

Barry Wides:

Ok. We're going to get started on our investors panel. We have two distinguished investors in community development venture capital. To my immediate right is Roz Ciulla. She's senior vice president and manager of KeyBank's Community Development Corporation, which is a wholly subsidiary of KeyBank NA. Roz initiates investments and lending activity with nonprofit and for-profit entities that serve KeyBank retail market areas. She manages the bank's equity, investments and loans in businesses and projects that promote community welfare by providing housing jobs and stimulating reinvestment in low and moderate-income communities.

Roz has 22 years in commercial real estate lending, mezzanine and equity financing and most importantly, Roz is located in Cleveland, Ohio, which even though I'm from Cincinnati and a diehard Cincinnati reds fan I'm willing to root for the Indians since they at least have a fighting chance at beating the Yankees. So, Roz was at the game last night, and it's at least one game to nothing in favor of the Yankees – or the Indians. So, thank you very much for your strong support of Ohio's baseball.

Okay, and at the end is Chris Perez, who's a program officer for the Heron Foundation located in New York. He's been with the Foundation since 2000. The Foundation's investment areas support programs and demonstrated impact – with demonstrated impact in increasing wealth in low-income communities through access to capital, home ownership, economic development and access to quality childcare and comprehensive approaches to community development.

His philanthropic experience includes four years with the corporate philanthropy department of Pfizer, servicing as a program officer in the Pfizer Foundation and a graduate internship at the William Randolph Hearst Foundation. Previously he worked for the Foundation's center and held positions with New York City and New York State governments.

What I wanted to do what give you a little bit of background on – at least from the financial institution's perspective some of the regulatory incentives and provisions governing investments and community development venture capital generally, which of course apply to the rural piece, but also some particular legislative provisions that address some of the points we've heard about this morning and how that could make the regulatory environment friendlier to rural community development venture capital.

First a little bit about what I do at the OCC. I'm the deputy controller for community affairs, and we are the agency within the U.S. Treasury Department that regulates national banks. KeyBank is one of the banks that we regulate, Bank of America is represented here as well is another bank. And what – the authority under which the banks make these investments, at least national banks and state member banks – state chartered banks that are members of the Federal Reserve System is something called the public welfare investment authority. And what this authority does is it basically says that as a general rule our banking regulatory philosophy in this country is the banks are lenders. They're not equity investors for the most part.

But with an exception, and that's the area of community and economic development, the statutes say that a state member bank or a national bank can invest up to 15 percent of its capital in what are called public welfare investments, and these are equity investments and funds and small businesses and community development venture capital and rural venture capital that promote economic development in low and moderate income areas is the way the statute reads today.

Previously as prior to last fall when they passed the so-called Reg-Relief bill banks could make investments, not only in these investments in low and moderate income areas, but also in rural underserved middle-income communities, government-targeted areas for revitalization and rural or urban areas that are not low and moderate income, as well as designated disaster areas that are not low and moderate income. However, we think due to a misunderstanding on the part of some members of Congress this provision of law got passed last fall. It's had a chilling effect on bank investment in community development venture capital, and I think that's a real problem, and we've tried to make Congress aware of this problem. Actually, the House in February under Barney Frank's leadership unanimously passed a bill, HR-1066, which would take us back to the old standard that was in effect prior to last year's so-called regulatory relief bill.

I use the word so-called because it's so ironic that a regulatory relief bill should have such a chilling impact on banks' ability to invest in this type of activity. So, we are pretty sure, certainly Barney Frank assured us this isn't what the House intended from that legislation. As a result, we are waiting for this legislation to get enacted in the Senate.

So, I just wanted to start off by letting folks know that there's a

huge pool of capital from banks to invest in these types of activities for some of the reasons that were mentioned earlier. I think every speaker has spoken to the Community Reinvestment Act. Banks do like to make these investments. It helps the large banks such as KeyBank or Bank of America meet their requirements under what's called the Investment Test of the Community Reinvestment Act.

If you're an intermediate small bank – that's a bank with assets between 250 million and a billion dollars in assets or thrift, you get – you make these investments and you can get CRA credit under what's called the Community Development Test, which is 50 percent of their CRA rating.

And those are significant incentives for banks. But we have a little bit of a snafu, as I'll say, in terms of our legislation. We're hoping that this will get corrected before Congress leaves town, and if anyone needs more information or would like to give me their card I can send you a little package of letters that have gone up to the Hill, 20 community and economic development organizations which includes the CD Venture Capital Alliance, goes from the bank trades all the way to the national Community Reinvestment Coalition which Malcolm's a member and Woodstock. All these groups are supportive. Twenty groups are supportive of this change, and we certainly hope that Congress moves and moves quickly to fix that problem.

One of the other things that we've done at the OCC in community affairs is that we have tried to promote information about what our banks are experiencing in investing in community development venture capital. And you should have in front of you a newsletter that we put out earlier this year, Community Development Venture Capital: A Catalyst for Double Bottom Line Results, where we have a number of banks writing our articles, describing what they have found important of their experiences in terms of investing in community development venture capital. A little bit of a how-to guide from one of the banks, Fred Mendez who used to be with the Federal Reserve Bank of San Francisco, now with a bank in Silicon Valley has written a very nice how-to piece of what he looks for.

We want to promote best practices at the OCC. We realize that banks see CRA value in terms of investing. We hope they're seeing economic value in terms of investing, although as Kerwin points out, the statistics are not as robust as we'd like them to be. But as more data becomes available we'll try to make that known

to the national banks that we supervise. And I have a good working relationship with Kerwin, and I'm sure that as that data becomes available we can be a conduit for sharing it.

We also outline the CRA aspects of community development venture capital investing in this newsletter. I have worked with Kerwin to get clarifying language in the Qs and As. These are the guidance that the regulators point out. What qualifies for CRA and under what circumstances? Those are in the process of being reworked to include this type of investment activity. We've also worked with USD interest he past to make sure that the RBIC, Rural Investment Company, is identified in the Qs and As as an eligible activity as well as CD venture capital companies from a few years ago.

So, that pretty much concludes what I wanted to lay out from the high-level perspective as a regulator. And what I'd like to do is then have Roz tell it from her perspective as an investor and then Chris, who although he's not operating as a financial regulated institution by one of the banking agencies, can speak to some of the criteria that he's looking for in terms of outcome measures, given some of the constraints that private foundations are governed by.

I will say this. Both for the financial institutions as well as for tax-exempt foundations, outcome measures are critical. One of the reasons why we have had to fight this battle with Congress, which we think we'll win, over whether or not activities that are not directly in low-income areas or directly helping low and moderate income people should qualify for CRA is perhaps because we don't have as robust performance measures on the social outcomes as we might like. So, with that I'm going to turn it over to Roz and Chris and then we'll open it up for questions.

Roz Ciulla:

Good morning. Excuse my voice. I have serious sinus problems here, and coupled with screaming at the game last night my voice is cracking, and I'll probably end up losing it before I'm done talking. I just want to start off with emphasizing what Barry said. The Regulatory Relief Act has really hindered Key's ability to be making investments in projects other than low income housing tax credits where we clearly have restrictive rents and we can prove that we're serving and providing housing for low and moderate-income people.

The regs used to state that we were able to make an investment that benefits low- to moderate-income families, including low-income families and communities. It currently states primarily. And at

Key – and we at Key are a very conservative organization, and our regulatory attorneys and executive management use the statutes as written. There's no gray. It's black and white, and primarily means 51 percent. So, at all times our investments, 51 percent of our investments have to directly benefit either low-income communities or low-income families. That means that if that language, which is not in a partnership agreement, and that the fund manager cannot guarantee that that's always going to be the case we cannot make an investment. We had to pass on two investments this year because of that.

Just being in a New Market census tract isn't really – just because it's there doesn't mean anything to us. We actually have to document what this investment's going to do. So, it's really tied our hands on the types of investments we can do and how comfortable we are. So, that's our number one hurdle.

Key, when we formed our CDC in 1989 it was to provide equity into low-moderate census tracts where KeyBank has a retail presence, but our number one mandate had to be return on equity. We're not the Key Foundation. We cannot make charitable contributions. We have to have an appropriated return on our money. So, then we also want to get the CRA benefit out of it. We want to ensure that our capital is being deployed in the markets where we have a retail market presence where we can provide economic stimulus to the communities where we do business, we can revitalize those communities, jobs can be provided to the communities.

Now, the way that we view it, or I should say I view it myself and the city of Cleveland where we're headquartered really view it is that you can't have economic stability by having only low-income people living in a community. You have to have economic diversity. You have to, not only bring moderate-income people into low-income census tracts, but you have to bring high-income people into the cities. You have to create economic diversity. You have to provide jobs that everybody can have the opportunity to take and also provide a good, sound economic base to provide the tax base to be able to fund the school systems in order to provide public education to give – what this country was founded on – everybody a chance for economic prosperity.

Right now the way the legislation is written it's really tying our hands. So, I would echo Barry and urge CDVCA and everybody to say that we really need this economic relief. Go back to the way that the wording once was.

We've done a wonderful job since CRA has been enacted by providing economic opportunity for low-income people the way the statute was written, but one word, changing including to primarily has really hindered our investments.

Chris Perez:

Great. Let me begin a little bit by talking about the Heron Foundation for a second and then paraphrasing what we hear a lot from our rural practitioners, which is if you've seen one rural community you're seen one rural community. *(Laughter)* The same is true for foundations, but maybe even less so, so if you've seen one foundation you've seen less than one foundation. There's a lot that goes on behind those boardroom doors that relates directly to this topic.

The Heron Foundation is somewhat distinct from many other institutional investors, specifically within the philanthropic side in that we are motivated to deploy as much of our assets, which, depending on what the market is today, is probably over 300 million in direct, mission related investments. We believe that these – it is possible to have a full fiduciary responsibility asset allocation that looks like anyone else's institutional asset allocation but reflects mission – the mission of the organization. In our case it's around creating wealth for low-income people.

And within that space we believe private equity is a key component within our alternatives like it would be for any other institutional investor. That being said, most foundations sort of aren't there yet. They're still thinking about social investments as a component of their grant making. I'll get into a little bit about what that means for funds and fund raising.

So, I manage right now \$1.5 million in four investments in venture capital in Appalachia and as well as the Foundation having other investments in folks that serve rural and underserved communities through venture capital model.

So, let me start and begin by saying what are we looking for as an investor because this is often what we spend a lot of time talking to with funds as well as other foundation – potential foundation or philanthropic investors. It's really three basic things. It's pretty easy to sum up, and it's all been discussed before, but track record, return and impact. And return and impact are the two that often get merged into the conversation around double bottom line or triple bottom line investing, but we'll – I'm going to take a moment to sort of parse those out.

So, what do we mean by track record? It's pretty clear we invest in the – a lot of the folks that you've seen here already. It's both a combination of people that have been doing this for a while that have demonstrated experience with venture capital as an approach. It's traditional VCs that are working in rural communities improving the model. It's folks that have networks within the community or within footprint as Ray said. And as we've seen in our own portfolio you can't just move to a rural community with no infrastructure, no ties to it and hang out a shilling and expect deals to be flowing in. As an investor we've sort of made that mistake. We've been enticed by folks that had great paper – both paper returns as well as experience, and have invested in them and are seeing challenges to the return and significant challenges to the impact. I firmly believe that if you – in this space if you've limited yourself to working within a certain geography, be it rural or in a city investments, you really can maximize the impact by maximizing the return. It's not necessarily a tradeoff.

So, what do we mean by return as a social investor, as a foundation investor? At, near, above benchmarks for traditional venture capital. That's what we'd like to see. Then comes the what happens internally.

We as a foundation will often take those projections from fund managers and give them a haircut based on the experience that we've had, and it sort of demonstrates what Kerwin had up earlier. It's still a smaller space or a demonstrating space. So, the very nature of that I think allows us to think that the return expectations may be less than traditional. And if they're more, then we deal with that in the backend, and hopefully that will be a good problem.

So, what does this mean for foundations? Foundations are peculiar. They essentially have two pots of money, two buckets. One is the corpus, and one is the grants' budget. And they can make these type of investments through either one of those pots. And what we do is we spend a fair amount of time institutionally talking to the larger – the matters of the larger –

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Chris Perez:

-- as well as for others. But there is a – there is this sense that philanthropic investors, institutional foundation investors can't engage in this community development venture capital space except for through the grants budget, and that's unfortunate. One of the questions that I asked earlier gets to this is when we do see significant exits and we do get our IRR expectations met will that

move more money into the space from the corpus side, or does the very nature that people call themselves community development funds limit it to the smaller pool of money, the grants budget? We're not there yet. We haven't seen sort of the demonstrated exits and returns to foundation investors to worry about that yet.

But we've actually spent I think – we've talked to a fair amount of foundations off the record and have seen that they want to eliminate the upside, which is great if you're a fund manager or another investor because their return gets perhaps spread to you, or if there's a nonprofit affiliate we've been talking about opportunities for funds to cap the upside for investors and deploy that money in a nonprofit affiliate for operational assistance or other opportunities.

Personally I think that's a good strategy, but that's sort of where the field is. They want two percent, and they sort of want it almost guaranteed but are willing to forgive it if they don't, and it's probably not necessarily the best thing for the field of institutional foundation investors. But it's clearly a good place to be if you're on the receiving side.

And then the last part really goes around impact and tracking of impact. There's a great amount of models out there. We've seen leadership from SJF and Pacific Coast Ventureship, PCF, on their impact reports. If you haven't seen one of those, be it a potential investor in the room or someone who's just interested in the space of community development you should take a look at the kind of data that these funds are collecting about the sources they provide to the entrepreneurs in the businesses.

One of the other things if we go back to thinking about foundation investors as buying into traditional community development venture capital models then there's this sense that we should be – that the funds should be maximizing employment and that should be the benchmark for social return. We've seen – Lynn was here moments ago talking about the leverage affect of his fund. He at Adena tracks payroll, taxes, services provided – product bought locally, leveraged funds. These aggregate into large number sort of dollars invested into regions that previously haven't seen that, even without the 100, 200 employees per company. So, that's important to note.

Also the traditional foundation investors really are focusing a lot on job quality. Ray, you had an investors' meeting. You had one foundation investor who asked only one question, and the one

question was tell me about the job quality and the career ladder. Those are important things for foundation investors and probably important things to everyone in this space. So, the fact that we've actually seen funds pitched to us and say we don't have any ways of measuring job quality beyond benefits and we don't expect any companies to offer benefits because we're just doing early stage companies is problematic, even if they don't at least have a plan for tracking it down the road because those opportunities are likely to emerge.

I'm going to throw it open a little bit to Roz because one of the things that we as an institutional investor have been part – a foundation investor have been part of is the Small Business Investment Association Alliance, the SBIA's attempts to come up with a streamlined social outcomes measurements. And I think this is widely being accepted, if not deployed, as the benchmarks for what things should be tracked. And I not the difference between that and what Kerwin has mentioned earlier, which was the CDVCA measuring impacts toolkit, is the emphasis on the employee level tracking and sort of how that's shaping up. Because both where investors in the New Market funds and the RBIC – is anyone here from SBI? No.

For those that don't know, the SBI do require the Form 468, which does have community and economic impact and asks for sort of employee-level data. And that's something that we've heard from funds that aren't part of these programs that they just can't do. So, wanted to throw that out there and understand how important that is on a regulation perspective, which I don't know, but it's something that we relish as a foundation investor.

Roz Ciulla:

Yeah. The Small Business Investor Alliance is actually an alliance of foundations and CRA motivated financial institutions, CDCs. And we've gotten together just for educational purposes. What we try to do – and I was integral in that, one of the people that worked for me has been – and – is trying to come up with social impact measures and standardize it so that when a fund is going to – and a number of bank investors or foundation investors that half dozen companies aren't asking for different types of information and that the reports can be done – one report can be given to everybody and making it easier on the fund investors and trying to get all the information that everybody needs.

It's important for us when we have our OCC exam to show the OCC what – the investments we're making, what kind of impact does it have in the community. But more importantly than that I think is for our district bank presidents so that we can give them

information in saying, "Well, we invested in this fund, and this fund is making investments in these portfolio companies, and this is the impact that it has on your community." They're the ones that are doing business in their community. We're in 13 states from Maine to Alaska. I'm sitting in Cleveland. I'm not in Boise, Idaho.

So, it's really important for our bank presidents to know and when they're talking to their government officials or out in the marketplace to know what kind of impact Key's investments are having on their community so they can take ownership of that as well.

So, it's important measurements for us. Now, Key ourselves when we're looking at fund investments we do not mandate jobs' agreements or saying that the fund actually has to enter into some kind of specific agreement with their portfolio company, but we're asking for them to do is we're asking them what types of companies are you going to be investing in, what do you think your social impact's going to be, how are you going to measure that and how are you going to report to us?

Chris Perez:

I think that's right. I don't think that's any different than the foundation investors that we've seen, especially the ones that are more place-based. They want to see that investment – fund in an investment portfolio company is creating jobs in West Virginia and those folks living in low-income census tracts. They want to get down to that sort of level of specificity. Not names, but just a general count has been something that we've seen and we've showed to other foundation investors who believe that that information just wouldn't be readily available. It sort of turns their –

Roz Ciulla:

Yeah. When our CRA exam is done it's really focused on the impact that we have and our CRA assessment areas. As an organization we try to go – we do go beyond that because we view that our CDC investments should be within the entire states where we have a retail banking presence. For example, we are in Adena's funds. We don't have any retail banking presence where Adena does their business; however, that fund was of important to the state of Ohio, and we're looking at the impact and the economic impact in a state where we do business.

So, although the OCC will look at it, we might not – saying we have an investment in this particular census track and meets the Par 24 investment. We have the regulatory authority to do that. We know as an organization we should be supporting that type of

investment within the boarder marketplace of where we do business.

Barry Wides: Let me comment on that as well. One of the aspects of these new Community Reinvestment Act questions and answers that we're struggling with is how to demonstrate on a bank's CRA what's called public evaluation. There's tables at the back of these CRA exams that list the geographies in which the bank does business, and those are called the assessment areas. So, for instance, let's say that – how many assessment areas does KeyBank have?

Roz Ciulla: I have them all on a spreadsheet, but I couldn't name 'em. It's a lot.

Barry Wides: It's in the hundreds.

Roz Ciulla: It's really a lot.

Barry Wides: So, it's a lot. And so the OCC will do a table at the back of the CRA exam for Key, and then it will list Cleveland, Ohio, community development investments or Akron or Toledo. It may not show the whole state of Ohio, but we are looking at some way adding some special line or table on the back of a CRA exam so we could say, "Well, it's not in any one of Key's assessment areas, but it's in a broader regional or statewide area that is within Key's banking footprint." Certainly in the Adena funds case, outside of any of the major assessment areas in Ohio, for KeyBank, but it is in the state of Ohio, that there would be a way that that would be quantified and show in the KeyBank CRA exam.

Why is that important? That's important because Key wants to be able to show to its community partners throughout the state of Ohio in quantitative terms that they are, in fact, meeting the needs of the broader, statewide or regional area, and that is a factor that the OCC considers in coming up with its CRA rating.

So, I guess what I'd like to just point out here is that it is important, one, that we as regulators do a better job of making sure that we give banks CRA credit for things that have positive social outcomes, but also bear in mind that the things that CRA statute and the regs and the Qs and As, which are all the things that guide CRA, that they – that the outcomes measures cover the things that CRA speaks to.

So, for instance, you will need to know whether or not the business is located in a low or moderate-income community or not. That's important. We would need to know is the fund – or the businesses

within the fund providing jobs to people who were formerly low or moderate income? That's an important outcome measure. It's important to know whether or not it's in a – it's to a small business that meets the SBA's, SBIC or SBDC business size requirements because CRA regulations speak to helping small businesses.

In terms of whether or not Key has the legal authority to invest in it or not, which is completely different from CRA from a legal standpoint but critically important as to whether or not Key could even make the investment so it can help it's CRA rating, that's the public welfare investment issue, the legislative issue that we both were talking about.

And I'm hoping that the statute will go back to where it was before, but in order to fend off future attacks, misguided – admittedly misguided but future attacks we would want to have data that shows if it's in a middle-income or distressed rural community that we know which community that's in and that it falls into that criteria or not, and a federal regulatory agency has identified 4,000 census tracts in the country that are deemed to be distressed or underserved middle income. So, we'd want to know if it was one of those census tracks.

Another thing is that under the OCC's rules prior to the so-called reg-relief bill we needed to know whether or not the business was located in a government-targeted area for revitalization. And we are not overly prescriptive in terms of what it means to be government-targeted area, but there needs to be something that somebody can show in the file to day, "Yeah, that geography in South Lima" – Ruth and I were in South Lima last week talking to a group of bankers and community groups – "was targeted by the city of Lima for revitalization." And even though it's an 83-percent median-income census tract in a very high unemployment rate geography that that should be eligible for a public welfare investment. Ruth and I had an economic development director of the city of Toledo tell us that they have big plans for some energy-type facilities in South Lima that they're looking for bank investors in. So, that would be key to us as we're able to demonstrate outputs from these types of activities.

But let me just come back to the one thing that I said before which is that as a general rule banks are not equity investors but Congress has been willing to make an exception for that for equity investments in economic development projects. Hopefully we won't be in this situation again if we do get this statute changed back where that gets questioned because we have really excellent

output measures that show where this money was invested, and it produces good outcomes.

So, with that, any other comments by the panelists before we open it up?

Roz Ciulla:

I just want to add what we're looking for as an investor, and I will just echo what Chris has said. In the venture capital and the community venture capital world and the rural venture capital world we're betting on the jockey. We're not betting on the horse. So, what we need to see is capacity, capacity of the fund manager, do they know they know the fund market, can they – do they know the companies, can they provide the services, the technical assistance that these companies need? Are they vested? Do they have a long track record of working together? Do they work together well?

When we look at an investment we do not have the company come into Key. We like to go out to the venture company itself. We like to see the – feel the atmosphere. We like to get the gut feeling, as an old banker when you're doing small business loans you know that 50 percent of the loan is built on character. We look at that for our fund investments as well because if we're going to be investing in a venture fund that's going to be in business over ten years that's going to be investing over five years and harvesting over five years we have to ensure that those fund managers are going to be together for the next ten years. So, it's very critically important.

Then we need to know the systems. How are they going to bring the technical assistance? Are they going to be able to be on the boards? How are they going to be able to be in this broad geography that they're at? Do they have the capacity to do that? So, it's a lot of touchy, feely kind of things, and then you look at do they have the expertise to be able to assess the portfolio companies? Are they going to be able to project out? Are they going to be able to know whether or not they're going to be able to get us an economic return on our money?

And the one thing that is never brought to – the fund managers don't take into account is our cost of capital. And that's what Chris was saying that we scale back the projections because we have to look at what is it costing us to put this money out into the investment? And is our money better deployed elsewhere?

So Key CDC does not invest a lot of money into community venture capital, rural venture capital. That's not a large part of our portfolio. Our mainstay is low-income housing tax credits, historic

tax credits, new market tax credits where we get a big bang for our buck. Then we can make investments into community venture capital type deals that we know is going to take a longer time to get a return on our money, but as a blend we can get to that return of equity that our company is demanding from us.

Barry Wides: Anything else before we open it up?

Janneke Ratcliffe: Okay. Janneke Ratcliffe with UNC, and we've heard a lot today, the conversation quickly turned to social outcome measures. And we've heard a lot of call for that. In principle, out in the industry, I work with Bank of America in assessing their social outcomes from their fund-to-funds. Along with Beth Sirull at PCV we facilitated the conversation to SBIA around developing those measures. Would love to see those being broadly used. I think the CDVCA toolkit is a fabulous piece of work, and I'm not sure how much that is actually in use today.

But I guess my question is how do we get to the next step, which is to really realize value from social outcome measurement for either investment decisions or allocation of asset decisions either within foundations or within the banks themselves?

Roz Ciulla: Want to take that one, Chris?

Chris Perez: Could you clarify or better define "realize value" 'cause I think that's the question.

Janneke Ratcliffe: Okay. So, I think that there's a lot of work required to get these measurements put together. It's one – maybe a little but easier to identify the census tracks that all the investments are in, but if you go another layer to employment information or if you even try to go deeper into what those people earned before they became – if you said they previously had to be low-income employees before coming to work at the company, and if you have to do that on an annual basis it gets really daunting to do that.

So, I think it's admirable that people do set out to do these kinds of measurements or try to approach – try to proxy some of these things. But the question is how do you make that pay off? Are you going to hold people to doing these measures in order to get more favorable terms or sort of how do we move from saying it's a great idea to collect this information to really making it more standardized?

Roz Ciulla: That's why the SBIA really decided that we needed to kind of take a look at this because there's a fine line between invading

somebody's privacy and the information you can collect and the actual data that you can get. But the one thing is is that the fund manager knows when the fund is investing into a portfolio company how many employees does that company have and what is the payroll, and it should be able to track, and it should be tracking the financial statements in the payroll and know what that impact is and know how many jobs are being created.

And they also should be able to get the information on how much tax is and how is that increasing the tax base. I mean, does the community where that portfolio company have have a two percent city income tax? How much money is being sent to the city for employee tax? How much is being sent to the state for state tax? So, those type of measurements I think can be tracked. It's just getting the discipline around it.

When we're looking at these types of investments we're not going to see the same return on our investment as we're going to see on a venture capital investment that Key Principle Partners is going to make. And a large part of that is because they're investing a lot of money into a company that's going to be sold, and there's going to be a buyout or it's going to get a big bang for their buck on the exit. Well, we're trying to really – and really it's a challenge in this industry – is being able to exit whereby the owner of the company is going to buy out of that company is just going to be able to get conventional bank funding and saying that company's going to stay in the community, be in the community and continue to provide jobs.

So, when we go to investment committee and say, "Well, we want to make this investment but we're not going to get a 25 percent return on our investment, we're going to get a 12 percent or a 15 percent return on our investment the first question is going to be, "Okay, are we going to get CRA credit for it?" Yes or no. Then the other thing is what kind of social benchmarks? What kind of social value is going to go into the community if we're going to be willing to take ten basis points or ten percent lower return than on a traditional investment? What other bang for our buck is the company going to get? So, that's what we have to try to measure.

And that's a space that I think we're going towards that everybody – that CDVCA, the members of the SBIA and the fund managers are going to have to work towards.

Chris Perez:

This is a questions I've been mulling around for quite some time, probably since – Lynn, when was your annual investor meeting – from my plane ride home from Columbus back in May. We are

currently invested in six or so funds that we consider within this program-related investment space that we are allowed to call a charitable deployment of our resources. And they all have something in common.

The first four has VSBA and their requirements, so I'm going to – after I'm done I'm going to turn it over to Ray or Grady or Lynn and ask is the leverage worth the requirement of reporting. I note, though, that those funds do over and above what they have to do in reporting, and I don't believe they have significant side agreements with any of their investors to do that.

And the other two that we invest in have sort of this long-standing track record of doing this. Bonny, if SGF decided not to do your impact tracking tomorrow as an investor we'd be disappointed. It's part of what brought us to the table, but that commitment really resides with them, not with us. So, I wonder what will happen in the next stage of funds that we think about doing. We don't have – are freed from requirements if they are or have learned that there are opportunity costs involved in doing that and need to sort of scale back that level of tracking. I haven't seen it yet, but one wonders.

On the corporate side for us we're involved in about eight venture funds of significant size. Always the smallest investor. They too have had this commitment to tracking outcomes and impact, and I think for the most part the investors who care less about that information – CALPERS might be the one who pushes the most, and they might push less than a foundation investor. So, but I'd be curious to hear from the fund managers that have leverage about the recording requirements because that's sort of – for us that would – we like that as a foundation investor that we can blame the program on getting the information that we really would want to ask for but don't want to be prescriptive.

Barry Wides:

I'll just make one comment, and that is we really don't want to be relying as regulators on formerly LMI status of people who get jobs. That's one of those congressional requirements that I was talking about that we need to move away from, and if this legislation passes it will take away the need to have to rely on that because – but what is helpful is that when I peel down – someone called me up before this statutory provision was changed, and they'd say, "Is this fund going to qualify?" And I said, "Can you say that 50 percent of the investments, the dollars invested – 51 percent of the dollars invested by that fund are in LMI geographies, LMI census tracts, these rural, middle income, underserved, distressed which there's 4,000 of? Can you tell me

that it's in a government-targeted area for revitalization? And I'm not going to be real prescriptive. It could be federal, state, local, county. Tell me all those put together is at least 51 percent falling into one of those – one or more of those." And the answer used to be yes. And those are very easy to get things.

Is it a government-targeted? Yeah. You can get the city council resolution that targets South Lima. You can – obviously the census tracked. Then it wasn't a problem. But we are much more of a problem situation with the legislation, at least relative to national banks right now because we have to rely on this LMI, were these people formerly LMI, and those people say you just said that's very challenging.

Roz Ciulla:

I'd just like to make a comment on the New Markets Tax Credits as well. The previous panelists talked about New Markets Tax Credits, and it's true that the New Markets Tax Credit program does not work for venture capital funds.

When we first started looking at the program in the mid-'90s we thought it'd be more for economic development. The New Market Tax Credit Program, quite frankly, it was working really well. Key's involved from both being an allocatee itself and doing direct investments and investing in projects, and we've done a lot of owner-occupied real estate business expansion which has created a lot of new jobs, retained employment. That program works well.

My biggest disappointment, though, is not having a new market venture capital program. I thought that was a great program. I really thought that's where the venture capital needed to be. The money for the technical assistance is needed in this space. You have to have money to provide the services, especially if you're in a rural type area where the geography is so broad that the portfolio manager himself, herself cannot provide the technical assistance. You have to bring the resources to the table.

So, I would really encourage everybody in this room and CDVCA to do your lobbying trying to get the New Market Venture Capital Program reinstated rather than tweaking the New Market Tax Credit Program. That technical assistance piece is just so vital, and from an investor viewpoint that is what really has helped in our investment committee to get the investments approved. Saying there's going to be this money. It's going to be matched. These portfolio companies are going to get the assistance and the professional assistance that they need to be a viable company, to be able to grow, to be able to grow the jobs.

Barry Wides: Questions?

Male 1: I don't know if this is a comment or a statement or what, but I'm from the sort of Midwest northern plains, and the whole low and moderate income thing, quite frankly, frustrates me in terms of aggregating capital for rural communities, and the reason is ten years ago when we became a CDFI, primarily based in rural Minnesota, 90 percent of rural Minnesota qualified under CDFI as a low to moderate income area. We could go anywhere in rural Minnesota. Ten years later with the new census data given the new things 90 percent didn't qualify. What qualified were flood plains and national forests. Nothing changed.

What's interesting to me is when I go out I work with small communities maybe 3,000, 4,000, 10,000. And what's going on in these – these are sort of the centers of commerce in these little regions, and quite frankly with the corn prices up and the gaming industry up and people moving to wooded areas that have money they're no longer classified as low and moderate-income communities. And the population's age – and if you look at where there might be a census district – it's where the nursing home is.

So, the rurals, only looking at low and moderate income and census tracks in terms of rural development I think constrained the ability probably to aggregate capital to build an infrastructure for making equity investments in these places.

Barry Wides: Well, are you with the Rain Fund?

Male 1: Yeah.

Barry Wides: I was in Newton, Iowa last – two weeks ago meeting with one of the banks that's – small community bank, \$60 million community bank. He's investing, not because he has an investment test or even a community development test requirement. He's doing it because Newton, Iowa just lost 3,000 jobs when the Maytag/Whirlpool plant closed, and they're trying to bring a biodiesel and a windmill facility. And fortunately, the whole city of Newton has been designated as a government-targeted area for revitalization even though it's not LMI. I'll just get to my point I've made now more than enough times which is that if you can get back to the old standard which picked up government-targeted areas I think you will pick up a deal with the problem you just discussed, and I'd be happy to talk to anybody over lunch, during a break, during the cocktail hour to get you more information about the legislative fix that's pending. Yes.

Kerwin Tesdell: Yeah. Two-part question. CRA regulatory question for the panel, and I know there's lots of CRA regulatory expertise in the audience. So, anyone who can answer these. First, I made an assertion in my presentation that what I'm hearing from my members from rural areas is that if you're trying to raise a fund in a major urban area there are five, six major banks all operating there expanding and so forth. Therefore, there's a lot of CRA money around. If you're in a rural area maybe you have on national bank, mostly smaller community banks and you don't have banks moving in trying to up their CRA activity. If anything, it's going in the other direction.

So, it sort of feels like I understand CRA is a geographically-based law and concept, but big picture what happens – what that means is that money is being driven toward areas that are expanding economically and attracting banks and being pulled away from some rural areas that are not expanding economically. That's really where you need the CRA money. So, I'm just wondering, (a), whether I've got a correct perception. I'm hearing things other have heard from rural folks. And (b) whether there's anything to do about it. That's part one. Could I come back with part two?

Barry Wides: I can multitask. What's your next question?

Kerwin Tesdell: Okay. Next question is just as we've heard, as Roz just made the point, it's difficult to make these investments. This is – it'd be a lot easier to put a little bit more money in low-income housing tax credits or something. Once upon a time, and I don't know whether my terminology's changed, there was this concept of innovativeness, that you sort of get extra points for doing extra stuff. I'm just curious to know what the state of that is and whether there's enough push there to get Roz to do that extra work to do some community and development venture capital as compared with putting another million dollars in tax credits.

Barry Wides: Okay. Well, in terms of the first question you asked most large banks and the banks that are in this room certainly would fall into this category, have the broader statewide or regional area concept that you can get CRA credit even if it's outside of your assessed – any one of your assessment areas as long as it's in a broader statewide or regional area that includes your assessment area.

What we haven't had up until now was a place to put that on the tables – really technical – in our CRA exam. But it's important because once it's on a table it's quantitative and examiners are quantitatively driven, and when they show that to Malcolm and other members of the National Community Investment Coalition to

show what they've done in their communities it's showing up numerically on a table that they can point to. So, I think if we make the change that we're working on to add a line on the tables for these investments in the broader, statewide or regional I think that will create more of an incentive for them to do that.

In terms of the second question regarding innovative flexible complex that is truly one of those I know it when I see it kinds of things. You're dealing with four bank regulatory agencies and hundreds, if not thousands, of CRA examiners across the country. But it gets to the point that Roz made and I think was a very good one, which is to the extent that Roz has outcome data that she can point to the Rain Fund invests interest in windmill production facility in Newton, Iowa and they have data to show that this was a really tough deal to do and there were jobs that were created and a community that was devastated by a plant. You can tell the story and write-up for the examiners I think that helps a lot in terms of the – also leadership is one of those words that are in that paragraph that Kerwin's referring to in CRA. But the banks showed leadership.

In the case that I just described that would be something that the bank would be able to show to the examiners having the backup data about the businesses were invested in.

Female:

I just thought I'd respond to Chris's question about from a fund standpoint, I'll speak for SJF, what is the value of measuring our impact and would we do it if it weren't for the requirement and such. That goes back to your question what makes you CDVC, and you're a venture fund. You measure your returns. You're thinking about that everyday. Of course, any venture fund does, and what makes you CDVC is you also care in addition to the returns, which is critical and perhaps maybe primary I think we'd all argue, is that you care about your impact, and you need to measure it to know if you're doing it or not.

So, there's a certain bare minimum that we would always do just for our own interest. That's why we're doing this work and why we're not with a traditional venture capital fund. So, is it cumbersome? Sure. But you put some standards into place and some systems into place to make it easy – relatively easy to do these geographic assessments, where are companies are, are they addressing something. Some of that is a bit arbitrary based on what's happening in whatever statutes or regulations and some we might personally think is less indicative of value or not, but you do it because that's what it is.

But there is a line where the benefit of more study becomes overly cumbersome, and obviously it comes down to tracking individuals it's extremely difficult and costly. And if that's what the industry is wanting, then there needs to be some significant grant funds out there to start funding armies of interns to come in and crunch this data. And you also have to start questioning, okay, we're going to track an individual and we notice, gee, they left the company. What if they left because they got a better job because this company trained them? Maybe there's turnover here because they're doing a great job preparing employees for the new 21st century skills and they're able to leave and get better jobs? That's a whole other question you have to answer if you're concerned about this company has some turnover. Some of it could be good, but then that's a whole other level of tracking people to the next step.

So, that's just our take on how much we can do, but I think part of what being this type of fund is about is that you are obviously care about your impact as a team. That's why we're doing it.

Andy King:

I'm Andy King with CoBank, and we are not subject to the Community Reinvestment Act, and one of the things that we – a constant threat for us when we consider how to look at rural America has been we are troubled by the alignment of employment numbers and successful investments in rural America. We don't think they're necessarily tied hand-in-hand. In our case I think that some of the most successful investments we've had have had zero immediate impact on employment, but they've been in the nature of infrastructure, which allows development of the community and allows access and to follow on growth in other arenas.

For example, we constructed a bridge across a major river which allowed for heavy truck traffic access to a community. The building of a short line railroad spur into a community. Now, both of those activities and the railroad spur allowed them to build a load-out green loading facility for the surrounding farmers.

The point I'm simply trying to make here is that I think it's a mistake for all of us to think in terms of too closely aligning immediate job impact and statistics with particular activity in rural America and the good that it might provide to the community over the longer term.

Julia Rubin:

I guess this is kind of along the same lines. Julia Rubin from Rutgers University. Very interesting panel. Very thought-provoking stuff going on. Chris, I guess I'm also responding to your comment, which I didn't know if you were being a little bit of a devil's advocate or if you were genuinely suggesting that perhaps

we just don't need to track the social stuff. I guess, let me continue that tradition, no one's really measuring whether there is a difference between what happens in traditional venture capital investments are made, which create a lot of jobs – in fact, the most money they make, generally, the more jobs they create because growth requires new people to be hired – and when developmental venture capital investments are made. Until we do that kind of a side-by-side comparison it's very difficult to talk about social impact, whether it's at the aggregate job level or creation of jobs for low-income people. So, I guess let me throw that out one.

And the second thing is I've heard repeatedly from folks as I've done research on this industry that no one cares about the social anymore. Now, I think that's a little bit of a policy – it's a little bit of a window in that a lot of things have happened in the last five, six years that have pushed towards that, and that can certainly change. But it's financial returns that all the investors care about. I think you were very honest about that from the foundation side, at least for Heron.

And the other foundations might talk about caring about jobs, but they also aren't investing in this industry pretty much anymore. So, I don't hear anyone out there really asking for the jobs figures except the SBA. And the SBA's doing it regultorily, etcetera.

So, and the last thing is I think there's also kind of danger where a lot of things get lumped together, partly because development venture capitalist is so hard to define, and you kind of hinted this, Chris, with your earlier question about what is this model. But when I look at what CALPERS is doing and the kind of measurements that are going on from Pacific Community Ventures they're doing great measures, but they're lumping together a whole group of organizations, some of which are doing nothing development at all, ranging all the way to Pacific Community Ventures which are doing very hard lifting. Then when the aggregate measures come out they look better because you've got the heavy lifters in there, but the heavy lifters don't get the credit.

And so, when you combine everything, when you talk about anything that isn't just Silicon Valley and Route 128 is development venture capital you're really disadvantaging folks who are doing the heavy lifting, and if you – so I think that's a real problem that I see with this emerging markets and emerging managers, etcetera, all this stuff that's going on with the pension funds.

Anyway, I'd love your responses.

Chris Perez: Okay. So, in no particular order we wouldn't – we, as a foundation, like any other foundation, wouldn't be investing in this space if it wasn't for the social outcomes. Return is important for us, probably more than most foundations because we're really committed to the concept –

[End of Part3SideA, Beginning of Part3SideB]

Chris Perez: – showing that there are opportunities across asset classes that have social returns, as well as good, sound investments. So that's the premise that we work from, and I don't think that we would have invested in any of the funds that were in this room if it wasn't for the commitment to social outcomes, be it self-generated or regulatorily imposed.

So one of the things I think about is in your own piece you talked about how most of the folks that have come from this and have approached it, either from the investment side or the funds side, community development and venture capital, have really been around maximizing job opportunities. So the middle part of your comment is really interesting, because it's clear in some of what we're considering market rate venture capital funds that are socially motivated, the multipliers and just the magnitude of job creation and impact is greater. And we're getting those numbers, but that's a space that most social investors don't want to dip into. If we can see huge multiplier effects and large job creation from an investment in Yucaipa, why is that not considered community development venture capital? Because it's Ron Burkle? I'm not sure.

So I think we're really struggling with this concept. I think philanthropy is, too, but they're way behind, because the investment people don't talk to the program people. There's never a conversation between what a traditional venture capital investment does, other than make money, and the program people generally don't ever know how to measure return, let alone talk to their financial people about what the return expectations are. So until that disconnect comes down, this is the place that we're in, and we're going to always bifurcate the industry into community development venture capital and traditional, even if the outcomes wind up being close by sort of convergence of factors or sheer luck.

Male: Just a quick response. I think one factor – you asked an interesting question. Does community development venture capital really differ from traditional venture capital? And I think a difficult issue on the measurement thing is, I think, a major thing that distinguishes CDVC from traditional venture capital, is we're doing things that wouldn't otherwise be done. Ray's purposely gone off to Kentucky and West Virginia to make his investments rather than Route 128. I think even if – I don't know how the numbers would come out, but if Julia did the study and you compared Kleiner Perkins' number, a classic Silicon Valley venture capital fund, with Kentucky Highlands', and maybe Kleiner Perkins produces more jobs per dollar. I don't think that means that Ray is not needed, because Ray's doing stuff that the market wouldn't otherwise do. If Kleiner Perkins weren't there, there would be other venture capital funds that would be doing that.

Chris Perez: So I think we're on the same exact page, because what I was trying to get at is the most common social impact measurement. The baseline that everyone is looking that calls themselves a social investor is job creation. So everything that we've heard before that goes beyond that is important to demonstrating that this space is needed.

Ray Daffner: I have a question. This is Ray Daffner, Appalachian Regional Commission. In the earlier panel, and actually the opening remarks, Kerwin talked the expansion of bank finance driving capitalization for development venture capital funds. And my question, I guess, has to do with another source, the GSEs, and I'm curious whether our panelists or others in the audience, is that an opportunity for a new investor group or to expand an investment firm, GSEs, whether that's the federal home loan banks or farm credit banks? I think earlier someone talked about a 15 percent investment cap on the part of the farm credit system. I'm just curious what type of experience folks have had and whether that's a fertile area for discussion about possible increases in investment?

Barry Wides: Well, I'll take a stab, and there might be other people that would want to comment. I think that the banks have sufficient capacity. I think we have to get the regulatory environment right, and I think that, like I say, some little fixes in terms of some of the legislation that's pending in Congress I think will free up some more capital from banks. The other thing that this legislation does that I didn't mention was it authorizes these types of investment for thrifts for the first time, up to 15 percent of their capital, and that authorizes \$20 billion of capital right then and there.

So, I think that the banks have sufficient interest and have sufficient capital. I just think we have to get some of the regulatory issues worked out, and I think a good conversation is taking place today around both that and some of the CRA issues that Kerwin and others have mentioned that can help incent banks in that direction, as well as give them the legal authority that they need to do it.

All right, well, I think that is it. I want to thank these great panelists for their presentations.

[Applause]