



# Closing Lending and Resource Gaps among CDFIs is Necessary to Ensure Financial Inclusion for Communities of Color

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While Community Development Financial Institutions (CDFIs) are mandated to serve low-income communities, this alone has not been sufficient to ensure CDFI lending reaches into communities of color. This brief documents disparities in CDFI reach into communities of color, as well as disparities in capitalization of CDFIs by minority leadership. In short, minority-led CDFIs are disproportionately undercapitalized relative to their representation in the industry as a whole and relative to the needs of the communities they serve. Increasing private, philanthropic, and public investments in CDFIs with strong track records of serving borrowers and communities of color is a critical strategy to opening pathways for economic opportunity.

## *Racial disparities in CDFI bank mortgage lending in Mississippi*

Analysis of Home Mortgage Disclosure Act (HMDA) data provides a glimpse into who is being served by CDFIs, particularly in assessing whether they are reaching borrowers of color with wealth building opportunities such as homeownership. Stark examples are evident in Mississippi, where so much of the state qualifies geographically as low-income, and nearly 40% of Mississippi's population is Black. Using 2019 HMDA mortgage lending data, HOPE found that among the 27 CDFI banks in Mississippi engaged in mortgage lending in the state, 71% of mortgage loans went to white borrowers while only 13% went to Black borrowers.<sup>1</sup> This is lower than the statewide rate of mortgage originations in 2019 to Black borrowers at 17%.<sup>2</sup> By contrast, Hope Credit Union made 83% of its mortgage loans to Black borrowers. As such, racial disparities along economic lines also provide important context. In Mississippi, 55% of households statewide are liquid asset poor, but for Black households the rate is 72% and 42% for white households.<sup>3</sup> In terms of median household income, statewide it is \$45,792, but for Black households it is \$31,067 and for white households, it is \$57,191.<sup>4</sup>

Similarly, in Louisiana, collectively all 14 CDFI banks reporting HMDA information made 15% of their mortgage loans to Black borrowers in 2019. However, when Liberty Bank, a minority depository institution, which made 76% of its mortgage loans to Black borrowers, is excluded from the analysis, the percentage of mortgage loans to Black borrowers by CDFI banks in Louisiana drops to 9%.

### *Racial disparities in CDFI capitalization*

Despite minority-led and minority-serving CDFIs' deeper reach into communities of color, they are historically undercapitalized compared to their white counterparts. To understand the asset gap between white-led and minority-led CDFIs, HOPE analyzed data from CDFI Fund awardees between from 2003 to 2017.<sup>5</sup> In that analysis, HOPE found, during that 15-year span, the median asset size of **white-owned CDFI Fund awardees has persistently been at least twice the median asset size of minority-owned CDFI Fund awardees.**<sup>6</sup> In some years, it was three times as high.

### *Racial disparities in bank-infused capital*

Examining the data from CDFI Fund awardees for FY 2017,<sup>7</sup> HOPE analyzed trends of capital held by CDFIs that came from banks.<sup>8</sup> Based on an analysis of 315 CDFI Fund awardees, white CDFI Fund awardees held, on average, \$32 million of bank-infused capital, compared to an average of \$9.6 million for minority CDFIs. Increasing investments to minority CDFI Fund awardees to the same level of bank-infused capital investments as white CDFIs would yield \$2.7 billion in capital, a more **than a three-fold increase** in bank-infused capitalization. See Table 1.

**Table 1: Amount of Bank-Infused Capital Held by FY 2017 CDFI Fund Awardees, by Race**

CDFI by Ownership Type	Number of CDFI Fund Awardees	% of CDFI Fund Awardees	Bank Capital Held	% of Total Bank Capital Held	Average
White	207	66%	\$6,707,892,512	89%	\$32,405,278
Minority	84	27%	\$810,261,573	11%	\$9,645,971
Unknown	24	8%	\$ -	-	\$ -
Total CDFI Fund Awardees	315	100%	\$7,518,154,085	100%	\$23,867,156

These data from 2017 are more than a mere snapshot in time. Rather, the data reflect, in part, an accumulation of bank capital over time. For CDFIs, capital begets capital - having equity enhances a CDFI's ability to attract additional capital. Additionally, CDFIs typically keep bank capital on their books for several years. Consequently, CDFIs who enjoyed longer and greater access to bank capital have leveraged this advantage over time, substantially growing their balance sheets in the process.

A glimpse of this trend is evident in this data, both in the aggregate and in an anecdotal example. In FY 2003, the earliest year of data available, 207 white CDFI Fund awardees held over \$1 billion of bank-infused capital, while 73 minority CDFI Fund awardees held just about \$67 million in bank-infused capital. By 2017, these numbers were over \$6 billion and \$810 million, respectively. In an anecdotal example, one white CDFI fund awardee reported to the CDFI Fund every year from 2003 to 2017, each year showing the amount of bank-infused capital on its books at time of reporting. In 2003, this amount was \$750,000, and by 2017, it was \$35 million.

### *Racial Disparities in Tax Credit Allocations*

Unfortunately, similar patterns of racial inequity arise in the New Markets Tax Credit Program exist as well. As one example, the percentage of NMTC allocations going to minority-owned or minority-controlled CDEs shows great need for improvement. From 2012 to 2019, the percentage in terms of dollar amount of allocations provided to minority Community Development Entities (CDEs), has ranged from 5% in 2014 to a peak of 16% in 2017.<sup>9</sup> To put these numbers in context, at the peak in 2017, minority CDEs received \$576 million dollars while white-led CDEs received over \$3 billion. The outcomes of which communities benefit from NMTC investments are shaped in many ways by the development entities that receive the allocations and make decisions about which projects to fund.

### *Increasing investments in minority CDFIs can close this gap*

Given these persistent disparities in the CDFI asset gaps, disparities in bank-infused capital into CDFIs, and the track record of minority-led CDFI in serving communities of color, it is imperative to incentivize investments into CDFIs that are “minority lending institutions,” as defined by the Consolidated Appropriations Act of 2021.

A “minority lending institution” is a CDFI where a majority of both the number and dollar volume of arm’s-length, on-balance sheet financial products of the CDFI are directed at minorities or majority minority census tracts or equivalents; and is (1) an MDI as defined by FDIC or NCUA or (2) meets other standards of accountability to minority populations as determined by the Fund.<sup>10</sup>

While this definition was created in the context of directing a historic \$1.75 billion appropriation for CDFI Fund Awards to minority-lending institutions, its framework is applicable for other public and private investment opportunities. For example, in its proposed modernization of the Community Reinvestment Act, the Federal Reserve and other banking regulators can incentivize investments not just into CDFIs and MDIs generally, but those that also meet the definition of “minority lending institutions. Likewise, as U.S.Treasury seeks to implement the \$9 billion Emergency Capital Investment Program, also created by the Consolidated Appropriations Act of 2021, it can prioritize awards to entities meeting this definition. It may also have additional applications in other CDFI Fund programs, such as the New Market Tax Credit program. As an unprecedented \$5 billion NMTC allocation is considered, if the U.S.Treasury could draw on the definition to increase funding for minority CDEs to ultimately ensure a more equitable distribution of these resources, particularly in communities of color.<sup>11</sup> Given the significance of minority CDFIs in meeting the needs of people, businesses owned by people of color, and diverse communities, ensuring an equitable flow of resources to these institutions is critical for an inclusive recovery.

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<sup>1</sup> Analysis of 2019 HMDA loan origination data accessed March 29, 2021 at <https://ffiec.cfpb.gov/databrowser/data/2019?category=states> and CDFI certification data from the CDFI Fund available at <https://www.cdfifund.gov/programs-training/certification/cdfi>.

<sup>2</sup> 2019 HMDA loan origination data accessed March 29, 2021 at <https://ffiec.cfpb.gov/databrowser/data/2019?category=states>.

<sup>3</sup> Prosperity Now, Scorecard: Liquid Asset Poverty, by Race, <https://scorecard.prosperitynow.org/data-by-issue#finance/outcome/liquid-asset-poverty-rate>

<sup>4</sup> U.S. Census Data Median Household Income In the Past 12 Months (In 2019 Inflation adjusted dollars) Tables B19013, B19013A, and B19013B accessed at [data.census.gov](https://data.census.gov).

<sup>5</sup> Kiyadh Burt, Hope Policy Institute, "Analyzing the CDFI Asset Gap: Examining Racial Disparities in CDFI Fund Awardees from 2003 to 2017," Nov. 5, 2020, <http://hopepolicy.org/manage/wp-content/uploads/CDFI-Fund-Time-Series-Analysis-brief-edited.pdf>

<sup>6</sup> Id. at 2., for definition of "white-owned" or "minority-owned" as defined by the CDFI Fund ("Minority-ownership is determined by a CDFI's self-reporting to the CDFI Fund on its ILR. The ILR instructs reporting CDFIs to, 'select whether the Organization was minority owned or controlled at the reporting period end OR select Don't Know. A non-profit is considered to be minority owned or controlled if more than 50 percent of its Board members are minorities, or the Chief Executive Officer, Executive Director, General Partner, or Managing Member is a minority.' For-profit institutions define minority-ownership and control according to their own definition.")

<sup>7</sup> Id. at 2, for an explanation of this data source. ("The CDFI Fund collects this data in two databases, institutional level reports and transactional level reports. Institutional level reports collect data on the organization, financial position, financing, and minority ownership dating back to 2003. The transactional level reports collect data on the lending activities of each organization for the most recent fiscal year. This analysis uses the institutional level report (ILR) to explore the number of CDFI Program awardees, minority-ownership, assets held, and capital held from the CDFI Fund from 2003 to 2017, the most recent year for which data has been published. This dataset includes awardees that received a financial award, technical assistance, or received assistance through the Native American CDFI Assistance Program (NACA). Data is available on the CDFI Fund website.")

<sup>8</sup> Capital held, as required to be reported to the CDFI Fund for CDFI Fund awardees, represents the amount of investment capital received from the CDFI Fund at reporting end. Investment capital includes idle capital that

is available to lend and invest, deployed capital, and capital only reflected on the organization's balance sheet. CDFIs are required to designate the capital investments by source, and in this analysis, we use "cap\_Bank" designation, which is capital "received by banks or other regulated financial institution." Community Development Financial Institutions Fund. "CDFI Institution Level Report Instructions CIIS 15.0". Pgs.9-11. <https://www.cdfifund.gov/Documents/FY%202017%20Data,%20Documentation,%20Instructions.zip>

<sup>9</sup> Analysis of CDFI Fund, "NMTC Program Award Book" 2019, 2018, 2017, 2015-16, 2014, 2013, and 2012.

<sup>10</sup> Sec. 523(c)(4) of the Consolidated Appropriations Act of 2021

<sup>11</sup> See, e.g., African American Alliance of CDFI CEOs, Comment to the CDFI Fund re: New Markets Tax Credit Program Allocation Application, Mar. 1, 2021; and Sara Miller and Kendra Key, "HOPE Submits Comment Calling for Racial Equity in New Markets Tax Credit Program," Mar. 1, 2021, <http://hopepolicy.org/blog/hope-submitscomment-calling-for-racial-equity-in-new-markets-tax-credit-program/>.