

Testimony of Lisa Mensah
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Good afternoon Members of the Financial Services Committee. Thank you for holding this hearing on “Promoting Inclusive Lending During the Pandemic: Community Development Financial Institutions and Minority Depository Institutions”. My name is Lisa Mensah, and I am President and CEO of the Opportunity Finance Network (OFN). I am pleased to be here today to testify on this issue of equitable lending as our nation navigates the economic impacts of the COVID-19 pandemic.

OFN is a national network of community development financial institutions (CDFIs), mission-driven community development banks, credit unions, loan funds and venture capital funds investing in opportunities that benefit low-income, low-wealth, and other under-resourced communities across America. CDFIs connect communities to capital that creates jobs, supports small businesses, builds affordable housing, cultivates healthy food and energy efficiency, and promotes safe borrowing and lending.

Currently there are more than 1,100 CDFIs certified by the Department of Treasury’s Community Development Financial Institutions (CDFI) Fund with more than \$222 billion in assets. Annual Certification Report (ACR) data from the CDFI Fund shows that as of Fiscal Year 2019, certified CDFIs have \$24.89 billion of small business and microloans, \$56.39 billion of housing loans, \$58.67 billion of consumer loans, \$24.19 billion of commercial real estate loans, and \$4.15 billion of community facilities loans in their portfolios.¹ With cumulative net charge-off rates of less than 1 percent, CDFIs lend prudently and productively in unconventional markets often overlooked by conventional financial institutions.²

CDFIs are an integral part of the nation’s financial infrastructure - moving money to people and places missed by traditional lenders and providing opportunity to communities that have been left out of the economic mainstream. Opportunity Finance Network’s members report that their customers are 85 percent low-income, 58 percent people of color, 48 percent women and 26 percent rural.³

It is critical that at this time, as the country is reeling from a pandemic and civil unrest brought on years of systemic racism and oppression, CDFIs are looked to as community responders who can step up in time of crisis, helping rebuild and providing economic lifelines in distressed communities long after the cameras and media outlets have disappeared. As the nation look for solutions to

¹ Opportunity Finance Network, CDFI Fund Annual Certification Reporting Database, Accessed June 1, 2020.

² Opportunity Finance Network, “Impact Performance”, Accessed May 30, 2020. <https://ofn.org/impact-performance>

³ Ibid at 2.



move forward, CDFIs are ready to meet this moment in American history, using our resources and community connections to provide economic opportunity to those who have been disenfranchised.

The Economic Impacts of COVID-19

COVID-19 has had an economic and social impact on nearly all Americans but the fragile finances of our nation's most vulnerable have been entirely upended by the crisis. The crisis exposed what many in the CDFI industry already knew: communities of color were already struggling and the economic devastation of COVID-19 has exacerbated those issues.

According to 2018 data from the Bureau of Labor Statistics (BLS), even during the long period of economic expansion preceding the pandemic, people of color were experiencing higher unemployment than their white counterparts. Jobless rates were 6.6 percent for American Indians and Alaska Natives, 6.5 percent for Black/African Americans, 5.3 percent for Native Hawaiians and Other Pacific Islanders and 4.7 percent for Hispanics, and 3.5 percent for Whites.⁴

The pandemic has only worsened these disparities. Data from the BLS monthly jobs report released in May 2020 showed shocking increases in unemployment from 4.4 percent in March 2020 to 14.7 percent in April 2020 – and the picture was particularly ominous for communities of color. Hispanic Americans, who are overrepresented in low-wage sectors hardest hit by the pandemic, saw the highest unemployment rate of any racial group at 18.9 percent, while Black unemployment was 16.7 percent.⁵

COVID-19 is also impacting rural America, wreaking havoc on agricultural markets and supply chains, stressing already limited broadband capacity, and further highlighting years of disinvestment from both the public and private sectors.

The economic disruption caused by the pandemic has highlighted the need for a robust response from government, philanthropy, nonprofits and other community stakeholders. CDFIs are key partners for those institutions in ensuring an equitable delivery of capital to those hardest hit by COVID-19.

CDFIs: Financial First Responders

CDFIs are financial first responders immediately stepping in to assist small businesses, non-profits and individuals impacted by the COVID-19 pandemic. As soon as the mandatory business closures and social distancing began, CDFIs reached out to their borrowers with whatever accommodations they could to ease the economic disruption. Across the nation, CDFIs are offering their customers loan payment deferrals, modifications and other emergency responses or new products to help borrowers weather the crisis:

⁴ Bureau of Labor Statistics, "Labor force characteristics by race and ethnicity, 2018", October 2019. Accessed June 1, 2020. <https://www.bls.gov/opub/reports/race-and-ethnicity/2018/home.htm>

⁵Bureau of Labor Statistics, "Employment Situation Summary Table A. Household data, seasonally adjusted", May 2020. Accessed June 1, 2020. <https://www.bls.gov/news.release/empsit.a.htm>



- Orlando, Florida-based Black Business Investment Fund created the BBIF Emergency Relief Fund to offer working capital loans with low interest rates and flexible lending criteria to small businesses, including those that do not fit public relief programs. BBIF also offers payment deferment and restructures/modifications to current borrowers as well as one-on-one technical assistance via online/video conferencing technologies
- Crystal City, Virginia-based Capital Impact Partners is channeling relief funds to the Entrepreneurs of Color Fund to assist their CDFI partners Latino Economic Development Center (LEDC) and the Washington Area Community Investment Fund (Wacif) and support small business borrowers in Washington, D.C. The fund is a partnership to forge new pathways to entrepreneurship in the DC region's underserved communities by pairing low-cost capital with business advisory services to help entrepreneurs of color start and grow businesses, create jobs, and build wealth.
- Ithaca, New York-based Alternatives Federal Credit Union created the AFCU Community Assistance Loan Fund to provide both members and non-members of the credit union access to zero interest loans of up to \$3,000 to cover costs or lost funds associated with COVID-19 to. The program encourages applications by women, people of color, and women and minority owned business enterprises.
- Kansas City, Missouri-based ALT-Cap is administering the KC Region Small Business Relief + Recovery Loan Fund, a \$5 million small business relief loan fund that provides immediate relief to local, small businesses experiencing extreme economic disruption and financial strain as a result of COVID-19. As communities begin the reopening process, the fund now offers provide small businesses support to cover the additional capital expenses required to ensure a safe reopening.
- New Mexico-based Homewise is administering the Emergency Mortgage Assistance Fund to help low-income homeowners weather the COVID-19 crisis and its economic consequences. The Emergency Mortgage Assistance Fund will help those people who have lost the majority or all of their household income due to COVID-19 related economic conditions and may be at risk of losing their homes.

The CDFI industry is able to respond because of experience leaning in during times of crisis. As mission-driven organizations, CDFIs are adept at responding during a crisis like this one. From natural disasters such as hurricanes Katrina, Sandy, Maria and Harvey, to the 2008 financial crisis and the aftermath of 9/11, CDFIs have a strong record of stepping in as the financial first responders to support families and communities in their recovery efforts.

In fact, during the 2008 recession, OFN member CDFIs grew their business lending by 7.2 percent during recessionary years (2007-2009) while SBA 7(a) lending decreased by more than 13 percent in that same time period.⁶ CDFIs like Hope Credit Union, which operates in the hard-hit Mississippi

⁶ Lisa Mensah, Testimony to the US Congress Joint Economic Committee Hearing, "The Innovation Economy, Entrepreneurship, and Barriers to Capital Access", July 25, 2018. Accessed May 31, 2020.



Delta grew from seven branches before the Great Recession to 24 branches after, and doubled in asset size from \$68 million in December 2008 to \$124 million by December 2009. Today, Hope Credit Union has \$307 million in assets and the credit union has more than 35,000 members, more than 70 percent of whom are black.⁷

CDFIs are able to weather times of economic uncertainty through a combination of strong balance sheet management, deep ties with their local communities, and public and private sector partnerships.

The CDFI Model: Capital PLUS

CDFIs are on the front lines of dealing with the economic impact of COVID-19 providing “Capital PLUS”, tailoring loans to fit the individual circumstances of people in our communities and not just meeting certain credit requirements. The CDFI model sees opportunity where others see risk, and has proven lenders can provide responsible, affordable capital to low-income and low-wealth communities, and do so prudently.

As a requirement to receive certification from the CDFI Fund, CDFIs must make 60 percent of their loans in low-income communities and provide development services in conjunction with financing activities.⁸ CDFIs use their deep understanding of communities and industries to go beyond lending to provide innovative programs, coaching, and technical assistance to their clients.

Beyond providing capital and technical assistance, CDFIs serve as an anchor in partnerships with community stakeholders including nonprofits, foundations, chambers of commerce, government agencies, and financial institutions, allowing them to connect entrepreneurs to a rich network of resources and opportunities.

Many CDFIs also have referral relationships with local financial institutions, whereby a bank may refer a potential borrower who is not quite ready for conventional financing to a CDFI to receive any needed training or technical assistance as well as financing. For many CDFIs, whether it is a business owner, first time homebuyer, or a small minority real estate developer, the goal is to help the borrower strengthen, improve their financial position, and eventually be able to “graduate” to traditional financing from a mainstream financial institution.

The CDFI Fund: Providing Critical Equity Capital

The fundamental business model of most CDFIs is to take equity in the form of public sector or philanthropic grants and leverage then with low-cost debt from banks motivated by their

<https://www.jec.senate.gov/public/index.cfm/2018/7/the-innovation-economy-entrepreneurship-and-barriers-to-capital-access>

⁷ Oscar Perry Abello, “A Community Development Credit Union That Grows Every Time There is a Disaster”, Next City. May 28, 2020. Accessed May 30, 2020.

⁸ CDFI Fund, “CDFI Certification”, Accessed June 1, 2020. <https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx>



Community Reinvestment Act (CRA) obligations. This is particularly true for the 50 percent of certified CDFIs that are structured as community development loan funds.

Community development loan funds have covenants with their investors (debt providers) requiring them to maintain net asset ratios at a certain level.⁹ CDFIs can increase net assets through grants or retained earnings. These net assets (equity) provide assurance to the investor that if the CDFI's loans to borrowers do not perform, the CDFI has an equity cushion available to repay the investor.

Grant funds are fundamental to the business model of CDFIs and their capacity to serve low-wealth markets. The CDFI Fund is a critically important source of this grant funding and is unique among federal programs because it takes an enterprise approach to its programming by strengthening institutions through flexible grant capital rather than funding specific projects. This allows the CDFI to use their resources to meet the needs of their communities and be nimble in the response.

The catalytic impact grant dollars have in attracting private sources of capital make it an excellent use of taxpayer dollars. For every \$1 in CDFI Fund grant funding, a CDFI is able to close about \$12 in community development loans, with most of the additional capital coming from private sector sources.¹⁰

CDFIs also have a stellar track record of paying back their investors. Lending to a CDFI is a low risk way for banks to receive a modest return and, more importantly, CRA credit. Most banks' appetite for lending money to CDFIs is capped primarily by the level of the CDFI's net assets or equity. The ability of a CDFI to grow and do more in low-wealth communities is limited primarily by the size of its net assets or equity.

Federal COVID-19 Response: Limited Reach in Underserved Markets

The federal government's flagship small business relief program, the Paycheck Protection Program, demonstrated that lenders and their reach into communities was crucial to helping capital flow to small businesses. However, the program's initial reliance on existing banking relationships with mainstream financial institutions disadvantaged very small, women- and minority-led businesses in rural, urban, and Native communities.

CDFIs, who are already working in those very communities, were ready to be partners in the implementation of the program, but the PPP regulations were not designed to encourage their participation. The intention of PPP was to help small businesses survive during the pandemic, but the execution left out millions of businesses and many of the smallest businesses were missed. The impact of excluding CDFIs was clear: these program funds could not reach the borrowers without

⁹ Net assets is the non-profit accounting term for equity.

¹⁰ CDFIs Stepping into the Breach: An Impact Evaluation, Carsey Institute for the CDFI Fund, August 2014 , p 18, figure 4. Also, Testimony of former CDFI Fund Director, Annie E. Donovan, before the House Appropriations Subcommittee on Financial Services & General Government, February 2019, p. 3



reaching the lenders. CDFIs persevered despite challenges – making \$3.8 billion in PPP loans in the first round of funding.¹¹

After a rocky start, Congress, the Small Business Administration (SBA) and the Department of Treasury acted to resolve some of the problems identified in the first round of funding, including access to PPP loans and SBA systems for small lenders, high barriers to entry for non-depository lenders, and access to the Federal Reserve's PPP lending facility.

Access to PPP loans and SBA systems for small lenders - In the Paycheck Protection Program and Health Care Enhancement Act (P.L. 116-139), Congress directed SBA to create a \$30 billion set aside for PPP loans made by "community financial institutions", which included CDFIs.¹² In late April, the SBA provided a brief window of limited access to the SBA's e-tran system to only lenders under \$1 billion in assets. These were both important opportunities for CDFIs to process their loans and have access to the SBA systems without directly competing with thousands of other PPP lenders, including those with longstanding relationships with the SBA.

The "first-come, first-served" model disadvantaged business owners who needed additional time to prepare before submitting their loan documents. By dedicating time and resources to CDFIs, lenders were able to appropriately assist their clients, who often do not readily have access to accountants or tax professionals and require technical assistance to help prepare the application.

The following are examples of CDFI PPP lending:

- California Farmlink, one of the first agricultural CDFIs in the nation focused on sustainable and organic agriculture, and economic and environmental resilience, has made more than 52 PPP loans totaling more than \$2 million - including new relationships with Hmong/Southeast Asian immigrant farmers and others farmers throughout California who have had difficulty accessing PPP through other channels.
- Philadelphia, Pennsylvania-based Finanta helped Solar States, a certified B corporation that provides solar installation and education and access to Philadelphians to the green economy received a PPP loan that will keep 30 staff on payroll.
- San Jose, California-based Opportunity Fund, while awaiting designation as a PPP lender, directed its "tech-comfortable" borrowers to partners including Community Reinvestment Fund, where they could quickly apply online with little assistance. Simultaneously, another CDFI, CDC Small Business Finance, trained Opportunity Fund staff to provide one-on-one assistance to its borrowers for whom applying online was a challenge. Once designated as an approved PPP lender for the second round, CDC Small Business provided access to their platform, allowing Opportunity Fund to accept and process loans itself.

¹¹ US Small Business Administration, "Paycheck Protection Program (PPP) Report: Approvals Through May 23, 2020"https://www.sba.gov/sites/default/files/2020-05/PPP__200523.pdf

¹² Public Law 116-139, Paycheck Protection Program And Health Care Enhancement Act, April 24, 2020, <https://www.congress.gov/116/plaws/publ139/PLAW-116publ139.pdf>



- Chicago, Illinois-based IFF is partnering with another CDFI, Community Reinvestment Fund, USA (CRF) to deploy PPP loans. The organizations committed \$50 million of their own liquidity to ensuring P3 loans get to smaller nonprofits, nonprofits serving lower-income communities, and nonprofits led by or serving people of color throughout the Midwest.

High barriers to entry for nondepository lenders - On April 30, Treasury dropped the lending volume threshold from \$50 million to \$10 million, opening access to more lenders. However, that action was taken more than a month after the program opened. Easing that requirement earlier in the process would have allowed more CDFIs to become PPP lenders and serve additional clients, especially in the early days of the program when demand was extremely high.

Access to the Federal Reserve's PPP facility for nondepository lenders - On April 30, the Federal Reserve also opened access to its PPP facility to non-depository CDFIs which will help CDFIs access liquidity. CDFIs are just starting to be able to access the facility by developing correspondent relationships with depository institutions that have master accounts with the Federal Reserve. This process was also delayed, limiting access to liquidity at a critical time when CDFIs needed it most.

Another relief effort, the Federal Reserve's \$600 billion Main Street Lending Program will likely do little to support most of the businesses served by CDFIs. The program was created to provide capital to businesses that do not qualify for the Paycheck Protection Program but are too small to access capital markets by issuing bonds or equity. However, Federal Reserve's risk requirements will exclude all but the most creditworthy businesses from accessing this program, once again leaving out many businesses in low-income and low-wealth communities that are in dire need of federal assistance.

Federal Government Must Do More

The Paycheck Protection Program was an important first step in addressing some of the challenges facing small businesses, but the economic impacts of the pandemic reverberate beyond small businesses. The fragile finances of our nation's most vulnerable have been entirely upended by the crisis – missed paychecks pushing families over the brink into financial ruin, small businesses are collapsing after months without revenue, critical affordable housing developments put on hold.

There is looming uncertainty around what is next for the economy – as the balance sheets of households and businesses suffer, will banks retract their lending and stop extending credit? Will the modest recovery in bank small business lending evaporate, leaving a hole that high cost and predatory lenders are waiting to fill? Will there be another wave of foreclosures and evictions as people struggle to repay mortgage and rent obligations? Will unemployment rates, already slow to decline in communities of color, rural, and Native communities, remain stubbornly high for years to come? For underserved communities, access to affordable financial products and services will become ever further out of reach as they are needed most.

CDFIs lend to multiple sectors – business, housing, consumer, nonprofit, healthcare, education – to ensure low-wealth communities have access to credit. To ensure an inclusive recovery, the federal government should take a comprehensive view of the needs of our economy and focus on providing equitable access to resources with a focus on the most vulnerable. Federal programs that do not



reach our communities of color, our rural communities, and our Native communities must be refocused. CDFIs can be an integral part of any federal relief and recovery effort but capital is needed to reach communities.

The federal government must increase the supply of capital to mission driven lenders like CDFIs, who are adept at channeling those resources into distressed communities. The following are recommendations that will enhance the capacity of CDFIs to support the economic recovery:

- **\$1 billion in emergency grant funding for the CDFI Fund** - We were extremely pleased to see \$1 billion appropriation to the Department of Treasury's CDFI Fund included in the recently passed HEROES Act. More investments at this scale are needed to enable CDFIs to step up and meet the economic challenges facing our communities. While the PPP set-asides were critical in helping capital flow to small business owners impacted by the pandemic, only a small subset of CDFIs were able to become PPP lenders, and they must use their own lending capital to make PPP loans to small business customers. SBA pays a small servicing fee to PPP lenders for each loan they make, but the funds for the loan itself comes from the PPP lender.¹³ More importantly, PPP loans are a short-term, focused solution to meet an immediate small business need, not a substitute for critical equity capital CDFIs need to support the medium- and long-term economic recovery.

CDFIs are small businesses dealing with COVID-19 themselves and need equity capital assistance from the public sector to maintain their own financial health and continue to be a resource to their communities. CDFI are uniquely positioned to respond to the financial needs of low wealth markets but need their own balance sheets to be stable in order to contribute to the economic recovery. This balance sheet stability is essential to allow CDFIs to continue to leverage private and philanthropic resources. A \$1 billion appropriation to the CDFI Fund will reach a much broader set of CDFIs than PPP.

- **Sustained, increased funding for the CDFI Fund programs** – Congress must provide increased funding of at least \$500 million for the CDFI Fund programs in the annual appropriations cycle. The CDFI Fund programs are consistently oversubscribed, leaving qualified applicants without awards. The scale of the challenges CDFIs are seeking to meet has only grown since the start of the pandemic, yet funding for the CDFI Fund programs has been relatively flat in recent years. In addition, more mission lenders are becoming certified as CDFIs creating even more competition for limited awards. Increased appropriations will offer more financial institutions access to this critically needed equity capital.
- **Support for CDFIs led by people of color** – The CDFI Fund should collect and report data on CDFIs are led by people of color and how they are faring. It is difficult to assess award performance for loan funds, venture funds and credit unions led by people of color if this data is not collected. This information, is however, readily available for depository institutions.

¹³ Small Business Administration, "Paycheck Protection Program Interim Final Rule", Issued April 2, 2020. <https://www.sba.gov/document/policy-guidance--ppp-interim-final-rule>



Additionally, CDFIs led by people of color and rural CDFIs historically have faced acute challenges accessing both the public and private sector capital needed to provide financial and technical assistance to their customers. According to research by Hope Policy Institute, minority-led CDFIs constituted only 26 percent of CDFI Fund awardees in Fiscal Year 2017, the last year for which data on the racial composition CDFIs was reported. Minority-led CDFIs also have a lower average asset size when compared to their White-led counterparts. In that study, White-led CDFIs held 75 percent of all assets reported – more than six times the amount held by minority-led CDFIs.¹⁴

To address some of the disparities facing CDFIs led by people of color, the CDFI Fund should build off the successful approach used to enhance the capacity of Native CDFIs including targeted training and technical assistance and waiving non-federal matching fund requirements for Native American CDFI Assistance (NACA) program awardees.

The CDFI Fund should also explore ways to provide additional resources to MDIs. Now more than ever, communities need the full range of partners and financial institutions working together to address the challenges we face. Many MDIs are also certified CDFIs and have a unique ability provide essential financial products and services, especially in communities of color. At this time in our history, their importance cannot be overlooked.

- **Access to Federal Reserve Lending Facilities** - The minimum loan size and terms of the Main Street Lending Facility is a poor fit for CDFIs and their portfolios. The Federal Reserve should create a CDFI lending facility to ease liquidity challenges preventing CDFIs from doing more to meet the needs of low-wealth markets.

Looking Ahead to the Recovery: Strong CDFIs, Strong Communities

CDFIs are critical intermediaries that deliver capital to businesses and communities that need it most, building credit and financial infrastructure that provides the financing needed to improve their economic well-being. At their core, CDFIs are about partnership, innovation, and creating opportunity in those communities that are often forgotten. But the work of CDFIs is not done alone: partners like the federal government remain vital to continuing the powerful work of mission driven lenders like CDFIs. CDFIs are also a smart investment for the federal government: small amounts of public subsidy are leveraged to amplify its impact.

Additional investments in proven solutions and programs that support the work of CDFIs will stimulate the flow of capital to communities, generating economic activity that can catalyze community development, create jobs, generate income and wealth, and help chip away at the persistently high poverty rate in too many communities.

¹⁴ Hope Policy Institute, "Closing the CDFI Asset Gap", Published April 21st, 2020, Accessed June 1, 2020. <http://hopepolicy.org/blog/closing-the-cdfi-asset-gap/>.



As we emerge from the pandemic and the economic costs of the pandemic become clear, CDFIs stand ready to be partners in this important work to rebuild and restore our communities. There is a path forward, but it will require partnership with the federal government, mainstream finance, and community-based lenders like CDFIs and MDIs. In order to reach out communities, you must strengthen the lenders who are already present and invested in these markets. The CDFI industry, with more than 40 years of experience working in low-income and low wealth markets, can be a powerful conduit to ensuring a more equitable economic recovery.

Thank you for the opportunity to speak with you today. I look forward to your questions.