

United States House of Representatives  
Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, D.C. 20515

February 11, 2022

## Memorandum

**To:** Members, Committee on Financial Services  
**From:** FSC Majority Staff  
**Subject:** February 16, 2022, Full Committee Hearing entitled, “An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities”

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The full Committee will hold a hearing entitled, “An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities” on February 16, 2022 at 12:00 PM ET on Cisco Webex. There will be one panel with the following witnesses:

- **William J. Bynum**, CEO, HOPE (Hope Credit Union/Hope Enterprise Corporation/Hope Policy Institute)
- **Nicole Elam, Esq.**, President & CEO, National Bankers Association
- **Everett K. Sands**, CEO, Lendistry
- **Luz Lopez Urrutia**, CEO, Accion Opportunity Fund
- **Michael Faulkender**, Dean’s Professor of Finance, Smith School of Business, University of Maryland

### Overview

Minority depository institutions (MDIs) and community development financial institutions (CDFIs) deliver critical lending opportunities to low- and moderate-income (LMI) communities and communities of color. MDIs were first established in the late 19<sup>th</sup> century<sup>1</sup> and are made up of depository institutions such as banks and credit unions where 51 percent or more of the stock is owned by one or more socially and economically disadvantaged individuals.<sup>2</sup> CDFIs are institutions that provide financial products and services specifically aimed at the needs of low-income and marginalized communities and are certified by the CDFI Fund, which is operated by the U.S. Department of the Treasury (Treasury).<sup>3</sup> CDFIs include banks, credit unions, loan funds, and venture capital funds.<sup>4</sup> The top lines of business across CDFIs have historically been consumer and residential real estate finance, showing the importance of CDFI lending to individuals.<sup>5</sup> The CDFI Fund administers programs that provide financial awards and

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<sup>1</sup> Tim Todd, [A Great Moral And Social Force](#), Federal Reserve Bank of Kansas City (Jan. 12, 2022).

<sup>2</sup> Socially and economically disadvantaged individuals have been subjected to racial or ethnic prejudice or cultural bias within American society because of their identities as members of groups and without regard to their individual qualities and the social disadvantage must stem from circumstances beyond their control; and whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same or similar line of business or work who are not socially disadvantaged. See U.S. House Committee on Financial Services (FSC), [Emergency Support for Community Development Financial Institutions and Minority Depository Institutions](#) (Dec. 20, 2020).

<sup>3</sup> CRS, [Community Development Financial Institutions \(CDFI Fund\): Programs and Policy Issues](#) (Jan. 25, 2018).

<sup>4</sup> *Id.* Also see CDFI Fund, [CDFI Annual Certification and Data Collection Report \(ACR\): A Snapshot for Fiscal Year 2020](#) (Oct. 2021).

<sup>5</sup> *Id.*

assist eligible CDFIs with their operations.<sup>6</sup> Technical assistance is a phrase often used to describe non-financial assistance to MDIs and CDFIs and includes the support and education needed for an organization to become successful, such as financial, legal, and accounting advice.<sup>7</sup> MDIs and CDFIs support people and business owners in underserved communities, such as those who are less likely to use publicly traded depository institutions, those who have impaired or limited credit histories, those that may distrust publicly traded depository institutions, and those who do not have sufficient collateral to secure traditional loans.<sup>8</sup>

The impact of MDIs and CDFIs is multifaceted. According to the Federal Deposit Insurance Corporation (FDIC), MDIs typically serve communities of color and LMI census tracts at higher rates than non-MDI, non-community banks (e.g., megabanks). They originate mortgage loans to borrowers of color and for properties in LMI census tracts at higher rates than those of megabanks.<sup>9</sup> They also originate Small Business Association (SBA) loans to borrowers of color and LMI borrowers at higher rates than megabanks.<sup>10</sup> According to the CDFI Fund, 33% of CDFI lending in 2019 was in high poverty areas, nearly 75% of lending was to underserved populations and distressed areas, and 17% was to rural areas.<sup>11</sup> Moreover, recipients of CDFI awards have been successful at investing in communities. For example, according to John Holdscaw IV, the President of the CDFI Coalition, recipients of the CDFI Fund Financial Assistance Award have “financed 50,000 affordable housing units,” and recipients of the Healthy Foods Financing Award have financed “409 grocery stores, markets, and fresh food projects totaling over 4 million square feet.”<sup>12</sup> As an illustration of MDIs’ success serving communities with high shares of populations of color, 62% of the population in areas served by African American MDIs is African American, whereas only 6% of the population served by megabanks is African American.<sup>13</sup> Similarly, Latinx and Asian American MDIs are serving populations where the Latinx and Asian American populations, respectively, are significantly higher than in megabank service areas.<sup>14</sup> The annual reporting by the CDFI Fund shows aggregate CDFI lending trends for “Other Targeted Populations” (OTP), which include “African Americans, Alaska Natives residing in Alaska, Hispanics, Native Americans, Native Hawaiians residing in Hawaii, and Other Pacific Islanders living in Other Pacific Islands,” the OTP data is not disaggregated by race or ethnicity.

Despite their success in providing affordable capital to communities typically excluded from the mainstream financial system, as evidenced both above and by their work during the pandemic, the number of MDI banks and MDI credit unions has declined by about one-third in the decade following the 2008 financial crisis.<sup>15</sup> According to the latest regulatory data, there are 146 MDI banks, 518 MDI credit unions, and 1,333 CDFIs (specifically 312 banks, 433 credit unions, 572 loan funds, and 16 venture capital funds) compared to 4,990 credit unions and 4,914 banks.<sup>16</sup> Additionally, CDFIs, especially those that make microloans (small business loans that do not exceed \$50,000), face challenges with capitalization,

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<sup>6</sup> *Id.*

<sup>7</sup> CDFI Fund, [Training and Technical Assistance](#) (Accessed Feb. 8, 2022).

<sup>8</sup> See Lehn Benjamin, Julia Sass Rubin, and Sean Zielenbach, “Community Development Financial Institutions: Current Issues and Future Prospects,” *Journal of Urban Affairs*, vol. 26, no. 2 (2004), pp. 177-195; FDIC, [2019 Minority Depository Institutions Structure, Performance, and Social Impact](#), (Dec. 31, 2018).

<sup>9</sup> FDIC, [2019 Minority Depository Institutions: Structure, Performance, and Social Impact](#) (2019).

<sup>10</sup> *Id.*

<sup>11</sup> CDFI Fund, [CDFI Program and NACA Program Awardees: A Snapshot of 2019 Reported Activities](#), (Aug. 2021).

<sup>12</sup> U.S. Senate Committee on Banking, Housing, and Urban Affairs (BHUA), [Testimony of John Holdscaw IV, Exploring How Community Development Financial Institutions Support Underserved Communities](#), 117<sup>th</sup> Cong. (Jan. 5, 2022).

<sup>13</sup> FDIC, [2019 Minority Depository Institutions Structure, Performance, and Social Impact](#), (Dec. 31, 2018).

<sup>14</sup> FDIC, [2019 Minority Depository Institutions Structure, Performance, and Social Impact](#), (Dec. 31, 2018).

<sup>15</sup> *Id.*

<sup>16</sup> FSC, [An Examination of the Decline of Minority Depository Institutions and the Impact on Underserved Communities](#) (Oct. 22, 2019).

<sup>16</sup> FDIC, [MDI Lists – Third Quarter 2021](#) (Sep. 30, 2021); NCUA, [Minority Depository Institution Preservation](#) (Dec. 20, 2021); CDFI Fund, [CDFI Certification](#) (Jan. 14, 2022); NCUA, [Quarterly Credit Union Data Summary](#) (2021,Q3); and FDIC, [Quarterly Banking Profile](#) (2021,Q3).

origination, and service costs.<sup>17</sup> Due to the importance of MDIs and CDFIs in building relationships with their customers and communities, lending may even cost more per transaction than lending from traditional depository institutions.

### **Small Business Pandemic Support from MDIs and CDFIs**

MDIs and CDFIs have been integral in reaching small businesses, especially those in LMI communities and communities of color. At the start of the pandemic in early 2020, the first round of Paycheck Protection Program (PPP) forgivable loans meant to aid struggling small businesses dried up when large banks allowed wealthy and well-connected clients initial access to the funds.<sup>18</sup> When initial funding for PPP was exhausted, the second round of funds included \$60 billion in funding for small community lenders like MDIs and CDFIs.<sup>19</sup> The enhanced participation of community financial institutions, including MDIs and CDFIs, helped to ensure PPP reached small and minority-owned businesses in hard-hit communities. In recent testimony from the CDFI Coalition, “According to the SBA, through May of 2021, CDFIs made 1.3 million PPP loans totaling over \$30 billion or 21% of total loans. Their average loan size was \$21,653 compared to \$41,560 across all lender classes, and nearly 40% of their loans reached business in low- and moderate-income communities, compared to 28% across all lending sources. Additionally, [community financial institution (CFI)] loans reached more small businesses. For example, 78% of their PPP loans went to businesses requesting less than \$250,000. Moreover, 15.7% of CFI-made loans were made to businesses in rural communities, closely keeping with the 16.6% of all loans (some \$45.5 billion) that went to rural businesses.”<sup>20</sup>

### **Federal Government Support for MDIs and CDFIs**

In December 2020, Congress passed a COVID-19 relief bill that included \$12 billion in funding for MDIs and CDFIs.<sup>21</sup> This included \$9 billion for the Emergency Capital Investment Program (ECIP), administered by the Treasury, and provides low-cost, long-term capital investments to MDIs and CDFIs that are depository institutions.<sup>22</sup> Non-depository CDFI loan funds and institutions in a “troubled condition” as determined by prudential regulators were ineligible for ECIP. On December 14, 2021, Treasury announced \$8.75 billion in ECIP awards to 186 depository CDFIs and MDIs in 36 states, D.C., and Guam.<sup>23</sup> Those capital investments are in the process of being finalized. According to Treasury, roughly 54% of potential recipients are banks, and 46% are credit unions. Fifty-seven MDI credit unions and banks are being offered \$3.1 billion. ECIP investment size ranges from less than \$100,000 to more than \$200 million, though the program was oversubscribed by more than \$4 billion.<sup>24</sup>

The remaining \$3 billion from the \$12 billion suite of programs from the December 2020 package was allocated for the CDFI Fund to provide grants and other financial and technical assistance to CDFIs.<sup>25</sup> On June 15, 2021, Treasury awarded \$1.25 billion of these funds in Rapid Response Program (RRP) grants to 863 CDFIs in 48 states, D.C., Guam, and Puerto Rico.<sup>26</sup> Specifically, 463 CDFI loan funds received \$571.3 million, 244 CDFI credit unions received \$401.8 million, 149 CDFI banks received \$267.1 million,

<sup>17</sup> Federal Reserve Bank of San Francisco, [Addressing the Capitalization and Financial Constraints of CDFI Microlenders](#) (May 19, 2021).

<sup>18</sup> Amy Flitter and Stacy Cowley, [Banks Gave Richest Clients ‘Concierge Treatment’ for Pandemic Aid](#), New York Times (Oct. 11, 2021).

<sup>19</sup> CRS, [Paycheck Protection Program \(PPP\) Lending Set Asides for Community Development Financial Institutions \(CDFIs\)](#) (Apr. 27, 2020).

<sup>20</sup> BHUA, [Testimony of John Holderslaw IV, Exploring How Community Development Financial Institutions Support Underserved Communities](#), 117<sup>th</sup> Cong. (Jan. 5, 2022).

<sup>21</sup> *Id.*

<sup>22</sup> *Id.*

<sup>23</sup> Treasury, [Secretary of the Treasury Janet L. Yellen and Vice President Kamala Harris to Announce \\$8.7 billion in Investments for a More Equitable Economy at 2021 Freedman’s Bank Forum](#) (Dec. 14, 2021).

<sup>24</sup> Treasury, [Treasury Sees Robust Demand for Emergency Capital Investment](#) (Oct. 18, 2021).

<sup>25</sup> *Id.*

<sup>26</sup> Treasury, [U.S. Treasury Awards \\$1.25 Billion to CDFIs to Support Economic Relief in Underserved Communities Affected by COVID-19](#) (June 15, 2021).

and 7 CDFI venture capital funds received \$9.4 million. Moreover, 90 MDI banks and credit unions received \$133.9 million; 58 CDFIs supporting Native American, Native Alaskan, and Native Hawaiian communities received \$54.6 million; and 28 CDFIs primarily serving Puerto Rico received \$47.3 million. The remaining \$1.75 billion was set aside to provide a subsequent round of grants to CDFIs, including \$1.2 billion for minority lending institutions.<sup>27</sup> Minority lending institutions are a new category of CDFIs established in the December 2020 COVID-19 relief bill that predominantly serve minority communities and are either MDIs or meet other standards for accountability to minority populations, as determined by the CDFI Fund.<sup>28</sup> Additionally, the American Rescue Plan Act signed in March 2021 provided \$10 billion to fund the State Small Business Credit Initiative (SSBCI).<sup>29</sup> MDIs and CDFIs are eligible lenders under the SSBCI. The program reserves \$2.5 billion to support businesses owned and controlled by “socially and economically disadvantaged individuals” (SEDI) and those located in CDFI Investment Areas.<sup>30</sup>

More recently, the House passed the Build Back Better Act in November 2021, which includes \$10 billion for a first-generation downpayment assistance program through HUD. Of the \$10 billion, MDIs and certain CDFIs would be eligible to provide up to \$2.275 billion in downpayment assistance to first-time, first-generation homebuyers. The Build Back Better Act also provides \$750 million for the Housing Investment Fund for CDFIs to invest in the development of an estimated 13,000 rental and homeownership housing units. The package includes \$3 billion in competitive HUD grant funding available to CDFIs and other entities to create affordable, accessible housing and invest in economic redevelopment in neighborhoods experiencing underinvestment and cycles of blight and abandonment.

### **Initiatives by Regulators**

Congress has also mandated several other federal programs to support CDFIs or allow participation by CDFIs. These include the Capital Magnet Fund, New Markets Tax Credit, and the CDFI Bond Guarantee Program. The Capital Magnet Fund was created in 2008 and provides competitively-awarded grants to CDFIs and nonprofit housing organizations to support affordable housing in distressed communities.<sup>31</sup> The New Markets Tax Credit is available to investment groups to encourage equity investments in certain CDFIs that operate in low-income communities.<sup>32</sup> Banks may also receive Community Reinvestment Act (CRA) credit if these investments occur within their assessment areas. The CDFI Bond Guarantee Program gave Treasury the authority to guarantee bonds that CDFIs would sell to the Federal Financing Bank and use proceeds from the sale to make short-term loans to other CDFIs.<sup>33</sup> Additionally, the FDIC recently established a Mission-Driven Bank Fund that supports FDIC-insured MDIs and CDFIs.<sup>34</sup> The fund uses private capital to help MDIs and CDFIs raise capital, acquire technical assistance and technology solutions, and build scale.<sup>35</sup>

Additionally, through different initiatives, banks have been encouraged to invest in CDFIs. For example, under the CDFI Fund’s Bank Enterprise Award Program, depository institutions can apply for a financial award upon demonstrating an increase in loans, deposits, technical assistance, equity, and equity-like loans and grants to CDFIs.<sup>36</sup> Banks that provide equity investments in CDFIs may receive favorable consideration for credit as an investment activity on their CRA exam.<sup>37</sup>

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<sup>27</sup> *Id.*

<sup>28</sup> *Id.*

<sup>29</sup> Treasury, [State Small Business Credit Initiative \(SSBCI\)](#) (accessed Feb. 8, 2022).

<sup>30</sup> Treasury, [State Small Business Credit Initiative \(SSBCI\) Program Fact Sheet](#) (Nov. 2021).

<sup>31</sup> CDFI Fund, [Capital Magnet Fund](#) (accessed Feb. 8, 2022).

<sup>32</sup> CDFI Fund, [New Markets Tax Credit](#) (accessed Feb. 8, 2022).

<sup>33</sup> CDFI Fund, [CDFI Bond Guarantee Program](#) (accessed Feb. 8, 2022).

<sup>34</sup> FDIC, [Minority Depository Institutions Program: Mission Driven Bank Fund](#) (accessed Feb. 8, 2022).

<sup>35</sup> *Id.*

<sup>36</sup> CDFI Fund, [Bank Enterprise Award Program](#) (accessed Feb. 8, 2022).

<sup>37</sup> CRS, [The Effectiveness of the Community Reinvestment Act \(Feb. 28, 2019\)](#).

## Initiatives by Private Sector

Research has long traced the role of the largest U.S. banks in chattel slavery, and the subsequent impact on the financial health of formerly enslaved persons.<sup>38</sup> Banks routinely sold securities that helped fund the expansion of slave run plantations as well as accepted enslaved people as collateral for loans. Some banks have made efforts to redress the institution's role in slavery, however, more investments from other banks have yet to follow.<sup>39</sup> Though Black banks, such as the Freedman's Bank, were established post-civil war to help formerly enslaved persons navigate their financial lives, these institutions were short lived.<sup>40</sup> Today, MDIs that are serving descendants of enslaved people are closing at a rapid pace and these communities lack access to banking services.<sup>41</sup>

In the wake of the protests responding to the killing of George Floyd, the largest banks in the country have committed new resources to MDIs and CDFIs. For example, in May 2021, Bank of America announced 17 equity investments in MDIs and CDFIs as part of their \$50 million commitment to support MDIs and CDFIs.<sup>42</sup> Also, in May 2021, Goldman Sachs announced that it had finalized a partnership with the SBA and Lendistry to provide \$1 billion to fund approximately 40,000 PPP loan applicants who were denied because their PPP applications were not approved before the funds ran out, over half of which were minority-owned businesses.<sup>43</sup> This added to the \$1.25 billion Goldman Sachs had committed in capital to CDFIs to facilitate emergency lending.<sup>44</sup> In July 2021, U.S. Bank announced an initiative with CDFIs to invest in real estate developers of color, providing \$250,000 in grants to CDFIs to deploy technical assistance to real estate developers of color.<sup>45</sup>

Since the Committee's May 27, 2021 hearing where the six largest bank CEOs testified, these banks disbursed some of the funds they committed to MDIs and CDFIs. For example, Citi provided \$500 million in capital to Community Preservation Corp, its largest CDFI partner, in 2021. Citi had committed \$50 million in equity investments to MDIs, and it disbursed \$19 million after the May hearing, bringing total disbursement to \$44 million.<sup>46</sup> Bank of America committed \$43 million to 22 MDIs and CDFI banks supporting minority-owned businesses. Of these commitments, 20 were fulfilled with \$36 million deployed.<sup>47</sup> By the end of June 2021, Goldman Sachs deployed \$1.43 billion in emergency lending capital across six PPP facilities with CDFIs and other partners in New York City and Chicago.<sup>48</sup> JPMorgan Chase provided \$100 million in equity to 16 MDIs in 2021 and made loans to 23 CDFIs and funds managed by CDFIs in 2021.<sup>49</sup> Morgan Stanley provided over \$1.5 billion to MDIs and CDFIs in 2021, including almost \$13 million in CDFI grants.<sup>50</sup> Wells Fargo invested \$50 million in 13 African American MDIs as of May 2021, and provided \$250 million to CDFIs for ongoing grant, debt, and investment support after the May hearing in 2021.<sup>51</sup>

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<sup>38</sup> BBC News, [The hidden links between slavery and Wall Street](#), (Aug. 29 2019).

<sup>39</sup> *Id.*

<sup>40</sup> [Freedman's Savings Bank](#), (Accessed Feb. 9, 2022).

<sup>41</sup> Burton, Scheck, West. "[The Battle to Keep America's Black Banks Alive](#)" The Wall Street Journal (Nov. 16, 2020)

<sup>42</sup> BHUA, Testimony of Brian Moynihan, [Annual Oversight of Wall Street Firms](#), 117<sup>th</sup> Cong. (May 26, 2021).

<sup>43</sup> BHUA, Testimony of David M. Solomon, [Annual Oversight of Wall Street Firms](#), 117<sup>th</sup> Cong. (May 26, 2021).

<sup>44</sup> *Id.*

<sup>45</sup> U.S. Bank, [U.S. Bank initiative with CDFIs will invest in developers of color](#) (Jul. 28, 2021).

<sup>46</sup> E-mail from Citi Staff to Majority Staff, House Financial Services Committee (Feb. 8, 2022).

<sup>47</sup> E-mail from Bank of America Staff to Majority Staff, House Financial Services Committee (Feb. 4, 2022).

<sup>48</sup> E-mail from Goldman Sachs Staff to Majority Staff, House Financial Services Committee (Feb. 8, 2022).

<sup>49</sup> E-mail from JPMorgan Chase Staff to Majority Staff, House Financial Services Committee (Feb. 7, 2022).

<sup>50</sup> E-mail from Morgan Stanley Staff to Majority Staff, House Financial Services Committee (Feb. 7, 2022).

<sup>51</sup> E-mail from Wells Fargo Staff to Majority Staff, House Financial Services Committee (Feb. 3, 2022).



## Appendix – Legislation

- **H.R. \_\_\_\_, CDFI Bond Guarantee Program Improvement Act (Cleaver)**, would reduce the CDFI Bond Guarantee Program minimum issuance threshold from \$100 million to \$25 million, and make the program permanent.
- **H.R. \_\_\_\_, Ensuring Diversity in Community Banking Act (Meeks)**, would strengthen minority depository institutions and “impact banks” that predominantly serve low-income communities through partnerships, technical assistance, and deposits. This bill previously passed the House by voice vote in September 2020.
- **H.R. \_\_\_\_, Expanding Opportunity for MDIs Act (Beatty)**, would codify the Financial Agent Mentor-Protégé Program within the Department of the Treasury. The program provides participating MDIs and other small financial institutions with mentorship from larger financial institutions regarding becoming a financial agent for Treasury and improving service capacity. This bill previously passed the House by voice vote in January 2020.
- **H.R. \_\_\_\_, Federal Home Loan Banks’ Mission Implementation Act (Torres)**, would expand the ability of Federal Home Loan Banks (FHLBs) to provide advances and grants for investments in small businesses, affordable housing, and community development, including by, among other things, expanding the availability of advances to certain CDFIs and credit unions.
- **H.R. \_\_\_\_, Promoting and Advancing Communities of Color Through Inclusive Lending Act (Waters)**, would, among other things, require 40 percent of all CDFI Fund appropriations to be reserved for minority lending institutions (MLIs); establish an Office and Deputy Director of MLIs; authorize an additional \$4 billion in capital investments, grants, and technology support for MDIs and CDFIs to meet demand; establish a searchable map for all CDFIs and MDIs so the public may locate nearby institutions; create a new CDFI award program to support young entrepreneurs; study securitization options for CDFIs; ensure access to emergency liquidity in future crises through the Federal Reserve’s discount window; make reforms to strengthen MDIs through partnerships, deposits, and investments; and reduce the CDFI Bond Guarantee threshold to \$25 million from \$100 million.
- **H.R. \_\_\_\_, Advancing Technologies to Support Inclusion Act**, would require Treasury to conduct a study on certain technology challenges that MDIs and CDFIs face in serving current and prospective customers and would require Treasury to carry out a \$1 billion grant program to address such challenges.
- **H.R. \_\_\_\_, CDFI Consultation Act**, would require the CDFI Fund to consult on a CDFI application for assistance with the CFPB or prudential regulator, as appropriate.
- **H.R. \_\_\_\_, Supporting the Creation of Diverse and Mission-Driven Community Financial Institutions Act**, would authorize the Treasury Department, in consultation with the CDFI Fund and banking regulators, to conduct a pilot program to help capitalize entities that wish to establish a *de novo* MDI or CDFI.
- **H.R. \_\_\_\_, Understanding Community Financial Institutions’ Impact in Underserved Communities Act**, would require the CDFI Fund to publish report on certified CDFIs, including the type, geographic location, and business lines, as well as the demographic breakdown of populations CDFIs serve.