



DAKOTA RESOURCES

CDFI CERTIFICATION APPLICATION

December 5, 2022

Jodie Harris, Director
CDFI Fund
Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

RE: CDFI Certification Application (OMB Control Number: 1559-0028)

Dear Director Harris:

Thank you for the opportunity to comment on the revisions to the CDFI Certification Application.

Dakota Resources is a certified CDFI intermediary. We provide capital and development services to community and economic development organizations that serve very rural, remote, and underserved communities. Our products and services are deployed predominantly in South Dakota, and we also provide intermediary capital nationwide to other CDFIs that are serving primarily rural communities. Our vision is rural communities where *all* can thrive.

We agree that the CDFI certification application process is due for an update. We agree with your rationale and with the vast majority of your proposed updates. We believe the revised rules will strengthen the CDFI brand and mission. We support the implementation of the proposed rules outside of our comments listed below.

SUGGESTED AREAS OF IMPROVEMENT

We request and encourage consideration of the following areas of improvement to the current draft CDFI certification application:

dakotaresources.org
info@dakotaresources.org
605.978.2804

Dakota Resources is a certified CDFI and an equal opportunity provider and employer.



1. Provide Clarity and Accommodations for Intermediary Lenders.

We find no mention of intermediary lenders in the proposed application. Consider adding clarification on if and how the unique roles and needs of intermediary lenders who serve CDFI and non-CDFI customers fit into target market and reporting requirements.

As an intermediary lender for the last 26 years, our primary loan product has served as a capital pool where investors can put capital to good work in underserved communities by trusting us to lend those funds to nonprofit community development organizations that ultimately provide access to direct financing for individuals, businesses, and community facilities. This collaborative approach has created significant impact, but also creates challenges in reporting target market data second-hand.

Our customers are those nonprofit community development organizations, some CDFIs and some not. Building their financial capacity is our mission. Consider adding considerations in the application for intermediaries that fulfill unmet financing needs to other community development organizations.

2. Provide Clarity on How Serving Rural Non-profit Organizations that are not Certified CDFIs Qualifies in Target Market Eligibility.

Targeted population definitions and financial product reporting options throughout the proposed new application are specific to individuals or an identifiable group of individuals under a range of categories. It is unclear where financing for non-profit organization customers fits in. Because non-profits have no individual owners, but instead volunteer governing boards, and ultimate beneficiaries, consider defining how non-profit borrowers qualify in target market requirements and reporting.

Nonprofits, including CDFIs and non-CDFI organizations, play critical roles in meeting needs of underserved individuals and groups in local communities. This is particularly true in isolated rural areas where local governments have extremely limited resources and local banks tend to focus on agriculture lending, not mortgages or small business loans. In many cases, without nonprofit community development organizations serving as local linchpins to resources, services, community facilities, and financial products, isolated rural populations would have nowhere else to turn for their unmet needs.

3. Reconsider Requirements that Impede Serving the Needs of Small, Isolated Rural Communities.

Several requirements in the proposed application are particularly limiting to CDFIs like Dakota Resources that predominantly serve small, isolated rural communities.

a. **Reconsider the Requirement for 85% of Customized Investment Area Financing to be Directed Within and 85% of Population be Living Within Individually Qualified Census Tracts.**

In the case of sparsely populated rural counties like the ones we serve being part of a customized investment area, where un-met financing and development service needs are widespread and qualifying census tracts are often predominantly found in the most densely populated areas, this 85% requirement may be overly limiting to CDFIs, depending on where the census tracts are located. For similar reasons, it may be even more limiting for CDFI's serving isolated rural communities to require 85% of customized investment area residents to live within individually qualified census tracts.

b. **Reconsider the Requirement for Geographic Units in Customized Investment Areas to be Contiguous.**

The contiguous requirement for a mix of both qualified and non-qualified geographic units will be overly limiting for CDFIs serving remote rural communities and using customized investment areas to define target markets. Non-metro counties that qualify for either 85% rule may be separated geographically by hundreds of miles and several large-area counties that may not qualify. In those areas the contiguous requirement would demand inclusion of those in-between counties to remain contiguous, while at the same time disqualifying the CDFI based on the 85% of population and financing rules.

c. **Consider Recognizing "Remote and Underserved Rural" as a pre-approved "Other Target Population" for Customized Investment Areas.**

While a recognized targeted population of rural needs careful definition in order to strengthen the CDFI brand and mission, populations in small isolated rural communities are significantly underserved as a broad whole, even if some individuals and families in those populations have greater access than others. This is particularly true in circumstances where a local nonprofit community development organization is the borrower. These small organizations have significant unmet capital needs and require development services in order to fulfill their mission of access to unmet capital and development services for very small, isolated rural populations.

Consider recognizing rural populations as an "other targeted population," while clearly defining a difference between general non-metro areas and small, truly isolated, broadly underserved rural areas. In addition to recognizing a truly underserved population in need, this may also eliminate many of the difficulties for rural-serving CDFIs listed in 3.A and 3.B of our comments.

d. Reconsider the Narrowed Definition of Development Services.

The updated definition of development services is narrow. While it is important for certified CDFIs to offer meaningful development services to their customers, the Fund should not implement a one size fits all approach. An important component of the CDFI business model is providing customized technical assistance to meet each customer's needs.

The prohibition on information presented online is particularly limiting for CDFIs serving rural communities. Due to transportation and other issues, classroom-based training is not always a feasible or accessible way to offer technical assistance. The CDFI Fund must build more flexibility into this requirement and allow for different models. The use of online meetings via Zoom or other video conferencing platforms are an adequate and essential substitute for in-person meetings.

e. Reconsider the Required Tribal Document or Registry Card for Native American, Native Alaskan, and Native Hawaiian Categories in Target Market Assessment Methodologies.

Requiring registration documents for some individuals while merely requiring self-identification as a methodology for other targeted populations will put an unfair burden on some CDFIs and customers compared to others.

4. Reconsider whether or how development services may count toward the predominance as a financing entity test.

The proposed rules indicate that development services will not count toward the predominance of activity test. Consider instead allowing development services directly tied to loan products offered by the CDFI to count toward the test. Development services are a critical component of our own lending and lead to and contribute directly to our ability to place new loans responsibly and support customers to build capacity through the life of the loan. The outright prohibition on counting this activity toward the predominance activity test is overly limiting.

5. Reconsider Executive Level Requirements for Board Accountability.

Executive-level requirements for CDFI board service may be overly limiting for many CDFIs. In some markets, particularly isolated rural markets, non-executive level staff such as lending or business development staff could make valuable contributions to the CDFIs governing board and advisory boards. Board service is also a valuable way for non-executive staff to develop skills and further serve the CDFI mission in secondary ways. These individuals are often eminently qualified to represent both the respective target market and the CDFI mission.

6. Reconsider the prohibition on balloon payments and interest-only payments on mortgage loans.

We support requirements that ensure CDFIs engaged in mortgage lending do so in a responsible manner. However, the prohibition on balloon payments and interest-only payments will be unreasonably limiting to many CDFIs.

The application is also unclear on whether this prohibition applies only to single-family mortgages, or also to mortgages for commercial real estate, multifamily housing, small businesses, or community facilities.

It is also unclear if and how the prohibition of balloon and interest-only payments would apply to unsecured intermediary loans made to non-profit community development organizations or other borrowers serving target populations. Consider providing a clear definition of mortgage loans as well as a clear exclusion for unsecured intermediary loans to nonprofit entities and other CDFIs.

A prohibition on balloon payments and/or interest-only payments would severely restrict our ability to continue our primary financial product as an intermediary lender to local community development organizations. Rather than a bright line that automatically excludes a CDFI from certification if a product is offered with balloon payments or interest-only payments, the application should allow CDFIs a narrative option to explain why these products have a legitimate community development purpose and how the entity is ensuring the product is affordable and responsible.

CONCLUSION

CDFI certification is a valued credential and an important instrument for leveraging public and private sector investments into underserved communities—particularly the very rural customers and communities our capital serves. Dakota Resources commends the CDFI Fund for introducing reforms to the CDFI certification application to strengthen accountability to the customers and communities that CDFIs serve.

We urge the CDFI Fund to continue to provide flexibility for truly mission-driven CDFIs to develop and tailor financial products to best meet the needs of their communities.

Toward thriving rural communities,



Joe Bartmann
President
Dakota Resources

Cc: Senator John Thune, Senator Mike Rounds, Congressman Dusty Johnson

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