



**United States Senate Committee on Banking, Housing, & Urban Affairs Subcommittee on  
Housing, Transportation, and Community Development**

**Written Testimony for Hearing on How Community Development Financial Institutions  
Promote Housing and Economic Opportunity**

***By Renay Dossman, President & CEO, Neighborhood Development Center (NDC)***

At NDC – we start and end our meetings in gratitude. Thank you to The U.S. Senate Committee on Banking, Housing, and Urban Affairs, and the Housing, Transportation, and Community Development Subcommittee. Thank you to the Chair, Senator Tina Smith, and Ranking Member Senator Lummis and honorable members of the subcommittee for the opportunity to be with you today, to reflect on the work CDFIs do to promote economic opportunity and to share some of the lessons learned through our work at Neighborhood Development Center (NDC).

I feel immense gratitude and pride to be talking to you today about “How Community Development Financial Institutions Promote Housing and Economic Opportunity”. To be honest it is a subject that I could talk for hours about but I realize I only have a few precious moments so let me get to the key subject at hand.

My name is Renay Dossman, and I am the President & CEO of the Neighborhood Development Center (NDC), a CDFI based in St Paul, Minnesota. For over 30 years, NDC has created and driven a model of excellence for serving Black, Indigenous, and People of Color (BIPOC) micro and small businesses located in low-income neighborhoods. As a CDFI we are entrepreneur focused. And by that I mean our work is intentionally focused on providing local entrepreneurs and small businesses with the tools and resources they need to succeed – because we believe that investing in local entrepreneurs can transform lives, build wealth and leadership, and revitalize neighborhoods.

Our NDC model features four pillars of wrap-around support to provide entrepreneurs and aspiring entrepreneurs in our community access to opportunity. Our four pillars of programming are entrepreneur training, small business financing (loans), technical assistance, and real estate incubators. To date, we have trained over 6,300 individuals in how to write a business plan, 87% were BIPOC, and 95% were low-to-extremely-low income. NDC has provided over 71,000 hours of technical assistance to entrepreneurs and deployed \$32MM in loans to businesses that needed capital to launch or sustain their business, but for a variety of reasons couldn't access conventional bank financing. And again, 85% of the businesses that we've financed are BIPOC-owned businesses. What do those numbers mean from an economic

standpoint? According to Wilder Research, NDC-assisted businesses pour over \$93.5MM back into our local economy<sup>1</sup>. This is the power of CDFIs.

Securing affordable commercial real estate is a challenge for many businesses and if we want to promote entrepreneurship and grow businesses in our community we need to make sure there is affordable commercial space available for them. Again, that's how we think at NDC and that's why we currently own and manage 5 small business incubators. These are spaces where start-up and small businesses can have affordable commercial, often retail, space that allows their business to stabilize and grow. In fact, thanks to Senators Smith and Klobuchar NDC was able to secure \$1 MM grant that will allow us to build a new innovation incubator at Lake & Chicago where we will be preparing for the future of entrepreneurship. If you don't know, Lake & Chicago is one of many lots that were completely destroyed following the murder of George Floyd.

NDC's small business community development model is now being replicated in communities across the country through the Build from Within Alliance, a network of 16 community-based organizations, including some CDFIs, working in 50 unique neighborhoods, from Anchorage to Miami, Detroit to Houston, Syracuse to Fresno. All are adopting and adapting the NDC model in their communities, and this network supports each other through peer learning and leveraging resources. On a state level, I am a founding member of the MN CDFI Coalition, which began in 2022. This statewide coalition will help Minnesota CDFIs to leverage training, tools, and a policy voice.

During the pandemic, CDFIs like NDC were the trusted local intermediaries for Federal and State funds. While many were left behind in the PPP process, we were able to ensure 90% of our PPP loan amounts went to BIPOC-owned businesses. Between 2020 and 2022, NDC delivered \$20MM in emergency loans and grants which is 7-times more than we did in a typically year but COVID and the murder of George Floyd taught us to be nimble and innovative so we could serve those who needed it most.

I want to be honest about the reality in my beloved state of Minnesota. George Floyd was murdered in Minneapolis. We were ground zero as our community and communities across the country responded to his murder and to the racial injustices and economic inequalities that have plagued our communities for too long. As a state, Minnesota ranks #3 for the worst racial inequities in the country. According to the Federal Reserve, the median household wealth for White families is \$211,000. In contrast, the median household wealth for Latinx families is \$18,000 and \$0<sup>2</sup> for Black families. We can and must do better. This is why CDFIs matter.

We know that not all CDFI's are created equal, but if we ground ourselves in why CDFIs exist in the first place, we can identify the role each of us plays. The CDFI Fund was created, with great bipartisan support, in 1994 with the vision of "an America in which all people and communities

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<sup>1</sup> Wilder Evaluation 2020

<sup>2</sup> Despite recent gains, Minnesota's entrepreneurs of color face persistent barriers, Federal Reserve, 2021

have access to the investment capital and financial services they need to prosper.” The CDFI network nationally has grown to over 1,300. We are as diverse as the communities we serve from rural to Native to urban and specific cultural communities. I also want to highlight the power of organizations like the African American Alliance of CDFI CEOs, of which I’m a member, for their outstanding advocacy and support of Black-led CDFIs.

The CDFI Fund has awarded over \$5.6BB to CDFI’s and other community lenders since its inception. During the pandemic, programs like the Rapid Response Program and Equitable Recovery Program were a life-line to organizations like NDC, and in turn, were a life-line to our micro and small business owners. This will allow them to not only survive, but thrive.

Here’s what 30 years of NDC has taught us and what we know in our bones. BIPOC small businesses in low income communities require unique and innovative access to capital. Not only do they need capital, they need technical assistance, networks, and self-care. In just the last 3 years, NDC has created initiatives to address entrepreneur mental wellness, doubled down on our support for Black and Latina women, who are the most entrepreneurial populations in the nation! We launched credit builder education and credit builder loans. We developed classes to increase entrepreneurs’ financial acumen. We are helping entrepreneurs to buy their own commercial real estate as another pathway to wealth. And we don’t stop there. The state of MN has tagged NDC to deploy \$79MM in small business grants to business with revenue of \$750,000 or less. And we do all of this as a \$6.2MM CDFI. We are small, but mighty.

I’d like to mention that the CDFI Fund funding is a competitive process. Not all CDFIs received funding from the Fund. Perhaps there is a path forward to have base funding for all CDFIs and competitive grants for additional performance impacts. Accountability is important, but so is funding the full CDFI ecosystem.

I want to thank Senator Smith and all of the other Senators who signed on to support an appropriation of \$341MM to the CDFI Fund in FY24. That appropriation funds critical CDFI programs like Native Initiatives, New Market Tax Credits, Small Dollar Loan Program, and Financial and Technical Assistance Awards.

I also want to commend Senators Smith and Rounds for introducing the CDFI Bond Guarantee Program Improvement Act (S 869). By reducing the minimum CDFI bond size from \$100MM to \$25MM this bill will allow more CDFIs, especially smaller CDFIs, to access the fixed rate, long term financing the program provides. Lowering the entry to \$25MM will give a CDFI like NDC the chance to participate. CDFI Bond financing could be used to finance additional commercial space and/or additional business incubators for local entrepreneurs. We are also building out programming and financing to support Developers of Color and the Bond Guarantee Program could be a critical source of financing for that work.

Lastly, I’d like to share the story of one of our entrepreneurs. Marla Smith opened *Consciously Beautiful* in 2018 in one of our small business incubators. She was a graduate of our training, and a recipient of TA and a loan. Business was good. Then 2020 hit. Not only were salons

required to be closed in the early months of COVID, civil unrest damage came down the corridor of University Ave where our building is located. The community came together to board up windows and doors. And then life dealt Marla another blow. In the summer of 2020, her son lost his leg in a boating accident. This isn't a story of tragedy, but one of her rising like a phoenix.

Marla did not quit. While staying with her son in the hospital, she shifted her business model to offer more products for sale, and slowly, salons were able to open again. The boarded windows came down, and Marla faced a new reality. Her business model of chair rentals was not what she wanted to do next. Overcoming barriers sometimes changes our values and priorities. Marla, with NDC's support, is designing a curriculum and working with the MN Department of Cosmetology to require anyone licensed to do hair is to be trained in ALL hair types. Marla is the first in the nation to create this type of curriculum and do policy work alongside it.

Today, Marla's son is thriving. She recently graduated from NDC's Black & Latina Women Opportunity to Connect (BLOC) program, and her son was right beside her. Not only is Marla a mom and business owner, she is a leader in our community.

Attached with this written testimony is an overview of NDC, and an overview of the national Build From Within Alliance. In addition, I have attached the policy recommendations of Opportunity Finance Network (OFN) and the National Association for Latino Community Asset Builders (NALCAB) for the CDFI Fund and its programs. NDC supports these efforts as well.

Thank you for reading this testimony. It is with deep gratitude to you all that I share my organization's work, and I welcome any questions.



# Neighborhood Development Center

BUILDING NEIGHBORHOOD ECONOMIES FROM WITHIN

Established in 1993, Neighborhood Development Center (NDC) is a community-based non-profit organization whose mission is to **empower entrepreneurs and community partners to transform low-income neighborhoods from within.**



Marla Smith, Owner of *Consciously Beautiful Salon*



Maw Maw & Than Maw, Owners of *Intown Sushi*



Dalton Outlaw  
*Element Boxing Gym*



Leila Janikamalvand  
*Leila's Brow Art*

NDC empowers entrepreneurs to **create jobs, build wealth, and transform their communities** through four integrated programs:

## ENTREPRENEUR TRAINING

Entrepreneur training & small business workshops provided in conjunction with 11 community partner organizations to 200 aspiring entrepreneurs annually.

## SMALL BUSINESS LOANS

Business lending provides a variety of high-touch, high-risk, character based loans to give entrepreneurs in Minnesota the financial support that best suits their needs.

## BUSINESS SERVICES

Technical assistance for new & growing businesses in the areas of marketing, management, accounting, and mental wellness, reaches 300 businesses annually.

## INCUBATORS & REAL ESTATE

Business incubators owned & managed by NDC provide a ready clientele & high visibility in specific commercial corridors in the Twin Cities metro.

NDC owns and/or manages the following **five business incubators** in partnership with neighborhood partner organizations:



Frogtown Crossroads  
*Saint Paul, MN*



Midtown Global Market  
*Minneapolis, MN*



Midtown Business Center  
*Saint Paul, MN*



Frogtown Square  
*Saint Paul, MN*



Twin Cities Construction Alliance  
*Saint Paul, MN*

## BUSINESS TRAINING, FINANCING, TECHNICAL ASSISTANCE, & INCUBATORS

Frogtown Crossroads • Midtown Global Market • Frogtown Square • Twin Cities Construction Alliance • Frogtown Entrepreneur Center



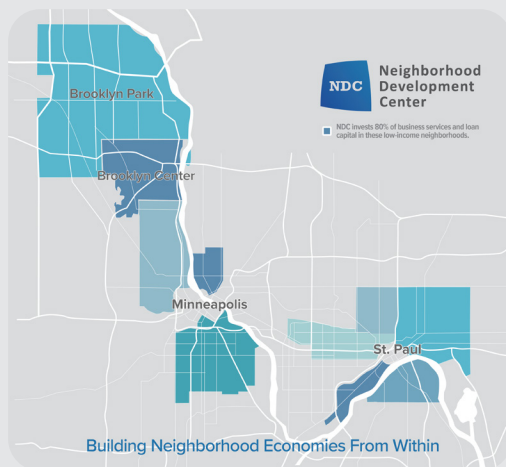
# Neighborhood Development Center

BUILDING NEIGHBORHOOD ECONOMIES FROM WITHIN

## 2022 IMPACT

- 213** Entrepreneurs trained through out Plan It! Program
- 245** Entrepreneurs attended 59 workshops
- 643** 119 entrepreneurs received one-on-one training consultations
- 2.9MM** Dispersed in loan capital
- 4,102** Hours of business services were offered to 260 businesses
- 800** Total estimated number of entrepreneurs assisted in 2022
- 53** Jobs were created in our priority neighborhoods
- \$40:\$1** Estimated dollars returned to neighborhoods annually per \$ of NDC spending

## OUR PLACE-BASED SUPPORT



Our work is guided by the belief that “concentrated poverty needs concentrated opportunity”, so NDC focuses 80% of our resources in **10** of the most disinvested Twin Cities neighborhoods:

- |                         |                       |
|-------------------------|-----------------------|
| North End Saint Paul    | North Minneapolis     |
| West Side Saint Paul    | Northeast Minneapolis |
| East Side Saint Paul    | South Minneapolis     |
| University Ave Corridor | Brooklyn Park         |
| West Seventh Corridor   | Brooklyn Center       |

## SHARING OUR MODEL NATIONALLY THROUGH BUILD FROM WITHIN ALLIANCE

Across the country, 40 neighborhoods in 15 cities are adopting and adapting NDC’s model of community economic development through the Build from Within Alliance (BFWA). More communities are joining every year.



2022 Alaska Convening with alliance members

## BUSINESS TRAINING, FINANCING, TECHNICAL ASSISTANCE, & INCUBATORS

Frogtown Crossroads • Midtown Global Market • Frogtown Square • Twin Cities Construction Alliance • Frogtown Entrepreneur Center



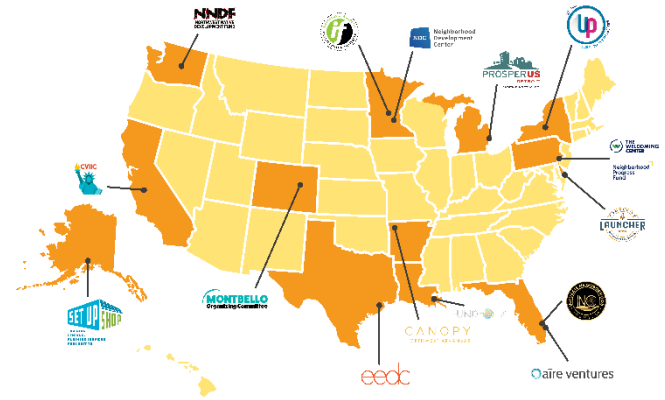


## The Case for Supporting the Build from Within Alliance

October 3, 2023

The Build from Within Alliance (BfWA) works to reverse systemic disinvestment by growing community capacity to train, finance, coach and place low-income entrepreneurs in their own neighborhoods, as drivers of economic and social inspiration and change.

Our 16 community-based members provide wrap-around support to low/very low-income entrepreneurs at low/no cost, in 50+ low-income communities of color. Our high-touch, risk-tolerant, long term and neighborhood-based approach is based on the 30-year track record of Neighborhood Development Center’s 4-Pillar model of business training, lending, technical assistance and real estate.



### Some quick impact outcomes:

- 2,000 + neighborhood business trained, financed, coached and/or placed
- 87% are entrepreneurs of color, 70% were low/very low income previously
- 5000 + jobs created or sustained
- 9.6 years average time in business, and 67% occupy formerly vacant spaces

### Addressing concentrated poverty requires concentrated opportunity.

BfWA members are able to reach their community members with customized training, financing, coaching and places for their businesses, because they have:

<p><b>History in the neighborhoods they are located</b></p>	<p><b>Proven trust with residents, small businesses and community groups</b></p>	<p><b>Expertise and capacity in providing direct services to community entrepreneurs</b></p>
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### **Member Resources from BFWA include:**

1. 4-Pillar program materials and on-going capacity building
2. Extensive peer sharing, convenings, learning and co-innovation
3. National business coaching exchange platform (“Professionals on Demand”)
4. Character Loan Guarantees
5. Key Site Control Fund
6. Public Policy Playbook and policy training (Federal, State and local)
7. Communications materials and training
8. Data collection via a common CRM
9. Evaluation of impacts by Reinvestment Fund and Wilder Research

### **What we add to the field and why support is growing**

BfWA provides an **alternative model to the standard financing-led, scattered site** entrepreneur development model. Our neighborhood-centered approach drives broader community change, driven by entrepreneurs from the neighborhood itself.

Combining risk-tolerant, character-based financing with extensive technical assistance and training, and landing these resources and resultant businesses in low-income neighborhoods, **through the hands of trusted community organizations**, creates a powerful environment for success and change.

Peer Circles **co-create innovative solutions** and tools. Cutting edge **evaluation frameworks and tools** study our economic and social impacts. Elevating our values, our approach and our impact to **public and private policy makers** is where we hope to make the most change nationally!

**The BfWA Funders Circle** brings together the local and national funders who support and champion the work of each member and the Alliance as a whole.



# MEMO

**To: OFN Board of Directors Policy Committee**

**From: OFN Public Policy Team**

**Date: October 13, 2023**

**Re: Updates on 2023 Public Policy Priorities**

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OFN works to shape public policies at the federal level to help CDFIs expand economic opportunity in low-wealth rural, Native, and urban communities nationwide. There has been significant legislative and regulatory activity on issues impacting CDFIs in 2023.

Since our last update in July, Congress spent August in their traditional summer recess and much of September was taken up with negotiations to keep the government funded through the start of the new fiscal year. Now, although Congress was able to avert a government shutdown by passing a 45-day continuing resolution, things remain at a standstill with the historical removal of Rep. Kevin McCarthy (R-CA) as Speaker of the House. Elections for a new speaker are ongoing, with Financial Services Committee Chair Patrick McHenry serving as a temporary speaker as the caucus seeks its next leader.

Going in to OFN's annual conference, we are leveraging our network of CDFI advocates to encourage legislators to fund the CDFI Fund as Congress continues to negotiate the fiscal year 2024 budget leading up to the new deadline for funding of November 17. This is an opportune time for the CDFI industry to gather in DC and lift up the importance of funding for the CDFI Fund, especially in a time of rising interest rates.

Our "Afternoon on the Hill" will have 185 participants attending more than 75 Hill meetings, at least a dozen of which are with the Member of Congress, followed by a Congressional Champion reception where Senators Crapo (R-ID) and Warner (D-VA) as well as Representative Maxine Waters (D-CA) are scheduled to attend in person. We also pulled together a set of [new tools](#) for anyone who is not joining us on the Hill can still participate in our advocacy efforts.

Below are brief updates on OFN's policy priorities.

## **Secure \$1 Billion in Grant Funding for CDFIs Across the Federal Government**

As expected, the federal spending environment has become increasingly complicated this year. There has been significant back and forth from the President's budget request to the debt limit deal earlier this year, and the House and Senate's respective funding levels. Spending levels are going to be a central focus on the Hill between now and the [November 17 deadline for government funding](#).



For the CDFI Fund, the stakes are high in this negotiation process and the CDFI Fund is facing potential cuts. The House proposal landed at [\\$278.6 million for the CDFI Fund](#) — a whopping \$46 million cut from previous funding levels. In contrast, the Senate allocated slightly more for the CDFI Fund – [\\$334 million](#). They also included the \$10 million credit subsidy for the CDFI Bond Guarantee Program.

OFN is urging Congress to adopt a funding level for the CDFI Fund that is aligned with the president's budget request of \$341 million in any final spending bill. We're [encouraging our members](#) to remind Congress just how crucial the CDFI Fund is and to advocate for the highest possible funding by creating new virtual tools for them to reach their elected officials.

## **Increase CDFI Access to Federal Lending Programs**

### **SBA Community Advantage Program**

As you know, the Small Business Administration's (SBA) proposed rule to lift the moratorium on new Small Business Lending Company (SBLC) licenses has been at the center of the agency's agenda this year. In April, the SBA decided to [lift the moratorium](#), allowing new non-depository lenders into the 7(a) program for the first time since the early 1980s. The SBA also introduced CA SBLCs – a new SBLC license for mission lenders. This move allowed existing Community Advantage lenders to switch their licenses to SBLC ones, a reform met with mixed reactions from lenders and legislators.

Since then, there has been a bit of tug-of-war between Congress and the SBA over this rule change. In late July, Sens. Ben Cardin (D-MD) and Joni Ernst (R-IA) found a middle ground. The [Community Advantage Loan Program Act of 2023 \(S.2482\)](#), meant to increase access to capital for underserved small businesses, was introduced and passed out of committee. The bill would finally make permanent the Community Advantage program, a longtime priority for OFN. The draft bill does not include businesses owned by people of color or women in its definition of "target markets."

The Community Advantage pilot program will sunset on October 31, 2023, with the new CA SBLCs going into effect. According to the SBA, the majority of CA lenders have filed to transition to the CA SBLC license. Unless a bill passes, mission lenders will no longer have access to this pilot program. The bipartisan legislation from Sens. Cardin and Ernst is still at play. The House Small Business Committee is in the process of drafting their own bill text. Any final legislation would need to be a result of compromise with the House and Senate bills.

SBA Administrator Guzman will be in attendance at the OFN conference for a speech on the morning of Tuesday, October 17. The Office of Capital Access is hosting a breakout session later that afternoon. The topic of both conversations is expected to be the CA-SBLC licenses.



### **Housing Finance: Federal Home Loan Bank System**

Increasing CDFI access to federal lending programs also includes more liquidity from Federal Home Loan Banks. Back in March, the Federal Housing Finance Agency asked, “What’s the future for the Federal Home Loan Bank System?” OFN’s [comment letter](#) included recommendations to lower barriers to entry for CDFI loan funds so that they can access more capital and more of the benefits the system offers. We expect the report on the results of the listening session to be released soon.

### **CDFI Bond Guarantee Program Reform**

President Biden’s [fiscal year \(FY\) 2024 budget proposal](#) included a \$10 million credit subsidy for the CDFI Bond Guarantee Program (BGP) which could allow the program to take on more risk and potentially allow more CDFIs to access the program’s long-term capital.

Sens. Tina Smith (D-MN) and Mike Rounds (R-SD) reintroduced their bill, [the CDFI Bond Guarantee Program Improvement Act of 2023](#), which would extend the program and lower the minimum bond issuance from \$100 million to \$25 million.

The House is seeking a Republican partner to introduce a companion bill. In the last Congress, a [House version of a BGP reform bill](#), introduced by Rep. Emanuel Cleaver (D-MO), received bipartisan support and even passed the House. And interim CDFI Fund Director Marcia Sigal has indicated willingness to make the BGP more accessible to more CDFIs.

### **Expand the Role of CDFIs in Clean Energy and Climate Resiliency Finance**

OFN has been deeply involved in the clean energy programs created last year under the Inflation Reduction Act, particularly the [Greenhouse Gas Reduction Fund \(GGRF\)](#). OFN applied as lead applicant on the Clean Communities Investment Accelerator and will be a partner to the National Clean Investment Fund. [Our application was submitted October 10.](#) We also applied for the National Clean Investment Fund as part of the two applications: Justice Climate Fund and Climate United.

EPA Administrator Michael Regan will be in attendance at the OFN conference, delivering remarks at the lunch plenary on Tuesday afternoon. EPA staff will also host an informational session on Tuesday morning.

### **More Private Investment in Communities**

OFN is monitoring several key tax programs designed to bring more private capital to communities where CDFIs operate.



### **New Markets Tax Credit Extension Act of 2023 ([S. 234/H.R. 2539](#))**

First up is the New Markets Tax Credit Extension Act of 2023. This bill would make the New Markets Tax Credit (NMTC) permanent and index it to inflation, providing ongoing incentives for investments that grow stronger, more vibrant communities.

Lead Sponsors: Senate: Ben Cardin (D-MD), Steve Daines (R-MT), House: Terri Sewell (D-AL), Claudia Tenney (R-NY)

### **The Rural Jobs Act ([S.1455/H.R. 5026](#))**

This bill is all about increasing community support in rural areas. It will add an extra \$500 million a year to NMTC allocations for two years. This incentive is specially earmarked for rural communities, [persistent poverty counties](#), and [rural counties with shrinking populations](#) (domestic migration).

Lead Sponsors: Senate: Roger Wicker (R-MS), Mark Warner (D-VA), House: Carol Miller (R-WV), Terri Sewell (D-AL)

### **Neighborhood Homes Investment Act ([S.657/H.R. 3940](#))**

This bill aims to boost private investment to revitalize communities by rehabilitating old properties. The bill allows a business-related tax credit for certain development costs for residential housing, giving qualified properties a second chance while giving businesses an incentive to invest.

Lead Sponsors: Senate: Todd Young (R-IN), Ben Cardin (D-MD), House: Mike Kelly (R-PA), Brian Higgins (D-NY)

### **Community Development Investment Tax Credit ([S. 2963](#))**

This bill will help direct support to lenders that focus on underserved communities by creating a CDFI Tax Credit for private sector investors that make equity, equity-equivalent investments, or long-term patient capital available to CDFIs.

Lead Sponsors: Senate: Mark Warner (D-VA) and Roger Wicker (R-MS)

## **Advance Policies that Promote Consumer Protection and Fair Lending**

### **Community Reinvestment Act Reform**

Community Reinvestment Act (CRA) regulations are being updated, and the Federal Reserve, along with the Office of the Comptroller of the Currency and the FDIC, are leading the way. They've been busy sifting through [comments on the proposed rule](#) from August 2022 and the final rule is in the works. It is worth noting that the timeline had a few shifts due to staffing changes at the Federal Reserve and the recent regional banking crisis. OFN sat down with the new leader of these efforts, Federal Reserve Vice Chair Michael Barr, in late May, but he did not reveal any concrete release dates for the updated rule. There has been renewed chatter that the new final rule will be released sometime in October.



### **New Transparency Measures for Small Business Lending**

Efforts to implement the Consumer Financial Protection Bureau's long-awaited Section 1071 final rule hit a snag this summer when a federal court halted implementation of the rule until after the Supreme Court decides next year if the bureau's funding structure is constitutional. OFN [issued a statement](#) expressing disappointment in this ruling.

The rule received a further setback in September when the Federal District Court for the Eastern District of Kentucky issued a second injunction on implementing the rule. This decision does not limit the injunction to just the named plaintiffs and their members (Kentucky Bankers Association and several Kentucky banks) as happened in the earlier case brought by the American Bankers Association and Texas Bankers Association in Federal District Court for the Eastern District of Texas. In more promising news, the comments from a few conservative justices during Supreme Court arguments about the constitutionality of the CFPB's funding structure were more positive than expected. Members of Congress have jumped into the fray as well. Six Senate Banking Committee Republicans [sent a letter](#) urging the Biden Administration's Consumer Financial Protection Bureau (CFPB) to halt the effective date of the Dodd-Frank Section 1071 small business data collection rule for all banks. Several of the signatories are members of the Senate Community Development Finance Caucus, including Sens. Crapo (R-ID), Lummis (R-WY), Kennedy (R-LA), and Daines (R-MT).

Section 1071 is one of the last remaining portions of the 2010 Dodd Frank Consumer Protection Act to be implemented. This data collection rule aims to boost transparency in small business lending by gathering demographic data from lenders about the credit applications they receive. Small business lenders, including depository, online, nonbank, and CDFI lenders, will be required to report this data. The rule covers a wide range of products and includes merchant cash advances, but not factoring transactions.

OFN will continue to support speedy implementation of the rule and other efforts to increase transparency in small business lending.

### **Truth in Lending Legislation for Small Business**

In June, Rep. Nydia Velazquez (D-NY) and Sen. Robert Menendez (D-NJ) introduced the Small Business Financing Disclosure Act of 2023 ([S. 2021](#) / [H.R. 4192](#)), extending the protections in the Truth in Lending Act to also include small business lending. The bill aims to protect small business owners from predatory lending, including misleading financing options that carry unfair terms and conditions.

It would require small business lenders to disclose key information, including the annual percentage rate (APR), when presenting financing options to small businesses, allowing them to have the necessary information to make financial decisions to grow and strengthen their businesses. The bill is cosponsored by Sens. Sherrod Brown (D-OH), Ben Cardin (D-MD), Ron Wyden (D-OR), and Congresswoman Maxine Waters (D-CA).



## **Modernize the CDFI Fund's Programs and Certification Process**

### **CDFI Certification**

The CDFI Fund has not yet released its updated certification application but expects to do so sometime in the fall. As previously noted, currently certified CDFIs will be afforded a grace period apply for Certification under the new Certification Application while maintaining Certification status. That grace period will likely be one year.

There have also been developments with the Change Company's certified CDFI status. The law enforcement arm of the U.S. Treasury Department as well as the Securities and Exchange Commission is investigating the Change Company. The CDFI Fund also made efforts to remove the organization's certified CDFI status. Change Company briefly lost their CDFI certification in August, but it was reinstated in September after a federal judge reversed the decertification until a hearing scheduled for December 11.

### **Reforms to Flagship Programs – Capital Magnet Fund**

The CDFI Fund requested public comments on how it can enhance and improve the impact of the Capital Magnet Fund (CMF), streamline, or minimize the administrative burden on CMF Applicants and Award Recipients, as well as safeguard public funds. OFN [submitted comments](#) after consulting with the Capital Magnet Fund Coalition and our members to shape our response.

### **Litigation Related to Affirmative Action and Race-Conscious Programming**

As discussed on recent OFN Board meetings, there has been a flurry of litigation related to the [Supreme Court's](#) landmark ruling for colleges and universities that has implications that hit much closer to home. Race-conscious admissions were effectively ended, and with it, affirmative action became a practice of the past. The fallout of this ruling has impacted almost every industry, from [corporate DEI](#) to [law firms](#), to the [financial industry](#) and [government programs](#).

The decision is already having impacts on public policy, like the legal challenges to the SBA's 8(a) program. [SBA's 8\(a\) program](#) aims to "award at least 5% of all federal contracting dollars to small, disadvantaged businesses each year." However, in July, a judge in Tennessee struck down one of the provisions in the program, claiming that race cannot be equated with social disadvantage. a lawsuit against the state of Massachusetts for targeted [pandemic relief lending](#). There is also an ongoing lawsuit in Massachusetts against the state for [financial programs](#) to aid people of color.

The issue is also coming up on Capitol Hill. In September, Senator Tim Scott and other Republicans on the Senate Banking Committee [sent a letter](#) to the Federal Housing Finance Agency warning that the GSEs equitable housing plans, designed to boost homeownership among people of color, could face legal challenges on the heels of the affirmative action





decision. Those plans require Fannie Mae and Freddie Mac to submit three-year plans on advancing racial equity in the housing market, to be updated annually.

We are actively tracking this issue and its impact on CDFIs. The mission of our industry is to invest in underserved communities, comprised of low-income communities and people of color, which are directly affected by this ruling. We will convene two conversations with legal experts at the conference – a private discussion with the OFN Board and other key CDFI leaders and a public, on-agenda session on Tuesday afternoon.



## Policy Priorities

### **Provide Robust Funding for the Community Development Financial Institution (CDFI) Fund**

Congress must provide the CDFI Fund with \$341 million (FY22 authorized \$295 million) for FY24

- In 2021, CDFIs financed close to 41,000 affordable housing units, made over 1 million loans, and provided funding to 87,000 businesses.<sup>1</sup>
- CDFI's play an outsized role in closing opportunity gaps for minority populations. 85% of CDFI borrowers are low-income, 58% are people of color, and 48% are women.<sup>2</sup>
- Providing \$341 million in appropriations for the CDFI Fund will enable CDFIs to deliver financial services to underserved markets.

### **Invest in Community Development Financial Institutions (CDFIs) and minority-led CDFIs.**

CDFIs led by, accountable to and anchored in communities of color play an outsized role in closing opportunity gaps and should be recognized for their service and accountability to minority populations. In 2020, the HOPE Policy Institute conducted a study on racial disparities in CDFI fund awardees and found that over 14 years, white-led CDFIs had a median asset size 2.5 times larger than minority-led CDFIs. This asset and capital gap persists, and minority-led CDFIs face more challenges in gaining access to philanthropic and bank funding than their white counterparts. These minority-serving CDFIs are on the front lines supporting communities that need it most, and must be supported. We believe that 40% of future CDFI fund awards should go to CDFIs with strong reach into communities of color.

**Codify the 7(a) Community Advantage (CA) Pilot Program.** The CA program works to expand SBA lending to small businesses in underserved communities by creating loan guarantees specifically for mission-oriented lenders, primarily nonprofit financial intermediaries focused on economic development. In 2022, it provided nearly \$23 million, 41% of its total funding, to minority-owned businesses yet is still a pilot program. We urge Congress to make it permanent.

**Lowering the CDFI Bond Guarantee from \$100 million to \$25 million** to make this accessible to smaller CDFIs so they can gain greater access to capital. Lowering this guarantee helps smaller CDFIs take advantage of the CDFI Bond Guarantee program, which in turn increases the availability of capital for the communities that CDFIs serve. This provides low cost - long term debt. 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. However, the program falls short in accessibility – smaller CDFIs are not able to access this valuable source of long-term, fixed rate financing.

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<sup>1</sup> Ibid.

<sup>2</sup> Barrow, Olivia. "Community Development Financial Institutions Fund," *National Low Income Housing Coalition*, 2021, pp. 7., <https://nlhbc.org/files/CDFIs>



**Make the New Markets Tax Credit (NMTC) Permanent and expand accessibility** – NMTC provides incentives for the private sector to invest in CDFIs, right now it is extended until 2025. Authorized by Congress in 2000, the NMTC Program incentivizes community development and economic growth through the use of tax credits (given as allocations) that then attract private investment to distressed communities.

**Make the State Small Business Credit (SSBCI) Initiative permanent.** On March 11, 2021, the American Rescue Plan Act of 2021 (P.L. 117-2) was signed into law, providing \$10 billion to fund the SSBCI. This program provides resources to state, territory and tribal governments as well as small business credit support and investment programs. SSBCI is currently authorized until 2028.

### Data Points

**CDFIs play a key role in bridging the inequitable access to capital faced by Latinos.**

- CDFIs provide **financial services and technical assistance** to **low wealth markets and underserved communities** that are often excluded from the ‘economic mainstream.’<sup>3</sup>
- 85% of CDFI borrowers are low-income, 58% are people of color, and 48% are women.<sup>4</sup>
- At least **60%** of CDFI funding goes to low- and moderate-income (LMI) communities.<sup>5</sup>
- **Nearly 20%** of CDFIs are in **persistent poverty counties**, with median incomes 60% under the regional median, and **more than 40%** are headquartered in **majority-minority areas**.<sup>6</sup>
- CDFIs leverage on average **\$12 in private capital to every \$1 in federal support**.<sup>7</sup>
- In FY22, CDFIs financed about **54,000 affordable housing units**, made loans totaling more than **\$38 billion**, and provided funding to **over 100,000 businesses**.<sup>8</sup>
- Access to these services is limited by the disparate coverage of CDFIs across the US. The **majority** of CDFIs are concentrated within **5 states**. **20%** of states have **five or less CDFIs** headquartered within their borderlines.<sup>9</sup>

<sup>3</sup> Parks, Ayrienne. “Community Development Financial Institutions: Community-Based, Mission-Driven,” *CDFI Coalition*, Mar. 2019, pp. 4., <https://cdfi.org/wp-content/uploads/2019/08/2019-CDFI-Report-Complete-FINAL.pdf>

<sup>4</sup> Barrow, Olivia. “Community Development Financial Institutions Fund,” *National Low Income Housing Coalition*, 2021, pp. 7., <https://nlihc.org/files/CDFIs>

<sup>5</sup> *Federal Deposit Insurance Corporation*. “US Department of the Treasury Community Development Financial Institutions Fund.” *Affordable Mortgage Lending Guide*, Mar. 2017, <https://www.fdic.gov/consumers/community/mortgagelending/guide/part-1-docs/cdfi-overview.pdf>

<sup>6</sup> “Bringing Opportunity to Communities Through Partnerships With Community Development and Community Finance.” *Community Health and Economic Prosperity: Engaging Businesses as Stewards and Stakeholders*, *US Department of Health and Human Services*, Jan. 2021, <https://www.ncbi.nlm.nih.gov/books/NBK568868/>; Greer, James, et al. “Community Economic Development in the United States: The CDFI Industry and America’s Distressed Communities.” *Palgrave Macmillan*, 2017; Parks, Ayrienne. “Community Development Financial Institutions: Community-Based, Mission-Driven,” *CDFI Coalition*, Mar. 2019, pp. 6., <https://cdfi.org/wp-content/uploads/2019/08/2019-CDFI-Report-Complete-FINAL.pdf>

<sup>7</sup> *CDFI Coalition*. “CDFIs: Investing in Communities and Building Strong Foundations for the Future,” Feb. 2020., <https://cdfi.org/General-CDFI-Fact-Sheet>

<sup>8</sup> [https://www.cdfifund.gov/sites/cdfi/files/2023-01/CDFI\\_Fund\\_FY22\\_AFR\\_FINAL508.pdf](https://www.cdfifund.gov/sites/cdfi/files/2023-01/CDFI_Fund_FY22_AFR_FINAL508.pdf)

<sup>9</sup> *CDFI Fund*. “CDFI Annual Certification and Data Collection Report (ACR): A Snapshot for Fiscal Year 2019.” *US Department of Treasury*, Oct. 2020, <https://www.cdfifund.gov/sites/cdfi/files/2021-01/ACR-Public-Report-Final-10292020-508Compliant.pdf>



- From 2011 to 2015, **27%** of counties across the US saw no CDFI lending activity. Nearly **50%** of counties received **less than \$7** in loans annually for every person under 200% of the federal poverty level.<sup>10</sup>

### Minority Led CDFIS (MCDFIs) are a valuable sector of the CDFI industry.

- **148 of CDFIs are minority-led, including 30 that are Latino-owned.**<sup>11</sup>
- MCDFIs hold **12% of total CDFI Fund capital**, while 75% is held by white CDFIs.<sup>12</sup>
- Under the Department of Treasury's Rapid Response Program (RRP), 90 minority-lending institutions received \$133.9 million in awards in response to the economic toll of the pandemic. NALCAB awarded a total of **\$44,480,685** to member organizations.<sup>13</sup>

### CDFIs were critical in distributing COVID-19 relief funds to small businesses.

- CDFIs have made **1.3 million Paycheck Protection Program (PPP) loans** (21% of the total), totaling to **\$30.08 billion**, with average loan sizes of \$21,653.<sup>14</sup>
- As of 2020, MCDFIs made roughly **120,000 PPP loans**, totaling to over **\$10 billion** and **11% of total PPP loan funds** offered.<sup>15</sup>
- Close to **40% of CDFI PPP loans reached LMI businesses**<sup>16</sup>

### Asset Gap: Disparities exist in the CDFI space.

- A 2020 study by Hope Policy Institute found that white-led CDFIs had a median asset size 250% larger than their minority-led counterparts.
- The number of white-owned CDFI Fund awardees has significantly outpaced minority-owned awardees every year.
- While the asset size for all CDFI Fund awardees has grown over time, the growth has not been evenly distributed. It took minority awardees until 2013 –10 years — to exceed the median asset size of white-owned awardees in 2003 (\$5.5 million).<sup>17</sup>

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<sup>10</sup>Hangen, Eric and Brett Theodos. "Expanding Community Development Financial Institutions: Growing Capacity across the US." *Urban Institute*, Sept. 2017, [https://www.urban.org/sites/default/files/publication/93396/cdfi\\_factsheet\\_2.pdf](https://www.urban.org/sites/default/files/publication/93396/cdfi_factsheet_2.pdf)

<sup>11</sup> *Federal Deposit Insurance Corporation*. "Minority Depository Institutions List," First Quarter 2023, <https://www.fdic.gov/regulations/resources/minority/mdi.html>

<sup>12</sup> Burt, Kiyadh. "Analyzing the CDFI Asset Gap: Examining Racial Disparities in CDFI Fund Awardees from 2003 to 2017," *Hope Policy Institute*, Nov. 05, 2020., pp. 5, <http://hopepolicy.org/manage/wp-content/uploads/CDFI-Fund-Time-Series-Analysis-brief-edited.pdf>

<sup>13</sup> *US Department of the Treasury Office of Public Affairs*. "Testimony of Deputy Assistant Secretary for Community and Economic Development Noel Andres Poyo before the Subcommittee on Financial Services and General Government, Committee on Appropriations, US Senate." June 23, 2021, <https://home.treasury.gov/news/press-releases/jy0242>

<sup>14</sup> *CDFI Coalition*. "PPP- The Story So Far: Lending Updates and SBA Data." June 11, 2021.

<sup>15</sup> *US Small Business Administration*, "Paycheck Protection Program (PPP) Report: Approvals through 08/08/2020." Sep. 2020, pp. 4, <https://home.treasury.gov/system/files/136/SBA-Paycheck-Protection-Program-Loan-Report-Round2.pdf>

<sup>16</sup> *CDFI Coalition*. "PPP- The Story So Far: Lending Updates and SBA Data." June 11, 2021.

<sup>17</sup> [Analyzing the CDFI Asset Gap: Examining Racial Disparities in CDFI Fund Awardees from 2003 to 2017 | Hope Policy Institute](#)