



Mia Sowell, BEA Program Associate Program Manager
Community Development Financial Institutions Fund
1500 Pennsylvania Ave, NW
Washington D.C. 20220

December 11, 2019

Re: FY2020 - FY2022 Bank Enterprise Award (BEA) Application Comments

Dear Ms. Sowell,

FUND Consulting is a women-owned consulting firm that has worked with over 350 CDFIs since its founding in 2000, including 70 CDFI banks. Since its inception, FUND Consulting's team has assisted 52 CDFI banks with the submission of Bank Enterprise Award (BEA) applications. In total, FUND Consulting has completed 278 BEA applications.

Funds awarded through the BEA program are critical in supporting CDFI banks in their efforts to increase their investment in distressed communities through CDFI partner activities, lending, as well as technical assistance activities. Through requirements that eligible activities must take place in qualified Distressed Community census tracts, it further encourages investment in some of the nation's most economically distressed tracts. In 2018, FUND Consulting's BEA applicant clients alone conducted eligible activities totaling \$621.3MM, representing an increase of \$117.0MM in eligible activity above their baseline levels.

FUND Consulting appreciates the ongoing support of the CDFI Fund's BEA program staff in fielding questions related to BEA application issues. Staff routinely field questions and provide clarifications in a timely and efficient manner to support the submission of applications. Further, updates to the AMIS platform over recent application rounds have significantly improved the applicant experience by providing clear reporting on award potential. The application's ability to sum entered transactions also enhances the applicant experience by ensuring that information on single transactions is correct by comparing against expected totals.

With insight from its direct work, FUND Consulting respectfully submits the following comments in response to the Request for Comments on the BEA Program Application as posted on the Federal Register on 10/15/19. Comments correspond to particular questions raised in the Request for Comments as possible.

BEA Program Application Comments:

FUND respectfully submits the following comments on the general BEA Program Application:

1. Whether the collection of information is necessary for the proper performance of the functions of the agency, including whether the information shall have practical utility;

As detailed below, the function and utility of several of the proposed pieces of information to be added to the application are unclear, such as business description, impacts, details on interest rates, and details on closing terms. Additionally, each item added to the application will increase the burden of compiling an application, in terms of staff time and related costs.

2. The accuracy of the agency's estimate of the burden of the collection of information;

Based on FUND's work on the FY2019 BEA application which includes time tracking on application due diligence and preparation, we found that on average, an application takes 60 hours to determine which loans are eligible based on geography and loan type, review documentation and loan characteristics against program guidelines to ensure eligibility, organize and redact documentation for CDFI Partner Activities and Distressed Community Financing Activities over \$250,000, and input all application information into the AMIS application format. This is three times the amount of time the CDFI Fund estimates.

Updates in recent years to the application related to the need to document the affordability of Affordable Housing Loans and Affordable Housing Development Loans and Projects Investments have increased the time requirements of submitting a thorough and complete application. Further, the guidelines for what documentation will be deemed acceptable for such loan types to document affordability was not clear in the FY2019 application cycle, leading to challenges in documenting.

The recent requirement requiring documentation of the financed property(ies) for Commercial Real Estate Loans and Project Investments has similarly increased the time needed and overall burden to gathering documentation to support the BEA application.

3. Ways to enhance the quality, utility, and clarity of the information to be collected;

As noted above, the documentation requirements around demonstrating affordability for Affordable Housing Loans and Affordable Housing Development Loans and Projects Investments were unclear in the FY2019 application cycle. Additional guidance on types of documentation would help to add clarity and allow banks to begin to build in systems to ensure information is captured during the loan underwriting stages and is available for BEA application purposes.

Recent applications have noted that for real estate related transactions, closing documents must indicate the address of the real estate that was financed. FUND has found that, in line with typical banking practices, most CDFI bank clients do not store all addresses financed in their standard reports, but rather store address data on properties that collateralize the loan. While there is often overlap in project addresses and collateral addresses,

it is not an inherent match. As such, the documentation of all real estate addresses which are financed through a loan is not always found in closing documentation. It was not clear what format of documentation may be needed in such cases. Accordingly, the request for documentation of all real estate addresses has increased the time and burden needed to submit a complete application package.

Recent applications have that for loans with a Loan Status of “Refinance – Unaffiliated Institution,” the applicant should submit copies of loan documents for the original loan that was refinanced. FUND’s bank clients reported that it was not in their typical operating procedures to collect loan documentation from unaffiliated institutions as part of their underwriting process. Further, they often have no relationship with the unaffiliated institution that would allow them to request such information after the closing of the loan. For their internal purposes, bank clients often report they treat loans that are refinances from unaffiliated institutions as new loans on their books. As such, few were able to provide documentation to meet this requirement, often resulting in the potential disqualification of otherwise qualified loans and creating additional burden in completing the application process and loan documentation package.

Currently, the AMIS application does not have a comprehensive way of downloading all detail on each transaction submitted with the application in Table 6: Transactions to be Considered for an Award. Without such an export option, it can be challenging to conduct a review of uploaded data for quality control purposes. FUND anticipates that building in a complete export functionality would allow for better quality control and ultimately more accurate data to be submitted with the application.

4. Ways to minimize the burden of the collection of information on respondents, including through the use of technology;

Currently, the AMIS application requires a manual upload of all data points collected for the application in Table 6: Transactions to be Considered for an Award, requiring each data point to be entered one by one. Some banks submit hundreds or thousands of transactions as part of the application, so this can present a significant data entry burden. FUND anticipates that a bulk upload option, rather than a field by field upload, would greatly reduce the data entry time required for the application.

For Commercial Real Estate Loans and Project Investments, multiple closing documents are required as documentation including the loan agreement, promissory note and security agreement. Given that these documents typically contain similar information, the utility of requesting all three is not clear.

5. Estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services required to provide information.

The majority of banks have the core processing systems in place to track and export the lending data necessary for BEA application purposes; however there is significant staff time dedicated to assessing whether loans are BEA qualified and result in an increase that could be credited towards a bank’s estimated BEA award request. In addition, for loans over the \$250,000 threshold there is additional staff time that is required in order to compile, review, and prepare the loan documentation for upload and submission via the AMIS application. As previously mentioned, based on time tracking on application and preparation, FUND

has found that on average, the amount of staff time that is allocated to preparing BEA applications is 60 hours resulting in the estimated cost of operations of \$4,500 for a bank to complete a BEA application, utilizing a blended hourly rate to account for multiple bank staff assisting with the completion and submission of the application.

Comments Related to Financial Health Questions

In the Request for Comments, the CDFI Fund has proposed directly collecting financial health information from applicants, including their most recent independent audit, their most recent Community Reinvestment Act rating and information on any enforcement actions. FUND does not anticipate that providing such data would substantially increase the burden of completing an application.

Comments Related to BEA Program Categories, Subcategories, and Qualified Activities Definitions

The CDFI Fund has requested comments on new categories or updates to the definitions of existing categories. FUND has limited comments on changes proposed within the Request for Comments, other than the following:

- Small Dollar Consumer Loans: Several of FUND's clients offer small dollar consumer loans with values below the \$500 minimum threshold and above the \$5,000 maximum threshold. FUND would recommend removing the minimum size amount for this loan category to capture these small dollar loans that offer an alternative to payday lenders. FUND would also recommend an increase to the maximum size amount for this loan category to \$10,000 to provide banks with further credit for offering consumer loans that are an affordable alternative to high-cost, predatory options such as those available at buy here pay here auto lots and at auto title lenders that are pervasive in low-income communities.
- Small Business Loans: The current definition for the loan can be challenging to follow as it refers to external guidance and size eligibility standards are dependent on particular industries. In FUND's experience, not all banks collect needed information during the loan application and underwriting phase and determining if a business meets size standards for each qualified transaction can be a challenge.
- In general, the CDFI Fund's BEA loan categories within the Distressed Community Financing Activities do not always correspond to how banks track loan purposes internally. This can result in challenges in preparing the application as additional loan categorizations must be added prior to moving forward. If possible, FUND recommends aligning BEA categories and sub-categories with bank call codes which are standardized and already utilized by banks as part of regular operations.

Comments Related to Impact of Program Related Loans, Investments, and Service Activities

The CDFI Fund has proposed adding information on business description for some loans as well as the impact of all activities. FUND anticipates that both proposed additions would substantially increase the time and overall burden of completing a BEA application.

Banks do not typically store a detailed business description as part of the loan software and as such requesting such information would require an update to loan software fields as well as the creation of new reports to be exported from the software. This would increase the time needed to support a BEA application across multiple stages of the lending process including data collection and ongoing management as well as for IT staff to create fields and reports.

Finally, requesting a short narrative description of a business description does not seem to be an efficient way of collecting information as it would be difficult to aggregate across applicants to report on the social impacts of the program. It would also result in subjective review of the eligibility of the transaction, leading to a lack of transparency. FUND recommends that the CDFI Fund be clear that purpose of collecting this information is only for describing the impact of the BEA program. If the collection of this information will be used to evaluate BEA eligibility, the CDFI Fund should give clear requirements for what is considered eligible, beyond merely giving examples of descriptions of loans.

FUND has similar concerns related to the collection of impact data, which are not be routinely collected, stored or available for export, thereby increasing costs and time burden on the bank applicant in multiple ways.

Comments Related to Affordability of Program Related Loans and Investments

In the Request for Comments, the CDFI Fund has proposed collecting additional information related to interest rates, interest types, interest terms, origination fees and points for BEA Qualified Activities that are loans. FUND anticipates that requiring such data to be submitted with the BEA application would substantially increase the burden of completing an application.

First, it may require that applicant banks update their internally produced reports to provide the information needed for application purposes. Banks collect each of the proposed data points as part of their standard operations, but the data points may not be stored in an existing report that is readily available for export. Second, due to the manual upload process of the BEA application, any additional fields create substantial additional burden in completing an application. The AMIS system currently requires manual upload of each data field and each additional data point collected adds to the burden for uploading application information. With the current application requirements, based on FUND's time tracking of data entry for the application, we found it takes approximately one hour to complete data entry for every 100 loans inputted into AMIS. In FUND's experience, some applicants upload hundreds of transactions as part of the BEA application; aggregated across a high volume of transactions the additional proposed data points would result in substantial time requirements for data entry. A bulk upload option would decrease this burden. Further, as AMIS is currently structured, there is limited ability to export all of the data points associated with an application to conduct quality control of inputs. With additional fields, it is possible that data entry errors are introduced to the application as well.

Beyond the burden of collecting and inputting the data, FUND would note that the benefits of collecting such data are unclear as the affordability of a loan is not considered for award purposes in the BEA program and is also based on a range of underwriting criteria. CDFI banks strive to provide loans with affordable terms as are

appropriate for the risk factor of each individual borrower. Collecting information on underwriting outcomes – i.e. interest rates and characteristics, origination fees and points – provides information on the loan itself but not inherently its affordability in comparison to what a borrower would have received from a non-CDFI bank or other lenders such as payday lenders. In many cases, CDFI banks are extending credit to borrowers that non-CDFI banks would deem too risky and need to charge interest rates that are in line with that risk. Simple data collection on underwriting outcomes and loan characteristics does not capture these positive benefits of CDFI banks in particular, but would increase the burden of compiling a BEA application.

Comments Related to Award Selection Process

Award Amount

FUND anticipates that the proposed changes to the Award Amount calculations could produce unintended outcomes.

First, if the CDFI Fund awarded eligible applicants that demonstrate increases in more than one BEA category a higher single BEA program award amount than applicants who demonstrate an increase in one BEA category, FUND anticipates such a change would result in an unfair advantage for larger banks with multiple lines of business and increase the burden of completing a BEA application. Prioritizing banks with increases in multiple BEA categories puts smaller banks with focused lines of business at an unfair disadvantage. Some community banks only offer a few lines of business based on direct need and demand in the Target Market. This change would work against the priority currently given to smaller banks. Additionally, applicants currently report on increases or decreases in all categories in one portion of the application (Table 5: Reporting BEA Qualified Activities), but are allowed to use their discretion as to which categories they submit for consideration for an award (Table 6: Transactions to be Considered for an Award). As such, banks can limit the number of transactions that must be uploaded into AMIS and limit the documentation requirements for transactions over \$250,000. If proposed updates were made, banks would need to submit all transactions in Table 6, increasing both the data entry and loan documentation burden. For some of FUND's clients, this burden is substantial as hundreds of transactions must be individually uploaded into AMIS.

Second, FUND anticipates that if a maximum was placed on the dollar amount that may be awarded within the CDFI Related Activities, Distressed Community Financing Activities or Service Activities categories, it could potentially disincentivize banks' ongoing activity in each of the three categories once they had reached the maximum for the category. For example, in FUND's experience, the BEA program incentivizes applicant bank's investment into CDFI Partners through the CDFI Related Activities category. These activities may be capped by applicant banks if there was a corresponding limit on the potential BEA award contribution of such activities.

Award Calculation

FUND does not recommend changing the award calculation. It is a clear and transparent calculation which is appreciated by applicants and awardees.



Comments Related to Persistent Poverty Counties

While FUND recognizes the importance of channeling investment into Persistent Poverty Counties (PPCs), given that PPCs are not equally distributed across the country, FUND is concerned that that prioritizing awards to applicants with investments in PPC would disadvantage banks that are not near PPC. Banks are not required to undertake activities within their existing CDFI Target Market or CRA Assessment Area in order to be eligible for BEA considerations, however, banks must balance their lending and other activities within such geographic bounds with those outside of them. For example, banks may not be able to focus additional Distressed Communities Financing Activities outside of its CDFI Fund Target Market while maintaining its 60% threshold for lending activity to maintain its CDFI certification.

Additionally, FUND anticipates that small banks with a limited geographic footprint away from PPCs would be particularly disadvantaged by a provision of adding PPCs to award considerations. Smaller banks are less likely to have the staff time to commit to identifying and coordinating BEA eligible activities outside of their existing geographic footprint. This requirement would work against the priority currently given to smaller banks.

Comments Related to Integral Involvement

The recent addition of the Scenario IV, which allows for the percentage of a CDFI Partner's physical locations within Distressed Communities has helped to reduce the burden on verifying Integral Involvement for both the bank applicant as well as the CDFI Partner. FUND has no proposed updates to the definition or scenarios used to determine Integral Involvement.

As noted above, FUND Consulting very much appreciates the CDFI Fund staff's assistance in resolving individual issues as they arose during the application process. The above detailed issues were encountered on all or a large subset of the applications prepared as part of the recent round and as such we wished to convey them in a consolidated manner, rather than client by client basis.

Thank you for the consideration of feedback on the BEA application process. Please feel free to contact us at 773-281-8845 should you desire additional detail on any of the comments above.

Sincerely,

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Partner

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Managing Consultant

Emily Sipfle
Senior Consultant

& the FUND
Consulting team