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Jessica Milano
Chief Program Officer
Office of Recovery Programs
Department of the Treasury
1500 Pennsylvania Ave, NW
Washington, DC 20220

Re: Notice and Request for Information-Opportunities and Challenges in Federal Community Investment Programs; Docket No. 2022-25552

Dear Ms. Milano:

Please find below the comments of the Hope Enterprise Corporation / Hope Credit Union / Hope Policy Institute (HOPE) in response to the Notice and Request for Information (RFI) — Opportunities and Challenges in Federal Community Investment Programs, Docket No. 2022-25552.

One of the nation's largest Black- and women-owned financial institutions, since 1994 HOPE has worked to increase financial inclusion among vulnerable populations in Alabama, Arkansas, Louisiana, Mississippi, and Tennessee – a region that is home to more than a third of the nation's persistent poverty counties. HOPE was established to ensure that all people regardless of where they live, their gender, race or place of birth have the opportunity to support their families and realize the American Dream. HOPE has generated over $3.6 billion in financing and related services for the unbanked and underbanked, homeowners, entrepreneurs, nonprofit organizations, health care providers and other community and economic development purposes. Collectively, these activities have benefited more than 2 million individuals throughout the Deep South.

Of HOPE's 35,000 credit union members, 69% have household incomes below $45,000 and eight out of 10 are people of color. Our branches are located in areas with less public, private and philanthropic investment, with 86% in counties where the majority of the residents are Black. More than 85% of HOPE's branches are in high poverty census tracts, and in many places, HOPE is the only depository with a local branch.

HOPE's staff, management and governance reflect the places we serve. People of color comprise roughly 68% of HOPE's workforce, 60% of management and the majority of the governing boards of Hope Enterprise Corporation and Hope Credit Union, both Treasury-certified Community Development Financial Institutions. Similarly, 72% of HOPE's employees and 60% of management are women.

Throughout HOPE's history, federal programs have been critical to the fulfillment of the organization's mission through support of HOPE's work directly and by complementing work in the communities we serve. Federal programs represent one of HOPE's most effective tools available to leverage private dollars through member deposits, corporate investment and philanthropic support. Organized around the questions posed in the RFI, HOPE contemplates the challenges and opportunities associated with HOPE's experience using federal programs to strengthen communities and improve lives in the Deep South below.

1. Please describe examples of best practices and lessons learned from community investment projects that have layered a mix of public, private, and/or philanthropic capital. How could these projects have been more impactful or more cost effective to implement?

Strengthening the capacity of community financial institutions

Emergency Capital Investment Program (ECIP)

The U.S. Treasury Emergency Capital Investment Program (ECIP), created to leverage the reach of CDFI Depositories and Minority Depository Institutions (MDIs) to support small businesses, homeowners and consumers living in low-income communities, represents some progress in the design of community development programs – though improvements could be made. First, the program was structured to foster inclusion by a range of institutions. Approximately 20% of the ECIP awards were designated for CDFIs and MDIs with fewer than $500 million in assets. The reservation of funding for smaller institutions was of particular importance for including MDIs in the program. Nationwide there are fewer than ten Black banks and credit unions with assets over the $500 million threshold. Second, the structure of the program incentivized lending to people of color. ECIP recipients pay dividends or interest to the U.S. Treasury in exchange for the long-term capital infusion. Recipients can achieve reductions in dividend or interest payments by meeting deployment goals (starting with an increase in qualified lending by 200% of the Treasury investment).[i] ECIP recipients receive double credit for the origination of mortgages to people of color and persistent poverty counties.

Robust data collection and publication requirements are integrated into the program – allowing for the tracking and evaluation of the program's effectiveness in directing investment to people and places most in need. To the extent the program's outcomes align with its intended design – lessons should be learned and replicated across other federal community development grant making. Without question, the Emergency Capital Investment Program (ECIP) was historic. For HOPE, the groundbreaking investment will dramatically increase our impact in underserved Deep South communities. Over the next six years, HOPE estimates that the investment will allow the organization to double its annual consumer, mortgage, small business and commercial lending, serve over 33,000 homebuyers, entrepreneurs and households of color, and gain efficiencies that fuel continued growth and impact. HOPE will achieve this impact by leveraging its $92.6 million ECIP investment, structured as regulatory capital, with up to $900 million in private deposits from individuals and mission aligned institutions.

One area of improvement includes the way in which the interest rate reduction is calculated for participating financial institutions. For CDFI Depositories and MDIs with already high rates of qualified lending, the deployment requirements are much higher to meet than for institutions that received an ECIP award, but have a much lower baseline of qualified loans at the onset of the program. This misalignment of rate reduction incentives potentially creates an environment where historically low performing lenders are able to achieve rate reductions due to low baselines of qualified lending – and high performers are not.

One other area of concern includes limitations on the types of loan participations that can count towards qualified lending activity. Currently, only participations purchased from CDFI loan funds qualify. Such a restriction limits the reach and impact of the program. While ensuring ECIP participants do not double count loan originations is important, such a goal can be achieved through other means.

New Markets Tax Credits

Within the CDFI Fund's New Markets Tax Credit (NMTC) Program, the ways in which communities benefit from NMTC investments are shaped by the Community Development Entities that receive the allocations and make decisions about which projects to fund.

Unfortunately, patterns of racial inequity within the New Markets Tax Credit Program exist. 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, measured in dollars allocated to minority Community Development Entities (CDEs), has ranged from 5% in 2014 to a peak of 16% in 2017.[ii] 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.

From 2012 to 2020, organizations led by people of color were awarded 11% ($3.7 billion) of the total NMTC allocations compared with the 89% ($29.5 billion) awarded to white-led organizations.
The benefits of a NMTC allocation go beyond the critical community investments deployed by CDEs in distressed areas. A NMTC allocation also provides an infusion of capital for the CDEs (which can be CDFIs or MDIs), and earned revenue that can then be the basis for growth and attracting other types of investment for years to come.

Since the launch of the NMTC program in 2002, Hope Enterprise Corporation (HOPE) has been allocated $190 million in NMTCs used to finance 90 businesses, community facilities, and non-profit organizations in the Deep South. HOPE's NMTC investments have created more than 3,700 jobs in the states of Alabama, Arkansas, Louisiana, Mississippi and Tennessee. An analysis of HOPE's NMTC program from 2015-2020 found that HOPE's investments in 13 NMTC projects during that time are projected to generate $5.1 billion in private sector reinvestment over the next 20 years.[iii]

Rapid Response Grant Program

The U.S. Treasury's Rapid Response Grant program has served as a critical source of capital to stabilize homeowners and small business owners of color. HOPE deployed its full award within 12 months of receipt. Examples of how we put this program to use included working capital for a Black-led nonprofit that provides mental health services in Memphis, TN and financing for a Black-owned video production company to revitalize a building in a distressed neighborhood in Jackson, MS to fuel its expansion and provide space for other entrepreneurs.

The Rapid Response program provided a number of lessons learned. Smaller CDFI loan funds, community development credit unions, rural and minority lenders were all well-represented in the awards. Unlike previous award programs, this approach deployed funds quickly to organizations on the front lines of the economic crisis. Commendably, within six months of being authorized by Congress, $1.25 billion had been moved into CDFIs to support communities. As such, administration of the Rapid Response Grant Program serves as a model for future crises.

Another promising practice was the announcement of Rapid Response award recipients along with the amounts and MDI / Native CDFI designations. While the MDI designation does not extend to CDFI loan funds led or controlled by people of color, the publication of award amounts by these designations is a practice the CDFI Fund should continue in future award announcements across all program lines. Because Rapid Response awards were published with this information, it is possible to assess the distribution of the awards along racial equity lines.

Even with the successful deployment of the dollars, there are still opportunities to further advance the equitable distribution of funds to support historically underserved communities. Nationally, HOPE found that the distribution of Rapid Response dollars was proportional to the percentage of CDFIs that are also MDIs. CDFI MDIs represented 10% of CDFI awardees and likewise received 10% of the funds awarded. Even though the funding was proportional, more is needed to ensure that the resources address the greatest need, or in this case, where the health and economic impact of COVID-19 was the most severe – in communities of color.

Examining distribution of Rapid Response program funds in the Deep South provides clarity on why improved targeting is needed for future funding. Only six CDFI MDI depositories received an award, totaling $6.9 million of the $261 million awarded in the region. This means only 3% of the funds went to a Minority Depository Institution in a region of the country where over 32% of the population are people of color.

<u>Stacking of Federal Resources</u>

Throughout the Delta and Southern Black Belt, there are countless housing developments, in need of updates and repairs. In 2015, after opening a branch in Moorhead, Mississippi, a predominantly Black Delta community of slightly under 2,000 residents, HOPE began work to rehabilitate 44 homes in the subdivision of Eastmoor. The Eastmoor subdivision was built in the late 1970's just beyond the town's boundaries. After hastily constructing the development, houses were marketed to Black residents in Moorhead – to maintain a white majority in the town for the purposes of electing a white mayor. In subsequent years, substandard construction and infrastructure resulted in the seepage of raw sewage in the yards. Houses sank into the ground. Foundations shifted, opening cracks in the walls and ceilings that exposed families to the cold and rain. Some 20 homes burned to the ground or were razed.

Ultimately, a lawsuit abated the sewage problem and transferred ownership of the substandard properties to the residents. Substantial redevelopment needs remained for the homes, the roads and the public spaces. Anchored by a grant from Goldman Sachs, HOPE secured HOME funds from the Mississippi Home Corporation, the United States Department of Agriculture Rural Development and other philanthropic resources to rebuild the remaining homes in the subdivision. The Delta Regional Authority and the Community Development Block Grant program were also tapped to provide funding to address the infrastructure issues within the community. Such an approach is one that could be replicated through partnerships between the United States Department of Agriculture Rural Development and the Department of Housing and Urban Development by directing funds through CDFIs specializing in the layering of federal funding to rebuild homes in the most economically distressed communities in rural America.

Supporting small businesses and entrepreneurship

Small Business Administration Paycheck Protection Program

As COVID-19 upended lives and the economy, it quickly became clear that federal responses like the US Small Business Administration Paycheck Protection Program (PPP) were not adequately designed to meet the needs of Black, Indigenous, and other business owners of color. The structural deficiencies devastated already undercapitalized entrepreneurs of color, and Black businesses suffered an initial closure rate of 40% and Latino businesses, 37%, compared to 17% for white-owned businesses as a result.[iv] The experiences of many businesses served by HOPE and other mission-based lenders providing PPP loans reflect the realities of large swaths of small businesses that are neglected or underserved by traditional financial institutions.

Black-owned businesses are less likely to have an existing relationship with a financial institution, just as, or more, likely to seek credit, and yet, are more likely to be denied or discouraged than white owned businesses. Fewer than 25% of Black-owned employer firms have a recent borrowing relationship with a bank.[v] This number drops to 10% among Black non-employer firms, compared with 25% white-owned non-employers.[vi] These gaps in financial relationships exist even among healthy firms. According to the Federal Reserve Bank of New York's August 2020 report, Double Jeopardy, 73% of healthy or stable white employers have an existing banking relationship, compared to 42% of healthy or stable Black employers.[vii]

Lack of access to capital is not due to Black businesses not applying for it. In fact, Black-owned firms—both employer and non-employer—apply for financing at equal or higher rates than white-owned firms but are denied at higher rates.[viii] Black business owners are also more likely than white owners to report being discouraged, or not applying for financing because they believe they will be turned down. Among Black employer firms, 37.9% reported being discouraged, compared to 12.7% of white-owned firms.[ix]

These disparities and experiences were present prior to COVID-19, but the Paycheck Protection Program put them on full display. PPP relied on traditional banks as the primary delivery system, but banks prioritized the largest accounts at the onset of the program. Several Black-owned HOPE PPP borrowers expressed frustration with mainstream financial institutions offering PPP loans, including those with whom they already had a banking relationship. A Black dentist was not funded by a large bank, and the bank never called to check on the application. The dentist applied with HOPE, and we approved her $12,000 loan request. HOPE approved a woman-owned staffing company in Memphis, coming to us after having received no response from her regional banks. HOPE approved a $7,200 loan for a Black-owned, 27-year old barbershop in New Orleans after the owner received no help from his bank, one of the largest in the country. These stories were a constant narrative in our PPP lending process, an extension of a banking system that has historically failed to serve communities of color and low-income communities with the same attention as others.

Due to a range of structural barriers within PPP, businesses owned by people of color faced greater barriers in accessing these relief funds. As just one of many examples, non-employer firms were unable to apply for PPP funds for the program's first seven days, until April 10, and the first round of $350 billion was fully depleted just six days later on April 16. This exclusion of non-employer firms at the start of this program was especially significant, as over 90% of Black and Latino owned businesses are non-employer firms.[x] As of August 8, still, only 5.4% of the deployed $525 billion in PPP loans went to businesses reporting one or fewer employees.[xi]

HOPE was a leader in organizing CDFIs, MDIs and others to successfully advocate for modifying the PPP program in several aspects, including serving sole proprietors, reducing barriers for CDFI loan funds, and dedicating PPP funds to be deployed by CDFIs and MDIs. Consequently, HOPE made 5,216 PPP loans—89 percent to borrowers of color and 50% to women. The average amount of these loans was a modest $26,814, over $40,000 less than the program average nationwide. Of HOPE's $140 million in PPP lending, 98% of the loans were for amounts of less than $150,000 (in contrast to half for the program overall). Over 3,500 loans were to sole proprietorships (this is notable given that 96% of Black owned businesses in the Deep South are sole proprietors). In a normal year, HOPE makes roughly 50 business loans totaling $40-50 million.

Unfortunately, there is limited data on the race of PPP loan recipients. According to the U.S. Government Accountability Office "information was not reported for business owners' race for 90 percent of approved [PPP] loans, gender for 79 percent of approved loans."9[xii] As such, the remaining available proxy is looking at whether PPP loans reached communities where a significant number of Black-owned businesses are located. The Federal Reserve Bank of New York found that PPP loans "reached only 20% of eligible firms in states with the highest densities of Black-owned firms, and in counties with the densest Black-owned business activity, coverage rates were typically lower than 20%."[xiii]

CDFIs, like HPE, were critical for deployment of Pandemic relief to small businesses in the Deep South, accounting for one-third of the Paycheck Protection Program (PPP) loans under $150,000 in Mississippi and Louisiana, making 7 times more small PPP loans in these states than the five largest banks in the country combined. Loans made by CDFIs in Mississippi and Louisiana supported over 156,000 jobs in small businesses that did not access loans through traditional lenders.[xiv]

<u>Goldman Sachs 10,000 Small Businesses</u>

Through a partnership between HOPE and the Goldman Sachs *10,000 Small Businesses* program, HOPE has provided lending capital and technical assistance to small businesses throughout the region. The partnership leverages lending capital, philanthropic support and business education classes with partners like Historically Black Colleges and Universities. The Goldman Sachs businesses management education and training program helps entrepreneurs succeed by focusing on practical skills that small business managers can immediately put into action. Over the course of the program, business owners gain the skills needed to develop their business plan to grow, create and maintain financial statements, and implement marketing strategies, and take advantage of procurement opportunities.

From 2011-2019, HOPE deployed $39.4MM in financing to more than 75 small businesses in Louisiana and Mississippi through the Goldman Sachs 10,000 Small Business program. These borrowers included 24 scholars who completed the program's educational component, and supported hundreds of jobs.

More recently, HOPE and Goldman Sachs partnered to establish a Deep South Economic Mobility Collaborative to build a stronger, more inclusive small business support system across the Deep South, with a primary focus on seven Black-led cities - New Orleans and Baton Rouge, LA; Birmingham and Montgomery, AL; Memphis, TN; Little Rock, AR and Jackson, MS. Through the program HOPE will provide support to cities to access to capital and business education for underserved small businesses, improve opportunities through a supplier diversity program, and address other challenges that contribute to the racial wealth gap.

The collaborative is formalizing and expanding partnerships to increase underserved businesses' access to customized education, technical assistance and affordable capital, including with Black-led municipal governments, Historically Black Colleges and Universities (HBCUs), corporations, nonprofit community development groups, and other mission aligned partners. The project also includes enhancing HOPE's technology and the workflows of our loan underwriting and closing processes.

<u>State Small Business Credit Initiative (SSBCI)</u>
The SSBCI from 2010 to 2017 demonstrates a key proof point of how CDFIs can expand the success and reach of federal resources when state implementation is uneven. Just over one-third (34%) of total SSBCI funds went to businesses located in low- to moderate- income areas. CDFIs, again, outperformed the program as whole, with 46% of lending directed to businesses in low- to moderate-income areas as compared to 32% for non-CDFI lenders.

The outcome of Mississippi's SSBCI 1.0 is informative as well: in Mississippi, despite nearly 50% of loans going to rural businesses, only 28% of loans were directed to businesses in low-income areas in the state. The majority of loans went to larger agriculture businesses. In the first iteration of SSBCI, Treasury did not report on the extent to which these funds went to communities or borrowers of color. In this next round Treasury should mandate that all states provide investment level data on the race of every business owner assisted through the program. This level of reporting would allow the U.S. Treasury to increase accountability at the state level for deploying these funds in an equitable manner.

<u>State CARES Act Small Business Relief Programs</u>
In the early part of the COVID-19 pandemic after CARES Act funds were allocated to States, Deep South states allocated over $1.1 billion towards small business relief. These state programs had the opportunity to serve as a lifeline for small businesses struggling to survive and regroup from the economic consequences of COVID-19.

Mississippi funded two programs to support eligible businesses with 50 or fewer full time employees. One was a $60 million allocation for the Mississippi Department of Revenue to deploy as direct payments of $2,000 to an estimated 29,000 businesses, whose eligibility was pre-determined by the Department in accordance with statutory requirements. As of August 14, 2020 over 13,000 businesses had received over $26 million through the direct payments program[xv]. The second was a $240 million allocation for the Mississippi Development Authority to deploy as grants up to $25,000 for which eligible businesses could apply. The grant program preserved $40 million for the first 60 days of the program for minority and women-owned businesses. By August 2020, more than 20,000 businesses applied for a grant, seeking more than $100 million in relief, and 58% of applicants were minority and women-owned business. As of August 14, 2020, more than 60 days after the program launch, only $2.9 million of the $240 million had been deployed to any businesses at all, essentially negating the set-aside for minority- and women-owned businesses. Ultimately, only $118.6 million was granted to 24,591 small businesses through the program and more than $120 million was transferred to other state agencies and the state's unemployment fund.[xvi]

Tennessee's Small Business Relief Program, established by the Governor's Stimulus Financial Accountability Group,[xvii] deployed over $110 million of an available $200 million to over 14,000 business between June 29, and August 11, 2020.[xviii] The Tennessee program utilized a system of providing payments directly to pre-determined eligible businesses via the state's Department of Revenue, similar in concept to the one administered by Mississippi's Department of Revenue. There are two concerns related to Tennessee's program, both of which were raised by the NAACP Legal Defense Fund in a letter to the Governor and the Tennessee Stimulus Financial Accountability Group established to oversee the state's CARES Act spending.[xix]

First, the formula for determining payment sizes was based on a business's gross sales, such that the larger the gross sales, the higher the relief payment, regardless of the magnitude of COVID's impact on the business.[xx] This formula based on gross sales inherently benefited white-owned businesses. In Tennessee, businesses with white owners have an average business value (based on gross sales, revenues, receipts) of $525,493 compared with an average value of $47,178 for Black-owned business.[xxi] NAACP LDF estimated, based on the program's formula, more than half of the funding may go to businesses with more than $500,000 in annual gross sales. Less than 1% (1,200) of Tennessee's Black-owned businesses fall in that category, whereas 9% (77,000) of the state's white-owned businesses do.[xxii]

As of August 11, 2020 of the 14,172 businesses that had received a payment through the program, 1,572 (11%) voluntarily self-identified as minority-owned businesses.[xxiii] Relatedly, 50% of the state's minority-owned businesses are located in Shelby County, yet only $14 million (13%) of the payments had flowed there.[xxiv] Ultimately, the program distributed $200 million to 28,000 small businesses through the program and created a supplemental program that included support directed at minority-owned, women-owned, and service-disabled veteran-owned businesses.[xxv]

While each of the Deep South programs differed in their details in size and scope, and differ in the manner by which they distributed the funds, one common characteristic was that each was run by a state agency directly. At least one state outside of the region took a different approach. Pennsylvania provided $225 million to the 17-member Pennsylvania Community Development Financial Institution (CDFI) coalition, to administer and distribute the funds, CDFIs are already deeply embedded in the communities that were hardest hit by the COVID crisis and have existing expertise in serving small businesses.[xxvi] Of the $225 million Pennsylvania program, $100 million was dedicated to historically underserved businesses. Launched on June 29, 2020 early results showed success in such a model reaching hardest hit, historically underserved businesses. As of August 11, 2020, nearly 50,000 applications were received seeking more than $860 million in the first application window. About half of 4,933 businesses – or 2,512 – that are received grants in this round are going to historically disadvantaged businesses. More than 80% of the grant recipients were low-income business owners or owned a business located in a low- or moderate-income census tract.[xxvii]

Improving financial health and inclusion

Neighborhood LIFT

One policy strategy for advancing homeownership among people of color includes the funding of down payment assistance programs. Studies show that housing tenure and the wealth of parents are principal contributors to the acquisition of a home. Down payment assistance programs narrow racial gaps in access to family wealth that have been exacerbated by historical factors. HOPE has experienced the positive effects of down payment assistance programs in the advancement of homeownership opportunities among people of color through Neighborhood LIFT, a partnership with Wells Fargo and NeighborWorks America.

HOPE provided down payment assistance grants of up to $10,000 to 359 Mississippians. Approximately one quarter of the mortgages originated were located in rural communities, 90% were to Black households, 63% were women headed households, all but one borrower assisted was a first-time homebuyer, and the median purchase price was $81,000. Of note, the program provided flexible down payment assistance, available to cover principal reduction or closing costs, a critical feature of the program that often meant the difference between attaining homeownership – or not. One promising approach for targeting down payment assistance includes a focus on first generation homeowners. The Urban Institute finds that 4-8 million households of color would become first time homebuyers through a down payment assistance program structured in this manner.[xxviii]

Investing in community facilities and infrastructure

CARES Act for Local Government

Local governments and community organizations in rural, persistent poverty areas often face structural barriers to accessing federal funds. One example of this occurred in 2020, when many state CARES Act programs for local governments required expenditures for reimbursement, a model that is commonplace for disaster relief aid. Communities with small budgets, however, often do not have the "up-front" funding required to provide assistance and then later be reimbursed.

This was true for the 2020 CARES Act Coronavirus Relief Fund as small, rural, low-income towns and communities of color, such as those in the Delta regions of Louisiana and Mississippi, and the Alabama

Black Belt, where already weak economies were now further ravaged by the pandemic, lacked the resources needed to pay for personal protective equipment (PPE) and other vital pandemic-related needs.

Hope Policy Institute reviewed the monies deployed to local governments in Louisiana through this reimbursement model.[xxix] It found that the parishes already struggling to access resources before the pandemic, particularly majority people of color, rural and persistent poverty parishes, had trouble accessing their allocated portion made available through the Coronavirus Relief Fund. For example, rural parishes in persistent poverty where a majority of resident were people of color received only a third (31%) of the funding allocated, whereas their white counterparts received 74%. (Table 1). In dollar amounts, rural, persistent poverty, majority people of color parishes only received 6.9% of similarly situated white counties. By not supporting communities of color and rural areas equitably, recovery policy widened gaps, between resource-rich communities and those with less, as the country moves beyond the pandemic.

Table 1: Percent of CARES Act Local Government Relief by Amount Received Compared to Amount Allocated and Requested by Persistent Poverty and Rural Parishes, by Race

	Orirginal Allocation as of 10/1/2020	**Total Received**	**Amount Requested**	**% of Total Allocation Received**	**% of Amount Requested Received**
Persistent Poverty, Rural, Majority People of Color Parishes (5)	$ 8,344,651	$ 2,601,911	$ 8,132,962	31%	32%
Persistent Poverty, Rural, White Parishes (17)	$ 50,100,563	$ 37,982,677	$ 51,993,230	74%	73%
Source: Hope Policy Institute and Power Coalition for Equity and Justice, "Racial Inequities in the Distribution of Louisiana's Coronovirus Relief Funds: A Report for Community Leaders"					

In response to these barriers, HOPE provided a range of technical assistance and financing support that enabled local governments to access the state-administered CARES Act funds. In Alabama, HOPE partnered with the Black Belt Community Foundation to establish a loan program that advanced towns up to $50,000 in recoverable grants, which were repaid when the towns were reimbursed by the state. This partnership, supported by local philanthropic partners, channeled $1 million to 23 Black Belt communities. In one town, the $24,000 recoverable grant was roughly half its annual budget, an amount that would have been impossible to outlay for reimbursement. Even with this model in place, several eligible towns still did not receive all that was needed.

Another barrier for local governments and community organizations in rural, persistent poverty areas and beyond includes match requirements to access federal programs. Matching fund requirements can perpetuate gaps in access to capital for these entities and the communities they serve.

<u>Community Facilities Relending Program</u>

One program that HOPE uses to support lending for community facilities is the USDA's Community Facilities Relending Program. Overall, the time needed to deploy the CFRP funds is taking longer than expected. This includes time needed to identify opportunities, structuring the financing of the deal, procuring necessary USDA and local approvals, in addition to unexpected delays that might arise in any type of construction project.
HOPE has encountered several challenges in deploying these funds. One such challenge is price competitiveness. For borrowers with options, it is far cheaper to utilize bond financing or borrow from the USDA directly – through the USDA's CF Direct Loan program.

The uncertainty of timing for USDA approvals for different phases of the project also contributes to hesitancy around whether the project will come together. For example, HOPE sought to use the USDA CF Relending program to finance a rural hospital in Tippah County. The questions around the timeline for USDA approval of the deal's structure, however, raised partner concerns around whether or not USDA approval would be garnered in time to meet deadlines associated with the use of New Market Tax Credits – a critical piece of the capital stack needed to leverage additional private sector investment.

Additionally, unevenness exists among local USDA offices in regards to their comfort level in combined CFRP and NMTC transactions. USDA offices in some states are more comfortable than those in other states with this level of innovation.

Working with municipalities or public entities, such as colleges, adds an additional layer of complexity because of challenges associated with the use of public buildings as collateral for a loan. In Alabama, it is possible to do so as long as it meets the statutory definition of economic development. In Mississippi, it is less clear. HOPE is in the process of requesting an Attorney General opinion that, if favorable, may reduce this burden in the future.

To overcome some of these challenges, the USDA should permit Re-Lenders to pair CFRP funding with NMTC as they already do for their own CF direct lending. People in the industry are already familiar with that process, and it is much easier to use than the current CFRP process. USDA should extend the 5-year timeframe for deployment. If it is not extended, there is a risk that all of the time and money spent to date in working to deploy the funds will not come into fruition.

2. From the examples provided in response to question 1, what specific changes could agencies consider to facilitate the layering of federal funds to attract greater private follow-on funding, as they implement new community investment programs and contemplate modifications to others?

Partnerships with MDIs and CDFIs with long track records of reaching underserved communities and communities of color are needed to ensure federal resources reach people and places most in need. CDFIs, long on the front lines of meeting the financial needs of underserved communities, continue to serve as important drivers of economic mobility in rural economies and among people of color.

Evidence of Impact of MDIs and CDFIs

In 2019, the FDIC released a report on the structure, performance and social impact of MDIs.[xxx] The report found that MDIs are a proven way to advance economic mobility in Black communities. An estimated six out of 10 people living in the service area of Black owned banks are Black, in contrast to six out of 100 for banks that are not Black-led. Moreover, Black owned financial institutions originate a substantially higher proportion of mortgages and small business loans to Black borrowers than non-minority financial institutions. While a comparable analysis has not been conducted for MDI credit unions, one could extrapolate from the FDIC analysis the same conclusion.

Further evidence of impact comes from coalitions of CDFIs with significant experiences in serving historically underserved communities. For example, the African Alliance of CDFI CEOs consists of "56 Black-led community development financial institutions (CDFIs) committed to the support and growth of Black communities and the Black executives leading CDFIs that serve those communities."[xxxi] Collectively, Alliance members have deployed more than $1.5 billion in loan capital in the communities they serve. The African American Credit Union Coalition and Inclusiv also found that "minority designated credit unions help build inclusive communities [that] serve nearly 2 million people and manage over $17 billion in community controlled assets across the country."[xxxii]

Despite minority-led and minority-serving CDFIs' deeper reach into communities of color, they are historically undercapitalized compared to their white counter parts. To understand the asset gap between white-led and minority-led CDFIs, HOPE analyzed data from CDFI Fund awardees from 2003 to 2017.[xxxiii] 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.[xxxiv] In some years, it was three times as high.

Examining the data from CDFI Fund awardees for FY 2017,[xxxv] HOPE analyzed trends of capital held by CDFIs that came from banks.[xxxvi] 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 2.

Table 2: 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

Source: Hope Policy Institute analysis of data from the CDFI Fund Institution Level Reports 2003-2017

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 that enjoyed longer and greater access to bank capital have leveraged this advantage over time, substantially growing balance sheets in the process.

A glimpse of this trend is evident in this data, both in the aggregate and by way of 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. 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.

Given these persistent disparities in CDFI funding juxtaposed with the track record of minority-led CDFIs serving communities of color, it is imperative to structure future investments in ways that rectify this historic imbalance by prioritizing investments in CDFIs that demonstrate a history of lending to people of color.

<u>Emergency Rental Assistance Program</u>

An examination of the Emergency Rental Assistance Program (ERAP) shows that state governments in the Deep South did not meet the needs of local people in the distribution of rental assistance at levels achieved across the country. The Federal Reserve Bank of Atlanta analyzed the distribution of ERAP funding by states and local governments charged with administering the program. At both points, four of the five states in HOPE's coverage area included in the analysis (AL, LA, MS, TN) lagged the national average in expending ERAP funding.[xxxvii]

In Mississippi, a year and a half after the state received its funds, it had deployed over $260 million across the three programs in the state (one statewide and two local government programs). This Summer, Governor Tate Reeves announced that the state program would not accept applications after August 15, 2022 and would return what funds remain to the Department of Treasury after the submitted applications have been processed. The state has already volunteered to return $25 million in ERA 1 funds. As of October 31, 2022 the state had received 91,316 applications for rental assistance and had 9,362 still under review and 42,419 (46%) applications were denied or withdrawn. The program had obligated $242.3 million of ERA1 and ERA2 funds for 39,535 of approved applications[xxxviii].

Unlike the state program, the local government program in Harrison County, Mississippi contracted with the Open Doors Homeless Coalition, a local community organization, to administer the program. Open Doors Coalition had long been engaged in providing rental assistance through other federal programs. Open Doors utilized their existing strengths, especially their community relationships, landlord relationships, and experience rapidly deploying rental assistance, to hit the ground running in the deployment of ERA. In the early launch of the program from March to June 2021, through intensive community-facing engagement including intake workshops, landlord outreach, and meeting people where they are, Open Doors deployed approximately $3.8 million of its $6.5 million allocation, reaching nearly 900 families on Mississippi's Gulf Coast.

The Rental Assistance Fund was designed by the state to be difficult to access in rural, communities of color. In its initial deployment across several Deep South states, applicants needed an email address, only had access to an online application, and lacked application assistance from the managing governmental agencies. Even after some households received support, Mississippi and Arkansas declined portions of rental assistance funds, ultimately jeopardizing the housing status of the most vulnerable households. As mentioned above, local governments, often led by people of color, with ERAP responsibilities in the same southern states expended ERAP dollars at much faster rates and often at levels well in excess of national levels. Such findings call for increased accountability among states - particularly states with questionable track records in serving the most vulnerable populations.

Accountability must extend beyond sending unspent money to other states or back to Washington, DC and include mechanisms to create consequences for state agencies when the people and communities intended to be served are not. Additionally, the strong showing by local governments administering ERAP underscores the importance and effectiveness of directing federal resources to entities closest to the ground with the mechanism to track and deploy federal dollars.

3. As agencies are implementing new programs under recent CHIPS and IRA legislation, how can they best incorporate these lessons to streamline design and delivery, as well as ensure historically underserved communities benefit from federal funds?

There are several emerging federal programs that can still be structured to address the concerns HOPE has laid out above. Programs can be directed as close to the ground as possible by providing support for local community organizations, local governments, and CDFIs and MDI's with a long track records of reaching underserved communities and communities of color, instead of to States and state agencies. Programs should include data collection and accountability measures that evaluate the distribution of program funds to communities of color and other underserved communities. Some of these emerging programs include the *Broadband Infrastructure Program, the Broadband Equity, Access, and Deployment Program (BEAD) and the EPA's Greenhouse Gas Reduction Fund.*

Of note, the Environmental Protection Agency (EPA) is currently not represented on the Interagency Community Investment Committee. Given the significant community development investment opportunity ($27 billion) forthcoming through the Greenhouse Gas Reduction Fund, which is managed by the EPA, the committee should be expanded to include the EPA. The goals of both the ICIC and the Greenhouse Gas Reduction Fund are currently aligned and would only serve to be enhanced by intentional coordination. Likewise, the omission of the EPA from this body of work would be a huge missed opportunity for the ICIC with the consequences being felt most by low-income communities and people of color.

<u>Greenhouse Gas Reduction Fund (GHGRF)</u>

The GHGRF represents an opportunity to engage and invest in low-income communities and people of color first, with a proactive focus on long term solutions. In the structuring of the competitive grant programs to be funded through the GHGRF, it is paramount that the Environmental Protection Agency invest in multiple applicants. A strategy that engages multiple entities is needed to quickly deploy the resources made available through the GHGRF – while ensuring they reach the people and communities most in need. Within this approach, selected applicants should, at a minimum, be comprised of diverse leadership at both the board and executive levels. Applicants should also be able to demonstrate long track records of investing in both people and communities of color – especially ones facing economic distress. In contrast, a strategy that directs funding through one national entity should not be pursued. Such a strategy will reinforce long standing structural inequities where the communities and people who are hardest to reach, with the least information, are served last, if ever at all.

In order to advance strategies that increase access to zero emissions technologies or reduce greenhouse gas emissions among low-income people and communities of color, the EPA should prioritize the funding of approaches that:

- Provide direct, affordable, flexible financing to low-income people and communities of color to achieve intended climate outcomes;
- Make technical assistance available to lenders and borrowers to facilitate the accessing of resources and subsidies to adopt clean energy solutions and low carbon technology
- Raise awareness among low-income people and communities of color around the financial benefits of adoption and to provide a culturally relevant roadmap to access the resources made available through the GHGRF;
- Engage community-owned financial institutions with long track records of investment in and ties to historically underserved people and places.

The GHGRF presents a generational opportunity to reduce greenhouse gas emissions through direct engagement with low-income communities and households most affected by climate change.

4. Community financial institutions play a critical role in providing safe, affordable capital and financial services to historically underserved communities. How can federal agency coordination help build the capacity of these organizations to serve their communities?

Fair treatment across CDFI types should be addressed in program design, including coordination among federal banking regulators. In ECIP, it was critical that NCUA determined that credit unions could utilize the ECIP resources for the full-term allowed by Treasury, thus ensuring CDFI credit unions would have the same opportunities as their bank counterparts.[xxxix] This determination was key to furthering racial equity in the program's implementation.[xl] Notably, there are 518 MDI credit unions compared to 146 MDI banks. Rollout of this program underscored the need to coordinate with federal bank and credit union regulatory agencies to ensure one group of CDFIs is not disadvantaged during the program design phase in ways that could ultimately reduce the impact of the overall program by limiting participation.

5. What specific changes to federal credit or securitization programs could facilitate additional private investment in community financial institutions, and what are the most important existing limitations of these programs that may prohibit additional scale that could be achieved?

The Government Sponsored Enterprises (Fannie Mae & Freddie Mac) must be more inclusive in the types of mortgage products the organizations purchase on the secondary mortgage market
Homeownership is a key opportunity for families to build wealth and a critical strategy in closing the racial wealth gap. Government Sponsored Enterprises (GSEs) such as Fannie Mae and Freddie Mac should play a crucial role in closing the gap given their work in housing finance for underserved markets.[xli]

HOPE's in-house mortgage product, the Affordable Housing Program (AHP) was designed to address the systemic obstacles to buying a home created by the racial wealth gap. Through the program, borrowers may finance up to 100% of the value of the home (100% LTV), credit scores as low as 580 are considered, non-traditional sources of repayment history are eligible for underwriting and no mortgage insurance is required.

During that same period, HOPE has closed 1041 mortgages for $130 million. Of those mortgages, 78% by number and 76% by dollar were mortgages originated through HOPE's Affordable Housing Program (AHP). The AHP is one of the single most effective tools available to HOPE to build wealth in the Black community. Of the 749 AHP mortgages originated from 2017-2022, 80% were to Black borrowers, 58% were to women headed households, and 85% were to first time homebuyers. The success of this product is reinforced by low charge off rates. Over the last five years, the annual net charge off rate has never gotten higher than 67 basis points.

Despite the product's impact and performance – there was one other consistent feature. Neither Fannie Mae nor Freddie Mac will purchase HOPE Affordable Housing Product Loans. While this matters for HOPE and could have played a role in expanding the organization's ability to serve more households – it matters most because there is no single more powerful engine in the American economy to close the Black / white homeownership gap than the GSEs.
Only about 4 percent of mortgages purchased by GSEs annually are made to Black households. This is below the proportion of total mortgages originations to Black households nationwide and well below levels needed to close the gaps.[xlii] [xliii] [xliv] Efforts must be taken across the GSE system to meaningfully improve the level of lending to Black households supported. One way to do this is to expand the products eligible to be purchased by GSEs to include products provided by CDFIs that serve communities of color. So long as Fannie Mae and Freddie Mac are systemically overlooking the purchase of mortgage products with a demonstrated track record of serving Black households, the GSEs are simply preserving gaps and supporting the status quo.

6. How can the Agencies incentivize or structure data collection and reporting to promote increased private sector and philanthropic investment in community financial institutions?

<u>Low Income Housing Tax Credit</u>
Stronger tracking and reporting mechanisms are needed to expand inclusion in the Low-Income Housing Tax Credit (LIHTC) program. The Low-Income Housing Tax Credit Program is one of the primary tools used by HOPE to expand the supply of high-quality rental housing in rural persistent poverty counties throughout its footprint. While the outcomes are positive, one ongoing challenge remains in the

consistent lack of allocations to Black housing developers. Across HOPE's five state region, there are active LIHTC developers that receive allocations year after year. There is not a single Black developer receiving frequent and consistent awards. In light of the disparities, increased annual reporting requirements from all state housing finance agencies charged with overseeing the program should be required.

CDFI Fund

Among CDFIs, financial institutions that receive CDFI Fund support should be held accountable to serve borrowers of color. The CDFI Fund should examine and report on which populations and communities are being served by financial products and services supported by the Fund's investments, particularly by race and ethnicity.

HOPE strongly endorses the inclusion of Board and Executive Staff Demographic Information for every CDFI certified by the CDFI Fund in its most recent request for comments. Currently, the CDFI Fund does not collect / publish data on the leadership of all certified CDFIs. In the absence of this information, it is not possible to conduct a comprehensive disparity analysis on award decisions based on the racial makeup of CDFI leadership. Such an analysis is critically needed as, historically, awards to white led CDFIs have outpaced awards to CDFIs led by people of color.[xlv]

In addition to examining whether CDFIs are meeting the minimum thresholds for CDFI certification, which are often based on low-income geography or low-income borrower, the CDFI Fund should seek to understand how much CDFI lending is reaching communities of color, borrowers of color, and underserved areas such as rural areas of persistent poverty. This data should be reviewed and published in the aggregate on a regular basis on the Treasury's website.

An examination of Home Mortgage Disclosure Data (HMDA) in the Deep South underscores concern about potential disparities in track records among CDFIs and MDIs. 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.

Among the 27 CDFI banks headquartered and engaged in mortgage lending in Mississippi from 2018-2020, 68% of mortgage loans went to white borrowers while only 13% went to Black borrowers. This is lower than the statewide rate of all HMDA reported mortgage originations from 2018-2020 to Black borrowers at 17%. Among the three CDFI credit unions headquartered and engaged in mortgage lending in Mississippi from 2018-2020, 59% of mortgage loans went to Black borrowers and 39% went to white borrowers. When HOPE's loans are removed from the analysis, it drops to 33% of loans to Black borrowers. By contrast, from 2018-2020, Hope Credit Union, an MDI and CDFI, made 81% of its mortgage loans to Black borrowers.

Similar patterns persist in Louisiana as well, where 32.8% of the population is Black. Using 2018-2020 HMDA mortgage lending data, statewide, among all lenders engaged in mortgage lending in the state, 14% of mortgage loans went to Black borrowers and 73% to white borrowers, with data missing for 13% of loans. Among 16 CDFI credit unions headquartered and engaged in mortgage lending in Louisiana, from 2018-2020, 19% of mortgage loans went to Black borrowers and 70% went to white borrowers. For CDFI banks in 2019 in Louisiana, of the 14 CDFI banks reporting HMDA information, 15% of mortgage loans went to Black borrowers. However, when Liberty Bank, an MDI CDFI bank that 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 dropped to 9% in 2019.

Accountability should begin with data reporting and transparency by federal agencies and their grantees, including information on who is ultimately benefiting from the programs, specifically by race, ethnicity and gender. Financial and technical support should be provided for grantees with limited resources to collect and report such data.

While critically important, it is not just the level of federal resources that matter. Design, structure, reporting and accountability measures must all be in place and aligned to ensure scarce federal dollars are flowing and leveraging private resources in a way that closes existing wealth gaps rather than widening them. This RFI represents and important first step in strengthening our system of federal investment to advance community development outcomes. We look forward to continued engagement around the development and implementation of strategies to realize the RFI's goal.

Sincerely,

Bill Bynum

William J. (Bill) Bynum
Chief Executive Officer

Sara Miller

Sara Miller
Senior Policy Analyst

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