Congress of the United States
Washington, D.C. 20515

October 4, 2024

The Honorable Janet L. Yellen
Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Yellen:

We write to urge the Department of the Treasury to provide dedicated financial and training resources to improve the technology capabilities and capacity of Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs).

As you are aware, CDFIs, which receive their designation from the Treasury Department's Community Development Financial Institutions Fund (CDFI Fund) are specialized organizations that provide financial services in low-income communities and to people who lack access to financing. CDFIs include institutions such as community banks and credit unions, as well as loan and venture capital funds. Additionally, MDIs, which can also be certified as CDFIs, are banks or credit unions primarily owned by or serve communities of color.

As demonstrated by the COVID-19 pandemic, CDFIs and MDIs are critical to the wellbeing of small businesses, but are limited in their technical capacity. By providing the ability to leverage data, streamline business practices, reduce costs, enhance decision-making, and improve customer experiences, a robust technology system allows a lender to offer better products and services, reach broader geographies and achieve greater economies of scale. Mission-driven lenders, such as CDFIs and MDIs, benefit from such systems through expanded markets and deeper impact in distressed communities, as well as an ability to compete on a more equal footing with their mainstream counterparts.

CDFIs and MDIs face a growing challenge over how to remain technologically relevant in the wake of competition from larger financial institutions. There is a growing digital divide between financial institutions that can, and those that cannot, shoulder the cost of technological modernization, which can exacerbate economic inequalities. Many CDFIs and MDIs witnessed first-hand that those institutions with greater financial-technology capacities were better prepared to provide emergency capital to small businesses through the Paycheck Protection Program relative to their larger mainstream counterparts.[1]

In response to our request, the Government Accountability Office (GAO) recently completed a study reviewing CDFIs' and MDIs' technology capabilities and potential solutions to address technology challenges they may be facing.[2] From its survey, the GAO cited a number technology challenges that CDFIs and MDIs are facing, such as:

- **Small CDFIs and MDIs[3] disproportionately lacked capacity to provide digital services to reach more underserved consumers**. While most large CDFIs and MDIs[4] had this technology, many small CDFIs and MDIs lack the capability to provide online payment processing, online loan applications, and electronic document submission. Roughly 30% of small CDFIs and MDIs that wanted mobile and online banking technologies did not have the technology capability to meet these needs. Organizations have also indicated losing customers to larger institutions that possess technology to over such services.

- **Most CDFIs and MDIs lack the capability for automated loan underwriting**. Automated loan underwriting and loan approval technology uses data to provide quicker loan determinations compared to manual underwriting and would allow CDFIs and MDIs to deploy more capital into underserve communities, improve the customer experience, as well as provide more consistency in their decisions. At least half of CDFIs and MDIs that wanted automated loan underwriting did not have the technology to support it.

- **A majority of CDFIs and MDIs lack the ability to conduct detailed analysis on their lending activity**. Less than half of CDFIs and MDIs possess systems that allow them to track multiple data points, staff time and outcomes, thereby allowing them to better target their lending and increase operational efficiency.

- **Technology training assistance would be helpful**. More than 60% of CDFIs and MDIs indicated that federal support for training would be beneficial. Additionally, a centralized repository of technology-related resources would reduce staff time required to implement new technology.

- **Resources constraints prevent all but the largest CDFIs and MDIs from acquiring needed technology**. The most commonly reported barrier to acquiring and implementing new technology was cost. Roughly half of CDFIs and MDIs indicated that costs frequently or always prevented them from purchasing needed technology.

As part of its strategic plan, the CDFI Fund has highlighted the importance of increasing the capacity of CDFIs to have impact in distressed and underserved communities. Deploying new resources to support the specific technology needs of CDFIs, as well as providing new training opportunities, would play a pivotal role in enhancing the growth, reach and performance of the CDFI network.

While Technical Assistance (TA) awards provided under the Community Development Financial Institutions Program (CDFI Program) and Native CDFI Assistance Program (NACA Program) can be used to cover technology-related training and equipment costs, the financial resources needed far outstrip the modest sizing of typical individual TA awards.

Furthermore, the Treasury Department will soon have additional resources at its disposal that could also be utilized to provide dedicated technology assistance to CDFIs and MDIs. Specifically, repayments and dividends provided to the Department of the Treasury under the Emergency Capital Investment Program (ECIP) must be then used to provide Financial Assistance (FA) and TA awards, pursuant to section 108 of the Riegle Community Development and Regulatory Improvement Act of 1994 (Pub. L. 103-325).[5] We understand that the Administration projects that initial deposits will begin accruing during fiscal year 2024.

These funds are a viable and sustainable means for CDFIs and MDIs to make meaningful investments that develop and improve key technologies to expand their reach, enhance their services, and deepen their impact in distressed and underserved communities. Equally important, utilization of these funds for this purpose would be in alignment with ECIP's statutory requirements.

It is for these reasons we urge the Department of the Treasury, utilizing an appropriate portion of these ECIP deposits, to initiate a discrete CDFI Fund assistance program providing technology investment assistance awards to smaller CDFIs and MDIs, with $100 million or less in assets, as well as opportunities to support their training needs. Such a program would reduce structural and financial barriers these mission-driven lenders are experiencing as they work to upgrade their capability to provide digital offerings that have become the norm across the financial industry.

Modernizing core technology systems can make a difference in remaining relevant in an era of growing financial innovation. We look forward to working with our colleagues in Congress and with you on this area of key importance to CDFIs and MDIs.

Sincerely,

Maxine Waters
Ranking Member, Committee on
Financial Services

Mark R. Warner
United States Senator