

New Covenant Dominion Federal Credit Union

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November 1, 2020

Tanya McInnis
Program Manager, Office of Certification, Compliance, Monitoring and Evaluation
CDFI Fund
Department of Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Email: ccme@cdfi.treas.gov

Subj: Comments on Proposed Changes to CDFI Certification Application

Dear Ms. McInnis:

On behalf of New Covenant Dominion Federal Credit Union, I would like to thank you for this opportunity to submit comments on the Notice of Information Collection and Request for Public Comment published by the CDFI Fund in the Federal Register on May 7, 2020. As a certified CDFI serving 350 members in the South Bronx, NYC, we support this effort to establish an efficient path to CDFI certification for eligible institutions and establish clear, strong and consistent standards. Unfortunately, the application proposed by the CDFI Fund would not achieve these objectives. An effective Certification application should serve as a gateway that facilitates entry for eligible institutions and denies entry to those that are not, but the proposed application erects significant and costly barriers that would dissuade and exclude many highly committed and fully qualified CDFI credit unions. Without fundamental changes, the proposed application would encourage an exodus of credit unions from the ranks of certified institutions, depriving the CDFI movement of irreplaceable sources of capital, innovation, and community impact.

Our concerns are rooted in our identity. First, as an insured depository subject to rigorous regulatory standards, intensive examination and public reporting, New Covenant Dominion Federal Credit Union is concerned that the proposed application creates a parallel, quasi-regulatory process that ignores the clear parameters already established by our actual regulators. Second, as a credit union, we are disheartened by numerous elements that ignore or misunderstand fundamental characteristics of our legal and operational structure. Finally, as a CDFI and member of Inclusiv, we share a concern that the proposed changes would make CDFI certification too costly for the vast majority of eligible credit unions, with a disproportionate impact on those that serve rural and minority communities. As a result, we strongly support Inclusiv's call for a fundamental redesign of the proposed certification application based on the comments collected during this period and also with substantive consultation with the CDFI field during the redesign process itself.

The examples below will demonstrate some of the reasons why we believe such a fundamental overhaul is warranted:

- The proposed **Basic Information** section includes ten questions that ask credit unions to demonstrate that our governing boards are democratically elected by our members. Since every credit union¹ is required by law to have governing boards that are democratically elected by members, these questions reflect a basic lack of understanding of the credit union model.

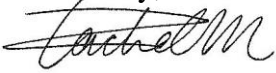
¹ This applies equally to every state-chartered and federally-chartered credit union, including *cooperativas* chartered by COSSEC in Puerto Rico

- The proposed **Accountability** section amplifies this fundamental misunderstanding by only recognizing the accountability of our democratically elected boards for narrowly defined target markets that make up more than 50% of our members. In the private sector more than 50% of voting shares is defined as a “controlling interest” and activist investors often change corporate boards with just 4% of the voting shares. Since credit union boards are democratically elected on the basis of one-member, one-vote, our boards are directly accountable to all of our members, not just a segment with a controlling interest. The provision for “special” accountability should be available to any CDFI with a board that is democratically elected by the people they serve, and should confer automatic accountability on any credit union or other democratically governed institution that meets the Target Market requirement for certification. In addition, as Diversity, Equity and Inclusion (DEI) has been adopted as the 8th Cooperative Principle for all credit unions, we support Inclusiv’s proposal to add a question regarding institutional plans to promote and sustain DEI.
- The proposed **Primary Mission** section fails to recognize that credit unions and other regulated CDFIs already operate within strict parameters imposed by our regulators and CFPB to safeguard against predatory products and practices. Instead, the section requires a virtually endless series of questions with drop-down answers and descriptive narratives on each and every financial product and financial service we provide. These questions often use non-standard terminology and provide limited drop-down options that would distort any understanding of the wide array of credit union products and services, which are subject to vigorous and ongoing innovation and expansion across our industry.
- The proposed **Target Market** section would lower the Target Market threshold for loans to 50% for Insured Depositories provided that more than 60% of “financial services” are in CDFI Target Markets. We support this effort to recognize the special obligation of depositories to diversify risk across markets. However, the proposal to count financial services as *number of accounts* is fatally biased, since wealthier members will always have many more savings, money market, investment, IRA Keogh and other accounts than our low-income members. Indeed, many of our lowest-income members only have basic share or share draft accounts that give them access to the check-cashing, money order, bill-pay and other transaction services they depend on most heavily. In other words, contrary to the democratic ethos of credit unions, the CDFI Fund proposes to measure financial services by counting our wealthier members many more times than our lower income members. We strongly support the Inclusiv proposal to use a straightforward count of unique credit union members as a more accurate proxy indicator for financial services.
- The proposed **Development Services** section adds inflexible requirements that rule out many of the most effective educational, counseling and coaching services we provide to our members. For example, the CDFI Fund proposes to eliminate consideration of any one-on-one support provided in conjunction with a product or service. This ignores considerable research – including recent work by Inclusiv and CFSI -- that challenge the effectiveness of stand-alone financial education and counseling and instead emphasize the importance and positive impact of delivering key messages at “teachable moments,” in conjunction with appropriate products and services. In a sense, the CDFI Fund has proposed that meaningful driver training only takes place in a classroom, and anything delivered behind the wheel simply doesn’t matter.
- The proposed **Legal Entity** section continues to rely on copies of historic documents to confirm the legal status of each CDFI. The cumbersome collection and review of old documents does not establish whether an entity is both legal and currently active, but there is a readily available federal system that does. We support Inclusiv’s proposal to use registration with SAM.GOV to meet the legal entity requirement for certification. In addition to efficiently addressing the legal entity requirement, SAM registration would ensure that every CDFI is ready to participate in CDFI Program funding rounds as soon as they are certified.

New Covenant Dominion Federal Credit Union is proud of our status as a certified CDFI and strongly supports the goals of the CDFI movement. We believe changes to the CDFI Certification Application are needed to more sharply define our field. But these changes must be done with care and consideration of the complex and committed institutions that make up our movement. New Covenant Dominion Federal Credit Union hopes that our comments will help the CDFI Fund in a comprehensive and consultative redesign of the certification application. We look forward to participating in that process.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Rachel M", written over a horizontal line.

Rachel Macarthy

Acting CEO

New Covenant Dominion Federal Credit Union

Copies: Jodie Harris, Director, CDFI Fund (HarrisJ@cdfi.treas.gov)
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