

# Sen. Mark Warner on the Tax Credit Helping Minority-Owned Businesses Thrive



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**Announcer:**

Welcome to THRIVE, a Paychex Business Podcast, where you'll hear timely insights to help you navigate marketplace dynamics, and propel your business forward. Here's your host Gene Marks.

**Gene Marks:**

So Senator Mark Warner, thank you very much for joining me.

**Senator Mark Warner:**

Gene, thank you for having me.

**Gene Marks:**

Yeah. I'm glad that you're here. So, let's jump into it. And before we get into the actual legislation that you proposed, this has to do with CDFIs, Community Development Financial Institutions. So, I'm going to ask you to insult my intelligence at least, and other members of our audience, and explain to us first of all what a CDFI is. We need to start there before we better understand the bill, if that's okay.

**Senator Mark Warner:**

A CDFI was a creation, and that came out of legislation back in the nineties, that said let's create a set of banking institutions or credit unions that focus at least 60% of their lending to low and moderate income individuals. Oftentimes, these are a lot of credit unions, some are traditional depository banks. Some CDFIs are more CDFI funds, where there may be a redevelopment fund in a community that's trying to fix up a challenged neighborhood.

**Senator Mark Warner:**

Relatively speaking it's been a pretty small niche in the overall financing sector, but with the challenges around COVID we saw when the economy being shut down, we saw government's response. Much of the government response was quite good, but a great example was the PPP program, which tried to get money out to small businesses in a way that was relatively efficient through traditional, oftentimes smaller banks, community banks. What we found was that particularly minority-owned businesses, Black and Brown businesses, oftentimes had maybe bootstrapped their business into existence and did not have traditional

banking relationships. And so, actually this is one of the areas where I worked very closely with the Trump administration. And Treasury Secretary Mnuchin was a great partner. And we said, "We need to get some capital to these institutions. These CDFIs and MDIs."

**Senator Mark Warner:**

MDIs are Minority Depository Institutions. And unfortunately, if we think about in the Black community, most of those Black-owned banks had been washed out in the 2008, 2009 recession. So, literally only a couple dozen MDIs left, but there are well north of a thousand CDFIs around the country. And one of the things that came through in some of the COVID relief, was a 12 billion dollar initiative, some grants, and some Tier 1 capital, that could go into these CDFIs around the country, that would give them more capability to lend into these low- and moderate-income communities.

**Gene Marks:**

Yeah, it's funny that you bring up the whole unbanked. I interviewed Senator Rubio a few weeks ago, and wrote about it in The Hill, mainly because he admitted that was one of the big things that PPP kind of overlooked, and he overlooked as well. Was that the number of small businesses, particularly minority businesses that are either unbanked or underbanked, and they were missing out on, on PPP funds.

**Senator Mark Warner:**

You're absolutely right, Gene. Matter of fact, the numbers are pretty staggering. We lost thousands of Black-owned businesses during COVID, up to 35% of all the Hispanic-owned businesses during COVID. Now, the good news is we've got higher entrepreneurship rates post COVID coming out of those communities, but that failure to have a traditional banking relationship, where you were pushing all this money through PPP, ended up being a real burden. And I don't criticize the community banks, because the first place they went when they had these funds was their existing customer base. So, I think COVID highlighted a problem that's been out there for a long time, I say this as a former entrepreneur myself, somebody that didn't have traditional access to capital. Shoring up and helping the CDFI community, and building its capacity, I think is really one of the most important things we can do.

**Senator Mark Warner:**

And the 12 billion dollars, again, 3 billion in grants, and roughly 9 billion in direct equity-like investments, Tier 1 capital investments in these institutions. That alone will increase the lending capacity for these 1,600 CDFIs about 50%. So, it's a really good sector, we've stepped up the public sector, but we also found even when all this capital was available, we were way oversubscribed. We literally had billions of dollars of additional need coming from the CDFI community, and that's what leads to this legislation we're going to discuss.

**Gene Marks:**

Right. And I promise we will discuss this legislation, but one other question for you. So, first of all, if you're listening to this conversation and watching this conversation, you want to learn and find out CDFIs that are near you. There's the CDFI Coalition, which is [cdfi.org](http://cdfi.org). And Senator Warner on that, I was going through their website.

**Gene Marks:**

So, in Virginia for example, there's the Fairfax County Federal Credit Union, that's a credit union that's also a CDFI. There's a nonprofit called the Capital Impact Partners in Arlington. And again, I'm not sure if you're familiar with these guys or not.

**Senator Mark Warner:**

I am. I am.

**Gene Marks:**

Right, so they're a CDFI as well. I mean, they take money and they invest in financial services to businesses and to people in their communities as well. They're a nonprofit that does that. And then also there was a Piedmont Housing Alliance, which is in Charlottesville. And they are a CDFI as well, and they provide counseling, and housing, and community development. They use the government funds to do that. So, I guess I just wanted our listeners to just understand that there are these organizations, they can be financial institutions, credit unions, they can be non-profit institutions, they can be housing initiatives that are all getting this money from the government and private companies too -- which we'll talk about in a minute -- and then turning around and trying to get this money out to small businesses and people in their community. Did I explain that right?

**Senator Mark Warner:**

No, you absolutely did. And Gene, one of the ways that I first got introduced to this community, was back when I was governor. There were lots of very interesting opportunities on community redevelopment, but there was no Virginia centric statewide initiative. So, we started something called Virginia Community Capital, that has turned into the largest CDFI in Virginia. And in total, we've got roughly 25 more or less CDFIs around Virginia. But, for my fellow Virginians on the line, Virginia Community Capital is the largest institution in Virginia.

**Senator Mark Warner:**

And they work with a lot of the smaller entities around. So, they're a good starting point, even if you say, "Well, I'm just in Northern Virginia, I'd rather do with Capital Impact Partners." Sometimes Virginia Community Capital can help also hook you up with more localized CDFIs and MDIs.

**Gene Marks:**

Okay, that is great advice. And one final question I had though, you mentioned about the 12 billion dollars in funding. I wrote a couple times both in The Inquirer and The Guardian, The Philly Inquirer is where I'm from, all about the State Small Business Credit Initiative. Where it's 10 billion dollars worth of funding that was part of... I forget which stimulus bill that's now starting to be released into the country to all the states. And the 12 billion that you were speaking of earlier is different than the 10 billion under the SSBCI? That's even more money I think that's coming to.

**Senator Mark Warner:**

And I think the jury is still out on the SSBCI, on the Small Business Credit Initiative. It is 10 billion dollars, there's a lot of money for example in Virginia for that, a couple hundred million dollars. But really in my mind, I hope it's going to end up being a successful program. But again, I'll just leave it with the jury is still out. What we know by taking the 12 billion dollars, 3 billion dollars of that were in competitive grants. And those go sometimes to help build up capacity, or many of these institutions don't have a good back office, so they don't have appropriate technology. So, there was some funding there. But, what I thought was the really unique, and this is again where I was not a supporter of President Trump by any means. But his Treasury Secretary was very forward leaning on this, where we said, "Let's go ahead and take roughly nine billion of this, and use it as Tier 1 capital."

**Senator Mark Warner:**

And if it's a banking institution in particular, for every dollar in this federal money that is long-term, over 10 years, our government does have a right to get it back at some point. But for every dollar put out over that 10-year period, that dollar can be leveraged about nine or 10 to one. So that nine billion dollars roughly will have about 90 billion dollars of lending capacity. So, those small businesses that take your podcast, look to you Gene as a leader, this is a much more leverageable amount, and a much bigger deal than just a straight nine billion dollar grant program.

**Gene Marks:**

Got it. All right, fair enough. So, now to your bill. The money is coming to the CDFIs generally through the federal government, but these CDFIs, they do get a lot of support from private capital as well. And it seems like you want to be doing more to incentivize private investors to be investing in these CDFIs. And that's what your bill is all about.

**Senator Mark Warner:**

It absolutely is, and that's a great setup. I mean, what happened was, again with COVID showing again so much of the community that was unbanked or underbanked that traditional banking institutions didn't get to, we've stepped up with this effort. But, at the same time during COVID, and we all remember the brutal murder of George Floyd, when many, many businesses acknowledged at the beginning of the Black Lives Matter movement that they needed to do more to help communities of color get access to capital. So, you basically have seen hundreds of Fortune 500 companies say, "We will do our part." Now, part of that problem is a lot of these companies have over-promised and under-delivered, but there was at least a moment where companies were saying, "We're going to go ahead and put deposits in Black-owned banks."

**Senator Mark Warner:**

Google did a very interesting play where they actually helped a CDFI be able to do some first dollar losses. The nature of lending into these low- and moderate-income communities is they are slightly more risky, and there's not in existence right now an ability to fully securitize all this debt, the way we securitize traditional housing debt with Fannie and Freddie. So, what we've come up with, and it's bipartisan. My good friend Roger Wicker, and Chris Van Hollen, Senator from Maine, and Cindy Hyde-Smith, Senator from Mississippi. We've come up with an initiative that says if you will invest long-term capital in a CDFI for roughly 10 years, we'll give you a 3% credit. If you invested for over 10 years towards 20, we'll give you a 4% credit recognizing the just basic rate of return for these investments in CDFIs, because they're serving an underserved community, may not be as high as an investment for example in JP Morgan.

**Senator Mark Warner:**

So, we're trying to balance things here a little bit. So, this tax credit idea, bipartisan, we want to move on it. We also think as well, what dovetails nicely, is that because there's a review going on around the Community Reinvestment Act, so-called CRA, which a lot of banks need to show to maintain their banking charter. The CRA movement may move some of the banking capital into the CDFI market. The CDFI tax credit may move some of the traditional companies, may not be banking institutions, but who promised to do the right thing at the beginning of the Black Lives Matter movement, but they've not really figured out an avenue. And this tax credit may be a way to make that capital flow a little quicker.

**Gene Marks:**

Got it. And this bill, I think it's called the Community Development Financial Institution's Tax Credit Bill. Is that right?

**Senator Mark Warner:**

Yes.

**Gene Marks:**

Okay. And this credit, it's really targeted for companies that are going to be providing capital specifically to be used for minority-owned businesses, is that correct?

**Senator Mark Warner:**

It's not specifically for minority-owned. It is by definition, if you go into a CDFI, and many of these CDFIs for example in a rural Mississippi, may be serving Black communities, may be serving rural White communities. The definition is more around, you have to have at least 60% of your lending into low- and moderate-income communities. Unfortunately in our country, that is disproportionately people of color. But this is not a minority-investment-only vehicle. This is for underserved communities that by definition are low- and moderate-income. And one of the things I think that's important, particularly as we think about rural communities in the West and elsewhere, that may be even predominantly White, but don't have the same kind of access to capital.

**Gene Marks:**

Got it. So, if I'm a small business owner for starters, Black, White, or Brown, this bill itself is really targeted towards the people with the big money, the corporations, the larger companies to incentivize to put money towards these CDFIs. So, this is not a bill specifically targeted at me as a small business owner?

**Senator Mark Warner:**

No, this is not going to go to somebody who's got a barbershop, but they're trying to double the size of. This will go though to the institutions where the barbershop, the hardware store, the new restaurant in an underserved community may say, "Gosh, I'm a little bit of a riskier business. I got to get access to capital. Who's going to understand my needs?" In many communities the people who will understand those unique needs of that struggling small business will probably be a Community Development Financial Institution, a CDFI. And if we can have then gotten more capital into that CDFI through this tax credit initiative, then that's going to give more capacity to that struggling barbershop, restaurant, hardware store.

**Gene Marks:**

Okay. And what are the prospects for this bill? This is the Senate bill, so what happens to it next?

**Senator Mark Warner:**

We're starting relatively modest, because we're saying, "We would give these tax credits in aggregate." Again, you're only talking about three cents on the dollar or four cents on the dollar, up to a billion dollars of value. So, in D.C. Speak, that is a relatively small initiative, yet it can also be leveraged. So, it's not, we have a billion dollars worth of tax credits, it's going to create many, many times over, closer to 15 to 20 times that amount in actually credit that's given out to these struggling businesses.

**Senator Mark Warner:**

I think there's a pretty good shot because it is broadly bipartisan, that at the end of each calendar year, I'm on the finance committee, we do kind of a series of small ball tax credit tax bills. And my hope is to see if we can get into this year end of the year package.

**Gene Marks:**

Okay, so if we look at it as something that could probably get through and pass by the end of this year, this would benefit the CDFIs, those nonprofits, those financial lending institutions, those community organizations that would then hopefully have more weaponry go out to larger companies and say, "Invest in us, because you'll get this tax credit." Which then gives them more capital, which then they can turn around and help the small businesses in their communities.

**Senator Mark Warner:**

Yeah, people all talk about the virtuous circle. This would be a prime example of that virtuous circle, where we are providing to institutions who service by definition, low- and moderate-income communities, additional fire power to help lend into those communities. Because let's face it, the largest institutions, they do certain good things, but they're not going to be helping these struggling small minority-owned businesses, or struggling rural-owned business in a way they should. This is really putting capital on the frontline. And again, hopefully letting more folks have the opportunity to pursue their own American dream.

**Gene Marks:**

Yeah, I think that's great. And so final question then, assuming this goes through, let's assume the capital continues to flow. What would you say to your constituents in Virginia that are small business owners, that want to take advantage of this potential financing, this potential loans that they might be able to get from these organizations, or help from these organizations?

**Gene Marks:**

And the reason why I wanted your final words on that, was that one of the issues that I've had in covering this... And I'm a CPA, so I have a lot of clients in the Philly area, there are minority-owned clients. And Senator Warner like you said earlier, there are hundreds of companies that are falling over themselves to help out minority businesses. But in the end it does take the business owner to pick up the phone and go after this money. You know what I mean? They've got to have that initiative to do it. So, what would you say to those business owners?

**Senator Mark Warner:**

What I would say to those businesses, is going out and borrowing money is always a scary process. But it will become I think less frightening if you try to... At least you ought to try in your community, in your market, to go to a CDFI, because by nature those lending institutions are geared towards businesses like yours.

**Senator Mark Warner:**

And you can, as easy as you said at the beginning, Google CDFI Coalition, and they will show those CDFIs in your state. In a place like Virginia, you could go after Virginia Community Capital, that's the largest, and they can help lead you towards smaller institutions if you want somebody more on a regional basis. I really do think this is kind of back, in a certain way, to old-fashioned lending where you need a bank or a credit union, that actually knows your customer.

**Senator Mark Warner:**

And the truth is larger institutions, it's sometimes just not worth that banker's time. If they're only lending 25, 30, 35 thousand dollars, which may be all that the small business needs to get started, or to do a small level of expansion. So we think this is not going to solve every problem in the world, but it is a tool in the toolkit. And if we can increase the capacity of these entities who have already decided that's their mission, I think that's good for all involved.

**Gene Marks:**

The bill is called the Community Development Financial Institution's Tax Credits Bill. And I've been speaking to Senator Mark Warner from Virginia. Senator Warner thank you very much for your time. I wish you the best of success. I hope this bill gets through.

**Senator Mark Warner:**

Thank you so much, Gene.

**Gene Marks:**

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**Announcer:**

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