TESTIMONY OF JULIA NELMARK
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BEFORE THE SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS SUBCOMMITTEE ON HOUSING, TRANSPORTATION, AND COMMUNITY DEVELOPMENT

HYBRID HEARING ENTITLED, "HOW COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS PROMOTE HOUSING AND ECONOMIC OPPORTUNITY"

October 17, 2023

Good afternoon, Madame Chairwoman, Ranking Member Lummis, and members of the Committee. I am Julia Nelmark, president & CEO of Midwest Minnesota Community Development Corporation (MMCDC), a CDC, CDFI and NeighborWorks America affiliate in rural Minnesota, and I am CEO of our Native CDFI subsidiary, the White Earth Investment Initiative. Thank you for the opportunity to appear before you to discuss how CDFIs promote housing and economic opportunity.

A CDFI is a community development financial institution - in short, a mission based lender. CDFIs assist businesses, communities and individuals. We provide financing in underserved areas, often funding borrowers and projects that do not meet standard banking requirements. In doing so, we help create jobs and increase tax base in the communities we serve; we help fund and sometimes develop community facilities and other projects to enhance communities and improve the lives of residents; and we offer development services to enable individuals to improve their financial capability and access to capital. These include homebuyer education, financial counseling, free income tax preparation and more.

Some CDFIs also work on housing – single-family, multi-family; for-sale or rental housing. There are CDFIs that work with or serve as economic development agencies, community action partnership agencies, or housing authorities. CDFIs can be nonprofit or for profit, and include loan funds, credit unions and banks, but are required to have a mission of serving their community, especially those areas that are not being fully served by mainstream financial products.

A number of CDFIs like my organization pre-date the CDFI fund, with many having roots dating back to the late 1960s to early 1970s, with the establishment of Community Development Corporations (CDCs), under the purview of the Office of Economic Opportunity. The OEO was eliminated in the 1980's, and CDCs became private nonprofits. That small industry was the impetus for the formation of the CDFI Fund in the U.S. Department of the Treasury in 1994.

The CDFI Fund has grown in dollars and number of programs it manages. 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 CDFIs. CDFIs use these awards to provide a range of financial products and services to revitalize communities and increase economic opportunity. CDFI programs also include the Small Dollar Loan Program and

Economic Mobility Corps. The CDFI Fund also administers the New Markets Tax Credit Program, the Capital Magnet Fund, and the CDFI Bond Guarantee Program, designed to generate lending and investing to promote community revitalization, business development, affordable housing, and job creation in economically distressed communities. During the pandemic, funding was also directed to CDFIs through the Rapid Response Program (RRP) and Equitable Recovery Program, helping our organizations as we helped our communities deal with the damaging economic impacts of Covid-19. 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 COVID-19 pandemic. In June 2021, the CDFI Fund awarded RRP grants to 850 CDFIs. In 2022, RRP recipients reported making 413,0000 loans and investments, totaling $14.8 billion, including $5.5 billion in consumer loans, $3.1 billion in home improvement and purchase loans, $2.1 billion in small business and microenterprise loans, and $1.3 billion in residential real estate financing. RRP recipients also financed approximately 11,500 units of affordable housing. Thirty-one CDFIs are headquartered in Minnesota. Through February 2023, CDFI Fund awards to Minnesota totaled $3 billion (FA, TA, NMTC and CBGP). CDFIs serviced $851 million in PPP loans for Minnesota businesses and nonprofits, preserving about 88,000 jobs.

While federal budgets are tight, investment in CDFIs offers an exceptional return on our taxpayer investment. CDFIs leverage federal dollars on average 10:1 — for every $1 from the federal government, we provide an average of $10 to facilitate growth in businesses, jobs, community tax base, and more. In FY 2022, CDFI program awardees made over 1.4 million loans or investments totaling more than $53 billion and financed over 65,000 affordable housing units. These products are some of the most effective tools we have to fight poverty, assist communities and help enable individuals to improve their assets and financial capacity. And as individuals become more self-sufficient, their reliance on social welfare programs decreases - so these will decrease costs in the long run.

For FY 24, a bipartisan coalition of some 100 Members of the House and 47 Senators wrote to the House and Senate Appropriations Committees in support of the budget request of $341 million for the CDFI Fund. While the FY 24 House Financial Services General Government bill fell short of the request, the Senate Appropriation for the CDFI Fund totaled $324 million, an increase of $10 million above FY23, which will fund subsidy costs for the Bond Guarantee program, a very important investment. As the appropriation process unfolds, we hope the Senate will prevail in its position and continue strong support for the CDFI Fund.

CDFIs are innovative and flexible; we have a long track record of layering varied funding sources, finding multiple ways to use new opportunities, such as the New Markets Tax Credit (NMTC), the CDFI Bond Guarantee Program, and the Paycheck Protection Program during the COVID pandemic. As an industry, we are collaborating in a few national groups to access and, starting next year, deploy resources from the EPA's Greenhouse Gas Reduction Fund - work is already underway to detail ways to utilize those programs and layer with other sources to optimize the opportunity. The proposed CDFI Tax Credit and Scaling Community Lenders Act are promising opportunities to add more liquidity to CDFIs.

A growing segment of the CDFI industry is the Native CDFI group. As of September 14, there were 1,469 certified CDFIs, of which 66 are certified Native CDFIs, meaning a majority of their staff and/or board are Native American, Alaska Native or Native Hawaiian and a majority of their lending activity is comprised of service to those communities or individuals. Due to the largely rural nature of most reservations, villages and homelands, and the high rate of poverty in many of those places, access to capital and other financial resources is especially difficult. Similar to food deserts, there are banking deserts. Further, just as our lowest income neighbors struggle to afford food, they also struggle to afford market rate debt. In fact, on reservations many people have low or no credit scores for a number of reasons. While pay day lenders are less prevalent in rural areas, they still exist and are now more accessible on the internet. For example, we have a small business customer that has been struggling with cash flow due to Covid impacts in the construction industry. They took out several internet loans in the past 6 months then came to us asking to refinance. But their loan documents require them to pay nearly all of the full term service fee, which equates to nearly 50% interest. They didn't understand what they signed and have very little recourse to change it.

A number of CDFIs, especially Native CDFIs, spend considerable financial and staff resources to provide credit counseling, homebuyer education, credit building loans, and free tax services. Native CDFIs and those CDFIs serving high immigrant populations focus on serving their communities in culturally appropriate ways, providing assistance to help individuals navigate financial structures in ways that fit their specific needs and desires, particularly to learn and understand their cultural needs and serve them in respectful ways through community partnerships. For example, a pilot program through the USDA Section 502 direct home loan program allowed Native CDFIs to relend funds to eligible borrowers on tribal land, greatly increasing USDA loans on two reservations in South Dakota. This program is being expanded nationally and should be authorized through passage of the *Rural Housing Service Reform Act* (S.2790), which I know is being championed by the leaders and many members of this subcommittee.

To understand some of the unique challenges facing rural CDFIs and their communities, there are a few key issues. One is collateral valuation - in rural areas there are fewer potential buyers, so a similar property is often worth perhaps 20% less than in an urban area. Put that same property on trust land and it drops another 20-25%. A tribal business we helped finance before Covid cost roughly $12 million to build but appraised brand new at about $6.5 million. A bank couldn't finance that fully, and the tribal business couldn't fill the entire gap. The project accessed tax credits, a federal loan guarantee, additional land parcels for collateral, and two other special purpose sources (and involved 3 CDFIs). It is now doing well, exceeding sales projections – but only because of the multiple layers of funding. Title issues and leasehold mortgages were additional issues in that transaction, not uncommon with Native projects. Many traditional banks do not understand the complex legal status of land held in trust by the federal government for Tribal Nations, and avoid making loans altogether on reservations.

A second key challenge in rural areas is broadband access. That is improving and is gaining in funding sources. We greatly appreciate those efforts and hope it will continue.

A third challenge in rural work is related to census data. The large census tracts in rural areas can span multiple towns or entire counties and average out or mask the pockets of poverty, and often make them ineligible for funding sources we use. Because some legislation specifies MSAs instead of cities or urban areas, or counties and tracts instead of towns or census blocks, we are often unable to utilize economic data at those levels and have difficulty using some of our best funding sources in those towns. Some of the recent census changes for 2020 data have further narrowed data available in many tribal areas. Minor wording changes in some legislation to allow for the use of census data at the town or block group level, or to more easily allow the use of locally collected data sources below the census tract level, would greatly improve access in those areas.

A fourth challenge relates to Low-Income Housing Tax Credit (LIHTC). This is our nation's number one tool for development of affordable rental housing nationwide, creating over 3.7 million homes since 1986. We are advocating for some changes to increase the total available and strengthen the program, which are included in the bipartisan, bicameral *Affordable Housing Credit Improvement Act* (S. 1557 / H.R. 3238). In particular, there are changes that could help address challenges in rural and tribal areas, including basis boosts (or additional equity) for Native and Rural areas and extremely low-income tenants, as well as requiring states to consider the needs of Native Americans in their selection criteria. Of the 25 million units located in rural and small communities, over 5 percent, or 1.5 million, of these homes are considered either moderately or severely substandard; more than 30 percent of the nation's housing units lacking hot and cold piped water are in rural and small-town communities; and on some Native American lands, the incidence of homes lacking basic plumbing is more than ten times the national level. Rental housing, where it is available, often costs too much. According to a recent report by the Harvard Joint Center for Housing Studies, 41 percent (5 million households) of rural renters are cost-burdened, meaning they pay more than 30 percent of their income for housing costs, and nearly half of rural households (2.1 million) pay more than 50 percent of their income for housing. In Minnesota, we have difficulty scoring high enough to access highly competitive LIHTC allocations due to lower density, less transportation availability and other issues. And even if allocation is available, the tax credit prices are lower in rural areas due to less marketability for investors. We are facing dramatically higher housing supply shortages and housing affordability issues in the past few years in nearly all communities across the country, and we need to address those on multiple levels, including through the expansion and strengthening of LIHTC and the Housing Affordability Act.

I could list a number of improvements we would strongly support to facilitate greater success in our work, but I will focus on just a few: Increased annual appropriations for CDFIs, NMTC permanency with specific rural and Native allocations (S.234, the bipartisan New Markets Tax Credit Extension Act of 2023, provides an indefinite extension of the NMTC, boosting its efficiency and delivering more capital to low-income communities; Indexes future allocation levels to inflation; and brings new investors by exempting the NMTC from the Alternative Minimum Tax); the CDFI Bond Guarantee Improvement Act to make those less expensive and more accessible; housing support through LIHTC improvements like those in the *Affordable Housing Credit Improvement Act*, and continued support for NeighborWorks America.

I greatly appreciate your long-term, continuing support for CDFIs in so many areas – our impact numbers show how helpful you have been. We were excited at the formation of the CDFI Caucus and the increased efforts you are bringing to this work. And finally, thank you for the opportunity to discuss CDFIs with you today. I have provided additional data and information in my written testimony, and welcome any questions you may have.

CDFIS: INVESTING IN COMMUNITIES AND BUILDING STRONG FOUNDATIONS FOR THE FUTURE

Community Development Financial Institutions, or CDFIs, are mission-driven financial institutions that deliver affordable credit, development services, capital, and financial services to residents and businesses in minority and economically distressed communities.

CDFIs emerged to provide financial services in urban neighborhoods and rural areas underserved by traditional financial institutions, particularly those with high rates of poverty and unemployment. 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.

Throughout the last economic downturn, CDFIs served as economic shock absorbers, providing flexible and 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.

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.

The **Community Development Financial Institutions Fund (CDFI Fund)** was established within the U.S. Department of Treasury in 1994[1] to promote community development in economically distressed urban and rural communities by investing in and growing CDFIs across the country. There are 1,264 Treasury certified CDFIs[2], and since 1994, the CDFI Fund has awarded $5.6 billion in total funding to CDFIs. 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. The CDFI Fund administers the following core programs and each program awards funds annually through an independent and competitive application process:

→ ***Financial Assistance (FA)*** – 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.

→ ***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.

→ ***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 69 in 2021.

[1] The CDFI Fund was authorized as part of the Riegle Community Development and Regulatory Improvement Act (PL 103-325).
[2] 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 12/1/2021.

→ **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 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.

→ The CDFI Fund also administers the **New Markets Tax Credit (NMTC) Program** which was authorized in 2000[3] to stimulate private investment in low-income communities. To date, the CDFI Fund has made 1,348 allocation awards totaling $65.5 billion. To date, NMTC investments have created over one million jobs at a cost to the federal government of under $20,000 per job. Through the 2nd quarter of 2021, the NMTC leveraged more than $110 billion in capital investment in communities with high rates of poverty and unemployment.

→ In addition, the CDFI Fund administers the **CDFI Bond Guarantee Program**[4] which 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.

→ The **Capital Magnet Fund (CMF)** is administered by the CDFI Fund and provides grants on a competitive basis to CDFIs and other non-profit organizations to finance the acquisition, construction, preservation, and rehabilitation of affordable housing projects and related economic development efforts for low-income families and communities. CMF is authorized under the Housing and Economic Recovery Act of 2008 and is funded by allocations from Government Sponsored Entities regulated by the Federal Housing Finance Agency. To date, the Capital Magnet Fund has generated $20 of additional investment for every $1 of award funding and created over 13,000 affordable homes, including more than 11,500 rental housing units and more than 1,500 homeowner-occupied units.

CDFIS - BY THE NUMBERS

- 1,333 CDFIs, including 70 Native CDFIs, had been certified to work in low-wealth communities across the country as of January 2022. These CDFIs have assets totaling over $200 billion and outstanding portfolios of more than $150 billion.
- Certified CDFIs include 572 loan funds, 433 credit unions, 139 depository institution holding companies, 173 banks or thrifts, and 16 venture capital funds, located in rural and urban areas in all 50 states as well as the District of Columbia, Puerto Rico, and Guam.
- In FY 2021, CDFI program awardees made over 4,000,000 loans or investments totaling $38.7 billion. The average size of each loan or investment was under $10,000. CDFIs also financed nearly 50,000 affordable housing units.
- CDFI impact through Paycheck Protection Program (PPP): through May 24, 2021, Community Financial Institutions (CFIS), which include CDFIs, made 1.3 million PPP loans totaling over $30 billion or 21% of total loans. Their average loan size was $21,653 compared to $41,560 across all lender classes, and nearly 40% of their loans reached business in low- and moderate-income communities, compared to 28% across all lending sources. CFI loans reached more small businesses. For example, 78% of their PPP loans went to businesses requesting less than $150,000.Moreover, 15.7% of CFI-made loans were made to businesses in rural communities, closely keeping with the 16.6% of all loans (some $45.5 billion) that went to rural businesses.[5]

[3] The NMTC was authorized as part of the Community Renewal and Tax Relief Act of 2000 (PL 106-554)
[4] The CDFI bond Program was authorized as part of The Small Business Jobs Act of 2010 (PL 111-240)
[5] Source: Small Business Administration "COVID Relief Paycheck Protection Program Report, Data as of 05/24/2021"

NMTC State Fact Sheet

NMTC IMPACT IN MINNESOTA 2003 - 2022

CDFI Fund Transaction Data and NMTC Coalition Survey Data

PROJECTS & INVESTMENT

University Enterprise Laboratories, Inc., Saint Paul

256 projects, facilities, and businesses financed in Minnesota

$3.23 billion in total project financing

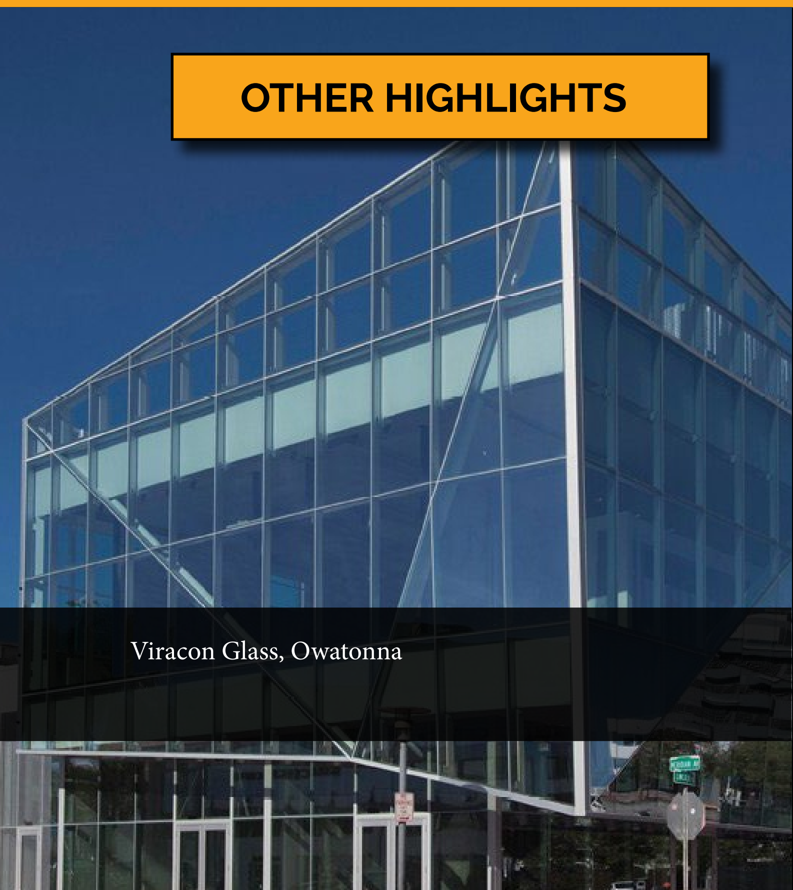
DIRECT JOBS GENERATED

13.8k permanent FTE jobs

13.7k temporary FTE construction jobs

Washburn Center For Children, Minneapolis

OTHER HIGHLIGHTS



Viracon Glass, Owatonna

5.3 million sq. ft. of real estate renovated or constructed.

48 projects expanding healthcare access for 506.3k patients, including 13 federally qualified health centers.

65.4k children served by schools, youth programs, Boys and Girls Clubs, and childcare centers.

69 manufacturing and industrial businesses supported.

MINNESOTANS WEIGH IN ON THE NEW MARKETS TAX CREDIT

"NMTCs bring jobs and hope to low-income communities. The jobs created give people a way to use their skills and energy to earn a living and support their families and see their communities thrive. It allows them to be proud of the outcome because they worked together to make lives better in their community."

-Brent Sorenson, Rural Development Patners, Mankato, Minnesota

"The NMTC is a life blood for transformative projects in highly distressed urban core of Minneapolis and St. Paul. We have leveraged the State's largest public investment into light rail public transit to redevelop the commercial corridor bridging the two cities. NMTC has huge community and job creation impact!."

-David Reiling, CEO, Sunrise Banks, St. Paul, Minnesota

"NMTCs have been critical in helping many projects become feasible - in urban and rural areas. All kinds of projects have been possible because of NMTC, such as manufacturing, community facilities, schools, medical facilities, Native American projects. With our loan funds we have financed projects as small as $250,000 with similar benefit's as our larger projects up to $20 million."

-Julia Nelmark, President, Midwest Minnesota CDC, Detroit Lakes, MN

"[The NMTC] provides small businesses the ability to have an impact in neighborhoods that otherwise might not justify the investments, and in return contributing to the hyper local community. This is a critical program."

-Kyle Coolbroth, CEO, Fueled Collective, Minneapolis, Minnesota

"We are providing beautiful affordable new homes to those that cannot afford to pay market rate. This is due to the NMTC program."

-Luis Perez, Controller, Greater Metropolitan Housing Corporation, Minneapolis, Minnesota

STATE FACT SHEET

MINNESOTA

An Annual Snapshot of CDFI Program Awardee Activity in Minnesota (FY 2020)

TOTAL INVESTMENT

4.6k originations totaling $507.3M

JOBS

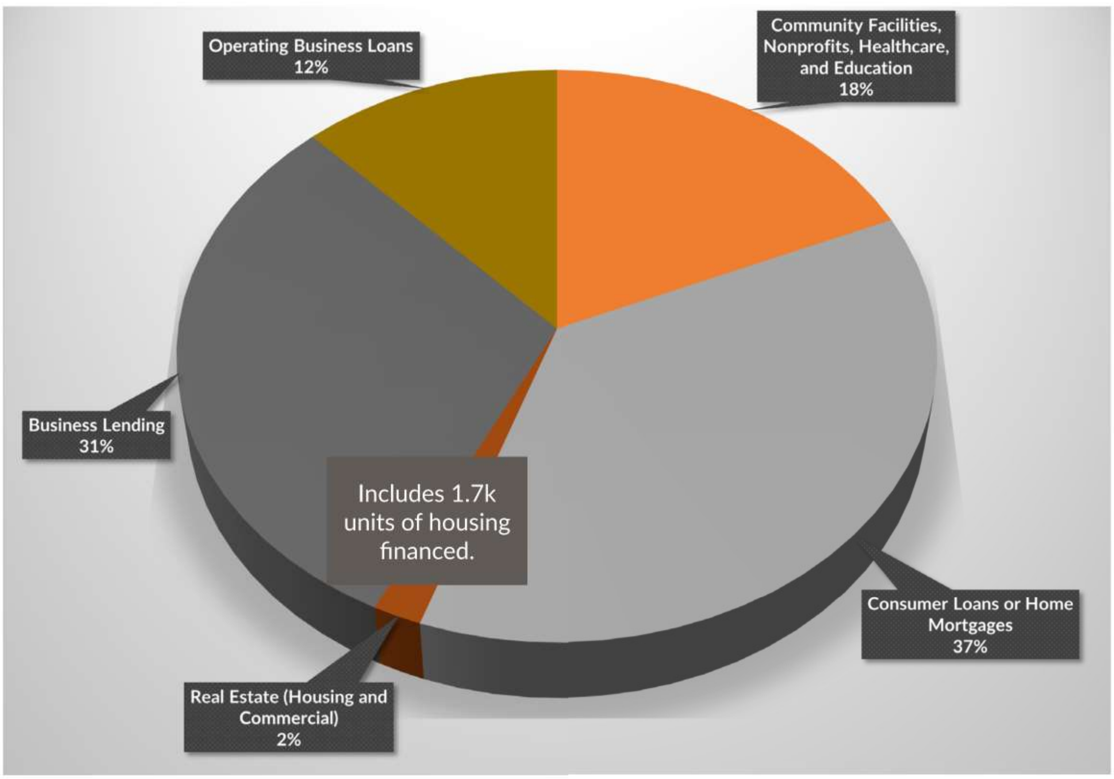
7.3k permanent FTE jobs
157 construction jobs

BUSINESS INVESTMENT

Of that activity, 2.1k loans and investments totaling $237.9M went to Minnesota businesses, nonprofits, and community facilities, with the balance going to individuals and families.

REAL ESTATE

612.5k sq. ft. of commerical real estate constructed or rehabilitated



OTHER FACTS AND FIGURES

- There were 31 certified CDFIs headquartered in Minnesota as of February 2023, including 26 loan funds, 3 credit unions, and 2 CDFI banks..
- Through February 2023, the CDFI Fund has awarded a total of $3.04B in financial assistance, bond authority, and tax credit allocation to Minnesota-headquartered CDFIs and CDEs.

The following 31 CDFIs are headquartered in Minnesota:

- Embarrass Vermillion FCU, Aurora
- Mid Minnesota FCU, Baxter
- Northwest Minnesota Foundation, Bemidji
- Midwest Minnesota CDC, Detroit Lakes
- Minnesota Power Employees Credit Union, Duluth
- Neighborhood Housing Services of Duluth, Duluth
- Northeast Entrepreneur Fund, Duluth
- Northland Foundation, Duluth
- Indian Land Capital Company, Little Canada
- Initiative Foundation, Little Falls
- African Development Center, Minneapolis
- Build Wealth, MN, Minneapolis
- Community Reinvestment Fund, Minneapolis
- First Children's Finance, Minneapolis
- Metropolitan Consortium of Community Developers, Minneapolis
- Metropolitan Economic Development Association, Minneapolis
- Mni Sota Fund, Minneapolis
- Propel Nonprofits, Minneapolis
- The Sunlight Loan Fund, Minneapolis
- White Earth Investment Initiative, Ogema
- African Economic Development Solutions, St. Paul
- Community Neighborhood Housing Services, St. Paul
- Greater Minnesota Housing Fund, St. Paul
- Habitat for Humanity of Minnesota, St. Paul
- Latino Economic Development Center, St. Paul
- NeDA Centro de Finanzas, St. Paul
- Neighborhood Development Center, St. Paul
- Sunrise Banks, N.A., St. Paul
- TCHFH Lending, St. Paul
- University Financial Corp., St. Paul
- Womenventure, St. Paul

Minnesota Payroll Protection Program (PPP) Activity (2020/2021)

CDFIs serviced $851M in PPP loans for Minnesota businesses and nonprofits, preserving about 88k jobs.

Browse project profiles, videos, and more: cdfi.org/Minnesota