans and investments in fiscal year 2010 compared to the 2008 level of 29,500. As Federal CDFI funding has grown, the program has been able to maintain and actually improve on job creation per Federal dollar spent. Between fiscal year 2008 and fiscal year 2010, funding increased by 250 percent, but job creation increased by 275 percent.

Does the CDFI Fund rely on CDFI self-reporting to determine job creation estimates? Does the CDFI Fund audit awardees after the fact to verify this data and track program outcomes? How else does the CDFI Fund hold awardees accountable after awards are made?

Answer. Each CDFI program awardee is required to sign an assistance agreement prior to receiving an award, which provides the terms and conditions of the award use. Failure to meet the terms and conditions may cause the CDFI Fund to impose one or more sanctions, which may include requiring the awardee to return award funds.

CDFI program awardees are required to self report on their financial performance and community impacts, including job creation estimates[1] annually for a 3-year period following receipt of the award. Award recipients report their annual performance through a Web-based reporting system, the Community Investment Impact System (CIIS). Each awardee has 180 days from its fiscal year end to report key financial performance and community impact data through CIIS. This allows the awardee to complete and support its annual audit and enables the CDFI Fund to verify reported information through desk reviews against the organization's audit.

The CDFI Fund collects full-time equivalent (FTE) data through annual Institution Level and Transaction Level reports. Data is provided by awardees, based on the source[2] listed for their estimates; the data are compared to benchmarks derived from Federal statistical agencies (e.g., Bureau of Labor Statistics) for accuracy and "reasonableness" as defined by the CDFI Fund.

The annual reports filed by awardees detail an organization's financial position, current assets and liabilities, summary of income and expenses, loan purchases and sales, lending and financing activities, portfolio-at-risk, populations, and geography served by target markets, community impacts including job creation and businesses

[1] Jobs maintained are jobs at the business at the time the loan or investment is made. Jobs created are new jobs created after the loan or investment is made. Total jobs are computed as FTEs based on at least a 25-hour work week. Part-time employees are combined to FTEs.

[2] Source of job estimates includes new hires as a result of the financing; estimates based on State or local wage data; estimates based on economic impact modeling systems (i.e., IMPLAN, RIMSII, or REMI); real estate developer estimates about jobs created by type of business and square-footage built; or other sources.

financed, development services, depository offerings, award compliance, and summary ratios used for compliance monitoring.

In past years, CDFI Fund awardees were measured on their ability to increase total assets. While growing assets may illustrate a healthy financial institution, it is critical to know that CDFIs are using their resources to make loans and investments in distressed communities. Beginning this year, awardees are now measured by the number and amount of loans originated during the fiscal year, not the total portfolio outstanding on their books. This helps the CDFI Fund hold awardees accountable for their ability to continually deploy capital each year of the reporting period.

Question. The statute authorizing the CDFI Fund requires that financial assistance awards be matched with funds from sources other than the Federal Government on a one-to-one basis. However, for fiscal year 2009 and fiscal year 2010 CDFI Fund awards, our appropriations bill waived the matching requirement due to the tightening of the credit markets and difficulty in raising funds from philanthropic sources. For fiscal year 2012, the administration requests to reinstate the matching fund requirement for CDFI Fund programs.

Has the economy recovered to the point where the private sector and philanthropic community is now more able to contribute matching funds to enable greater leveraging of public resources?

Would reinstating the matching fund requirement disadvantage CDFIs in the most distressed communities?

Answer. For decades, CDFIs have met the challenge of providing access to capital and credit in communities impacted by economic turbulence. For fiscal year 2012, the CDFI Fund does not recommend waiving the matching fund requirement for CDFI programs. While Treasury realizes that challenges raising private sector matching funds may exist, matching funds address several related objectives. First, private matching funds multiply the impact of scarce Federal funds. A one-to-one match means that each Federal $1 generates $2 for CDFIs and cuts the Federal cost of job creation, affordable housing development, and other community benefits in half. Second, CDFIs use the match requirement to attract private sector contributions. The Federal match encourages private support. Third, private match provides external validation that a CDFI applicant has the capacity to forge partnerships with the private sector. Private providers of matching funds have independently vetted the applicant and demonstrated their support with money. Fourth, a private source of matching funds is more likely to stay involved with a CDFI, often in ways that go beyond the funding itself.

Because demand for the program in recent years has been so competitive, the administration believes that those CDFIs that receive awards from the CDFI Fund will be able to honor the match requirement for fiscal year 2012. However, the administration realizes that many challenges still remain for CDFIs to raise the private sector matching funds that could prevent some CDFIs from applying. While it is likely that the CDFI Fund will not receive as many applications by reinstating the match requirement, the CDFI Fund believes that this is the most responsible way to handle the trust placed by the Congress to provide grants to the highest-qualified applicants.

SUBCOMMITTEE RECESS

Senator DURBIN. I thank those who attended this hearing.

At this point, the hearing stands recessed.

[Whereupon, at 11:20 a.m., Thursday, May 25, the hearing was concluded, and the subcommittee was recessed to reconvene subject to the call of the Chair.]

MATERIAL SUBMITTED SUBSEQUENT TO THE HEARING

[CLERK'S NOTE.—The following testimonies were received subsequent to the hearing for inclusion in the record.]

PREPARED STATEMENT OF THE COMMUNITY DEVELOPMENT BANKERS ASSOCIATION

The members of the Community Development Bankers Association (CDBA) thanks Chairman Durbin and Ranking Member Moran for the opportunity to submit testimony on the Obama administration 2012 budget request for the Community Development Financial Institutions (CDFI) Fund of the Department of the Treasury. We thank you for your past support of the CDFI Fund, the community development finance sector, and the Low and Moderate Income (LMI) people and communities we serve.

We strongly urge you to support the President's budget request of $227 million for the CDFI Fund. CDBA is the national trade association of the community development bank sector. We are the voice and champion of banks and thrifts with a mission of serving LMI people and communities.

Currently there are 91 certified CDFI banks with approximately $28.3 billion in aggregate total assets and a median asset size of approximately $200 million.[1] While we account for less than 10 percent of the total number of CDFIs we comprise approximately 50 percent of the total assets of the CDFI industry.

CDFI banks are regulated FDIC-insured financial institutions subject to the same standards and regulatory scrutiny as other traditional banks. Yet, we are distinctively different as demonstrated by our track record of commitment to our communities. All of CDBA's members have been certified by the Department of the Treasury as CDFIs, meaning at least 60 percent of their total activities are targeted to LMI communities—with most targeting significantly more of their resources to these areas. As documented by analysis of the National Community Investment Fund (NCIF)[2], significantly more of our lending and service activity is concentrated in low- to moderate-income communities than traditional financial institutions.

CDFI banks provide financing that is catalytic in sparking economic activity within their communities. For example:

—The Central Bank of Kansas City is financing an exciting economic revitalization project in the long-neglected Rainbow Corridor of Kansas City, Kansas. 39Rainbow is a 26,000+ square foot mixed-use retail, residential, and hotel development that will create hundreds of jobs and serve as an anchor to spark the revitalization of the surrounding neighborhood. The project has strong civic support with the city of Kansas City (KS) and State of Kansas providing tax and development incentives to promote investment in the urban core.

—The Pan American Bank helped the Velez family grow their small wholesale seafood business—which serves food product retailers in Chicagoland. Pan American financed El Ray Seafood's expansion to larger facility and it has now grown to employ eight people.

—The International Bank of Chicago enabled the Trinh family to expand their tofu and bean sprout production business through a loan to buy a warehouse in a low-income Chicago neighborhood. The business couldn't fully respond to customer demand due to the limited size of their facility. Now settled into their new facility, they have just hired two additional employees.

—Southern Bancorp helped stabilize and expand Strohm Manufacturing located in Clarksdale, Mississippi, one of the poorest counties in the South. Following the death of the founder and increasing global competition, Strohm struggled

[1] SOURCE: FDIC call report data at March 3, 2011.

[2] National Community Investment Fund's annual Social Performance Metrics analysis (*see* http://www.ncif.org/).

to stay in business. Southern Bancorp helped restructure this family's business debt and provided them with a line of credit. Strohm now employs 10 people.

Illinois is home to 43 certified CDFIs—of which 16 are CDFI banks. Illinois CDFIs have received more than $115.5 million in support from the CDFI Fund since 1996. This Federal money has been absolutely critical to combating long-term poverty, unemployment, and social ills of too many Illinois communities and citizens. Loss of—or reductions in—funding for the CDFI Fund will have a direct and immediate impact on our ability to serve our communities and facilitate economic recovery and job creation.

Since 1996, hundreds of CDFIs and banks have participated in the programs of the CDFI Fund. The programs of the CDFI Fund have a proven, documented track record of creating impact and have become invaluable in helping banks find ways to serve credit markets and communities that otherwise might not be served. The programs of the CDFI Fund use very modest public resources to leverage large amounts of private dollars. Analysis by the Treasury Department estimates that the leverage factor is as high as 20 to 1. This finding makes the CDFI Fund one of the smartest investments of Federal resources to solve some of the Nation's most critical economic problems. The CDFI Fund is truly one of the Federal Government's best market-based strategies for leveraging and channeling needed resources to our most challenged communities.

CDBA wholeheartedly supports all of the CDFI Fund's programs. The CDFI Fund's Bank Enterprise Awards (BEA) program is particularly important to CDFI banks and the communities they serve; it supports new investment in CDFIs of all types and provides resources to reach the most underserved communities. BEA resources are well-targeted to the neediest communities by requiring that direct lending and services be targeted to places with at least 30 percent poverty and 1.5 times the national unemployment rate. BEA is also focused on the smallest and most mission-focused banks. In fact, since 2007, CDFI banks have received 78 percent of all BEA awards and the smallest banks (with less than $250 million in total assets) have received more than 57 percent of all funding. Of the $227 million requested in the President's budget, we ask that at least $22 million be reserved for the BEA Program.

We fully recognize that Federal appropriators face great challenges this year. But, as you know, low-income families and communities are among the hardest hit during periods of economic distress. This recession has been no exception. The CDFI Fund has already endured a $20 million cut in funding between fiscal year 2010 and fiscal year 2011. In the interests of promoting new jobs and economic recovery in the hardest hit rural and urban communities of our Nation, we urge you to maintain fiscal year 2011 funding levels of $227 million for the CDFI Fund in fiscal year 2011. Any further reductions in the CDFI Fund's appropriations will directly result in the loss of jobs, affordable housing, and small business credit that will be felt across the Nation in the places that need it most.

We strongly urge you to support continued funding at the fiscal year 2011 level and as requested in the President's budget.

We thank Chairman Durbin, Ranking Member Moran, and the members of the subcommittee for the opportunity to express our views.

LETTER FROM WOMEN IMPACTING PUBLIC POLICY

MAY 18, 2011.

Hon. RICHARD J. DURBIN,
Chair, Subcommittee on Financial Services and General Government,
Washington, DC.

DEAR SENATOR DURBIN: We are writing to express our views on the Small Business Administration's (SBA) proposed budget for fiscal year 2012. Women Impacting Public Policy (WIPP) supports funding for programs and services that benefit the women-owned business community including the Women's Procurement Program, Women Business Centers (WBCs), and SBA's Office of Advocacy. WIPP is a national, nonpartisan organization representing 54 organizations and more than 500,000 women business owners nationwide.

WIPP supports the proposed $1 million funding for the Women Owned Small Business Federal Contract program included in the President's proposed budget. This program, which has taken 11 years to enact, is designed to give women-owned businesses greater access to Federal contracting. It will allow contracting officers, for the first time, to restrict competition for Federal contracts to women-owned businesses. This program will also assist Federal agencies with reaching the Federal goal of awarding at least 5 percent of contracts to women-owned businesses. Central to the success of this program are procurement center representatives (PCRs), breakout procurement center representatives (breakout PCRs), and commercial marketing representatives (CMRs). We supported increased funding for PCRs, breakout PCRs, and CMRs because of their importance in ensuring small business participation in the procurement process.

In addition, we support the proposed $14 million in funding for Women Business Centers (WBCs). WBCs provide essential training, counseling, and mentoring to help women looking to start or grow a successful business. According to the SBA's Office of Entrepreneurial Development (ED) 2010 Impact Report, WBC's clients who received 3 or more hours of counseling reported a 47 percent increase in sales while clients who received less than 3 hours of counseling reported only a 36 percent increase in sales. Businesses that receive assistance from WBCs have significantly higher survival rates that those businesses not receiving similar support.

WIPP also supports the Microloan and technical assistance (TA) programs at the SBA. These programs support entrepreneurs and small businesses seeking grow their businesses in underserved communities across the country. In addition, we support continuing the PRIME program, which is the only major program designed to provide TA funding to intermediaries which are not lenders.

Last, we support funding for the Office of Advocacy. WIPP supports the President's recommended funding of $9,120,000 for SBA's Office of Advocacy. Small businesses need to have an independent voice in Federal regulatory process.

We urge you to support funding for these important programs.

Sincerely,

BARBARA KASOFF,
President.