

## **U.S. House of Representatives – Committee on Financial Services**

### **Hearing on: “Community Development Financial Institutions (CDFIs): Their Unique Role and Challenges Serving Lower Income, Underserved, and Minority Communities”**

**Planned Testimony: Janie Barrera, President and CEO, ACCION Texas-Louisiana  
Tuesday March 9, 2010, 2 pm**

On behalf of the Board and Staff of ACCION Texas-Louisiana, thank you for the opportunity to share our insight into the current impact, challenges, and opportunities related to the CDFI fund program. As the nation’s largest non profit lender with a 16-year track record of sustained growth in size and footprint, we are uniquely qualified to speak on the current CDFI environment. The Committee has asked me to address, as part of my testimony, specific questions related to this topic; I believe my comments will address these questions to your satisfaction.

Our mission as a non profit organization is to provide credit to small businesses that do not have access to funding from traditional commercial sources. Over our history, we have been significant beneficiaries of the CDFI Fund; this fund has, at critical times in our evolution, provided the necessary support to grow our loan fund available to small businesses and to support operating costs associated with our growth. Since 1996, the Fund has awarded ACCION Texas over \$6.8 million total in a combination of grants and loans for loan capital, all of which was deployed, on average, within twenty-four months of receipt. We have also received \$132,000 in technical assistance grants used to support technology upgrades. These funds have been essential in our expansion beyond our initial office in San Antonio to 14 offices across Texas and Louisiana.

The overall impact of the sizable aggregate CDFI fund investment in Texas combined with the additional support received from other traditional funding sources such as foundations, financial institutions, and corporations, is significant. We have disbursed over 10,000 loans totaling \$94 million to over 7,000 small business clients in our market area. The average loan size is \$14,000 and the average credit score of our borrower is 575. We have a historical loss rate of 6%. Funds disbursed directly resulted in the creation of 2,200 jobs and the retention of 4,000 more. The importance of the CDFI Fund in maintaining this level of performance becomes even clearer in challenging economic times, when funding from other sources is often reduced or curtailed. The recent economic downturn has had a substantial impact on our activities, both positive and negative. As “traditional” credit markets have tightened and loan approval criteria have become more restrictive at the bank level, we have seen a 20% increase in demand, which of course has had a positive impact on our monthly loan production which has averaged over \$ 1 million for the last 40 months. New loan originations increased in 2009 to a record \$16 million; with overall portfolio growth of 20% to \$26 million. However, this increase in demand in the current

downturn has also brought us a greater number of unqualified applicants, thus declines have risen as well.

As with nearly every lender, ACCION Texas experienced a challenging 2009 with respect to maintaining our historical standards for credit quality. Charge-offs were the highest in our history at \$2.4 million caused primarily by a sharp increase in both Chapter 7 and 13 bankruptcy filings. Delinquencies rose significantly in first and second quarters of 2009, but were brought under control as the year progressed, returning to historical levels (94% repayment rate) by FYE 09 (see attached graph). While charge-offs were sizable, we remain confident in our ability to manage our portfolio, especially when our historical portfolio quality is viewed over a longer period of time. We have used our portfolio repayment experience, along combined with appropriate credit underwriting standards, to develop a proprietary underwriting platform to evaluate loan requests. We use this platform to help the CDFI industry. We now provide underwriting services for CDFI's nationwide with a current client base of 13 organizations. Despite the consistent 20% annual growth in our portfolio, the ever-increasing demand for our services (and the associated costs) continue to provide challenges from a liquidity perspective. We continue to maintain a heavy reliance on fundraising to support our growth. A current example is our pending \$2MM CDFI Fund request to provide loan capital for continued expansion in Louisiana. We view our continued heavy reliance on financial institutions, especially given the current state of the banking industry, as a significant operating risk for our organization and our plans for growth. While we continue in our efforts to diversify our support base into new areas such as individual donors, it is clear that to ensure funding capacity exists for micro entrepreneurs, federal support such as the CDFI Fund remains a necessity.

An example of a State program that is no longer active because the fund sits empty is the The Texas Capital Access program (TCAP). TCAP was established during the 1997 legislative session, the state fund helps banks and CDFI's establish loan-loss reserve funds for increased-risk loans. The program is available to businesses of up to 500 employees. From March 2002 to November 2004, ACCION Texas was able to leverage \$200,000 from the TCAP to make "high-risk" loans to start-ups and small businesses. The TCAP fund helped us disburse 830 loans totaling \$5,183,701. That created or sustained 2,151 full-time jobs across Texas, costing the state \$93 per job. In 2010, with ever more people needing access to capital, ACCION Texas and other CDFI's are positioned to provide funding to those waiting for loans if the dollars are available to lend. Again, the fund is inactive because its fund sits empty.

I have been asked to provide feedback on what could be done in to help ACCION serve more people and communities in our market area, both the short-term and long-term. As noted, adequate funding to meet the demand of our markets remains our primary challenge; this challenge becomes greater as economic conditions adversely affect the capacity and decision-making of our traditional funding sources. It is our hope that recent federal efforts to increase

the flow of funds to small businesses (such as loan guarantees or other stimuli) are extended to CDFI intermediaries like ACCION Texas. While recent efforts to encourage community banks to provide more loan capital to small businesses are certainly welcome, the importance of CDFI intermediaries as an alternative, growing funding source warrant their inclusion in these programs. As noted earlier, we get the money out into the street. Our deployment ratio is 90%. Additionally, given the urgency of demand and the desire to more quickly stimulate an economic recovery based in part on small business growth, I suggest revisiting the CDFI Fund application and evaluation process to identify opportunities to streamline and quicken the process, especially for prior beneficiaries with a proven successful track with CDFI funds.

Our requested action steps to improve the CDFI funding process are to 1) streamline the application, 2) earmark a higher level of funds for the program, 3) adjust the funding schedule to allow for more frequent distribution than annually, 4) modify fund restrictions and caps to better accommodate proven fund performers, and 5) establish a loan guarantee fund for CDFI intermediaries using state programs like the Texas Capital Access Program.

It is my hope that my commentary will prove to be beneficial as you evaluate the current state, and potential revisions, to the CDFI Fund process. We have benefitted greatly from the Fund, and are hopeful that Fund grants will continue to be a key component in the expansion of our market area and in the deepening of our penetration of our existing markets.

Thank you for your attention and consideration.