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January 21, 2021

Mr. Justin Hall
Senior Policy Advisor
United States Department of the Treasury
1500 Pennsylvania Avenue
Washington, D.C. 20220

Ms. Jodie Harris
Director, CDFI Fund
United States Department of Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: H.R. 133 - Coronavirus Response and Relief Supplemental Appropriations Act of 2021 – CDFI and MDI "Emergency Capital Investment Fund" and "Rapid Response Program"

Dear Ms. Harris and Mr. Hall,

On behalf of the members of Inclusiv, we respectfully submit the following recommendations regarding the Department of the Treasury's implementation of several measures included in the "Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (H.R. 133)." Our comments specifically concern implementation of "Capital Investments for Neighborhoods Disproportionately Impacted by the COVID-19 Pandemic" (the Capital Investment Fund) and the Community Development Financial Institution Fund's "CDFI Rapid Response Program" (RRP).

Inclusiv is a national association of community development credit unions and a certified CDFI intermediary that raises and deploys capital into credit unions, builds capacity and supports credit unions to grow and serve their communities. Inclusiv has been the longest and most active private secondary capital lender to credit unions. CDFI certified credit unions are joined by minority depository institution (MDI) designated credit unions for a total of 785 institutions. MDI credit unions have combined assets of $41 billion and serve more than 4 million consumers. There are 350 MDIs that serve predominantly African American communities and 172 that serve Hispanic American communities. Furthermore, there are 112 financial cooperatives operating in Puerto Rico with combined assets of $10.2 billion and serving 1.1 million consumers.

Emergency Capital Investment Program

The Emergency Capital Investment Program (ECIP) provides $9 billion in emergency Treasury capital investments in CDFI and MDI credit unions and banks to support lending in low-income and underserved minority communities that have been disproportionately impacted by the economic effects of the COVID-19 pandemic.

Subordinated debt is one of the most effective mechanisms to expand the capacity of CDFI and MDI credit unions to respond to the needs of the minority and economically depressed communities served by these institutions. These long-term, patient loans also known as secondary capital, count toward a credit union's net worth enabling that institution to safely raise deposits, grow its lending and offer greater flexibility to borrowers in need. When properly implemented, these investments can have a direct and catalytic effect on a financial institution's capacity to serve customers and communities that need it most.

While the ECIP promises to be an important vehicle for community development credit unions, our members shared several comments and points of clarification in an effort to facilitate this program's success:

- **Focus on Low-Income Communities.** The legislation and application are not clear on whether eligibility for this program will be limited to CDFIs and MDIs exclusively. The legislation stipulates eligible financial institutions that direct at least 30% of lending activities to "LMI populations", which are defined as people with incomes up to 120% of the median benchmark. Since more than 76% of the American population live in census tracts that meet the LMI definition, Inclusiv is concerned that this broad eligibility threshold would dilute the focus on communities that have been hardest hit by the COVID crisis, specifically the 36% of people who live in communities that meet the low-income definition. We encourage Treasury to provide clear guidance that gives priority to financial institutions that serve predominantly low-income and minority communities in keeping with the intended focus of the ECIP.

- **Participation of Financial Cooperatives.** The Puerto Rican financial cooperative system serves CDFI-eligible markets and communities deeply affected by the COVID-19 crisis and recent natural disasters. Financial cooperatives in Puerto Rico operate similarly to mainland credit unions but are not administered by the NCUA. The communities served by these institutions would greatly benefit from the ECIP, however current language in the ECIP application instructions do not indicate the eligibility to participate of the Puerto Rican financial cooperatives. Inclusiv strongly encourages Treasury to clearly state that Puerto Rican financial cooperatives are eligible to participate in ECIP.

- **Any Requirement of an Opinion Letter from Counsel is an Impediment to Participation.** The present application without final rules or guidance leaves numerous questions on the documentation that will be required upon closing. The inclusion of additional opinion from counsel letters will create a burden of participation and act as deterrent from credit union participation in ECIP, particularly upon the smallest institutions. Similar programs in the past, such as the Community Development Investment Program, introduced requirements for an opinion letter upon the release of closing documents.

- **Executive Compensation..** Constraints on the compensation for executive staff would relegate participating institutions to second-tier status: community lenders still need to compete with mainstream institutions for talent and expertise. Commitments for long-term funds that freeze executive compensation place institutional risk of turnover.

- **Emergency Investment Lending Plan.** Arguably, the heart of the application and evaluation of qualified proposals will lie in the details of the lending plans. We urge Treasury to consider broadening this to an Emergency Investment Growth Plan. As the longest and most active private sector lender of secondary capital with more than 20 years' experience, we have learned that growth plans must be organic to the needs of the community and the particular strengths of the institution. Secondary capital can enable institutions to open new branches in underserved communities, scale existing loan products; design new loan products or services; and\ or dig deeper into their market thereby producing greater financial inclusion and impact. While there is no formula that can be applied – we have learned that the best plans come from those who continue to push beyond just increasing loan volume but instead continue to evaluate and assess how to reach those who need their capital most. Success in lending and growth plans should be evaluated on the extent to which capital is being targeted to the most underserved populations.

CDFI Fund Rapid Response Program

Since its inception in 1994, the CDFI Fund has been a verifiably effective driver of lending to underserved communities and communities of color. CDFI-certified credit unions (CDCUs) continue to outperform their mainstream peers in loan growth and membership growth, and lend deeply into CDFI target markets. Inclusiv's analyses show that CDCUs lend $12 dollars for every $1 received in grants from the CDFI Fund. We expect the CDFI Rapid Response Program (RRP) will lead to similar positive outcomes for affected communities. We are sharing comments from our members to help ensure the RRP reaches its full potential impact.

- **RRP Access for all current CDFIs.** Institutions of all asset sizes, including past CDFI Fund grant awardees and those that have never previously applied for funds, demonstrate the impact CDFIs have on their communities. The RRP funds must be made accessible to all current CDFIs and the application process must not favor past CDFI Fund awardees.

- **Frequency of Grant Reports.** Inclusiv is concerned by reports that the CDFI Fund is considering proposals to move transaction-level reporting for RRP awards to a quarterly schedule. Quarterly reporting at this level of detail would create a prohibitive burden for credit unions of all sizes, which would severely limit participation in the program.

    - Community lenders experience a significant amount of flux in financials from quarter to quarter
    - Quarterly transaction-level reporting would create a huge influx of data for Treasury to analyze
    - Past efforts to track "jobs created or retained" have led to inconsistent metrics

- **Rescission of CDFI Fund's Core Grant Appropriation.** We have received reports that the previous Treasury administration planned a rescission of the CDFI Fund's FY2021 core grant appropriation of $270 million. This funding should remain in place as part of the CDFI Fund's Financial Assistance and Technical Assistance funding program to ensure a more deep and broad recovery in underserved communities.

We recognize that there will be need for ongoing dialogue between Treasury and the Community development finance field as you move the applications and rules forward. We join our colleagues in the field in acknowledging that we cannot provide a comprehensive list of suggestions within the bounds of a single letter. We strongly urge the Treasury to convene a representative panel of CDFI and MDI trade leaders and practitioners to provide insight on the development of guidelines for implementation.

The Inclusiv membership and that of its partners fully appreciate the thoughtful consideration of the Treasury and its staff as the Emergency Capital Investment Program and Rapid Response Program are implemented. This is a wonderful opportunity to expand the positive influence of a long-standing market-based solution within COVID-impacted communities, and we sincerely appreciate the opportunity to comment and offer feedback. We look forward to future discussions on these important issues.

If you have any questions, please contact me at cmahon@inclusiv.org or Pablo DeFilippi, SVP of Membership and Network Engagement at pablo@inclusiv.org.

Sincerely,

Cathleen A. Mahon
President and CEO