

Testimony of Deputy Assistant Secretary for Community and Economic Development Noel Andrés Poyo before the Subcommittee on Financial Services and General Government, Committee on Appropriations, U.S. Senate

June 23, 2021

INTRODUCTION

Chairman Van Hollen, Ranking Member Hyde-Smith, and Members of the Subcommittee, it is my honor and my pleasure to speak with you today. My name is Noel Andrés Poyo. I am the Deputy Assistant Secretary for Community and Economic Development at the Treasury Department. Thank you for the opportunity to provide testimony on Treasury's Fiscal Year 2022 Budget and specifically about Community Development Financial Institutions (CDFIs) and Treasury's CDFI Fund.

CDFIs are specialized financial institutions, including loan funds, credit unions, community banks, and venture capital entities, that have a common goal of filling financing gaps in underserved and low-income areas with responsible financial products and services. CDFIs are accountable to the communities they serve and possess a particular sensitivity to the needs of local residents and businesses – this is a key reason that CDFIs often deliver capital in places where traditional banks have not met the market demand. CDFIs provide not only financing but also development services to help prepare borrowers for success.

Since the creation of the CDFI Fund more than 25 years ago, CDFIs have played an increasingly important role in opening access to capital and economic opportunity in low-income communities and for low-income people. At the end of 1997, there were 196 certified CDFIs, with total assets of \$4 billion. There are now more than 1,200 certified CDFIs, operating in every state, with assets of over \$220 billion. The collective capacity of this field to deliver fair and responsible financing is growing rapidly.

Before this year, the CDFI Fund had awarded nearly \$4 billion to CDFIs, community development organizations, and financial institutions through its funding programs. The CDFI Fund has also allocated \$61 billion in tax credits through the New Markets Tax Credit

Program and guaranteed \$1.6 billion in bonds through the CDFI Bond Guarantee Program. The CDFI Fund's investments are leveraged many times over. Though the leverage ratio varies from program to program, and recognizing that leverage ratios may vary in the future, one analysis of past transaction level reporting found that on average CDFI Fund investments attract at least \$8 of private capital for every \$1 of federal spending.

In FY 2020, CDFI Program award recipients reported originating more than 1 million loans, financing more than 41,000 units of affordable housing, and funding more than 87,000 businesses – all in distressed and underserved communities lacking access to traditional lending or banking institutions. It is also worth noting that, over the past year, CDFIs provided many small business owners and nonprofit organizations with access to the Paycheck Protection Program.

STATUS OF FUNDS FROM THE CONSOLIDATED APPROPRIATIONS ACT, 2021

The Consolidated Appropriations Act, 2021 made available historic funding for CDFIs under three programs being implemented by Treasury:

- \$1.25 billion in grants to CDFIs under the CDFI Rapid Response Program (RRP), to respond immediately to the economic impact of the pandemic;
- \$1.75 billion in grants to CDFIs under the Minority Lending Program; and
- \$9 billion for Treasury investments under the Emergency Capital Investment Program (ECIP), which is available to credit unions and banking entities that are either CDFIs or Minority Depository Institutions.

On June 15, 2021, the Vice President and Secretary Yellen announced that the CDFI Fund was awarding \$1.25 billion through the RRP to 863 CDFIs across the country. More than 70% of all certified CDFIs submitted an application. RRP recipients included 58 organizations receiving a total of \$54.6 million that committed to direct their awards to investments in Native American, Native Alaskan, and Native Hawaiian communities, and 90 organizations designated as minority depository institutions receiving a total of \$133.9 million in awards. The RRP awards will provide CDFIs with an unprecedented level of flexible capital and will allow CDFIs to help businesses keep their doors open, help families make ends meet, and help maintain important community facilities as the country continues to grapple with and recover from the economic crisis caused by the COVID-19 pandemic.

Under the Minority Lending Program, Treasury will provide \$1.75 billion of grants to CDFIs to expand financial activity in distressed minority communities and to minorities that have significant unmet capital or financial services needs. The Minority Lending Program will be rolled out later this year.

The ECIP will encourage low- and moderate-income community financial institutions to augment their efforts to support small businesses and consumers in their communities. Under the program, Treasury will invest up to \$9 billion of capital directly in depository institutions that are CDFIs or minority depository institutions (MDIs) to, among other things, provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially in low-income and underserved communities, that may be disproportionately impacted by the economic effects of the COVID-19 pandemic. Treasury has conducted extensive outreach to the private sector, including through meetings with CDFIs, minority depository institutions, trade associations, community groups, and civil rights groups. Treasury has also consulted extensively with the federal banking agencies regarding the terms of Treasury's investments under this program. Based on this input and consultation, Treasury anticipates releasing additional guidance for applicants in the near future.

CDFI FUND BUDGET

The CDFI Fund currently offers programs to help CDFIs, Community Development Entities, banks, credit unions, and community development organizations generate economic opportunity by increasing access to financial products and services in low-income communities. In FY 2022 the CDFI Fund requests \$330 million **broken down as follows:**

- \$215.4 million for the CDFI Fund's flagship program, the CDFI Program, which spurs economic growth and increases access to capital in low-income communities;
- \$23.0 million for the Healthy Food Financing Initiative, which supports investment in businesses that increase access to healthy and affordable food in low-income communities;
- \$21.5 million for the Native American CDFI Assistance Program, targeting support to CDFIs primarily serving Native communities;
- \$26.0 million for the Bank Enterprise Award Program, which awards FDIC-insured depository institutions that successfully demonstrate an increase in investment in

mission-driven lenders or in their own lending, investing, or service activities in distressed communities;

- \$8.5 million for the Small Dollar Loan Program, which enables CDFIs to provide consumers access to mainstream financial institutions and combat high-cost small-dollar lending;
- \$2.0 million for the AmeriCorps CDFI Economic Mobility Corps to place national service members at certified CDFIs to strengthen their capacity; and
- \$33.6 million for administration of the CDFI Fund, which includes support for the New Markets Tax Credit Program and the CDFI Bond Guarantee Program.

The FY 2022 Budget Request is approximately \$60 million above the FY 2021 enacted budget, an increase of 22 percent. The budget includes:

- \$50.4 million increase for the CDFI Program (increase of 28.9%);
- \$5 million increase for the Native American CDFI Assistance Program (Increase of 30.3%); and
- \$4.6 million increase for administration (increase of 15.9%).

The proposed increase in support for the CDFI Program can support larger Financial Assistance awards to increase the loans and financial products offered by CDFI Program award recipients, as well as additional Technical Assistance awards for emerging CDFIs. Additional support for the Native American CDFI Assistance Program can support larger Financial Assistance awards and improving technical assistance and capacity-building for Native CDFIs.

Additionally, we are requesting \$500 million in commitment authority and proposing legislation to expand the Capital Magnet Fund as part of the American Jobs Plan.

CONCLUSION

On behalf of everyone at Treasury and the CDFI Fund, I would like to express our gratitude for the support of this Subcommittee, and I look forward to working with you.

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