**OPENING STATEMENT of**
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**Before the**
**ADVISORY BOARD OF THE US TREASURY DEPARTMENT'S**
**COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND**

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I begin by saying thank you to Director Harris and the members of the CDFI Fund's Advisory Board for holding this forum. I thank you for inviting CDBA and my esteemed CDFI industry colleagues to share their observations and recommendations on how to help CDFIs manage the health and economic crisis.

CDBA is the national trade association of the community development bank sector. Today, there are 145 certified CDFI banks and thrifts, as well as 102 bank holding companies serving urban, rural and Native American communities. This group includes 34 banks that are also Minority Depository Institutions. Collectively CDFI banks represent approximately 22% of the total number of CDFIs and 43% of the total assets of the CDFI industry.

CURRENT INDUSTRY CHALLENGES

We are in unprecedented times, a one-in-a-century health and economic crisis with parallels to the Great Depression. This crisis lays bare the structural inequities for Black and brown communities suffering the worst health and economic outcomes.

As CDFIs work to solve structural economic challenges of low income and minority communities, national policymakers are recognizing our work. We must use our enhanced profile to educate policymakers about CDFIs' market-based approach to address structural inequities and the racial wealth gap.

As an industry we must ask ourselves – how do we seize this moment to move-the-needle in eradicating poverty and creating opportunity?

The CDFI Fund staff asked that we each address the challenges and issues our members are facing. I will also include recommendations for how the CDFI Fund, Treasury Department, and Administration can help CDFIs help their communities.

CDFIS AS ESSENTIAL BUSINESSES

CDFI banks are retail financial service providers classified as "essential businesses." They have been on the front lines, with open doors since the virus hit. Like other essential businesses, CDFI banks had to pivot quickly to continue to deliver quality service while protecting their customers and their employees.

CDFIs AS FINANCIAL FIRST RESPONDERS

As financial "first responders," CDFI banks were among the earliest lenders in the Small Business Administration's Paycheck Protection Program (PPP). Fully 97% of CDFI banks are small business lenders and thus work directly with the sector most acutely affected by shut downs.

Per SBA data, of the 145 CDFI banks, 88% were PPP lenders. CDFI banks focused on serving the smallest and most vulnerable businesses. Among the 5,400+ PPP loans made by CDFI banks nearly 90% were less than $150,000 – of those the average loan size was $32,000. However, many CDFI banks reported making loans of only a few hundred dollars.

The best tool to help CDFI borrowers survive is to ensure PPP forgiveness is quick and complete. CDBA has repeatedly urged the SBA and Congress to create streamlined forgiveness for the smallest borrowers, as well as afford greater flexibility on use of proceeds and improve consistency in program guidance.

CDFIS AS LONG TERM RECOVERY PARTNERS

Like the Great Recession, CDFI bankers agree with economists that this recession will have lasting effects for years beyond any official recession. Delinquencies are rising in consumer, mortgage, multifamily, and commercial real estate portfolios. Yet, at this stage, the smallest businesses have felt the brunt:

- The National Bureau of Economic Research found that the number of Black business owners declined from 1.1 million in February 2020 to 640,000 in April.
- 155,000 business listed on Yelp have closed since March, of which 59% are permanent.
- A recent Reuters analysis of Equifax credit data found that business default rates are rising: the Florida small business default rate in June was 4.29% - a four-fold increase from February. In Mississippi, the default rate of 3.91% was up from 1.06%.

A strong consensus has arisen that the worst is yet-to-come, although the impact is hard to see in cumulative bank statistics -- as most struggling borrowers are still within forbearance periods. Anecdotally, CDFI banks suggest that between one-quarter to one-third of business borrowers experienced enough disruptions to request loan forbearance or restructure, or be added to watch lists. All banks consulted reported setting aside greater Allowance for Loan Losses in anticipation of FUTURE losses. The severity of defaults and business failures is directly tied to the length of the pandemic and the effectiveness of our policy responses.

Capital is the most potent tool for helping CDFIs help their borrowers through troubling times – as well as fueling recovery. To that end, CDBA's strongest recommendation is to urge the Treasury Secretary and Administration to support substantial emergency supplement funding for the CDFI Fund as part of the next stimulus package.

An important tool for CDFI banks is Section 4013 of the CARES Act. Section 4013, gives regulated lenders temporary relief from classifying loan modifications as troubled debt restructures – or TDRs. If a loan is a TDR it has significant regulatory implications, including requiring additional capital charges.

Section 4013 enabled lenders to respond quickly in modifying borrowers' loan payments. This provision will expire on December 31. If it is not extended, the bank regulatory agencies will cease being patient with banks that are patient with their borrowers. The Q4 2020 call reports will likely reflect a sharp drop in the financial health of banks and credit unions. We urge the Treasury and the Administration to support extension of Section 4013.

WHAT CDFIs NEED FROM THE CDFI FUND TO HELP THEIR COMMUNITIES

To support CDFIs, the CDFI Fund needs to be flexible. First, it needs to be flexible in its treatment of PPP loans originated by CDFIs outside their pre-approved Target Markets. Second, it needs to be flexible on

CDFI Financial Assistance Program performance goals and other compliance matters. Third, it needs to recognize the limited capacity of the industry to respond to multiple requests for public comment on various policy issues.

When the economic crisis hit, CDFIs mobilized. In April, PPP opened offering scarce rescue resources on a first-come, first-serve basis to small businesses in free fall. CDFIs responded to every borrower that sought help.

Despite these acts of good citizenry, we are distressed to learn that the CDFI Fund is reluctant to hold "harmless" CDFIs that have found themselves out of compliance with the 60% target market test SOLELY because of their PPP lending. Given the national emergency, we urge the CDFI Fund to (1) make an exception to the 60% target market test for PPP or other emergency loan programs; or (2) declare all PPP loans as eligible toward the Target Market test on the basis of the national emergency. To do nothing will unnecessarily punish CDFIs who "did the right thing" for their communities and nation.

We urge the CDFI to be flexible on CDFI Financial Assistance (FA) Program performance goals and other compliance matters. Under every grant, awardees must agree to performance targets for increasing lending, launching new products, or expanding to new markets. In 2020, every market served by CDFIs has been disrupted. Universally, the assumptions made about market conditions in FA applications are likely now incorrect. We urge the CDFI Fund to deem all CDFIs with outstanding grant agreements to be in compliance with performance goals provided they show progress and/or demonstrate a willingness to fulfill their commitments within a reasonable period.

We urge the CDFI Fund to recognize the limited capacity of the industry to respond to multiple request for public comment in the current period. We are particularly concerned about the new CDFI certification standards, application, and annual reporting. We sincerely appreciate the CDFI Fund extending the comment period by 90 days. Yet, we believe dialogue between the industry and CDFI Fund is best to help formulate good policy. The CDFI Fund took three years to develop the highly complex proposals that will reshape the industry. It would be prudent to take additional time to develop new standards and we ask that you refrain from implementation until the crisis has subsided.

I have great hope for CDFIs and their communities given the national conversation about how to address the racial wealth gap. Just like during the Great Recession, I believe the CDFI industry can emerge much stronger from this crisis. Yet, to do this, we must ensure our communities emerge from the crisis strong and vital. Congress, the Administration, and CDFI Fund can help improve economic outcomes by providing resources and flexibility for CDFIs to their jobs.

Again, I thank you for the opportunity to participate today. I look forward to your questions.