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U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
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Re: Federal Community Investment Program Opportunities and Challenges

Thank you for the opportunity to comment on the Notice and Request for Information on *Federal Community Investment Program Opportunities and Challenges (*87 FR 60236).

The African American Alliance of CDFI CEOs (the Alliance) is a membership-driven intermediary organization that aims to: build the capacity of member organizations; build bridges to economic stability, well- being, and wealth for Black individuals, families, and communities; and build power in Black communities by challenging and influencing financial sectors to operate more equitably. Since launching in 2018, the Alliance has established a network of 70 CEOs of Black-led Community Development Financial Institutions (CDFIs), which includes loan funds, credit unions, and venture capital funds. Alliance members reach historically underserved communities in all 50 states by providing financial services in the small business, affordable housing, and commercial real estate development sectors. The Alliance supports the Interagency Community Investment Committee's (ICIC) goal of promoting economic conditions and systems that reduce racial disparities and produce stronger economic outcomes for all communities. Our comments offer feedback as to how community investment programs can more efficiently and effectively utilize Black-led Community Development Financial Institutions (CDFIs) to expand access to critical capital and financial resources for historically underserved communities.

1. **Please describe examples of best practices and lessons learned from community investment projects that have layered a mix of public, private, and/or philanthropic capital. How could these projects have been more impactful or more cost-effective to implement?**

In 2020, Congress appropriated significant resources to CDFIs to aid disadvantaged communities impacted by the COVID-19 pandemic. One such resource, the Rapid Response grant program, was instrumental in assisting homeowners and entrepreneurs of color survive the pandemic. A key takeaway from the Rapid Response program is that by providing funds directly to those financial institutions closest to the economic crisis borne of the pandemic – CDFI loan funds, credit unions, and other rural and minority lenders – Congress could efficiently and quickly stabilize communities most severely impacted by the pandemic.

This lesson should be heeded by the ICIC and underscores the important space CDFIs occupy during times of crisis. Furthermore, the stellar performance of CDFIs during the pandemic, especially those with a proven track record of reaching historically underserved populations, should demonstrate to banks, philanthropic and private investors, and government agencies that an appropriately resourced CDFI industry is an investment in the economic mobility of communities of color and other underserved communities.

2. **As agencies are implementing new programs under recent CHIPS and IRA legislation, how can they best incorporate these lessons to streamline design and delivery, as well as ensure historically underserved communities benefit from federal funds?**

As agencies implement new programs under IRA, such as the Greenhouse Gas Reduction Fund (GHGRF), the Alliance urges the ICIC to lean on the expertise of mission-driven entities, such as minority-led CDFIs, to develop program design and delivery models that are conducive to reaching historically underserved communities.

The Environmental Protection Agency (EPA) is the Federal agency tasked with ensuring that our nation's environment is clean and safe, and the Agency has been a leader in the community and industry in establishing and enforcing the standards necessary to lower GHG emissions and harmful pollutants from the air. Moreover, the EPA is helping to lead the way to ensure a just energy transition as the nation responds to the urgent issues of climate change. As such, the EPA is well positioned to lead the GHG Fund to achieve the anticipated program outcomes, primarily capital investments that lower or eliminate GHG emissions in low-income, disadvantaged, and tribal communities. According to the IRA, $7 billion is appropriated for the deployment of zero emission technologies in low-income and disadvantaged communities; nearly $12 billion is appropriated for qualified projects that lower or eliminate GHG emissions—with prioritization for projects that otherwise lack access to private capital; and $8 billion is available for qualified projects that lower or eliminate GHG emissions in low-income and disadvantaged communities.

In developing the structure and operation of the GHG Fund, the EPA should apply principles of equity and a just energy transition throughout all aspects of the program, including how grants are awarded to applicants. It is not enough that a program aims to place capital inside low-income and disadvantaged communities if the intent is to grow economic and climate investments in these targeted areas. The program must also focus on the organizations that receive funds for investment and identify whether those organizations are sufficiently tied to the targeted communities they propose to serve. Doing so will maximize program success today while also preparing and developing capital structures within those communities well into the future. Furthermore, this approach helps to avoid some of the unintended consequences experienced in similar programs that target economic development in low-income and disadvantaged communities, such as the New Markets Tax Credit (NMTC) Program, for example.

The NMTC program is led by the U.S. Department of the Treasury's (Treasury) Community Development Financial Institutions Fund (CDFI Fund) and provides valued allocations on a competitive basis to Community Development Entities (CDEs) for the purpose of incentivizing economic development in low-income and disadvantaged, communities — including those in urban, rural, and tribal areas. According to the Hope Policy Institute (HPI), African American and minority-led CDEs often receive smaller allocations when compared to white-led organizations – and areas that are majority minority experience lower levels of deployed investments. When analyzing the dollar amount of allocations received by minority-led CDEs, covering a period from 2012- 2019, allocation amounts ranged from a low of 5 percent of total allocations in 2014, to a peak allocation of 16 percent in 2017. In real terms, when isolating for the 2017 high point, minority- led CDEs received $576 million in allocations as compared to $3 billion received by White-led CDEs. Moreover, from 2003 to 2017, only 35 percent of all NMTC investments were deployed in counties where the population is majority people of color.[1]

In a subsequent 2020 report, HPI analysis also revealed significant gaps in asset size when comparing White and non-White-led organization awardees, with the former having a median asset size at least two-times that of minority-led awardees.[2] As indicated above, this gap persists when analyzing award amounts, which according to the 2020 report are three times larger for White-led groups.[3] Additionally, according to practitioners, the disparities in asset and award size carryover and impact the ability of minority organizations to attract philanthropic and bank funding as well.

The exclusion of minority-led CDEs and lower investments in majority-minority communities in the NMTC program is not believed to be intentional but is a direct result of program design and application scoring structures, which have historically and correctly sought to identify those CDEs with the experience, capitalization, and capacity to successfully deploy NMTC allocations. However, because allocations are determined by a scoring process that will predominantly favor the larger more tenured applicant, the smaller, less tenured applicant is likely to score lower, and not receive an award. That the smaller, less tenured applicant did not receive an allocation is not a verdict that the applicant lacked the necessary experience, capitalization, or capacity to successfully deploy an allocation, but that the winning allocatee possessed greater experience, capitalization, and capacity, and therefore scored higher. This competitive disadvantage for minority-led CDEs is further exacerbated as more tenured CDEs establish a history of receiving and successfully deploying NMTC allocations, which is then used as experience in the next competitive round. In theory, all other factors being equal, an applicant with eight years of experience will score higher than one with five years of experience, and therefore receive the award. Many minority-led and smaller CDEs, while having significant experience and capacity, may have less time in practice and will always lag in time when compared to older applicants, and thus consistently be excluded as an allocatee.

As a general rule, emerging and minority-led non-depository community financial service providers are embedded in the low-income communities they serve — and with representative

[1] http://hopepolicy.org/manage/wp-content/uploads/HOPE-Strategic-Use-of-NMTC-Maximizes-Development-Impact-in-Distressed-Communities-of-the-Deep-South-Brief.pdf
[2] http://hopepolicy.org/manage/wp-content/uploads/CDFI-Fund-Time-Series-Analysis-brief-edited.pdf
[3] *Id.*

leadership and front-line staff from those communities, are best positioned to understand the needs and priorities on the ground. They understand where and why resource gaps exist and how best to close those gaps, by aligning investment decisions to meet those needs. For example, data shows that when lenders, technical assistants, business coaches, housing and credit counselors, loan officers, and community lenders reflect the identities and experiences of their non-White potential clients, that the rate of funding, professional support, loan flexibility, and positive economic outcomes increase dramatically.[4] Thus, we urge ICIC to draw upon the unique perspective of CDFIs as they consider how best to ensure historically underserved communities benefit from federal funds.

3. **Community financial institutions play a critical role in providing safe, affordable capital and financial services to historically underserved communities. How can federal agency coordination help build the capacity of these organizations to serve their communities?**

CDFIs are instrumental in promoting financial inclusion and economic development in communities that have been historically underserved by the traditional banking system. Unfortunately, despite achieving significant growth since the 1990s, the CDFI industry remains underfunded relative to the larger financial system. Furthermore, a sizable capital gap exists within the CDFI industry, with white-led CDFIs consistently outpacing that of Black-led CDFIs in terms of available capital for lending and equity investments. This capital discrepancy makes it difficult for Black-led CDFIs to grow and expand the reach of their services, which is immeasurably important given the financial challenges faced by the communities serve, many of which predominately comprised of Black individuals with limited access to the traditional financial system. To this end, the Alliance encourages the ICIC to consider the primary factors contributing to the persistent underfunding of minority-led CDFIs and ensure these institutions are adequately capitalized such that they are able to meet their mission of providing affordable capital to low-income communities and communities of color.

Finally, the Alliance understands the importance of alignment and coordination between agencies in meeting overarching program goals. This is particularly critical for Black-led CDFIs with limited capacity that could greatly benefit from a coordinated process for learning about new opportunities. Similarly, standard application processes (e.g., common terms, definitions, eligibility requirements) across the various agencies would significantly ease the burdens felt by community financial institutions and the clients they support.

4. **How can the Agencies incentivize or structure data collection and reporting to promote the increased private sector and philanthropic investment in community financial institutions (CFI)?**

The current reality is that Black-owned businesses are less likely to have an existing

[4] Lyons-Padilla Sarah, Markus Hazel Rose, Monk Ashby, Radhakrishna, Shah Radhika, Dodson IV Norris A., Eberhardt Jennifer, Race Influences Professional Investors' Financial Judgments (2019).

relationship with a financial institution, just as or more likely to seek credit, and yet, are more likely to be denied or discouraged than white owned businesses. Fewer than 25 percent of Black-owned employer firms have a recent borrowing relationship with a bank.[5] This number drops to 10 percent among Black non-employer firms, compared with 25 percent white-owned non-employers.[6] These gaps in financial relationships exist even among healthy firms. According to the Federal Reserve Bank of New York's August 2020 report, Double Jeopardy, 73 percent of healthy or stable white employers have an existing banking relationship, compared to 42 percent of healthy or stable Black employers.[7] The lack of access to capital is not due to Black businesses not applying for it. Black-owned firms—both employer and non-employer—apply for financing at equal or higher rates than white-owned firms but are denied at higher rates.[8] Black business owners are also more likely than white owners to report being discouraged, or not applying for financing because they believe they will be turned down. Among Black employer firms, 37.9 percent reported being discouraged, compared to 12.7 percent of white-owned firms.[9]

The U.S. Department of Treasury (Treasury) State Small Business Credit Initiative (SSBCI 2.0) seeks to remedy this capital access gap, in part, through its requirement that participating jurisdictions collect demographic data of SSBCI-participating businesses. Gathering and reporting on this data is necessary to ensure SSBCI resources reach underserved communities, as well as women-owned businesses and businesses owned by people of color. The failure to collect such data, as shown by the Paycheck Protection Program (PPP), makes it nearly impossible to gauge the impact of these funds on historically underserved communities. As further demonstrated by the state-level CARES Act programs, states have already demonstrated their capability to collect such data from businesses receiving support through federal relief dollars.

Success in meeting its mission of directing capital to underserved communities, disaggregated data collection is critical for marginalized businesses as they identify and address the unique challenges posed by their specific market segments. For example, the Federal Reserve reveals stark differences exist even within businesses owned by historically marginalized racial and ethnic groups. According to the 2021 Federal Reserve Small Business Credit Survey, just 13 percent of Black-owned businesses received the full amount of credit which they were seeking, a lower rate than Hispanic-owned businesses (20 percent) and Asian-owned businesses (31 percent). Each of these are lower than the experiences of White-owned businesses (40

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[5] Claire Kramer Mills and Jessica Battisto, Federal Reserve Bank of New York, "Double Jeopardy: Covid-19's Concentrated Health And Wealth Effects In Black Communities," Aug. 2020, at 6 https://www.newyorkfed.org/medialibrary/media/smallbusiness/DoubleJeopardy_COVID19andBlackOwnedBusinesses (Double Jeopardy)

[6] *Id.*

[7] *Id.*

[8] *Id.*

[9] *Id.*

percent).[10] This is just one example of the racialized differences in accessing capital and underscores the importance of disaggregated data in highlighting inequities in capital access.

The Alliance recommends that ICIC follow Treasury's lead and apply similar data collection processes across member agencies as they implement community investment programs. Similarly, we encourage ICIC to rely upon Section 1071 of the Dodd-Frank Act, which requires covered institutions to collect and report certain data (e.g., purpose and amount of credit request, information specific to the business, information on the demographics of the principal owners or ownership status, etc.) for small business credit applications, to access capital challenges across demographics. The Alliance believes these efforts will help to minimize the pre-existing disparities in access to capital, racial inequities in the distribution of federal funds, while also highlighting the importance of gathering and reporting disaggregated data to demonstrate program impact.

5. **How can further alignment of and coordination between federal agencies in the four areas of substantive focus result in stronger outcomes with regard to reducing racial economic disparities, improving financial security and economic mobility, and generating broadly shared economic opportunity?**

   (1) Strengthening the capacity of community financial institutions such as CDFIs, MDIs, Revolving Loan Funds (RLFs), community banks and credit unions as well as any other mission-focused lender or investor that provides capital in low- to moderate-income communities and to historically underserved populations:

CDFIs, particularly those that are minority led, must be adequately resourced to maximize their ability to increase access to capital for communities that are often overlooked by the traditional financial system. An annual appropriation of $1 billion to the CDFI Fund will begin to drive more of these resources deeper into communities and allow CDFIs to innovate and scale to meet the overwhelming need of the communities they serve. The CDFI Fund is a vital source of capital for CDFIs, which leverage every dollar in CDFI Fund grant funding eight times with private and philanthropic investment. CDFIs significantly leverage CDFI Fund resources in communities and with people left out of the economic mainstream, generating $12 in private capital for every dollar in CDFI grants. For CDFIs to truly maximize their impact on underserved communities, Congress should continue its bipartisan support for CDFIs by providing $1 billion in annual appropriations for the CDFI Fund.

   (2) Broadening financial inclusion and provision of financial services among historically underserved communities:

The racial wealth gap has had a detrimental effect on African Americans for over 450 years and reversing the adverse economic, social, and psychological impacts will be a daunting task. It will require coordination, cooperation, and diligence every step of the way between government,

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[10] Federal Reserve. (2021). "Small Business Credit Survey: Report on Employer Firms". https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/2021-sbcs-employer-firms-report

business leaders, financial institutions, and the Black community. At a minimum, there must be a commitment to increased long-term capital and equity investment in minority led financial CDFIs to address gaps in access to mortgage lending and small business capital. Further, the federal government must meaningfully collaborate with CDFIs in efforts to deploy critical capital resources to underserved Black communities. Finally, traditional banks should optimize existing regulatory instruments, such as the Community Reinvestment Act (CRA), to expand fair access to credit, particularly for consumers and communities impacted by discrimination.

That said, a stronger Community Reinvestment Act (CRA) is required to combat the generational impact of redlining and lending in low-income communities. For this to happen, the CRA must require banks to collect, and report disaggregated racial and demographic data as part of the CRA exams; failure of a bank to do so should result in that bank failing its CRA exam. Under no circumstance should a bank pass its CRA exam without being able to show they are serving the entire community, including communities and individuals of color. Further, data collected under the SSBCI program, Section 1071, and HMDA should be a part of the bank's evaluation. Finally, CRA exams should look at the fair lending data available under the Equal Credit Opportunity Act and Fair Housing Act. Taken together, these actions will broaden financial inclusion among historically underserved communities.

6. **What data should the Agencies consider collecting to better understand and report the impact of community investments in reducing racial, gender, and geographic, or other economic disparities?**

As stated, if the Agencies are to be successful in accurately estimating the impact of community investment in reducing racial, gender, and geographic, and other disparities, then it stands to reason that such data must be disaggregated by those factors. This data will give the public an opportunity to see the extent to which community investments are successful in closing wealth gaps across different demographic categories. Furthermore, to the extent such investments are not addressing the underlying factors contributing to wealth gaps, disaggregated data will provide Agencies with the information they need to adjust existing programs and develop new programs that have a greater impact on closing the wealth gap for underserved communities through pathways to homeownership, increased educational attainment, access to healthcare, and job creation.

7. **How can the Agencies collaborate on providing technical assistance, opportunities for peer-to-peer learning, and other non-financial resources to support the deployment of capital or implementation of community-serving projects in historically underserved communities?**

The Agencies should commit to increasing direct technical assistance (TA) dollars to CDFIs, particularly those that are minority led, as these organizations have their finger on the pulse of what is needed to improve economic outcomes in the historically underserved communities they assist.

The Alliance appreciates ICIC's efforts to ensure community investment programs are structured in such a way to improve economic outcomes in our nation's most vulnerable and underserved communities. This comment represents a first step in combatting the systematic economic injustices that have given rise to the racial wealth gap that continues to grow with each passing generation. However, ongoing collaboration between ICIC and the CDFI community is necessary to ensure that these institutions are adequately and equitably resourced, such that they are able combat the barriers to intergenerational economic mobility that continue to plague the communities we serve.

Sincerely,

Lenwood V. Long Sr.
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