



November 30, 2021

Ms. Jodie Harris
Director, Community Development Financial Institutions Fund
U.S. Department of Treasury
1500 Pennsylvania Avenue NW.
Washington, DC 20220

Dear Ms. Harris,

As you know, the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 provided critical resources to support the work of CDFIs and MDIs in underserved and at-risk communities, which were hit particularly hard by the COVID-19 pandemic and its economic effects. Congress showed strong support for the work of the CDFI Fund, assigning it responsibility over the allocation and stewardship of new funds totaling \$3 billion. On behalf of NeighborWorks America (statutorily the Neighborhood Reinvestment Corporation), I applaud the CDFI Fund for its work to date distributing funds under the CDFI Rapid Response Program to address urgent community needs. In the spirit of continuing partnership, NeighborWorks wishes to offer our recommendations around program design for the remaining \$1.75 billion targeted towards increasing lending and financial activity in low-income and minority communities. Please note that these comments have not been submitted to or approved by NeighborWorks America's Board. They reflect the views of NeighborWorks America management and do not necessarily represent the views of its Board members, either collectively or as individuals.

NeighborWorks America is a Congressionally-chartered nonprofit organization established in 1978. We support a network of nearly 250 local and regional nonprofit affiliated housing and community development organizations, including 81 certified Community Development Financial Institutions that provide first and second mortgages, down payment assistance for homebuyers, and rehabilitation loans. They also support the broader community development industry by offering commercial loans for economic development, real estate development, and community facilities, as well as consumer and small dollar loans.

As we collectively pursue an equitable recovery, it is important to ensure that the remaining appropriated funds are truly targeted to the "low- or moderate-income minority communities" and "minorities that have significant unmet capital or financial services needs" specified in the statute. CDFIs are an ideal instrument for channeling this investment, as many have deep and abiding connections to these populations and places and are ideally situated to deploy this capital for maximum impact.

In establishing this legislation, the Congress delegated substantial authority to the CDFI Fund to craft a definition for the new term "minority lending institution." With the bulk of the funding, or



up to \$1.2B of the total \$1.75B appropriated, earmarked for these institutions, a seemingly minor issue of a definition has outsized impact, determining program participation eligibility and, ultimately, the communities that will benefit from these funds. It is for this reason that NeighborWorks wishes to offer our recommendations.

According to the statute, “minority lending institutions” are minority depository institutions (MDIs) or other institutions that meet a standard of accountability to minority populations as determined by the Fund. A depository institution can qualify for MDI designation by demonstrating majority ownership by one or more minority persons.¹ While we concur with the FDIC’s assertion that minority depository institutions “often promote the economic viability of minority and under-served communities,” the definition of MDI is more expansive, neither requiring this service nor any direct accountability to these populations from these institutions. Meaningful accountability should be required of all entities applying for funds under this allocation.

As a result, NeighborWorks recommends that the Fund consider imposing the same accountability standards on MDIs as other CDFIs. As a standalone criterion, designation as an MDI cannot be equated to the depth of accountability which the CDFI Fund requires as part of the CDFI Certification process. To demonstrate accountability, the Fund requires meaningful representation of the target market in either the entity’s governing or advisory boards. A similar standard should be applied to minority lending institutions. For purposes of designating minority lending institutions, NeighborWorks recommends the Fund also consider past performance as demonstrated through lending track record, development services, and other factors that show commitment to meetings the needs of the target market.

We also note the importance of inclusion of Native CDFIs in this work. Native CDFIs are uniquely situated to advance economic activities on Tribal lands and in Native communities. By virtue of their qualification as a Native CDFI, they have demonstrated deep accountability to these populations and should be included in the Fund’s definition of a “minority lending institution.”

Additionally, NeighborWorks urges the Fund to seize this opportunity to develop the capacity of smaller, non-regulated loan funds, which often serve some of the hardest-to-reach populations. While some players in the CDFI space have found opportunities to enter into sophisticated partnerships with financial technology firms that have allowed them to dramatically scale up, we are concerned that these efforts often result in expanded access only for those who are easiest to serve. Competition from these larger entities has intensified pressure towards mergers and acquisitions, threatening the viability of smaller operations. To use a metaphor, when a big box retailer comes to town it is the “mom and pop” businesses that are often pressed to maintain their place in the market. Similarly, smaller CDFIs with deeper roots in the community, despite their nimbleness and responsiveness, may find themselves crowded by competition from firms who

¹ FDIC Statement of Policy Regarding Minority Depository Institutions
<https://www.fdic.gov/regulations/laws/rules/5000-2600.html#fdic5000policys0>



skim the market, serving only those who are most profitable. While NeighborWorks is deeply supportive of innovation and efficiency, these factors must be held in balance with the need to meaningfully and equitably serve historically underserved populations. One way to create these opportunities is by creating a set-aside or carveout for smaller entities that can demonstrate deeper reach into these target markets, including organizations serving rural or Native spaces.

We look forward to continuing to partner with the CDFI Fund to promote the work of CDFIs and others to meet the needs of underserved communities. Please do not hesitate to reach out to me if I can provide additional information.

Sincerely,

A handwritten signature in black ink that reads "Marietta Rodriguez".

Marietta Rodriguez
President & CEO, NeighborWorks America