

CDFIs AND THE FEDERAL GOVERNMENT: PARTNERS IN BUILDING AN INCLUSIVE ECONOMY

Opportunity often starts with access to capital through loans. These loans translate into the businesses, jobs, housing, and community facilities that are the foundation of vibrant rural, urban, and Native communities. Community development financial institutions (CDFIs) are lenders with a mission to create opportunity for all Americans, and CDFIs are the partners the federal government needs to help build a more inclusive economy. Increased federal investments in CDFIs will enable the industry to finance more small businesses and invest in the development of affordable housing, schools, grocery stores, health care centers, climate change solutions, and so much more. Federal policies that build the capital base and capacity of CDFIs will spur additional private investments and economic progress in disinvested communities nationwide.

OPPORTUNITY FINANCE NETWORK (OFN) POLICY RECOMMENDATIONS

APPROPRIATE AT LEAST \$1 BILLION FOR THE CDFI FUND ANNUALLY

The CDFI Fund is a vital source of capital for CDFIs, which leverage every dollar in CDFI Fund grant funding eight times with private and philanthropic investment. With increased appropriations, the CDFI Fund can help scale the CDFI industry for greater impact.

REFORM THE CDFI BOND GUARANTEE PROGRAM (BGP) TO INCREASE PARTICIPATION AND ALLOW CDFIS ACCESS TO OTHER FEDERAL LOAN GUARANTEE AND LENDING PROGRAMS

Investing long-term, low-cost capital in CDFIs allows them to lend at affordable rates to businesses and residents in underinvested communities. Existing federal programs, including the BGP, can become more impactful with a few reforms.

- **Allow more CDFIs access to the BGP** by reducing the minimum size of a CDFI Bond to \$25 million (from \$100 million) and repealing over-collateralization provisions
- **Open loan guarantee and other lending programs** across the federal government to include CDFIs as eligible participants

ENCOURAGE PRIVATE INVESTMENT

The federal government has a significant role in encouraging private investment in CDFIs. Through the tax code and federal regulations, the federal government can require or incentivize private investment in communities where mainstream capital doesn't traditionally flow.

- Create a **new tax incentive** for corporations making long term investments in CDFIs
 - Make the **New Markets Tax Credit (NMTC) permanent** and index the allocation level to inflation
 - Strengthen the **Community Reinvestment Act (CRA)**:
 - Ensure all three regulatory agencies (Federal Reserve Board, Federal Deposit Insurance Corporation, Office of Comptroller of the Currency) continue to work together to enforce CRA through a shared regulatory structure
 - Promote reforms that fulfill the statutory purpose of CRA to combat the impacts of redlining and discrimination in lending in low- and median-income communities. CRA must have a racial equity focus — banks and their partners must redouble efforts to direct CRA motivated capital to communities of color
 - Increase incentives for banks to invest in, lend to, and partner with CDFIs
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EXPAND CDFI PARTICIPATION IN FEDERAL LENDING PROGRAMS

CDFIs have proven throughout the COVID-19 pandemic to be critical partners in helping the federal government reach low-income, low-wealth communities with emergency capital. Strengthen and expand federal partnerships with CDFIs in the following areas:

Invest in small businesses overlooked by mainstream finance. Many hard-working entrepreneurs, especially entrepreneurs of color, lack the assets necessary for a traditional bank loan. Their dreams of owning a small business go unrealized, and the economy suffers. OFN members have financed more than 530,000 businesses and microenterprises. We can do more with federal support.

- **Make permanent the Small Business Administration (SBA) Community Advantage (CA) pilot program**, which allows mission lenders access to the SBA's 7(a) flagship program to provide credit, management, and technical assistance to small businesses that have difficulty accessing capital
- **Reform the SBA's CA secondary market** to allow more CDFIs access to critical liquidity
- **Double appropriations for the SBA Microloan program** and make critical reforms, including the repeal of the 1/55th rule
- **Create an Office of Emerging Markets at the SBA**
- **Offer new grant funding for CDFIs** for credit subsidy and interest rate buydowns to reach deeper into low-income markets
- **Promote small business lending policies that combat predatory lending**

Address the affordable housing crisis. People from low-income communities often don't meet the stringent requirements for a traditional home mortgage or are priced out of homeownership and quality rental housing. The stock of housing in America is insufficient to meet current needs and much of what does exist is aging. The need for affordable housing units far outpaces availability. OFN members have developed 2.2 million affordable housing units. With more federal partnerships we can increase the supply of affordable housing in rural, urban, and Native communities.

- **Strengthen the Federal Housing Finance Agency's (FHFA) Duty to Serve Program** including allowing and encouraging major equity investments in CDFIs
- **Ensure the FHFA approves the Government-Sponsored Enterprises (GSE) annual allocations for the Capital Magnet Fund (CMF) and Housing Trust Fund (HTF).** CMF provides flexible grant capital that supports affordable housing and economic development activities.

Uplift rural America. Rural America is full of strength and possibility, but investment in rural communities lags. People in poor rural areas are often encouraged to seek opportunity elsewhere. CDFIs know place matters — 26 percent of CDFI customers are rural. With increased federal partnerships and investments, we can spark growth and wealth-building in heavily disinvested rural areas.

- **Expand USDA's Rural Development Section 502 Lending Pilot program**
- **Create and fund the Rural Partnership Program** to ensure flexible grant funding for rural communities to support job growth, build economic resilience, and aid economic recovery

Support community facilities. To thrive, people need community anchors, like health care centers, public services, schools, libraries, town halls, and much more. In many communities, this critical need is unmet, the result of entrenched poverty and underinvestment. CDFIs help fill the gaps — OFN members have financed more than 13,270 community facilities nationwide. With new investment and partnership, we can scale.

- **Create and fund the Community Restoration and Revitalization Fund at the Department of Housing and Urban Development** to support the development of housing and community infrastructure, such as community facilities
- **Provide \$5 billion to increase access to affordable childcare** with at least five percent of the total funding set aside for acquisition, renovation, and construction of childcare facilities

To learn more about any of these recommendations, contact the OFN Public Policy team at public.policy@ofn.org.

ABOUT OFN

Opportunity Finance Network (OFN) is a leading national network of more than 360 community development financial institutions (CDFIs), specialized lenders that provide affordable, responsible financial products and services in low-income rural, urban, and Native communities nationwide. As a trusted intermediary between CDFIs and the public and private sectors, OFN works with its partners – banks, philanthropies, corporations, government agencies and others – to create economic opportunity for all by strengthening and investing in CDFIs.

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