Senator Tillis Opening Statement

I want to thank Chairman Warnock for holding this hearing, our second for the Subcommittee on Financial Institutions and Consumer Protection. Also thank you to the witnesses for your willingness to testify today.

I have long been an advocate for a resilient and varied banking ecosystem, one that blends a healthy mix of globally-systemic financial institutions, super-regionals and regionals, all the way down to local community banks. Banks and credit unions of all different sizes bring varied missions and capabilities to their customers, allowing individuals to select the banking experience best tailored for them. And I agree that CDFIs and MDIs fit into an important niche in that system.

This was apparent during the pandemic, when financial institutions of varying sizes across the banking ecosystem stepped up to provide economic relief to American businesses and workers, most notably through the Paycheck Protection Program (PPP). In total, the SBA approved over 11.8 million PPP loans, totaling $799.8 billion. CDFIs for their part, approved over 350,000 PPP loans totaling $8.4 billion. For that I thank you all.

That said, just as I raised concerns in our previous Subcommittee hearing over the lack of data and transparency that has likely led to significant fraud in the COVID-era unemployment insurance programs, I likewise have concerns with the similar lack of data and transparency that critics of the CDFI Fund have long identified.

Put bluntly, policymakers simply do not receive enough information to adequately judge how effective the lending operations of CDFIs are. Consider a report on CDFIs and the CDFI Fund compiled by the Carsey Institute at the University of New Hampshire on behalf of the Department of the Treasury. The authors write, "*In developing this report, the research team encountered significant data limitations at every turn*" and identify "*inadequate data and non-standardized auditing practices*" as significant barriers to CDFIs achieving better capitalization.

The authors go on to say, *"…it is currently simply impossible to make the most routine analyses that are normally conducted with other classes of loan assets. It is not possible, for example, to create a breakdown of default rates or prepayment speeds for* *a given class of CDFI loans, or even to provide a breakdown of borrower credit scores. What is ironic about this is that CDFI managers feel they are swamped with reporting requirements, which they routinely fulfill. It is difficult to reconcile how CDFIs can be doing so much reporting yet have so little to show for it*."

I mention this not to vilify CDFIs but to point out what I believe are systematic deficiencies in CDFI oversight and transparency that can prevent them from most effectively serving the communities they reside in. Given the tremendous level of funding bestowed on CDFIs and MDIs over the course of COVID-19, I believe these deficiencies are especially important to examine and rectify.

Just last year, the CDFI Fund received the same level of funding as it previously would have been appropriated over an entire decade. Additionally, Congress established the Emergency Capital Investment Program (ECIP) which provided an additional $9 billion fund to help stabilize CDFIs and MDIs.

My Democratic colleagues also resuscitated the Obama-era State Small Business Credit Initiative (SSBCI) in the partisan reconciliation package they passed early last year. This $10 billion program, which will also direct money towards CDFIs, was rightly allowed to expire due to chronic inadequacies that resulted in only 4 states whose SSBCI programs were in compliance according to an Inspector General report.

North Carolinians are certainly familiar with the lack of oversight over of taxpayer dollars that SSBCI doled out. The founding president of the NC Rural Center resigned and was withheld severance following a state audit which detailed financial malpractice at the organization.

Without greater transparency and data requirements, I'm concerned we could see the same situation play out again. With a price tag in the tens of billions between SSBCI, ECIP and the twelve-fold increase to the base CDFI Fund, it is crucial that policymakers are equipped with concrete data that provides an accurate view of the impact that CDFIs and MDIs are making. While a press release touting how much money went out the door is good, comprehensive data and greater transparency on how the money was spent and how successful it was in supporting economic opportunity is better. I look forward to examining these questions with the witness here today. Thank you Mr. Chairman.