Cultivating Capital: Partners for Rural Transformation

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Rural communities in persistent poverty areas can evolve into places of persistent prosperity. Often standing in the way of this transformation, however, is the misalignment of needs and resources. Perhaps no other set of institutions understands this dynamic more than the community development financial institutions (CDFIs) founded to address the economic challenges associated with persistent poverty in the regions where it is most prevalent—in Appalachia, the Mississippi Delta and Alabama Black Belt, in Native communities and along the U.S.-Mexico border. For decades, CDFIs in these regions have specialized in the import of capital to responsibly finance small-business development, homeownership and community infrastructure, and even to create access to basic financial services.

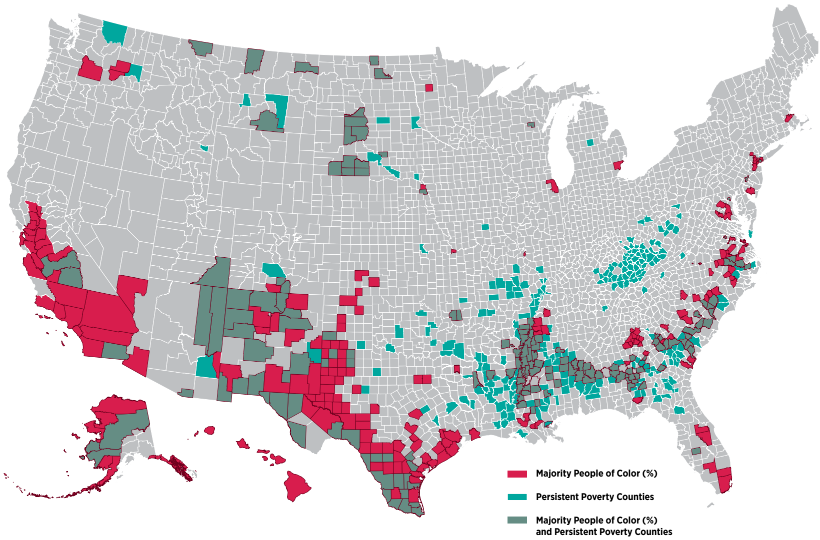
The long track records of success coupled with the common experience of working in resource-constrained environments served as the catalyst for six CDFIs rooted in regions of persistent poverty to come together as the Partners for Rural Transformation (the Partners) in 2014. Anchored by a shared ethos of investing in people *and* place, the Partners' leaders posited that the resource challenges encountered by each organization, when compared to the needs in the communities they served, could be solved more effectively by working together.

The testing of this hypothesis was greatly accelerated in 2020 with the onset of the health, economic and racial justice crises facing the nation. With systems in place to share information, capital and risk, the Partners mobilized quickly to acquire the resources needed for rapid response, which positioned the group and the individual regional organizations to take on more lasting endeavors toward the advancement of persistent *prosperity*.

Persistent Poverty in Rural America

Persistent poverty is a federal designation for a U.S. county, parish or municipio where the poverty rate has been 20% or higher for at least 30 years in a row. Persistent poverty is ubiquitous in rural America: Of the

Map 1: Race, Place and Persistent Poverty Are Inextricably Connected

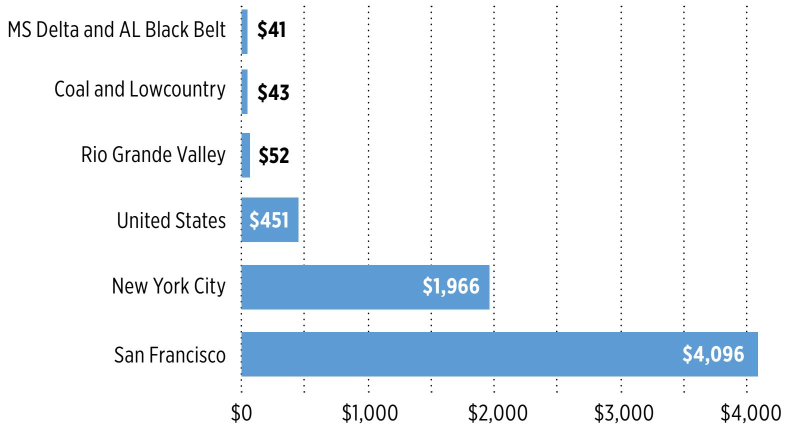


SOURCES: U.S. Census Bureau American Community Survey (2017), U.S. Treasury CDFI Persistent Poverty Counties (October 2017) and Hope Policy Institute Analysis.

395 persistent poverty counties nationwide, more than 80% are classified as nonmetro counties. Additionally, other indicators of distress are associated with the presence of persistent poverty: High unemployment, limited access to financial services and low health outcomes occur frequently in these communities. For example:

- 86% of persistent poverty counties have unemployment rates in excess of the national average;
- three-quarters of the 158 counties nationwide that have household unbanked/underbanked rates at 1.5 times the national average are persistent poverty counties;
- 81% of persistent poverty counties are in the bottom quartile of counties in terms of a wide range of health outcomes; and
- of the 395 persistent poverty counties in 2017, a "health-related water system violation" occurred in approximately 42% of the counties—nearly 5 percentage points higher than the rate nationally.[1]

Figure 1: Per Capita Grant-Making 2010-14



SOURCES: National Committee for Responsive Philanthropy and Grantmakers for Southern Progress: "As the South Grows" series, 2016-17.
NOTE: Analysis for Native communities was not available in this format.

Persistent poverty counties are also racially and ethnically diverse. Most people living in persistent poverty counties are people of color, and 42% of persistent poverty counties have majority nonwhite populations. (See Map 1.)

The overlapping layers of distress in areas of persistent poverty point to conditions created by design, embedded in the public policy choices guided by institutional racism and made over the course of decades.

Resources and Needs Were Misaligned before the COVID-19 Pandemic

Prior to the COVID-19 pandemic, regions of persistent poverty and rural communities lagged urban counterparts in philanthropic and private investment. In fact, per capita grant-making in the San Francisco Bay Area was nearly 100 times the level of philanthropic giving in the Mississippi Delta and Alabama Black Belt, as indicated in Figure 1.

While Figure 1 does not include data measuring gaps in giving to Native initiatives, an analysis conducted by Native Americans in Philanthropy and Candid found less than half a percent of grant-making in 2016 was directed toward places where Native Americans live. Native CDFIs (NCDFIs) struggle to access capital because (1) the rural location of many NCDFIs falls outside of foundation footprints and Community Reinvestment Act (CRA) assessment areas, and (2) investors have many fears and misconceptions about lending on tribal trust lands. This created unmet capital needs for NCDFIs of more than $55 million in 2018, which has only grown because of COVID-19.[2]

Historically, private investment in rural communities, particularly bank investment, has significantly lagged the level of investment in urban areas. This condition has been perpetuated by the limitations of the CRA in incentivizing lending, services and investment in rural places. Notably, the largest levels of CRA investment have been funded by the nation's largest banks—which simply do not serve rural or Native communities characterized by persistent poverty on any meaningful scale. In the absence of a physical branch in a rural community, the regulatory requirement to reinvest simply does not exist. As a result, CRA-motivated bank investments are most heavily concentrated in urban areas.[3]

The consequence of chronic underinvestment manifests itself in multiple forms of distress including high unemployment, a lack of access to banking services, a paucity of quality affordable housing, and more-limited access to safe drinking water—all of which contribute to the higher rates of premature death and other negative health outcomes. The COVID-19 pandemic exacerbated these already deep divides along health, economic and racial lines. Indeed, by December 2020, the mortality rate in persistent poverty rural counties was 50% higher than it was in all counties nationwide.

Despite these overlapping types of distress in persistently poor regions and places, CDFIs collaborating with rural leaders and residents have proven to be remarkably resilient in the pursuit of opportunity. The collaborative effort undertaken through the formation of the Partners for Rural Transformation reflects the entrepreneurial spirit that was needed to empower Black, Latinx, Native and rural white people before the pandemic, and which is still needed in response to the multiple crises that began in 2020 and continued into 2021.

Stabilizing Small Businesses

On April 3, 2020, the first round of funding through the Small Business Administration (SBA) Paycheck Protection Program (PPP) opened, buoyed by a $349 billion appropriation. Thirteen days later, the program ran out of money.[4] It has subsequently come to light that the largest businesses with the greatest preexisting access to capital were most able to access the PPP funds. Among the businesses most often excluded in the first round were those owned by women and people of color.[5] Then came a second round. Whereas the average loan size in round one was $239,152, by the end of the second round of the program, the average dropped to $100,728, suggesting smaller businesses were being served.

On April 16, 2020, when the PPP ran out of funding, the small-business clients of one of the Partners—Communities Unlimited (CU)—had not even received responses to their PPP applications from a number of banks. CU raised this challenge during a meeting with the Partners and unwittingly created a pivotal opportunity for collaboration between three of the Partners. By April 20, 2020, Rural Community Assistance Corporation (RCAC) and Hope Credit Union (HOPE) had each raised sufficient capital to begin making PPP loans to CU's clients. In partnership with RCAC and HOPE, CU secured $477,267 in PPP loans, ranging from $1,282 to $62,734, for 28 small businesses, saving 146 jobs.

Collaborative

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Even with these beneficial partnerships in place, sole proprietors who could not show a profit on their tax returns were locked out of the PPP, including thousands of sole proprietors in persistent poverty counties. In its seven-state footprint in the South, CU leveraged its proven small-business lending model, tied inextricably to intensive technical assistance, to design a toolbox of disaster recovery loans. "Pivot" loans for $5,000 and "Reboot" loans of up to $10,000 involve a simplified application, a three-day underwriting process and a virtual closing within a week. Payments are forgiven for three to six months (a grant) to help businesses shore up their cash flow. At the same time, CU provided intensive technical assistance to 165 borrowers and small businesses to help them adjust their business models. More than 80% of these businesses are owned by entrepreneurs of color.

CU's rapid response allowed entrepreneurs to beat the odds. Nationally, 41% of African American-owned businesses closed their doors permanently.[6] While many of CU's clients closed temporarily in March, all reopened and continued to remain open through the fall. With the second wave of COVID-19 infections in the winter, only 3% of all CU clients were forced out of business. According to the National Restaurant Association, 17% of restaurants in the country closed permanently or long-term.[7] Of CU's small-business clients, 20% are restaurants. While all closed their indoor seating, they transitioned to serving from food trucks, selling frozen family meals and introducing curbside takeouts or special offers—all of which they marketed via social media. All were still operating as of January 2021.

RCAC also quickly learned that in its 13 Western states, many businesses were being turned down or not receiving responses to their initial PPP requests from their banks. RCAC responded immediately by providing its borrowers with loan modifications, and then moved quickly to raise capital at 0% interest to begin making PPP loans. RCAC worked with Ceniarth to secure initial capital. Ceniarth then formed a lending cohort of other family foundations to support RCAC's PPP lending. From March through Aug. 8, 2020, RCAC funded 98 PPP loans, totaling more than $9.2 million—47% were made in persistent poverty communities, 21% helped Native communities and 76% went to businesses with 10 or fewer employees.

Loans were distributed throughout RCAC's region, including California, Colorado, Hawaii, Montana, Nevada, New Mexico, Oregon, Utah and Washington. Borrowers included nonprofit organizations, small businesses and entrepreneurs serving an array of rural and Native communities.

HOPE was also greatly frustrated by the first round of the SBA PPP because it took several days for the SBA to approve HOPE as a certified lender. Meanwhile, banks had ready access to the program through which SBA PPP funds were being drawn down at a rapid pace. As a result of this disparity, HOPE was able to close only 46 loans before the funds from the first round ran out. Notably, many of the businesses HOPE was unable to serve during the first round were very small, located in communities of color, and were Black- and women-owned. Thankfully, Congress approved a second round of PPP funding, and HOPE rapidly ramped up its lending, such that by the time the program ended on Aug. 8, 2020, HOPE had closed 2,912 loans totaling $85.4 million, supporting more than 11,000 employees and their families. Notably, in any given year, HOPE closes, on average, 50 commercial and small-business loans, so this was a massive increase for the organization. HOPE's average PPP loan size was less than $30,000—more than $70,000 less than the average for the entire program nationally—and the majority of HOPE's loans went to minority- or women-owned businesses.

Inclusive

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Native CDFIs reported that many of their entrepreneurs were unable to access PPP loans because they lacked access to traditional credit due to damaged credit histories, a lack of local banking institutions and the more informal nature of Native businesses. These businesses relied on NCDFIs to help them through the crisis. The 69 NCDFIs certified by the U.S. Treasury, and fueled by Oweesta—a national NCDFI intermediary—led the COVID-19 response by boldly providing emergency loan products to their community members. Most NCDFIs were established as economic development engines, with 79% of NCDFI lenders providing microenterprise and small-business lending. Even though the average NCDFI has a loan portfolio size of only $5.5 million, NCDFIs as a group deployed more than $55 million to the most disadvantaged communities in America in 2017.

Avoiding Evictions and Homelessness

The economic crisis resulting from COVID-19 impacted not only small businesses but also homeowners and renters. In fact, the value of a home may be one of the most important things highlighted by the crisis surrounding COVID-19. After disinvestment over decades in persistent poverty regions, delivering affordable housing solutions has been incredibly difficult and has made obvious the vital role of organizations with boots—and relationships—on the ground.

From March 2020 through January 2021, Fahe—a network of more than 50 nonprofits—saw across its service area a 25% increase in new mortgages for first-time homebuyers, as well as a 25% increase in requests for loans to support the construction or purchase of multifamily housing. Fahe and its members have been able to connect more than $30 million in CARES Act funds with over 15,000 families in rental housing and 5,000 homeowners to avoid eviction and foreclosures.

To enhance this work, Fahe made loans to members and partners so that they could better scale delivery. One $500,000 loan to HomeSource East Tennessee (HSET) helped vulnerable families across 17 counties in eastern Tennessee, nearly half of which are coal-impacted counties designated as distressed by the Appalachian Regional Commission. HSET President and CEO Jackie Mayo noted that the loan allowed for a rapid rollout in a short time frame—helping nearly 200 families facing housing needs to access direct assistance through the Tennessee Community CARES Program.

Beyond the immediate COVID-19 crisis, the delivery of capital and quality, affordable housing products in persistent poverty regions must get to scale and be sustained over time. To do so, Fahe is utilizing its seller-servicer status with government-sponsored enterprises (GSEs) to bring much-needed secondary capital to persistent poverty regions, by expanding its broker network of local nonprofits. In addition, Fahe and RCAC are working to expand their U.S. Department of Agriculture (USDA) packaging partnership, a program that already accounts for 7% of the USDA's Single-Family Housing Guaranteed Loan (aka 502) Program. Together, the two Partners will make these funds available in Indian Country, the Delta and the Deep South, and at the Texas-Mexico border to expand homeownership opportunities to minority-headed households.

In the Rio Grande Valley, in Texas, most workers lived paycheck to paycheck before COVID-19. Then many lost their jobs. In response to COVID-19, for the first time, cdcb |come dream. come build. instituted a mortgage forbearance program and enrolled 31 families with outstanding mortgages, totaling $1.8 million. It also took a leap of faith and agreed to manage the

Resilient

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first tenant-based rental assistance (TBRA) contract in The Valley. Mortgage originators were quickly reassigned to assist with TBRA processing, to help 163 families manage more than $600,000 in the first six months after cdcb had the contract. The nonprofit has moved to create a permanent TBRA program to continue to meet this need in the future.

Despite increases in lumber costs of almost 60%, which drastically slowed the start of new homes in The Valley, cdcb quickly moved to renegotiate contracts and complete 50 new rental units, start construction on 83 others, complete 26 new single-family homes for new homeowners, and open a new mixed-income for-sale community of 129 lots between April 1 and Dec. 31, 2020.

The organization launched "p3" (people. policy. power.) to utilize its firsthand knowledge and the lived experience of low-income families to create, expose and advocate for local, state and federal policies and regulations that directly affect families in the Rio Grande Valley. The p3 team started by focusing on the eviction crisis in The Valley; within the first 30 days of the team's efforts on this issue, it encouraged a local state senator to deliver to the city of Brownsville a new eviction ordinance for its approval and encouraged the local county to utilize more than $12 million of its COVID-19 relief funds for TBRA.

Tailored

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Access to Responsive Financial Services

Many communities experiencing persistent poverty and lacking responsive banking infrastructure have fallen prey to predatory lenders, both at street corners and online. COVID-19 has exacerbated the need for responsive financial services.

In addition to tackling the housing needs identified above, cdcb improved and increased access to its award-winning small-dollar loan product, the Community Loan Center (CLC), which is an employer-based partnership that acts as an alternative to payday loans. The CLC allows families to borrow up to $1,000 at 18% and repay the loan through payroll deductions over 12 months. This compares to the typical payday loan in Texas, which comes with an effective interest rate of 640% and is due in 14 days. During the COVID-19 pandemic, the need for short-term cash for families has increased at an astounding rate, leading to the origination of 4,184 small-dollar loans, for a total of $4 million for local families needing assistance over a nine-month period. The CLC program added 17 new employers, increasing the number of employees who have access to the program from 22,000 people pre-pandemic to 34,000 people.

Similarly, in tribal communities, it is Oweesta that over the past 20 years has been pivotal in providing access to capital and education to help build the financial resources of Native people throughout the country. Oweesta remains soundly committed to the founders' original belief that, when armed with appropriate resources, Native people have the capacity and integrity to ensure the sustainable economic, spiritual and cultural well-being of their communities. Oweesta has revolved $77 million in direct investments in NCDFIs, assisting in the creation of private-sector economies, homeownership and individual asset-building across Indian Country.

To better serve tribal communities during the pandemic, Oweesta created two new lending products—a working capital loan and a line of credit to address emergency lending and small-business needs within tribal communities—with a total deployment of more than $2.5 million. It also launched the Native American COVID-19 Disaster Recovery Fund, based on the model of the highly successful $10 million Native CDFI Capital Pool, which Oweesta piloted in 2018. All funds from the Capital Pool were fully deployed within nine months of launch.

Looking beyond COVID-19

Amid tragic circumstances, the outlook for investment in CDFIs to serve people and communities in persistent poverty places is bullish. To support the ability of CDFIs to respond to the economic crisis caused by the COVID-19 pandemic, Congress made its largest investment ever into CDFIs. In addition, guided by the quest for racial equity, a number of philanthropic and corporate leaders moved to make historic, unrestricted investments in CDFIs led by people of color. Each of the Partners, as illustrated above, responded to COVID-19 quickly and with the capital it had on hand. With these additional investments, the Partners quickly scaled up their deployment of support for the communities they serve.

To transform places of persistent poverty into ones of persistent prosperity, it will take collaborations like those from the Partners for Rural Transformation that transcend competition for scarce resources to achieve true partnership directed toward the collective good.

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Endnotes

1 See Partners for Rural Transformation.

2 See First Nations Oweesta Corporation.

3 See Opportunity Finance Network.

4 See Frankel.

5 See Liu and Parilla, and U.S. House of Representatives.

6 See Fairlie.

7 See Fantozzi.