



3<sup>rd</sup> December 2021

**Tanya McInnis,**  
**Program Manager for the Depository Institutions Initiatives,**  
**CDFI Fund**  
**U.S. Department of the Treasury,**  
1500 Pennsylvania Avenue NW,  
Washington, DC 20220

**Regarding: CDFI Fund, Notice of Information Collection, and request for Public**  
**Comment: Small Dollar Loan Program Application. OMB Number: 1559-0051**

Dear Tanya McInnis,

The National Asian American Coalition (NAAC) is a US Dept. of Treasury Certified Community Development Financial Institution (CDFI) and a HUD-Approved 501(c)(3) nonprofit Housing Counseling Agency providing comprehensive affordable homeownership counseling to over 25,000 minority families in California. NAAC CDFI is a resource for qualified small businesses & non-traditional borrowers for access to capital and other financing options in underserved communities. Our goal is to assist on sustainable homeownership, job creation, small business, and economic development as well as advocating against foreclosures and for affordable housing. NAAC has established itself as well recognized non-profit at the Federal as well as the State level through our active homeownership and small business assistance programs and advocacy for the underserved. We have been a voice for the voiceless America.

We hereby submit our comments on CDFI Fund's Small Dollar Loan Program Application. Please find attached our comments to the Application.

Sincerely,

A handwritten signature in black ink, appearing to read "Faith Bautista", is written above the printed name.

**Faith Bautista**  
**President & Chief Executive Officer,**  
**National Asian American Coalition**



## **Comments by the National Asian American Coalition**

### **CDFI Fund, Notice of Information Collection and request for Public Comment**

#### **Small Dollar Loan Program Application**

**OMB Number: 1559-0051**

The National Asian American Coalition (NAAC) appreciates the efforts of the CDFI Fund to invite comments to the Small Dollar Loan Program Application (SDL Application/ Application). Although the Request for public comment covers various questions on the application process, this comment focuses on the content of the application with regard to collection of information necessary for proper performance of functions of the agency, including the practical utility in evaluating them, ways to enhance the quality and utility of the information collected. The comment also addresses the question of how should the CDFI Fund address changing priorities on a round-by-round basis?

Firstly, the overall Application is a good draft and includes most of the important criteria for SDL Program Award recipients. Having the application in 2 parts: Business Strategy and Community Impact and Organization Capacity gives the applicant CDFI an opportunity to present its programs and strategy in an effective way. It brings in more transparency to the competitive process.

A CDFI plays a vital role in administering programs that are flexible and can suit to a variety of and unique needs of the diverse borrowers. For the award funding, CDFIs must be given a loss loan reserve of 20% and capacity building of 20% along with marketing dollars. Small dollar loans are much needed than ever. In such a scenario, marketing to different business owners is a must. The marketing also must be targeted as per ethnic businesses. As a CDFI servicing the underbanked, we have observed that all small dollar loans go to businesses that are unbanked and underbanked. This is good *but* at the same time, such businesses are also in dire need of technical assistance, from putting a loan package together, preparing financial statements, importance of filing income tax returns, showing profit and having its own credit report.

Additional resources are needed to educate such businesses on programs available and assisting in choosing a program that fits the businesses' unique needs. Most micro businesses use their personal credit scoring out of which most of them have a low credit score below 640. Further, most applications are for small loans for petty expenses, for which they don't need to go to the bank for a loan below \$5,000. Besides, the bank generally doesn't give small dollar loans and even *if* they do, micro businesses will not prefer to go to the bank for that.

It is also essential that the application considers the current landscape for borrowers that the CDFI intends to serve. Since the pandemic, there have been an increase in borrowers who are recovering from the effects of the pandemic, which should be reflected in the Application process and the Award. We emphasize that the future applications must adapt to the current economic situations in terms of funding to be awarded. To achieve this, we suggest providing flexibility to the CDFI to create unique programs on lending, and at the same time, be eligible to

apply for the award. Such applications should be evaluated on the existing criteria, as well as on innovation. Priority or credit should be given to the CDFIs that are going an extra mile and coming out with creative solutions to help the underserved communities for its borrowing needs. The service areas that the CDFI operates in should also not be the *only* deciding factor for the application. Many times, the CDFI serves individuals, that do not belong to the traditional LMI areas, but are still in need of a small dollar loan.

For instance, NAAC recently partnered with Talino Venture Labs on a lending model that will improve NAAC CDFI's lending capabilities. We presented creative technical solutions to a panel of evaluating experts during FDIC's *first-ever* Tech Sprint. The Tech Sprint was designed to explore new technologies and techniques to help banks meet the needs of unbanked customers and challenged participants to identify resources and tools to sustain those banking relationships over time. Among all participants, three winners emerged in separate categories based on Creativity, Effectiveness/Impact, and Market Readiness. The NAAC-Talino Finance team won in *Market Readiness* based on the creative and practical concept of social borrowing circles which has been around for decades.

NAAC CDFI's approach is to give very small dollar loans through a social borrowing circle digital platform that will enable everyone to win in the fight to significantly narrow the gap between income and wealth inequality. Comprised of individuals who collectively take out a loan, this tried-and-tested mechanism provides LMI communities access to much-needed credit at more affordable rates while allowing them to build up their credit scores. NAAC CDFI partnered with Talino Venture Labs and created a digital social borrowing platform to scale the

success of this model, ultimately empowering communities and improving their economic security. The main features of this methodology are that loans are granted to grouped small business owners or individuals which fit within compatible underwriting parameters made jointly responsible for repayment of a loan unit. This obligation incentivizes group members to use their common ties to screen, monitor, and enforce loan repayment by these other group members. The Digital social borrowing can help micro businesses that are credit invisible, build its credit score and begin to be a part of the banking systems. It is based on the model of the Grameen Bank in Bangladesh and has been successful in other countries as well.

In recent years, there were about 492,000 new small businesses established. Yet as of April 2021, 34% of these closed. One can imagine the consequences and impact this created on families and individuals and their financial inclusion status. This is the circumstance that we addressed in our innovative presentation to FDIC Tech Sprint Panel. Our goal is to begin with helping the small businesses that do not fit the box of lending institutions. Small dollar loan can work if the right technology will be used. It is a solution that is creative, out-of-the-box, and impactful.

Therefore, we emphasize that the application provides opportunity and credit to the CDFIs to experiment and create solutions to the current and real issues affecting the LMI communities.

We request the CDFI Fund to make the necessary changes to the application and process.

NAAC thank you for the opportunity to make a comment on this subject. Please reach out to us for any questions or concerns.