

FY 2022 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) administers a range of innovative and effective programs that enable Community Development Financial Institutions (CDFIs) to address the needs of underserved markets. CDFI Fund programs include: Financial Assistance (FA) and Technical Assistance (TA) awards to small and emerging CDFIs as well as established CDFIs, the Native American CDFI Assistance (NACA) Program aimed at increasing the number and capacity of CDFIs serving Native communities; and the Bank Enterprise Awards (BEA) program providing monetary awards to FDIC-insured banks that invest in low-income communities and/or CDFIs.

For FY 2022, 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 CDFI industry has ample capacity to put this capital to immediate use. There are over 1,100 CDFIs with assets totaling \$211 billion and outstanding portfolios of more than \$158 billion. The \$1 billion request is less than 1% of total CDFI assets. In FY 2020, CDFI Fund award recipients, who represent a mere fraction of the CDFI industry, delivered \$25 billion in private capital to communities disproportionately affected by the health and economic consequences of the pandemic.

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; and
- \$40 million for Administration and Research.

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

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.

Program Description

The 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. **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.**

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.

CDFIs 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 1,163 Treasury certified CDFIs¹ working in low-wealth communities in all 50 states and the District of Columbia, and the U.S. territories.

Program Outcomes and Justification

Since 1994, the CDFI Fund has awarded more than \$3.6 billion on a competitive basis to CDFIs, including Native American CDFIs, small and emerging CDFIs, and financial institutions through the BEA Program.

The great need for this financing for low-income communities continues, as evidenced by the applicant demand in the FY 2020 CDFI Program round, which was over three times the amount appropriated. The pandemic has further highlighted there is an even greater need for the types of financing and services provided by CDFIs.

In FY 2020², CDFI program awardees made over 1,000,000 loans or investments totaling more than \$25.4 billion. The average size of each loan or investment was under \$25,000. CDFIs also financed over 41,000 affordable housing units. Additional details of this activity include:

- \$10 billion for consumer loans, \$6.5 billion for home improvement and purchase loans, \$3.9 billion for business and microenterprise loans, and \$2.2 billion for residential real estate transactions.

CDFIs Create Opportunity in Rural Communities and Urban Neighborhoods Hit Hard by Pandemic

CDFIs face two challenges as the economic devastation from the COVID-19 pandemic continues to unfold. First, they need to provide forbearance to small business borrowers over the next several months as social distancing and stay-at-home orders continue. Second, as the nation emerges from the crisis, CDFIs will be called upon to provide working capital and other sources of flexible, patient financing and investment necessary for small businesses, affordable housing, and community facilities. CDFIs will continue to provide is small business customer's loan workouts, emergency loans and other forbearance to keep them afloat.

Throughout the last economic downturn, CDFIs served as economic shock absorbers, providing flexible, patient capital, rigorous risk management, and commitment to the projects in their communities and the sustainability of their borrowers. While traditional borrowers fled economically distressed communities, CDFIs stepped in and filled the void.

Since the advent of the economic crisis prompted by the pandemic, CDFIs have been on the frontlines of providing technical and financial assistance to small and minority-owned businesses. CDFI impact in 2020 through PPP includes:

- Over 114,000 loans totaling \$7.4 billion (as of 8/8/20);
- The average CDFI PPP loan was less than \$70,000. The overall average loan size for all PPP was over \$107,000.
- In the second round of funding, average loan size for CDFIs was even lower at \$43,000 (as of 8/8/2020). Some CDFI PPP lenders reported making loans of less than \$1,000.

There is virtually unlimited need for credit in America right now. Preliminary data on the PPP program shows that minority business owners and vulnerable communities were vastly underserved by the program. The fact is that CDFIs could have done more, if they had the capital, and if more CDFIs had been approved as PPP lenders during the early days of the program. The provisions in H.R. 133 put the CDFI Fund, and CDFIs on firmer footing. What is needed next is a continuing level of investment to sustain the effort to revitalize low-income and communities of color that were already suffering even before the pandemic. For this reason, we recommend an annual appropriation of at least \$1 billion for the CDFI Fund.

¹ To be eligible for CDFI certification an organization must be a non-governmental entities (with the exception of Tribal governmental entities); with a primary mission of promoting community development; that provides both financial and educational services to one or more defined low income target markets; and is accountable to the target market it serves. Number current as of 2/1/2021.

² Audit of the CDFI Fund's 2020 financial statements by the Treasury Dept. Office of Inspector General