# National Children's Facilities Network

February 16, 2021

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

**Re: Community Reinvestment Act Advance Notice of Proposed Rulemaking**
**Docket No. R-1723 and RIN 7100-AF94**

The National Children's Facilities Network (NCFN) is pleased to respond to the advance notice of proposed rulemaking (ANPR) on the Community Reinvestment Act (CRA) issued by the Board of Governors of the Federal Reserve System (Board).

NCFN is a coalition of 30 nonprofit Community Development Financial Institutions (CDFIs), financial and technical assistance intermediaries, and early care and education (ECE) stakeholders dedicated to helping ECE providers develop high-quality physical learning environments and sustainable business models. By providing technical assistance and financing to early learning providers, we seek to address capital needs and business capacity challenges that limit working family's ability to gain equitable access to high-quality ECE programs.

Operating an ECE center is expensive—it is a labor-intensive sector with longer hours than traditional workplaces and infrastructure needs that are unique to serving young children. As a result, ECE providers tend to operate at exceptionally thin margins, leaving very little room to concurrently pay for program expenses, support debt on the property, and acquire, develop, or renovate facilities. These challenges are exacerbated given that there is currently no dedicated source of federal funding for ECE facilities. Providers are forced to choose between serving families, supporting their workforce and operating in healthy, safe, high-performing spaces. Features that make an ECE facility high-quality are costly but necessary. HVAC systems that improve air quality, child-sized toilets and sinks, windows to increase natural light, and common spaces that are designed to foster engagement with children and teachers are essential to health, safety and instruction.

CDFIs and other ECE intermediaries—many of whom are NCFN members—creatively piece together federal resources from the CDFI Fund, housing, rural development, Small Business Administration (SBA) and other programs to provide support to ECE operators. NCFN members have had tremendous success supporting ECE programs nationwide, yet we know there is significantly more need for capital and business capacity building than we can possibly provide given the resources available. CRA has already provided an important incentive for private sector investment in CDFIs and successful public-private partnerships like the Low Income Housing Tax Credit (Housing Credit) and New Markets Tax Credit (NMTC) that have benefited ECE providers in various ways. For instance, CDFIs provide capital, technical assistance and business capacity building services to ECE providers across the country; NMTC has been used to directly support the development and operation of child care facilities and programs; and the Housing Credit has been used to co-locate child care in affordable housing developments, a promising model that combines two critical community assets.

We strongly believe that there are tremendous opportunities to further strengthen CRA's ability to support the capital and business capacity needs of ECE providers, many of whom are low- or moderate-income

(LMI) themselves. In fact, recent research from the Federal Reserve Bank of Minneapolis suggests that CRA presents an opportunity to strengthen the connection between ECE providers and banks.[1] And at a time when more employers are recognizing that safe and reliable child care is instrumental to a sustainable and productive workforce, financial institutions have an important role to play in helping to create healthy, safe, and enriching care environments.

NCFN offers the following comments in response to select questions posed in the ANPR.

**QUESTION 2**: *In considering how the CRA's history and purpose relate to the nation's current challenges, what modifications and approaches would strengthen CRA regulatory implementation in addressing ongoing systemic inequity in credit access for minority individuals and communities?*

The vast majority of center-based and home-based ECE providers are small businesses owned and operated by women of color. In fact, 89 percent of child care businesses are owned by women[2] and 60 percent of child care businesses are owned by people of color.[3] These entrepreneurs are incredibly innovative and industrious despite facing decades of systemic underinvestment and discrimination that has left many ECE professionals at a disadvantage, with limited resources for business operations, and systemic barriers to accessing traditional financing support from lenders. The employees of ECE businesses reflect the demographics of their owners and are directly affected by under-resourcing. Women of color comprise 40 percent of the ECE workforce nationwide[4] and this skilled workforce is underpaid by an average of 31 percent of the U.S. median income.[5]

Given the challenging economics of financing child care businesses and facility improvements, as well as the institutional barriers unique to women entrepreneurs and people of color, traditional financial institutions rarely invest directly in these businesses. As a result, many ECE operators rely on support from mission-oriented lenders like CDFIs. CDFIs and other intermediaries have developed decades of expertise assembling public and private sources of capital and deploying these resources to meet the diverse needs of community-based organizations. They can offer products and services that are not otherwise available to child care providers, such as flexible financing--i.e. no-interest or forgivable loans—that allow providers to grow their business and serve more low-income families. CDFIs also have experience administering capital dollars efficiently and effectively and can leverage additional funding to amplify the impact of any federal dollars invested in child care facilities.

NCFN recommends that the Board take steps to increase bank participation with CDFIs and other organizations that increase access to capital, technical assistance, and business capacity building for ECE providers. Supporting these small businesses is an important step to increase racial equity within a historically underserved sector.

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[1] Rob Grunewald and Ben Horowitz, *How early care and education intersects with the CRA*, January 2021, https://www.minneapolisfed.org/article/2021/how-early-care-and-education-intersects-with-the-cra

[2] U.S. Department of Labor Blog, July 2017, "Get the Facts on Women Business Owners", https://blog.dol.gov/2017/07/05/get-facts-women-business-owners

[3] U.S. Small Business Administration Office of Advocacy, September 2016, "Minority Business Ownership: Data from the 2012 Survey of Business Owners", https://cdn.advocacy.sba.gov/wp-content/uploads/2016/09/07141514/Minority-Owned-Businesses-in-the-US.pdf

[4] Center for the Study of Child Care Employment, 2018, "About the Early Childhood Workforce," https://cscce.berkeley.edu/files/2018/06/2-About-the-Workforce.pdf.

[5] Center for the Study of Child Care Employment, 2018, "The Early Childhood Workforce Index 2018," https://cscce.berkeley.edu/early-childhood-workforce-2018-index/

**QUESTION 42**: *Should the Board combine community development loans and investments under one subtest? Would the proposed approach provide incentives for stronger and more effective community development financing?*

NCFN supports the proposal to combine community development loans and investments under one subtest as long as there are sufficient incentives and requirements to ensure a continuation of bank participation in community development equity investments. The absence of an investment test means there is no mandate for banks to engage in community development equity investments. This includes grants, which are critical to the ECE sector since the majority of providers rely on relatively small grants that are tailored specifically to their needs and significant technical assistance from CDFIs or other community partners to access capital. It also includes community development tax credits like the NMTC and Housing Credit, which have demonstrated promising benefits for ECE providers—NMTC as a direct source of support for ECE facilities and the Housing Credit as an avenue to encourage co-location of affordable housing and child care.

The Board must ensure that there are appropriate guardrails and incentives in place to ensure banks continue to provide community development equity investments—including small dollar grants, NMTC, and the Housing Credit—at a level at least commensurate with historical amounts.

**QUESTION 47:** *Should the Board use impact scores for qualitative considerations in the Community Development Financing Subtest? What supplementary metrics would help examiners evaluate the impact and responsiveness of community development financing activities?*

NCFN supports the Board's proposal to apply impact scores for qualitative considerations in the Community Development Financing Subtest. Qualitative elements—including the extent to which a grant or loan is "innovative," "complex" or "responsive to local needs"—are critical for supporting more nascent financing areas, like the child care sector. As noted above, the majority of providers rely on relatively small grants that are tailored specifically to their needs and significant technical assistance from CDFIs or other community partners to access capital. In the absence of robust qualitative factors that consider the level of complexity and responsiveness associated with the product, there is a risk that these providers will be overlooked in favor of simpler but less impactful opportunities.

**QUESTION 54:** *Should the Board specify certain activities that could be viewed as particularly responsive to affordable housing needs? If so, which activities?*

Access to both child care and housing can help put families on a path to multigenerational economic mobility, but these issues are often approached from separate silos. The co-location of affordable housing and child care facilities can have far-reaching benefits: parents have access to reliable child care, which allows them to participate in the workforce; children have access to an enriching learning environment, which pays dividends in socio-emotional skills throughout their life; and ECE providers can access quality program space, which reduces the challenges they may otherwise experience when attempting to acquire or renovate a facility for child care space. NCFN recommends that the Board consider affordable housing co-located with child care options as particularly responsive to affordable housing needs.

**QUESTION 56:** *How should the Board determine whether a community services activity is targeted to low- or moderate-income individuals? Should a geographic proxy be considered for all community services or should there be additional criteria? Could other proxies be used?*

NCFN supports the Board's suggestion that it could more specifically define the different categories of eligible community services activities, including child care which is a critical community amenity and should be explicitly noted as an eligible activity. We also support the use of geographic proxies to determine if an activity meets the "targeted to LMI individuals" standard, in addition to other criteria like federal subsidies. For child care programs, examples may include Head Start funding or subsidies through the Child Care Development Block Grant (CCDBG).

**QUESTION 57:** *What other options should the Board consider for revising the economic development definition to provide incentives for engaging in activity with smaller businesses and farms and/or minority-owned businesses.*

We are pleased to see the Board focus on revising the economic development definition to better encourage activities most supportive of small businesses. As the pandemic and ensuing government response have demonstrated, child care programs are some of the nation's smallest businesses and are often owned and operated by women, many of whom are women of color. These small businesses face systemic barriers to accessing financial support, and CRA has an important opportunity to explicitly support child care businesses through strong economic development regulations. NCFN recommends that the Board use impact scores and performance context to incent economic development activities that focus on the smallest businesses and minority-owned small businesses, like child care programs.

**QUESTION 59:** *Should the Board consider workforce development that meets the definition of "promoting economic development" without a direct connection to the "size" test?*

NCFN members do not support the Board providing credit for workforce development activities above the small business "size" test. Workforce development should be focused on the sectors most in need of support, like the child care industry, which is disproportionately comprised of women of color and is underpaid by an average of 31 percent of the U.S. median income.[6]

**QUESTION 67:** *Should banks receive CRA consideration for loans, investments, or services in conjunction with a CDFI operating anywhere in the country?*

NCFN members are supportive of the Board's proposal to provide CRA consideration for activities completed in conjunction with a CDFI operating anywhere in the country. CDFIs are intermediaries specifically intended to provide products and services and cover geographic areas where banks do not operate. We provide smaller loans, take on additional risk, cover broader geographies, and serve segments of a community that banks cannot or do not reach. As the financial services system evolves and these gaps increase, CDFIs are growing increasingly important to reaching LMI people and communities in underserved markets. Rather than detracting from the emphasis on assessment areas, providing credit for CDFIs whether inside or outside of an assessment area is additive to the community development sector, particularly in areas that have been traditionally underbanked. Currently, confining CDFI activity to bank assessment areas often results in unnecessary competition between banks and CDFIs. Instead, it is more prudent to apply CDFIs' flexibility to markets where banks are not working, while holding the bank accountable to adequately serving its assessment areas through the community development financing metric.

We recommend that the Board clarify what it means to work in conjunction with CDFIs, including but not limited to lending to or investing in the CDFI directly; lending into a fund sponsored and/or serviced by the CDFI; funding a CDFI's activities and supportive services, such as technical assistance; and more.

NCFN is encouraged by the direction articulated in the ANPR and we are eager to offer feedback that strengthens our ability to provide much needed capital, technical assistance and business capacity building

[6] Marcy Whitebook, Caitlin McLean, Lea J.E. Austin, and Bethany Edwards, *The Early Childhood Workforce Index 2018*, June 2018, https://cscce.berkeley.edu/early-childhood-workforce-2018-index/

support to ECE providers. We also take this opportunity to reiterate the importance of the three federal regulators coalescing around a joint rulemaking process, and we appreciate the Board's leadership on this issue.

Please feel free to contact Nicole Barcliff, LISC Policy Director and NCFN Co-Chair (nbarcliff@lisc.org, 202-739-9296) or Angie Garling, LIIF National ECE Director and NCFN Co-Chair (agarling@liifund.org, 415-489-6116 Ext 316) with any questions.

Sincerely,

National Children's Facilities Network