

October 14, 2016

Amended

Via electronic mail

The Honorable Orrin G. Hatch
Chairman
Committee on Finance
United States Senate
Washington, DC 20510

Dear Chairman Hatch:

We are writing to you and the other members of the Congressional Task Force on Economic Growth in Puerto Rico (Task Force) to underscore the urgent need to develop a strong and sustainable small business ecosystem with responsible partners such as Community Development Financial Institutions (CDFIs). CDFIs are institutions tasked with deploying affordable and responsible capital into economically distressed communities. We appreciate that Congress responded to our collective call for action by passing the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) which has been enacted into law. The Opportunity Finance Network (OFN) is prepared to work with the Task Force to promote economic growth on the island.

OFN is the leading national network of CDFIs that shapes policy, conducts research, and creates partnerships and programs that help our members greatly impact financially stressed communities. CDFIs have been creating and retaining jobs in distressed and underserved markets across America for more than 30 years. They are private financial institutions devoted to delivering responsible, affordable lending to community businesses and individuals. Our network is responsible for over \$48 billion in cumulative financing since its inception. This investment has led to the development and/or rehabilitation of more than 1.5 million housing units—more than the total number of homes in 22 states; the financing of 191,000 businesses and microenterprises; and creation of 1,044,984 jobs—more than the total jobs in many states.

On September 2, 2016, OFN submitted a letter for your consideration. We are submitting an amended letter now that includes areas of concern and potential for growth, including several key policy recommendations discussed during the meetings OFN held in Puerto Rico. We believe that these policy recommendations will unlock the potential of Puerto Rico's private sector to spur economic growth and stability. On October 5, 2016, OFN co-hosted a CDFI listening session in Puerto Rico with the Federal Reserve Bank of New York, the U.S. Treasury Department's CDFI Fund, the U.S. Department of Commerce's Minority Business Development Agency (MBDA), and the Small Business Administration (SBA). The listening session was attended by CDFIs headquartered in Puerto Rico, CDFIs not headquartered in Puerto Rico but having lending activity in the island, and other key stakeholders.



Jobs Needed to Stop Population Decline

Today we are facing the greatest exodus of human capital in Puerto Rico's history. Puerto Rico's population has experienced a 9% decline since the year 2000.¹ Population loss has been documented as one of the main factors that pushed Detroit into the largest U.S. municipal bankruptcy², and it's now playing a major role in Puerto Rico's economic crisis as well.

The mass exodus of Puerto Ricans from the island to the U.S. mainland is directly related to the scarcity of quality jobs that provide family sustaining wages. As the Pew Research Center states:

"Economic opportunity is one of the primary drivers for moving to the U.S. mainland, according to Census Bureau data. Among island-born Puerto Ricans who moved to the mainland, 40% said they left mainly for job-related reasons..."³

The lack of quality jobs on the island can be linked to the need for development and growth of small businesses on the island. As research has shown – and experience through this country's great recession has taught us – small, young businesses are our greatest job creators. The Kauffman Foundation and the Institute for Competitiveness & Prosperity has found that "...over the last twenty-five years, almost all of the private sector jobs have been created by businesses less than five years old"⁴.

The Path Forward for Puerto Rico Must Include CDFIs

The Federal Reserve Bank of New York highlighted some of the key challenges facing Puerto Rico's economy in a 2014 report entitled: *An Update on the Competitiveness of*

¹ Jens Manuel Krogstad, "Historic population losses continue across Puerto Rico," Pew Research Center, March 24, 2016.

<http://webcache.googleusercontent.com/search?q=cache:pZnspeXSnRkJ:www.pewresearch.org/fact-tank/2016/03/24/historic-population-losses-continue-across-puerto-rico/+&cd=4&hl=en&ct=clnk&gl=us>

² Brian Chappatta, "Puerto Rico Economy Worsens with Crisis, Most Anywhere You Look," Bloomberg Politics, April 25, 2016. <http://www.bloomberg.com/politics/articles/2016-04-25/puerto-rico-economy-worsens-with-crisis-most-anywhere-you-look>

³ Jens Manuel Krogstad, "Historic population losses continue across Puerto Rico," Pew Research Center, March 24, 2016. <http://webcache.googleusercontent.com/search?q=cache:pZnspeXSnRkJ:www.pewresearch.org/fact-tank/2016/03/24/historic-population-losses-continue-across-puerto-rico/+&cd=4&hl=en&ct=clnk&gl=us>

⁴ Steve Denning, "The Surprising Truth About Where New Jobs Come From," Forbes Magazine, October 29, 2014. <http://www.forbes.com/sites/stevedenning/2014/10/29/the-surprising-truth-about-where-new-jobs-come-from/#516ad62847d9>



Puerto Rico's Economy.⁵ Access to capital to support the small- to mid-size enterprises was a key challenge identified. As many are well aware, since the Great Recession of 2008–2009, bank lending to small businesses has continued to contract.⁶ In 2014, 10 of the largest banks issuing small loans to businesses lent just \$44.7 billion, a decline of 38% from a peak of \$72.5 billion in 2006.⁷ This further exacerbated the complicated situation many small business owners found themselves in during the recession. As a result, many small businesses lacked the access to capital they needed to recover and prosper—and to create and retain jobs. This is precisely the situation we are seeing play out in Puerto Rico.

Given the success of OFN's national network of CDFIs, our network is well positioned and prepared to make inroads in three of the five key challenges identified by the Federal Reserve Bank of New York, and is particularly adept at providing access to capital for minority and women owned enterprises. In fact, OFN is currently collaborating with the Federal Reserve Bank of New York and MBDA to promote impact investing on the island and to increase the number and the capacity of CDFIs that can lend to business owners in Puerto Rico.

Our CDFIs have a proven track record of providing financing that creates and retains jobs⁸, and deliver on both impact and financial performance. Every \$1 raised supports up to \$7 in loans to small businesses and microenterprises. As these businesses grow—and create or retain jobs—they repay their CDFI loans, and the CDFIs in turn lend out more money to new businesses which create additional jobs.

Policy Recommendations from the Industry

In addition to the deployment of responsible and affordable capital to strengthen Hispanic small business owners in Puerto Rico, OFN recommends the following policy changes to enable the CDFI industry to support and further bolster the small business ecosystem on the island:

1. Incentivizing CRA and other Impact Investments in Puerto Rico

The Community Reinvestment Act (CRA) has been an important tool in building the CDFI industry in the U.S. by incentivizing banks to invest in CDFIs and other community and economic development partners to support the public welfare of low-to-moderate income (LMI) communities. Examples of Community

⁵ Federal Reserve Bank of New York, "An Update on the Competitiveness of Puerto Rico's Economy," July 2014. <https://www.newyorkfed.org/medialibrary/media/outreach-and-education/puerto-rico/2014/Puerto-Rico-Report-2014.pdf>

⁶ Ruth Simon, "Big Banks Cut Back on Loans to Small Business", Wall Street Journal, November 26, 2015. <http://www.wsj.com/articles/big-banks-cut-back-on-small-business-1448586637>

⁷ Ibid.

⁸ Opportunity Finance Network and Starbucks Company, Create Jobs for USA. "[Six Lessons Learned from Create Jobs for USA](http://ofn.org/create-jobs-usa)," May 2014. <http://ofn.org/create-jobs-usa>



Development Investments (CDI) activities include promoting affordable housing, financing small businesses and farms, and conducting activities that revitalize LMI areas.⁹ CRA credits or points, are awarded if the eligible activities occur within an assigned assessment area.

In 2005, the definition of CDI was expanded to include “underserved and distressed” rural areas and “designated disaster areas”¹⁰. This expanded definition allows banks anywhere in America to receive consideration for CRA credit if they facilitate making credit available to a distressed location or geographic area outside of their own assessment areas.

With this precedent, **we are recommending that regulators and examiners be directed to provide CRA credit for banks that make community development investments in the economically distressed island of Puerto Rico.** We further recommend that the Board of Governors of the Federal Reserve System use a “Supervision and Regulation” letter, commonly known as SR Letters, to address this issue of incentivizing banks to invest in Puerto Rico through CRA. An SR Letter can help expedite the enhancement of significant procedural matters such as CRA credit assessment by examiners. As commonly utilized tool to address issues related to the Federal Reserve System's supervisory responsibilities, this request should not create an unnecessary burden on examiners or the Federal Reserve System.

2. SBA 8(a) Designation for Puerto Rico Businesses

In the 1980s and early 1990s, Congress passed a series of laws which made Alaska Native Corporations (ANCs) eligible for federal contracting opportunities for socially and economically disadvantaged minority-owned businesses, including the SBA's 8(a) program. These designations and several subsequent legislative and regulatory preferences now allow ANCs to enjoy competitive advantages and benefits not available to other 8(a) small business participants.

We recommend that the Task Force direct the **SBA to provide the 8(a) designation for any small business located in, and doing business from, Puerto Rico.** Although ANC's can remain in the 8(a) program indefinitely, we are only requesting the 8(a) designation for Puerto Rico businesses to last 25 years, through the end of FY 2041.

3. Waive the non-federal dollar-for-dollar match requirement for Puerto Rico applicants

We are requesting that **Congress waive the non-federal dollar-for-dollar match requirement** for CDFIs headquartered in Puerto Rico seeking CDFI Fund awards for training, technical assistance and capacity building. The removal of the dollar-for-dollar match for Puerto Rico would create an important opportunity for extending the impact and success of the CDFI program. In the past, Congress has successfully waived the non-federal dollar-for-dollar match requirement for entities

⁹ Darryl E. Getter, “The Effectiveness of the Community Reinvestment Act,” Congressional Research Service Report R43661, January 7, 2015.

¹⁰ Ibid.



that serve other economically distressed areas, such as Indian Country. In the FY 2015 Omnibus Bill, Congress waived the match requirement for the Native American CDFI Assistance Program (NACA Program). We are requesting this same opportunity for CDFIs headquartered in Puerto Rico.

4. Extending Puerto Rico's HUBZone Designation

In June 2016, the SBA announced the designation of an additional 516 census tracts qualified as Historically Underutilized Business Zones (HUBZones) in Puerto Rico, for a new total of 776 HUBZone qualified census tracts on the island. We recommend that the Task Force **direct the SBA to keep the HUBZone designation in place on the currently qualified census tracts through the year 2043**, a full 20 years beyond the year of expiration of 2023.

Working just outside the margins of conventional finance and in thousands of economically stressed communities, CDFIs have changed the relationships between financial services and economically disinvested people and communities. CDFIs are the most recent – and in the current environment, perhaps the most promising – iteration of a series of intervention strategies aimed at revitalizing distressed local and regional economies, countering structural and systemic causes of poverty, and creating wealth and opportunities for economically disinvested people and communities.¹¹ Because CDFIs are private-sector institutions that leverage mainstream resources, they are well positioned to succeed at the intersection of social policy and financial systems.

We ask that you consider CDFIs and OFN, as key partners in this effort to stabilize and rebuild Puerto Rico's economy. Our experience and expertise will be invaluable as you start to discuss policy solutions to help lift Puerto Rico's economy. Our record of success has taught us that every community can succeed as long as there are willing partners, there is inclusive and responsible decision-making at all levels of government, and, that there is a collective understanding that creating wealth and opportunities for economically challenged communities is not only possible, but a necessity for the long term health and wellbeing of our entire country.

Thank you for your continued support of the CDFI industry. If you have any questions about CDFIs or OFN, please contact Liz Lopez, Executive Vice President of Public Policy, at llopez@ofn.org or (202) 618-6102. We look forward to working with you to rebuild a stable and vibrant Puerto Rican economy.

Sincerely,

Nancy S. Negrón
Chief External Affairs Officer
Opportunity Finance Network

cc: Liz Lopez, Executive Vice President, Public Policy, OFN

¹¹ Ibid.



Identical letter sent to:

The Honorable Marco Rubio
The Honorable Robert Menendez
The Honorable Bill Nelson
The Honorable Sean Duffy
The Honorable Tom MacArthur
The Honorable Nydia Velazquez
The Honorable Pedro Pierluisi