

**Testimony From
Robert M. Sausedo
Chairman of the Board
Los Angeles Community Development Bank.**

Good (morning/afternoon), Chairman Ney and Member Waters, My Name is Robert Sausedo and I am the Chairman of the Board of the Los Angeles Community Development Bank. I was Appointed to the Board of Directors by Former City of Los Angeles Council Member Mark Ridley-Thomas in July of 1999, and was subsequently elected by the entire Board of Directors to serve as The Chairman of the Board in December of 2001.

I am hear today to offer testimony on behalf o the Board of Directors and as a concerned citizen and volunteer. Additionally, I am joined by Steve Valenzuela, the President and CEO of the Los Angeles Community Development Bank.

Up to this point you have heard testimony about the bank and it's so called failings. My intent is to share with you some of the successes the bank has achieved and to give you a better understanding of the Los Angeles Community Development Bank's leadership and its Board of Directors.

Access to Capital. HUD provided the Bank with \$100M of S108 funds and \$100M of matching EDI funds. This extraordinary allocation of EDI was made in recognition of the additional risk in lending that the Bank would undertake. Credit risk was anathema to most commercial banks, resulting in capital-starved businesses in the inner city communities of LA. The Bank adopted credit guidelines and underwriting criteria similar to those employed by the largest commercial banks in the City. This was done, in part, to help facilitate co-lending with these banks, in fulfillment of significant pledges made by three large LA banks in 1995. The pledges of co-lending with major banks were worth a lot less than imagined. The LACDB assumed even greater risk than originally forecast in order to meet the unmet capital needs of businesses in the Empowerment Zone.

So what has been accomplished? To date, the LACDB has closed on over 250 loans and investments, totaling over \$130 million in funding. We are especially proud of having received an award from HUD for implementing an innovative microloan program that funded over \$1.0 million in loans to very small businesses in LA. With an average loan size of \$15,000, LACDB funding (all of it in the form of EDI) reached approximately 70 businesses. While many of these very small entrepreneurs experienced difficulty in expanding their businesses to create new jobs, the vast majority have either repaid their loans in full or are making good on their commitments. The bulk of the loans made by LACDB have been to small and medium sized businesses in the Empowerment Zone and one-mile buffer.

We have a number of success stories of businesses that remain open and viable, that met the national objective of creating jobs for the benefit of low and

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moderate income persons AND that repaid their financial obligations to the LACDB. We also have experienced some setbacks, borrowers who failed to execute their business plans and media stories about the Bank's missteps. Rarely, has the local press published a story trumpeting the Bank's accomplishments in light of its challenges.

Recognizing that some companies require capital, and not debt, to further their business plans and create jobs, LACDB also partnered with Draper Fisher Jurvetson and formed Zone Ventures, a partnership focused on funding early-stage investments in portfolio companies in the Empowerment Zone. We formed a similar partnership with FAME Renaissance and Hancock Partners to focus on operating companies in the empowerment zone.

The strategic exits from the Zone Ventures partnerships relied heavily on continued vitality in the IPO and M&A markets. As these sources of recapitalization dried up over the past few years, the LACDB (like other limited partners across the country) has been heroically dealing with the issues of capital calls and dilution. We remain hopeful and optimistic that the economic benefits resulting from these efforts -- new, high tech companies populating the empowerment zone and central city of LA and the resulting positive impacts -- will continue far into the future.

Reduction of Liabilities

In 2000 the Bank moved aggressively to defease its outstanding HUD debt, which as of July 2000 totaled \$105 million. During 2001 the Bank reduced the City's and County's liabilities to HUD by \$10 million and \$4 million, respectively, approximately 16 years ahead of schedule. The reduction in liabilities occurred through a defeasance of a portion of the City's and County's long-term debt.

The bank, has successfully resolved all outstanding significant legal issues and prevailed on appeal and in the Supreme Court, in overturning a \$12 million Judgment. Our Board of Directors continues to remain pleased with the hard work our Senior Staff put into this successful conclusion.

2. Job Creation. Providing eligible companies with capital was always intended to be a means, and not the end to economic development. The measure of success we strive for is job creation, primarily benefiting residents of the Empowerment Zone and other low/mod persons. That's the standard set forth in our Comprehensive Agreement with the City and County of Los Angeles. That's the national objective set forth in the HUD regulations.

Each company assisted by the LACDB is required to demonstrate they have the capacity to create 1 job for every \$35,000 in financial assistance. Taken together, the portfolio of companies are required to create approximately

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3,800 jobs. Through 12/31/02, LACDB-funded small businesses have created 3,400 jobs. **That's 90% of the goal!** While the number of empowerment zone residents benefiting from these jobs totals 1 of every 5 jobs created, low and moderate income persons hold 80% of all jobs created. While we are proud of these accomplishments, we expected to achieve greater results. Frankly, the LACDB misunderstood the extent of the challenge its borrowers would face in creating new jobs and identifying eligible workers from the Empowerment Zone.

LACDB also understood that the federally-funded job training and referral programs operating in LA, would provide our clients with the types of resources and workers they needed in a timely manner. The LACDB has radically changed its job creation monitoring and referral processes. The fruit of these efforts will result in further job gains for low and moderate income persons from our neediest communities as our clients experience the need for an increase in their respective workforces

When the Founders of the Los Angeles Community Development bank were forming the strategies around what was anticipated to be the targeted customers LACDB would target, the economy shifted as a result of the rapid growth of the technology sector. During this time commercial banks lowered there lending standards and began to offer business loan products that were far more competitive and had significantly less red tape than the requirements that accompany S108 funding.

This resulted in LACDB taking on higher risk loans to businesses that would need to stabilize their infrastructure before they could follow through on their jobs creation commitments.

I continue to remain significantly challenged as a Board Member when I hear statements made like, "the Bank has failed at meeting its' national objectives" or "the bank is out of compliance". It is important to note that the businesses that received funding and remain in business, are not required to create jobs within a specified period of time, rather it appears that the requirements for jobs creation is open-ended. That said, current LACDB statistics show us at 90% of the required jobs creation target.

While it is true that the founders of LACDB intended for the bank to operate autonomously from the city, it is a significant departure from the truth to say that the City of Los Angeles staff has remained hands off and unaware of the level of risk that is involved with LACDB lending. Additionally, it is important to note that the reason the bank is moving toward closure, is primarily do to a lack of political will to support the bank. In short, the bank was not set up to withstand changes in administration at the local and federal level.

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So where do we go from here?

As a Third generation citizen of this great City, I am encouraged by the fact that this committee is asking the question; **What are you going to do with the remaining \$108 funds when the bank closes?**

As a suggestion, I offer the following.

While the City of Los Angeles wants to expand on the uses of these funds to include housing development, I am of the mind that we cannot walk away from the table without defined specificity on how the funds will be utilized. Additionally, It is my belief that we must maintain funding for our mid –sized and small businesses. Therefore a significant portion of the remaining funds should be relegated to this activity and should include other areas of the city that meet the low income census tract criteria while utilizing 2000 census tract data not the 1990 data.

Additionally, as the LACDB moves toward closure, local organizations that provide this kind of lending should be considered for the tactical deployment of this resource. I offer the following highlights from South LA Rising: Opportunities for Economic Self –Sufficiency Ten Years After the 1992 Civil Unrest. Written by Mark Drayse and Daniel Flaming Economic Roundtable Briefing Paper, April 2002.

⇒ When business is created, developed and or expanded, a certain by-product is job creation and retention.

⇒ South LA, in particular was the hardest hit after the 1992 civil unrest, with 547 buildings damaged in Los Angeles, 78% or 428 of those damaged were in South Los Angeles.

For the purposes of this study, South Los Angeles included the planning districts of Southeast Los Angeles, South Central Los Angeles, and West Adams – Baldwin Hills.

⇒ Of the 428 buildings damaged in South Los Angeles, only 19 % had payroll-tax-paying establishments in 1999. The 81 “recovered” buildings housed 147 businesses employing 985 workers (an average of seven workers per establishment).

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Of the 985 workers, comparatively, they were paid 15% lower wages than their counterparts in other parts of the City. The South LA workers are paid an average monthly salary of \$1707 for an annual salary of \$20,484, below poverty wages for a family of 4 in LA County.

⇒ One of the fundamental problems facing South Los Angeles residents in 1992 was the shortage of jobs. At the time, there was only one job to be found in South LA for every 4.5 residents, making it the most job-scarce area of the city.

⇒ According to the Economic Roundtable study presented in April 2002, by 1999, there was a slight decline in citywide job availability but a precipitous decline in South LA.

In 1999, there were 2.8 residents per job citywide and 7.2 residents per job in South LA. This means that there were only one-third as many jobs per resident in South LA as in the city as a whole. By the end of the decade, South LA had a joblessness rate higher not only than the city average, but 3 times higher than the national average.

What does this all mean to distressed communities in Los Angeles, particularly South LA? It means that the initial designation of the \$400 million dollars to boost the local economic engine has a long way to go to create jobs and business.

Rather than place the remaining \$198 million into other areas, why not designate at least half of those dollars to be placed at the local level, in local community-based organizations that have a strong, demonstrated track record of business development expansion and job creation and retention.

For Example:

Community Financial Resource Center (CFRC) is LA's first public/private partnership opened in 1993. In its 10th year of community economic development service to the community, it is based right here in South Central Los Angeles.

⇒ CFRC is a Community Development Financial Institution (CDFI) certified by the US Department of the Treasury and is also a California Finance Lender.

⇒ CFRC is one of the largest regional community based economic development organizations focusing on business development and

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partners with local, national and international banks to deliver business loans in underserved communities.

⇒ As a result of their work at the grassroots level, CFRC has created and or retained over 460 jobs valued at \$16,275,000 (utilizing HUD standards at a cost of \$35,000 per job) at the local level.

⇒ CFRC has delivered nearly \$10 million worth of small business loans to local business owners, with the average loan size of \$80,000, something banks typically won't do. That is why CFRC partners with banks, to deliver "near bankable" loans to small business owners, with a goal of assisting the business owner in developing a banking relationship.

⇒ CFRC has served over 65,000 local residents and business owners since it was started in 1993.

⇒ CFRC delivers small business loans starting at \$500 called a microloan all the way to \$250,000 for a small business expansion loan. They offer technical assistance to the businesses, and opportunities for becoming certified to access procurement opportunities when they are ready.

In closing, I would like to urge you to commit at least \$100,000,000 to local community based community development lenders like CFRC to continue the awesome task of continued job creation and business development in our community.

Other reasons for maintaining a focus on our local businesses throughout the underserved areas include:

- Of the six million people estimated to move into California between 1999 and 2010 approximately 900,000 will call Los Angeles Home, creating a 24% increase in Los Angeles' growth rate.
- Over the next five to ten years approximately 20,000 to 30,000 people in California will be released from prison on an annual basis landing in communities deemed underserved, poor, low income.
- As communities expand, the need for small business is required to meet the needs of local communities. This is driven by need and the inability for "Big Box Developers to keep up with the growth rate.
- Increased businesses mean increased tax base, subsequently increased revenue to meet the needs of the community.

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As a citizen of this great city, I implore this committee to keep the focus of standing on the side of what's right and supporting our local economy.