# Remarks by Assistant Secretary for Financial Institutions Graham Steele on Community Finance Policy and Building a More Equitable Economy at Inclusiv's 2023 Conference

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MEMPHIS, TN – Today, Assistant Secretary for Financial Institutions Graham Steele delivered remarks at Inclusiv's 2023 Conference in Memphis, Tennessee on the Treasury Department's approach to community finance policy and efforts to build a more equitable economy.

*As Prepared for Delivery*

Good afternoon. It's a pleasure to be here and I want to thank Inclusiv – particularly Cathie and Pablo – for inviting me to speak with you today.

As the Assistant Secretary for Financial Institutions, I am responsible for the Treasury Department's policy views on matters affecting banks, credit unions, insurance, consumer protection, access to capital, and financial sector cybersecurity.

During my tenure at the Department, I've managed an active portfolio. Within months of my confirmation, Russia invaded Ukraine and our Office of Cybersecurity and Critical Infrastructure Protection was working to ensure that the U.S financial system was prepared for, and resilient to, any potential cyberattacks as a result of the invasion.

More recently, in light of the stresses in the banking system, my Office of Financial Institutions Policy has been working to ensure that the banking system remains sound, credit is available to businesses and households, and depositors are protected. In recent weeks we have engaged with financial institutions of all sizes and types, including Community Development Financial Institutions (CDFIs), to understand how these developments are affecting them and their customers. We continue to actively monitor the situation and are working closely with our partners at the banking agencies.

Today, I am fortunate to be in a room full of leaders in community investment and economic justice. I will focus my remarks in the community and economic development space, and the work being done by our Office of Community and Economic Development (OCED). OCED

oversees policy development, the Emergency Capital Investment Program (ECIP), the Office of Financial Stability (OFS), the Small Business Lending Fund, and of course, the CDFI Fund.

I'll give an overview of the hard work that has been happening at Treasury and in the CDFI Fund to invest tens of billions of dollars through CDFIs and Minority Depository Institutions (MDIs) to advance an equitable recovery and growth.

In addition, I will describe a number of recent policy actions related to CDFI certification, measuring the impact of community finance, and our developing work on climate-focused community finance.

Equitable Recovery and Building a More Equitable Economy

With all that has happened in the world since January 2021, it is easy to forget that a little more than two years ago, the Biden-Harris Administration took office in a moment of dramatic economic upheaval caused by the COVID-19 pandemic. The passage and rapid implementation of the American Rescue Plan (ARP) prevented the short-term shock of the pandemic from devolving into a longer-term economic disaster.

From tax provisions including Economic Impact Payments and the Child Tax Credit; to housing assistance including the Emergency Rental Assistance Program and the Homeowner Assistance Fund; to the $350 billion State and Local Fiscal Recovery Fund; the ARP stabilized our economy and directed resources specifically to vulnerable populations. Recent analyses of programs like the Emergency Rental Assistance Program have demonstrated that Treasury's approach resulted in resources being effectively targeted to the lowest-income households and communities of color.

But it is not enough to have achieved a historically rapid recovery from an economic crisis. We must also focus on building a more equitable economy for the long term. This Administration recognizes that a lack of economic opportunity for historically marginalized communities impedes economic progress for our nation overall. Building a more equitable economy means investing in the potential of communities of color, low-income communities, rural areas, and other financially underserved communities that have too often been overlooked. This will result in a more resilient and globally competitive U.S. economy while also furthering the moral imperative to create a more just and equal society.

The Importance of CDFIs, MDIs and Other Community Development Entities

With their demonstrated track record of reaching financially underserved borrowers, CDFIs, MDIs, and other community development entities were essential in responding to the economic impact of the COVID-19 pandemic, providing financial lifelines in their communities. CDFIs and MDIs can play a particularly important role when credit conditions tighten in the financial services sector as a part of the typical ebb and flow of the business cycle. Regardless of the overall economic conditions, CDFIs and MDIs continue to be a safe and responsible bridge to the financial mainstream for many borrowers who face challenges gaining access to capital.

With strong support from the Biden-Harris Administration, the impact of CDFIs and MDIs has scaled dramatically. Consider the resources that Treasury is deploying through CDFIs and MDIs.

- CDFIs played an essential role in the Paycheck Protection Program (PPP), particularly in the final round after this Administration's rapid policy steps to make PPP more accessible through CDFIs.
- Then in June 2021, the CDFI Fund delivered $1.25 billion to 863 CDFIs through the CDFI Rapid Response Program (RRP), helping to refuel the tanks of institutions that stretched their capacities to respond to the economic impacts of the pandemic, whether by delivering PPP loans or serving as conduits for other emergency financial assistance.
- Earlier this month, Deputy Treasury Secretary Wally Adeyemo joined Vice President Harris in announcing over $1.73 billion in grants through the CDFI Equitable Recovery Program (ERP), the largest CDFI grant program in history.
- Through the Emergency Capital Investment Program (ECIP), Treasury has made close to $8.4 billion in investments in 170 community financial institutions. CDFIs will also have the opportunity to play a prominent role in Treasury's State Small Business Credit Initiative (SSBCI) which provides nearly $10 billion in grant funding to states, territories, the District of Columbia, and Tribal governments to support small businesses and minority entrepreneurs.
- In addition to special appropriations that resulted in the CDFI Fund making grants to recipients to respond to the COVID crisis, the CDFI Fund made more than $580 million in grants in 2022 through its flagship Financial Assistance program, the Bank Enterprise Awards, the affordable housing-focused Capital Magnet Fund and the Small Dollar Loan Program. The CDFI Fund recently announced more than $350 million in guarantee authority under the CDFI Bond Guarantee Programs, and we will soon be announcing $5 billion in tax credit allocations under the New Markets Tax Credit Program.

CDFIs and MDIs have been important to our nation's economic recovery and will continue to play an important role moving forward, by creating pathways toward more equitable economic growth. I know that many in this room lead community development-focused credit unions, so let me put a finer point on this.

- Under the CDFI RRP, 244 credit unions received more than $400 million in grant awards.
- Under ECIP, 78 credit unions received more than $2.1 billion in investment.
- And just last month, as part of the ERP, 203 credit unions received more than $590 million in CDFI Fund grant awards. That includes a historic investment in cooperativas in Puerto Rico: $226 million in grants to 69 cooperativas.

Together with the CDFI Fund's other programs, in the past two years, we have delivered close to $1 billion in grants and more than $2 billion in low-cost investments in CDFI and MDI credit unions. We have delivered for you, so that you can continue to deliver for the communities that you serve.

CFDI Certification Standards

Now I'd like to turn to our efforts to update the CDFI certification process, which I know is a topic that is top of mind for many of you.

Let me begin by stating unequivocally that there is a pressing need to update the CDFI certification process.

The CDFI certification application has not been substantially updated since the founding of the CDFI Fund, more than 25 years ago. CDFI certification was initially created as a gateway to CDFI Fund resources for a relatively small and well-understood group of institutions. The number of certified CDFIs has grown from 196 in 1997 to nearly 1,400 today.

Consider, also, that the potential value of CDFI certification has grown immensely, creating a far stronger incentive for institutions to seek certification. Given the recent and historic investment of billions of dollars in CDFIs, the growing number of other government policies and programs that confer a benefit to certified CDFIs, and the fact that CDFI certification is increasingly used by private sector investors as a criterion for allocating their resources, the incentive for institutions to obtain CDFI certification will likely continue to build, including for institutions that may not clearly promote community development.

Members of Congress and other public and private sector investors expect that lenders that are certified as CDFIs can be counted on to provide responsible access to capital to financially

underserved places and populations. Yet, the current certification standard merely requires that an institution do 60% of its lending in an approved target market. This is simply not enough clarity.

We are all also aware that some of the most unfair and abusive lending practices are targeted to the most distressed communities. We cannot allow high-risk and wealth-stripping practices to be confused with providing responsible access to capital. Predatory lending should not be mistaken for "innovation." Those types of practices led to the financial crisis of 2008, and our communities cannot afford for us to allow them to return to the marketplace.

For these reasons, there is a need to clarify how the CDFI Fund determines that a CDFI's products and services are consistent with the statutory requirement that CDFIs have "a primary mission of promoting community development." In cases where an institution fails to demonstrate this mission, the CDFI Fund should have the ability to take action. Let's be clear: if we fail to act, the CDFI mission that we all believe in will be undermined.

At the same time, we understand that the CDFI certification process must have enough flexibility to support diverse business models. Part of what makes the CDFI industry so impactful is that it is a big tent that includes many different types of institutions. We know that the details here matter, which is why we appreciated receiving so much substantive feedback on the CDFI certification application and related materials. Good policy requires – and benefits from – substantive public input and that is why we are weighing all the comments we have received so carefully.

The draft application form and associated materials that were made available for public comment last fall were developed after a more than six-year process of consideration and engagement, including two previous requests for public comment. Through the OMB public comment process, the CDFI Fund received more than 250 comment letters, including a balance of critique and support as well as a significant amount of useful feedback.

The CDFI Fund and this Treasury Department have a strong track record of listening to, and incorporating, public input in our policymaking, and that is exactly what we are doing in this case.

The CDFI Fund is reviewing all the comments that it has received and anticipates making meaningful changes to the final application materials. This was publicly communicated by the Fund in a notice released on January 24.

The CDFI Fund recently released another update about this process indicating that we anticipate that the revised application process will open this fall and that the CDFI Fund is committed to working with CDFIs through the process of adapting to the new certification process. It will also provide a grace period to currently certified CDFIs to align with new reporting requirements. As you know, currently certified CDFIs will retain their certification pending review of a new application through the revised process.

The Fund is also actively making updates to Awards Management Information Systems (AMIS) to ensure that CDFIs are able to efficiently submit data on a timeline that aligns with new certification requirements.

Treasury's Approach to Community Finance Policy

In the process of deploying tens of billions of dollars in partnership with CDFIs and MDIs, Treasury has taken significant policy steps to better define and safeguard the CDFI brand and shape the community development investment field.

Let me walk you through some of the key policy decisions that we have made in implementing our programs.

- First, there is the definition of "Deep Impact Lending." In its implementation of the ECIP, Treasury is providing additional credit to ECIP participants toward interest or dividend rate reductions for "deep impact lending," including loans to low-income borrowers and underserved small businesses, for deeply affordable housing, and in persistent poverty communities. This additional credit recognizes the fact that the kind of lending that may be most impactful in achieving the statutory purpose of the program often requires more time and resources from the lender. This approach is designed to help level the playing field for borrowers that face the greatest barriers to accessing capital and will provide greater transparency into the impact of the program.
- Next, there are the policy priorities contained in the CDFI ERP. As part of the ERP, the CDFI Fund developed what are called "ERP-eligible geographies" and used those geographies to help screen applicants for eligibility. In alignment with the ECIP deep impact lending policy, ERP applicants were prioritized for funding if they committed to lending to, among other categories, low- or moderate-income minority communities, minority borrowers that have significant unmet capital or financial services needs, and in persistent poverty communities, Indian areas and U.S. territories. It is not an accident that Puerto Rico received more ERP grants than any other state or territory.

- Finally, the CDFI fund has solicited comments on the criteria for designating a certified CDFI as a Minority Lending Institution (MLI). The CDFI Fund seeks to implement this designation for those CDFIs that wish to be recognized for their high levels of service and accountability to minority populations, as well as to identify barriers CDFIs experience in providing access to capital. Upon implementation of the MLI designation criteria, the CDFI Fund will utilize the designation primarily for data collection and reporting. The Fund recognizes that private sector investors may find the MLI designation useful for understanding which CDFIs are having the deepest impact in communities of color.

Taken together, these data-driven policies will more effectively recognize institutions that best serve financially underserved communities.

There is a growing will in the private sector to increase access to capital and opportunity for financially undeserved borrowers and communities. We believe that the policies establish by Treasury can be useful for private stakeholders, providing clear and specific guideposts for shaping their own approach to achieving equitable impact and aligning with federal resources.

However, we cannot fully leverage this growing will if we do not have the data necessary to ensure that investments are reaching financially underserved communities. Among other things, this means that we need to be able to collect disaggregated demographic data. Depository institutions have been doing this for years in connection with the Home Mortgage Disclosure Act. The CFPB has recently put in place new rules related to small business lending data collection. Institutions that are participating in ECIP and CDFI ERP have accepted federal funding with the understanding that this data will need to be collected, and indeed many of these institutions demonstrated that they already collect this information.

We know that there have been questions about compliance with the Equal Credit Opportunity Act (ECOA), and this requires strong policy alignment with regulators. The application processes for ECIP and CDFI ERP demonstrated that a wide range of CDFIs and MDIs – including regulated depository institutions – are already able to collect this data. We also know that some institutions will need to build new capacities, and we are delivering resources to help build that capacity. If we expect to build a more equitable economy, we need to make progress on collecting demographic data so that we actually know who is getting access to capital and who is not.

In addition to these policy steps, we are working to better coordinate among federal community investment programs. In July 2022, Treasury and five other agencies entered into a

Memorandum of Understanding to establish an Interagency Community Investment Committee (ICIC) to foster collaboration and alignment in the implementation of programs that facilitate the flow of capital and the provision of financial resources into underserved communities. The ICIC issued a public request for information to gather input on how to improve the effectiveness and impact of federal community investment programs.

Finally, climate finance is an important next frontier where we still have work to do to define standards, measure impact, and clarify where climate action most effectively intersects with racial justice. I know from my many conversations with Inclusiv that there are many CDFIs that are already productively engaged in climate-focused social investment. My team is engaged in outreach and dialogue to better understand this work and lift up promising practices.

Closing

We are in a transformational moment. CDFIs and MDIs are playing an important role in making positive, lasting change in our economy. You have demonstrated your capacities and values, and this Administration has responded with historic investment. The private sector is poised to come to the table with new sources of capital and innovative approaches to investment. Together, we are making progress toward building an economy that works for everyone in this country.

The Treasury Department appreciates your partnership. Thank you so much for the work you do and thank you for your time today.