Panel 4

Joseph Firschein: So, I'm going to jump right in. And, I'm going to kind of do this three basic questions, one sort of a panel one type question, two a panel two type question, and then three a panel three type question. And after every question we'll go to the audience. And, we're going to just take as many questions as we can until we run out of time. So, the panel one question that I'm going to initially direct to Rob, Bill, And Sabeth is we heard a good discussion, I thought, in panels one and two about the impact of regulatory guidance on small business lending. And, panels one and two also addressed the issues of collaboration between traditional financial institutions and community development lenders and support services. There was a long discussion of that in panel two. So really, the two questions that I'm going to ask the three of you, and anybody else who wants to comment on it, is what more, if anything, should federal bank regulators do to insure that banks are getting correct and consistent messaging on regulatory guidance? And two, what do you think are the most promising potential solutions for improving the coordination in handouts between traditional financial institutions and community development lenders and TA providers? So, I don't know, do you want to, do you want to start that Rob?

Robert Hilson: Thanks Joseph. Good afternoon, great to be here today. And, you did say we could go off script now since it's kind of the middle of the afternoon.

Joseph Firschein: Sure as long as it's short, yeah.

Robert Hilson: I flew up here from my hometown, Miami, where I was the last ten days. Not to stir it up, but it was a good week to be in Miami last week. I got to tell you, I looked at the data panel and the topic and I said goodness. You know, after lunch and the middle of the afternoon, and I thought the panel was fantastic. And, it was, I think we covered a lot of provocative things. And, you know, there's this raging debate about demand and credit worthiness and everything. Let me just tell you first off, I am responsible for about 275,000 mostly small business clients at Bank of America. And, we are trying to make every good loan we can. It's been said many times today, you know, it's the lifeblood, it's the ticket to the dance for a lot of other stuff that makes us a lot of money. And, we have second look programs. We have even third look programs that, I know, because I'm sometimes the third look. And I, I'm looking at Kathy so over there but, raise your hand Kathy. She is responsible for small business credit. And, we are trying to make good loans. I want to recognize Marilyn Landis that I get the, raise your hand Marilyn, because she had the courage to ask a really good question at the end, I believe, of the first group. And, it was something to the effect of how do, how do you reconcile the, you know, lending to an established client who's maybe had a lot of good years but has had a couple of really tough years? And from a regulatory standpoint, I mean, there's a conflict there. And, I would agree with a number of the comments made that every situation is different and we're rolling up our sleeves and trying to make it work. From a practical standpoint, I would tell you though, it can be problematic lending new dollars into a situation where we don't have recent historical cash flow. So, I don't know if anybody wants to come back to that later, but thank you for asking the question. It does present a problem because we want to make good loans. Some question about have underwriting standards changed. I would tell you that, I think that they have tightened somewhat over the last two years, but I'd also suggest that they are back to where they were before we saw the, you know, kind of the craziness leading up to the recession. In many cases it's feeling different for clients now as well because we're asking for financial statements, in some cases, where we haven't asked for them in a number of years. And, when we get the financial statements that is leading to a lot of questions. So, it's feeling different from a client's perspective. We are less reliant on credit scores. That came up earlier. We do believe that they are more of a lagging indicator. So, looking at traditional cash flow for repayment of loan is very important. I'll get to your question and then I'll shut up. We have had a lot of discussions with regulators lately. And, there's been heightened scrutiny, blinding flash of the obvious, right. It's appropriate. We have had some challenges particularly in our small business portfolio. So, it is appropriate. And, I can tell you that, and I'm told that we've had more discussions with regulators than in any time in, maybe ever, but certainly in recent memory. We believe it has been productive. Regulators have reached out to us several times over the last few months wanting to brainstorm about how we can fix this credit issue. So, the general recommendation would be to continue to have that dialogue. We think it's productive.

Joseph Firschein: And actually, I'm glad you mentioned that. So one, sort of the blinding obvious given the name of this panel. But, this panel is going to be about pulling together a list of specific next steps. Actually, I've been taking notes throughout the conference and have many pages of them. But, as each panelist is talking, I'd appreciate doing what Rob just did which is specific, specific suggestions and particularly who. So, Bill do you want to take a crack at both of those questions or anything that you heard in panel one in particular?

Bill Bynum: Sure. I'd like to hear the lenders on the first panel. You know, you'd wonder if there's a credit gap. And, I think clearly, that was not the intent. But, credit unions have millions of members. CDFI's are seeing demand greater than we've ever seen. Certainly our demand has increased. Each year since the recession and continues to be stronger than we can respond to with the liquidity and resources that we have. It's clearly there's mixed messages. I'm putting on my credit union hat. There's clear mixed messages in regard to regulatory expectations and guidance. I think some lenders use it as a crutch, quite frankly, to not lend in areas where they don't have the experience to lend. Many lenders in our region don't have a lot. Aren't very concerned about CRA. I think it varies from region to region across the country. But CRA is, doesn't have the teeth in some areas and lenders aren't held as accountable. I think it'd be helpful to see more clear documentation of the guidance with examples. The, that's assimilated to lenders that we can use and have discussion around and as clear examples and we can provide input and get more clear about what's expected by the regulators. And, perhaps, a help center where we can pick up the phone and ask questions and clarification. And, also, I think some of us would not mind having some sort of whistle blower protections, if there's disagreement with our examiners. If we don't feel like guidance is being followed as clearly as it should be and we have different interpretations, then, it's not easy to pick up the phone and go over the head of your examiners. You're a little reluctant to do that, you know. And you want to maintain a good positive relationship with your examiner. But, for example, credit unions our examiners will issue guidance with regard to low income community development credit unions to look at the unique kind of capital structures that we have, to look at the unique borrowers that we serve and to take that into consideration when undertaking our exams. And, I've heard some credit unions say that when they mention that to their examiners, they never saw it. And that's surprising because the chairman of NCUA had a teleconference with all examiners to be very clear. But, I think, some of the regulators are in a CUIA mode. And, that trickles on down and has a significant impact on lenders comfort and ability to extend business credit.

Joseph Firschein: So, I'm going to actually circle back in a second on the question about coordination between the traditional lenders and the CDFI lenders. But, I really want to let Sabeth have a chance to talk about some of the comments that Bill had and anything else you heard this morning about, you know, the response to concerns about regulatory guidance. And, maybe even share with folks some of the things we've been doing and, you know, respond to Bill's suggestions about, you know, maybe an appeals process or help center or more examples.

Sabeth Siddique: Yeah. So, we have heard issues about bankers saying that examiners are being overzealous. We've heard from Barbara saying banks themselves are being too conservative. And so, this issue about supply demand has been coming up over and over again. And, I think, it's really a mixture of a combination of factors both supply and demand. And actually, on this issue about examiners being overzealous. We have repeatedly told banks across the country that, if you have come across a case where examiners, you think, examiners are unfairly implementing the guidance, give us a call. I've given them my number personally and there are other numbers. I have yet to receive one single call. And, this has been going on for over months now. And so, and from time to time I do get a call from, let's say, a banker about, you know, a particular case. And then, when we delve into the details, we find that the examiner was on the right because there were significant credit issues. So, blanket statements remain such as the borrower has, you know, plenty of net worth, yet, they're not getting the loan. And so, then you delve into when was the last time an appraisal was made on the borrower's net worth? And, it turned out it was several years ago. And now, it's a completely different story. So, I would say that we have encouraged institutions to call us in Washington. And, there is also a process in place in the reserve banks to bubble up issues if they think they're being treated unfairly. On the other side, to insure that examiners are interpreting the guidance consistently with what we intended it to be, we have conducted numerous training across the country as well as reach out efforts, ask the Fed, which our Julie Stackhouse has innovated in St Louis and has done incredibly well. And so, we continue to do that and we're very committed to making sure our message is getting out there in a consistent fashion. And, I do want to also thank Rob Hilson and his team along with a few other banks that we've consulted with in developing some of the guidance in making sure the right message about credit availability and lending is getting out to, is out there. We try not to operate in a silo here in Washington. We try to get ideas from the industry. And, all of you have been very helpful.

Joseph Firschein: Alright, and just as a documentation point, the, in your folders, the Capstone summary document does have footnote in it the location as to where you can find the guidance that this is referring to both with respect to small business as well as commercial real estate. So, you can find that there. I think what we're going to do is we're going to give the audience a chance to weigh in on just some of these panel one questions either the regulatory question as well as the coordination question. And then, I'm also going to let our other panelists weigh in. But are there any questions from the audience? We wore you out.

[Silence] Oh here we go, okay there's one in the middle if she can get a microphone. Wait hold on a second, just.

[Inaudible]. but, during the task force in San Francisco that I participated in, it came up very loud and clear, and the two CDFI's feel free to weigh in on this too, that we needed to give more value during the CRA examination to the bank investments, the EQ2 type of hybrid investments, primarily, because we're seeing a retrenchment in California on some of these investments. And, we're really concerned about it because these have been very flexible patient capital in our communities. So, that was one. We'd like to see increased value for that. And then, for the risk mitigaters, when a bank gives a grant to technical assistance. We heard a lot about technical assistance today. We would like to see folks like Bank of America that do a lot of grant making for technical assistance be able to get a higher value on their investment test than they currently do now. We think, and there was an agreement, my colleagues are nodding, that this would be, this would go really far to address the issues that Lesia mentioned earlier today.

Joseph Firschein: Yeah, and just as a, I think, it was mentioned briefly on panel two, I think Don Graves might have mentioned it. But we're in the process of going out on the road and doing a series of four inner agency CRA hearings. We're going to be addressing these very types of issues. So, there's going to be even more opportunity for us to gather some of these particular points. But, so, does anyone responds to either of those, or, on that particular point?

I think they're great suggestions.

Joseph Firschein: Another question, yes, right here in the middle.

[Silence]

Andrea Levere: Directly responding to Claudia. I'm Andrea Levere from the Corporation for Enterprise Development. It's the whole issue, which was barely raised today, which is a huge issue when it comes to small business access to credit but also access to financing, of access to good financial products and services. So, that small piece is how do we get that recognized which we've been talking about, as you know, for over a decade, NCRA. Because, the whole implication of using predatory lenders and check cashers and all those other things without getting access to high-quality financial products and services has an enormous issue if we were to stay and the whole spectrum of small business finance. You know, access to credit is a small piece relative to this. The other piece, though, I think, which also is, I'm listening to this conversation and it is almost the same conversation in terms of small business credit that I heard in 1983 when I started doing SBA 504 lending. And, what hasn't been reflected, and maybe we'll get to this at the end, is the need for profound innovation in all aspects of how we deliver business development services and how we connect to financial products and services and how we link small business to the tax system so they get much better tax advice, and how we think about connecting CDFI's to a much more efficient capital market to get capital. So, there's a whole set of issues around innovation and how we go forward, which, I think, must be on this agenda because otherwise we're having the same conversation where we have the conversation about small businesses and startups not getting access to credit. When, that's the wrong question because it's all about, you know, the risk return analysis we learned in business school. And, startup capital is the highest risk kind of capital and financial institution or a bank is not going to provide it. And so, we need to figure out what's the realistic response even though that wasn't quite what you wanted Joe.

Joseph Firschein: No that's good.

Andrea Levere: Joe, I've been waiting all day.

Joseph Firschein: No that's great.

Andrea Levere: To say that.

Robert Hilson: Can I, can I just add that I think that, to your point, it's going to be even more important that there's a comprehensive solution. Because, it's been said many times today, home equity doesn't exist like it did five years ago. And, access to, you know, credit cards to startup, my friends don't have as much money as they had three years ago. So, I mean, it's points well made.

Joseph Firschein: Does anyone else want to address that?

Bill Bynum: I think this is a critical point. These gaps, you said these conversations were the same ones we've had for decades now. These gaps have always existed, particularly in the space of the CDFI's where you talk about the, talked about the collateral, declining collateral values. Well talk about no collateral values, credit challenges, resource constraints. Well the banks are equal, resource constrains, imagine what CDFI's experience. CDFI's DNA has always been about lending in underserved, distressed, imperfect circumstances. And, since the transition of the new administration, and since then we've been working closely to try to encourage and the increased profile and resources availability to CDFI's to be a part of the financial mainstream financial continuum in this country not just an afterthought, not when it's the CRA consideration to play. But, when you look at where the hardest hit areas or where the areas of highest need, CDFI's have played a critical role in addressing those financing gaps whether it's after 911, lending to nonprofits, lending to small entrepreneurs to micro businesses, after Katrina on the Gulf Coast, now with BP dealing with the fisherman and all the challenges they're experiencing. Banks weren't lending in those areas before these crises in many cases. And, they're going to be the last to lend when, as economy starts to go back. So, it's critical that, if we're going to include everyone in the economic recovery, the CDFI's are better positioned and better resourced both with capital and liquidity but also to address the technical assistance needs. That, not just helps our borrowers become successful and compliable, but also facilitates relationships that we have with many banks. I mean this is a lending continuum. We are part of that continuum. But, we don't have full access to the range of programs that banks have access to, 7A loans, regulated institutions do loan funds don't, tarp funds, tarps over. But the CDFI loan funds still need liquidity to address their needs. So, there's a need to continue these conversations. And, I think, these, this is an important part of that. But, we need to move past the conversations and really get resources in the hands of the institutions so that we can help close the gaps that exist.

Joseph Firschein: Right, and in fact, Sabeth, do you want to just jump in?

Sabeth Siddique: Yeah, and just to help with the innovation, that we've talked about this all day, is information and the lack of information and transparency. And, the way to enhance innovation and liquidity is to provide more information. And that's what's lacking, enough data. We've talked about improving data infrastructure. And, I think, one of the first areas we should focus on in order to help enhance innovation is to get more data and transparency in that area. And, if you look at how different products in the financial markets developed over time, you'll note that the transparency in those markets was the first thing that developed. And that came with data, lots of data and convergence and the price discovery between the bidders and the askers. And, right now, there is a lot of information CDFI's have but there's a lot of information other investors don't have. And, the way to bridge the gap is to increase their transparency between the two markets.

Joseph Firschein: That's actually a great, a great segue into our next point. And I'm going to let, I know there are a lot of people raising their hands. And, I'm going to give you a chance in one second. But just to, to make the segue, because the next question is really that I'm going to ask Ginger, Dan, and Bill and any others to address, really to address some of the panel two questions that we had related to CDFI's the SBA programs, and getting capital into some of these industries. And so, the question is, and I'm going to be very specific to solutions here. In your view, what are the top one to two next steps that should be taken and by whom to improve the effective utilization of either SBA, CDFI fund or other federal programs whether they're be USGA in the case Bill, you were mentioning to me the other day about some of the rural stuff?

But what do you think are the top couple of things? We heard a lot of suggestions in panel two. But, I'd love to, you know, just sort of highlight that. And the second question really deals with capital. And that's what are the top one to two next steps that should be taken and by whom to insure that CDFI's and other community development finders have adequate capital to meet small business loan demand? So, Ginger or Dan, since you haven't had a chance to speak, do you want to start off? And then, we can, we can kind of go from there.

Ginger Lew: If I can comment about the issue about access to credit generally. I mean, we've heard from bankers who say there's no credit gap, we're ready to make loans. And then, we've heard from others who say that, you know, our customers have not been able to get loans. And, I really, it's almost as if you have, you know, two blind people feeling the elephant and feeling different parts of that elephant, you know, in the sense that, there probably. The truth is probably somewhere in the middle in the sense that it depends on where you sit. And, I think, if you're in the domestic emerging markets, if you're a woman minority owned business in particular where we have, in fact, seen a decline in access to capital, continue to see a decline in access to capital, that there, there continues to be challenges. If you are an older well financed or you have a robust cash flow, getting access to capital is certainly less of an issue. I think that small businesses generally have much fewer options in terms of getting access to capital than large businesses. You know, small businesses cannot issue corporate debt, they can't issue bonds. They, even exploring things like factoring etcetera, it's an expensive proposition. So, when you look at the range of small business products are available to them, it's certainly not as robust a range of financial products. And, I think that that is what's, that is part of the problem. I think the other issue that was talked about earlier was this issue of declining collateral. There is, in fact, that. But, I think, there is also another issue and that impacts startups. And we have, we are moving to a knowledge-based economy. We have a lot of companies, startup companies, that are, you know, they're developing software. Okay, they don't have a building, they don't have inventory. And, we don't have sort of standardized methodologies for valuing knowledge and intangible assets. And, I submit that, as we go forward, I think this is going to become a greater issue. Now we now have virtual companies. You know, my son works for a company, I don't, not even sure where it's located anymore. You know, but, it's all done on the Internet, right. I mean, there's clearly no office, there's barely a laptop that the company pays for. And so, you know, I think one of these issues, when we talk about collateral, I think, going forward, we also need to think about what type of collateral are we talking about. And, I haven't heard anybody address this issue of intangible assets because that is critical for startup companies.

Joseph Firschein: Great. And then, just Dan, if you could key off of the Bill Bynum's point about the need for, would it be helpful to have CDFI's be more involved in the SBA guaranteed programs. I know you're a CDFI that does that if you could just describe that process and just provide your perspective on it.

Dan Betancourt: I just want to first comment in terms of the bankers comment on the earlier panel. Many of the CDFI CEO's came up to me and said Dan you've got to say something about that. Because, one of the things that happened to CDFI's is we continue, we've always lend to our traditional markets which are obviously, low wealth communities, people of color, and women. But, a lot of the clients that were formally bankable came to us. And so, we had, we're, we had to deal with a situation where you had a client that was profitable ten years and a row and last year they were not. All the sudden, we have to deal with that situation meaning a bankable client and our client. And so, we were sort of squeezed in the middle of having to finance those businesses. And then, at the same time, we had a liquidity issue which is we had much more demand than we were used to. And then, our investors got much tighter. So, that was sort of the issue that was happening with us. And, just one more comment about the earlier, the discussion on regulation. While CDFI's are not necessarily regulated, our investors really got active in the last year. And they asked, I would say their due diligence went up tenfold. And so, my controller was, 50% of their time. I mean, you know Ron right. Fifty percent of my controller's time last year over the past year was talking to our investors. Maybe it was five ten percent in the past. So, it really focused us on around investors. And if felt like regulation. So, it did have an effect of tighten up our, you know.

Joseph Firschein: Well isn't it also interesting Mark Pinsky actually corrected me on this when I was talking the other day is that to be part of the SBA program, right, you're regulated at the state level.

Dan Betancourt: And I'm going to go to that. So, in terms of that 7A, the set, I think there's probably only a dozen CDFI's in the country, and you can correct me with that number, that actually have the 7A program. And, that's an unfortunate situation because it took us, Community First Fund, three years to get the program. And, we got it in 2007. And, one of the major things is that you have to be regulated. Well, CDFI's by our nature are not regulated. So, the unfortunate thing is that it doesn't take into accountability your track record. So, whether you have a Cause rating that OFN Market has really worked on the CDFI assessment rating system, your track record doesn't matter. So, even if you have a great rating, you can't get the 7A program. So, we did it the hard way. I don't think other CDFI's need to be in the position to get the 7A program. We've done, again, we worked on that program prior to the recession. And fortunately for us, over the last year, we've been able to lend millions of dollars in the program, in that program. It only represents about 20% of our loans. So, quite frankly, the bank standards and the SBA standards are much higher than even, than our standards. In other words we're doing 80% of our lending outside of that. So, it's a part of the solution, it's not THE solution. There's a number of other things that I would say, if I have a moment, but I'll come back.

Joseph Firschein: Listen Bill Bynum, do you want to just add any other point related to this question of CDFI capital, access to capital.

Bill Bynum: Well just that, we went in through the backdoor as well to get a SBA, become an SBA 7A lender before we started our credit union. CDFI's are not formerly regulated. But, we do undergo a great bit of scrutiny by our investors banking investors, foundation investors, those that are CDFI certified, submit regular reports. So, there are proxies to get a comfort level with the work that CDFI's do and to make the 7A program available to them particularly if we're looking at the need for the continued shrinking in access capital for startups. You know, 7A has been one of our primary tools to make loans for startups as well as to women and minority businesses. Also think it's important to not leave off the table the gap that exists in rural areas. The Bank of America's Chase Goldman's don't have an office in Alligator Mississippi or lower, very done, very little lending in the lower ninth ward and now in Plackaman's Parish. And so, you know, how do we bring those resources to bare. I think one of the important pieces of the puzzle and intention in addition to increase CRA accountability is to use an intermediary such as National Intermediaries like OFN and Calvert and this Venture Capital Association as well as regional intermediaries such organizations like ours. The CDFI's at work with other nonprofits that can be a conduit to bringing capital into these underserved areas which, to be honest, large megabanks are not going to reach, very effectively in our lifetime.

Joseph Firschein: Actually with that as a seque, I don't know if either somebody from OFN Mark or somebody from Calvert. But, can you just say a word about the intermediary role that you guys are playing in this, in this new program that you have?

Mark Pinsky: Shari [assumed spelling] are you here? I don't know if Shari Farenback is still here.

Joseph Firschein: Let Mark, Mark has it first and then we'll let Wayne. Go ahead Mark.

Oh Wayne's here.

Mark Pinsky: You want to go ahead Wayne?

No.

Mark Pinsky: Okay, I'm Mark Pinsky with Opportunity Finance Network. And, if I can, I'll describe that. I want to make a couple of comments about sort of some underlying thoughts. It's been a great day, a great event. Thank you all the panelists and speakers. So, you want to talk about the communities at work fund. We created a, with Calvert Foundation and Citi, we created a 200 million dollar fund called the Communities at Work Fund that was created through the use of a special purpose vehicle, famous word, right. We all like to talk about that. But, that it's a vehicle that is intended to lend to nonprofit and poor profit businesses on a national scale through CDFI's. And, it was created with a little bit of capital from Calvert Foundation and from OFN, but a large investment from Citi. And what I really, if I can just go off from there. One of the things, to pick up on Bill's point just then. One of the things that's really interesting,we talk about Goldman, but also Bank of America, Wachovia, Wells, Citi, JP Morgan Chase. You put them together and last year they committed more than a billion dollars to, through, to CDFI's to lend to small businesses, right. And there's something behind that. That's not, that's not a nice thing to do, that's a necessary thing to do, it seems to me. And, it seems to me that there's a recognition to Bill's point that, in order to move capital to support small businesses, which we all recognize the need to do, there's a real need to use intermediaries. So, I'm trying to be brief. One other, one other comment I sort of want to make, and then, Wayne, I'll turn it over to you. It just seems to me that there's a question underlying everything we've been talking about today which is whether what's happened in the economy in the last few years, it goes a little bit to Andrea's comment about what things looked like in 1983, 84, right, is are we just seeing sort of a little, is this a little blip or is this a seismic shift in some way? And, is it going to stay or not? Because the way you think about policy solutions and the way you think about the relationship between, it seems to me, between mainstream financial institutions and CDFI's and CDFI's in the markets, all three, both of them in the markets has a lot to do with whether you think this is something that we're going to sort of do for a little while. We'll put a little money into CDFI's and then we'll go back to the way it was before. Or, whether you think that there's a longer, a longer shift. I kind of think it's the latter. And, I think that there's a lot of innovation, to Andrea's point, there's a lot of innovation now thinking about how do you make capital flow in a prudent way whether it's through CDFI's or other means. And how do you bundle that, as Andrea was saying, with other financial products and services and asset building strategies and things like that? I think that's changing for good, or for good meaning ten 15 years, if that's good. And, I don't think it's, and I think we have to think about that. So, when you think about the SBA, 7A, 504, you think about, Bill talked about some of the treasury programs we've been working with for the loan funds. I think, the question is, is there a policy imperative because we know there's an exchange for goods, so, Wayne.

Joseph Firschein: I want to make sure that we have a chance for multiple audience comments related to this panel two kinds of issues both the SPA, the rural ending stuff with USDA and CDFI. I know that, you had a question right here if I can just call on you, the woman in the T-shirt.

Ginger Lew: If I can just make a comment about the rural.

Joseph Firschein: Yeah sure Ginger go ahead.

Ginger Lew: People may not know that the SBA and USDA recently signed a memorandum of understanding to work together on their loan programs. In particular, there's two elements or three elements. One is to build on each other's leverage, each other's network of lending programs and services. Two, they're beginning a process to look at their whole, you know, forms and try to see if they can harmonize that a little bit more. Because we've heard from world banks, that, you know, you have the USDA products and you have the SBA products. And, there's a way to bring those together to more closely align with each other that that would make it an easier time for them. And, I think, the third component is to provide the type of, again, the training for the USDA Network which has, doesn't do the volumes that SBA does. So, I think that's important to see.

Joseph Firschein: Great that's helpful. Go ahead, I know you've been waiting for a long time.

Penelope Douglas: I'm Penelope Douglas from Pacific Community Ventures. And, this was a question earlier. It may turn into more of a comment. But, I'll try to be really brief. But, one of the observations that I had earlier today was that we were talking still in silos. And, I think, as the day's progressed, we've gotten a little away from that. But, one of the things that, I think, everyone around the room has in common for sure is each of us is deeply in a practice of some kind. And, you wouldn't have invited us here if you didn't view us as the experienced players. And, I hear, at least, three business models that are being talked about. We avoid certain words, we don't say the non-bankable. We don't say, the almost bankable. But, you know, we all have successful business models that satisfy a particular part of the continuum that if anything today really requires a very comprehensive non-siloed set of, set of solutions for us. So, to the extent that it's possible to really try to avoid having too many goals, but to really try to pick those top priority one or two goals that we think we can accomplish and then really try to look to those who are willing to be accountable to standing up for a good business model that we think will produce the results and accountable for that result. I honestly think, you know, some of those, some of those objectives will be better met. And, the one theme that's been overarching across the entire day, which I want to go back to because I actually think it meets the business need of each of these business models and also can be very innovative is in this area of advisory services or technical assistance. I prefer to call it advisory services. And, it absolutely has to meet the needs both pre- and post-financing whether it's debt or equity investment of these small companies. But, I can't think of a single one of our banking partners or a single one of my CDFI colleagues or today any one of my micro lending colleagues who doesn't now fully embrace that. Advisory services are a supporting structure.

Joseph Firschein: Right.

Penelope Douglas: to the underserved community in the United States.

Joseph Firschein: Great, thanks for sharing that. I know the gentleman, a couple down from you, who had his hand up, he's been eager to speak. And then, we're going to go to our third question.

I'll be real quick, 90 seconds. Equity, now I'm a banker, I work with one of the largest banks in the country BBandT. But, what I don't hear a lot of discussion about is equity. And, I hope that that becomes a discussion or follow up point, primarily, because there's compression of real estate values. We're cash flow lenders. We're always looking at that 1.2, 1.25 ratio. But with compression of real estate values the fact that people don't have secondary collateral, there needs to be some form of, sure enough, these businesses either startups, restarts and other places like that. So, my question would be particularly to Miss Lew, is, has the administration considered ways to invest in these businesses or make funds available through CDFI's and community development, venture capital funds, through the SBIC program, one that Wayne's talking about emerging enterprise, I mean just equity that helps us make deals and have a secondary source of repayment or some mitigation because of the collateral shortages right now?

Joseph Firschein: That's a great question. Ginger do you want to take that, maybe Bill Bynum?

Ginger Lew: There's really two programs that are, you know, under consideration. One is, under the House Small Business Bill there was a provision to establish a seed SBIC program. And, that passed the House. It's now under consideration on the senate side. Then there is, in fact, the State Credit Capital Program which, if you look at the language that's been proposed, is extremely flexible. It could be used for a revolving loan fund. It could be used for a regular lending program by the State. It can also be used as an equity investment tool. So, and it, can also be used as a loss, loss loan reserve fund. So, there are a variety of iterations that can be associated with that particular program.

Joseph Firschein: Okay, Bill did you want to make any comment just on the issue of venture capital or just equity or are you good.

Bill Bynum: No, I'm fine, I think, one point, again, equity, about equity, in that, I know there's been some challenges over the years to how effective SBA and new markets have been in reaching communities of highest need and CDFI's that are operated by minorities. We heard comments earlier about the Latino population, I think. Minority led SBIC's I think, are important as well. And so, as these programs roll out, I think, it's critical to look at where those gaps are that may not be adequately addressed, have not been adequately addressed historically.

Joseph Firschein: Okay, good. So, what I'm going to do is I'm going to go into my third panel. It may not even take the full 15 minutes for it because I want to make basically have a catch all for anyone who just have sort of absolute things that we need to do as next steps. But, really what I want to do is address some of the panel three discussion. And then, I'm going to ask Ginger and Sabeth to help lead this discussion. But really, quite simply, based on the whole data conversation, what do you think are the key one to two next steps that can be taken by whom to help close data and research gaps.

Ginger Lew: This is, this issue was something that we confronted early on in the administration when we came in and found outdated data. And it was extremely frustrating to think about how we formulate policies when it wasn't really driven data or based upon data that was timely. And so, I think, having the FDIC call reports modified so that they were done on a quarterly basis would be really critical. I think the other is to segment the loan reports. So right now it's being done on an under one million or less, I mean, under one million. But really to segment that further so we start getting data on loans that are 100,000 or less, 100,000 to 250,000, 250,000 and a million because that starts giving you information about the smaller borrowers and the banks that are doing those types of transactions and where they're happening. I think another thing is to also go up the value chain a little bit and collect data on loans approximately three million and up to four million. As you know the president has called for increasing SBA loan sizes up to five million dollars. The current two million dollar limit was implemented back in the late 1980s and has never been adjusted even for inflation. So, clearly, we're talking about a loan amount that needs to be looked at in more modern times.

Joseph Firschein: Okay, Sabeth any comments on this one?

Sabeth Siddique: I agree with Ginger. Now, on the call report, we've already started collecting quarterly information on the same exact information we've been collecting on an annual basis on small business loans or small loans we are now collecting them on a quarterly basis. I do think it's time to get more robust data on,in this sector. We have for some time been getting a lot of information on large loans. We call it the large syndicated loan market or SNICS. That's what our regulators call it. And, in that market we can slice and dice information by borrower industry type probability of default, type of facility and so forth. So, I think we should be migrating towards that direction given the importance small business has in the economy. And, you know, burden I buy to a certain extent. But, look, we got, we know when Lebron James called the media to announce where he's going to end up, we know in one day that ten million viewers, you know, tuned in. So, if we can do that in one day, why can't we collect data in such an important sector?

Joseph Firschein: Maybe ten million people will actually read our call reports.

[Laughter] Alright, so what I'm going to do now is I'm actually going to open this wide open. So, questions don't have to be on, specifically on this panel three type things but they can be. But we essentially will take audience questions till about five minutes after. And then, I'm going to give the panelists ten minutes to go through and make any final points. And then, at 5:15, Governor Duke will make some remarks, so.

Bill Bynum: Joe can I point out.

Joseph Firschein: Yeah sure.

Bill Bynum: About the data. Currently the cutoff for mandated reporting is a billion dollars on, and this really limits what we know about small business lending in rural areas because most of the lending is done by small community banks or CDFI's or credit unions. And so, we don't have a lot of data around what's going on in rural areas. And so, to be a little at risk of getting groaned at, maybe consider decreasing asset side of the banks that are required to report small business lending or either conduct a study to try and quantify what the gap is, what information we need in rural areas is something we should take a look at.

Joseph Firschein: That's good, and actually, in the spirit of Bill's last comment, for the next few questions or comments, if you can make it specific to a solution that you think that we should consider as we're looking at next steps. I know you've had your hand up. So right there in the front row, yeah.

I respond this way. In Los Angeles, we're starting to see a phenomenon of disillusionment. You know, we talk about then employees start looking for jobs because to complicate the unemployment rate. Do you believe we're starting to see the same thing with small business, small businesses disillusioned not looking for capital. Even businesses who have to ability to borrow simply are getting tired of being told no. And what would the banks, what would the Federal Government, what would the CDFI's do to begin to be able to get past that perception?

Joseph Firschein: Anyone want to take that one?

Ginger Lew: I think Zoltan on the previous panel mentioned something about, you know, first of all, I think you're asking one of the assumption is, you know, you're asking how long will this recovery process take? If you believe that it's going to take more than, you know, the remainder of this year and perhaps even part of next year, then the question is, is there in fact a role for the Federal Government? And, you know, the president has proposed that the SBA loan guarantees, the 90% guarantees and the fee waivers be extended through 2010. And, it's my understanding that the Senate Small Business Jobs Bill actually proposes that for a longer period of time. But I, but I think it goes to this broader question of how can we incentivize, continue to incentivize banks to step up to make the types of loans to businesses that are, I want to say, on the margins who are doing okay and making it and just need a little bit of capital to either buy expand their inventory or, you know, fulfill some orders? And, I think, the challenge is providing some long term steady responses. I mean, this short term reauthorization of 90% guaranteed, it's extended for 30 days or 60 days. It's hard not only for the banks to do business it's hard for SBA to do that type of business. And, it's hard for small businesses to decide whether or not they should, you know,get into the market and apply for the loan. So, something with a longer tail, I think, is really important.

Joseph Firschein: Okay, I know at the end Dan Letendre you had your hand up so you want to go ahead.

Dan Letendre: Thank you. Dan Letendre CDFI lending and investing at Bank of America. My question's for Bill and for Dan. When Joe started the panel, he asked you to comment on the one or two things that the government can end up doing, particularly the Federal Government can do to make it easier for you to finance the small businesses. Can I ask, at the risk of probably raising expectations, what would be the one or two things that financial institutions can or should be doing to help CDFI's for their events lending to small businesses? Or, is it grant support, as Penelope said, for technical assistance loan loss reserve, is it loan capital that we really need right now? Is it referrals of small business candidates or some or something else in that category?

The first that I would say Dan is.

They call it slow pitch, right.

[Laughter]

Right down the middle. Were you the plant that I talked about? I think the first is the investor and what I talked about earlier the regulation like from our investors including bankers. And, I'll keep harping on the CDFI rating system. I really think that I'd like to see more bankers really using that and really putting more faith on that because, obviously, it's very obvious to me that banks re-underwrite even those Cause report's very extensive. So, I think just that amount of effort using that rating even more than ever would be helpful.

Joseph Firschein: Actually, if I'm not mistaken, Dan you're one of the first.

Yeah, he, I'm not talking about Bank of America.

Joseph Firschein: I know I'm just saying but that's a good model that you know actually using cause ratings to sort of guide your underwritings. That's good on the continuance side.

And then, the second part is what someone said earlier was the EQ2. That's the equity like investments which I know the Bank of America does or at least PRI's. And I think more of that because that's one of the things that hinders our growth is the amount of debt that we can, we can take on to the extent that we can get more equity. We can grow our funds and then meet those demands that we're trying to do.

Joseph Firschein: I think you in the back Frank did you want to say something?

A couple of things. I want to go back to what Mark Pinsky raised and that is this a seismic shift we're seeing here in terms of how capital goes to small business or is it a blip in hand? I think it's too early to say. But, I think it's important to recognize that before the crash there were huge amounts of capital pursuing loans, too much capital pursuing loans. Now, there's too little. So, the demand supply issue that we talked about earlier I think maybe to a certain extent somebody has to, there has to be some, just take a look and we need more capital in the system to start funding these loans again. And, I think, the capital in the system that is gone is capital that was through the securitization and secondary market operations. And that capital has been pretty much eliminated. And that was a huge percentage more capital flowing into lending than coming from conventional bank lending. That capital is gone. And where we start that is the growth of, basically, federally supported credit enhancements. So the liquidity provisions that will start putting more liquidity into systems whether it be CDFI's or the general business lending system. And, I know this whole marketplace, just the words securitization and ratings and so forth are poisonous to many people. But, that's something I'm actually surprised was never raised today in this discussion, the fact that that huge arm of capital, the capital market's connection to small business lending has really been broken with the exception of the small business, the 7A secondary market which is coming back. And, a few other areas are coming back. So, I'm curious about the panel and if anyone sees it this way or if I'm just living in the past and this really is never going to come back again.

I think you raise an excellent point. I may not have the statistic exactly right. But, at the height of, you know, the boom, so, I would say some time in early 2007 the fuel if you will for the economy, about 30% of it was traditional bank debt. And the other 70% was that other stuff you talked about. And, a lot of that has gone away and some of it has come back. But, it hasn't come close to coming back.

Joseph Firschein: Okay, what I'm going to do now is, because I've been so tough on my former moderators, I'm going to be equally tough on myself. We have a hard stop at 5:15 when Governor Duke is going to be starting. So, what I'd like to do is give each of our panelists, and we're just going to go down the row, a couple of minutes, ten minutes total, to basically provide any final closing remarks. And really, to sort of quote Kim Zeuli the way she did it is if you could just mention the one thing, or if you have time, the two things that you think we should do, I mean, if they've been said great, if they haven't been said even better. But Rob, do you want to start?

Robert Hilson: Four points in less than two minutes. We fully support Administrator Mills' recommendations to enhance expand SBA lending and to include we are in favor of expanding CDFI access to SBA programs. We're asking CDFI's to take more risk. We think there ought to be an opportunity for them to participate more fully in SBA programs. We're excited. Next month we will begin work, we've been talking with the SBA since January. And we will launch a program. It will be one of the first or maybe the first. And, we expect many others to follow where we will be buying SBA paper, taking it from community banks, that will free up capital for them, packaging it and selling it to investors. We think that will help. And we are certainly committed to buying more from small businesses. You heard a lot today about revenue is a big challenge for small businesses. And, we think it's very important for us to increase our commitment to buy from small businesses and would hope others follow. Thank you.

Joseph Firschein: Okay. Bill.

Bill Bynum: First I'd like to start by just saying how much I appreciate the fact that these conversations were held in a broad geography. It's not typical for hearings to be held in Little Rock and Atlanta, and Baton Rouge. So, to have southern input and rural input, it's been really important and I hope that continues. Chairman Bernanke started out this morning telling us to be weary of a one size fits all solution. And, I think, that that's really important. There are nuance differences in what different parts of the country are experiencing in terms of access to credit. And, certainly the demands that CDFI's have seen has indicated that there are still significant credit needs and credit gaps. The CDFI Advisory Board made some recommendations that have been slowly but certainly being implemented about increasing liquidity for CDFI's and increasing capacity of CDFI's. I think that it's important to continue to build on those. The fund has done an incredible job of putting money out quickly. But the fund is oversubscribed, seriously oversubscribed. Probably, I don't have any exact numbers. But, many times more demand for the core funding programs as well as for new markets than there is funding availability. And so, I think it's really important to continue to push to get resources to CDFI's and make them a more formal part of the financial continuum and to make CDFI's, give them access to the range of credit enhancements, capital programs that are available throughout the Federal Government. Not just US, Not just SBA. The USDA has a great menu of programs that could be very helpful as well as, you know, we're not talking about housing, but HUD, Energy Interior has resources as well. But, CDFI's are too often not on the front burner. I think the Director Gambrel has done a great job of pulling together different agencies and starting conversations. The SBA has responded, USDA is starting to respond. I think, the momentum needs to continue and integrate CDFI's more into the broad resources that the Federal Government has at their disposal.

Joseph Firschein: Great, okay Dan.

Dan Betancourt: And I have to agree with Mark Pinsky. I think CDFI's are, the fact that we're here well represented in all panels, that we are part of the mainstream discussion. And, I want to thank Joseph for that, bringing CDFI's front and center. Some of the things that we have not talked about was sort of unrelated to, seems like it's unrelated to business but that's the Federal Home Loan Bank System. And I'll just give you a quick backdrop. CDFI's need to take advantage of government guaranteed rates. That is a sort of investments at a very low cost in the bottom market. And Congress quietly passed about a year or so, the ability for CDFI's to borrow from the Federal Home Loan Banks for any purpose including housing and business. And, the unfortunate situation is the Federal Home Loan Banks have not, while we can become members, have not made it easy for us to borrow. They want us to put up cash collateral or marketable security. So, I think, they really need to go back and sharpen their pencils and really figure out how we can work together. The obvious thing is the 7A program. You know, we need to figure out how all CDFI's, particularly the brightest and the best, and I think, as I said, we have a cause rating system to figure that out so that they can get the program so we can get a lot more money out. I think, you know, CDFI's are part of the solution. And, we do work well with the banks. And, then finally, I would say that the two, the bill in Congress the small business lending, the 30 billion dollars. CDFI's will have access to that money, will be long term capital at bottom market rates. So, I think, that's going to be very helpful for us as well. Thank you.

Joseph Firschein: Sabeth.

Sabeth Siddique: From a regulatory supervisory perspective, I think, one important area we need to continue to be vigilant and monitor is to ensure that examiners are not impeding the availability of credit. And that's something we'll continue to do.

Joseph Firschein: Great. Okay, Ginger you have the last word.

Ginger Lew: We've talked about the need for quality data that in order to determine whether, what's happened in the last two years is a blip or a seismic shift. And the only way we can really measure that is to get access to the type of consistent quality data. And, I think that point has been driven home. I believe that the CDFI can be a very important mechanism for delivering additional financial products. But, I think, we're also one of the challenges there. If I can, you know, of the CDFI's that are currently licensed, 62 are banks, 179 are credit unions, 29 are depository institution holding companies, 567 are loan funds, and 25 of them are VC's. There is a, I think, there is a need in order to, in order to strengthen and ensure their participation in the broadest range of financial products that may be available through the government, there needs to be at some point some consistent level of oversight. I'm not talking about a huge regulatory burden because I think we all know that CDFI's operate on the on pretty thin margins. But, right now there is no consistent level of oversight to help CDFI's raise their level of performance and improve their overall strength as organizations and lending institutions. So, that's something I would put on the table as well.

Joseph Firschein: Great. As I mentioned earlier in the day, myself or John [inaudible] will follow up with each and every one who didn't get a chance to publically ask their question so we can make sure we register all the ideas that we get as we're putting together the final Capstone document. And you can get our contact information from the registration table. With that I'm going to say thank you to our panel, our final panel of the day. Will you join me?

[Applause]