



October 28, 2013

Mr. Greg Bischak  
Program Manager for Financial Strategies and Research  
Community Development Financial Institutions Fund  
U.S. Department of the Treasury  
1500 Pennsylvania Ave, NW  
Washington, DC 20220

Dear Mr. Bischak:

On behalf of the National Federation of Community Development Credit Unions (the Federation) and the hundreds of credit unions we represent, I would like to thank the CDFI Fund for this opportunity to provide comments on the Community Investment Impact System (CIIS). The Federation supports the efforts of the Fund to explore the deficits of the CIIS and the opportunity to fashion a system that will address the current needs of the CDFI industry. We urge you to use this moment to fundamentally redesign the system to better track, record and demonstrate the impact of the CDFI Fund and the CDFI industry while reducing the reporting burden on certified financial institutions.

Our comments begin on the following page and are organized into five sections:

- I. Proposed Criteria for CDFI Monitoring and Impact Evaluation
- II. Hidden Costs of Current System
- III. Limitations of Current System
- IV. Recommendations for Redesign of Monitoring and Impact Evaluation System
- V. Responses to Specific Questions from CDFI Fund

The Federation remains firmly committed to the mission of the CDFI Fund and growth of the CDFI industry. We hope that these comments contribute to the achievement of our common goals.

We welcome the opportunity to discuss these further at your convenience.

Again, many thanks for this opportunity.

Sincerely,

A handwritten signature in black ink, appearing to read "Terry Ratigan".

Terry Ratigan  
Senior Consultant



## **National Federation of Community Development Credit Unions Comments on Community Investment Impact System (CIIS)**

### **I. Proposed Criteria for CDFI Monitoring and Impact Evaluation**

The Federation and our members maintain that CIIS imposes undue costs on the CDFI industry without providing commensurate benefits. Indeed, through the years CIIS data has captured only a fraction of the activities of community development credit unions and other types of CDFIs. This systematic understatement of scale, scope and impact can only inhibit the CDFI Fund's efforts to generate public awareness, political support and financial resources for the CDFI industry as a whole.

We believe an efficient and effective monitoring and impact system should meet five criteria:

1. Provide consistent, reliable, and public information regarding the scale and scope of the CDFI industry and its component parts;
2. Provide a streamlined mechanism for the CDFI Fund to monitor compliance with CDFI Assistance Agreements;
3. Provide credible research regarding the impact of CDFIs and CDFI Fund capital awards on CDFIs and their constituents; and,
4. Enable institutions to use the information reported by themselves and their peers to better understand and improve their business model;
5. Minimize the burden of data collection and reporting on CDFIs by maintaining a rigorous focus on compliance rather than impact data.

The first three criteria are of unquestioned importance and mirror the CDFI Fund's own rationale for collecting data. The fourth criteria would clearly enable the Fund to more fully enact its potential role to build the capacity of the field by enabling institutions to use data reported to better analyze their own work and that of their peers. There is less clarity about the fifth criteria; the nature and magnitude of the reporting burden on CDFIs themselves. This burden is often defined only as the time and money spent on data collection and reporting, which omits at least two costly impacts:

- the costs to consumers when the utility of CDFI products and services is diminished by burdensome data collection in a competitive marketplace; and,
- the costs to the industry when data quality is compromised due to incomplete and inconsistent data collection.

### **II. Hidden Costs of Current System**

The Federation believes that data collection from CDFIs should be limited to the minimum amount needed to assure compliance with requirements for CDFI certification and awards; that impact data cannot be efficiently, effectively and in some cases even



legally collected by CDFIs themselves. As described later in Part IV, we recommend that impact evaluation should be conducted with a separate stream of data, as the final tier of a three-tiered system.

The current system collects data for both compliance and impact through a single stream and imposes significant hidden costs that go beyond time and money. The costly compromises imposed by the current system include:

- *Competitiveness of CDFIs with high-cost and predatory lenders.* Check cashers, payday lenders, “buy here-pay here” auto marts, rent-to-own shops and countless other high-cost and predatory enterprises strip billions of dollars of wealth from low-income communities every year. The key to their success: convenience. CDFIs offer responsible alternatives to less scrupulous actors, but every piece of demographic or impact data that must be collected beyond the minimum needed to open an account or underwrite a loan diminishes the convenience and damages the competitiveness of CDFI products and services.
- *Confidence in CDFIs from members and customers.* With distrust of financial institutions at historic highs, consumers are wary of any requests for personal information that go beyond the minimum needed to complete a transaction. CDFIs that routinely ask constituents for supplementary personal data are likely to drive consumers to less intrusive, and often less scrupulous alternatives.
- *Compliance of CDFIs with regulatory mandates.* Credit unions and other regulated entities are prohibited from collecting certain types of demographic information in the course of underwriting a loan. The small number of regulated CDFIs that are certified to serve Other Targeted Populations (OTP) must carefully balance the need to collect OTP data with their legal obligations as regulated entities. Since the vast majority of regulated CDFIs are not certified for OTP target markets and do not face this challenge, they do not collect this data and, at best, will only enter broad estimates into CIIS.
- *Consistency and quality of data provided by CDFIs.* As noted above, the demographic and impact data collected by CIIS goes beyond the requirements of financial institutions to collect in a consistent manner and in some cases violates regulatory prohibitions. The practical business and legal factors that inhibit the collection of this data guarantees that the results will be incomplete, inconsistent, and ill suited to aggregation and meaningful analysis.

### III. Limitations of Current System

Regrettably, the mountain of data collected at great cost by CIIS consistently and significantly understates the impact of CDFIs and of the capital deployed by the CDFI Fund.

- *CIIS understates the scale of CDFI Industry.* Since 1996 the CDFI Fund has certified more than 1,200 institutions and provided \$1.8 billion in financial assistance to 811 CDFIs, yet the most recent CIIS report only collected data from 332 CDFIs. Since FA awardees do not represent a statistically valid random



- sample of the industry, the volumes of data collected each year from hundreds of CDFIs cannot be extrapolated in any way to describe the industry as a whole.
- ***CIIS understates the scope of the CDFI Industry.*** The omission of non-FA awardees from the CIIS database is compounded by other significant omissions that limit understanding and analysis of the industry:
    - CIIS collects no data on consumer lending, the primary line of business for hundreds of regulated CDFIs
    - CIIS collects no data on critical CDFI activities that protect assets and build wealth, such as transaction services and savings mobilization.
  - ***CIIS understates the impact of the CDFI Industry***
    - The 257 data points collected by the CIIS Institution Level Report (ILR) and Transaction Level Report (TLR) focus almost exclusively on target market characteristics, not the impact of CDFIs on the individuals and communities they serve.
    - By contrast, researchers from the University of Virginia Darden School of Business used advanced econometric models to illuminate significant positive impacts of CDFI services across a wide range of community development indicators, such as falling crime rates and rising property values.
  - ***CIIS understates the impact of CDFI Fund capital.***
    - CIIS data is limited to the first three years following an award, and hence cannot evaluate the medium and long-term impact of permanent CDFI Fund capital on the CDFIs themselves or the communities they serve.
    - CIIS collects no institutional data on CDFIs that receive capital from CDFI intermediaries.
    - CIIS defines leverage as “private-sector investments from banks, foundations, and other funding sources” and overlooks the biggest single source of leverage in the system<sup>1</sup>; deposits that are mobilized over time by CDFI Fund grants that increase net assets in insured depositories.

---

<sup>1</sup> A 2012 study commissioned and published by the CDFI Fund found that the median CDFI credit union leveraged \$9.91 in total liabilities for every dollar of net assets, the median CDFI Bank leveraged \$9.40, and the median CDFI Loan Fund leveraged \$1.10. Michael Swack, Jack Northrup, Eric Hangen, “CDFI Industry Analysis Summary Report,” Page 10 (CDFI Fund Capacity Building Initiative and Carsey Institute), Spring 2012.



#### IV. Recommendations for Redesign of Monitoring and Impact Evaluation System

The Federation recommends that the CDFI Fund separate the tasks of monitoring compliance from evaluating impact. One approach could be a three tier system, such as the one outlined in the table below. Such a system would improve the quality of the data collected and reduce the burden of data collection and reporting on CDFIs.

|                     | Tier<br>1                                                                                                                                                                                        | Tier<br>2                                                                                                                       | Tier<br>3                                                                                                                                                                                                                                               |
|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purpose             | Certification<br>Compliance                                                                                                                                                                      | Award<br>Compliance                                                                                                             | Impact<br>Assessment                                                                                                                                                                                                                                    |
| Information Benefit | <ul style="list-style-type: none"><li>• Scale and Scope of CDFI Industry</li><li>• Location and key data on certified CDFIs</li></ul>                                                            | <ul style="list-style-type: none"><li>• Deployment of CDFI Fund Capital in Target Markets</li></ul>                             | <ul style="list-style-type: none"><li>• Community Development Impact of CDFIs</li><li>• Impact of CDFI Fund awards on CDFIs</li></ul>                                                                                                                   |
| Burden on CDFIs     | <ul style="list-style-type: none"><li>• <b>Near zero:</b> uses existing sources of reported data</li></ul>                                                                                       | <ul style="list-style-type: none"><li>• <b>Modest:</b> need to track deployment in identified target market(s) only</li></ul>   | <ul style="list-style-type: none"><li>• <b>Near zero:</b> CDFIs may participate in interviews and assist with evaluations if selected by academic partner</li></ul>                                                                                     |
| Who Reports         | <ul style="list-style-type: none"><li>• All Certified CDFIs</li></ul>                                                                                                                            | <ul style="list-style-type: none"><li>• CDFI Awardees</li></ul>                                                                 | <ul style="list-style-type: none"><li>• Academic Research Partner</li></ul>                                                                                                                                                                             |
| What is Reported    | <ul style="list-style-type: none"><li>• Key data from regulatory filings (automatically collected for regulated CDFIs)</li><li>• Key data from CARS, Annual Audits (unregulated CDFIs)</li></ul> | <ul style="list-style-type: none"><li>• Data from CDFI awardees on deployment of capital in approved Target Market(s)</li></ul> | <ul style="list-style-type: none"><li>• Primary and Secondary data sources</li><li>• Modified CIIS</li><li>• Selected CDFIs</li><li>• Government Statistical Bureaus</li><li>• Regulatory Reports</li><li>• Focus groups</li><li>• Interviews</li></ul> |

The Federation recognizes that the use of an academic research partner for impact assessment implies some additional cost for the CDFI Fund itself. This deserves some careful study, as savings from the streamlined compliance system may generate enough efficiency to offset the cost of a research partner. But the benefit of such an approach is clear: an unprecedented, rigorous evaluation of the impact of CDFI Fund capital on CDFIs and the communities they serve. When compared with the current system that produces no meaningful impact data, the Federation believes that the benefits to the CDFI Fund and the industry would far outweigh the costs.



## V. Responses to Specific Questions from CDFI Fund

### A. *The cost for CDFIs and CDEs to operate and maintain the services and systems required to provide the required information.*

As noted in Part II, there are significant hidden costs to the current CIIS system beyond the commitment of financial and human resources to data collection and reporting. Our member credit unions have reported contract costs of up to \$35,000 for data preparation and cleaning, and many credit unions cite the equivalent of ten to fifteen days of staff time devoted to organizing, cleaning, coding and uploading the data.

### B. *Ways to enhance the quality, utility, and clarity of the information to be collected;*

The Federation's recommendations are included in Part IV of this paper.

### C. *Whether the collection of information is necessary for the proper evaluation of the effectiveness and impact of the CDFI Fund's programs, including whether the information shall have practical utility.*

The collection of information is clearly necessary for the proper evaluation of the CDFI Fund's program and should also serve to provide practical information for the CDFI Industry and the public at large. The Federation has noted the following two points in previous comments on CDFI Certification and the FA/TA applications:

- **Data Collection Should Serve Multiple Purposes:** Routine data collection should be automated to the maximum extent possible. For example, the CDFI Fund could automatically upload key data for regulated entities directly from regulatory reports. For unregulated entities, key data could be entered by the CDFIs themselves based on annual audits, or perhaps automatically uploaded from the CARS system. This data could then be used to auto-populate FA, TA, NACA, or other competitive applications, as well as for CIIS reports required for CDFI awards.
- **Data Collection Should Provide a Public Benefit:** The CDFI Fund collects data that is of vital interest to low-income, underserved consumers. Unfortunately, little of that information is shared in a way that helps these consumers connect with CDFIs that can meet their needs. As part of the automation of the certification process, we recommend that the Fund make essential information about CDFIs available to the public. NMTC already has a similar system in place, that provides updated profile information on institutions that receive NMTC allocations based on data that is submitted electronically. The same information should be available for all certified CDFIs.



***D. The accuracy of the CDFI Fund's estimate of the burden of the collection of information.***

As noted in Part II of this paper, the CDFI Fund vastly underestimates the burden on CDFIs and the public at large of collecting information for the CIIS reports.

***E. Ways to minimize the burden of the collection of information including through the use of technology, such as software for internal accounting and geocoding to capture geographic detail while streamlining and aggregating transaction level reporting for upload to CIIS,***

Our structural recommendations to reduce the burden are included in Part IV, above. In addition, three major technological obstacles also must be addressed to reduce the current reporting burden:

- The slow pace and limited capacity of the batch geocoder in the myCDFI mapping program;
- The incompatibility between CIIS and the myCDFI mapping program that causes numerous addresses to be rejected by CIIS that have already been validated and successfully geocoded by the CDFI mapping program, which creates multiple rounds of cleaning, recleaning, and re-recleaning data for upload; and,
- Limited bandwidth and slow processing of CIIS itself, which leads to uploads that can stretch to many days for large CDFIs.

The Federation recommends that the CDFI Fund:

- Provide CDFIs with an online or desktop software package that can quickly generate 11-digit FIPS geocodes for batches of up to 10,000 addresses
- Replace CIIS with a high-speed, high-capacity data portal for uploading compliance data

***F. What methods might be used to improve the data quality, internal accounting and efficiency of reporting transactions for serving other targeted populations (OTP).***

As noted earlier in this paper, regulated CDFIs that are not certified on the basis of OTP target markets face regulatory prohibitions against the systematic collection of this type of data. As a result, primary data collection from CDFIs will only ever reveal a small fraction of total CDFI services to other targeted populations. Research initiatives in the past, such as the CDFI Data Project, produced credible estimates of CDFI services to different demographic groups. The Federation believes this research-based approach is far more likely to improve the quality of data and information than any attempt to collect OTP data from all CDFIs.