



Remarks to the CDFI Fund Advisory Board
Thursday, August 27, 2020

I would like to thank CDFI Fund director Jodi Harris, the staff and the Advisory Board for inviting me today to deliver remarks on the community development credit union sector.

At Inclusiv we believe that true financial inclusion and empowerment is a fundamental right. We dedicate ourselves to closing the gaps and removing barriers to financial opportunities for people living in underserved and distressed communities. Inclusiv is a certified CDFI intermediary that transforms local progress into lasting national change.

Inclusiv is a national network of community development credit unions with members in 46 states, the District of Columbia and Puerto Rico.

Community Development Credit Unions (CDCUs) are locally owned and controlled financial institutions that promote financial inclusion and provide the capital and support to grow and build wealth in low-income and communities of color. CDFI credit unions promote financial inclusion and access to safe and responsible capital for consumers, small and micro businesses and homeowners in communities that have historically been underserved by the financial system.

Solutions/Tools and Resources

The network of more than **300 community development credit unions** have more than **\$101 billion in loans** outstanding to **7 million low-income workers, consumers, homeowners and small businesses** in communities of color and financial “deserts” around the country. Our latest *Inclusive Finance Report*, which will be released tomorrow, reflects

- \$54 billion in consumer loans, including affordable auto loans, personal loans, lines of credit and small-dollar loans with flexible underwriting for credit challenged borrowers
- \$35 billion in mortgages to low- and moderate-income homeowners
- More than \$11 billion in small business loans to community-based, women and minority-led businesses.

Once again, the *Inclusive Finance* analysis demonstrates the success credit unions have when they align a community development focus with their business models.

To deliver financial support and banking services safely and responsibly, Inclusiv members are developing a series of strategies to offer limited in-person services and expanded digital tools. By surveying the Inclusiv Credit Union Network through the crisis, we’ve collected a quantitative and qualitative dataset on the scale and impact of CDCUs’ COVID responses across the country. Specifically, CDCUs have been working to help impacted individuals and families stabilize in a myriad of ways, including:

- **90% of CDCUs extended loan payment deferrals** to their borrowers to provide relief during the crisis.



- Over 50% of CDCUs are offering specialized **COVID loan relief products** to extend flexible credit to their members. The loans range from \$500 up to \$2,500 at low or 0% interest.
- 37% are waiving ATM fees and early CD withdrawal fees to enable members to easily access cash and savings during the crisis.
- CDCUs are also stepping up outreach to members with financial coaching support to help them navigate their new financial reality. Our Pathways to Financial Empowerment financial coaching network of 24 credit unions have **provided over 2,000 coaching sessions** since the beginning of the year.

In addition to robust consumer lending responses, CDCUs stepped onto the front lines in delivering support to small businesses across the country that have been devastated by the economic shutdown. Despite the many challenges small lenders encountered first accessing and then using the Paycheck Protection Program, CDCUs **originated over \$1.048 billion in PPP loans to 20,000 small businesses** with an average loan of under \$60,000.

Inclusiv members **originated 1 to 5 times their annual volume of business loans in less than two months**; and in some cases deployed up to 20% or more of their total assets (while quickly growing those assets) within a four month period.

What is Needed to Weather this Moment?

Before addressing what else, beyond capital, is needed to weather this historic moment, I would like to emphasize just how important capital is for CD lenders to weather this storm. Our Inclusiv capital team conducted a shock test analyzing data from the financial crisis and other localized economic shocks. We found that following these periods there is considerable consolidation particularly of institutions under \$100 million in assets. In looking at what works, we see that those institutions that were able to raise capital could fuel lending to grow their way out of the crisis. The Treasury's CDFI program under TARP was able to show that every dollar of secondary capital leveraged 60 times more lending in those communities in a five year period.

There are currently 522 minority credit unions, 300 of which are Black-owned credit unions that operate throughout the country delivering a vast array of products and services. While there is considerable overlap with CDFIs, the total pool of institutions is approximately 650 CDFI and MDI credit unions with a total capitalization of more than \$121 billion in assets.

The CDFI Fund is the federal program best positioned to address the racial wealth divide, which can be achieved through encouraging greater participation among MDIs as well as placing greater value on financial inclusion and empowerment activities. Currently, only 10% of MDI-African American credit unions and less than 20% of MDI-Hispanic credit unions are CDFI-certified. By designing programs that specifically address the needs of communities of color, incorporating new technologies, and reducing the burden of participation for small and MDI credit unions, the CDFI Fund will make great progress in closing the racial wealth gap and ensuring the resiliency of our communities.

Closing the racial wealth gap



The fund can work with CDFIs to help them build a broader array of support services for minority businesses, homeowners and consumers. With the Fund's support, CDFIs can become even more creative in the programs they're able to offer, including:

- **Supporting Minority Businesses with technical assistance and coaching support** for small and very small businesses. Community based lenders spend a lot of time helping businesses pull together documentation of business expense revealing that many businesses could benefit from better training, technical support and technology systems that help them track and manage their businesses. The Fund could engage other federal agencies like the Small Business Administration to establish an **Ongoing flexible loan guarantee (and forgiveness) programs.**
- **Homeownership:** Homeownership is the path that most Americans use to build and transfer wealth in this country. Subprime lending and predatory practices resulted in a more than 50% decrease in African American wealth in the period between 2008 and 2012. To weather this storm, we will need to be proactive in supporting homeowners in a variety of ways. The Fund should prioritize CDFIs that are establishing dedicated solutions, particularly in communities of color, such as:
 - **Downpayment and Closing Costs Assistance**
 - **Financial and Homebuyer Counseling**
 - **Homeowner Workout Solutions**
- **Access to small-dollar emergency loans** remains critical, particularly in this moment. During this current crisis workers and consumers need access to emergency loans to meet their basic household needs, and CDCUs have been responsive. We applaud the efforts of the Fund in supporting small-dollar lending and encourage the Fund to continue such support while prioritizing additional supportive services such as financial counselling and education.

Modernize CDFI banking through Technology

The pandemic has demonstrated the failure of large banks to reach small businesses, and particularly minority owned businesses. Community-based lenders such as CDFIs and MDIs can and do fulfill that role. But they need the capital, technical support and platforms to keep pace with the evolving financial services system.

- **Technology:** Establish a CDFI\MDI Modernization initiative. CDFI and MDI credit unions currently pay between 25%-60% of their budgets on technology. Efforts to create and build platforms for credit unions to reach their consumers have shown tremendous promise but lack sufficient capital and the right technology partners to scale. We need responsive, flexible banking platforms for CDFI and MDI credit unions. Efforts like Inclusiv Technology have made tremendous strides in building mobile banking platforms and loan origination tools with low-income consumers in mind. But we need more investment and the engagement of technology providers to optimize and grow these successes.
- **Data Analytics:** Currently CDFI reporting is disconnected to the tools that would help institutions better track, analyze and use data to grow their businesses forcing CDFI CUs to



duplicate efforts or miss opportunities. Sitting with industry experts to design more flexible impact reporting aligned with supporting business growth would be an essential first step.

Address Obstacles to Participation

While there are more than 300 active credit unions that are CDFI certified, 103 active credit unions have allowed their CDFI certifications to lapse. Of those, 22 are MDIs and 51% have less than \$50 million in assets. The resources required to meet certification and annual reporting standards discourages small and MDI credit unions from seeking and maintaining CDFI certification. Proposed changes to the certification and recertification applications and data collection will increase this burden and further discourage participation among credit unions, particularly those that are small or MDI.

Finding the right balance in certification and reporting requirements would involve working with existing CDFIs to find the right balance between demonstrated need for the CDFI Fund to use report data for a specific purpose, cost of the data collection based on institution size and type, and the potential benefit to the institution of taking on the burden of reporting.

Looking Forward

Despite the many challenges ahead, our outlook on the CDFI industry as a whole and specifically for CDFI credit unions remains positive. 2020 has demonstrated to our nation the urgency of maintaining resilient communities and the critical role community lenders play in achieving this. With this increased national recognition, there is much the CDFI Fund can do together with the CDFI industry to build a more just and equitable economy and nation.