Order Code RS20286
Updated December 28, 2000

CRS Report for Congress
Received through the CRS Web

Reauthorization of the Community Development Financial Institutions Fund

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Summary

The Community Development Financial Institutions Fund was established by P.L. 103-325, enacted in August 1994. The purpose of the Fund is to provide credit and investment capital to distressed urban and rural areas through grants to qualifying community based organizations. The Fund's programs also provide technical and training assistance. In addition, the Fund's Bank Enterprise Awards (BEA) program funds depository financial institutions that increase their lending and provision of financial services in distressed communities. The fund is managed by the Secretary of the Treasury. From FY1996 through FY1999 Congress has appropriated $270 million to fund the CDFI Fund. The CDFI's Fund authorization expired September 30, 1998. Legislation, H.R. 629, to reauthorize the CDFI program for four years was introduced but not passed in the 106th Congress. This report will not be updated.

Background

In 1992, President Clinton proposed using development banking institutions to facilitate community economic development as part of abroad Administration effort to bring greater capital and investment into America's economically distressed areas. Legislation was introduced in the 103rd Congress to establish a fund to facilitate the operations of financial entities, with the primary goal of revitalization of low-income communities. These entities came to be collectively referred to as community development financial institutions (CDFIs). CDFIs include community development banks, community development credit unions, non-profit loan funds, microenterprise loan funds, and community development venture capital funds.

There was general agreement between the Congress and the Administration on the need for rebuilding poverty-stricken and transitional neighborhoods. An additional goal was to bring economic opportunity to individuals living in markets underserved by the financial services industry. Providing access to credit and investment capital is a primary step towards creating and retaining jobs, revitalizing neighborhoods, developing affordable housing, and supporting small businesses.

Two laws, P.L. 103-325 and P.L. 104-19, established the CDFI Fund and provided for its management. P.L. 103-325 enacted in August 1994 created the CDFI Fund as a wholly owned government corporation. The intent of the legislation is to facilitate the flow of lending and investment capital into distressed communities and to individuals who have been unable to take full advantage of the financial services industry. Funding for the CDFI Fund programs is provided through the annual VA-HUD-Independent Agencies appropriation.

P.L. 104-19 enacted in July, 1995, placed the Fund within the Department of the Treasury and the Secretary of the Treasury was given the authority to manage the Fund. In addition, P.L. 104-19 allocated one-third of the appropriation for the CDFI Fund to the Bank Enterprise Act (BEA) program. This program was authorized in FY1991 but was never funded. The law redesigned the original BEA program to function as a companion to the CDFI program and the name was changed to the Bank Enterprise Award program. The purpose of this program is to increase activity and innovation from traditional banks and thrifts in distressed communities. A major goal is to form partnerships between banks and thrifts and CDFIs. The BEA program is still administered by the Treasury Department

Under the CDFI program the Fund provides financial and technical assistance to selected applicants who are selected through a competitive process. To be eligible, an entity must first qualify as a CDFI. In general, a CDFI must have a primary mission of community development, be in the business of providing loans or investments, and serve a defined investment area and/or targeted population. An organization is judged by its business plan, financial viability, history of operations, experience of the management team, and potential impact on the community. The Fund administers a CDFI certification program. The applicant must obtain matching funds equal to the amount of financial assistance. Matching funds must be from sources other than the federal government. Matching funds are not required for technical assistance. There is a limit of $5 million for each applicant in any 3-year period.

BEA program awards are also distributed through a competitive applications process. The awards are based on increases in “qualified activities” engaged in by the bank or thrift during an assessment period. Program participants receive funds after the successful completion of specified activities. Qualified activities include investing in or otherwise supporting CDFIs and increasing loans, services, or technical assistance to distressed communities. Federal regulations established procedures for calculating award amounts based on the activities engaged in by the bank or thrift.

History of Funding

Funding for the CDFI and BEA programs was provided for the first time in the FY1996 VA-HUD-Independent Agencies appropriation. Calendar year 1996 was the first full year of operations. The CDFI Fund has successfully survived several congressional budget cutting attempts that would have eliminated the Fund. Congress appropriated $45 million for FY1996, $50 million for FY1997, $$80 million for FY1998, and $95 million for FY1999. By September of 1999, the CDFI program had made over 358 awards totaling more than $215 million to CDFIs in 48 states, Puerto Rico, the Virgin Islands, and the District of Columbia. In addition, a total of $90 million in BEA awards has been distributed to 226 banks and thrifts in 31 states and the District of Columbia.[1] In October 1999, P.L. 106-74 appropriated $95 million for FY2000. In October 2000, P.L. 106-377 appropriated $118 million for FY2001.

Reauthorization and Ongoing Policy Issues

The authorization for the CDFI Fund expired on September 30, 1998. The enacting legislation, P.L. 103-325, provided for an authorization period from FY1995-FY1998 for the CDFI Fund. Funding was extended by Congress for fiscal year 1999. Congressional oversight of the Fund's early awards procedures raised concerns. Critics of the CDFI Fund felt it was necessary for the Treasury Department to address those concerns before congressional consideration of reauthorization legislation. Congress continues to monitor the operations of the Fund through its oversight activities.

In 1997, the House Banking and Financial Services Subcommittee on General Oversight and Investigations raised concerns over the Fund's operations. The Subcommittee charged that CDFI officials had failed to use an objective scoring system in choosing award recipients during the first round of funding. Certain procedural irregularities, involving improper documentation, were uncovered.[2]

The Treasury Department asked the Inspector General to conduct an internal investigation. The Inspector General issued a report that concluded actions were taken by CDFI officials in an effort to mislead congressional investigators. The Secretary stated that a serious error of judgment was committed by Fund officials. The Secretary also found that all grants were awarded based on merit. The Treasury Department worked closely with the Fund to strengthen its internal systems, controls and procedures. In August 1997 two Fund officials (the director and a deputy) announced their resignations.[3]

A new director was appointed in January 1998. Over the next 18 months the Subcommittee's concerns were addressed and steps were taken to ensure proper internal controls and accountability. The Fund's independent auditors, KPMG Peat Marwick, verified that the Fund had corrected all material weaknesses identified in previous audits and that no new material weaknesses were found.[4]

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[1] U.S. Congress. House. Committee on Banking and Financial Services. H.R. 629: The Community Development Financial Institutions Fund Amendments Act of 1999. Hearing, 106th Congress, 1st session. June 9, 1999 and the Department of the Treasury.

[2] U.S. Congress. House. Subcommittee on General Oversight and Investigations of the House Banking and Financial Services Committee. Review of Management Practices at the Treasury Department's Community Development Financial Institutions Fund. Committee Print 105-2. June 1998. p.1-8.

[3] Ibid., p.340-344.

[4] U.S. Congress. House. Committee on Banking and Financial Services. H.R. 629: The

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The Legislation

Legislation (H.R. 629) to amend P.L. 103-325 to reauthorize the CDFI Fund was introduced on February 8, 1999. On May 26, 1999 the House Banking Committee unanimously passed H.R. 629, the Community Development Financial Institutions Fund Amendments Act of 1999. The legislation would authorize annual appropriations for the Fund for the next four fiscal years and provides additional management controls for the Fund.

H.R. 629 would authorize funding for the CDFI Fund for FY2000-FY2003. The legislation provides for funding levels of $95 million, $100 million, $105 million, and $110 million, respectively. Technical amendments codify the Fund as a wholly owned government corporation under the jurisdiction of the Treasury Department.

The bill provides for new management controls and new reporting requirements. The Fund would be required to use a scoring system as one tool in the evaluation of applicants. The scoring system would be applied by a multi-person review panel of at least three persons. The fund's annual report to Congress would include information on the use of outside consultants and any material weaknesses identified by external auditors.

In addition, H.R. 629 amends a program, the Small Business Capital Enhancement (SBCE) Program, which was created by P.L. 103-325 but never funded. The law provided the CDFI Fund with the authority to administer the SBCE Program. The purpose of this program is to promote economic opportunity and growth by lending to small businesses. States would implement small business "capital access programs" in participation with depository institutions by creating loan loss reserves. The reserve fund allows financial institutions to make more difficult loans to small businesses. The legislation amends the statute to permit the CDFI Fund to participate in the SBCE Program. The CDFI Fund could reimburse eligible states for a portion of funds contributed to the loan loss reserves.

Finally, the legislation requires the General Accounting Office to submit a report on the Fund to Congress. The report would evaluate the structure and operations of the CDFI Fund.

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[4] (...continued)
Community Development Financial Institutions Fund Amendments Act of 1999. Hearing, 106th Congress, 1st session. June 9, 1999.