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BUSINESS

Renewed Focus on Race Triggers Surge of Interest in Community-Based Lenders

Questions remain if influx of money to financial institutions that help disadvantaged communities will last



Sunyatta Amen, right, was pleased with how quickly a Black-owned community lender in Columbia, S.C., processed a \$52,000 PPP loan for her Washington-based stores.

PHOTO: CALABASH TEA & TONIC

By [Amara Omeokwe](#)

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The coronavirus pandemic and the heightened attention on race have thrown new light on a longstanding source of economic inequality: Black communities have less access to credit than white ones.

To address that gap, Washington and Wall Street are turning to a small network of lenders set up precisely to address that disparity. Community development financial institutions, or CDFIs, are community-based banks, credit unions and investment funds that lend to

home buyers, small businesses and others in rural, impoverished and minority communities.

Earlier this year, Congress and the Trump administration earmarked billions of dollars for CDFIs to issue Paycheck Protection Program loans to small businesses. Meanwhile, CDFIs have received multimillion-dollar investments from traditional lenders such as Goldman Sachs Group Inc. GS 2.43%▲ and Bank of America Corp., BAC 2.84%▲ and new corporate supporters such as Netflix Inc. NFLX -0.71%▼ and Google Inc.

HOPE, based in Jackson, Miss., runs two CDFIs, a credit union and nonprofit loan fund, that focus on communities of color in the deep South. At the end of June, it received a \$10 million investment from Netflix in the form of a two-year certificate of deposit. HOPE says it will support roughly 2,500 entrepreneurs, home buyers and consumers of color.

There has been more discussion of CDFIs and economic opportunity for people of color in the last four months than the previous 40 years, said HOPE's chief executive, Bill Bynum: "It's been a dramatic turn." The attention Netflix's deposit drew "was more valuable than the deposit itself," he added, helping draw millions of dollars more in commitments.

Google joined with the Opportunity Finance Network, a membership group for CDFIs, to launch a \$125 million fund for the industry. Goldman, Bank of America, Morgan Stanley, Citigroup Inc. and Wells Fargo & Co., all of which had existing relationships with CDFIs, have in recent months announced investments—in the form of grants or capital to fund PPP and other loans—ranging from \$5 million to \$750 million.

There are about 1,100 CDFIs nationwide. Under a program created in 1994, the Treasury Department's CDFI Fund certifies CDFIs and provides them with grants, low-cost credit and operational support. Demand for CDFI Fund grants and support typically far exceeds Congress's yearly appropriations.

Fourteen percent of Black adults didn't have a bank account in 2019, according to the Federal Reserve, compared with 6% of adults overall. Just 23% of Black-owned small businesses with employees used bank funding in the last five years, compared with 46% of white-owned firms, a Fed report showed.

This helps explain why Black-owned firms likely had relatively limited access to the federal, \$670 billion Paycheck Protection Program, which offered forgivable loans to small

businesses to weather the pandemic. Several commercial lenders issuing the loans initially prioritized customers with existing relationships.

CDFIs are meant to redress such disparities. For example, the Opportunity Finance Network, based on a 2018 survey, estimates 58% of the clients served by its roughly 300 members are people of color, 85% are low-income and 48% are women.

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“CDFIs are having a moment because I think there is a greater recognition of what we do,” as institutions “on the ground who are working hand-in-hand with communities, including communities of color and folks who may not have that access to affordable credit,” said Donna Gambrell, chief executive of Appalachian Community Capital, a CDFI.

When PPP opened in early April, Sunyatta Amen, who is Black, sought a loan for her Washington, D.C.-based tea and wellness stores, Calabash Tea & Tonic. She found her main bank, Wells Fargo, was initially accepting only statements of interest, not applications. PPP exhausted its first round of funding on April 16, a day after Wells Fargo invited Ms. Amen to apply, which she did.



Ms. Amen was less satisfied with the results of her efforts to get a PPP loan from her main bank, Wells Fargo, for her tea and wellness stores.

PHOTO: CALABASH TEA & TONIC

Dismayed by the initial delays and what she felt was an unsatisfying level of communication, Ms. Amen said she followed a family friend's recommendation to look into Optus Bank, a Black-owned CDFI based in Columbia, S.C.

After Congress replenished PPP, Ms. Amen applied to Optus, which processed her \$52,000 PPP loan within days.

"With Optus, it was awesome. It was painless and I really salute them. I'm proud that Black-owned bank came through for us," Ms. Amen said.

Wells Fargo later got back to Ms. Amen, informing her that the Small Business Administration wouldn't guarantee the first PPP loan she applied for because she had already proceeded with Optus.

"We wish we could have helped every single small business seeking a PPP loan, and we devoted thousands of employees to this effort," a Wells Fargo spokesman said.

As of Aug. 8, CDFIs accounted for \$7.5 billion of PPP's overall \$525 billion in approved loans, according to the SBA.

Questions remain how sustained the CDFI industry's momentum will be. Mr. Bynum said CDFIs had spurts of attention after previous crises, such as Hurricane Katrina in 2005,

that laid bare geographic and racial disparities, just as the pandemic and the killing of George Floyd in police custody have done.

“We don’t have a great track record of sustaining action to address systemic racism in this country,” Mr. Bynum said, adding he hopes the current interest will endure.

Dominik Mjartan, Optus’ chief executive, said short-lived support could do more harm than good for CDFIs like his that are seeing an influx of deposits and planning to make loans with them.

If ultimately “the money leaves, even if it’s just deposits, it could leave you illiquid,” Mr. Mjartan said.

CDFIs’ \$222.3 billion in assets are a tiny slice of the financial system; each of the largest consumer banks alone have trillions of dollars in assets. “It’s still a small industry and it needs more technological capacity to grow. It needs more financial capital. It needs more public support,” said Margaret Anadu, head of the Urban Investment Group at Goldman Sachs.

Sens. Marco Rubio (R., Fla.) and Susan Collins (R., Maine) have introduced a measure that would restart PPP, including another batch of set-aside funding for CDFIs. The proposal—currently stalled amid disagreements about further federal coronavirus relief—has bipartisan support.

Industry groups are also supporting other proposals, including one from Sen. Mark Warner (D., Va.) to allocate \$2.9 billion more to the CDFI Fund.

Ms. Gambrell said she hopes those taking new interest in CDFIs are prepared for long-term relationships.

“Community and economic development doesn’t happen overnight and if you’re going to really be a partner, then you’re going to have to be a partner for the long haul.”

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