June 4, 2021

Jeffrey Stout
Director
Office of Federal Program Finance
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, D.C.

Dear Mr. Stout:

Opportunity Finance Network (OFN), a community development financial institution (CDFI) membership organization, appreciates the opportunity to provide comments on the State Small Business Credit Initiative (SSCBI).

OFN represents and serves a diverse membership of nearly 350 CDFIs of various asset sizes and lending types working on the ground in all 50 states. CDFIs are private sector financial institutions that invest, lend, and deliver responsible, affordable financial products and services to disinvested communities across the country. For nearly 40 years, CDFIs have provided access to capital where it is needed most: CDFI customers are 84 percent low-income, 60 percent people of color, 50 percent women and 26 percent rural. Nationwide, the more than 1,100 CDFIs certified by the US Treasury Department's CDFI Fund manage more than $222 billion.

CDFI Participation Essential to Reaching Underserved Small Businesses

CDFIs are experienced small business lenders that have demonstrated their capacity to direct billions of dollars in financing to the people and places that need it most. In fiscal year (FY) 2019, certified CDFIs had more than $24 billion of small business and microloans in their portfolios.[1] Federal programs that include CDFIs have proven to be more effective at reaching underserved populations like the SBA's Community Advantage, Microloan and Paycheck Protection Programs, and the first round of State Small Business Credit Initiative (SSBCI 1.0).

The $10 billion in funding provided under the American Rescue Plan for the second round of SSBCI (SSBCI 2.0) seeks to better target socially and economically disadvantaged small businesses and ensure very small businesses are reached and served with SSBCI funding. CDFIs will be essential partners as states look for opportunities to meet these statutory requirements to serve underserved communities. This presents an important opportunity to deepen some of the successful partnerships CDFIs forged with states during SSBCI 1.0.

Encourage State-CDFI Partnerships

CDFIs have the capacity and community connections to deliver SSBCI funds to underserved businesses. Clear, direct guidance from Treasury urging robust CDFI participation will help encourage states to partner with CDFIs to meet program goals.

In SSBCI 1.0, there was considerable variability in how states worked with CDFIs – states that did not have robust CDFI participation cited few CDFI small business lenders in the state, limited

[1] Opportunity Finance Network, 2019 CDFI Fund Annual Certification Reporting Database.

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understanding of nonprofit community development loan funds, concerns about capacity of CDFI partners as key issues. The CDFI industry's capacity, coverage, and sophistication has grown significantly since SSBCI 1.0: Between FY 2009 and FY 2019, CDFI industry grew from about 800 CDFIs representing $26.7 billion in assets to 1083 CDFIs representing more than $222 billion in assets - a 755% increase in asset size for the industry.[2]

The Paycheck Protection Program (PPP) further demonstrates the increased capacity of the CDFI industry. Community Financial Institutions (CFIs), a category of lender that includes CDFIs, made more than $35 billion in loans in just a few short months and reached financially underserved businesses with a higher proportion of their loans compared to every other type of PPP lender. SBA data indicated that 77.9 percent of CFI loans were under $150,000 (49.8 percent program average); 39.7 percent of CFI loans are in low- and moderate-income areas (28 percent program average).In fact, three OFN members – Capital Plus Financial, Prestamos CDFI, and Lendistry – were in the top ten 2021 PPP lenders [3]

Major recent investments in CDFI capacity from public and private sources will enable CDFIs to reach even more small businesses. In particular, the $1.25 billion in Rapid Response Program grants that will flow to CDFIs will provide a major boost in equity for small business lenders to grow their lending. Ensuring CDFIs have access to the capital and credit enhancement provided through SSBCI means greater access to capital for entrepreneurs in underserved communities.

Treasury should provide explicit guidance that states allow certified CDFIs to participate as eligible lenders or administrators in any state program supported by SSBCI funds. In particular, Treasury should view favorably state plans that provide SSBCI capital directly to CDFIs. In SSBCI 1.0, the most effective models allowed flexibility for the lenders and for CDFIs to retain the capital on their balance sheets.

Retaining the SSBCI capital enhances the CDFI's ability to reach more underserved small businesses - allowing CDFIs to deploy, revolve, and leverage the funds based on needs of the small businesses in their communities. It also reduces duplicative underwriting whereby the CDFI initially underwrites an SSBCI deal, sends it to the state for approval, and then the state underwrites the loan a second time – an unnecessary use of critical capacity for both lender and state. This model allows CDFIs to manage their available capital, risk, and make credit decisions more effectively.

Ensure Funds Reach Persistent Poverty Counties and Rural Communities

Treasury should require states to outline in their plans how SSBCI funds will reach persistent poverty counties, and explicitly state in its guidance that states can partner with CDFIs with existing track records in reaching persistent poverty counties. For states that do not have existing strong relationships with CDFIs in their communities, Treasury can connect them with the CDFI Fund to identify CDFI partners with track records of reaching underserved small businesses in persistent poverty and rural communities.

Exempt CDFIs from State-Specific Domicile Requirements

Small businesses are increasingly seeking financing from CDFIs and non-depository lenders that may not be based in their community but offer more attractive and responsible products that meet

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[2]Data from FY 2009 is from [Treasury Budget Justification]() and FY 2019 CDFI Fund Annual Certification Data.
[3] https://www.sba.gov/sites/default/files/2021-06/PPP_Report_Public_210531-508.pdf

the needs of the business owner. CDFIs seeking to participate in SSBCI should not be restricted to the state in which they are physically headquartered or licensed and should be exempt from state-specific domicile requirements. This would help CDFIs with multistate service areas expand their reach in the program.

Track Record of Serving Small, Economically Disadvantaged Individuals

Participating SSBCI lenders should be required to disclose data that demonstrates their experience in reaching business enterprises owned and controlled by socially and economically disadvantaged individuals (SEDI businesses) and very small businesses.

Ensuring Transparency and Responsible Financing

Small businesses that receive financing through SSBCI loans should be provide with a safe, responsible loan. SSBCI funds should not be permitted to support high-cost or predatory lending. Treasury should put guardrails in place to ensure only responsible lenders have access to SSBCI funds. OFN is a member of the Responsible Business Lending Coalition which has provided recommendations for Treasury to ensure transparency for SSBCI lending.[4]

Additional SSBCI 2.0 Recommendations

- Plan Modifications - Ensure adequate US Treasury staffing levels to respond promptly to revised plans submitted by states, to meet the evolving states' needs in a timely manner.

- Address Program Oversight Concerns - Provide more concrete guidance to states on issues identified as challenges with OIG under SSBCI 1.0 to ensure states can be innovative and responsive to local needs.

- Technical Assistance Funding - Allow states to utilize SSBCI or technical assistance funds to compensate CDFIs for their administration of SSBCI program. To the extent a State does not provide such compensation, Treasury should make explicit that nonprofit CDFIs should be allowed to recoup costs via origination or servicing fees.

Conclusion

SSBCI 2.0 has the potential to dramatically enhance access to capital for underserved small businesses. CDFIs are a natural and essential partner in ensuring that this capital reaches the parts of the economy that have suffered years of underinvestment. Thank you for the opportunity to weigh in on this important program. Please do not hesitate to reach out with any questions or concerns at 202.868.6922 or dwilliams@ofn.org.

Kind regards,

Dafina Williams

Senior Vice President, Public Policy

[4] Comments submitted in response to the Request for Information outline the Responsible Business Lending Coalition's positions on ensuring transparency and disclosure for SSBCI transactions.