

Wednesday, September 4 at 10:00 AM — The Subcommittee on Oversight and Investigations will convene a field hearing entitled, “Examining Discrimination and Other Barriers to Consumer Credit, Homeownership, and Financial Inclusion in Texas,” in Houston, Texas.

Testimony of Celina Peña

Good morning, my name is Celina Peña with LiftFund. We are a nonprofit community development financial institution based in Texas, headquartered in San Antonio, and serve 14 states in the South Central U.S. We were founded to level the financial playing field through entrepreneurship in 1994 and since inception have provided over 300 million in capital to over 20,000 entrepreneurs— we provide vital resources and affordable business loans to our diverse customers. In the greater Houston region, we’ve provided 54 million to 3,000 small business owners.

As a community loan fund, we provide direct business lending ranging from \$500 to \$500,000 and are a partner with SBA on all their small business lending products including the SBA 504 and SBA 7a Community Advantage. 38% of our borrowers are women, 85% are entrepreneurs of color, and over 36% are startups, less than 2 years in business.

Financial inclusion in Texas and the U.S. requires steadfast investment and participation at the local, regional, and national level now more than ever. Studies by the Federal Reserve indicate that while entrepreneurs of color and women owned businesses are the fastest growing segment in entrepreneurship and their credit inquiries are increasing, their access to credit remains significantly lower and they are utilizing their own assets and accessing financing that is costly and asset stripping not leading them to scale.

Organizations like LiftFund are here to change that narrative and our direct services and products are only one piece of the puzzle in removing barriers. LiftFund’s vision of financial inclusion requires us to innovate and create partnerships at the system level to combat poverty and change the discourse of underbanked, disenfranchised entrepreneurs.

I’d like to focus my time on how we are moving the needle in removing barriers and creating inclusion through partnerships and creative solutions. These partnerships and strategies are the second part of a complex puzzle to solving for financial inclusion.

I ask the committee to consider investing and providing equity through government agencies into works like these that are unique in changing the narrative of financial inclusion, which also means insuring a CRA policy that is transparent, accountable and reflective of the continued disparities of accessing credit. Currently, LiftFund has 36 bank investments totaling more than \$35 million and a local bank purchasing close to 9 million in LiftFund business loans. Without CRA, the National Community of Reinvestment Coalition (NCRC) estimates Low to moderate income neighborhoods could lose up to \$105 billion in home and small business lending nationally – that equates to a \$24 billion loss in CRA commitments in the states LiftFund serves.

The first partnership is with Woodforest National Bank, headquartered here in the Woodlands, Texas. Woodforest has purchased over 650 loans totaling close to nine million dollars from LiftFund to ensure that they are serving their community through investment with LiftFund lending. LiftFund provides the loan to the client; Woodforest purchases the funds as it demonstrates the criteria of service and impact per CRA. LiftFund services the life of the loans with no recourse. These loans are non-guaranteed loans.

The second partnership is with a platform called Cnote. A California based Benefit Company dedicated to helping people, institutions and advisors invest in women and entrepreneurs of color with a return. The goal of Cnote is to increase investments into CDFIs like LiftFund. LiftFund currently has a \$4.7 million investment with Cnote dedicated to serving minorities and women of color entrepreneurs. Cnote, like LiftFund is woman owned and creating a space where again, investments can be made that create inclusivity with capital while providing a return on investment.

As we are in the midst of Hurricane season, I would be remiss if I didn't bring up our disaster recovery program. Disasters bring resiliency, but that resiliency can't be made without donors and investors and after Hurricane Harvey three major partners came together to create a complicated and impactful capital stack in serving micro and small business in the Texas Gulf Coast. LiftFund had clients impacted by Harvey and two national banks stepped up to the plate in providing amazing support to build our Disaster Relief Loan Product. Goldman Sachs provided a five million dollar loan at zero percent and JP Morgan Chase provided one point two million in equity to serve the population. Along with these two national banks, Rebuild Texas and One Star provided operational funding and a guarantee fund that allowed us to provide over \$7 million in capital to 322 small businesses impacted by Harvey. The US economic development agency recently awarded us a grant and a revolving loan fund to continue this work into the next phase for \$3.5 million and we have launched Ascend 2020 with JP Morgan Chase, Houston Community College, the City of Houston and others in scaling minority contracting and rebuilding housing stock locally.

LiftFund's work requires a fine balance – we raise debt to provide debt – that is the community loan fund model, we are working to shift that paradigm and have created the Dream Makers Fund, a permanent revolving loan fund where local donors and investors can provide equity into a local fund dedicated to serving entrepreneurs who are underbanked. Our goal over the next three years is to raise \$5 million in equity and revolve the loan fund permanently in key cities, including Houston. This will allow us to reduce the tension on our balance sheet and meet the demand in providing capital and leveling the financial playing field to specific populations we serve.

While we face challenges in removing all barriers of inclusion, our biggest success is our investment in technology, many times minority; women owned firms aren't able to scale because of resource limitation. Our partners from across the nation, including major banks have invested in our work and in doing so we have created the only U.S. micro-business risk model. You've heard of big data from online lenders and risk profiles created by companies like Lexis Nexis, our risk model specifically focuses on serving underbanked entrepreneurs in the U.S. and we have a 96% repayment rate when we couple this risk model with our underwriting.

As you can tell, we are hard at work to bring a more inclusive economy. It is important for the U.S. to take innovation into financial inclusion – we take pride in being part of the innovation in finding solutions for our customers and for investors who can trust us in serving a population that deserves inclusion.

When we think about our country 20 years from now, I am hoping that these strides, partnerships and innovation will come to scale, and we must remain vigilant. As we continue to explore financial inclusion, we must take into account the evolution of a growing online and phone economy that connects LMI communities to potential asset stripping, we must rethink our models of inclusion to be place based and accessible no matter when and where and we must think about financial inclusion in

these terms in order to let entrepreneurs, no matter their life circumstances be included in the economy. I hope the insights provided today, give you a better perspective on how partnerships and CDFIs like LiftFund can play a role in this space.

Thank you for this opportunity to provide testimony.

The Subcommittee on Oversight and Investigations will hold a Field hearing entitled, “Examining Discrimination and Other Barriers to Consumer Credit, Homeownership, and Financial Inclusion in Texas” on Wednesday, September 4, 2019, at 10:00 a.m. (CDT) at the Fountain Life Center located at 14083 South Main Street, Houston, Texas 77035. I am writing to confirm your participation as a witness.

We anticipate that the hearing will examine access to affordable housing, credit, and banking services in low and moderate-income (“LMI”) neighborhoods. The witnesses will address discrimination and other barriers to homeownership, credit access, and financial inclusion. The hearing will examine, among other data, recently published research on the perpetuation of systemic impediments to and disparities in wealth, homeownership, and economic opportunity.

In addition, the hearing will explore potential solutions that would promote financial inclusion and strengthen financial institutions that serve LMI communities, such as minority depository institutions (“MDIs”) and community development financial institutions (“CDFIs”). The number of MDIs has declined in the last decade, raising the policy challenge of how best to bolster the health and soundness of these community institutions that provide critical services to consumers and businesses underserved by traditional banks and financial services providers.

Your oral testimony should be summarized in the form of a five-minute opening statement to be given at the beginning of the hearing. You should also prepare a written version of your oral testimony. The written testimony may consist of a verbatim transcript of your opening statement or, if you have additional information that you would like included in the record, it may expound on your oral testimony as you see fit. This written testimony should be submitted to the Subcommittee by e-mail no later than Friday, August 30, 2019.