



April 14, 2017

**Community Development Financial Institutions (CDFIs) Have an Established Record in Fostering Economic Growth in Low-Income Rural and Urban Communities Nationwide**

As President of the Coalition of Community Development Financial Institutions (The CDFI Coalition), I am pleased to submit the following proposal on CDFIs and the need to support mission-driven lending and investment through expanded authority for the Community Development Financial Institutions Fund in your economic plan.

CDFIs provide the flexible, market-driven products and services that consumers and small business owners in underserved markets need to grow and thrive. They fill a vital niche in the nation's financial services delivery system by serving communities and market sectors that conventional lenders cannot - with the ultimate goal of bringing CDFI customers into the mainstream economy as bank customers, homeowners and/or entrepreneurs. The Community Development Financial Institutions Fund (CDFI Fund) has made huge strides in low-income rural and urban communities that have been left behind.

Established within the U.S. Department of Treasury in 1994, CDFI Fund programs have successfully promoted community and economic development in distressed urban and rural communities across the country—but it is plainly obvious that need continues and CDFIs need more access to capital than ever. This is evidenced by the application demand, nearly 4 times the availability of resources.<sup>1</sup> In fact, CDFIs presently provide over \$3 billion in annual loans and investments to low-income communities and individuals, but they can do much more. We urge you to help scale up mission-driven lending by supporting an increase in CDFI appropriations to \$500 million. Those funds would support the Financial Assistance, Technical Assistance, Native American CDFI Assistance, and Bank Enterprise Award programs. We urge you to also support \$1 billion in new annual authority for the CDFI Bond Guarantee Program and to continue to support the Capital Magnet Fund.

**Providing \$500 million in annual CDFI Fund appropriations would help CDFI award recipients:**

- Make over \$7 billion in total annual loans and investments to 25,000 small businesses and 25,000 consumers;
- Create 53,000 affordable housing units annually; and
- Provide financial literacy or other training to 750,000 individuals annually.

Attached, please find a paper outlining the great work CDFIs do in underserved markets, details on the important programs currently administered by the CDFI Fund.

Sincerely,

A handwritten signature in blue ink that reads "James R. Klein".

James R. Klein  
CDFI Coalition President

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<sup>1</sup> Fiscal Year 2016 CDFI Program Award Book. Retrieved from <https://www.cdfifund.gov/Documents/2016%20CDFI%20Book%20102516.pdf>

## About CDFIs

Since 1994, the CDFI Fund has awarded more than \$2.4 billion on a competitive basis to CDFIs, including Native American CDFIs, small and emerging CDFIs and financial institutions through the BEA Program. There are 1,049 CDFIs, including 74 Native CDFIs, nationwide that have been certified to work in low-wealth communities. The list of institutions certified as CDFIs includes 545 loan funds, 294 credit unions, 199 depository institution holding companies, banks or thrifts, and 11 venture capital funds, located in rural and urban areas in all 50 states as well as the District of Columbia, Puerto Rico, and Guam.

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 that conventional lenders cannot - with the ultimate goal of bringing CDFI customers into the mainstream economy as bank customers, home owners and/or entrepreneurs.

CDFI Fund programs include: Financial Assistance (FA) awards to certified CDFIs and Technical Assistance (TA) grants to certified or emerging CDFIs; the Native American CDFI Assistance (NACA) Program aimed at increasing the number and capacity of CDFIs serving native communities; and the Bank Enterprise Award (BEA) Program providing monetary awards to FDIC-insured banks that invest in low-income communities and/or in CDFIs.

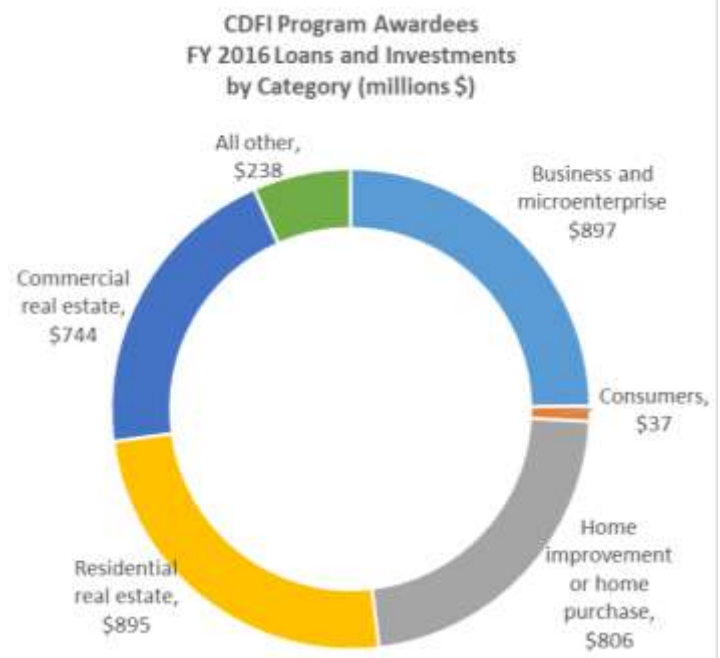
## The Economic Impact of CDFIs:

In FY 2016, CDFIs made over 39,000 loans or investments totaling over \$3.6 billion, and financed over 11,000 small businesses. The average loan size was \$91,700. CDFIs also financed over 33,000 affordable housing units. Some of the details of this activity include:

- 13,300 microloans totaling \$897 million;
- 11,000 consumer loans totaling \$37 million; and
- 11,600 home improvement or home purchase loans equaling \$806 million.

The University of Virginia Darden School of Business found that despite serving predominately low-income markets, CDFI banks and credit unions had virtually the same level of performance as mainstream financial institutions. According to a Brookings Institution study of 81 CDFIs managing \$1.8 billion in assets, the CDFIs provided more than \$2.9 billion in financing with a 1.8 percent cumulative loss rate, consistently low delinquencies, and no losses of investor principle.

In addition to financing housing and businesses, CDFIs are providing essential financial services to low-income individuals in underserved markets. According to data from the National Federation of



Community Development Credit Unions, CDFI Credit Unions made \$17.1 billion in consumer loans in 2015, or 65 percent of their activity. CDFI Credit Unions made 2.84 million loans totaling \$25 billion in 2015.

Through the BEA Program, the CDFI Fund provides awards to FDIC-insured depository institutions for investing in CDFIs and in economically distressed communities. To date, BEA program awards have spurred \$124.3 million additional investments in certified CDFIs loans, \$1.2 billion new investments in distressed communities and \$66.7 million in financial services.

### Support and Strengthen the CDFI Fund

Federal community development funding, as measured as a share of GDP, has declined by 75 percent over the last 40 years. Federal policy has increasingly relied on private-sector resources to fill the gap. By leveraging over \$12 in private capital to every \$1 in federal support, CDFIs are filling the yawning credit gap encountered in many communities, creating jobs improving housing and community facilities and creating economic opportunity. Increasing appropriations for the CDFI Fund will yield substantial results for communities.

***The CDFI Coalition recommends \$500 million in annual appropriation for the CDFI Fund's grant programs and \$1 billion for the CDFI Bond Guarantee Program.***

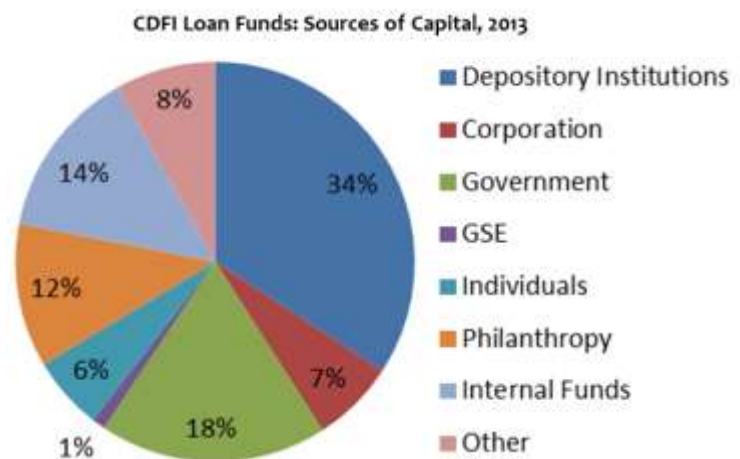
***Providing \$500 million in annual CDFI Fund appropriations would help CDFI award recipients:***

- *Make over \$7 billion in total annual loans and investments to 25,000 small businesses and 25,000 consumers;*
- *Create 53,000 affordable housing units annually;*
- *Provide financial literacy or other training to 750,000 individuals annually; and*
- *Expand CDFI coverage into historically underserved areas like Native lands.*

### The Financial Assistance (FA)

#### Awards:

The CDFI Fund's flagship CDFI Program makes FA awards to both large and small certified CDFIs, and the program has a special funding mechanism for CDFIs financing businesses that provide healthy food options. FA awards can be used for lending capital, loan loss reserves, or development services, and CDFI banks and credit unions can also use the awards for capital reserves. A CDFI is required to match its FA award dollar-for-dollar with non-federal funds.



CDFI Fund FA grants help capitalize CDFI loan funds, but government grants only make up 18% of loan fund capitalization. CDFIs use those funds to leverage additional capital from the private sector, and then deploy the capital to businesses, community facilities, and low-income individuals. CDFI lending and investing helps low-income people purchase or access affordable housing;

expands access to healthy food options and healthcare facilities; and grow businesses, small and large.

To ensure that all CDFIs remain eligible for the maximum Financial Assistance award each year, we propose that the statutory provision preventing any CDFI from receiving over \$5 million during a three-year period be waived or amended in future award rounds of the CDFI Program.

***The Technical Assistance (TA) Awards:***

The CDFI Fund makes TA awards of up to \$150,000, to support efforts to expand success and sustainability of small and emerging CDFIs.

***The 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 74 in 2016. The NACA program is critical to the health of Native CDFIs, because it is tremendously challenging to secure philanthropic, corporate or other private capital in Indian Country.

***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 awards also help banks and thrifts offset some of their risk and meet capital ratio requirements. The BEA Program is multiplying financial institutions' impacts and generating greater economic opportunity for those with the least access to financial products and services.

The CDFI Fund has awarded \$429 million in BEA grants since the program was launched in 1994.

***New Markets Tax Credit (NMTC) Program***

The NMTC was authorized in 2000 to stimulate private investment in low-income communities. To date, the CDFI Fund has awarded \$50.5 billion in NMTC allocations. Between 2003 and 2012, NMTC investments created over 750,000 jobs at a cost to the federal government of under \$20,000 per job. To date, the program has leveraged \$80 billion in total capital investment in communities with high rates of poverty and unemployment. In December 2015, the NMTC received a five-year extension in the PATH Act.

***CDFI Bond Guarantee Program***

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 investments activity. The CDFI Fund has guaranteed \$1.1 billion in bonds to date through the CDFI Fund Bond Program.

***Capital Magnet Fund***

The Capital Magnet Fund offers competitively awarded grants to finance affordable housing solutions and community revitalization efforts that benefit low-income people and communities. One \$80 million awards round in FY 2010:

- Generated more than \$1 billion of combined investment;
- Generated \$12 of private investment for every \$1 of federal funding;

- Created 9,887 affordable homes, including 8,813 affordable rental homes and 1,074 homeowner-occupied homes;
- Supported 15 economic development projects that housed businesses, child care facilities, homeless counseling services, and healthcare services.

125 organizations applied for the FY 2016 round requesting more than \$609 million in Capital Magnet Fund awards.

### Examples of CDFI Programs at Work in Communities

In 2014, the CDFI Coalition published a report outlining the history of the program and its success since the group formed and held its first CDFI Institute in 1994. In the publication, *20th Anniversary Report: Investing in Communities and Building Strong Foundations for the Future*<sup>2</sup>, there are nearly 70 examples of CDFIs work in communities across the country.

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<sup>2</sup> CDFI Coalition 20th Anniversary Report: [http://www.cdfi.org/wp-content/uploads/2014/03/20th-Anniversary-Report\\_FINAL1.pdf](http://www.cdfi.org/wp-content/uploads/2014/03/20th-Anniversary-Report_FINAL1.pdf), December 2014.