Federal Policy Priorities: Transforming Areas of Persistent Poverty into Persistent Prosperity

The Partners for Rural Transformation is a national coalition committed to serving rural communities in persistent poverty. Collectively, we serve the majority of people living in persistently impoverished places, largely rural areas. We have a significant presence in the Mississippi Delta, Appalachia, Indian Country, the Black Belt, agricultural western communities and communities along the U.S./Mexico Border.

On its face, persistent poverty is a measure used to describe counties and parishes where the poverty rate eclipsed 20 percent for three consecutive decades. A closer examination also paints a picture that is steadfastly rural and marred by racial inequity. Of the 395 persistent poverty counties, eight out of 10 are non-metro and the majority (60 percent) of people living in persistent poverty counties are people of color.

Often, in regions of persistent poverty, other forms of distress are also present – high unemployment, a lack of access to banking services, a paucity of quality affordable housing, food insecurity, health care deserts, inadequate school funds, and unsafe drinking water – all of which contribute to higher rates of premature death and lower health outcomes.

Importantly, solutions exist. For decades, Community Development Financial Institutions (CDFIs) in some of the most economically distressed regions of the country have been working alongside community members to address the employment and housing, banking and infrastructure needs of local people and places. Yet despite their success, philanthropic, bank and federal investment in persistent poverty regions is dramatically less than in places with significantly more resources; thus perpetuating and exacerbating inequity.

Congress and federal agencies can take action to advance social and economic opportunity in our nation's most distressed communities. To this end, we make the following recommendations to increase resources to persistent poverty areas, each is discussed in this brief in more detail:

- Increase and prioritize federal investment in persistent poverty areas
- Increase capital to CDFIs serving persistent poverty areas
- Adjust existing federal programs to better reach persistent poverty areas
- Strengthen the Community Reinvestment Act (CRA)
- Ensure persistent poverty areas have the resources needed to recover from COVID-19

Increase and Prioritize Federal Investment in Persistent Poverty Areas

Federal community development funding has historically lagged in rural areas. This remained true for COVID relief dollars as well. Prioritizing and increasing federal investment into persistent poverty communities is a necessary part of the strategy to break the decades-long cycle of economic insecurity in these areas.

- Ensure that at least 10 percent of federal discretionary spending is targeted to persistent poverty areas. Specifically, Congress should require 10% of all designated federal discretionary dollars for community development programs to be directed toward counties and census tracts where at least 20 percent of the population has been living in poverty for 30 consecutive years. The U.S. Treasury

CDFI Fund and Agriculture adopted such standards for appropriations over the last few years, which now lays the groundwork to support this proposed funding plan.

- Increase funding for down payment assistance and preservation programs that expand homeownership opportunities for low- and moderate-income households in persistent poverty communities.
- Increase federal grant-based funding for critical infrastructure, such as expanded broadband and upgraded and expanded water and wastewater infrastructure. Even before COVID, affordable high-speed internet was rural communities' lifeline to basic needs, such as education or online bill paying. And, for rural small businesses it is their connection to access to national and international markets. Water and wastewater systems in rural communities were struggling financially before COVID, which has worsened since then. Built in the 1950s and 1960s, these rural utilities are in dire need of repair, maintenance and upgrades. During COVID, most states halted water shut offs for non-payment, because washing hands is an essential preventative health measure. A May 2020 Rural Community Assistance Partnership national survey of water systems showed that more than 31 percent of systems surveyed said they could not continue to cover all costs for more than six months under current conditions. Current debt-based federal financing tools are simply not an option for systems that struggle with cash flow. To effectively expand critical lifelines to persistent poverty areas, federal funding, particularly through the USDA, should be increased, with more grants than debt for operating support and infrastructure investments.
- Increase base USDA farmworker rental assistance and project funding (USDA RD Section 521), which has remained at current levels for decades.

Increase Capital to CDFIs that Serve Persistent Poverty Areas

CDFIs that serve persistent poverty communities are involved at every rung of the economic mobility ladder. This includes access to basic financial services, such as a bank account and financial education; providing capital for future wealth building through homeownership and small business owners; and providing financing for critical community infrastructure, such as affordable housing, hospitals, healthy food systems and nonprofit organizations. Increasing federal funding to support CDFIs that serve persistent poverty areas is a critical part of the strategy to increase economic vitality and opportunity in these communities.

- Provide an annual $2 billion allocation to the U.S. Treasury CDFI Fund to deploy as grants to support the CDFI activities, including job creation through small business lending, investments in local communities, financial education, wealth and stability creation, and access to fair credit options.
- Provide significant prioritized-funding for CDFIs that serve persistent poverty communities, communities of color, farmworkers and Native-led CDFIs.
- Report across all CDFI Fund programs on the amount of dollars and services extended into persistent poverty areas.

Adjust Existing Federal Programs to Better Serve Persistent Poverty Communities

There are existing federal investments that bolster our communities; help the most challenged small businesses through community institutions; and get people into homes and allow them to stay there for the long term. With adjustments some existing programs can better reach underserved communities. The following are targeted suggestions to build on existing investments.

- Rectify inequitable income eligibility criterion so that rural communities can better participate in community development programs. Although many federal programs base eligibility on Area Median Incomes (AMI), the benefits distribution is uneven. While this program works well in cities with a range of incomes, in communities where economies and housing markets are inefficient and where more than 20 percent of the residents live in poverty, the average income is often depressed. Using the AMI for all nonmetropolitan areas in the country as an option to determine income limits in addition to the AMI for the state in which a nonmetro county is located could close the gap.
- Extend the timeline for the USDA Community Facilities Re-Lending Program. By including legislative language in FY 2021 appropriations bills, Congress can extend the CF Re-lending program authorization by five years (until September 2026), without having to appropriate any additional funding. The House Committee on Appropriations, working through the Agriculture/Rural Development subcommittee included language in its version of the FY 2021 bill that would achieve this 5-year extension. The Senate also is considering an extension. If Congress passes, and the President signs such bill language, CDFIs around the country can continue to make affordable credit available to local municipalities at a time when this financing, and the facilities made possible via it, is needed more than ever.
- Fannie Mae and Freddie Mac can expand affordable homeownership and rental housing in persistent poverty areas. Duty to Serve is intended to drive Fannie Mae and Freddie Mac (the Enterprises) to serve geographies and people who the conventional mortgage market does not serve well. FHFA should ensure that that Enterprises serve persistent poverty areas as part of the Duty to Serve plans. This includes, but is not limited to, creating a CDFI-preferred mortgage product that allows for exceptions to income limits and more flexible credit requirements; creation of a single-delivery platform or a broker network across all persistent poverty regions through entities, such as members of Partners for Rural Transformation, which are approved seller/servicers to the Enterprises; and make eligible “equity like” investments in qualifying regional CDFIs that serve these areas.
- Ensure the HOME Investment Partnership Program (HOME Program) meets the rural community needs with and without community housing development organizations. The HOME Program is the most flexible federal housing investment in our nation’s toolbox to create affordable housing for low-income residents. The HOME Program is one of the only federal housing investments that reaches rural and small-town America with any real volume. As Congress re-authorizes and amends the program, it should evaluate all proposals to balance needs of local participating jurisdictions (PJs) without Community Housing Development Organizations (CHDOs) in their service areas, while also maintaining the strength of nonprofits that have used CHDO structure to attract investments to their communities.

Strengthen the CRA

The CRA is a critical, though imperfect, tool to ensure investment resources flow to the nation's most economically distressed areas. Even as currently structured, rural communities receive far less investment than do their urban counterparts. For example, in 2017, only 29 cents of every dollar rural CDFIs borrowed was from a bank. In contrast, over half the borrowed funds for urban CDFIs came from banks. As such, the Partners for Rural Transformation has been pushing to strengthen the existing CRA framework and makes the following recommendations to ensure persistent poverty areas benefit from CRA-motivated bank investments.

- Unwind the Office of the Comptroller of the Currency's July 2020 final rule on the CRA.
- The Federal Reserve, FDIC, and OCC should strengthen the CRA by:
    - Increasing CRA investment requirements in areas of greatest need
    - Expanding the CRA assessment area definition to include bank branch locations and rural persistent poverty places where banks lend and take deposits from consumers.
    - Make equity and debt available for CDFIs located in and with long track records of serving rural persistent poverty regions.

Ensure Persistent Poverty Areas Have Resources Needed to Recover from COVID-19

COVID-19 reveals and exacerbates the existing economic and racial disparities in persistent poverty communities. Without adequate policy responses, the pandemic very likely will leave these communities even more marginalized than before. To ensure an equitable recovery from COVID-19 heath and economic consequences, relief responses must account for pre-existing inequities to ensure communities have the support they need.

- Federal agencies, including the Federal Reserve, must report on the amount of CARES Act and other COVID-19 relief funding that reaches persistent poverty areas. Understanding the extent to which persistent poverty areas benefited or were excluded from COVID relief aid provides a baseline of understanding for future recovery needs for these communities.
- Govern all federal stimulus bills with the 10-20-30 anti-poverty investment formula. This funding formula mandates that 10 percent of spending be disbursed to areas where 20 percent of the population has been below the poverty line for 30 consecutive years. This formula ensures that the geographic poverty concentrations receive the lifeblood of federal investment; something not guaranteed in the absence of the 10-20-30 formula.
- Waive local government matches for certain federal community development funding sources. In persistently impoverished regions, local governments did not have robust revenue streams to begin with, and yet are most likely to have been left behind from CARES Act aid, particularly communities of color. For example, in Louisiana, rural persistently poor parishes that are majority people of color, accessed only 1.2 percent of their available relief aid, but similar counties that are majority white accessed 23 percent. Both trail non-rural counties, which accessed 60 percent of their relief aid in the same time period. The issue of matching federal dollars is a problem in typical times for persistent poverty areas, and a near impossibility in the current climate. Programs like HUD's HOME Program and USDA's Rural Development programs are used widely in persistent poverty regions and will be the type of program stymied by lack of matching dollars. Without a

waiver, it will be difficult to deploy this investment in exactly the type of place that needs it the most – rural, persistently impoverished, and deeply impacted by the pandemic.

- Allow existing participants in USDA's 502 and 504 programs to modify their loans. Doing so will increase the chances that low-income rural homeowners stay in their homes as they recover from COVID-19 health and economic consequences. The Section 504 program allows low-income rural homeowners to afford critical home repair. USDA's Section 502 program allows low-income people living in rural areas to purchase modest homes, and has been effectively helping families build wealth and achieve the American dream for decades. By helping program participants to modify their loans, Congress will anticipate the rural community needs in advance of the coming recovery.
- Increase funding for rental assistance, housing counseling and foreclosure prevention:
  - Immediately re-create the National Foreclosure Mitigation Counseling program with a $700 million appropriation to prevent a large-scale foreclosure wave
  - Stemming from the pandemic's economic impacts.
  - Increase funding for HUD Approved Housing Counseling, which provides pre-purchase, post-purchase, homelessness, rental assistance counseling and financial coaching.
  - Increase amount of CDBG funds, such as those provided to states, counties and cities for rental and mortgage payment assistance via the CARES Act.
  - The HOME Program should be included as a part of any rental assistance package to reach difficult-to-serve communities.

In addition to these solutions specific to addressing federal funding and capital gaps in persistent poverty areas, low-income families across the company have critical needs. Transitioning persistent poverty communities out of deep poverty also requires attention to other financial security and economic inclusion issues. This includes measures, such as adopting strong federal consumer protections against predatory lending, restoring the strength of the Federal Housing Act, curbing abusive debt collection practices, and removing the asset limits from means-tested benefit programs. Additionally, persistent poverty communities will greatly benefit from additional COVID relief, such as direct stimulus payments to individuals and businesses, so long as they are structured to reach those most in need and without regard to documentation status. Finally, we recognize that bold, new ideas to address the racial wealth gap will also help transform our communities, ranging from baby bonds to student loan debt forgiveness.

Building on our 200-year collective experience in rural persistent poverty regions, the Partners for Rural Transformation call on federal policy makers to join us in extending opportunities to the most forgotten corners of America. We have solutions that work. With the capital to take those solutions to scale, together, we will strengthen the playing field in persistent poverty areas, and expand opportunity for all families and communities across this great country.

For more information, contact advocacy@pfrt.org