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Jodie Harris, Director  
Community Development Financial Institutions (CDFI) Fund  
Departmental Offices, Department of the Treasury  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue NW  
Washington, DC 20220

December 5, 2022

**Re: Public Comment on CDFI Certification Application (OMB Control Number: 1559–0028)**

Dear Director Harris and CDFI Fund staff:

I am writing as the Business Development Supervisor for the Island Mountain Community Development Financial Institution DBA Montana Native Growth Fund (MNGF). Our mission is to promote sustainable Tribal homeownership, build opportunities to improve the economic outlook for Aaniiih and Nakoda tribal members by offering access to credit and capital blended with culturally empowered education. MNGF welcomes this opportunity to provide comments on [the CDFI Certification Application \(OMB Control Number: 1559–0028\)](#).

MNGF has a strong set of leaders and board members who are all tribal enrolled members accountable to the community served and all staff are educated enrolled Aaniiih and Nakoda members. We have a dedicated Native programming effort and work tirelessly to fulfill our mission by offering access to credit and capital blended with culturally empowered education. Most importantly, we honor our cultural values while taking a holistic approach to the economic need to encourage community members to utilize the organization's outreach projects and strategies. We have developed a stable loan portfolio that consists primarily of consumer loans, a variety of small business and home improvement loans. Our ultimate focus is to support mortgage lending, down payment assistance and increase homeownership on the Fort Belknap Indian Reservation.

Montana Native Growth Fund appreciates the CDFI Fund's stated goals of ensuring the new CDFI Certification Application and its policies "provide the flexibility necessary for CDFIs to grow and to serve the hardest to reach distressed communities" and "maintain the integrity of what it

means to be a certified CDFI from a mission perspective.”<sup>1</sup> We also support some of the proposed changes, such as removing certain geographic restrictions. However, the proposed CDFI Certification Application and policies contain several troubling provisions that may make it difficult for our CDFI to qualify for certification. If finalized as proposed, the Application and policies run the risk of disqualifying a substantial portion of certified Native CDFIs, thus diminishing the reach and impact of Native CDFIs nationally.

For this reason, we respectfully request the Fund not finalize the CDFI Certification Application and policies until these issues of grave concern to Native CDFIs are addressed through direct consultation between the Department of the Treasury/CDFI Fund and Native CDFIs. To that end, we call upon the Treasury and the CDFI Fund to convene a formal listening session on the CDFI Certification Application and Target Market Assessment Methodologies with all due haste. This listening session should include Native CDFI leaders, key Treasury and CDFI officials, and high-ranking representatives of other key federal agencies (notably the Department of the Interior, USDA, and Department of Commerce/EDA ) who have a vested interest in ensuring that federal funding and programs supporting Native CDFIs and Indian Country community and economic development broadly is in coordinated alignment, not direct conflict. This approach to meaningful consultation hopefully will lead to a new CDFI Certification Application and Target Market Assessment Methodologies that support Native CDFIs and don’t stand in their way.

### **The Troubling Proposed Changes to the CDFI Certification Application**

Despite the extraordinary economic progress certified and emerging Native CDFIs are cultivating across Indian Country through their intimate understanding of the unique needs of the communities they serve and the customized programs and products they create to address those needs, there still exist significant unmet needs for capital, credit, training, technical assistance, and financial capability building across Native communities. Simply put, Indian Country needs more Native CDFIs, not less. It needs more Native CDFIs that can achieve and retain Treasury certification and the access to capital and credit that certification unlocks for them, not less. While the overall number of certified CDFIs has grown exponentially from less than 200 in 1997 to more than 1,400 institutions in 2022 – which the CDFI Fund cites as a major reason for the timing and nature of the proposed changes to the CDFI Certification Application and policies – Indian Country has experienced only modest growth, with the number of certified Native CDFIs growing from 50 in 2008 to just 64 currently.<sup>2</sup> This despite the fact that there are 574 federally recognized tribal nations spread across 36 states, that Native communities experience the greatest disparity of access to capital, and that Native Americans suffer from the worst socio-economic indicators of any group in the country.

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<sup>1</sup> We also appreciate the CDFI Fund’s efforts “to provide greater transparency and clarity around the criteria that entities must meet to obtain and maintain CDFI Certification” (<https://www.govinfo.gov/content/pkg/FR-2022-11-04/pdf/2022-24082.pdf>, p. 66787).

<sup>2</sup> <https://www.cdfifund.gov/sites/cdfi/files/documents/native-american-strategic-plan.pdf>, PDF p. 13. In 2008, the CDFI Fund also identified that “more than 60 organizations are at various stages of development and moving toward certification as Native CDFIs” (ibid.). Today, as mentioned above, the number of emerging Native CDFIs is far less.

Yet the proposed changes to the CDFI Certification Application and policies threaten to derail ours and other Native CDFIs' ability to sustain and grow this economic progress by needlessly placing us in a no-win position, forcing us to either drastically change the way we operate to conform to the CDFI Fund's proposed rigid certification requirements, or forego retaining certification, which will result in significantly reduced access to the capital and credit that our clients need. Several of the proposed changes may force us and many other Native CDFIs to make this untenable choice, most notably:

**1. Prohibiting interest-only mortgage loans, mortgage loans with balloon payments, and mortgage loans with terms longer than 30 years:** Under the proposed CDFI Certification changes, CDFIs will now have to write mortgages that include: (a) no negative amortization, interest-only payments, or balloon payments; (b) adjustable-rate mortgages underwritten at the maximum rate in the first five years; (c) an original maximum term of 30 years; and (d) total points and fees generally not exceeding three percent of the loan amount.<sup>3</sup> Yet many Native CDFIs offer interest-only loans and loans with balloon payments to provide affordable homeownership opportunities to Native clients that otherwise would not have access to mortgage loans. For example, one Native CDFI offers a 30-year amortized mortgage loan product that features a five-year balloon payment. The CDFI works with borrowers to help ensure they can refinance their loans with the local credit union before the balloon payment is due. This prepares and incentivizes borrowers to enter the financial mainstream, as well as allowing the CDFI to turn over capital more quickly to serve a much larger number of home buyers. Other innovative interest-only and/or balloon loan products offered by Native CDFIs that help Native people access affordable and flexible capital to meet their needs include home equity lines of credit, construction loans, housing development loans, and down payment assistance loans. Many of these would no longer be allowed under the proposed new limitations. Some Native CDFIs also offer terms on mortgage loans longer than 30 years to make them affordable, including USDA loans they deploy featuring terms of 38 years. Although longer-term mortgage loans could lead to a slower accumulation of equity, they provide families with housing security through fixed housing payments — not to mention the pride of homeownership.

Collectively, Native CDFIs have supported many Native clients in becoming successful homeowners through these loan products, which would be disallowed under the proposed CDFI Certification Application and policies. This prohibition would significantly reduce the ability of Native individuals and families to achieve housing security and become homeowners. Native communities are already faced with extreme challenges in attracting mortgage lenders. Eliminating or reducing existing mortgage products offered by Native CDFIs or, even worse, reducing the number of Native CDFIs because they cannot meet certification requirements will only serve to further exacerbate the lack of capital access available to these financially and economically underserved communities.

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[https://www.cdfifund.gov/sites/cdfi/files/2022-10/CDFI\\_Certification\\_Application\\_Preview\\_Final\\_10322.pdf](https://www.cdfifund.gov/sites/cdfi/files/2022-10/CDFI_Certification_Application_Preview_Final_10322.pdf), p. 35.

The proposed changes have a negative impact on the small emerging CDFIs like MNGF making them at risk for not making certification with the CDFI fund. An emerging CDFI in the rural area, we have to be creative in the loan products we provide. We are one lending institution that provides these specific loan products and our community has not had new homes built since 1996. With these proposed requirements, we are not allowed to modify our products to fit the needs of our underserved borrowers.

These proposed changes also appear to be inconsistent with the CDFI Fund's stated commitment to "increase interagency coordination of Federal funding for Native CDFIs,"<sup>4</sup> as the changes directly conflict with the criteria, terms, and requirements of several other key sources of federal funding upon which Native CDFIs heavily rely (like the aforementioned USDA home loans several Native CDFIs utilize). *Action: We call upon the CDFI Fund to remove these prohibitions for certified Native CDFIs from the final CDFI Certification Application and policies, as they are destined to decrease the number of mortgage loans Native CDFIs can make to an already severely underserved Native population when it comes to homeownership financing, and they also threaten to cause a significant decrease in the overall number of certified Native CDFIs.*

**2. Predominance as a Financing Entity and restricting CDFI staff time dedicated to Development Services:** Under the proposed CDFI Certification changes, a CDFI applying for CDFI certification/re-certification must demonstrate the direct provision of Financial Products and/or Financial Services is the applicant's predominant business activity, which includes both assets and staff time.<sup>5</sup> We do not take issue with requiring a predominance of assets to be dedicated to financing, as this demonstrates that an entity is indeed focused primarily on financing. However, by necessity, the staff of many Native CDFIs spend considerable time providing development services such as credit repair assistance, general financial capability building trainings, and other supportive activities to prepare the communities, businesses, and individual clients they serve to grow their assets and wealth through homeownership, small business development, and consumer loans. Often the smallest loans (credit builder loans, small business microloans, etc.) – which Native CDFIs provide in abundance – require the largest investment of staff time for supportive development services to build a pipeline of qualified borrowers and ensure their immediate and long-term success. It is the very reason Native CDFIs were created, and it is what distinguishes them from traditional lenders. Under the proposed CDFI Certification Application, which requires a predominance of staff time be spent on financing, many of these NCDFIs will no longer qualify for certification.

Because we are located in a rural area, we have very limited developmental service options. This proposed CDFI Certificate change will have a huge impact on MNGFs CDFI Certification as the CDFI Fund is proposing we limit the funds we spend on providing these services to our borrowers. MNGF prides themselves on these services because as a small rural reservation

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<sup>4</sup> <https://www.cdfifund.gov/sites/cdfi/files/documents/native-american-strategic-plan.pdf>, PDF p. 5.

<sup>5</sup> [https://www.cdfifund.gov/sites/cdfi/files/2022-10/CDFI\\_Certification\\_Application\\_Preview\\_Final\\_10322.pdf](https://www.cdfifund.gov/sites/cdfi/files/2022-10/CDFI_Certification_Application_Preview_Final_10322.pdf), p. 54.

with a high unemployment rate, our community members have never had the option to attend financial literacy training, receive the TA to help guide them to financial freedom, credit building courses, creating self sustaining businesses, and building positive relationships with borrowers. No other lender in our area provides these services, our competition is predominantly non-native off reservation lenders that could care less if natives are not eligible for their loan products, work with them to be bankable or provide the TA that they need to be financially ready to start a business or become a homeowner. MNGF builds our pipelines around the borrower relationships to assure repayment, or mitigate risk. We are very limited on staff and each employee is spending a quarter of their time providing these services to our target market. The groundwork (Developmental Services) is what builds the important relationships that we so desperately need to retain our borrowers, build our financial products and services. MNGF will no longer qualify for CDFI Certification under the proposed revision if staff time is spent on financing.

*Action: Either there should be no rule stating that the predominance of staff time must be dedicated to direct financing activities, OR the Fund should maintain the most recent requirement that a majority of staff time must be dedicated to a **combination** of financing activities and Development Services.*

**3. Barring youth-based services as qualifying Development Services:** Under the proposed CDFI Certification changes, “workshops for children or broad audiences” and related types of activities would no longer be considered qualifying Development Services.<sup>6</sup> Directly responding to community needs, over three-quarters of Native CDFIs (78.57%, according to NCN’s November 2022 survey results) offer as a prominent part of their services youth-focused financial literacy trainings, entrepreneurship trainings, matched savings programs, and other programs that collectively prepare Native youth to grow their personal assets and wealth and eventually successfully utilize the loan products Native CDFIs offer. However, under the proposed CDFI Certification Application and policies, these would no longer qualify as Development Services and thus presumably could not be paid for with CDFI Financial Assistance (FA) Award dollars, which would create increased financial strain on Native CDFIs intent on continuing to provide these difference-making services. Offering youth development services help Native CDFIs build a future pipeline of qualified borrowers. For example, many Native CDFIs have offered financial literacy or entrepreneurship training to high school-aged youth. Once youth turn 18, they are eligible for a loan. A microenterprise or credit builder loan can help a young person build their financial capacity and lay the foundation for wealth building. Many of a Native CDFI’s development services do not immediately translate into a loan; clients often will complete a training and return one or two years later with the seed having previously been planted. Youth are no different in this regard. Native CDFIs provide youth development services with an eye on achieving their community development and access to affordable capital missions, as well as supporting the long-term sustainability of their organization.

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<sup>6</sup>[https://www.cdfifund.gov/sites/cdfi/files/2022-10/CDFI\\_Certification\\_Application\\_Preview\\_Final\\_10322.pdf](https://www.cdfifund.gov/sites/cdfi/files/2022-10/CDFI_Certification_Application_Preview_Final_10322.pdf), p. 79.

MNGF staff provide the necessary developmental service to high school age and young adults pursuing secondary education that have very limited financial management education. The more we educate these young adults the less our risks become as each generation is more financially aware. Prohibiting these services in the CDFI application lessens our long term-sustainability in our organization because we depend on these potential borrowers.

It is essential to be able to continue to build these critical habits for young people to build a Native CDFI's loan pipeline and help ensure future generations have the best opportunity for a healthy financial future.

*Action: Youth-based services should be counted as Development Services because they have proven to create systemic progress in the communities Native CDFIs serve and cultivate a pipeline of future borrowers.*

**4. Eliminating “unstructured conversations with consumers on Development Service matters” as a qualifying Development Service:** One-on-one technical assistance and coaching is one of the most important services a Native CDFI offers to potential and existing borrowers. Oftentimes, a client will walk into a Native CDFI office to talk about their business or financial situation. These conversations with technical assistance providers are often unstructured, but typically lead to Native CDFI staff helping the client understand the next steps in preparing to apply for or qualify for a loan. In addition, these are critical conversations to building a strong relationship with many Native CDFI clients who have been distrustful of financial institutions due to past discrimination and other issues. These relationships are critical to enhancing clients' odds of success. While we assume the Fund is not trying to eliminate one-on-one technical assistance as a qualifying development service, labeling “unstructured” versus “structured” is unclear and will create additional confusion and complexity when providing and tracking these important services. *Action: Eliminate “unstructured conversations” from the list of activities that do not qualify as Development Services.*

**5. Accountability requirements that exclude: (1) staff members of the Applicant and/or its Affiliates/Subsidiaries and their families, (2) board members with and active Financial Product from the Applicants, and (3) board members that receive financial compensation for their services (other than board service-related expenses):** The Native population is by the far the smallest of the Other Target Populations (OTP) groups. In addition, a large majority of Native CDFIs serve rural and remote areas with limited populations. These factors often make attracting qualified board members quite challenging. Excluding board members with family relations or who have an active loan with the Native CDFI whose board they are sitting on could put many Native CDFIs at risk of falling below the CDFI Fund's proposed Accountability requirements. Furthermore, Native CDFIs strive to use qualified local contractors whenever possible. Sometimes a board member is the most qualified person to perform a contracted service for the organization.

MNGF Board of Directors have shown the utmost professionalism and accountability when it comes to overseeing the business operations. Our tribal community has a little over 7000 members that live on the reservation. This proposed change will negatively impact our CDFI

because of the close relation they have with consumers. 3 out of 5 Directors will be related to at least one employee. It would be terrible if we lose the expertise of one of the Board of Directors because they are mostly related to consumers, staff and loan committee. Our Board consists of 3 entrepreneurs, an Ag producer and one past Council Member that are highly educated and serve our organization to the best of their ability. MNGF strongly recommends removing this provision.

Most Native CDFIs have developed and follow strong conflict of interest policies to address these issues while still allowing for the most qualified individuals to serve in important board and staff positions.

*Action: Exempt Native CDFIs from these Accountability exclusions.*

**6. Requiring the submission of a board-approved strategic plan evidencing a community development strategy:** Under the proposed CDFI Certification changes, a board-approved strategic plan will be required for all Native CDFIs applying for certification/re-certification.<sup>7</sup> Developing and ratifying strategic plans are time-consuming and expensive, especially for small and emerging Native CDFIs who have limited staff and institutional capacity and financial resources and who are stretched thin prioritizing the delivery of mission-critical services.

*Action: Drop this requirement for Native CDFIs given the undue burden it will place on many capacity challenged Native CDFIs.*

## **Closing**

Montana Native Growth Fund shares the CDFI Fund's unerring commitment to creating ample and fair access to capital and resources for Native people, primarily those in low-income communities. We applaud the Fund's desire to strengthen and clarify the Certification/Recertification process, as well as many of the proposed changes. We ask the Fund to please give serious consideration to the issues we have addressed above. Without the changes we have requested, many emerging and existing Native CDFIs will no longer qualify for certification, creating a significant setback in the transformative progress the Native CDFI industry and the CDFI Fund have been able to achieve over the last two decades. We appreciate your dedication to the work we do and look forward to continuing to work with the Fund to ensure that the new CDFI Certification Application explicitly enhances the ability of Native CDFIs to secure investment capital and do difference-making work in Native communities, and underserved people and communities across the country.

Sincerely,

Kerry Shabi

MNGF Business Development Supervisor

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<sup>7</sup>[https://www.cdfifund.gov/sites/cdfi/files/2022-10/CDFI\\_Certification\\_Application\\_Preview\\_Final\\_10322.pdf](https://www.cdfifund.gov/sites/cdfi/files/2022-10/CDFI_Certification_Application_Preview_Final_10322.pdf), p. 34.

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