

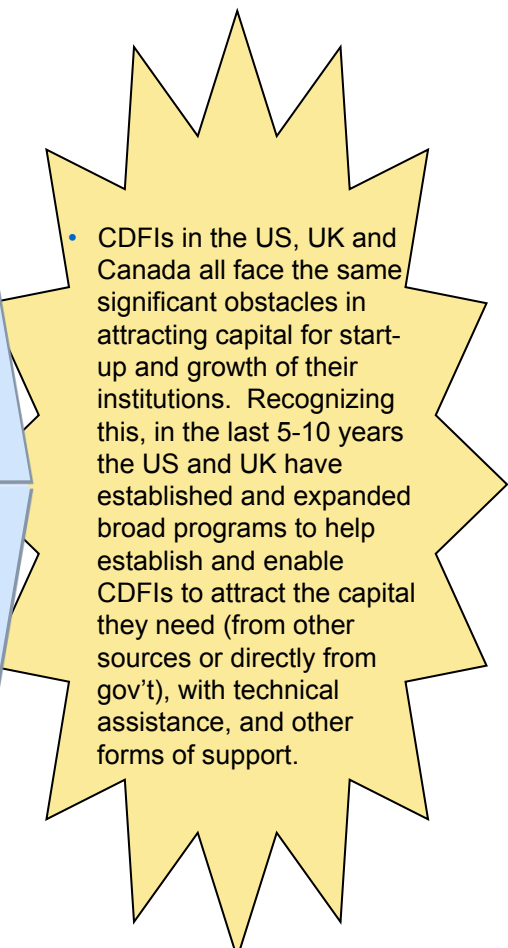
THE ENVIRONMENT FOR GOV'T INVESTMENT IN COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFIS) OUTSIDE CANADA

The US example: The Community Development Financial Institutions Fund (CDFI Fund)

- The U.S. Department of the Treasury's CDFI Fund was created to increase financing to businesses, non-profits, and low wealth individuals all of whom might have characteristics that inhibit them from getting loans or investments from traditional sources, as well as building the self-sufficiency of both these constituencies as well as the CDFIs themselves. Support is provided in the form of start-up or further capital infusions (equity capital or credit union shares) for institutions including banks and credit unions through the Financial Assistance Component, technical assistance to build capacity within CDFIs through the Technical Assistance Component, or finally in the form of tax incentives worth over 30% of the amount invested to attract equity investments into CDFIs through the New Markets Tax Credit (NMTC) Program.
- Equity investments or support to capital has been provided to organizations like the Saguache County Credit Union, through to the CFBanc Corporation (the holding company for City First Bank of DC) who have received a \$2 million capital investment, through to the Mission Community Bank a nationally regulated financial institution. Capital has also been available for direct on-lending, or to support loan-loss reserves. Similarly, the NMTC credit has allowed for-profit CDFIs such as banks or credit unions to attract capital that would otherwise be difficult to attract. And finally many institutions have also received Technical Assistance grants to improve staffing or systems.

The UK example: Community Investment Tax Relief Program (CITR)

- A tax relief available to individuals and corporate bodies investing in accredited Community Development Finance Institutions (CDFIs), which then in turn provide finance to qualifying profit-distributing enterprises, social enterprises or community projects. The tax relief available to the investor is 5% per annum of the amount invested in the CDFI and may be claimed in the tax year in which the investment is made and in each of the four subsequent years. Charity Bank provides loans and guarantees to charities, receives donations, and takes deposits from the public
- The Charity Bank, as an example, has used this tax credit to enable them to raise capital from for-profit institutions such as the large banks. They recently closed a deal where Barclays Bank invested in the equivalent of their Tier I capital, in return for the tax relief made available by CITR. This support has been much needed by CDFIs in the UK as it is very difficult to attract capital because:
 - They have a social mission, so the economic proposition tends to be much weaker, and if it is there at all funds tend to be focused on continuing to focus on creating social value. That significantly impairs their ability to raise anything more than nominal sums of capital. This is further exacerbated at times because in some forms, such as the Charity Bank where it is also a charity, they are prohibited from a regulatory perspective from paying dividends to for-profit shareholders – so the government incentive is key to attracting the level of capital they need.

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- CDFIs in the US, UK and Canada all face the same significant obstacles in attracting capital for start-up and growth of their institutions. Recognizing this, in the last 5-10 years the US and UK have established and expanded broad programs to help establish and enable CDFIs to attract the capital they need (from other sources or directly from gov't), with technical assistance, and other forms of support.