

December 5, 2022

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

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

Dear Director Harris and CDFI Fund staff:

[Communities Unlimited](#) (CU), member of the [Partners for Rural Transformation](#) (PRT), welcomes this opportunity to provide comment on the [CDFI Certification Application \(OMB Control Number: 1559–0028\)](#). As a CDFI with three distinct portfolios that fill gaps left by traditional lending institutions in rural and persistently poor communities, we are greatly concerned with some of the requirements in the new CDFI Certification Application. Our goal is to expand economic opportunities for underserved people and communities by providing access to the capital they need to prosper. We are one of two CDFIs in the country that make loans to address rural water/wastewater needs. Our small business lending focuses on working capital and start up loans predominantly to entrepreneurs of color. Our small dollar consumer loans help families in persistently poor communities make home improvements, and address issues with their private wells and septic systems. We work on building capacity in rural communities to make borrowers loan ready and position them for sustainability so they can repay the loans over time. CU applauds the Biden administration's [executive order](#) regarding Biden's commitment to eliminating persistent poverty and dedication to approaching historically underserved communities with an equity lens.

In careful review of the proposed changes to the CDFI Fund Certification Application, CU is very concerned about how these changes will dramatically impact our ability to serve persistently poor rural communities. These communities have few finance entities and sometimes only have access to a bank (if that community has access to one) who may not be able to serve them, or a predatory lender. According to [Belury \(2020\)](#), predatory lenders are disproportionately found in low-income communities, Native and rural areas, and communities of color, especially in Texas Colonias. Predatory lenders are found more in areas with a lack of access to traditional financial institutions, which could be a growing potential concern if there are less CDFIs in these areas to fill the gaps of financial entities. At CU we live in and serve persistently poor rural communities, and communities of color. CDFIs serving these areas are filling gaps in the market, either being the only financial institution in a desert, or being the only finance entity that addresses lending with an equity lens, emphasizing empowerment and community development. This is critical for persistent poverty communities, as lending and investing money alone is not enough; building capacity along with lending is equalizing and necessary.

CU shares the CDFI Fund's commitment to creating ample and fair access to capital and resources for communities in persistent poverty areas. 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 address below. Without the changes we have requested many CDFI members, including ourselves, who have decades of direct experience lending to the communities hardest to reach will no longer qualify for certification, creating a significant setback in the transformative progress we have been able to achieve. 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 CDFIs serving regions with a high prevalence of rural persistent poverty continue to secure investment capital and provide much needed services to underserved people and communities across the country.

The Troubling Proposed Changes to the CDFI Certification Application

1. **Predominance as a Financing Entity and restricting CDFI staff time dedicated to Development Services:**

*Recommended Action: Maintain the most recent requirement that a majority of staff time must be dedicated to a **combination** of financing activities and Development Services.*

We understand that this may also be a regulatory issue, but we must draw your attention to the fact that this requirement penalizes CDFI's achieving the CDFI Fund's stated goal of "provide the flexibility necessary for CDFIs to grow and to serve the hardest to reach distressed communities." A CDFI applying for re-certification must demonstrate the direct provision of Financial Products and/or Financial Services as the applicant's *predominant* business activity, which includes both assets and staff time. 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 CDFIs, like Communities Unlimited, spend considerable time providing development services such as leadership building, general financial capability building trainings, and other supportive activities to prepare the communities, businesses, and individual clients they serve to become loan ready. In a persistent poverty environment providing only capital will never create the change needed to move a community toward prosperity.

Often the smallest loans (consumer small dollar loans, small business microloans, etc.) – which Communities Unlimited 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. True capacity building in persistently poor communities will always take more staff time than underwriting individual loans.

Capacity building, which is essential to lending and loan success, might not lead to an immediate initial loan within the same period, but ensures overall success of the community and lenders. Building a local leadership team in a persistently poor community in one year leads to loans in the second and third year

of our engagement. This long-term community capacity investment leads to successful communities that can grow sustainably and out of persistent poverty.

In the affordable housing industry, it is fully accepted that successful mortgage loans to low-income families require home buyer education. The same principle holds true for community leadership teams, water and waste water system boards, and technology task forces working on improving broadband.

CDFIs committed to persistently poor and tribal communities should not be penalized for doing the very work necessary to deploy capital and move communities, small businesses, and families toward prosperity.

2. Prohibiting interest-only mortgage loans, mortgage loans with balloon payments, and mortgage loans with terms longer than 30 years:

Recommended Action: Remove these prohibitions for certified CDFIs from the final CDFI Certification Application and policies, as they decrease the number of mortgage loans CDFIs can make to an already severely underserved population and threatens to cause a significant decrease in the overall number of certified CDFIs.

Under the proposed CDFI Certification changes, CDFIs will now have to write mortgages with an original maximum term of 30 years. This stands in direct contrast to the USDA 502 program which allows lenders to utilize terms up to 38 years to make monthly payments more affordable for low-income families. Communities Unlimited launched its new rural housing strategy in September of 2022. We will begin making mortgages in 2023 and are exploring the USDA 502 program given our target market in persistent poverty counties. This lack of alignment between the CDFI Fund and USDA contradicts the Biden Administration's work for greater alignment and coordination between agencies, particularly those benefitting rural communities.

Limiting mortgage terms to 30 years would significantly reduce the ability of individuals and families in persistently poor rural areas to achieve housing security and become homeowners. These communities are already faced with extreme challenges in attracting mortgage lenders. Eliminating or reducing existing mortgage products offered by CDFIs or, even worse, reducing the number of 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.

3. Waiver Process

Recommended Action: Implement an expedited and streamlined waiver process that makes the CDFI Fund and its resources accessible to existing CDFIs working in the “hardest to reach, distressed communities” but now locked out by one or more new requirements of the recertification process.

Losing CDFI Certification can be the death nail for small CDFIs and large ones serving particularly distressed rural communities where loan transaction costs are higher than in urban, low-to-middle income communities. We ask that the CDFI Fund develop and publish a streamlined waiver process for CDFIs that recognize during the recertification process that they may not immediately meet one or more of the new requirements. We ask for consideration of permanent waivers where changes in organizational structures and processes are not feasible as well as temporary waivers to allow organizations to come into compliance with new regulations over the pre-determined period of time.

At Communities Unlimited, we respect and appreciate the CDFI Fund’s recertification process to ensure that the CDFI industry aligns with its original purpose of filling the gap left by highly regulated and consolidating banking institutions that left our rural communities decades ago. The purpose of recertification, however, cannot be to lock out the very CDFIs that reach the unbanked, individuals with low net-worth, those living in persistently poor places where opportunities and basic amenities are limited and individuals subject to institutional racism.

We respectfully ask you and your team to consider the recommendations above in addition to those made by the Partners for Rural Transformation, the Native CDFI Network and the Opportunity Finance Network to ensure that the CDFI Fund’s resources lead to greater equity in access to capital in our country. We very much appreciate your partnership in this effort.

Sincerely,



Ines Polonius

Chief Executive Officer

Communities Unlimited, Inc.