

Update on Treasury's Approach to Equitable Community Finance

January 16, 2024

Graham Steele, Assistant Secretary for Financial Institutions

Over the past few years, the field of community finance has been transformed both by the historic scale of federal investments and policies focused on supporting equitable economic growth. During the Biden-Harris Administration, the Treasury Department has focused on unlocking the economic potential of financially underserved communities across the country. Secretary Yellen has outlined an economic strategy called “[modern supply-side economics](#),” which calls for, among other actions, boosting economic productivity by addressing inequality and making investments in people, places, and infrastructure that have been constrained by a lack of resources and opportunity. Treasury's community finance programs have played an important role in this overarching strategy, and we are seeing results in financially underserved communities across the country, from increases in lending in the most economically disadvantaged areas to new clean-energy investments in low-income communities. In December 2022, I provided an [overview of Treasury's approach to community finance policy](#). I am now pleased to provide an update on how Treasury's community finance related efforts are supporting underserved communities throughout the country.

Since early 2021, Treasury has implemented programs that have made available a historic amount of funding to mission-driven organizations to open access to capital for financially underserved borrowers and economically distressed geographies.


Through the Emergency Capital Investment Program (ECIP), Treasury made more than \$8.5 billion in investments in 175 community financial institutions to support lending to small businesses and consumers, especially in low-income, minority and financially underserved communities that struggled during the COVID-19 crisis.

The CDFI Fund has delivered \$3 billion in funding to address the economic impacts of the COVID pandemic through the Rapid Response Program and the Equitable Recovery Program. In addition, since early 2021, the CDFI Fund has:

- Made nearly \$1.4 billion in grants through its flagship Financial Assistance program, the Bank Enterprise Awards, the affordable housing-focused Capital Magnet Fund, and the Small Dollar Loan Program;
- Provided more than \$755 million in guarantee authority under the CDFI Bond Guarantee Program; and
- Made \$15 billion in tax credit allocations under the New Markets Tax Credit (NMTC) Program.



The State Small Business Credit Initiative (SSBCI), run by Treasury's Office of Capital Access, has approved capital program plans from 54 states and territories for more than \$8.2 billion in funding and nearly \$251 million in funding for Tribal government capital programs. SSBCI has also made available approximately \$400 million for technical assistance to support small businesses and underserved minority entrepreneurs. CDFIs are playing a prominent role in the implementation of many capital and technical assistance SSBCI programs.

The Inflation Reduction Act (IRA), the CHIPS and Science Act, and the Bipartisan Infrastructure Law complement these efforts, presenting new opportunities to scale community finance. For example, the IRA authorized the U.S. Environmental Protection Agency (EPA) to implement the [Greenhouse Gas Reduction Fund \(GGRF\)](#), a \$27 billion investment to “finance clean energy projects that reduce pollution and energy costs, increase energy security, and create good-paying jobs, especially in low-income and disadvantaged communities and places that have historically shouldered the burden of harmful pollution.” In July of 2022, EPA launched [\\$20 billion in grant competitions](#) under the GGRF. Also, in October, Treasury and the Department of Energy opened applications for the [IRA's Low-Income Communities Bonus Credit](#), which provides a 10- or 20-percentage point boost to the investment tax credit for qualified solar or wind facilities in low-income communities.

Treasury's approach to community finance policy has been crafted to advance broad-based equitable growth, a key goal of [Treasury's Strategic Plan](#) , and has been deeply informed by Treasury's Office of Racial Equity and the Office of Tribal and Native Affairs. The following six key principles have served as a foundation for this approach to equitable community finance:


Establish responsible financing standards – In December 2023, Treasury's CDFI Fund published [a significant update to the CDFI certification application and process](#). The CDFI Fund's previous certification application did not do enough to distinguish a CDFI with a community development mission from other lenders without such a mission. The past three years have

seen a historic level of investment in CDFIs, and without clear definitions and guardrails, there is a risk that resources intended to support community development could be misused or used less impactfully than intended. The revised CDFI certification application now identifies responsible financing standards for CDFIs, including a specific list of products and services that are inconsistent with CDFI certification. The application also provides greater clarity about how an applicant for CDFI certification will be determined to be accountable to its target market, the area where it is required to focus its financing activity.

Differentiate “deep impact” lending to the most underserved communities – In its [implementation of ECIP](#), Treasury defined and prioritized lending to the most underserved communities, or “deep impact” lending. The idea of deep impact lending reflects an understanding that there can be financial disincentives for lending to the most underserved borrowers. [Deep impact lending](#)  includes financing for borrowers that are financially underserved or located in an economically distressed community and for which a community lender may need to spend more time and resources to prepare the borrower, or that may result in less revenue for the community lender because the borrower may need a smaller loan with concessionary terms. In this way, Treasury has focused public community finance resources on prioritizing borrowers and areas that experience the greatest challenges in accessing capital. Treasury has [published data](#) about the deep impact lending of ECIP participants. The CDFI Fund has applied a similar approach in its programs, including in the [CDFI Equitable Recovery Program](#) .

Collect more disaggregated demographic data – Because we know that people’s experiences in the financial services marketplace are shaped by their race, gender, and other demographic characteristics, by collecting disaggregated demographic data we can better understand how community lenders are impacting diverse segments of a financially underserved community. For example, jurisdictions participating in SSBCI will report demographic information collected from small businesses that receive capital through the program, including data on race, ethnicity, sexual orientation, and gender identity. Further, in the new CDFI certification application, the CDFI Fund will collect data on the race and ethnicity of board members and executive leadership of CDFIs, which will help the CDFI Fund to better understand how the leadership of CDFIs reflects the communities that they serve.

Encourage equitable community engagement – By encouraging equitable community engagement, we are helping recipients of Treasury funding align their own policies and strategies with the needs and context of the beneficiaries they seek to serve. Examples of


encouraging equitable community engagement can be found in the requirement that ECIP applicants submit a plan for community engagement and in the [requirements of the competition for NMTC](#) .

Support capacity building – Treasury recognizes that opening access to capital for the most financially underserved borrowers often requires significant investments in building the capacity of those borrowers and of their lenders. For example, the CDFI Fund established the [NMTC Native Initiative](#) to broaden the on-ramp to the NMTC program. The goal of the NMTC Native Initiative is to increase NMTC investments in Federal Indian Reservations, Off-Reservation Trust Lands, Hawaiian Homelands, and Alaska Native Village Statistical Areas, collectively referred to as NMTC Native Areas. Similarly, the SSBCI Technical Assistance Grant Program is making available funding to provide legal, accounting, and financial advisory services to very small businesses and underserved businesses applying for SSBCI capital programs and other government small business programs.


Coordinate with interagency partners and the private sector – Treasury is not doing this work alone. Our approach to community finance is aligned with interagency policy efforts including the White House's efforts on Urban Equitable Development, Rural Prosperity and Housing Supply. In July 2022, Treasury and other federal agencies established the [Interagency Community Investment Committee](#)  (ICIC) to facilitate the flow of resources into underserved communities across the country by better aligning federal community investment programs and attracting aligned private-sector investments. Treasury chaired the ICIC in its first year, and in June 2023, the [ICIC released an action plan](#)  to define and guide the collaborative efforts of the participating federal agencies. Treasury has also engaged with the private sector, including the [Economic Opportunity Coalition](#) (EOC), *an effort among some of the nation's largest companies and foundations that have committed to aligning major investments in underserved communities with investments made by the Biden-Harris Administration.*

Investing in financially underserved communities is essential to our shared economic growth and prosperity. **Treasury's intentional approach to promoting equitable investment has opened access to capital to applicants that have struggled in the past to secure federal community finance resources. For example, through ECIP, Treasury has invested approximately \$1.4 billion in Black-designated minority depository institutions (MDIs). In April 2023, \$226 million in Equitable Recovery Program grant awards were made to 69**

***coopertivas* in Puerto Rico. In September 2023, the CDFI Fund announced its latest, highly competitive round of NMTC allocations, which included \$100 million allocated to Native Community Development Entities.**

We are beginning to see quantifiable results from these efforts. In October 2023, Treasury announced that the [first round of ECIP reporting](#)  showed that in approximately the last six months of 2022, one-third of total originations by ECIP participants were “deep impact” loans, made to the hardest-to-serve borrowers, totaling approximately \$8.5 billion. In December 2023, [Treasury, the IRS, and the Department of Energy announced](#) that in the initial application period for solar and wind facilities through the IRA’s Low-Income Communities Bonus Credit Program, the program received more than 46,000 applications for new energy facilities located in low-income communities, on Indian land, as part of affordable housing, or directly benefitting low-income households, representing more than 8 gigawatts of generation capacity. **Also, a recent Treasury analysis showed that,** since the passage of the IRA, clean investments have been landing in more economically disadvantaged counties, including areas with a history of fossil fuel production.

Treasury’s approach to community finance policy is not only shaping the delivery of tens of billions of dollars in federal funding. It is also influencing the private-sector investments that are leveraging those federal dollars. There are opportunities for private and philanthropic investors to “crowd in” and consider this policy framework and to learn from the data these programs produce. For example, at Treasury’s 2023 Freedman’s Bank Forum, the [EOC announced a \\$3 billion commitment](#) by its members to make deposits in CDFIs and MDIs, after having previously achieved the \$1 billion commitment that they announced at the 2022 Freedman’s Bank Forum.

Treasury is committed to seeking further data and lessons about the impacts of its community finance programs, and Treasury’s [Economic Recovery Learning Agenda](#)  provides detail on our approach.

###