

February 20, 2024

Natalie Li
Director, Office of Consumer Policy
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Re: Request for Information on Financial Inclusion TREAS-DO-2023-0014

Dear Director Li:

On behalf of the Opportunity Finance Network (OFN), I am pleased to respond to Treasury's Request for Information on Financial Inclusion. OFN is a network of over 400 mission driven community lenders, providing responsible finance in underserved communities to further the goals of economic and environmental justice. OFN is a certified community development financial institution (CDFI) providing intermediary lending to our members to support their work. OFN's members are lenders with a mission to provide fair, responsible financing to rural, urban, Native, and other communities that mainstream finance does not traditionally reach. Financial inclusion and financial justice are at the core of our work, and we are pleased to provide comments on the creation of a national financial inclusion strategy.

Defining Financial Inclusion

OFN defines financial inclusion broadly, not limited just to access to a bank account, but access to the full financial system including sources of capital and the ability to build wealth through entrepreneurship and homeownership. CDFIs have a mission to provide fair, responsible financing to people, organizations, and places that are not included in the mainstream financial system served by banks. OFN's members are primarily non-profit CDFI loan funds. Ultimately, this type of lending empowers individuals to own homes and small businesses, supports jobs with livable wages, and offers a pathway to revitalize community infrastructure. In addition to offering credit products, CDFI services may include a range of courses and one-on-one mentoring sessions that build personal and/or business financial literacy, all essential elements of how we define financial inclusion.

CDFIs have long been an integral part of the financial system and are an important tool to support financial resiliency to help people respond to systemic shocks such as financial downturns or natural disasters. That importance is illustrated by their role in 2008, when traditional financial institutions slowed or halted lending operations, CDFIs worked to expand affordable capital access in high-need communities.¹ More recently, the industry saw a surge in media attention and increased funding due to its role as a "financial first responder" during the COVID-19 crisis.² Throughout the pandemic, CDFIs provided loans, grants, and other community resources to

¹ Elise Balboni and Christina Travers, "CDFIs & impact investing: An industry review" (New York, NY: Local Initiatives Support Corporation, 2017)

² Brad Pedersen, "A watershed moment': CDFIs hope to capitalize on federal funding boost," American Banker, April 20, 2021



consumers, small businesses, and nonprofits. The ability of CDFIs to quickly provide this kind of aid has helped cement their importance in the financial inclusion ecosystem.

CDFIs share a common understanding about what they do: empower individuals and communities by meeting them where they are, when needs are significant, and resources are low. Unlike traditional banks, we specialize in lending to individuals, organizations, and businesses in under-resourced communities, offering clients financial education, business coaching, and low-interest rate loans that increase economic potential and help build wealth.

Financial inclusion means reaching individuals and communities that are currently excluded from the mainstream financial system. OFN members are uniquely able to reach these communities. Our members clients are 85% low-income, low-wealth or historically disinvested, 66% people of color, 48% women and 27% reside in rural communities.³

Barriers to Financial Inclusion

There are a variety of barriers to financial inclusion that can be dependent on geography, race, gender, existing levels of wealth and income, language, familiarity with the financial system, and historic legal and regulatory issues.

CDFIs arose from a mix of grassroots advocacy and institutional regulatory pressures.⁴ Through the 1960s, many banks were less likely to provide financial services to low- and moderate-income communities. This exacerbated disparities in access to capital, economic development, and wealth across the country.⁵ Change in this area started in earnest with the Economic Opportunity Act of 1964, which provided funding for community development corporations (CDCs). CDCs are grassroots local service providers, and their mode of operation laid the groundwork for the modern CDFI industry. Later, the Community Reinvestment Act (CRA) in 1977 created a regulatory framework that required certain large financial institutions to provide banking services in low- and moderate-income neighborhoods.

These regulatory and legal changes were a step in the right direction, but the barriers to financial inclusion still exist and efforts to remove them continue to be stymied by legal and institutional challenges.

The economy also continues to evolve and has a significantly higher use of technology and online platforms to conduct basic financial transactions. Lack of access to broadband, particularly in rural

³ OFN Annual Member Survey 2022

⁴ Sindhu Lakshmanan and Seth Julyan, "History of the CDFI industry," CDFI 101 (Washington, DC: Opportunity Finance Network, 2023).

⁵ Abbye Atkinson, "Borrowing equality," *Columbia Law Review* 120, no. 6 (2020): pp. 1403–70; Julie Birkenmaier and Sabrina Watson Tyuse, "Affordable financial services and credit for the poor," *Journal of Community Practice* 13, no. 1 (June 14, 2005): pp. 69–85; Gary Arthur Dymski, "Financing community development in the US: A comparison of 'War on Poverty' and 1990s-era policy approaches," *Review of Black Political Economy* 36, nos. 3–4 (January 1, 2009): pp. 245–73.



communities and on tribal lands, provides an additional barrier to accessing financial institutions, educational services, and for entrepreneurs to get their goods and services to the broader market. Broadband access is as necessary as electricity to the current financial ecosystem.

Measuring Financial Inclusion

OFN has partnered with Raza Development Fund and Deloitte to produce a paper entitled “Five research priorities for community development financial institutions: Advancing financial inclusion through evidence-based practice” that examines priorities for all stakeholders. The report, which covers five priority research areas, is attached to this comment letter.

Actions to Promote Financial Inclusion

Financial inclusion can make an enormous difference in a crisis. As an example, we can look at the role that CDFIs played during the initial days of the COVID-19 crisis in getting resources to small businesses that large financial institutions and the federal government were unable to reach on their own. Four years ago, COVID-19 nearly broke the backbone of the American economy: small businesses. The pandemic forced them to pivot operations and access new capital to stay afloat. Among the pandemic’s many lessons about our nation’s inequities, we saw that mainstream finance isn’t designed to serve all. In the early round of the federal government’s landmark Paycheck Protection Program (PPP), which aimed to provide relief to small businesses, too many very small, minority- and women-owned businesses experienced severe difficulties in securing PPP loans from major banks. Although community finance institutions — including CDFIs and minority deposit institutions (MDIs) — specialize in serving these customers, they were not included in the program from the outset, which left out many communities PPP purported to serve.

Eventually, after concerted advocacy from CDFIs and others, community finance institutions were recognized for their specialized expertise and offered an expanded role in the program. And CDFIs and MDIs showed remarkable success, outperforming much larger and better-capitalized lenders. Three papers find that the mission lending field succeeded in deploying PPP to Black-owned businesses and lower-income communities:

*Bank Types, Inclusivity, and Payroll Protection Program Lending During COVID-19*⁶ analyzes the more than 11 million PPP loans made to small businesses to see how the differences among lenders shaped the flow of credit to poor and minority communities.

*Minority Depository Institutions Paycheck Protection Program (PPP) Lending Insights*⁷ looks at the performance of MDIs during PPP.

⁶ [Bank Types, Inclusivity, and Payroll Protection Program Lending During COVID-19](#) Mark K. Cassell, Kent State University; Michael Schwan, University of Cologne; Marc Schneiberg, Reed College

⁷ [Minority Depository Institutions Paycheck Protection Program \(PPP\) Lending Insights](#) Anthony Barr and Carl Romer, National Bankers Association Foundation



*A View of PPP from the Inside: Financing, Financial Performance, and Operations of CDFI Paycheck Protection Program Lenders*⁸ examines how PPP affected the boots-on-the-ground lenders that deployed loans — especially smaller mission lenders.

As a body, the research underscores that the lender makes all the difference when trying to reach low-wealth, low-income communities — and mission lenders reach these communities best. They also emphasize that policy design matters and CDFIs must stay at the table. As an emergency response program, PPP was atypical in size, scope, design, and pace. PPP lenders had to adjust their standard operating procedures and strategies quickly and efficiently to meet the program's goals.

CDFIs' performance with PPP, from standing up the program during crisis to getting money out the door, demonstrates that CDFIs are a potent tool for responding to the country's most pressing economic challenges and crisis moments and that policymakers should explicitly design future fiscal responses to include CDFIs, MDIs, and all mission-driven financial institutions.

Supportive policies and practices like these should be the norm for the field so that CDFIs, MDIs, and other mission lenders can routinely serve the nation's smallest and most underinvested businesses and communities.

There are several areas where the federal government can act to support the work of CDFIs:

- Maximize Annual Federal Grant Funding for CDFIs

Grants are a vital source of capital for CDFIs, which leverage every federal dollar eight times with private and philanthropic sources. In particular, the grant programs offered by the U.S. Department of Treasury's CDFI Fund provide critical support to CDFIs at the organizational level. Maximizing the level of appropriations for the CDFI Fund is the best way to invest in opportunity in underserved communities. CDFI Fund programs invest at the institutional level, allowing the experts on the ground at the CDFIs to make investment decisions based on the need of their communities.

- Increase CDFI Access to Federal Lending Programs

Expanding CDFI access to credit and community development loan programs across the federal government will increase economic opportunity in low-income, low-wealth communities.

These changes should include:

- Reforming the Department of Treasury's CDFI Bond Guarantee Program, a source of critical long-term capital whose full potential has yet to be realized. Passing the CDFI Bond Guarantee Program of 2023 (S.869) to lower the minimum bond issuance size and providing a credit subsidy would unlock access to this program for more CDFIs.
- Refining the Small Business Administration's entire suite of lending and credit programs to focus on supporting underserved small businesses.

⁸ [**A View of PPP from the Inside: Financing, Financial Performance, and Operations of CDFI Paycheck Protection Program Lenders**](#) Brent Howell, Alexander Carther, and Adrienne Smith, Opportunity Finance Network



- Supporting the creation and preservation of affordable housing through initiatives overseen by the Department of Housing and Urban Development and the Federal Housing Finance Agency.
 - Expanding the role of CDFIs in the U.S. Department of Agriculture's rural development and the Department of Commerce's economic development programs.
 - Enhancing the role of CDFIs in financing essential community facilities, such as community health centers, childcare centers, and charter schools supported by the Department of Health and Human Services and Department of Education.
- **Expand the Role of CDFIs in Financing Clean Energy and Building Climate Resilience**

Low-income communities bear the brunt of rising energy costs and increasing natural disasters. CDFIs are working to help small businesses, homeowners, and community organizations build resiliency. Clean energy finance is a growing segment of the CDFI industry helping to reduce energy costs. The federal government should support robust CDFI participation in all programs to build resiliency, recover from disasters, and build healthy thriving communities.
 - **Boost Private Investment in CDFIs through Changes to the Tax Code**

Using the tax code, the federal government should incentivize the private sector to invest in underserved communities through CDFIs. This could include Creating a new tax incentive for corporations making long-term investments into CDFIs, making the New Markets Tax Credit permanent, passing the Community Development Investment Tax Credit Act, the Neighborhood Homes Investment Act, and the Affordable Housing Credit Improvement Act.
 - **Advance Policies that Promote Consumer Protection and Fair Lending**

CDFIs offer consumers and businesses a safe alternative to harmful, predatory lenders. Federal policies should reinforce these values and support efforts to end discriminatory and predatory lending practices. The federal government should continue to pursue policies and regulatory changes that promote fair and equitable lending practices.

Thank you once again for the opportunity to provide feedback on this important topic. Opportunity Finance Network looks forward to continuing to work with Treasury to provide access to opportunity for all. Please feel free to contact me with any questions or if we can be of further assistance.

Sincerely,

Mary Scott Balys
Vice President, Public Policy
Opportunity Finance Network