

**REPORT OF THE
SECRETARY OF COMMERCE AND TRADE**

**Report on the Creation of
a Statewide Community
Development Bank**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



HOUSE DOCUMENT NO. 107

**COMMONWEALTH OF VIRGINIA
RICHMOND
2005**



COMMONWEALTH of VIRGINIA

Office of the Governor

Michael J. Schewel
Secretary of Commerce and Trade

December 16, 2005

TO THE GENERAL ASSEMBLY OF VIRGINIA:

The accompanying report briefly outlines the steps that have been taken since March 23, 2005, to implement the provisions of Chapter 624 of the Acts of Assembly (2005) (originally House Bill 2061) in conjunction with establishing a new community development banking institution within the Commonwealth. Following the incorporation of Virginia Community Capital, Incorporated (VCCI), the transfer of assets from the Economic Development Revolving Fund authorized by this legislation was completed on November 18, 2005. VCCI is now positioned to take additional steps toward establishing a regulated banking entity for addressing the needs of economically distressed communities and populations. The mission set forth in these legislative actions has been successfully initiated and is moving forward quickly.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Michael J. Schewel".

Michael J. Schewel

/vjn

cc: Mr. William Shelton

Preface

The fourth enactment of Chapter 624 of the 2005 Acts of Assembly requested the Secretary of Commerce and Trade to prepare a report to the General Assembly on the implementation of the Act. This legislation, which was introduced as House Bill 2061, eliminated the Virginia Economic Development Revolving Fund and required the transfer of its assets and associated records to an eligible community development financial institution.

This legislation and parallel actions within the Appropriations Act provide for the initial capitalization of a community development financial institution (CDFI) eligible for certification by the U.S. Department of the Treasury. This new CDFI will serve as a source of targeted lending and investment with the capacity to provide highly leveraged financing for economic development and housing activities in distressed communities. The CDFI's primary activities include the mortgage financing for first-time homeowners, financing for needed community facilities, commercial loans and investments in small business, loans for housing rehabilitation and other financial services. In addition, it may provide services to help ensure the effective use of credit, such as technical assistance to small businesses and consumer credit counseling.

The Secretary of Commerce and Trade has prepared this report to inform members of the General Assembly regarding implementation actions that have taken place during the interim and to apprise members of future activities. The Department of Housing and Community Development played a leading role in taking the initial steps toward meeting the requirements of Chapter 624. A 14-member advisory group broadly representing community development, banking and finance interests provided invaluable assistance in this effort.

Since the adjournment of the 2005 Session, the new CDFI has completed its initial organization, obtained recognition as a CDFI from the U.S. Department of the Treasury, and with that recognition the authority to administer financing programs targeted at community development and housing needs. More recently, the CDFI has initiated the application process to become a state or federally regulated banking entity. Lending activity will begin in early January 2006. Meetings are scheduled to finalize the initial product offerings and potential project identification has begun. The mission set forth in these legislative actions has been successfully initiated and is moving forward quickly.

Table of Contents

Preface	i
Executive Summary	iii
Status Report	1
Appendix A: Members of the Advisory Group	3
Appendix B: Chapter 624, 2005 Acts of Assembly	4

Executive Summary

Since the close of the 2005 legislative session, a community development financial institution (CDFI) completed its initial organizational steps based on the provisions of Chapter 624 of the 2005 Acts of Assembly. This report, required by the fourth enactment of Chapter 624, summarizes the steps that led to the certification of Virginia Community Capital, Incorporated (VCCI) by the U.S. Department of the Treasury as a community development financial institution authorized to administer financing programs targeting community development and housing needs. Now that it has achieved this initial milestone, VCCI is evaluating alternative paths to establish itself as a regulated banking entity. When completed, this final step would enable VCCI to offer a complete range of financial assistance that would otherwise be unavailable to many of Virginia's most economically distressed communities and populations.

**Status Report on the Creation of a
Statewide Community Development Bank
(Pursuant to Chapter 624, 2005 Acts of Assembly)**

The 2005 General Assembly set aside funding and authorized the transfer of existing state loan fund resources, including those of the Economic Development Revolving Loan Fund administered by the Small Business Financing Authority, to create a statewide community development bank. This report outlines the current status of the new community development financial institution (CDFI). Steps have been taken to create a new, state-wide CDFI to meet the financing needs of the Commonwealth's distressed communities. This represents a huge stride forward in addressing long-standing capital access deficiencies that have limited community and economic development in high need areas. A great deal has been accomplished within the past 11 months. The Department of Housing and Community Development has successfully launched a new financial structure that will serve the Commonwealth in new and innovative ways. New partnerships have been formed, financial products are under development and will be available in the first quarter of 2006, a marketing plan has been initiated and the mission set forth is advancing quickly and effectively.

On January 14, 2005, the Virginia Department of Housing and Community Development (DHCD) received two proposals for structuring a statewide community development bank. After evaluation, DHCD selected a collaborative consisting of Community Housing Partners Corporation, the Virginia Community Development Corporation and the Federation of Appalachian Housing Enterprises, Inc. This selection team emphasized the proposed structure and the capacity for lending and technical assistance outlined in the proposal. DHCD then began negotiating with the selected entity to finalize terms of the contract.

To ensure that the CDFI's structure and plans met the targeted financing needs, DHCD convened an interim advisory group representing a diverse array of stakeholders within the community development, housing, and statewide and community banking sectors. The advisory group met on July 12, 2005, to discuss financing needs and market gaps, potential products, technical assistance and distressed communities. The group met again on August 30, 2005, to review and respond to a draft business plan, marketing plan and organizational framework for the CDFI.

On October 17, 2005, Virginia Community Capital, Incorporated (VCCI) formally incorporated in Virginia. The U. S. Department of the Treasury has certified VCCI as a CDFI. As a CDFI, VCCI can administer financing programs targeting community development and housing needs. VCCI held its first board of directors meeting on October 18, 2005. The board consists of the director of

DHCD, another gubernatorial appointee and an equal number of directors from Community Housing Partners, Virginia Community Development Corporation and the Federation of Appalachian Housing Enterprises, Inc. with the total number of directors not to exceed 11.

In early November 2005, the Commonwealth formally executed an agreement with VCCI. On November 9, 2005, the Commonwealth transferred all existing loans from the Commonwealth Priority Housing Fund and the Virginia Economic Development Revolving Fund to VCCI. The Commonwealth transferred the outstanding cash balances in both loan funds to VCCI on November 18, 2005.

VCCI's mission is: "To create an innovative viable financing system that offers financial products designed to increase economic diversity, development and sustainability in economically depressed communities in the Commonwealth." VCCI intends to offer products and services not generally available in traditional financial markets, and serve as a catalyst for funding projects that are outside of mainstream capital flows.

VCCI has filled two staff positions and will launch one or two financial products in the first quarter of 2006 to establish a presence in the marketplace. VCCI is also pursuing several banks and other corporations that have already expressed interest in making deposits and investing in the CDFI. Finally, VCCI is applying to become a state or federally regulated banking entity.

The process for becoming a regulated banking entity is complex. It will take several months to receive regulatory approval. VCCI has already met with representatives from both the Federal Reserve Bank, which regulates federal banking, and the State Corporation Commission, which regulates state chartered banks. VCCI has determined the process for each approach, and as of the date of this report, is contemplating the final decision regarding the most advantageous option. The application process will begin during the first quarter of 2006.

In summary, the initial nine months since the launch of this new initiative has brought about the establishment of a statewide certified CDFI, which is now poised to become a regulated banking entity. VCCI has made significant progress toward launching targeted lending in early 2006 and will begin the application process for appropriate regulatory approval of the banking structure during that time. The formation and early steps of this new initiative comport with the General Assembly's 2005 legislation. VCCI will focus on introducing financial products that will help address the financing needs of Virginia's distressed communities and populations.

Appendix A

Members of the Interim Advisory Group

Neal Barber
Virginia First Cities
and the Virginia Housing Coalition

Art Bowen
Managing Director of Finance and
Administration
Virginia Housing Development Authority

Robert Chapman
President and CEO
Bank of the James

Laura Dupuy
Lynchburg Neighborhood Development
Foundation

Robert G. Goldsmith
President and CEO
People, Inc. of Southwest Virginia

Timothy S. Hayes
Executive Director
Capital Source

M. Andrew McLean
President and CEO
Bank of Goochland
Virginia Bankers Association

Scott Parsons
Division Director
Department of Business Assistance – Virginia
Small Business Financing Authority

Ralph Perrey
Director, Tennessee Office
Fannie Mae

Kimble Reynolds, Jr.
Vice-Mayor
City of Martinsville

Bill Skeen
Wachovia Bank
Virginia Bankers Association

Dan Tatar
Assistant Vice President
Federal Reserve Bank of Richmond

Michael O. Walker
Recording Secretary
Benchmark Community Bank
Virginia Bankers Association

Karen R. Wilds
Executive Director
Newport News Redevelopment and Housing
Authority

Appendix B

VIRGINIA ACTS OF ASSEMBLY -- 2005 SESSION

CHAPTER 624

An Act to amend and reenact § 2.2-2285 of the Code of Virginia and to repeal Chapter 22.1 (§§ 59.1-284.1 through 59.1-284.6) of Title 59.1 of the Code of Virginia, relating to the Virginia Economic Development Revolving Fund, and to transfer assets to an eligible community development financial institution.

[H 2061]

Approved March 23, 2005

Be it enacted by the General Assembly of Virginia:

1. That § 2.2-2285 of the Code of Virginia is amended and reenacted as follows:

§ 2.2-2285. Powers of the Authority.

The Authority is granted all powers necessary or appropriate to carry out and effectuate its purposes including, but not limited to, the following powers to:

1. Have perpetual existence as a public body corporate and as a political subdivision of the Commonwealth;

2. Adopt, amend, and repeal bylaws, rules and regulations not inconsistent with this article, to regulate its affairs and to carry into effect the powers and the purposes of the Authority and for the conduct of its business;

3. Sue and be sued in its name including but not limited to bringing actions pursuant to Article 6 (§ 15.2-2650 et seq.) of Chapter 26 of Title 15.2 to determine the validity of any issuance or proposed issuance of its bonds under this article and the legality and validity of all proceedings previously taken or proposed in a resolution of the Authority to be taken for the authorization, issuance, sale and delivery of such bonds and for the payment of the principal thereof and interest thereon;

4. Have an official seal and alter it at will;

5. Maintain an office at such place within the Commonwealth as it may designate;

6. Make and execute contracts and all other instruments necessary and convenient for the performance of its duties and the exercise of its powers under this article upon such terms and conditions it deems appropriate;

7. Employ office personnel, advisers, consultants, professionals and agents as may be necessary in its judgment, and to fix their compensation;

8. Procure insurance against any loss in connection with its property and other assets, including but not limited to loans in such amounts and from such insurers as it deems advisable;

9. Borrow money and issue bonds as provided by this article;

10. Procure insurance or guarantees from any public or private entities, including any department, agency or instrumentality of the United States of America, or, subject to the provisions of and to the extent moneys are available in the fund created by § 2.2-2290, insure or guarantee the payment of any bonds issued by the Authority, including the power to pay premiums on any such insurance or guarantees or other instruments of indebtedness;

11. Receive and accept from any source aid or contributions of money, property, labor or other things of value to be held, used and applied to carry out the purposes of this article (subject, however, to any conditions upon which grants or contributions are made) including, but not limited to gifts or grants from any department, agency or instrumentality of the United States;

12. Enter into agreements with any department, agency or instrumentality of the United States or of the Commonwealth and with lenders and enter into loans with contracting parties for the purpose of planning, regulating and providing for the financing or assisting in the financing of any eligible business or any project thereof;

13. Enter into contracts or agreements with lenders for the servicing and/or processing of loans;

14. Provide technical assistance to local industrial development authorities and to profit and nonprofit entities in the development or operation by, or assistance to, persons engaged in small business enterprises and distribute data and information concerning the encouragement and improvement of small business enterprises in the Commonwealth;

15. To the extent permitted in the proceedings pursuant to which the bonds of the Authority are issued, consent to any modification with respect to the rate of interest, time for, and payment of, any installment of principal or interest, or any other term of any contract, loan, sales contract, lease, indenture or agreement of any kind to which the Authority is a party;

16. To the extent permitted in the proceedings pursuant to which the bonds of the Authority are issued, enter into contracts with any lender containing provisions authorizing the lender to reduce the charges or fees, exclusive of loan payments, to persons unable to pay the regular schedule thereof when, by reason of other income or payment by any department, agency or instrumentality of the United States

or the Commonwealth, the reduction can be made without jeopardizing the economic stability of the eligible business being financed;

17. Allocate any of its property to the insurance or guarantee fund established by § 2.2-2290 or to any other fund of the Authority, such property consisting of:

- a. Moneys appropriated by the Commonwealth;
- b. Premiums, fees and any other amounts received by the Authority with respect to financial assistance provided by the Authority;
- c. Proceeds as designated by the Authority from the loan or other disposition of property held or acquired by the Authority;
- d. Income from investments that were made by the Authority or on the behalf of the Authority from moneys in one or more of its funds; or
- e. Any other moneys made available to the Authority consistent with this article;

18. Use any fund of the Authority for any and all expenses to be paid by the Authority including, but not limited to: (i) any and all expenses for administrative, legal, actuarial, and other services; (ii) all costs, charges, fees and expenses of the Authority relating to the authorizing, preparing, printing, selling, issuing, and insuring of bonds and the funding of reserves; and (iii) all expenses and costs relating to the guaranteeing, insuring or procurement of guarantees, insurance or other instruments providing credit or the enhancement of credit for the bonds;

19. Collect fees and charges the Authority determines to be reasonable in connection with its loans, insurance, guarantees, commitments and servicing thereof;

20. Sell, at public or private sale, with or without public bidding, any obligation held by the Authority;

21. Invest any funds not needed for immediate disbursement, including any funds held in reserve, in any obligations or securities that may be legally purchased by political subdivisions in the Commonwealth or as may be otherwise permitted by § 2.2-2305;

22. Administer the Private Activity Bonds program in Chapter 50 (§ 15.2-5000 et seq.) of Title 15.2 and the Virginia Economic Development Revolving Fund in Chapter ~~22.1~~ (§ ~~59.1-284.1~~ et seq.) of Title ~~59.1~~;

23. Create and establish such funds and accounts as may be necessary or desirable for its purposes; and

24. Take any action necessary or convenient for the exercise of the powers granted by this article or reasonably implied from them.

2. That Chapter 22.1 (§§ 59.1-284.1 through 59.1-284.6) of Title 59.1 of the Code of Virginia is repealed.

3. That the Secretary of Commerce and Trade is hereby authorized to approve the transfer of the assets and associated records of the Virginia Economic Development Revolving Fund established under the provisions of Chapter 22.1 (§ 59.1-284.1 et seq.) of Title 59.1 of the Code of Virginia, from the Small Business Financing Authority to an eligible qualifying community development financial institution ("CDFI"). An eligible qualifying CDFI shall be a community development bank or community development credit union that the Secretary of Commerce and Trade finds is (i) established to conduct business legally within the Commonwealth; (ii) subject to oversight by federal or state financial institution or insurance regulatory agencies, as appropriate; and (iii) eligible for certification by the U.S. Department of Treasury as a community development financial institution. The transferred funds shall be used for the purpose of providing a portion of the initial capitalization of the community development bank or community development credit union that is designated as the eligible qualifying CDFI. The community development bank or community development credit union is intended to be a source of targeted lending and investment with the capacity to provide a high degree of leveraging for economic development and housing activities within distressed communities throughout the Commonwealth. These activities may include mortgage financing for first-time buyers, financing for needed community facilities, commercial loans and investments to start or expand small businesses, loans to rehabilitate rental housing, and financial services needed by low-income households and local businesses. The CDFI may also provide services that help ensure that credit is used effectively, such as technical assistance to small businesses and credit counseling to consumers.

4. That on or before December 1, 2005, the Secretary of Commerce and Trade shall report to the General Assembly on the implementation of this act.

