December 16, 2022

To: Interagency Community Investment Committee (ICIC)
From: U.S. Impact Investing Alliance
Subject: Community Investment Request for Information Comments

<u>Summary</u>

On behalf of the U.S. Impact Investing Alliance ("the Alliance"), I applaud the creation of the Interagency Community Investment Committee ("ICIC") and appreciate the opportunity to respond to the Request for Information ("RFI"). The Alliance believes that producing stronger economic outcomes for all communities, but especially in a way that confronts racial disparities, will require a robust community development finance ecosystem.

The agencies should consider their joint role in fortifying and empowering the community development financial institution ("CDFI") and minority depository institution ("MDI") industry and its underlying infrastructure to catalyze private investments at scale and with impact integrity. CDFIs and MDIs have demonstrated their adeptness at offering affordable, responsible and sustainable lending and financial products for families, small businesses and communities not well served by traditional financial institutions.

Impact investors have long supported CDFIs, given their aligned missions to generate measurable and positive outcomes for Black, Brown, minority and low-income communities. While the ICIC's four substantive areas of focus are each important in their own right and have intersecting implications, the Alliance's comments below will primarily focus on how agencies can strengthen the capacity of community financial institutions.

<u>About the U.S. Impact Investing Alliance</u>

The Alliance is an organization committed to catalyzing the growth of impact investing in the United States.[1] We define impact investing broadly to include those investments that create financial returns alongside measurable and positive social, economic or environmental impacts across asset classes. Members of our boards and councils include institutional investors and high-net-worth individuals collectively owning hundreds of billions of dollars of invested assets, in addition to asset and fund managers collectively managing over one trillion dollars in assets.

<u>Alliance's Policy Engagement</u>

Core to the Alliance's work is advocating for an enabling public policy environment for impact investing. That can take a variety of forms, from advancing regulatory changes to instill more transparency and

[1] https://impinvalliance.org/

accountability across the capital markets, to advocating for programs and tax incentives that encourage and enable the flow of private capital to support positive outcomes on the ground in communities.

In 2020, the Alliance published the report, "Private Capital, Public Good" offering federal policymakers 12 recommendations to leverage impact investing principles and solutions to support a just and equitable recovery from the COVID-19 pandemic and related crisis set.[2] Several of the recommendations relevant to community investing have been acted upon, including enhanced support for the CDFI and MDI industry and modernization of the Community Reinvestment Act ("CRA").

Additionally, in partnership with B Lab, the Alliance co-leads the Coalition on Inclusive Economic Growth, a group of over 60 impact-oriented business and investor organizations dedicated to coordinating public and private sector action, including through its policy docket with recommendations for how government and the private sector can drive progress toward a more transparent, equitable and accountable economic system.[3] Similarly to "Private Capital, Public Good," the Coalition's policy docket is centered around fortifying the community development finance landscape, promoting equity and creating positive outcomes for all stakeholders.

The Alliance has a significant track record in terms of advocating for public policies that drive positive economic outcomes for communities. Our comments below are grounded in that expertise.

RFI Responses

Question 1: Please describe examples of best practices and lessons learned from community investment projects that have layered a mix of public, private, and/or philanthropic capital. How could these projects have been more impactful or more cost effective to implement?

As noted above, the Alliance has long advocated for public policies that effectively catalyze private investments in communities. This stems from the contention that achieving strong economic outcomes and positive social and environmental impacts in communities — particularly those that have been historically disinvested or underserved — requires coordination across public, private and philanthropic actors, bringing their capital and expertise to bear. Below are two recent examples of Alliance engagement in community investing policy conversations, along with relevant best practices and lessons learned.

CRA Recommendations and Lessons

The CRA is often credited as a major driver in spurring the development of the CDFI and MDI industry, serving as the bedrock of the overall community development finance ecosystem in the United States. Impact investors work alongside CRA-motivated institutions, and their success in driving place-based positive social, economic or environmental outcomes depends on the stability and efficiency of the CRA

[2] U.S. Impact Investing Alliance, Private Capital, Public Good, 2020.
[3] U.S. Impact Investing Alliance, Coalition on Inclusive Economic Growth.

system. In many ways, the CRA has provided the baseline for public, private and philanthropic investments in low-income, Black, Brown, and historically underserved communities.

The Alliance is supportive of the latest joint reform efforts by the three banking regulators to modernize and strengthen the policy after nearly 30 years since the last successful overhaul. Our August 2022 comments to regulators[4] emphasize the need for the CRA regulatory framework to incentivize long-term support and investments into community financial institutions like CDFIs and MDIs.

Additionally, the Alliance joins many of our peers across the philanthropic and impact investing communities in calling for regulators to more directly advance racial equity and address racial disparities in the modernized CRA regulations. The CRA was passed in the midst of the civil rights movement and was intended to address the racist practice of redlining and other racial disparities in access to credit and financial services. While transformational in its impact, the CRA has fallen short of meeting its founding purpose and indeed, the racial wealth gap continues to widen in this country.[5] Learning from the successes and limitations of the CRA, federal agencies should consider opportunities to advance race-conscious policies and regulations when seeking specific racial and economic equity objectives.

The CRA is one of the primary levers by which the federal government can fortify resilient community investing ecosystems, which is why we call special attention to maximizing the ongoing reform effort by relevant agencies, including the Office of the Comptroller of the Currency ("OCC") and by extension, the Treasury Department as a member of the ICIC.

The CRA is also a helpful use case for considering the role of regulation in promoting accountability to stakeholders, namely communities in this case. Public and private sector actors alike should look to the lessons of the CRA over the past several decades — including both its limitations and successes — in considering how large financial institutions with outsized impacts on society can remain accountable to the communities they serve and in which they operate.

Opportunity Zones Recommendations and Lessons

The 2017 passage of the Opportunity Zones policy — a tax credit-based program meant to encourage private investments into "economically distressed" census tracts — marked the first new community investing tax incentive in over 15 years. The Alliance and many of our impact investing and philanthropic peers recognized this program's potential to spur economic development activity in underserved, low-income and rural communities, though it lacked robust reporting requirements and accountability

[4] U.S. Impact Investing Alliance Comments in Response to Interagency Notice of Proposed Rulemaking on the Community Reinvestment Act (FDIC RIN 3064-AF81; Federal Reserve Board Docket No. R-1769 and RIN 7100-AG29; OCC-2022-0002-0001).
[5] Catarina Saraiva, Black-White Wealth Gap Getting Worse, 160 Years of US Data Show, Bloomberg, June 2022.

measures. In turn, the lack of transparency has inhibited the broader field's ability to evaluate the program and has led to significant community skepticism.

While there are many good-faith actors investing in line with the original intent of the legislation to promote positive economic outcomes in low-income areas of the country, policymakers and market actors ultimately lack the data to measure the overall impact of the policy and learn from its successes and failures to date. To help mitigate these gaps in the policy, the Alliance co-authored a private sector, voluntary reporting framework, which is explored further in response to RFI Question (6) below.

A broader takeaway relevant to the ICIC's activities is that for new and existing programs that catalyze public and private investments in communities, policymakers should make transparency a priority and ensure that incentives or benefits are explicitly tied to impact for underserved communities, residents and businesses from the outset.

Question 3: As agencies are implementing new programs under recent CHIPS and IRA legislation, how can they best incorporate these lessons to streamline design and delivery, as well as ensure historically underserved communities benefit from federal funds?

With hundreds of billions of dollars flowing into states and local communities following the passage of major legislative achievements (e.g., CHIPS and IRA), the agencies are right to consider how best to leverage the capital and expertise of the private sector alongside government funds. Generally speaking, it is critical that federal agencies consider their role in ensuring the targeted communities are equipped to receive and deploy the capital effectively and efficiently, through capacity building and coordination across sectors.

More specifically, the Greenhouse Gas Reduction Fund ("GHGRF") included in the IRA has the potential to catalyze hundreds of billions of dollars of public and private investments into clean energy solutions for communities. In alignment with congressional intent, we believe effective implementation by the Environmental Protection Agency ("EPA") will require the standing up of one or multiple centralized nonprofit "green bank" entities to seed and scale the climate finance market with equity at its core.[6]

To accomplish this, federal agencies should look to leverage the existing community development finance industry, which is well-positioned to distribute capital efficiently and equitably alongside other intermediaries like state and local green banks. With this in mind, the Treasury Department's CDFI Fund should advise the EPA on how best to leverage the GHGRF awards to fully engage the community development finance sector to its full potential.

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[6] See comments from Calvert Impact and other field leaders in response to an October 2022 RFI from the EPA: https://www.regulations.gov/comment/EPA-HQ-OA-2022-0859-0250; https://www.regulations.gov/comment/EPA-HQ-OA-2022-0859-0389

More broadly, across our policy recommendations, the Alliance has urged policymakers to consider their role in incorporating the lessons of international development finance to reinvest in American infrastructure, industry, economic competitiveness, small business ecosystems and community development to foster an economy that provides security, economic resiliency and quality jobs for all. We are encouraged by the strides made toward this broader goal in the passage of the GHGRF and believe it can be a launchpad for considering future innovations.

Question 4: Community financial institutions play a critical role in providing safe, affordable capital and financial services to historically underserved communities. How can federal agency coordination help build the capacity of these organizations to serve their communities?

There are many federal programs spanning across agencies that seek to support community financial institutions, small businesses and economic development more broadly. First and foremost, it is critical that there is better policy coordination, alignment and communication across these programs to ensure interoperability, rather than counter-productive or redundant activities. This is one of the reasons the Coalition on Inclusive Economic Growth was inspired to come together and call on the federal government to establish a cross-sector and cross-agency entity on inclusive economic growth solutions.

Additionally, we have several specific recommendations for federal agencies to help build the capacity of community-based organizations. First, policymakers should build on the success of the Emergency Capital Investment Program ("ECIP") to provide more permanent long-term support — including equity or net asset capital — for CDFIs, MDIs and other institutions that support entrepreneurial and community investing ecosystems in historically underserved communities.

Second, while potentially outside the remit of regulators, we are calling for a permanent expansion and modernization of the CDFI Fund. CDFIs and MDIs are finally being recognized as critical financial capillaries capable of reaching the most underserved groups, and the baseline appropriations for the CDFI Fund (a significant source of funding for the field) should be increased to $1 billion annually. To effectively modernize the CDFI Fund, regulators must also reexamine the financial and technical assistance grant application process to ensure that a diverse range of organizations, including smaller and minority-led institutions, have adequate access to the program.

Question 5: What specific changes to federal credit or securitization programs could facilitate additional private investment in community financial institutions, and what are the most important existing limitations of these programs that may prohibit additional scale that could be achieved?

Traditionally, community financial institutions have contended with a relatively limited set of funding sources. In an effort to diversify, some of the larger, more established CDFIs have accessed the capital markets through bonds, typically underwritten by investment banks. This strategy is not necessarily feasible for the majority of CDFIs, given the time, resources and size needed to secure an investment-grade rating for bond issuances.

Given these limitations, there is a prime opportunity for partnerships across the public, private and philanthropic sectors to seed a robust secondary market for community financial institutions. This would help transform the current landscape by attracting new sources of capital, improving the efficiency of that capital, and supporting the deployment of innovative capital delivery mechanisms and product structures. In particular, the Alliance has identified the lack of a robust secondary market for small business loans — in particular, those originated by CDFIs — as a key weakness in the community investment ecosystem.

Based on the Alliance's research to date, there is significant market interest and emerging activity that could be catalyzed by federal policymakers. Several private intermediaries — both for-profit and nonprofit — have developed or are actively developing securitized products backed by CDFI small business loans. Prominently, the COVID-19 pandemic and resulting economic crisis saw the emergence of state- and city-based funds that blended private capital, philanthropic capital and public subsidy to provide immediate liquidity to CDFIs and the businesses they serve.

The agencies should examine how to leverage their respective authorities in a coordinated fashion to help seed a secondary market for community financial institutions and small business loans in particular, building off the lessons of the models championed and led by Calvert Impact and the Community Reinvestment Fund.[7]

There are a number of additional opportunities for federal engagement in this market, some of which would require congressional action. We have included them below for the agencies' reference and awareness as they consider their own role in the implementation of existing and future securitization programs.

- **Support for Private Sector Intermediaries Developing Securitized Structures:** Section 113 of the Riegle Act authorizes the CDFI Fund to "provide assistance for the purpose of providing capital to organizations to purchase loans or otherwise enhance the liquidity of [CDFIs]." This section has never been funded or utilized. Congress should consider funding and reforming this section. Doing so would allow the CDFI Fund to participate in several pilot projects to strengthen secondary markets. In reforming the existing language, priority should be given to projects and intermediaries targeting mid-sized CDFIs not otherwise able to access the capital markets and those serving historically marginalized communities.
- **Technical Assistance Funding for CDFIs Seeking to Access Capital Markets:** Accessing capital markets through established channels or through emerging securitization efforts often requires investment in the back office capacities of CDFIs. This is particularly true for mid-sized CDFIs and those serving historically marginalized communities. The CDFI Fund should provide targeted technical assistance for the purpose of improving capacity to engage with established or emerging secondary market intermediaries.

[7] Calvert Impact Capital, Community Reinvestment Fund, USA, and 60 Decibels release new research as small business recovery programs surpass $210 million in lending, March 2022.

- **Improved Data Aggregation and Dissemination:** Significant data is needed to successfully develop and launch a securitized loan product fit for secondary market demand. For instance, data on the past and present performance of loans and the composition of loan pools are needed to accurately underwrite and price these products. The CDFI Fund should explore opportunities to improve existing data aggregation efforts and to efficiently provide data — with appropriate safeguards — to intermediaries. Alternatively, the CDFI Fund could consider adapting or replicating the "Qualified Issuer" status available under the Bond Guarantee Program to support private, secondary market underwriting of CDFIs.

Question 6: How can the Agencies incentivize or structure data collection and reporting to promote increased private sector and philanthropic investment in community financial institutions?

In addition to advocating for policymakers to fill the transparency gap in the Opportunity Zones tax incentive, the Alliance partnered with the Federal Reserve Bank of New York and the Beeck Center for Social Impact and Innovation at Georgetown University to author and publish the Opportunity Zone Reporting Framework ("OZRF"), [8] a voluntary set of guidelines designed to define best practices for investors and fund managers seeking to invest in Opportunity Zones.

Throughout that process, the Alliance gathered several lessons that may be applicable to the ICIC agencies and their goals. First, as was already stated in response to RFI Question (1), policymakers should embed transparency and reporting requirements into community investing policies from the outset whenever possible. Barring that, we encourage policymakers to uplift private sector and standard setting experts with voluntary data collection and reporting frameworks.

As of 2020, over 400 Opportunity Fund managers, investors and projects have voluntarily adopted the OZRF, demonstrating the demand by market participants for consistent, industry-accepted reporting practices. The Alliance has received the feedback from many of the OZRF adopters that voluntarily disclosing the impacts of their Opportunity Zone investments and projects have made their funds more attractive to philanthropic investors pursuing mission-aligned opportunities. Specifically, these investors were seeking high-quality, disaggregated and easily accessible impact data.

Here we see a tangible way in which data collection and public reporting — whether mandated or voluntary — has a clear effect on catalyzing private and philanthropic sector investments in place-based economic development projects.

Conclusion

Thank you for the opportunity to provide comments in response to the RFI, and we once again applaud the agencies for coming together to form this important initiative. The magnitude of challenges

[8] https://ozframework.org/about-index

communities are facing in response to the crises of the past several years demands bold leadership across federal agencies and sectors.

The Alliance believes that building a more equitable economy for all begins with empowering the community-based institutions that have been at the forefront of economic development in underserved communities for decades. Our recommendations to the agencies stem from this belief, and we are supportive of the ICIC's broad organizing agenda and mission. We look forward to working with the ICIC going forward to promote our shared vision for a more equitable economic system.

Sincerely,

Fran Seegull
President
U.S. Impact Investing Alliance