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November 23, 2022

Jodie L. Harris
Director
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220
Re: Docket No. CDFI-2022-0001

Dear Ms. Harris:

Please find below the comments of Hope Enterprise Corporation / Hope Credit Union / Hope Policy Institute (HOPE) in response to the Request for Comment on Minority Lending Institution Designation Criteria, Docket No. CDFI-2022-0001.

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.

Since 2020, Congress has taken significant steps to support CDFIs and Minority Depository Institutions (MDIs), particularly through federal programs such as the Emergency Capital Investment Program (ECIP) and the Equitable Recovery Program (ERP). However, despite their mission and impact, all CDFIs, especially MDIs and minority-led loan funds are not capitalized equally. An analysis of CDFI Fund awardees by Hope Policy Institute found wide disparities in the funding and asset size of Black led CDFIs compared to their white counterparts, despite the outsized impact CDFIs of color have in Black communities.¹ The creation of a precise definition of a Minority Lending Institution will allow for clearer insights and the targeting of resources on the institutions that are best positioned to serve historically underserved communities of color. Our recommendations below provide guidance on how the CDFI Fund should define Minority Lending Institutions that have greatest accountability and service to communities of color.

Definitions – Majority-Minority Census Tracts

Are the proposed definitions of “Minority” and “Majority-Minority Census Tracts” appropriate for the purposes of designating an MLI?

The Consolidated Appropriations Act of 2021 (the Act) defines an MLI as a CDFI that (i) directs a majority of its financial products to minority populations or communities; and (ii) either (a) is a Minority Depository Institution (MDI) or (b) demonstrates accountability to Minority populations. The Act defines “minority” as “any Black American, Hispanic American, Asian American, Native American, Native Alaskan, Native Hawaiian, or Pacific Islander.” The Fund proposes to define “Majority-Minority Census Tracts,” for purposes of designating an MLI, as “those census tracts or equivalents in which the sum of the tract’s non-duplicative population of Minority persons is greater than 50 percent of the census tract’s total population, as determined by the U.S. Census Bureau.”

HOPE supports the proposed definitions of “Minority” and “Majority-Minority Census Tracts.”

Designation Criteria – Financial Products Directed to Minorities in Majority-Minority Census Tracts

Is a rolling 36-month period the appropriate length of time to assess an applicant's track record of serving Minorities or Majority-Minority Census Tracts for the purposes of designating a CDFI an MLI? Should the CDFI Fund instead require applicants to meet this requirement using some other time period, either upon initial designation or to maintain the designation? If yes, what is an appropriate time period?

¹ Kiyadh Burt, “Analyzing the CDFI Asset Gap: Analyzing the CDFI Asset Gap: Examining Racial Disparities in CDFI Fund Awardees from 2003 to 2017,” Hope Policy Institute, Nov. 5, 2020, <http://hopepolicy.org/manage/wpcontent/uploads/CDFI-Fund-Time-Series-Analysis-brief-edited.pdf>

Critical to the definition of a Minority Lending Institution is a requirement that financial institutions that receive the designation demonstrate a track record of consistent lending to people and communities of color. HOPE supports the use of a three year look back, at a minimum, of each completed fiscal year. In each of the years evaluated, at least 50% of lending, by number and by dollar, should be to people who meet the CDFI Funds definition of “minority” or in census tracts that meet the proposed definition of “Majority-minority” census tracts.

The Act requires that an MLI must direct a majority of its financial products "at minorities or majority-minority census tracts or equivalents." Should the Fund assess Financial Products delivered to legal entities that are not owned or controlled by Minority individuals to finance projects such as affordable housing, childcare centers, charter schools, or health centers that are not located within a Majority-Minority Census Tract but whose end-beneficiaries (e.g., customers, residents, or employees) are members of a Minority population? If yes, how?

Many CDFIs, including HOPE, improve the economic mobility of minority populations through community development financing. For example, HOPE may finance affordable housing developments, hospitals, charter schools, or grocery stores to extend vital services to communities of color. While it is often the cast that the developer of these projects that receive financing are not controlled or led by minority individuals, the ultimate beneficiaries of the projects are people of color. Additionally, financing a project that is not located in a majority-minority census tract, is compelling and defensible, if the majority of those who benefit from the project due to its location are people of color. One example may include a Low Income Housing Tax Credit (LITHC) development in a high-performing school district, near healthy food options with access to high quality health care. Other examples are charter schools, social service agencies or federally qualified health centers that are not owned or led by a person of color – but serve a constituency that is majority-minority.

Consequently, HOPE encourages the consideration of financial products delivered to entities not owned or controlled by minority persons with the condition that at least 50% of the beneficiaries are of minority populations and such assertions can be documented.

Accountability

Should a majority (greater than 50 percent) of a CDFI's governing board members be required to be members of Minority populations to demonstrate accountability to Minority populations? Specifically, the CDFI Fund requests comments on whether it should set a standard higher than the 33 percent level proposed separately for Native CDFI designation and for general Target Market accountability as part of the CDFI Fund certification standards.

HOPE strongly advocates that at least 51% of a CDFI’s governing board be members of a minority population. Given the governance responsibilities of the board of directors, which

include the hiring and performance management of the organization's Chief Executive, this criteria is necessary to meet the accountability requirements of the MLI designation.

Should the CDFI Fund allow the ownership of a CDFI to demonstrate accountability to Minority populations, either as an alternative to accountability through a governing board or in combination with a lower threshold of representative governing board members? If yes, should accountability mirror the MDI definition (i.e., 51 percent or more of the voting stock is owned by minority individuals) to be counted in determining minority ownership? If ownership should be permitted to demonstrate accountability only in combination with some level of governing board representation, what should that threshold be?

Credit unions are not-for-profit cooperatives that are owned by members who have the responsibility of electing board members. As a result, CDFI credit unions are accountable to the people it serves. Given this governance structure, there could be an instance where a CDFI credit union: 1) deploys over 50% of its loans by number and by dollar to minority borrowers or minority communities; 2) has a majority-minority of member-owners; 3) that has chosen to elect a board that is not over 51% minority. In this instance, a CDFI that is owned by a majority of people that meet the definition of minority, that also meets the loan deployment targets to people or communities of color should be eligible for the MLI designation if a majority of the board does not meet the definition of "minority."

If a CDFI serves multiple Minority populations, for purposes of the MLI designation should it be required to have board or other representation reflective of each of the Minority populations it serves? If yes, how should the share of board or other representation for each Minority population the CDFI serves be determined?

CDFIs serving multiple minority populations should have a board governance in place that reflects the minority populations served. Ultimately, MLI status should be considered on the grounds of a governance composition that reflects minority representation on the whole of at least 51%.

HOPE supports an MLI designation that ensures significant lending to people and communities of color. Given the impact of minority led CDFIs and MDIs serving historically underserved communities, the CDFI Fund should consider these recommendations as an effort to identify the community financial institutions that are also most accountable to minority populations. We look forward to continued discussion on this matter.

Sincerely,



Kiyadh Burt

Vice President Policy & Advocacy