<u>COMMUNITY DEVELOPMENT ADVISORY BOARD</u>
Community Development Financial Institutions (CDFI) Fund
United States Department of the Treasury

Minutes

Date: Thursday, April 11, 2024

Place: Meeting conducted via video teleconference

Presiding: Marla Bilonick: Acting Chair, Community Development Advisory Board; President and CEO, National Association for Latino Community Asset Builders

Board Members in Attendance:
Marla Bilonick: Acting Chair, Community Development Advisory Board; President and CEO, National Association for Latino Community Asset Builders

Seema Agnani, Executive Director, National Coalition for Asian Pacific American Community Development

Harold Pettigrew, CEO, Opportunity Finance Network (OFN)

Laurie Schaffer, Acting Assistant Secretary for Financial Institutions, U.S. Department of the Treasury

Michael Swack, Director of the Center for Impact Finance, Carsey School of Public Finance, University of New Hampshire

Darrin Williams, CEO, Southern Bank Corporation

Department of Treasury Staff Present:

Pravina Raghavan, Director, CDFI Fund

Noel Poyo, Deputy Assistant Secretary (present via video-teleconference)

Marcia Sigal, CDFI Fund

Dennis Nolan, CDFI Fund

<u>Welcome, Overview of the Agenda, and Roll Call by Marla Bilonick</u>

At 1:38 p.m. Eastern Time, CDFI Fund Acting Chair of the Advisory Board, Marla Bilonick, introduced herself and welcomed everyone to this in-person meeting of the CDFI Fund's Community Development Advisory Board (CDAB). Acting Chair Bilonick welcomed the Advisory Board members and Pravina Raghavan, the new director of the CDFI Fund, as well as thanked former Acting Director Marcia Sigal for ushering the CDFI Fund through a critical period. Acting Chair Bilonick extended a warm welcome to the members of the public who joined in person and online and reviewed the agenda for the meeting.

Acting Chair Marla Bilonick then conducted roll call. Assistant Secretary Laurie Schaffer swore in Seema Agnani. Acting Chair Marla Bilonick called for a vote to elect a new vice chair for the Advisory Board to replace Dave Glaser. The private citizen members elected Harold Pettigrew as Vice Chair. Acting Chair Marla Bilonick formally convened the meeting.

The Treasury Department's Approach to Community Finance Policy

Noel Poyo gave a presentation on the "Treasury Department's Approach to Community Finance Policy," a document that the Treasury Department released in January. As more capital than ever is flowing to communities through CDFIs, there is a need to be clearer about standards and definitions. When this administration started, it focused on clarifying community finance policy as well as deploying a historic amount of capital in the community finance space in response to the pandemic.

The document highlights a set of key principles. First is establishing responsible financing statements (which has been in the updates to the CDFI Fund's certification). One of the most important updates within the certification was the identification of responsible financing standards. Second is being able to differentiate deep-impact lending, which identifies types of lending that tend to cost more, require more time to prepare the borrower, or produce less revenue (because either the rates are concessionary, or the loans tend to be smaller).

Mr. Poyo stated that the Treasury Department has wanted to be able to differentiate the most challenging kinds of lending and investing, and find ways of prioritizing that effort, or incentivize it with public resources. There is a definition of deep-impact lending in the Emergency Capital Investment Program (ECIP) Rate Reduction Guidelines, which is similar to the CDFI Fund's policy priorities established in the Equitable Recovery Program. The categories that are differentiated as deep-impact lending are: deeply affordable, investing in deeply affordable housing, lending to businesses with revenues under $100,000, and lending to low-income borrowers (as opposed to low and moderate-income borrowers).

Mr. Poyo stated that collecting disaggregated demographic data is important towards understanding how and where capital is flowing. The new CDFI Certification process includes gathering data on the race and gender of the boards of directors or owners of applicants for CDFI Certification. Mr. Poyo stated that the Treasury Department was collecting additional information about demographics in a variety of programs, and that such data collection was covered by the Equal Credit Opportunity Act.

Equitable community engagement has been prioritized and layered into a program's Notices of Funding Availability. Investing in the capacity of borrowers and institutions that meet the needs of the most financially underserved borrowers is an important principle that defines community finance. Mr. Poyo stressed the importance of coordination between community development programs across the federal government, the private sector, and philanthropy; this will help these groups align around goals and data without creating undue burdens. Examples of such coordination include the Interagency Community Investment Community and the Economic Opportunity Coalition. Mr. Poyo stated that the administration has reached communities that have traditionally had less access to private capital and government resources in ways that have not happened in the past, but there is more work ahead.

Introduction of Pravina Raghavan, New Director of the CDFI Fund

Mr. Poyo stated that Pravina Raghavan brings together knowledge of how a government agency works with an understanding of the community finance field, thanks to her experience in the Department of Commerce, SBA, New York state government, and with CDFIs.

Director's Report, Pravina Raghavan, Director, CDFI Fund

Ms. Raghavan stated that the CDFI Fund aims to build wealth in the community in a programmable and sustainable way. The CDFI Fund has more demand than they can handle, but they still need to reach more people. Ms. Raghavan stated that the CDFI Fund did well last year, but also had record-breaking demand.

Ms. Raghavan stated that for the Small Dollar Lending Program, the fiscal year 23 round opened on October 20, 2023, and the applications were due on December 20. There was a total of 89 organizations requesting over $33.5 million. Ms. Raghavan stated that the CDFI Fund only had $18 million to disburse, so there was twice the expected demand. Eighty-four organizations requested both loan loss reserve and technical assistance for $32.4 million. Three organizations needed $850,000 for loan loss reserve only, and two needed $300,000 in Technical Assistance (TA) awards. Ms. Raghavan stated that there is a need for both TA and loan loss reserve, which shows that there is a demand to make sure that borrowers understand what they need.
Ms. Raghavan stated that the Capital Magnet Fund awards for fiscal year 23 were announced in early October 2023. A total of 52 organizations received more than $320 million. The next round for fiscal year 24 opened on February 14, and the applications were due on April 16. Ms. Raghavan stated that the CDFI Fund planned to make approximately $246.5 million in awards through this program.

Ms. Raghavan stated that CDFI Program, as well as the Native American CDFI Assistance (NACA) Program, opened on December 8, and the applications were due February 15. There were 948 organizations requesting over $1.55 billion in awards, which was more than five times more than the budget for the awards. Ms. Raghavan stated that it is another record-breaking year with an overall increase in 42% in financial assistance applications and an 18% increase in technical assistance applications.

Ms. Raghavan stated that FA applications increased 28 percent in the NACA program, the largest number of organizations to ever apply to a single round for the CDFI and NACA Program. 610 organizations requested over $1.5 billion. For the CDFI Base Award-FA Program, there were 285 organizations that requested over $83.2 million in the CDFI TA Award Program.

272 organizations requested $158 million in the CDFI Program PPC-FA Awards. 37 organizations requested $59.6 million in the NACA Program Base-FA Awards. 15 organizations requested $5.5 million in the NACA Program TA Awards. 12 organizations requested $6.4 million in the NACA Program PPC-FA Awards. 15 organizations requested $26.5 million in the DF-FA Awards, which is combined both for the CDFI and NACA Program. 28 organizations requested $162 million in the HFF-FA Awards. As the entire budget is $324 million, the CDFI Fund is trying to build it up.

Ms. Raghavan stated that for fiscal year 24, awards are a combination of appropriations for fiscal year 23 and fiscal year 24, as outlined in the CDFI Fund's Notice of Funds Availability. The final appropriations are in, and the CDFI Fund estimates that the following amounts will be awarded in different categories:

$302.8 million in the CDFI Program Base-FA and TA Awards
$41.2 million in the Program PPC-FA Awards
$43.7 million in the NACA Program Base-FA and TA Awards
$6.3 in the NACA Program PPC-FA Awards
Up to $20 million in the DF-FA Awards (the combination)
$48 million in HFFI-FA Awards

Ms. Raghavan stated that the amounts were subject to change, but they were the approximation as the CDFI Fund went through the budget.

For the Bank Enterprise Award Program, the CDFI awarded over $70 million in awards to 184 FDI-insured banks under the fiscal year 23 funds on September 20. This round combined both 2022 and 2023 fundings. It was the largest amount of total funds as well as the highest number of grant awards in the BEA Program history. The CDFI Fund received over 189 applications, requesting $296 million for the fiscal BEA awards funding. During the 18-month assessment for fiscal year 23, CDFI gave 184 awards. The loans and investments to recipients in distressed communities increased by $909.8 million, loans and deposits to CDFIs by $59 million, and the provision of financial assistance in distressed communities by $1.2 million.

Ms. Raghavan stated that CDFI anticipates open round for fiscal year 24 in the coming weeks. CDFI Bond Guarantee Program opened in September 2023 and they are issuing three grantees under the fiscal year 23 round for $300 million. On February 23, 2024, they opened the fiscal year 24 rounds, and they can make up to $500 million in bond guarantees. The deadline for qualified issue or applications was Tuesday, April 16, and the deadline for the Guarantee Program applications was Tuesday, April 23. Ms. Raghavan stated that CDFI is looking to be able to allocate that money later in the year.

For the New Markets Tax Credit Program in September 2023, CDFI announced that 102 applicants were awarded $5 billion in allocations under the calendar 22 round. The calendar year 23 round opened in October 2023 and the allocation application deadline was December 19.

The CDFI Fund received 196 applications requesting over $14.7 billion in New Market Tax allocation authority, which was nearly three times more than the $5 billion authority available for

2023. The CDFI Fund anticipates announcing the allocation of the calendar year 2024 later this year.

On February 23, the CDFI published a request in the Federal Registry for public comment on the NMTC application. All comments were received by April 23.

When the CDFI Fund launched 30 years ago, there were only two programs, the CDFI Program and BEA. For the CDFI Program, they historically gave out 31 CDFI Awards for $35.5 million, and 38 banks and thrifts were awarded $13.1 million. Since the inception of the CDFI Fund, the CDFI Program has awarded over $7.4 billion through a variety of programs, $76 billion in tax credits through the New Markets Tax Credit Program, and has guaranteed over $2.5 billion in bonds through the CDFI Bond Guarantee Program. Today, the CDFI Program administers nine different programs. There are a total of 1,456 CDFIs in every state (including Washington, D.C., Puerto Rico, and Guam).

Ms. Raghavan stated that through the annual certification and data collection report's 2022 cycle, they know that the CDFI industry has over $300 billion in total assets, and $260 billion in total liabilities. Based on the data of over 1,000 firms that reported, the CDFI industry's net worth is over $39.1 billion.

Ms. Raghavan stated that all communications and approaches remain with applicable statutes and regulations. The new certification comes with new compliance, which is data driven. Ms. Raghavan stated that such data can enable CDFI to help people who are socioeconomically disadvantaged in achieving access to wealth.

Subcommittee Reports and Discussion: Equitable Prosperity of People & Places, by Darrin Williams, CEO, Southern Bancorp, Inc.

Mr. Williams presented three kinds of framing questions that the subcommittee discussed. The subcommittee's first topic was the collection of borrower demographic data on the race of the borrower and whether the CDFI Fund should pursue changes to the regulations that would meet the CFPB standards around Equal Credit Opportunity Act (ECOA). The prohibition from collecting this data is a challenge for some CDFIs, particularly the depositories where there is a regulatory environment, which may prevent the collection of this data. Many of the CDFI programs (and even the ECIP capital, which many depositories receive) do not encourage or require the collection of this data. The subcommittee discussed that there should be some movement by the CDFI Fund to pursue a regulatory fix to get this exemption of broader impact to those CDFIs.

The subcommittee's second discussion topic was customized investment areas and the new certification rules. To be more inclusive and provide greater flexibility, the subcommittee discussed whether there should be a way to look at the data at a level that is much deeper than just the census tract level. Going down to the census block level would encourage lending to those who are definitely deep-impact. Being more aligned with deep-impact lending was what they talked about in ECIP. They discussed ways to unlock capital for those who may be in a census tract that is not recognized as a CFI census tract but may be within a block. Data is not kept at a census block level, but it could be a way to provide more capital that reaches those who are most troubled, who may not live in a census tract that is an investment area but may live within a block within that census tract.

The subcommittee's third discussion topic was around balancing multiple goals and going deeper in reaching people who are traditionally underserved. The subcommittee discussed having a deep and broad approach through its program policies, along with providing as much flexibility for CDFIs to know their communities and best serve them.

Mr. Williams stated that there may be a role for the CDFI Fund to chronicle existing federal programs, as well as begin interagency discussions between the CDFI Fund and all agencies in the federal government to help unlock capital for underserved people.

Mr. Pettigrew discussed creating a new regulatory framework to ensure that good actors are acknowledged while bad actors are kept out of the program, and make sure that impact is at the center of organizations making a business decision to decide to be CDFIs. Mr. Pettigrew stated that there is an opportunity for the CDFI Fund to play a greater role in aligning frameworks across the federal government.

Mr. Pettigrew discussed the tension point of whether it is required or prohibited to collect data, which could make it difficult for an organization to meet parameters. The CDFI Fund is being responsive to the industry. Mr. Pettigrew stated that if there is the opportunity to mobilize federal agency resources, inventory would be at the minimum level. He stressed the importance of the subcommittee's recommendations, as well as the new role the CDFI Fund plays with being able to organize, align, and mobilize federal resources to be in support of the network.

Mr. Swack questioned how CDFIs are evolving into institutions that manage grant and loan money. Many CDFI associations and affiliated organizations are going to be managing more money than the entire CDFI appropriation for six years. CDFIs are now expected to provide loans, but also subsidies, going deeper in communities and making investments that they have not been making. One of the issues raised is how this evolution will affect certification, and how that will affect how CDFIs see themselves as both lenders and grant makers.

Mr. Pettigrew stated that it is a question of how to think about capital versus financing. Over the past few years, CDFI have been financial-first responders. They were called to duty to be in service to cities, counties, states, and deploy capital that was needed for issues within communities. Mr. Pettigrew stated that they should make sure that the desire to create a regulatory framework does not penalize past efforts but also does not create unintended consequences for future investment. Mr. Pettigrew stressed being intentional about $27 billion that will rely on CDFIs to deploy across the country. Mr. Pettigrew questioned how far they can go in making sure that their regulatory frameworks are not an impediment. Now that the investment has gone into improving the prospective about the brand, many institutions now look at CDFIs as the central deployment channel of capital within communities.

Mr. Pettigrew stated that they have to address the fact that Greenhouse Gas Reduction Fund (GGRF) is here and that $27 billion is going to be flowing through their respective organizations. They have to ensure that they are not penalized for that money flowing through at the first point of trade associations or any other awardees and institutions that are going to be at the forefront of deploying that capital to members.

Mr. Swack discussed the fear about certification standards, and that people want to hear that they are not trying to get rid of CDFIs. They are trying to do just the opposite.

Ms. Raghavan stated that they want CDFIs to remain as-is, and that they want to make more CDFIs happen because of the impact that they have for communities. A questionnaire that went out had to go through the Office of Management and Budget, which took 18 months. The application period will give them a lot of feedback that they have to think through while they're implementing the program.

Mr. Williams stated that, whether it is new certification data, exemption ECOA, or different funding sources, GGRF will have to produce data. Mr. Williams wanted to discuss what the CDFI Fund could do to provide clarity on which data points have the highest impact, and how that can be measured.

Acting Chair Bilonick stated that the CDFI Fund is looking at the people and places that are served by CDFIs, as well as relating to the people who run CDFIs and the places where CDFIs are or are not. The CDFI Fund is thinking about equity in funding, equity in certification for groups that may have limited access to information, limited resources and capacity, and how they tackle that.

Subcommittee Reports and Discussion: Tools, Michael Swack, Director of the Center for Impact Finance, Carsey School of Public Finance, University of New Hampshire

Mr. Swack discussed questions that the field is trying to address now, such as how the CDFI Fund can most effectively support a field that is diverse and bifurcated. Around 10 to 15 CDFIs are large, rated by Standard and Poor's, and are accessing money through the Capital Markets. Over 1,400 of the CDFIs are small, struggle to cover their operating costs, and try to figure out how to deploy their products while developing new products and adjusting to the market. The challenge for the CDFI Fund is how to address helping CDFIs access secondary markets, which comes with a data issue. However, most CDFIs have no idea that there are multiple federal funds beyond the CDFI Fund that they could access, and there does not seem to be a centralized way to do so. Mr. Swack stated that they want to look at how they can leverage more private sector investment from banks, insurance companies, and other sorts of investors, but the government will remain important. To get ideas about recommendations, in the initial six months, the committee has a chance to speak to those who are involved or are in trade associations.

Mr. Swack stated the importance of speaking with the CDFIs to figure out the big issues and make sure that no one is left out. For small CDFIs, Mr. Swack discussed learning how to make them more efficient and developing an operating platform that makes it easy. Although they compete for resources, there are opportunities for CDFIs to collaborate. Smaller CDFIs spend most of their time on compliance and HR, rather than lending. It can take six months for smaller CDFIs to get ready for their audits. Mr. Swack stated that CDFIs look at the CDFI Fund as a place to get money for themselves, and that once they start doing institutional support, it could mean less money for them. There can be good that comes from providing support for CDFIs around collaboration, operations, and golden infrastructure, so that CDFIs can spend more time lending.

Mr. Swack stated that they want to look at Capital Markets issues. Very few of the 1,400 CDFIs are members of the Federal Home Loan Bank, which provides access to long-term fixed rate capital of good terms. Mr. Swack stated that Treasury could provide credit enhancement to CDFI Funds. Mr. Swack stated that they are considering recommendations on operating platforms, capital access on the terms that worked for CDFIs, and the impact of GGRF.

Mr. Pettigrew stated the importance of the role that the CDFI Fund plays in enabling solutions versus taking on the responsibility of developing the solution, as there are many solutions that are in development within the industry that the CDFI Fund could catalyze. Mr. Pettigrew stated the importance of understanding the constraints that the CDFI Fund faces as a federal agency, as well as questioned the role that the CDFI Fund can play now in advancing institutions and keeping institutional investments. Mr. Pettigrew questioned the role that the CDFI Fund can play in terms of making resources available that can advance the industry, or industry solutions that can create a different type of efficiency. Mr. Pettigrew stressed the cautionary point of making sure that the CDFI Fund brings up challenges and issues with long-term solutions being available and able to be mobilized in the right way.

Acting Chair Bilonick stated that there is an interesting opportunity potentially with the Economic Opportunity Coalition, and that the private sector is seeking opportunities to fund impactful interventions. The role of the CDFI Fund could be more as an enabler than the catalyzer, organizer, or funder.

Ms. Schaffer asked if anyone has worked on initiatives to bring more corporate deposits in the CDFIs. Mr. Williams stated that there has been attention around bringing corporate deposits, and that with the ECIP Program, it brought a lot of equity into the marketplace but depositories with capital delay. Equity allows CDFIs to grow, but they do not have any funds to lend. The efforts around bringing more corporate and mission-focused deposits into the industry are gaining attention. For example, the CDBA in partnership with the NBA, IntraFI, and other groups, created an Accelerating Communities Together (ACT) Program. The program is in its infancy and they are advertising and trying to encourage the corporate space to place deposits.

Mr. Williams stated that these kinds of programs will take time to gain traction, but there will be corporations who want to be impactful while having high-cost deposits and will want interest return on those deposits. This does not always work in the CDFI space, because they need below market deposits. The problem is the ACT Program partnership in the National Bankers Association and the Community Development Bankers Association, so it is in its infancy. However, there has been movement among corporations who are placing deposits, and the ECO may have been pushing toward that outside of the ACT Program. Southern Bancorp had recently been contacted by someone who was driven to them from the ECO’s work. Mr. Williams stated that it is not at scale yet, but it could provide a greater opportunity for low-cost deposits for mission-focused institutions. There could be a role for the CDFI Fund to encourage that.

Mr. Williams stated that regarding the deposit, there is some legislation circulating among Congress and the CDFI Senate Caucus as well. Mr. Swack discussed whether there could be a creation of some type of tax credit for the interest earned on the mission deposits placed at the low cost in CDFIs, whether that could unlock capital, and whether there is a tax advantage for corporations that would do that. Mr. Swack stated that the tax committee would say that any interest earned on deposits in any type of certified CDFI would be tax exempt for the investor, which would be like a municipal bond investment. Mr. Swack stated that it automatically reduces the cost of funds for CDFIs.

Mr. Swack stated that there's one line on the tax form for compliance that says "interest earned in a certified CDFI," which the CDFI office checks, and then goes to the IRS. Mr. Swack stated that a tract in private capital would meet the needs of the CDFIs in an interest rate environment that is rising. Mr. Swack stated that a good way to attract private capital could be to raise money at the same cost that municipalities do, because there's a public purpose enforced through certification.

Mr. Williams stated that a tax credit could unlock loan capital for all types of CDFIs. Mr. Swack stated that a tax credit could be deposited in banks and that any certified CDFI could be a loan facility. Mr. Pettigrew stated that it is a broader conversation of how they use tax incentives to support CDFIs, not just depositories, and think through ways to support the industry. Mr. Pettigrew stated that they should look at tax structure as well.

Closing Remarks

Mr. Pettigrew stated that they have a great diversity and segmentation within the industry, but the country is counting on them to deploy in certain ways and take an active role in making sure the capital is flowing where it needs to within communities.

Acting Chair Bilonick noted that the next meeting will convene in-person in Washington, D.C., during the week of September 16. As the CDFI Fund is looking forward with a new leader and looking back at its 30th anniversary, Acting Chair Bilonick implored her colleagues to remain steadfast in the principles upon which they were founded, around filling gaps created by the traditional financial sector, and serving in commitment and dedication to the communities that they serve. Acting Chair Bilonick thanked them for their service on the board, as well as the public for joining the meeting.

Adjournment of Meeting

Action Items

- As part of the 30th anniversary milestone, the September Advisory Board meeting will include discussion on what the CDFI Fund should consider looking forward to the next

10 years, as well as recommendations to continue to make sure that CDFI Certification has meaning and value.

- Advisory Board Members need to complete the availability survey to finalize the meeting date during the week of September 16.

The meeting was adjourned at 3:25 p.m.

Respectfully submitted,

Marla Bilonick, Acting Chair
Community Development Advisory Board