

May 18, 2012

Ruth Jaure
CDFI Program Manager
U.S. Department of the Treasury
601 13th Street N.W.
Suite 200 South
Washington DC, 20005

Dear Ruth:

The Community Development Venture Capital Alliance (“CDVCA”) submits this letter in response to the request for comments regarding the Community Development Financial Institutions (“CDFI”) Program Application, dated March 19, 2012.

CDVCA is the trade association of Community Development Venture Capital (“CDVC”) funds. We represent over 70 CDVC funds with more than \$2 billion in capital under management. CDVC funds are a type of CDFI that provide venture capital financing, mostly in the form of equity and near-equity financial instruments, to high-growth businesses that create good, permanent jobs for low-income people. CDVC funds are an important subset of CDFIs, and we have unique concerns regarding the CDFI Program’s support of equity investments in businesses.

A. Is targeting CDFI Program award funds into highly distressed communities an appropriate use of CDFI Program Funds?

We believe that targeting CDFI program funds to highly distressed areas is unproductive, and in fact harmful, at least with respect to CDVC funds. The goal of CDVC CDFIs is job creation for low-income people. However, labor markets are regional. I do not live in the same census tract where I work—I take the subway to work—and many people do not work in close proximity to the place where they live. Targeting venture capital investment to the lowest income areas will not, therefore, necessarily result in creating jobs available to low-income people.

The goal of CDVC funds is to invest in strong, healthy businesses with substantial promise of high growth. These are the businesses that produce large numbers of good jobs for low-income people. Strict geographic targeting will have one or both of the following negative consequences. First, to the extent that CDVC funds participate in the CDFI program, their investment dollars will be driven to businesses in the lowest income census tracts where services, market connections, and infrastructure are weak, making it less likely that they will survive and grow. Second, many CDVC funds may opt out of applying to the program entirely, because they know their business model does not fit well with strict geographic targeting. There is already a problem that CDVC funds find it difficult to make use of the CDFI program, and it would be unfortunate to make that problem worse. If the Fund wants to assure that its dollars are directed to uses that have the highest impact on lower income people—an important goal—it should let each CDFI explain through the application process how it will accomplish this goal and score applications accordingly. Note that the focus should be on low-income people, not low-income census tracts.

Finally, to the extent that the Fund insists on some geographic targeting, we believe that requiring pre-identification of counties or census tracts where investments are to be made accomplishes little and is, in fact, detrimental. This pre-identification of target areas may make sense for small, geographically-focused CDFIs. But CDVC funds typically cover large multi-state regions, as their investment models require. CDVC funds search through large geographic areas to find the few businesses that meet their investment profiles of high growth. They do not know in advance in which of the many low-income counties or census tracts these businesses will be located. Requiring pre-identification of investment areas simply limits a fund's ability to find the best investments. If geographic targeting is to be required, we suggest that the Fund ask for a commitment that a certain percentage of a fund's investments be made in geographic areas that meet certain criteria, without identifying specific counties or census tracts up front. However, as explained above, we believe that any geographic targeting beyond that which is already required by statute is detrimental to the ultimate goal of the creation of good jobs for low-income people.

We look forward to continued work with the CDFI Fund. Thank you for the opportunity to submit comments on this important matter.

Sincerely yours,

A handwritten signature in cursive script that reads "Kerwin Tesdell".

Kerwin Tesdell