

UC Berkeley

Cal-in-Sac Undergraduate Research on Diversity and Entrepreneurship

Title

Supporting Community Development Financial Institutions Amidst Legal and Political Challenges

Permalink

<https://escholarship.org/uc/item/5d617578>

Authors

Martínez Ramírez, Emely

Garcia Dura, Samuel

Publication Date

2024-10-07

Supporting Community Development Financial Institutions Amidst Legal and Political Challenges

Emely Martínez Ramírez, Samuel Garcia Dura
July 19, 2024

Executive Summary

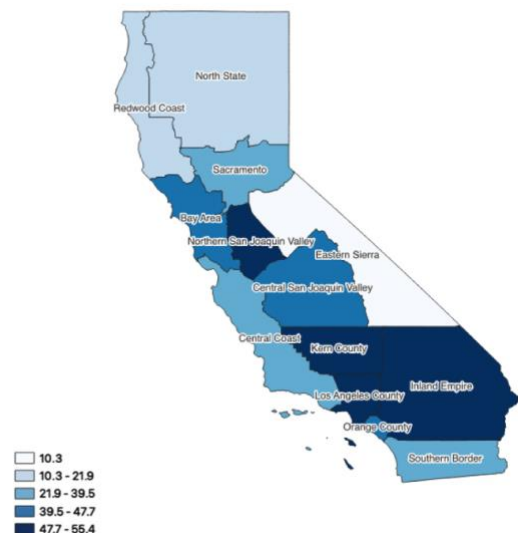
CDFIs, which play a crucial role in providing financial services to underserved communities, are under threat from lawsuits alleging reverse discrimination following the Supreme Court's June 2023 decision overturning affirmative action. Despite these challenges, leaders of CDFIs dedicated to serving women and people of color entrepreneurs remain committed to their missions. However, they face operational and funding difficulties, which could be exacerbated under a potential Trump administration. The California Office of the Small Business Advocate (CalOSBA) must support Community Development Financial Institutions (CDFIs) by establishing a legal support fund, launching an awareness campaign, advocating for state-level funding, and fostering partnerships with other financial institutions to address the legal, operational, and funding challenges outlined in this memo. By supporting CDFIs, CalOSBA can help ensure continued access to capital for marginalized communities, promoting economic equity and resilience.

Background and Methodology

Economic Impact of Small Businesses in California

Small businesses play an important role in California's economy. According to CalOSBA's report on *The State of Diverse Businesses in California*, minority-owned small businesses contribute significantly to the state's economy. They generate an estimated \$192.8 billion in economic output annually and support approximately 2.56 million jobs across the state. Furthermore, these businesses contribute \$28.7 billion in tax revenue each year, including \$13.6 billion in state and local taxes and \$15.1 billion in federal taxes ([California Office of the Small Business advocate](#)).

Share (%) Of Minority-Owned Businesses



Community Development Financial Institutions

As described by the United States' [Department of the Treasury's Community Development Financial Institutions Fund](#), "*CDFIs can be banks, credit unions, loan funds, microloan funds, or venture capital providers. CDFIs are helping families finance their first homes, supporting community residents starting businesses, and investing in local health centers, schools, or community centers.*"

They play a critical role in bridging the gap in access to financial resources for minority-owned businesses, non-profits, and low-income communities. In 2024, the CDFI Fund certified 1,434 CDFIs, with 114 located in California, more than any other state in the country. This significant concentration highlights the critical role CDFIs play in supporting underserved communities across the state ([Community Development Financial Institutions Fund, 2024](#)).

Supreme Court's June 2023 Ruling

The Supreme Court's ruling in June 2023 in the case of *Students for Fair Admissions, Inc v. President and Fellows of Harvard College* overturned affirmative action in college admissions. This decision has sparked legal challenges against CDFIs that focus on supporting women and people of color, with claims of reverse discrimination. These lawsuits pose a significant threat to the operations and missions of CDFIs. As an example, Fearless Fund, a CDFI based in Atlanta, has already been [compelled to halt its funding directed specifically towards Black women](#).

Apart from the potential repercussions of unfavorable court rulings, which could significantly affect the CDFIs involved, these cases have the potential to restrict CDFIs' efforts in serving underserved groups, reduce their fundraising capabilities, and diminish both federal and state funding directed to them. Such outcomes would not only affect CDFIs themselves but would also have an impact on the communities they support.

Methodology

To understand the impact of these challenges, data was collected through interviews with leaders from various CDFIs across California. These interviews focused on CDFI leaders' awareness, concerns, and responses to the legal and political challenges they are currently facing. The CDFIs interviewed are dedicated to serving women and people of color entrepreneurs. Although all CDFIs aim to expand economic opportunities in low-income communities, the interviewed organizations are particularly focused on serving communities of color and women entrepreneurs.

Key Findings

Awareness and Concerns about Lawsuits

CDFI leaders exhibit varying levels of knowledge and concern about reverse discrimination lawsuits. Some leaders are highly aware and deeply concerned about these legal threats, while others seem to be less concerned. This variation in awareness affects how CDFIs prepare for and respond to these legal threats.

“We're doing exactly the same thing that we were doing prior to the decision. I think the only thing that's changed is that we did go through and looked at our website to see how we advertise our products and our services. And so what I understand ... is that [the group filing lawsuits] are going through organizations' websites and seeing what they catch, and then based on that, they decide whether they could file the lawsuit or not.”

Challenges Beyond Lawsuits

Political concerns are also prevalent among CDFI leaders, particularly regarding the potential for federal funding cuts under a Trump administration. There is significant apprehension about how such cuts would impact the services that CDFIs provide to marginalized communities. Reduced federal funding could severely limit the ability of CDFIs to support those who rely on their services.

CDFIs are also struggling with operational difficulties and uncertainty surrounding funding. The ongoing threat of litigation adds further strain, complicating their ability to focus on their core mission.

“There are bigger things that CDFIs have on their plate or bigger challenges that CDFIs face and this just takes away from that.”

“There's not enough CDFI capacity in these communities of color. That's, I think to me, that's actually the bigger, like, the bigger problem.”

Despite all these challenges, CDFI leaders remain committed to their mission of helping underserved communities. They continue to provide essential financial services to minority-owned businesses and low-income communities.

“There's how we appear on our website, but a different thing is our practice, right? It's not happening just because [where we're located]. It's not happening just because of our leadership. We're very intentional as to who we want to serve.”

Recommendations

Although this investigation focuses on the challenges posed by lawsuits, our interviews with CDFI leaders reveal a common attitude: while lawsuits and their potential impacts are a concern, leaders feel these outcomes are largely beyond their control. They agree that they shouldn't devote much time and energy to lawsuits, as they face more pressing issues such as fundraising, navigating complex regulations, fostering entrepreneurial spirit, and reaching out to clients and donors. To help underserved communities thrive through CDFI support, we also need to better understand and address these other challenges.

Legal Support and Advocacy

Establishing a legal support fund is critical. This fund would assist CDFIs in managing and defending against lawsuits, providing them with necessary legal resources to counter claims of reverse discrimination effectively. There seems to be a lack of communication among different CDFIs as to what they could do to collaborate and face these legal claims together. Fostering partnerships between CDFIs and other financial institutions can enhance resource sharing and support. This includes connecting CDFIs to one another, especially those that have already been targeted by lawsuits, to facilitate the exchange of strategies. Collaborative efforts will help CDFIs navigate existing challenges, expand their impact, and effectively serve their target populations. Having these CDFIs join forces and build a common legal support fund could be very beneficial.

Awareness Campaign

Launching an awareness campaign is essential. Such an initiative would inform CDFI leaders about the current legal landscape and potential risks, equipping them with the knowledge to navigate these challenges and adapt their strategies accordingly.

Financial Support and Stability

Advocating for state-level funding to support CDFIs is necessary, particularly in anticipation of possible federal funding reductions. Ensuring financial stability at the state level will enable CDFIs to continue their vital work despite potential federal cutbacks.

Conclusion

The California Office of the Small Business Advocate has a crucial role in supporting CDFIs amidst the current legal and political challenges. By implementing the recommended actions, CalOSBA can help safeguard the essential services that CDFIs provide to underserved and marginalized communities. It is important to acknowledge that the recent budget passed by the legislature, which includes cuts to several government services, may complicate the implementation of these recommendations. However, where and when feasible, CalOSBA should

strive to implement these recommendations in ways that minimize fiscal impacts and support the vital work of CDFIs.

References

1. California Office of the Small Business Advocate. (n.d.). *The state of diverse small businesses in California: Executive summary*. California Department of Finance. Retrieved July 19, 2024, from https://calosba.ca.gov/wp-content/uploads/The-State-of-Diverse-Small-Businesses-in-California_Executive-Summary.pdf
Short form: (California Office of the Small Business Advocate, n.d.)
2. Community Development Financial Institutions Fund. (n.d.). *Certification*. U.S. Department of the Treasury. Retrieved July 19, 2024, from <https://www.cdfifund.gov/programs-training/certification/cdfi>
Short form: (Community Development Financial Institutions Fund, n.d.)
3. Community Development Financial Institutions Fund. (n.d.). *CDFI infographic*. U.S. Department of the Treasury. Retrieved July 19, 2024, from https://www.cdfifund.gov/sites/cdfi/files/documents/cdfi_infographic_v08a.pdf
Short form: (Community Development Financial Institutions Fund, n.d.)
4. Community Development Financial Institutions Fund. (n.d.). *About the CDFI Fund*. U.S. Department of the Treasury. Retrieved July 19, 2024, from <https://www.cdfifund.gov/about>