

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 966 (Delegate McConkey, *et al.*)
Environmental Matters

Department of Housing and Community Development - Neighborhood Business
Development Program - Community Development Financial Institutions

This bill expands the Neighborhood Business Development Program (NBDP) in the Department of Housing and Community Development (DHCD) to include Community Development Financial Institutions (CDFIs) and allows DHCD to loan money to CDFIs to invest in low- to moderate-income housing development.

Fiscal Summary

State Effect: None. The bill primarily alters the purposes for which existing funds may be used. To the extent it requires administrative changes, the department could handle them with existing resources.

Local Effect: None.

Small Business Effect: CDFIs that qualify as small businesses would be eligible for increased assistance; however, as the overall funding level for NBDP would not change under this bill, fewer small businesses could receive funding.

Analysis

Bill Summary: The term CDFI has the same meaning as stated in the United States Code. DHCD may make loans to a CDFI to help develop, redevelop, or expand a small business enterprise, microenterprise, or low- to moderate-income housing development.

Current Law: NBDP is intended to:

- help develop, redevelop, or expand small businesses and microenterprises;
- stimulate investment by the private sector;
- invest in revitalization projects for small businesses and microenterprises; and
- stimulate political subdivisions to participate in developing and expanding small businesses and microenterprises.

A small business, nonprofit organization, or microenterprise may apply for financial assistance under NBDP. A CDFI may apply for financial assistance under NBDP as long as it meets program guidelines: *i.e.*, it is a small business, nonprofit organization, or microenterprise and meets other DHCD standards.

12 U.S.C. § 4702 defines a community development financial institution as an entity that (1) has a primary mission of promoting community development; (2) serves an investment area or targeted population; (3) provides development services in conjunction with equity investments or loans, directly or through a subsidiary or affiliate; (4) maintains, through representation on its governing board or otherwise, accountability to residents of its investment area or targeted population; and (5) is not an agency or instrumentality of the United States, any state, or any political subdivision of a state.

Background: NBDP was established to provide gap financing for small businesses in locally designated revitalization areas. Loan financing ranges from \$25,000 to \$500,000 for an individual borrower and is designed to supplement private financing and equity from the borrower. Applicants must secure private funding in an amount sufficient to provide a 50% match on State loan funds and provide a 5% equity investment to receive a low-interest or deferred payment loan. NBDP also provides grants to nonprofit organizations whose activities contribute to community-based economic development revitalization efforts. Approximately 70% of NBDP funds are used for loans to private firms and nonprofits and 30% for grants to nonprofits.

NBDP funding also supports the Capital Access Program (CAP), a credit enhancement program. Borrowers and participating lenders contribute a premium of between .5% and 2% of a loan to a reserve fund; DHCD matches the amount of the premium. In addition, the Main Street Program, which helps communities improve the economy, appearance, and image of their traditional downtown business districts, will be funded through NBDP in fiscal 2006.

In fiscal 2003 and 2004, NBDP was funded below historical levels, and DHCD chose to make only \$2.8 million in loans and grants; however, the fiscal 2005 appropriation was \$6.1 million for grants and loans, and the fiscal 2006 budget includes a \$6 million allowance in special funds to support grants and loans. DHCD advises that it expects to

issue the full amount of the appropriation and the allowance in grants and loans in fiscal 2005 and 2006 (including CAP and Main Street Program funding).

CDFIs are specialized institutions with missions of providing financial products and services to people and communities underserved by traditional financial markets. Currently, there are over 600 CDFIs in the United States managing over \$5 billion in assets. There are six generally recognized types of CDFIs:

- community development banks;
- community development credit unions;
- community development loan funds;
- community development venture capital funds;
- microenterprise development loan funds; and
- community development corporations.

The current CDFI industry began to take shape in the 1960s and 1970s building on governmental efforts to address poverty and racial discrimination; however, significant growth in the industry did not occur until the creation of the CDFI Fund in the United States Treasury in 1994 and the 1995 revision of the federal Community Reinvestment Act, which encouraged private banks to invest in certified CDFIs. The fund certifies CDFIs based on the federal definition of a CDFI. There are 17 Maryland CDFIs currently certified by the CDFI Fund, eight of which are in the Baltimore area.

According to the CDFI Coalition, using data from fiscal 2002, Maryland CDFIs have received approximately \$16.1 million in funding from the CDFI Fund since 1996. The CDFI Coalition advises that the largest groups served by CDFIs in Maryland are low-income individuals and minorities and that Maryland CDFIs primarily provide affordable housing development.

State Fiscal Effect: DHCD advises that currently, housing loans under NBDP may only be made to the extent that such housing is tied to a mixed-use development, meaning a clear and primary commercial use must be a central element of the development.

The effect of this legislation would be to increase the numbers of CDFIs eligible for assistance. More CDFIs would be eligible for assistance; CDFIs would no longer have to qualify as microenterprises, nonprofit organizations, or a small business. Further, CDFIs offering low- to moderate-income housing development assistance without a clear and primary commercial use as a central element of the development would now be eligible for financial assistance under NBDP. However, as there is no increase in funding associated with this bill, there would be no increase in expenditures due to adding CDFIs to the list of groups eligible for NBDP assistance.

Small Business Effect: DHCD advises that some CDFIs are themselves small businesses or help to support small businesses; therefore, increased access to financing could assist small businesses.

To the extent that CDFIs focus on housing development using NBDP funding and not on small business development, making CDFIs eligible for NBDP assistance means a smaller amount of money available for small business loans, adversely affecting the operations of small businesses.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Federal Financial Institutions Examination Council, Department of Housing and Community Development, Community Development Financial Institutions Coalition, Department of Legislative Services

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