

A Crisis Fund for Community Development Financial Institutions

A proposal by Senator Schatz

As the COVID-19 pandemic has made all too clear, we need faster, more inclusive tools to help families and their communities recover from natural disasters and economic crises. This year, we will see a dangerous combination of the two as hurricanes, wildfires, severe storms, and flooding will hit communities that are already reeling from the pandemic. Unfortunately, the problem is going to get worse, not better. The United States is hit with more frequent and more severe natural disasters every year.¹ Existing disaster recovery programs are important, but they do not always reach low-income communities and communities of color, which suffer adverse impacts for years after the crisis. Community Development Financial Institutions (CDFIs) can and should play a more prominent role in economic recovery. This newly created CDFI Crisis Fund would automatically push out capital to CDFIs to help the hardest hit for a faster and fuller recovery.

When crisis strikes, the most vulnerable are hit hardest and take the longest to recover.

Natural disasters wreak havoc on personal finances. They lower credit scores and increase debt collections, bankruptcies, credit card debt, and mortgage delinquencies and foreclosures. These impacts are more acute for low-income communities and communities of color.² Economic crises also cause lasting damage. The 2008 financial crisis and resulting recession caused median household wealth to drop 39 percent between 2007 and 2010.³ This loss of wealth and increase in poverty disproportionately impacted younger, lower income, and minority households.⁴

Existing recovery support programs are too little and too late. For both economic crises and natural disasters, existing response and recovery systems do not serve low-income communities and communities of color as well as they serve white and better off communities. For example, a recent analysis of Small Business Administration (SBA) disaster loans showed that the agency approved only 28 percent of applications from majority Black ZIP codes, but 52 percent from majority white ZIP codes.⁵ Similarly, Federal Emergency Management Agency (FEMA) assistance programs are difficult to navigate and often award lower amounts to low-income communities.⁶ Housing and Urban Development (HUD) block grants depend on congressional action and take time to be deployed. And there are no standing federal assistance programs for acute economic crises, like the economic disruption resulting from the COVID-19 pandemic. Without help, the financial damage from these crises compound over time.⁷

CDFIs are effective partners in underserved areas. Community Development Financial Institutions (CDFIs) are well positioned to help underserved areas recover from natural disasters and severe economic crises. Mission-driven and integrated into their communities, CDFIs offer flexible financial products and services and advising and other wrap-around services to

¹ NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2020). <https://www.ncdc.noaa.gov/billions/>, DOI: [10.25921/stkw-7w73](https://doi.org/10.25921/stkw-7w73)

² https://www.urban.org/sites/default/files/publication/100079/insult_to_injury_natural_disasters_2.pdf

³ Federal Reserve Bank of St. Louis, *Annual Report 2012*, “2. The Financial Crisis and the Impact on Households,” May 2013. <https://www.stlouisfed.org/annual-report/2012/essay-2>

⁴ Ibid; see also https://inequality.stanford.edu/sites/default/files/Poverty_fact_sheet.pdf

⁵ <https://www.eenews.net/stories/1063477407>

⁶ <https://www.politico.com/story/2018/05/29/houston-hurricane-harvey-fema-597912>

⁷ https://www.urban.org/sites/default/files/publication/100079/insult_to_injury_natural_disasters_2.pdf

individual and small business borrowers in underserved communities. They are more likely to provide financial services to low-income, rural, and other underserved communities than mainstream financial institutions.⁸ In 2019, 75 percent of CDFI lending went to low-income populations, 20 percent of total lending went to rural areas, and 19 percent went to persistent poverty areas.⁹

An automatic, trigger-based crisis fund will ensure that support arrives when and where it's needed.

- This bill creates a new \$2 billion CDFI Crisis Fund that serves as a complement to the general CDFI Fund. Like FEMA's Disaster Relief Fund, the CDFI Crisis Fund will be refilled as funds are deployed each year.
- The CDFI Crisis Fund can be activated on a state-wide basis through the following automatic triggers:
 - For economic crisis: The Sahm Rule—an increase in the three-month moving average of the national unemployment rate by 0.50 percentage points or more relative to its low during the previous 12 months.¹⁰
 - For natural disasters, a declaration of a Stafford Act major disaster where the Individual Assistance Program is activated statewide or in all states.
- Once the Crisis Fund is activated, all CDFIs can apply for grants between one and 10 percent of the total fund amount, based on the institution's capacity.
- The CDFI has to commit to spending 90 percent of the funds it receives from the CDFI Crisis Fund in the affected area. The funds can be used for the full range of financial products and services that CDFIs offer.
- The bill ensures that CDFIs that serve communities that need the most help are able to access a minimum amount from the Crisis Fund:
 - Native American CDFIs (10 percent set-aside)
 - Very low-income populations (25 percent set-aside)
- The Crisis Fund also has a 20 percent set-aside for resiliency grants, which can be used to improve the resiliency of economically disadvantaged populations to future natural disasters and economic crises.

⁸ https://ofn-drupal-pub.s3.amazonaws.com/s3fs-public/OFN_CDFI_CreditUnion_LongStudy_FINAL.pdf

⁹ https://www.cdfifund.gov/Documents/CDFI%20Performance%202017%20Approval%2006-14-2019_508%20Compliance.pdf

¹⁰ <https://fred.stlouisfed.org/release?rid=456#:~:text=The%20Sahm%20Rule%20identifies%20signals,during%20the%20previous%2012%20months.>