

FY 2023 Programmatic Appropriations Request

\$1 billion for Community Development Financial Institutions Fund

| Appropriations Subcommittee | Agency | Account(s) |
|---|------------------------|--|
| Financial Services & General Government | Department of Treasury | Community Development Financial Institutions Program Account |

Programmatic Funding Request for CDFI Fund

The Community Development Financial Institutions Fund (CDFI Fund), established within the U.S. Department of Treasury in 1994, promotes community and economic development in distressed urban and rural communities by investing in and growing CDFIs across the country. The agency administers a range of innovative and effective programs that enable Community Development Financial Institutions (CDFIs) to address the needs of underserved markets. CDFI Fund grant programs include: Financial Assistance and Technical Assistance awards to small and emerging CDFIs as well as established CDFIs; the Native American CDFI Assistance Program aimed at increasing the number and capacity of CDFIs serving Native communities; the Economic Mobility Corps Awards to build CDFI capacity in partnership with AmeriCorps; the Small Dollar Loan program supporting lower-cost consumer lending; and the Bank Enterprise Awards program providing monetary awards to FDIC-insured banks that invest in low-income communities and CDFIs.

CDFIs significantly leverage CDFI Fund resources in communities and with people left out of the economic mainstream, generating \$12 in private capital for every dollar in CDFI grants.

For FY 2023, the CDFI Coalition urges Congress to continue its bipartisan support for CDFIs by providing \$1 billion in appropriations for the CDFI Fund. CDFIs will put these resources to work by providing financial services to underserved markets that have borne the brunt of pandemic. High rates of unemployment and small business failures are largely concentrated in the communities CDFIs serve.

The \$1 billion should include not less than:

- \$770 million for grants for Financial Assistance (FA) and Technical Assistance (TA), which builds the capacity of CDFIs to leverage other private and public resources that then are used to finance a variety of small businesses and projects, including Healthy Foods businesses, CDFI assistance to persons with disabilities, areas of persistent poverty, and Economic Mobility Corps;
- \$63 million for Native Initiatives program;
- \$96 million for the Bank Enterprise Award program;
- \$31 million for the Small Dollar Loan Fund program; and
- \$40 million for Administration and Research.

We also urge Congress to strengthen the CDFI Bond Guarantee program with improvements and extend the program permanently at the authorized level of \$500 million.

Program Descriptions, Outcomes, and Justifications

Overall Request: \$1 billion for the CDFI Fund

The CDFI Fund was established within the U.S. Department of Treasury in 1994¹ to promote community development in economically distressed urban and rural communities by investing in and growing CDFIs across the country. In addition to overseeing CDFI certification, the CDFI Fund administers a range of innovative programs designed to strengthen the ability of CDFIs to provide financial products and services in underserved communities.

CDFIs are mission-driven financial institutions specialized in delivering affordable credit, development services, capital, and financial services to residents and businesses in capital-starved communities. They fill a vital niche in the nation's financial services delivery system by serving communities and market sectors conventional lenders cannot - with the ultimate goal of bringing CDFI customers into the mainstream economy as bank and credit union customers, homeowners, and entrepreneurs.

There are 1,333 Treasury certified CDFIs working in low-wealth communities in all 50 states and the District of Columbia, and the U.S. territories. The CDFI industry has ample capacity to put this capital to immediate use. CDFIs have assets totaling over \$200 billion and outstanding portfolios of more than \$150 billion. The \$1 billion request is less than 1% of total CDFI assets.

In FY 2021, CDFI Fund award recipients, who represent a mere fraction of the CDFI industry, delivered \$38.7 billion in private capital to communities disproportionately affected by the health and economic consequences of the pandemic.

The CDFI Coalition projects the following from \$1 billion in annual appropriations for the CDFI Fund:

- \$12 billion in total investment in low-income communities, over 100,000 affordable housing units created or preserved, thousands of loans and investments in childcare centers, health clinics, and community facilities, nearly two million consumer and homeownership loans, and hundreds of thousands of loans and investments in businesses in target markets.

Request: Not less than \$770 million for grants for Financial Assistance (FA) and Technical Assistance (TA), including Healthy Foods businesses, CDFI assistance to persons with disabilities, areas of persistent poverty, and Economic Mobility Corps

CDFI Program *Financial Assistance (FA) Awards* – The CDFI Fund makes FA awards to both large and small certified CDFIs, including those financing businesses that provide healthy food options. FA awards can be used for lending capital, loan loss or capital reserves, operations, or development services. A CDFI is required to match its FA award dollar-for-dollar with non-federal funds.

¹The CDFI Fund was authorized as part of the *Riegle Community Development and Regulatory Improvement Act (PL 103-325)*.

In FY 2021, CDFI program awardees made over 4,000,000 loans or investments totaling more than \$38.7 billion. The average size of each loan or investment was under \$10,000. CDFIs also financed nearly 50,000 affordable housing units. Additional details of this activity include:

- \$12 billion for consumer loans, \$10.7 billion for home improvement and purchase loans, \$8.1 billion for business and microenterprise loans, and \$3.2 billion for residential real estate transactions.

The CDFI Program includes several set-asides and sub-accounts:

- **Healthy Food Financing Initiative-Financial Assistance (HFFI-FA)** awards support a wide range of activities that expand access to healthy foods in low-income communities. In FY 2021, HFFI-FA recipients financed 409 grocery stores, markets, and fresh food projects totaling over 4 million square feet.
- **Disability Funds-Financial Assistance (DF-FA)** awards provide technical and financial assistance to CDFIs that fund projects to help individuals with disabilities.
- **Persistent Poverty County Financial Assistance (PPC-FA) awards:** Starting in FY 2019, appropriators required that 10% of the funds awarded by the CDFI Fund under the appropriation should support investments that serve populations living in persistent poverty counties, where 20% or more of the population has lived in poverty over the past 30 years.

CDFI Program Technical Assistance (TA) Awards - The CDFI Fund makes TA awards of up to \$150,000 to certified CDFIs as well as emerging CDFIs, to support efforts to expand the organization's success and sustainability. There is no match requirement for TA awards and funds can be used to support a variety of capacity building activities including hiring consultants or contract services, training staff or board members.

Economic Mobility Corps (EMC): The EMC is a joint initiative of the CDFI Fund and AmeriCorps that places full-time national service members in Certified CDFIs to enhance their capacity to provide financial literacy, financial planning, budgeting, saving, and other financial counseling activities. In the inaugural round (August 2021) three CDFIs received \$2.5 million (over two years) to support 78 AmeriCorps members each year.

Request: \$63 million for Native American CDFI Assistance (NACA) program;

The NACA Program was launched in 2001 to encourage investing in Native Communities by supporting the creation and expansion of Native CDFIs, which in turn help to create jobs, establish, or improve affordable housing, and provide appropriate financial services and counseling to community residents. The number of Native CDFIs has increased from 14 in 2001 to 70 in 2021.

In FY 2021, NACA award recipients originated \$1.6 billion in loans and investments to nearly 2,500 businesses and tens of thousands of individuals.

Request: Not less than \$96 million for the Bank Enterprise Award (BEA) program

The BEA Program provides monetary awards to FDIC insured banks and thrifts that have increased their investment activity in communities with high rates of poverty and unemployment. The size of a BEA award is based on how much the bank or thrift has increased

its investing in low-income communities or in CDFIs. All BEA funds awarded must be reinvested either into a distressed community or in a CDFI. Since the program was launched in 1994 through 2021, the CDFI Fund has awarded \$551 million in BEA grants. Over the past three years, \$102.9 million in BEA awards generated \$1.4 billion in additional loans and investments and \$50.2 million in additional financial services in distressed areas.

Request: Not less than \$31 million for the Small Dollar Loan Fund program

The Small Dollar Loan Program was created to help Certified CDFIs address the issue of expanding consumer access to mainstream financial institutions and provide alternatives to high-cost, small dollar loans. The inaugural round of 52 awards totaling \$10.8 million will enable 52 Certified CDFIs to increase their capacity to provide fair and affordable loans in their communities and to help unbanked and underbanked borrowers build their credit.

Request: Build the capacity of the CDFI Fund with not less than \$40 million for Administration and Research.

To sustain the recent momentum and growth in the CDFI industry, Congress should support efforts to build the administrative capacity of the CDFI Fund. The previous administration proposed four consecutive budgets aimed at dismantling the Fund. The agency needs more resources to administer a growing portfolio of financial assistance awards, bonds, and tax credit. The CDFI Fund needs more people and an investment in systems to administer its programs and authorities, to say nothing of compliance monitoring and providing technical assistance. In addition to its portfolio of grant programs, the CDFI Fund administers the Bond Guarantee program and the New Markets Tax Credit program, authorized at \$5 billion in annual allocation authority through 2025.

Request: Strengthen the CDFI Bond Guarantee program with several changes (outlined below) and extend the program at the authorized level of \$500 million.

The CDFI Bond Guarantee Program was authorized in 2010 to empower the Treasury Department to guarantee notes or bonds issued at no cost to the federal government to support CDFI lending and investment activity.

Since 2013, the CDFI Fund has guaranteed nearly \$1.7 billion in bond authority through the program. Of that activity:

- \$734.3 million (44.4%) went to schools, healthcare facilities, nonprofits, daycare centers, nursing homes, and other community facilities;
- \$473.9 million (28%) supported rental housing;
- \$285.7 million (16.9%) supported the construction of mixed-use developments and other commercial real estate; and
- \$197.9 million (11.6%) supported small businesses and other financing purposes.

Despite the unique benefits of the BGP, the program has not realized its full potential. Only 26 CDFIs have participated in the bond program and as Qualified Issuers, and many CDFIs, particularly smaller organizations, are not able to access this valuable source of long-term, fixed-rate financing. The CDFI Coalition recommends on strengthening the program by (1) reducing the minimum bond issuance from \$100 million to \$25 million and (2) increasing program efficiency and consistency by granting the BGP permanent authority.

Additional Background: CDFIs and Pandemic Relief

CDFIs provide a wide variety of financial services to support the recovery of underserved markets under siege from COVID-19. In addition to stabilizing businesses, CDFIs finance: initiatives to expand access to healthy food; health centers and hospitals; affordable housing; shelters; treatment centers; and other businesses and community facilities on the front lines of the pandemic.

The 116th Congress made a substantial investment in CDFIs through both new appropriations and the Paycheck Protection Program (PPP). Recognizing the critical role played by CDFIs in rural and urban communities across the country, The Consolidated Appropriations Act, 2021 (PL 116-260) provided:

- \$1.25 billion for CDFIs to provide technical and financial services to communities and businesses hard hit by the Coronavirus pandemic. In February, the CDFI Fund released the application for the so-called Rapid Response Program (RR), and in June 2021, it awarded grants to 850 certified CDFIs;
- \$1.75 billion for CDFIs and Minority Depository Institutions (MDIs) increase lending and investing activity targeted to low-income and minority communities and populations. We hope to see more information from the CDFI Fund on this initiative soon; and
- \$9 billion for the Emergency Capital Investment Program (ECIP). ECIP was designed to provide capital to depository institutions that are certified CDFI or MDIs. The Department of the Treasury opened the application process for CDFI's and MDIs in March 2021 and received over 200 applications totaling more than \$12 billion in requests. On December 14, Secretary Yellen and Vice President Harris announced the deployment of \$8.7 billion of direct investments in banks, credit unions, and holding companies that are certified CDFIs or MDIs.

CDFI's also played an important role in providing assistance to distressed communities and small business as they coped with the economic consequences of the Coronavirus pandemic. According to Small Business Administration (SBA) data, CDFIs, along with other mission lenders, Community Financial Institutions (CFIs), made 1.38 million PPP loans totaling some \$30 billion, twice the statutory set aside. The average size of CFIs loans was \$21,650, compared to \$41,560 for all lenders. SBA reported that over 77 percent of CFI loans were under \$150,000; almost 40 percent went low-moderate income communities and 15.7 percent in rural areas.