August 5, 2022

Via Electronic Mail

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 2055

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Washington, DC 20219

James P. Sheesley, Assistant Executive Secretary
Attention: Comments RIN 3064-AF81
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: Community Reinvestment Act Regulations Docket (R1769) and RIN (7100-AG29), Question 13

To Whom It May Concern,

We are the managing directors of University Growth Fund (UGF), an innovative organization that manages two student-run community development venture capital funds: University Growth Fund I, LP (UGF I) – a $32 million dollar fund established in 2014 and University Growth Fund II, LP (UGF II) – a $56 million dollar fund established in 2020. Prior to UGF, we managed the University Opportunity Fund (UOF) – an $18 million dollar venture capital predecessor fund to UGF (collectively, the Funds). **These innovative and impactful Funds would not have been possible without the early and continuing support and investments by banks through their Community Reinvestment Act (CRA) programs, so CRA is of vital importance to us, especially the ability <u>for banks</u> <u>to continue to receive CRA credit</u> for intermediaries that finance small businesses that meet the "size" eligibility standards of the SBDC or SBIC Programs and also the current jobs component of the "purpose" test.**

We are deeply concerned about the recent Notice of Proposed Rulemaking issued on May 5, 2022 (Current Proposal) and *its proposed deletion of the jobs component of "economic development*," which deletion appears to be essentially the same as the deletion proposed by the FDIC and OCC in December of 2019 (2019 Proposal). We filed a comment letter for the 2019 Proposal, which we have attached at the end of this letter. We have retained the Mayer Brown law firm to submit a comprehensive comment letter on our behalf. However, we also want to file this separate comment letter to emphasize the following:

- **UGF's strong documented record over several years of supporting "job creation, retention, and/or improvement" for (1) LMI persons, (2) in LMI areas, and (3) in areas targeted for redevelopment, including ongoing efforts to diversify the venture capital industry;**
- **Job creation is critically important in supporting local economies, and businesses with gross annual revenues (GAR) > $5 million but within SBDC or SBIC program size limits can create and retain a large number of jobs for LMI persons and in LMI areas; and**

- **CRA rules can emphasize the very smallest businesses (defined as GAR of ≤ $5 million) without completely eliminating CRA credit for financing businesses that currently qualify for CRA credit (or the intermediaries that finance such businesses) by meeting the "size" test of the SBCD or SBIC Programs and the "purpose" test (as described in the Interagency CRA Questions & Answers at Section ____.12(g)(3) – 1.)**, **by supporting job creation, retention, and/or improvement for LMI persons, in LMI areas, or in redevelopment areas.**

I. UGF IS GROUNDED FIRMLY IN CRA AS EVIDENCED BY OUR CONSISTENT RECORD OF JOB CREATION, RETNETION, AND/OR IMPROVEMENT FOR LMI PERSONS, IN LMI AREAS, OR IN REVELOPMENT AREAS.

As stated above, the Funds would not exist without CRA. UOF was launched with the support of early bank investors who were willing to be innovative and create a new type of venture capital fund with two primary objectives: 1) to finance small businesses that are creating, retaining, and/or improving jobs for low- and moderate-income (LMI) persons or in LMI communities, and 2) to provide LMI students with an unparalleled, real-world experience in the exclusive industry of venture capital, and to also help them obtain jobs.

UGF has been very successful at helping hundreds of LMI students, including many women and students of color, gain the training and experience they need to land highly competitive, highly paid jobs. UGF I and UGF II's investments have also been successful at supporting LMI job creation, retention, and/or improvement by investing in companies that employ LMI individuals and/or are located in LMI Tracts or Redevelopment Zones.

A. <u>UGF Promotion of Economic Development</u>: UGF has documented the following results since inception of the Funds:

1) <u>LMI Student Impact</u>: UGF's record of economic development includes the following:

- 301 students impacted through our core internship program since inception
- 98% of UGF student associates are LMI
- $106,364 average income at graduation, a 94% premium compared to students from the same schools that did not participate in our internship program
- 400+ additional students impacted through additional UGF-sponsored programs (e.g. VC Case Competition, conferences, etc.)
- 58 current student participants
- Participating schools: Barry College, Brigham Young University, Emory University, Georgia State University, Georgia Tech University, Gwinnet College, Morehouse College, San Diego State University, Spellman College, University of California San Diego, University of San Diego, Utah State University, University of Utah, and Utah Valley University.

2) <u>Portfolio Economic Development Impact - Job Support:</u>

UGF I:

- **11,459** total jobs created, retained, and/or improved **for LMI persons**
- **32,776** jobs created, retained, and/or improved **in LMI areas** by 11 companies located in LMI tracts and 4 companies in Redevelopment Zones

UGF II (recently formed and still actively investing)**:**

- **2,398** total jobs created, retained, and/or improved **for LMI persons**
- **6,105** jobs created, retained, and/or improved by in **LMI areas** by 4 companies located in LMI tracts and 1 company in a Redevelopment Zone

UGF thoroughly documents the "size" and "purpose" test for each investment and tracks job creation, retention, and/or improvement every year for each small business, which documentation is shared with UGF's investors to demonstrate that their investments qualify for CRA credit (to UGF's knowledge, CRA examiners have always accepted our "size" and "purpose" documentation as sufficient, with some banks reporting very positive responses from their CRA examiners).

As demonstrated below, it is critical that the "purpose" test not be limited to only job creation, retention, and/or improvement for LMI persons – jobs in LMI areas and in redevelopment areas also remain important.

B. Diversifying Venture Capital and UGF Expansion to Atlanta

At UGF, we trace our roots to helping underserved LMI students. UOF, and subsequently UGF were created because students in Utah struggled to compete with students attending schools that were "targeted" by employers, predominantly found on the coasts. UOF and now UGF level the playing field by giving LMI students in those areas access to unique training and experience that enables them to compete for and land the highest paying and most competitive jobs in the finance industry. It was based on this heritage and success that UGF looked to other areas and populations where we could have a meaningful impact.

Today less than 3% of venture capitalists are Black or Brown[1]. This has a massive impact on inequality in small business funding as Black and Brown entrepreneurs struggle to raise capital from investors to the same degree as their White peers. Similar to the LMI students in Utah, many Black and Brown students lack the knowledge, access to training, and experience necessary to enter the careers that will allow them to break into venture capital.

Leveraging our track record of helping solve that problem for LMI student populations in Utah and San Diego, **we launched an office in Atlanta in 2021 and started to aggressively hire interns from the local universities with an emphasis on the Historically Black Colleges and Universities (HBCUs) and Georgia State University**, a designated Predominately Black University. We are working hard to help Black, Brown, Latinx, and women leverage our experiential educational program to change the face of venture capital and high finance from the ground up, which we believe will have significant ripple effects throughout the economy and improve overall equity in this country for entrepreneurs, employees, and investors.

II. BUSINESSES WITH GROSS ANNUAL REVENUES (GAR) > $5 MILLION BUT STILL WITHIN SBDC OR SBIC PROGRAM SIZE LIMITS CREATE AND RETAIN A LARGE NUMBER OF JOBS FOR LMI PERSONS AND IN LMI AREAS.

We applaud the Agencies' efforts to address the concerns of stakeholders by providing automatic CRA qualification (without having to meet the "purpose" test) for direct loans to businesses with GAR of ≤ $5 million. However, **other small businesses that currently exceed GAR of $5 million but still meet the size eligibility**

[1] https://nvca.org/research/nvca-deloitte-human-capital-survey/

standards of the SBDC or SBIC Programs also have a significant impact on LMI job creation, retention and/or improvement and should continue to receive CRA credit.

Small businesses whose revenues have grown to exceed $5 million (but still within SBIC Program size standards) can be significant producers of jobs. In most cases these small businesses still do not qualify for traditional bank financing but are producing significant LMI job creation or impact on LMI communities. Venture-backed companies, such as those funded by University Growth Fund, are a good example of this. They may be generating greater than $5M in GAR **but are still losing money as they need to continue to spend and reinvest in their businesses to achieve greater growth and hire more people**. This makes it difficult for them to obtain bank financing. But venture-backed companies have an outsized impact on our community and job creation and should continue to be financed regardless of short-term losses:

- Venture-backed companies grew employment by 960% from 1990 to 2020, eight times more than the annual rate of non-VC-backed companies[2]
- Venture-backed companies grow employment by 8.2% annually vs 1.1% for total private sector[3]
- Venture-backed companies are also more resilient: during the "Great Recession" annual job growth at VC-backed firms exceeded 4% whereas total private sector employment shrank by 4.3% in 2009[4]

We have seen the impact on LMI job creation, retention, and improvement firsthand in our own portfolio. Specifically, UGF I has achieved the following impact on LMI job creation:

	Small Businesses with <$5 million in gross annual revenue	*Small Businesses (defined under SBDC and/or SBIC standards) with revenue >$5 million in gross annual revenue*
Total Small Businesses Financed	14	21
Total Jobs Created/Retained/Improved	1,422	14,188
Average of All Jobs Created/Retained/Improved per Business	102	6,865
Total LMI Jobs Created	409	676
Average LMI Jobs Created per Business	29	327

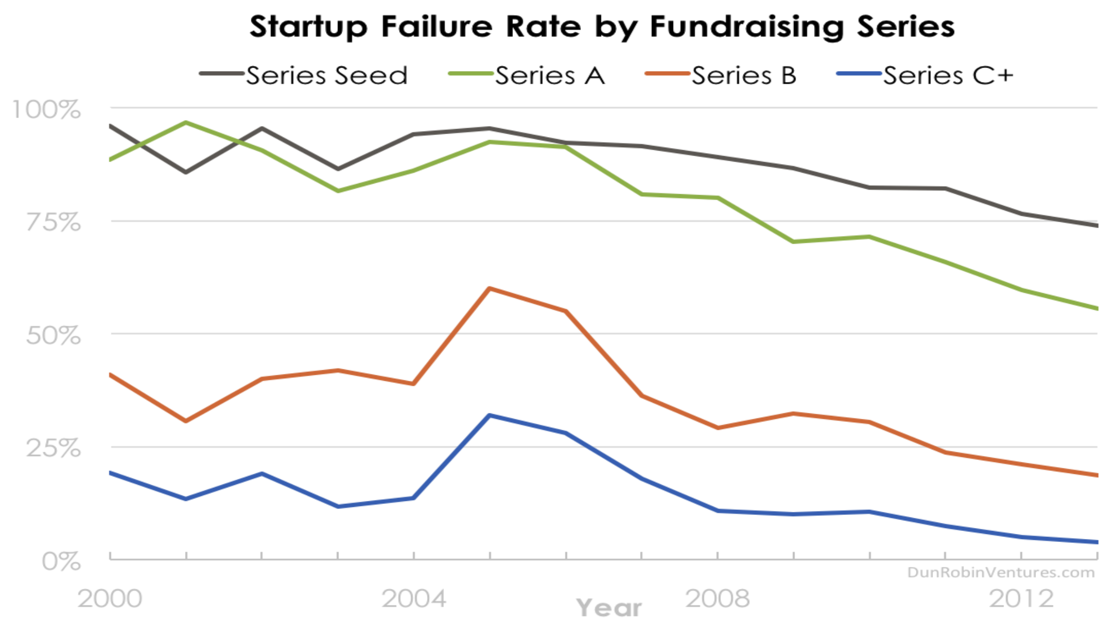
Among UGF portfolio companies, small businesses with greater than $5 million in GAR generated 10 times as many total jobs on average and 10 times as many LMI jobs on average as those with less than $5 million in revenue. Small businesses with >$5 million in gross revenue also had a higher percentage of LMI employees (48% vs 28%). The slightly larger small businesses are also less likely to fail, resulting in more permanent job creation. Although UGF II is still relatively new, we are seeing a similar trend in job creation.

***NOTE:** *LMI jobs do not represent the majority of total jobs because several small businesses qualified based on being located in an LMI area or redevelopment zone. In addition, many jobs that were LMI when we invested were "improved" to middle- or upper-income over time, which is one of the most important missions of CRA.*

These findings in our own portfolio are not unique. Indeed, studies show that by the time a company is able raise a "Series B" round of venture investment, there is a significant decrease in the likelihood of failure and the

[2] Employment Dynamics - National Venture Capital Association - NVCA
[3] Ibid
[4] Ibid

company also starts to scale up the number of employees. Coincidentally, most Series B stage companies in our experience are typically generating $5 million in gross revenue or more, but almost always are still small businesses under the SBDC or SBIC standards. A lower failure rate means that jobs created by these companies are more likely to be retained.



https://medium.com/@bharatanant/evaluating-the-risk-reward-relationship-across-funding-rounds-5c951f21236b

Eliminating CRA qualification for investments in companies with more than $5 million in GAR would require UGF to drastically change its long-established and successful investment strategy. This would make raising capital for future funds much harder as investors would not have as much confidence supporting a "new" strategy that would result in far less LMI job creation, retention, and/or improvement as demonstrated above. It could also negatively impact our student program and student job placement in high-paying jobs. This is because many of these slightly larger small businesses are more well known to employers and due to their greater traction have more depth for students to research when doing due diligence. These combine to help our students compete and land many of the most prestigious jobs in the country regardless of their background, ethnicity, or starting income level (see above for the LMI student impact at UGF).

III. INTERMEDIARIES THAT FINANCE BUSINESSES WITH GAR > $5 MILLION BUT STILL WITHIN SBDC OR SBIC PROGRAM SIZE LIMITS SHOULD CONTINUE TO RECEIVE CRA CREDIT IF THEY ALSO MEET THE CURRENT "PURPOSE" TEST.

We strongly believe that a new CRA rule can emphasize the smallest businesses (defined as GAR of ≤ $5 million) without needlessly eliminating CRA credit for businesses that currently qualify under the existing rules.

A. <u>CRA Credit Should Not Be Limited to SBICs and Other Government Program-Sponsored Intermediaries</u>.

Only providing CRA credit for those intermediaries that are part of a government sponsored program such as the SBIC program will have a disproportionately negative impact on emerging fund managers, particularly women-led funds, minority-led funds, or those with unique programs that are designed to provide financial education to LMI students such as University Growth Fund. These programs have requirements that are difficult for emerging managers to meet, they take a long time to receive approval, and they limit the types of investments a firm can make, thereby reducing the potential impact.

For example, when we started UGF we explored pursing an SBIC license since it was a "safe harbor" for CRA qualification. However, we ultimately had to abandon those plans because of the experience requirement, the high upfront legal expense from to having to use specialized legal counsel, and the very long approval process that can take well over a year. We did not have the luxury to overcome all those hurdles and we know many other great fund managers in the same situation. These factors contribute to an SBIC program that is structurally biased against innovation, be it an innovative fund like ours that is focused on LMI students or a minority emerging manager. **If the Agencies truly seek to impact LMI populations and finance small businesses in innovative ways, this provision (limiting credit to SBICs, etc.) is far too limiting and will only end up supporting the status quo of less innovation, diversity, and equity.**

B. <u>CRA Credit Should Continue to be Given for Intermediaries that Invest in Intermediaries that Invest in Businesses that Meet SBDC or SBIC Program Size Eligibility Standards and that Support Job Creation, Retention, and/or Retention for LMI Persons, in LMI Areas, or in Redevelopment Areas</u>.

We were happy to see the Current Proposal give CRA credit for support of intermediaries that finance businesses with GAR of ≤ $5 million. However, **we believe that there is no sound policy reason to eliminate CRA credit for intermediaries that finance businesses with GAR > $5 million and that currently qualify for CRA credit under the "size" and "purpose" tests outlined in the Interagency CRA Questions & Answers at Section ____.12(g)(3) – 1.)**

We submit that, as demonstrated by our own experience, **intermediaries that finance small businesses that meet the current "size" and "purpose" test can be significant contributors to "economic development" as demonstrated by comprehensive documentation of job creation, retention, and/or improvement**. The regulators should continue to provide that "primary purpose" is established by "a majority of the dollars, applicable beneficiaries, or housing units of the activity are identifiable to one or more community development purposes." In this regard, UGF and its predecessor fund UOF have been successfully documenting (and CRA examiners have been accepting) for 17+ years that a majority of our students are LMI and achieve outsized job "improvement," and that a majority of the small businesses we invest in meet the "size" and "purpose" tests.

We would also like to advocate for giving banks CRA credit for supporting funds that are helping women and minority fund managers and small businesses. As mentioned previously, only 3% of VCs are Black or Brown[5] and unsurprisingly less than 3% of venture capital goes to Black or minority founders.[6] Studies suggest that the solution is helping more women- and minority-led investors get started since women and minorities are twice as likely to invest in other minorities and women than white men.[7] Given the original implied goal of CRA to remove institutional racism, encouraging banks to support more women- and minority-led funds and organizations that support them should be a priority (It could also be accomplished by providing CRA credit for women- and minority-owned or led small businesses). We applaud efforts by banks to support funds like Fearless Fund, a Black-woman led fund based in Atlanta that invests exclusively in Women-of-Color owned or led companies; and Altura Capital, a Hispanic owned non-SBIC fund for which UGF students have done several value-add projects.

[5] https://nvca.org/research/nvca-deloitte-human-capital-survey/
[6] PITCHBOOK 2017 PE & VC FUNDRAISING REPORT
[7] https://www.morganstanley.com/ideas/venture-capital-funding-gap

C. CRA Examiners Should Continue to Employ Flexibility in Reviewing Information Provided by a Financial Institution.

We also urge the Agencies to continue **their clear mandate that "examiners will employ appropriate flexibility in reviewing any information provided by a financial institution that reasonably demonstrates that the purpose, mandate, or function of the activity meets the "purpose test,"** as set forth in the current CRA regulatory guidance. Our Funds have a strong track record of objectively demonstrating the "size" and "purpose" test to the satisfaction of numerous sets of examiners over 17+ years. We believe that the wide-spread and long-established acceptance of our documentation stems from the early work UOF did in 2003 and 2004 with its bank investors and their regulators to establish an acceptable documentation format. This was done primarily with Morgan Stanley Bank and UBS Bank USA working with a senior FDIC official in Washington D.C. named Robert Mooney (since deceased) who generously provided guidance and feedback (see Attachment A for the format of our "size" and "purpose" test documentation). Although there are apparently some who feel it is too difficult to document the jobs component of the "purpose" test, we would invite them to review and utilize the format that has been accepted by our Funds' bank CRA examiners for almost two decades.

IV. CLOSING REMARKS

We strongly urge the agencies to retain the current jobs-based "purpose" test (as currently set forth in the CRA Interagency Q&A section discussed above) for intermediaries that invest in small businesses that generate > $5 million in GAR but still meet the size eligibility standards of the SBDC or SBIC Programs. Otherwise, the agencies **will needlessly stifle innovation and significantly harm entities that currently qualify for CRA credit** and are successfully supporting the creation, retention, and/or improvement of jobs for LMI persons and areas across the country. **Worse, such a result would only serve to harm the very LMI persons and LMI areas that the CRA was created to help.**

If you have any further questions, please contact us at 801-410-5410.

Sincerely,

Tom Stringham
Managing Partner, UGF

Peter Harris
Managing Partner, UGF

UGF's Framework for Demonstrating LMI Job Creation, Retention, and/or Improvement

We understand that some stakeholders have expressed concern that it can be difficult to demonstrate that an activity meets both the size and purpose test. However, for the past 17+ years UGF has consistently been able to demonstrate impact on LMI individuals, LMI communities, and small businesses through job creation, business location, and business model (financing or providing support to other small businesses). Through development with the FDIC, UGF created the following framework which we use to evaluate potential CRA qualification of our investment opportunities:

1. "SIZE TEST" The company must meet one of the following two regulatory standards for size:
    a. Does this company meet the size eligibility standards of the SBA's Development Company or SBIC programs (13 CFR 121.301):
        i. Does the company have tangible net worth of less than $19.5 million and average of $6.5 million in net income over the previous two years? Yes/No
        ii. Is the company a "smaller" business by having lower annual revenues or a lesser employee count than allowed for the applicable NAICS code? Yes/No

            (Report the Revenue or Employee Limit for the NAICS code. Note: For purposes of determining the financial data of the potential investment company, all affiliated entities (i.e. entities with common ownership) need to be included in the calculation. Please list and attach source for verification (e.g., income statement, financials, etc.).

    -OR-

    b. Does this company have gross annual revenues of $1 million or less? Yes/No

2. "PURPOSE TEST" (FFIEC Interagency Questions and Answers regarding the CRA (12 CFR §228.12(g)(3) – 1A.). Would an investment in the company promote economic development by:
    a. supporting permanent job creation, job retention, and/or improvement for low- or moderate-income ("LMI") persons:
        i. What is the area median income ("AMI") [MSA] where the company is located?
        ii. Of the company's current employees, how many are currently low- or moderate-income (less than 80% of AMI)?
        iii. How many new LMI employees are anticipated to be hired?

    -OR-

    b. supporting permanent job creation, job retention, and/or improvement in:
        i. low- or moderate income geographies (is the company located in a low- or moderate-income geography?) Yes/No; Report Tract income level
    c. supporting companies in areas targeted for redevelopment by Federal, state, local or tribal governments? Yes/No. Provide supporting documentation
3. Based on the answers to the above questions, does this investment meet both the "Size" and "Purpose" tests? Yes/No

We gather this information at time of investment, then track total job creation and LMI job creation annually to demonstrate impact over time. In addition, we look for small businesses that are having additional LMI impact outside of these metrics. This might include a small business that provides financial support and education to LMI individuals or underserved populations or a small business that leverages their technology to connect small farms directly to small restaurants to improve margins for both parties. Most of our portfolio companies have multiple levels of impact on LMI individuals.

Via Electronic Mail April 8, 2020

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Washington, DC 20219

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
Re: Community Reinvestment Act Regulations (Docket ID OCC-2018-0008; RIN 1557-AE34; RIN 3064-AF22)

Ladies and Gentlemen:

We are managing partners of the University Growth Fund I ("UGF" or "Fund"), an innovative $32 million student-run community development venture capital fund. UGF finances small businesses while also giving low- and moderate-income ("LMI") student associates an unparalleled, real-world experience in venture capital investing. We were also managing partners of UGF's predecessor fund, the University Opportunity Fund ("UOF"), an $18M venture capital fund that operated in the same way as UGF.

To begin, we want to express our deep appreciation for CRA, and for the many banks that made investments in both UGF and UOF through their bank CRA programs. Both UGF and UOF were created primarily due to the willingness of federally insured banks to innovate and create a new kind of fund as part of their CRA programs by collaborating with venture capitalists and students. Although both funds were innovative and impactful, they did not have the extensive track record usually required by institutional investors such as banks. Without those banks and their commitment to community development and student education, we do not think that these funds would have succeeded on the scale that they have, or produced the amazingly impactful community development story that we want to share briefly in this letter.

It is from this perspective that we provide our comments on the joint proposal by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation ("Agencies") to revise their Community Reinvestment Act ("CRA") regulations ("Proposal).

Specifically, UGF is deeply concerned about the Proposal's intended deletion of the following list of qualifying activities that give banks CRA credit for "promoting economic development by financing small businesses." These activities are considered to promote economic development if they support:

- permanent job creation, retention, and/or improvement
  - for low- or moderate-income persons;
  - in low- or moderate-income geographies;
  - in areas targeted for redevelopment by Federal, state, local, or tribal governments;
  - by financing intermediaries that lend to, invest in, or provide technical assistance to start-ups or recently formed small businesses or small farms; or
  - through technical assistance or supportive services for small businesses or farms, such as shared space, technology, or administrative assistance; or

- Federal, state, local, or tribal economic development initiatives that include provisions for creating or improving access by low- or moderate- income persons to jobs or to job training or workforce development programs."[1]"

These provisions – which are being removed by the Proposal – are vital to UGF's continued CRA qualification for its bank investors, which in turn is critical to UGF's continued ability to operate, raise additional capital, and have a positive impact not only on communities generally, but also on students and thousands of others (including employees of the small businesses in which UGF invests) through job creation, retention, and/or improvement.

The only reasoning we could find for this deletion was that the Agencies "could not identify an objective method for demonstrating job creation, retention, or improvement for LMI individuals or census tracts or other targeted geographies, other than by determining if the activity would create additional low-wage jobs."[2] This is concerning on several fronts. First, it relates to only one of the five previously mentioned categories of job creation. Second, it doesn't consider the extensive work UGF has done with examiners from the three Agencies to create a framework that objectively measures the impact on job creation, retention and improvement. A framework, that when paired with the extensive data collection UGF provides, has resulted in every bank investor in UGF receiving full CRA credit from examiners for their investment. Lastly, we respectfully suggest that the creation and expansion of low- and moderate-income jobs, particularly in today's environment, is something worth supporting and promoting. Most individuals employed where UGF invests have opportunities to grow their income and move into middle- and upper-income brackets. In most cases they receive equity grants that also help to move them up the income ladder. Accordingly, we implore the Agencies to retain all of the categories of "promotion of economic development" currently listed in the CRA Interagency Q&A.

<u>CRA Background of UOF and UGF</u>

As explained above, UGF is a student-run venture capital fund created to give back to the community on several different levels. From inception, the creators of both UGF and UOF worked with banks and their federal banking regulators, especially the FDIC, to ensure the funds would benefit LMI individuals and communities by promoting economic development and therefore qualify for CRA credit by satisfying both the "size test" and the "purpose" test established by the CRA Interagency Q&A.[3] The funds received the FDIC's feedback on the appropriate data and documentation that would confirm CRA qualification for the bank investors. Under the applicable CRA qualification requirements and based on the extensive job data documentation provided by the funds, the banks rightly received CRA credit for their investments in UOF and later UGF (at both the fund level and also at the portfolio company level). During our time managing UOF, all of our bank investors received CRA credit for their investments based on the documentation we provided, and one bank received especially positive comments from their regulators (see highlighted portions of Attachments A, B and C).

After running UOF for many years, we launched UGF in late 2014 as a successor fund to UOF. Again, our bank investors confirmed the CRA qualification of the fund with their CRA regulators before they invested. In total, five banks invested a total of $22.5 million in UGF, and every bank's investment has qualified for CRA. One of our bank's regulators made special note of UGF (see highlighted portions of Attachment D).

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[1] Interagency Questions & Answers Regarding Community Reinvestment ("CRA Interagency Q&A"), Section ___.12(g)(3)– 1.

[2] 85 Fed. Reg. 1,204 and 1,213 (Jan. 9, 2020).

[3] CRA Interagency Q&A"), Section ___.12(g)(3)– 1.

In summary, CRA has always been at the very core of both UOF and UGF for over 15 years. During that time, UOF and UGF provided its bank investors with comprehensive job data for the small businesses in which the funds invested, and the respective bank regulators from all three regulators (FDIC, OCC and the Federal Reserve) have universally accepted that documentation as satisfying the CRA requirement for showing "economic development." Thus, the Proposal's elimination of those very provisions was *extremely disappointing* and was especially surprising coming from the FDIC, because the FDIC was so closely involved in establishing the correct job data documentation in 2004 as the "objective measure" of an investment that "promoted economic development" (the "purpose" test) and in consistently giving CRA credit to our many bank investors regulated by the FDIC.

<u>How the Fund Operates and Helps Banks Give Back by Financing Small Businesses</u>

The Fund currently has two full-time professional partners who ensure continuity and regulatory compliance, but the rest of the investing activities are primarily led and carried out by the student associates (there are typically between 20-40 student associates working with UGF at any given time). Student associates involved in the Fund receive a first-class education with unique hands-on experience investing real money into real companies with real employees. Not only does UGF provide unparalleled opportunities to learn first-hand about performing due diligence and analyzing companies in order to make wise venture capital and private equity investments, but UGF also allows students to witness the power and impact such investments have on themselves and others. In addition to the incredible hands-on experience with live deals, students also receive robust training from the partners (and other students) and an outstanding financial education. By the time a student completes four semesters with UGF, they have all the skills and training necessary to perform each part of an investment analysis, as well as improved analytical, writing, presentation, communication, and leadership skills. All of this comes together to set UGF's students up for success, resulting in the outcomes described below.

<u>Job Creation, Retention, and/or Improvement at the Student Associate Level</u>

In addition to the "job creation, retention, and/or improvement" by the small businesses in which UGF invests (discussed below), UGF also provides job creation and improvement *for its student associates*:

- Approximately 96% of UGF students are LMI individuals with an average annual income of $21,488 and 100% of them obtain jobs upon completion of the UGF program.
- After graduating from UGF, students have an average annual income of $98,617, an average increase of 508% (this reflects a 72% income premium compared to students at the same schools who do not go through the UGF program).
- UGF alumni also continue to benefit from the UGF program years later due to the superior career trajectory that they start on, often out-competing other job applicants from more privileged backgrounds.
- Without UGF, many students (especially those who come from challenging or underprivileged backgrounds) might not be able to access the same opportunities to improve their life and economic potential. UGF's ability to change an LMI student's trajectory by offering unique professional opportunities and increased income is unparalleled.

Since UGF launched in 2014, over 180 student associates have participated in the UGF program. Also, an additional 400+ participated in the UOF prior to UGF. We believe our program is so effective because our bank investors, through CRA, have provided tens of millions of dollars that make the fund *real* for students: the students invest using *real* money from *real* investors (to whom the students feel accountable) to make investments in *real* small businesses that create jobs for *real* people – all of which combine to give our students an educational and work experience that they could not have obtained anywhere else. In fact, it is hard to imagine a more effective "workforce development" program.

Another critical part of the student education is a keen awareness of the social impact of helping LMI persons and areas. Student associates understand the community development impact of UGF's investments by tracking job creation for LMI individuals/areas and ensuring that the majority of the Fund's deployed capital helps positively impact LMI individuals/areas.

<u>Job Creation, Retention, and/or Improvement at the Small Business/Portfolio Company Level</u>

The 30+ small businesses in which UGF invested have job creation, retention, and/or improvement of over 4,500 individuals. We would like to share the details of just a few of these small businesses that had significant impact on job creation for LMI individuals (comprehensive data on all of our portfolio companies has been provided previously to the OCC, FDIC, and also Federal Reserve in conjunction with the CRA examinations of our bank investors, but contains confidential information that cannot be attached to this letter that becomes "public" when we file it):

- Company A, for instance, is a compelling community development investment in many ways. Over 78% of Company A's 167 employees are LMI and assist with warehouse operations, packaging, deliveries, etc. In addition, Company A only expects this number to grow over time as it expands to new markets and sets up new warehouses in those markets. Company A also supports other small businesses, connecting over 200 farms directly to over 1,300 businesses and consumers. This enables farmers to make more money from their produce, and small businesses like restaurants, to save money on food costs (which enables them to expand and hire more staff).

- Company B is another compelling community development investment by virtue of its direct impact on LMI communities and individuals**.** At the time of our investment over 51% of Company B's employees qualified as LMI by making less than $74,320. Since the percentage was very close to 51%, the company also agreed to sign a side letter that our entire investment would be used to retain or promote those employees, which the company did until they went public and UGF exited the investment.

- Company C is a community development investment that is impactful both directly and indirectly. At the time UGF invested in this company, Company C only had three employees and all three qualified as LMI. As the business grew, those wages were improved, moving them above the LMI threshold. In addition, the company was founded in a moderate-income area. Company C's technology helps its customers, many of which are LMI individuals, save thousands of dollars on immigration attorney's fees.

<u>How the Proposal Could Severely Damage UGF's Ability to Maintain its Community Development Impact</u>

If the OCC and FDIC do not retain the current "economic development by financing small businesses" provisions in any final new CRA regulation, our bank investors would no longer be able to invest in UGF and foster innovation to create better economic outcomes for LMI individuals and communities. As a result, UGF and any successor funds would likely not be able to raise sufficient funds to cover operating expenses and investment projects for students.

Furthermore, not only will the change pull critical financial support from UGF, but it will also stifle innovation in job creation and community investment by only giving CRA qualification to banks that invest in funds certified as an SBIC, or similar Small Business Association (SBA) or government agency programs. Although UGF operates outside the jurisdiction of the SBA or a government agency, the Fund's FDIC-approved documentation method tracks job creation in ways that provide just as much (if not more) job information as the SBA forms. It is very expensive and time-consuming (of the 1-2 years) to obtain an SBIC license, especially with all of the widely publicized delays funds have experienced with the SBA over the last three years. All of these factors combined to make obtaining SBA certification extremely difficult for UGF and other innovative fund structures, and is not a realistic option for UGF.

Simply put, if the OCC and FDIC remove the "economic development" provision of the CRA regulations as currently proposed, the Agencies will stifle innovation and destroy an established and effective stream of "job creation, retention, and/or improvement." While UGF appreciates and agrees with the Proposal's stated intention to expand the list of qualifying activities and reduce ambiguity, the Proposal's deletion related to economic development *contradicts* that stated intention and does nothing to help individuals and organizations involved with the CRA. Removing the section and language as discussed in this letter only harms the very people the CRA was created to help.

We close by once again requesting the OCC and FDIC ***retain*** all of the activities listed as promoting economic development as currently set forth in the CRA Interagency Q&A section cited above, and to add all of the activities to the list of qualifying activities referenced in Section 25.05 (Qualifying Activities Confirmation and Illustrative List).

If you have any further questions, please contact us at (801) 410-5410.

Sincerely,

Tom Stringham
Managing Partner, UGF

Peter Harris
Managing Partner, UGF

List of Attachments:

- Attachment A: Morgan Stanley Bank 2006 CRA PE – pp. 12 and 14
- Attachment B: UBS Bank USA 2008 PE – FDIC pp. 14-15
- Attachment C: UBS Bank USA 2011 PE – FDIC pp. 11
- Attachment D: Ally Bank PE Report 2017 – FRB pp. 13-14