

May 12, 2023

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Dear Ms. Patel,

We want to thank you for this thoughtful, deep dive into the CDFI Fund's Financial Assistance (FA) and Technical Assistance (TA) programs FY 2023–FY 2025 funding rounds. We also want to thank you for inviting the CDFI industry's input into your consideration of restructuring these programs (Federal Register Notice FR Doc. 2023–04348).

We, the undersigned, are CDFI Consultants. Collectively, we work with more than 200 CDFIs and Emerging CDFIs throughout the country. We have helped our clients successfully develop hundreds of CDFI Program funding applications. We have decades of experience working with a wide variety of CDFIs and several of us have worked at the CDFI Fund. Our comments and recommendations draw on our experience and conversation with our CDFI clients about the important impact and unique, specific ways that CDFIs and the CDFI industry use and leverage CDFI awards.

Before responding to your specific questions, we want to highlight four philosophical underpinnings that are the basis of all our comments:

1. Flexibility Supports Diversity, Innovation and Impact

The CDFI industry is as varied as the needs of the underserved markets that each CDFI serves. The FA/TA/NACA programs historically have recognized this diversity in their design by allowing CDFIs to define their own methods and measures for creating impact, and by allowing for flexibility in the uses of the awards.

While it is appropriate for some CDFIs to grow, continually expand into new geographies, and increase their self-sufficiency, the strength of other CDFIs is their ability to stay small and serve their local market by leveraging philanthropic, tribal, government, and private funding to deliver affordable (below market) financial products and high-touch development services that will never be profitable and will always require subsidy.

We believe any highly prescriptive, one-size-fits all approach to underwriting CDFIs will harm segments of the industry, stifle innovation, and reduce impact in the most deeply underserved communities. We cannot express more emphatically the importance of the CDFI Fund to

maintain flexibility and offer each CDFI the agency to apply for the funds they need when they need them.

2. Take a Measured Approach to Self-Sufficiency and Leverage

The Fund appears to be working from the assumption that self-sufficiency and high leverage are achievable and desirable for all CDFIs. After years of working with CDFIs of all sizes and stages of development – from local start-ups to national CDFIs with multiple offices, we believe these ideas are a fallacy and counterproductive. The mission of most CDFIs is to deliver affordable financing where markets fail to deliver – e.g. to small businesses and consumers that traditional lenders consider too risky or where the only options are non-CDFI sources of financing is predatory.

As one of the most flexible sources of capital available to CDFIs, FA is an important source of equity and loan capital for both large and small CDFIs. For most CDFIs, particularly loan funds, it is not simply a tool that is needed only on a temporary basis until they reach self-sufficiency, but rather a flexible source of funding that meets ongoing needs in low income, underserved communities.

Not all CDFIs can achieve self-sufficiency, regardless of their scale. Many CDFIs - particularly those making relatively small loans - simply cannot generate the fee or net interest income necessary to cover all of their administrative costs. Organizations that offer extensive development services - or other non-lending activities in support of their community development mission - typically rely on grants to fund many of those non-lending expenses. Given the wide variety of CDFIs and business models - one of the strengths of the industry - it is unrealistic to expect universal self-sufficiency. Therefore, we strongly oppose any net asset or self-sufficiency standard.

We recommend that the CDFI Fund avoid reliance on a few metrics, such as Net Asset Ratio and Private Leverage, as indicators of the effective use of resources and continue to honor the diverse business models innovated by CDFIs to respond to need. See response to Net Assets on page 17 for further details.

3. Limit Data Collection Burdens

We are concerned about the increased burden, particularly on small and Native CDFIs, to track the additional data the Fund is proposing on top of the staff time necessary to manage the Fund's current data points.

Also, many CDFIs do not lend directly to individuals, but to businesses and organizations. Requiring CDFIs to provide detailed demographic and socio-economic data on the ultimate beneficiaries of the CDFIs' financing is often not practical. The CDFIs must rely on the borrowers for that data, and many borrowers do not have the capacity to track that information.

4. Low-Income Targeted Population (LITP) and Other Targeted Populations (OTP) Members Are Underserved Regardless of Their Address

While some CDFIs have place-based business strategies, many CDFIs lend primarily, or exclusively, in support of people-based Target Markets – low-income individuals and/or OTPs. OTPs exist because members consistently experience lending discrimination regardless of their credit score, income, or geographic location. Multiple research findings reconfirm this reality on a regular basis. It is important that the Fund continues to support CDFIs that serve LITPs and OTPs regardless of the borrower’s address.

Longer Review Period: Additionally, we would also like to advocate for an extended 10-week application period instead of the standard 8-week application period for the upcoming funding round given the added planning time to adjust to an altered application and combination of funding rounds.

CDFI Program - Financial Assistance and Technical Assistance Program Application Questions

A. Financial Assistance (FA) Application

1. Is the information that is proposed to be collected by the Application necessary and appropriate for the CDFI Fund to consider for the purpose of making award decisions?

The information the Fund has historically collected seems to be relevant and important. The additional census tract level and beneficiary data does not appear necessary or practical as many CDFIs already need to estimate beneficiary data (and most will not be able to provide the level of detail requested of the ultimate beneficiaries.

2. Are certain data fields, questions or tables redundant or unnecessary? If yes, which ones and why?
 - New Question 11 – We do not support this question and generally recommend deleting it. We do not believe that it will provide meaningful information to help reviewers distinguish the quality of operations of an established CDFI. The Fund seems to assume (rightfully, in our opinion) that FA applicants already have established policies and procedures are appropriate for their organization. Additionally, policies and procedures are addressed in the compliance questionnaire. Arguably the entirety of a CDFI’s policies and procedures are in place to help meet its strategic goals. It could make sense as an optional question if a CDFI has added a new product, a new geography, or significantly increased volume and they want to demonstrate that they have thought this change through effectively. The question makes sense in the TA Application as it is relevant to start-ups and emerging CDFIs.

- Question 14 - Staff Production Goals - seems somewhat redundant, given that the applicant already has to provide biographical sketches and resumes for key personnel - those that will be involved in implementing the strategy set forth in the application. We recommend deleting Q14.
 - Question 13 inquires about how receiving an award would enhance the applicant's capacity to accomplish its strategic objectives. We recommend updating this question to help the CDFI Fund answer its questions on Need for CDFI Funds/Sustainability/Net Assets as described below.
3. Should any data fields, questions or tables be added to ensure the collection of relevant information?

We recommend the following:

- There is no place for a CDFI to introduce its track record, mission, focus, and reason for being. One option is to add an Executive Summary. Another option is to provide space in Question 2 and increase the characters to 5,000 and encourage applicants to use this question for this introduction language.
- We would support updating Q13 and/or adding a Narrative Question, or three small questions, that asks applicants to discuss their business model with respect to Sustainability, Sufficiency and Leverage, and make the case for why a CDFI award would strengthen their impact. This narrative might also be used to discuss how a CDFI innovates and creates impact while still funding core work.
- New Question - We would support the addition of an optional Narrative Question to explain any nuances/special features of its organizational structure, financial statements, etc. For example, one of our clients is a real estate investment trust (REIT), and its financial statements are very different from those of a typical loan fund. Similarly, there are organizations that have subsidiary entities (loan funds, joint ventures, etc.) consolidated with the parents' financial statements, and some of those consolidated entities have effects that can skew the CDFI applicant's numbers.
- Loan Portfolio Data - Add a line to the loan portfolio table showing the historic commitment of loan volume to the Fund's other funding sources – RRP, ERP, CMF, PPC-FA, DF-FA, HFFI, and SDLP. Currently, the guidance asks applicants to subtract only PPC-FA from the applicant's track record. This made sense when PPC-FA was the only other funding source, but CDFIs are now committing loan volume to multiple other programs.
- Add space for Interest Rate, term (months), and fees info in the product table.

4. Are there requests for data in the Application that Applicants do not have readily available and that are burdensome to obtain and/or calculate?

As stated above, beneficiary data is difficult, often impossible, to obtain. The vast majority of CDFIs estimate their beneficiary data as multiples of their borrower data. Even basic data such as job creation, number of employees, or employee wage data (for small business lenders) can be challenging to collect on a consistent basis.

Similarly, asking CDFIs that primarily serve LITP and OTPs to provide census tract data is not relevant.

5. Are any of the questions particularly burdensome or difficult to answer? If yes, which ones and why?

See above response to Q4 addressing the burden imposed by requiring beneficiary data

6. Are there questions that lack clarity as to intent or purpose? If yes, which questions, and what needs to be clarified in order for Applicants to provide a comprehensive response?

The current Question 9, in which applicants are asked to discuss the impact of their products and services, too often results in organizations focusing more on a description of the products and services they offer with comparatively little discussion of the actual outcomes and impacts they have generated. The additions to the product table (see above), with an accompanying reference in Q9, would eliminate the need for the applicant to use valuable character space for product descriptions. The response here could then focus much more on how the CDFI has generated impact and what those impacts have been.

7. Are the character limitations for narrative responses appropriate? Should certain questions allow additional or fewer characters? If yes, please specify.

- Question 2 - Demographic Information - It is a struggle to do justice to explain the CDFI's unique mission and why it needs to exist to serve its Target Market and critical background information to describe the economic distress, needs and challenges of its market with just 2,000 characters. We recommend not decreasing the count to 1,000 characters but increasing the character count to 5,000 characters.
- We support the elimination of Question 8a Community Coordination but recommend expanding the character count of Question 8b to 4,000 characters to provide CDFIs space to discuss existing and proposed activities on how the CDFI collaborates and partners with key public, private, philanthropic, and/or nonprofit actors to carry out its proposed activities and achieve its desired outcomes.

- It would be helpful if the character counts in AMIS matched the character counts stated in the application. Applicants spend too much time cutting back their responses by 50-100 characters as they enter the narrative from Word/Google into AMIS.
 - Question 10 - Market Trends - We recommend increasing the number of available characters to 3,250; the current 2,000 characters are insufficient to describe relevant trends.
9. *Business Plan.* In general, does the data and information requested in the Application allow an Applicant to demonstrate its ability to explain its business plan and ability to meet the FA Objectives described in the Application?
- Not as proposed. The Fund needs to keep space in Question 2 or add an Executive Summary, as described above.
 - For fast-growing CDFIs, particularly SECA applicants, the CDFI Fund’s use of “most recent audited financials” with respect to Asset Size, Outstanding Portfolio and Loans Closed results in data that can be as much as 16 months old and does not reflect the current size, status, capacity and need of the CDFIs. SECA applicants, in particular, should have the option to present their most recent fiscal year end for application and award size purposes.
10. *Business Plan.* Is the data and information requested in the Application to assess the business plan adequate to assess the different CDFI activities?
- Allow for a more localized definition of a “new market” to include municipalities, neighborhoods, and census tracts or groups of census tracts under FA Objective 1–3: New Geographic Area(s). Currently, the Fund will not accept anything smaller than a county as a new market. That’s too broad for the many CDFIs that are focused on much smaller areas (e.g., regions within a state, neighborhoods within a city, a reservation etc.). We propose that a new market can be as small as a neighborhood, provided that the CDFI can reasonably define that neighborhood in terms of specific census tracts. Urban CDFIs, for instance, seek support to expand their activities into new neighborhoods — which, in metro areas like Chicago and Los Angeles, can have populations of 75,000 or more. Similarly, CDFIs may need to expand into previously un(der)served municipalities within their existing target market. Under the current program rules, this expansion could not be considered a “new market”. We recommend that as long as the “new” market can be easily quantified/designated using census tracts, both the CDFI and the Fund should be able to generate the relevant documentation.
 - Add an FA Objective option for an expansion of an existing product. Right now, the Fund considers only an overall expansion of lending activity and/or the development of a

“new” product. Yet many CDFIs are not in a position where they can grow their overall activity, nor is there need for a new product. As a result, some housing lending CDFIs are pivoting and allocating more resources to existing underutilized products (home improvement loans instead of home purchase loans, for example). Yet these CDFIs often don’t have enough resources to grow these products and they represent too large a proportion of the CDFIs’ recent activity to qualify as “new” products. Allowing organizations to focus on growing specific product areas instead of growing overall activity would be highly beneficial.

11. *Business Plan.* What, if any, additional data and information should be collected to assess business plan activities?

Per above, we recommend expanding Q13 and/or adding new question(s) that enable a CDFI to discuss their business model with respect to Sustainability, Leverage and Net Assets.

12. *Beneficiary Data.*

- a. The CDFI Fund is proposing to request beneficiary data separately for
(1) Financial Products/Financial Services and
(2) Development Services to provide a more accurate depiction of beneficiaries served. Is this appropriate? If not, why not?
Will this proposed change be difficult or overly burdensome to report?

We do not believe requesting additional Beneficiary data is either helpful or feasible. The current Beneficiary Data fields are currently difficult to report and most CDFIs have historically estimated beneficiary data. The proposed data would be overly burdensome. If the Fund wants reliable data, it would be better to ask for demographic data about borrowers and DS clients. For example, most CDFIs only collect necessary LITP data to confirm LITP eligible market lending. CDFIs not serving an LITP do not collect AMI data on their borrowers. Few CDFIs collect multiple LI categories (LI, VLI, ELI) requested in the beneficiary table for their borrowers, let alone for beneficiaries beyond their direct clients.

- b. The CDFI Fund is considering to request beneficiary data projections for the three year Period of Performance to help assess the impact of an Applicant’s proposed activity with the FA award. Will this proposed data collection be difficult or overly burdensome to report?

Yes, we strongly believe this data collection would be difficult and overly burdensome to report. It is difficult and overly burdensome to collect beneficiary data for the previous year let alone multiple historic years and projected years. The data the CDFI Fund would receive would likely continue to be general estimates. We strongly recommend that the Fund ask CDFIs to provide the appropriate impact data relevant to their lending.

14. *FA Objectives*. Currently, to select FAO 1–1: Increase Volume of Financial Products, an Applicant’s three years of projected lending activity must exceed its historic three years of lending activity plus the FA award amount (“Increase in Volume”). If a multiplier of the award plus three years of historic lending is not appropriate, why is it not an appropriate formula and what should the formula be?

- We strongly recommend that the CDFI Fund discontinue tying the FA-Base PG&M to a CDFI’s 3-year historical track record and offer a PG&M for FA-Base based on the award amount (with or without a multiplier) for all Objectives. We also recommend that FA-Base PG&M be unique to each award.

The current CDFI funding and operating environment is much different than it was 5 years ago when the CDFI Fund introduced the FA-Base PG&M that CDFIs requiring a CDFI to exceed their historical three year lending by at least the award amount. Continuing with this requirement is not relevant to the current CDFI financing and funding environment. Many CDFIs launched new specific “COVID Response” products in the last 3 years (PPP and products funded by RRP and other private sources). In the next 5 years, CDFIs will launch and deliver new ERP-funded products. Requiring a CDFI to continually increase its annual lending does not account for the need for a CDFI to respond in specific years with specific products. The CDFI Fund guidance in FY2022, that a CDFI could account for this by “backing-out” from its historical Loans Closed in their Loan Portfolio charts loans closed to meet the PG&M of other CDFI Fund awards (PPC, DF, RRP, SDLP) was not practical as it is not feasible to reduce Loans Closed while still showing the actual Outstanding Portfolio and Loan Loss Reserve presented in the audited Financial Statements without major explanations and a new narrative question.

We also note that the current PG&M that ties FA projections to historical 3-year lending and asks CDFIs to count the same loans across multiple FA-Base awards with overlapping award years is very confusing to CDFIs. It is much clearer if every CDFI Award comes with its unique set of PG&Ms given the expanding number of different CDFI awards PG&Ms (PPC, DF, SDLP, RRP, ERP, CMF, etc.) We recommend that FA-Base PG&M align with all other awards – that it is tied to the award size and each loan goes to one award.

- We request accommodation for CDFIs that dramatically increased their lending in response to the pandemic in 2020 and 2021 to such a degree that it is unrealistic for them to continue performing at this level of loan volume. We ask the Fund to accommodate this reality until their 2021 loan volume ages off the historic lending chart with the previously used conditional question that popped up if a CDFI selected FAO 1-1: Increase Loan Volume but did not meet Floor #1.

If yes, should the CDFI Fund require a standard multiplier or allow Applicants to propose their own multiplier as part of the Application?

While we are concerned that the multiplier would become a competitive issue that would benefit fast-growing CDFIs, we recommend the CDFI Fund provide flexibility and not be prescriptive with a one-size-fits-all approach to the multiplier. CDFIs need flexibility to be able to create impact and serve their clients and borrowers.

If a standard multiplier, what should the multiplier be?

We recommend a multiplier of the award, not the award plus historic lending. Go back to the way this used to be done with FA, the way RRP, ERP, and CMF do it – the PG&M is to deploy the award. Under this proposal, we would support a multiplier – 1x the award for SECA and 2x the award for Core.

B. Technical Assistance (TA) Application

2. Are certain data fields, questions or tables redundant or unnecessary? If yes, which ones and why?

- The target market question in part 2 is repetitive with the previous question (about strategic goals) and the Target Market question in Part 1. We recommend making this question apply only to certified CDFIs and focusing it solely on the Target Market (remove the strategic goals portion of the question) and dramatically increase the character limit to 5,000 characters.
- Question 10 is repetitive. This concept is amply covered in the compliance review.

3. Should any data fields, questions or tables be added to ensure collection of relevant information?

Yes, the application needs an Executive Summary or space in Question 2 to offer background on the applicant.

4. Are there requests for data in the Application that Applicants do not have readily available or that are burdensome to obtain and/or calculate?

No

5. Are any of the questions particularly burdensome or difficult to answer? If yes, which ones and why?

No

6. Are there questions that lack clarity as to intent or purpose? If yes, which questions, and what needs to be clarified in order for Applicants to provide a comprehensive response?

Yes, it is hard to determine where to discuss the applicant's products – in Question 1 – Primary Mission, or in Question 2 – Financing Entity. Please provide clearer guidance.

7. Are the character limitations for narrative responses appropriate? Should certain questions allow additional or fewer characters? If so, please specify.

The character count for Question 2, Section 2 for Certified CDFIs to address their strategic goals and the needs and challenges of their market in 1,500 characters is woefully inadequate. We recommend at least 3,000 characters.

9. *Evaluation Criteria by Application Type.* Do the questions in the TA Application allow the Applicant to clearly address the evaluation criteria for the following Applicant types? If no, what additional information should be included in the Application for each Applicant type?
- An Emerging and Certifiable CDFI and its ability to achieve certification;

Yes

- A Sponsoring Entity and its ability to create and receive certification for a new CDFI;

We support the response provided by Native CDFI Network and other Native CDFI thought leaders.

- A Certified CDFI and its ability to build its capacity to expand operations, offer new products or services, or increase the volume of current business?

Yes

11. *Eligible Uses of Funds.* Does the current TA Application, related guidance materials, and NOFAs provide sufficient clarity to help potential Applicants clearly understand what are, and are not, eligible uses of TA funds?

Yes

12. *Ability to Serve Native Communities.* Should the CDFI Fund adjust its TA Application in order to better collect information and evaluate an Applicant's ability to serve the unique needs of Native Communities?

We support the response provided by Native CDFI Network and other Native CDFI thought leaders.

13. *Sponsoring Entities.*

- a. What questions should the Application include in order to better assess a Sponsoring Entity's ability to successfully create an emerging CDFI within one year and ensure that the emerging CDFI achieves CDFI Certification within four years?

We support the response provided by Native CDFI Network and other Native CDFI thought leaders.

- b. Should the CDFI Fund require Sponsoring Entities to create the new legal entity that will become the Certified CDFI before being eligible to receive a NACA TA award?

We support the response provided by Native CDFI Network and other Native CDFI thought leaders.

F. Other CDFI Program and NACA Program-Related Topics and Considerations

1. *Measuring Economic Distress.* The CDFI Fund is considering developing place-based indicators to measure economic distress in the communities where CDFIs invest their dollars at the census tract level.

- It would be useful to have guidance as to how and where these proposed measures would be used in the application and/or the evaluation criteria.
- We are concerned that if award decisions/scoring is linked to these economic distress criteria, which are primarily place based, it would disadvantage CDFIs with people-based strategies (LITP and OTPs), including CDFIs helping LITP and OTP thrive in high income/high cost areas that often offer better schools, health services, parks and other amenities.
- For CDFIs that do not have investment area Target Markets, they are both unlikely to gather the proposed place-based Economic Distress data as it is not relevant to collect.
- Additional data collection and reporting would only increase the reporting burden for CDFIs, which would negatively impact smaller CDFIs, many of which are serving the most marginalized markets the CDFI Fund is trying to reach.

a. Are the following indicators appropriate to measure track record of serving economically distressed communities/populations? What, if any, other metrics should be used to measure the level of economic distress of communities/populations served?

i. *Median Family Income (MFI):*

ii. *Unemployment Rate:*

iii. *Poverty Rates:*

iv. *Historical Poverty:* An average of the poverty rates of people living in the census tract in the most current and previous two decennial censuses for the census tract.

We support the addition of census tracts that meet the PPC criteria (30 years of poverty over 20%) at the census tract level. This would elevate the impact of urban CDFIs in large cities like Detroit, Chicago, NYC, and LA. For example, Wayne County, MI does not qualify as a PPC, but the City of Detroit has many census tracts that meet the PPC criteria. By allowing urban CDFIs to drill down to the tract level, they can demonstrate their work in neighborhoods experiencing generational poverty.

v. *Percentage of Other Targeted Populations residing in the underlying census tracts:*

We have a philosophical issue with using the percentage of BIPOC residents as a proxy for distress. However, we support incentivizing investment into tracts with a higher percentage of BIPOC residents as it may be a way to incentivize deeper impact. The other measures (MFI, Unemployment Rate, Poverty Rate, Historic Poverty) are better indicators of distress.

- b. For CDFIs with Low Income Target Population or Other Targeted Population Target Markets, are the indicators listed above appropriate to measure the track record of serving economically distressed communities/populations?

No, we do not need to apply additional, place-based metrics to Low-Income and BIPOC borrowers. Targeted Population lending is about the people that historically lack access to capital, not the place.

What, if any, other metrics should be used to measure the level of economic distress of communities/populations served?

We have enough measures, additional required measures are not needed.

2. *Deep Impact Lending.*

- a. Please provide input on the proposed definitions/metrics to qualify as “deep impact” lending. Are the following definitions appropriate to measure “deep impact” lending/investment for CDFIs?

ECIP was a program open to all depository institutions and Deep Impact was used to incentivize non-CDFI Banks and Credit Unions to do deeper lending. CDFIs already do “deep impact lending” and the ECIP “Deep Impact” metrics should not be used to evaluate CDFI applicants. This is a programmatic mismatch of intent.

i. Lending/investment to Low-Income Borrowers.

LITP is already a defined CDFI eligible market. (Unlike ECIP which distinguished between lending to Moderate Income (Qualified Lending) and Low-Income (Deep Lending). A large number of CDFIs already serve borrowers that are low-income.

ii. Mortgage Lending to Other Targeted Populations.

OTP is already a defined CDFI eligible market. We do not recommend making a distinction between the type of financial product - we believe all mortgage, consumer and small business loans to OTP borrowers is deep impact lending. Mortgage lending was specified in ECIP because while Depositories can (and must) collect race data for Mortgages they do not (and cannot) collect this data for consumer lending.

Further, based on the Fund’s analysis of the lending FA Awardees completed in 2020, the VAST majority of mortgage loans were originated by CDFI banks (4,975 mortgages from banks, 967 mortgages from loan funds, 607 mortgages from credit unions). Therefore, this measure strongly favors CDFI banks and we recommend not including it in the FA application.

iii. *Lending/investment in Persistent Poverty Counties (PPC):*

The FA program already incentivizes PPC lending with a FA-PPC set aside and requires that these loans be to a CDFI Eligible Market borrower in the PPC (which is not an ECIP requirement). We do not recommend further incentivizing this place-based approach as CDFIs are uniquely positioned to also lend to LITP and OTP regardless of geography. It also disadvantages CDFIs in the 15 states and DC with no PPCs: Hawaii, Indiana, Minnesota, Nevada, most of New England, and Wyoming.

iv. *Lending/investments in Indian Reservations and Native Hawaiian Homelands.*

- How would this work in relation to NACA? Would this be intended to encourage more lending in Native Communities by non-NACA applicants?
- Does this provision include Alaska Native Communities or only the other 49 states?

v. *Lending/investments in U.S. Territories:*

We support efforts to incentivize investment in the US Territories.

vi. *Lending/investments to Underserved Small Businesses: A loan/ investment made to a business with revenues that do not exceed \$100,000 or that is majority owned by individual(s) that are low income and/or from Other Targeted Populations.*

- Revenue of \$100,000 or below is a challenge; ownership by LI or OTP is a good additional metric and could be used as a proxy for sales of \$100,000 and below. The revenue bar will disqualify any number of otherwise worthy businesses that need access to affordable capital.
- Some industry participants have indicated that there are several sources of lending capital for this borrower segment and for related development services, including SBA micro, USDA RMAP (loan \$ and TA), USDA RBDG (TA), SBA PRIME (TA), and others.
- We strongly support incentivizing investments in OTP business owners.
- Businesses with less than \$100,000 in annual revenue are also those that (according to SBA data) are most at risk of failure within the first 3-5 years. Are you willing to also accept higher delinquency/default rates in CDFIs' portfolios if this type of lending is incentivized? MPS was 9% default and 12% PAR for microlenders.
- Our CDFI clients tell us that there is a more significant capital gap for \$100,000 to \$400,000 loans to mid-size businesses.

vii. Deeply Affordable Housing Financing: Financing for ELI units or HOAs.

- There are several layers to this issue. The need for affordable housing, particularly at the ELI level, is staggering. The vast majority of ELI rental housing is permanent supportive housing and/or housing for the homeless, DV survivors, and/or returning citizens. This is specialized housing that requires deep development and operating subsidies, from largely federal sources. A \$500,000 Base-FA award is NOT going to be the tipping point that incentivizes ELI multi-family preservation or construction financing. We are only aware of one CDFI that specializes in this market segment, though some of the other large, CMF awardees do occasionally make these types of loans.
- At present, the only option for homeownership for ELI homebuyers is the USDA 502 program. FA could realistically be used by rural CDFIs to assist with down-payment and closing costs associated with a 502 purchase.
- The need for more affordable housing is clear, but we do not think that CDFI FA should be oriented in this direction; this is more the purview of CMF – which strongly incentivizes investments in this market segment.
- Like mortgage lending, this proposal heavily favors banks, which makes sense since this schema was created for a bank/CU program.
- To a lesser extent, the same critiques apply to projects in HOAs. It's not clear that CDFI capital really can tip the scale in a HOA project (unless it's coming with significant subsidy), and regular CDFI capital itself is unlikely going to be enough to incentive developers to create these sorts of projects.
- Only 16% of the 14,250 HOAs listed in the CMF spreadsheet are in rural areas (2,334). This would create a considerable disadvantage for rural CDFIs and, structurally, not terribly doable from a liquidity perspective unless the CDFIs have a doorway to secondary market sales (which most do not). Most rural CDFIs can't provide meaningful levels of first mortgage lending and, instead, offer modest second/third mortgage loans of \$5,000 to \$20,000. As a deep impact criterion, HOA creates a vast gulf between metro and rural CDFIs that PPCs do not offset.

viii. Public Welfare and Community Development Investments: Public Welfare Investments pursuant to 12 U.S.C. 24(eleventh) or 12 U.S.C. 338a if they primarily benefit Low-Income or Minority individuals or businesses.

- We were not able to find enough information about these two legal references, other than they appear to be banking regulations, to understand how they might impact the FA applicant pool.
 - This appears to be the third out of 8 measures that would favor bank CDFIs. FA is a crucial source of funding for loan funds and the application should not advantage CDFI banks.
 - We support incentivizing lending to OTP borrowers, but the rest of this element seems to be redundant.
- b. The CDFI Fund is contemplating adding a CDFI's commitment to engage in "deep impact" lending going forward as part of the evaluation process and/or compliance process. As such, the CDFI Fund is considering adding a new PG&M based on an Applicant's projected activity for "deep impact" lending and investment.
- We do not support this proposal because the Deep Impact measures favor one segment of the industry (banks). Three of the eight measures that favor banks, viii is a bank regulation, mortgage (ii) and permanent supportive housing (vii) are largely funded by bank CDFIs.
 - The total average assets of credit unions and banks/thrifts dwarf those of CDFI loan and venture capital funds. Credit unions average \$522 million in total assets; banks/thrifts, \$533 million; loan funds, \$62 million; and venture capital funds, \$22 million. **Banks, thrifts, and credit unions' average total assets are 17 times that of the average CDFI loan fund.**
 - It is important to note that early-stage lending for affordable housing remains largely the purview of unregulated CDFIs. Banks and credit unions are not providing predevelopment loans, and many aren't providing site acquisition / preparation loans (at least not in the amounts needed). Simply put, not all CDFIs can offer similar products. What is "deep lending" for some CDFIs is normal lending for others. Unregulated CDFIs tend to focus on niches that regulated entities often cannot serve - or cannot serve to the same extent. We strongly recommend avoiding any approaches that would inherently advantage (or disadvantage) one type of CDFI relative to another.

3. *Net Asset Ratio*. The CDFI Fund is interested in prioritizing FA awards to CDFIs that are most effectively leveraging their balance sheet and the resources they already have available to them. Is a CDFI's Net Asset Ratio the appropriate measure to assess if a CDFI is effectively utilizing its balance to leverage resources?

- It certainly makes sense for the Fund to be focused on targeting its limited resources to organizations that can most/best use the capital to leverage other resources. That said, a blanket focus on the Net Asset Ratio doesn't seem to be the best way of assessing that. We are very concerned about a proposal to set a one-size-fits-all/consistent Net Asset Ratio (NAR) target for all applicants. At the very least, NAR targets need to reflect at least what a CDFI's most conservative debt funder requires, plus a cushion. This ratio will vary by type of lending (Micro, Small Business, Housing, and Consumer lenders have different NAR requirements/standards). Small business lenders generally have debt funders requiring net assets of 25% - 30%. As a sound business practice, they give themselves at least a 5% cushion of net assets above the minimum threshold required by their most conservative debt funder. Therefore, a CDFI with loan covenants of 30% would try to keep net assets of at least 35%.

Additionally, some CDFIs purposefully keep this ratio high (lend from grant capital) for strategic reasons. They may be focusing on keeping their interest rates low. We strongly discourage the Fund from disincentivizing this business strategy. Consumer lenders often try to achieve 50% NAR or higher to keep rates affordable to their borrowers. Venture Capital Funds will eschew debt of any kind. Additionally, in this interest rate environment, many CDFIs are paying off their debt capital to decrease their cost of funds and keep their rates affordable.

Regulated institutions do not have net assets per se, but rather need to maintain certain Net Worth, Tier 1 or secondary capital levels in order to satisfy their regulators' assessment of financial safety and soundness. In short, a single targeted net asset ratio is not appropriate.

Additional examples:

- CDFIs engaged primarily/extensively in subordinate lending, unsecured lending, or lending with deferred repayments of principal need to maintain higher levels of Net Assets in order to compensate for the inherently higher risk of principal loss associated with these loans.
- The SBA micro loan program generally requires participants to fund a 15% loss reserve to qualify for the SBA guarantee. Since micros tend to be among the highest-risk transactions in which CDFIs engage — generally with less established and often less-sophisticated borrowers — they typically need either substantial loss reserve allocations and/or underlying capital that does not need to be repaid.

- CDFIs that provide extensive development services, often rely on grants and contributions to cover the costs of those services. Those Net Assets often are restricted for particular non-financing uses. They realistically can't be used to leverage lending capital. Such organizations therefore may seem comparatively under-leveraged.
- Some CDFIs have significant Net Assets restricted for particular financing uses (specific products, borrowers, markets, etc.) that aren't appropriate for leveraging debt for less-restrictive lending.
- In light of the above, using an organization's NAR and leverage position as a chief way of assessing its ability to maximize its Net Assets for development purposes is likely to disadvantage a significant number of CDFIs for no good reason. There is simply too much variation in product type, product structure, borrower type, and market to try to standardize a ratio across different organizations.
- A comparable question should be put to depository applicants related to their net worth ratios.

4. *Small and Emerging CDFI Assistance.*

- a. The CDFI Fund is seeking input on whether there should be a maximum number of three FA awards a CDFI can receive as a SECA Applicant. If not three, what should that maximum number of SECA awards be? If there should be no limit on the number of FA awards that a CDFI can receive as a SECA Applicant, why not?

No, we do not support this proposal. We think it misses the point of the program for small CDFIs. Small CDFIs have less capacity to raise matching funds, and by definition have smaller track records and projected loan volume that puts them at a competitive disadvantage in the Core pool where they would compete with larger CDFIs.

- b. As noted above, organizations may qualify for SECA if they started financing activities no more than four years prior to the opening of the funding round, regardless of asset size. Is the start date for financing activity to qualify for SECA appropriate?

We think that four years is generally sufficient, because the FA application only asks about 3 years of history, therefore, when a CDFI graduates from SECA based on age, they would have 5 years of historic lending or more.

5. *Small and Emerging CDFI Assistance.* The CDFI Fund is seeking input on the SECA maximum total asset size thresholds as follows:

- a. *Banks:* Updating the threshold from \$250 million to \$346 million for banks/bank holding companies, which corresponds to the FY 2022 Community Reinvestment Act (CRA) asset size threshold for small banks set by the Federal bank regulatory agencies. If not,

what is the appropriate threshold and why? Should the threshold be updated regularly to correspond with updates to the CRA asset size threshold for small institutions?

No, we do not support this proposal. We think a \$100 million bank can effectively compete in the Core pool. We recommend reducing this threshold to less than \$100 million in assets.

- a. *Credit Unions*: Retaining the current threshold of \$100 million for credit unions, which aligns with the current National Credit Union Administration (NCUA) definition for small institutions. Should this threshold be retained?

No, we do not support this proposal. We think a \$100 million credit union can effectively compete in the Core pool. We recommend reducing this threshold to \$100 million to \$25 million in assets. We think that the federal regulators define a “small” (bank or CU) differently than the SECA program. What the SECA program means by “small” is a CDFI that cannot effectively compete with other CDFIs in the Core pool because they have smaller track records and pipelines, and are likely to have lower key ratios (Self-Sufficiency being the most elusive of the ratios). Since 2008, Congress has provided a waiver of the matching funds requirement for SECAs because they have difficulty raising matching funds. A \$100 million credit union and a \$250 million bank are self-sufficient, strong track records, strong pipelines and have matching funds. They do not need SECA protection. We don’t know what criteria the regulators use to define a small bank or credit union, but it is not the SECA definition.

- b. *Unregulated Institutions*: The CDFI Fund is considering updating the SECA asset threshold for unregulated institutions. Using the CPI–W to adjust the \$5 million threshold in 2006 dollars would represent approximately \$7.5 million in 2022 dollars. Should the threshold be updated? If yes, is \$7.5 million the appropriate threshold? Should the threshold be updated regularly? If not, why not? If yes, is the CPI–W the appropriate inflation factor to use? If not, what source should be used as the benchmark for the updates?

We support increasing the SECA asset threshold to \$10 million for unregulated loan funds and we support periodic review of this threshold – perhaps every three years. We think that annual increases are untenable.

6. *Small and Emerging CDFI Assistance*. The CDFI Fund is considering removing the option for SECA qualified Applicants to apply as Core Applicants.

- a. What feedback do CDFIs have on removing the option for SECA qualified organizations to apply as Core Applicant?

We support the Fund’s continued flexibility. If a SECA eligible CDFI wants to apply under Core, that should be their choice. It is not necessary for the Fund to impose this level of restriction.

7. *Funding Levels for CDFIs.* Should the \$5 million funding cap be reduced? If yes, what should the funding cap be?

No, the cap should not be reduced.

8. *Funding Levels for CDFIs.* Should larger CDFIs be limited on the total dollar amount or number of FA awards they receive within a certain timeframe? :
- Banks with assets of more than \$1.5 billion
 - Credit Unions with assets of more than \$1 billion
 - Unregulated institutions with assets of more than \$25 million

Imposing restrictions on loan funds with only \$25 million in assets is unwarranted. While we understand what the Fund is trying to do with this, a \$25 million loan fund is comparatively much smaller than a \$1 billion credit union. Assuming that OFN's most recent Side-By-Side is representative of the industry, about half of all loan funds have more than \$25 million in assets. Bank, CU, and loan fund thresholds should be much closer together. We strongly oppose a restriction of this nature on loan funds under \$100 million in assets and think that \$250 million to \$1 billion is a much more equitable and realistic threshold.

The notion that a \$25 million loan fund is large despite being 1/4th the size of a **small** credit union does not make sense. A \$25 million loan fund is not operationally self-sufficient. A \$100 million credit union and a \$250 million bank must be self-sufficient to remain in business.

As mentioned above, the \$5 million cap is part of the authorizing statute. To our knowledge, no CDFI has reached this cap due to 1) the Fund's intentional scheduling of the NOFA to avoid the three-year cap. In recent years (since 2016) FA awards have been less than \$1 million. This seems unnecessary.

We would enthusiastically support efforts to advocate for larger appropriations for the Fund to accommodate the increased number of CDFIs (and the increased demand for CDFI capital).

10. *Continued Viability for CDFIs.* The Riegle Act requires that Applicants for FA provide a comprehensive strategic plan for the organization that contains a business plan of not less than five years in duration. The plan should demonstrate that the Applicant will be properly managed and will have the capacity to operate as a CDFI that will not be dependent upon assistance from the CDFI Fund for continued viability.
- To what extent are CDFIs reliant on FA funding from the CDFI Fund for their continued viability?
 - What do CDFIs need in order to be independent from the CDFI Fund's assistance for continued viability? Would a program model in which CDFIs receive significantly larger

award sizes for a three- to five-year period support viability independent from the CDFI Fund? If not, what would support a CDFI's growth towards such independence?

- CDFI lending and investing requires subsidy. If it did not, the market would be lending to our borrowers without being predatory.
- These questions seem to assume that award recipients are using a significant portion of their grants from the Fund for operating support. We are sure that this is not the case. Our experience is that FA award dollars are used principally (if not exclusively) as loan or investment capital, not as operating capital. At most, a handful of CDFIs use the standard 15% of their FA award for operating support and this support is, in the vast majority of cases, nowhere near enough to impact the CDFI's viability. Awardees use FA capital to grow their activities, launch new products, and/or expand into new markets.

What makes FA awards so beneficial is that they provide unrestricted capital (though, FYI, some auditors are classifying them as restricted capital). There are few other sources of grant capital that CDFIs can use to build their net assets. Many traditional foundation supporters have moved away from capitalizing loan pools.

There are really two issues at play here. 1) Only a handful of CDFIs are self-sufficient. A very small number are self-sufficient when it comes to their lending capital (primarily depositories, for-profit loan and venture funds, and a handful of the largest loan funds). Some of the very large non-profit loan funds are operationally self-sufficient. Most loan funds will never be self-sufficient given their products, markets, and structure. We recommend that the Fund invest time to deeply investigate this assumption with interviews of a cross-section of CDFIs and AERIS. How many and what types of CDFIs are self-sufficient overall or on an operating level? What factors impact higher self-sufficiency ratios - such as age of the CDFI, market(s) served, products offered, etc.?

2) If entities are using the Fund's awards primarily/exclusively to enhance their loan/investment pool, then the issue isn't whether the Fund's dollars facilitate viability as much as they allow for growth/impact.

- On a related note, as the industry continues to grow, and more regulated/depository institutions become CDFIs and access CDFI Fund awards, we encourage the CDFI Fund to work with the Administration to ensure that annual appropriation requests keep pace with the growth of the entire industry while continuing to be a critical source of capital to non-profit loan funds.

11. *Sponsoring Entities.*

We support the positions taken by Native CDFI Network and other Native CDFI thought leaders.

Respectfully,

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