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TESTIMONY OF CDFI FUND DIRECTOR JODIE HARRIS BEFORE THE U.S. SENATE COMMITTEE ON INDIAN AFFAIRS

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Introduction

Chairman Hoeven, Vice Chairman Udall, and Members of the Committee: thank you for the opportunity to testify during today's hearing entitled "Building out Indian Country: Tools for Community Development." My name is Jodie Harris. I am Director of the U.S. Treasury Department's Community Development Financial Institutions Fund (CDFI Fund).

The CDFI Fund's vision is an America in which all people and communities have access to the investment capital and financial services they need to prosper. In order to help achieve that vision, the CDFI Fund's mission is to expand economic opportunity for underserved people and communities by supporting the growth and capacity of a national network of community development lenders, investors, and financial service providers.

About the CDFI Fund

Established by the Riegle Community Development and Regulatory Improvement Act of 1994 (Riegle Act; P.L. 103-325), the CDFI Fund has worked for more than two decades to generate economic opportunity in places where opportunity is needed most.

The CDFI Fund works to spur economic growth, job creation, and opportunity in the nation's distressed and underserved communities by offering targeted resources and innovative programs to leverage federal dollars with private sector capital. The CDFI Fund supports mission-driven financial institutions that take a market-based approach to supporting economically underserved communities. These financial institutions are encouraged to apply for certification as Community Development Financial Institutions (CDFIs).

Since its inception, the CDFI Fund has awarded more than \$3.3 billion to community development organizations and financial institutions; guaranteed \$1.5 billion in bonds through the Bond Guarantee Program; and allocated \$54 billion in New Markets Tax Credits. These awards have leveraged billions of dollars in private sector investment and increased the impact of CDFIs, CDEs, and other community-based development organizations by expanding their capacity to deliver the credit, capital, and financial services needed to generate economic opportunity in underserved communities. While the President's Budget for FY2020 does not propose additional funding for CDFI award programs, we are working hard to ensure that available funds are deployed as quickly and effectively as possible.

About CDFIs

CDFIs are community-based financial institutions that have a common goal of filling financing gaps in underserved and low-income areas. As community-based institutions, they possess a keen sensitivity to the needs of local residents and businesses, and their creation reflects a bottom-up, rather than a top-down, approach to community investment and revitalization.

Currently, there are nearly 1,100 CDFIs serving urban and rural communities throughout the United States. CDFIs are located in all 50 states, the District of Columbia, Guam, and Puerto Rico. They bridge diverse public and private sector interests to serve people and places that traditional financial institutions usually do not. CDFIs typically provide:

- Loans for businesses and projects that otherwise would not qualify for financing;
- Safe and affordable banking services that otherwise would not be available in the community;
- Loan rates and terms that are more flexible than those offered by traditional lenders; and
- Development services - such as business planning, credit counseling, and homebuyer education - to help their borrowers use credit effectively and build financial strength.

The CDFI Fund's Native Initiatives

Native Communities, including Native American, Alaskan Native, and Native Hawaiian communities, often face formidable barriers to accessing capital and basic financial services. The CDFI Fund's Native Initiatives generates economic opportunity for Native Communities by supporting the creation and expansion of Native CDFIs, which in turn help create jobs, establish or improve affordable housing, and provide supportive financial services and counseling within their communities.

The origins of the CDFI Fund's focus on Native Communities trace back to 1994 when Congress mandated the completion of a study (as part of its passage of the Riegle Act) on lending and investment practices in Native Communities. Released in 2001, the "Native American Lending Study"¹ examined the barriers faced by Native communities in accessing capital and basic financial services, as well as the increased challenges in tapping into private and public sector programs.

The study affirmed the importance of developing Native CDFIs - CDFIs that specialize in serving Native Communities - to play a key role in the broader effort to lead Native Communities into the nation's economic mainstream. After this study, the Native CDFI Assistance Program (NACA Program) was launched to support the creation and expansion of Native CDFIs.

An organization must be certified as a CDFI and primarily serve a Native Community to be eligible for Financial Assistance through the NACA Program. Technical Assistance is available to both Native CDFIs and emerging Native CDFIs (those on the path to certification). To be eligible for Native CDFI certification, at least 50 percent of an organization's activities must serve Native Americans, Alaska Natives, or Native Hawaiians.

The NACA Program has made some significant inroads and generated substantive results in increasing the availability of credit and capital in Native Communities. From FY 2010 to FY 2018, NACA Program award recipients originated nearly \$620 million in loans and investments. Of this amount, more than \$312 million was dedicated to business and microenterprise loans and investments, financing more than 1,600 businesses; and more than \$117 million was for home purchases or home improvement financing.² In addition, nearly 174,000 individuals have been served by financial literacy and training programs. Examples of ways in which Native CDFIs are providing access to capital and credit include:

- **Citizen Potawatomi Community Development Corporation (Shawnee, OK)**, a certified Native CDFI, provided a loan of more than \$40,000 to DC Cake Appeal, a small catering and baking businesses owned by a tribal member, to help them expand their business. The loan allowed the owners to move their home-based business into a 4,000 square foot facility, which boasts a commercial kitchen and serves as restaurant, bakery and event space. The loan also helped create seven jobs in a small community.
- **Native 360 Loan Fund, Inc. (Grand Island, NE)**, a certified Native CDFI, provided financing to Native-owned startup Cherry's Native Creations (Norfolk, NE), which sells genuine Native-made handicrafts. The financing allowed Cherry's to acquire inventory, grow their operations and expand their business overseas.
- Certified Native CDFI **Four Directions Development Corporation (Orono, ME)** recently announced it was partnering with Wells Fargo & Company to provide a home down payment assistance program aimed at homeownership opportunities for Native Americans in Maine. Four Directions will provide up to \$5,000 in down payment assistance to tribal members to help address low rates of homeownership of Native Americans in Native Communities in the state.

Access to Capital and Credit in Native Communities

Despite the inroads made by the NACA Program, capital and credit needs in Native Communities are high, and access to banking services and products remain a consistent challenge. In May 2016, the CDFI Fund released a follow-up to the 2001 report, entitled "Access to Capital and Credit in Native Communities."³ It showed the scope and scale of existing hurdles. Some of the key report findings include:

- While the supply of capital has increased, it has not kept pace with the demand and need for capital;
- Per capita income levels in Native Communities are less than half of what they are in Non-Native Communities - and are not expected to catch up for more than 40 years based on data compiled in the Access to Capital report; and
- Credit scores tend to be lower in Native Communities, which leads to lower homeownership rates.

A recent survey⁴ of Native CDFIs conducted by First Nations Oweesta Corporation also highlights that many Native CDFIs remain undercapitalized and that engagement with traditional lending sources remains low. This is also supported by a separate survey conducted by the Minneapolis Federal Reserve Bank's Center for Indian Country Development, where Native CDFIs reported an additional \$48 million in unmet funding needs from public and private sources for in 2017 alone.⁵

And finally in 2017, the First Nations Development Institute and the FINRA Investor Education Foundation released a report⁶ on financial capability in American Indian and Alaska Native Communities, indicating that Native Americans and Alaskan Natives:

- Among all groups, have higher levels of financial fragility and distress;
- Are the least likely to have an emergency savings fund in place; and
- Are less likely to have savings and checking accounts than other groups.

This research emphasizes that while much has been accomplished in the years since the "Native American Lending Study" was completed, there is also much more to be done to provide access to credit and capital in Native American Communities.

Fostering Innovation and Building Capacity in Native Communities

While the NACA Program supplies an important tranche of capital for Native Communities, it should not be the only path that a Native CDFI, or an organization that is aspiring to become a certified CDFI, can pursue in developing and expanding its lending capabilities. Developing the capacity of Native CDFIs to effectively compete for funding through other CDFI Fund programs, and developing capital sources outside of the CDFI Fund, are of critical importance. The impact of Native CDFIs can be elevated and multiplied through innovative partnerships and initiatives between Native CDFIs, financial and philanthropic institutions, and other non-Native CDFIs. For example:

- **Mazaska Owecaso Otipi Financial, Inc. (Pine Ridge, SD)** and **Lakota Funds (Kyle, SD)**, both certified Native CDFIs, have partnered to increase homeownership rates for Native American veterans. Mazaska provides a construction loan to the veteran and then assists them in refinancing through a U.S. Department of Veterans Affairs Native American Direct Loan after the home is built. Mazaska and Lakota Funds work together to provide homebuyer education and support, and to coordinate with the U.S. Department of Veterans Affairs to convert the construction loan to permanent financing.
- Mazaska was also recently chosen - along with certified Native CDFI **Four Bands Community Fund (Eagle Butte, SD)** - by the U.S. Department of Agriculture (USDA) to participate in a Section 502 relending pilot program on tribal lands to help low-income families pursue home ownership. Under the pilot, USDA provided each CDFI with \$800,000 in funding, which each CDFI matched with \$200,000, to relend to Native American families in Native Communities in South Dakota and North Dakota.
- In spring of 2018, **First Nations Oweesta Corporation (Longmont, CO)**, a national Native CDFI intermediary, launched a \$10 million Native CDFI Capital Pool to exclusively fund the capital needs of Native CDFIs. The pool is intended to leverage larger amounts of lending capital for Native CDFIs who invest in the pool. They are able to receive up to \$1 million in capital - either in loans or in a loan/grant combination. 13 Native CDFIs contributed to a shared-risk pool, to which Oweesta provided matching resources. The Capital Pool was capitalized by loan and grant resources from a number of philanthropic and financial institutions. All \$10 million from the Capital Pool has been deployed to support a variety of housing, consumer, and small business lending activity. The Capital Pool is designed to leverage the capacity and relationships between Native CDFIs to provide access to long-term low-cost capital.
- **Clearinghouse CDFI (Lake Forest, CA)**, a non-Native CDFI, seeks out value-added partnerships with Native CDFIs to fund projects that Native CDFIs could not finance alone due to limited capital. In total, Clearinghouse has deployed roughly \$65 million to projects in Native American communities. To help them development partnerships and collaborative opportunities, Clearinghouse established a Native American advisory board - which includes Native CDFIs and Native-owned businesses - that meets quarterly to discuss opportunities and challenges in Indian country.

- **Midwest Minnesota Community Development Corporation (MMCDC) (Detroit Lakes, MN)** created a subsidiary Native CDFI: the White Earth Investment Initiative, which focuses on development in and around the White Earth Reservation in Northwest Minnesota as well as lending in Native American Communities across Minnesota. In addition, because the White Earth reservation is within MMCDC's target market, there is one seat reserved on MMCDC's board for a tribal appointee, and they also have another elected member from the White Earth Reservation.
- The Metlaka Indian Community in Alaska worked with **Tongass Federal Credit Union (FCU) (Ketchikan, AK)**, a certified CDFI, to establish a financial services and banking presence on the remote island community after the area's only bank branch closed in 2005. Tongass FCU began offering services once a week at the Metlakatla Indian Community council chambers in the summer of 2005. Tongass FCU established a local advisory board for the Metlakatla branch, which helped the credit union develop and target its services to the community. In 2012, Tongass FCU completed a new branch building in Metlakatla. The new branch is staffed by six employees who are all from the Metlakatla Indian Community.

To achieve higher levels of innovation, increased capital access, and to further support Native CDFIs' abilities to increase their impact in the communities they serve, the CDFI Fund has relaunched the "Building Native CDFIs' Sustainability and Impact" training and technical assistance series offered through our Capacity Building Initiative.

The training is designed to provide Native CDFIs tools to enhance their management and operational capacity, as well as to showcase Native CDFI best practices (such as underwriting processes, board management, strategic planning and portfolio management). Native CDFIs and similar organizations that join this initiative will have access to:

- Individualized technical assistance, focused on addressing their organization's specific capacity building needs;
- In-person workshops that bring together Native CDFIs and similar organizations from across the country for knowledge sharing, skill building, and practical action planning (with scholarships available for travel and lodging costs);
- Webinars on a variety of topics related to sustainability and impact; and
- Peer learning opportunities.

In addition to this, the CDFI Fund has worked to reduce impediments to accessing NACA Program resources. In 2017, the application for NACA Program Financial Assistance and Technical Assistance was revamped. This restructured application has reduced the burden to apply for assistance, and has provided applicants a better opportunity to accurately describe their organization and the impact they can make with an award.

Conclusion

Last week, the CDFI Fund opened the fiscal year 2019 application round of the NACA Program, for which we anticipate awarding nearly \$14 million in Financial Assistance and Technical Assistance awards. We are confident these awards will increase the capacity of Native CDFIs, and organizations seeking to become certified CDFIs, to provide access to capital and critical community revitalization initiatives.

While the CDFI Fund acknowledges the substantial challenges and impediments that remain to accessing capital and credit in Native Communities, we are optimistic about the track record of impact and achievements of Native CDFIs. Last year alone, NACA Program awardees originated more than \$75 million in loans and investments, which is an indicator of their potential for future success. The CDFI Fund remains committed to developing the capacity of Native CDFIs and increasing access to credit and capital in our nation's Native Communities.

Chairman Hoeven, Vice Chairman Udall, and Members of the Committee, this concludes my statement. I thank you for the opportunity to testify. I look forward to taking your questions.

1. https://www.cdfifund.gov/sites/cdfi/files/Documents/2001_nacta_lending_study.pdf
2. [FY 2018 CDFI Fund Agency Financial Report](#)
3. <https://www.cdfifund.gov/programs-training/Programs/native-initiatives/Pages/native-communities-study.aspx>
4. First Nations Oweesta Corporation, "[Native CDFI Industry Profile 2017](#)"
5. Michou Kokodo, "[Findings from the 2017 Native CDFI Survey: Industry Opportunities and Limitations](#)." Federal Reserve Bank of Minneapolis, Working Paper No. 2017-04, November 2017
6. FINRA Investor Education Foundation and First Nations Development Institute, "[Race and Financial Capability in America: Understanding the Native American Experience](#)," August 2017

