

Congress of the United States
Washington, D.C. 20515

June 15, 2022

The Honorable Gene L. Dodaro
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Dodaro,

Community development financial institutions (CDFIs) and minority depository institutions (MDIs) play a vital role in providing responsible and affordable credit to underserved communities. During the pandemic, CDFIs demonstrated their ability to deliver billions in dollars to minority-owned or underserved businesses through the Paycheck Protection Program (PPP), at a large scale, to the tune of more than \$30 billion.¹ CDFIs were able to help truly small businesses as demonstrated by an average PPP loan size of roughly \$21,000 compared to a much larger average loan size of about \$41,000 across all lender types.² Congress has long-recognized CDFIs' vital role in filling the gaps in access to capital, but the pandemic brought CDFIs and MDIs' value into sharp relief during the early days of PPP, when businesses owned by people of color were unable to access support. That is why Congress took steps to increase access through specific CDFI set-asides for PPP dollars and made a historic, bipartisan \$12 billion investment – \$9 billion to create the Emergency Capital Investment Program and \$3 billion in CDFI Fund grants – in CDFIs and MDIs in late 2020. CDFIs and MDIs clearly demonstrated their ability to reach underserved communities.³

PPP also demonstrated how enhancing these community-focused lenders' access to technology, that many larger institutions already have in-house, enabled them to scale and amplify the impact for underserved businesses. Various examples emerged throughout the country, such as TruFund, the Pennsylvania CDFI coalition, and in the Deep South through HOPE. Some of the lessons learned from PPP have spurred sustainable models.⁴ Often, these technology models focused on back-end support of application management, allowing CDFIs and MDIs to focus on their strengths of working hand-in-hand with small businesses who needed support in navigating the PPP process. There have been untold lessons from the pandemic, among them the role of ensuring access to capital for community-based lenders, as well as access to technology to help deploy those resources.

¹ [Testimony of John Holdselaw IV, Executive Vice President, National Cooperative Bank and President, CDFI Coalition before the Subcommittee on Housing and Community Development of the Senate Committee on Banking, Housing, and Urban Affairs Exploring How Community Development Financial Institutions Support Underserved Communities \(Jan. 5, 2021\)](#)

² *Id.*

³ See GAO analysis, which found CDFIs and MDIs made a higher proportion of loans to traditionally underserved businesses and counties than other types of lenders. <https://www.gao.gov/assets/gao-21-601.pdf>

⁴ See various examples here, <https://www.frbsf.org/community-development/publications/community-development-investment-review/2021/august/cdfis-mission-driven-orientation-is-critical-to-making-financial-technology-work-for-deep-south-communities/>, <https://www.americanbanker.com/news/cdfis-plug-tech-holes-to-close-wealth-gaps>, <https://pabusinessgrants.com/>, https://ssir.org/articles/entry/scaling_community_finance_to_fill_a_growing_market_gap

More is needed to amplify these institutions' impact.⁵ In the Federal Reserve's annual survey of CDFIs, more than 75% of CDFIs indicated they were unable to provide all the products or services they would like to offer on a sustained basis. In addition to further federal capital support, increasing access to technology tools will play a critical role as CDFIs and MDIs begin to leverage the historic funding provided by Congress. Technology resources can further empower community-based lenders with deep expertise and an understanding of their communities' needs.

There have been several private-sector and philanthropic efforts and partnerships to support technology investments in CDFIs and MDIs. In addition, several think tanks and policy organizations have highlighted these investments as a critical need for supporting CDFIs, MDIs, and the communities they serve.⁶ We are requesting GAO examine the scope of CDFIs and MDIs' needs in technology and what else the federal government could do to support those needs.

To that end, we are requesting the Government Accountability Office (GAO) conduct a study on the major technology challenges facing CDFIs and MDIs in the following categories:

1. Technology capabilities and capacity of CDFIs and MDIs to process loan applications and otherwise serve current and potential customers through the internet, mobile phone applications, and other tools;
2. Technology capabilities and capacity of CDFIs and MDIs, provided in partnership with third party companies, to process automated loan applications, reduce the cycle time on the front end and back end for consumers and businesses, online account opening, and otherwise serve current and potential customers through the internet, mobile phone applications, and other tools;
3. Technology capabilities and capacity of CDFIs and MDIs to ensure the cybersecurity of their systems and protect against threats such as ransomware;
4. Technology capabilities and capacity of CDFIs and MDIs to comply with the variety of regulatory requirements (e.g., BSA, AML, HMDA) in an efficient manner that is scalable; and
5. Customer acquisition cost and technical assistance needs of the institutions.

In addition, we are requesting the GAO examine existing and potential solutions that can meet those major technology challenges, including:

1. Existing federal resources that can be leveraged to support CDFIs and MDIs' technology modernization and/or stakeholder-identified programs that could be created to further support CDFIs and MDIs' ability to invest in technology;

⁵ <https://fedcommunities.org/data/2021-cdfi-survey-key-findings/>

⁶ <https://milkeninstitute.org/sites/default/files/2021-06/14-Strategies.pdf>

2. Identifying what federal stakeholders (e.g., Federal Reserve, CDFI Fund, FDIC) ask the institutions to produce (e.g., data, reporting) and what technology solutions can be implemented to aid the institutions' efficiency;
3. Assessing whether federal agencies are working with CDFIs and MDIs to better understand their technology needs and whether those agencies are coordinating their outreach across the federal government to avoid duplication of efforts. Also, for CDFI depository institutions and MDIs, determining whether federal banking regulators and their bank examiners are familiar with the technology needs of these institutions and are incorporating these needs assessments into their overall evaluation of the banks and their management and financial performance;
4. Guidance or support that might be needed to ensure CDFIs and MDIs, in their acclimation of new technology tools such as or artificial intelligence and machine learning, are able to protect against discriminatory lending practices and algorithmic bias, in addition to safeguards for data privacy and cyber security.

Thank you for your timely attention to this request. If you or your staff have any additional questions, please contact Sebastien Lasseur at Sebastien_Lasseur@warner.senate.gov, Kylie Patterson at Kylie.Patterson@mail.house.gov, or Glen Sears at glen.sears@mail.house.gov.

Sincerely,



U.S. Senator Mark R. Warner



U.S. Representative Maxine Waters