



June 26, 2017

Greg Bischak, Ph. D.
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

By email to: cdfihelp@cdfi.treas.gov

Re: CDFI Coalition Comments on the Community Investment Impact System (CIIS) Annual Report (OMB Number 1559-0027)

Dear Mr. Bischak,

The CDFI Coalition is submitting this letter in response to your solicitation for comments on the Community Investment Impact System (CIIS) Annual Report. Specifically, these comments will focus on the Institution Level Report (ILR) and the Transaction Level Report (TLR) required to be submitted by CDFI Financial Assistance and Technical Assistance (FA and TA) awardees as a condition of the Assistance Agreement each awardee enters into with the CDFI Fund.

The CDFI Coalition (“Coalition”) is the national voice for CDFIs of every type. The Coalition supports CDFIs nationwide to help them better provide credit, capital, development services, and financial services to underserved people and communities. The Coalition provides an opportunity for CDFIs and their partners, including community development finance funders and researchers, to have a unified voice in support of the role of CDFIs as an integral segment of the nation’s financial services industry. The rules and policies for becoming and maintaining CDFI status are critical to maintain the integrity of the CDFI field.

The CDFI Coalition supports the collection of data because of its importance in making the case for the impact of CDFIs in distressed communities. However, the changes made to job reporting guidance in September 2016 require CDFIs to significantly change data collection infrastructure necessary to report and are especially burdensome for smaller CDFIs. Further, the new jobs reporting guidance in the TLR reduce the accuracy of job reporting, artificially reducing the number of job creation and retention reported by CDFIs. This is a loss for all stakeholders including the program’s champions in the Administration and Congress.

We believe the CDFI Fund shares these objectives for quality data collection and timely reporting. The CIIS tool should not only deliver a streamlined set of data, but also improve the usefulness, quality, transparency and timeliness of the data the Fund collects, while reducing the burden on CDFIs who provide the data.

The Coalition submits the following comments on the CIIS Annual Report:

(a) The cost for CDFIs and CDEs to operate and maintain the services/systems required to provide the required information;

TLR Guidance/Optional Data Fields

1. While the changes to the TLR are optional, we are not entirely clear about the force of guidance and whether it is a grant compliance issue. We assume that, if the Fund provides instructions, they are more than a suggestion. Further, in the past the Fund has converted formerly optional fields to mandatory fields. This has created a significant burden, especially as these changes have been retroactive. For example, a new requirement to include the full addresses for loans and investments forced organizations to analyze their entire portfolio, some of which span several decades, an extremely onerous process. We recommend that the Fund make such changes sparingly and not make them retroactive.

Calculating and Tracking Job Creation/Retention

2. The change to the TLR in terms of calculating and tracking jobs for working capital and financing of a business' fixed assets does not align with current industry standards for tracking job creation. As a result, these changes, especially retroactively, not only pose a serious financial impediment for CDFIs of all sizes, but also do not allow for a clear and accurate representation of the job creation resulting from CDFI financing. IMPLAN software, which is used by some large CDFIs and CDEs, is cost-prohibitive and not a reasonable option for the industry at-large given the smaller scale of CDFI projects, particularly microloans, especially when compared to larger NMTC projects. Because of the diversity of CDFIs and their portfolios/organization focus, there are a variety of systems used to track and collect data, including portfolio management software, client relationship management software or even custom databases. The CDFI Fund should work with industry representatives to find a solution that works for all types of CDFIs.

(b) Ways to enhance the quality, utility, and clarity of the information to be collected;

As the Coalition has recommended in the past, the CDFI Fund should update and publish a companion Glossary of Terms that uses consistent terminology with clear definitions across the funding applications, certification definitions, and CIIS reporting.

TLR Comments

1. There are currently a large number of optional fields in the TLR, which makes navigating the report cumbersome. Between reporting years, new fields are added and some made mandatory. This not only makes it hard for CDFIs to complete the report from year to year, but also makes the data difficult to use for research. We recommend that future reports address these issues to arrive at a more limited set of data that would not change annually and be required of all respondents. We recommend that the Fund review the fields to determine how many of them are providing truly useful data and consider eliminating those that are not widely used.
2. Reporting of the jobs created or retained through working capital: The proposed requirement that jobs maintained as a result of any loan or investment to cover ongoing expenses must be prorated based on the shortfall between current expenses and revenues for the business is an overly complex formula. Moreover, it may have little relevance to small business loans where the average loan size is much smaller. In addition, this approach may understate the importance of the loan on job creation/retention as the inability to cover even limited shortfalls could result in reduced profitability or viability of a company and result in a loss of jobs.
3. Reporting of jobs created or retained through financing of a business fixed asset: The prohibition against the reporting of jobs created or retained through a loan or investment used to pay for any tangible property used in the operation of a business, but not expected to be consumed or converted into cash in the ordinary course of events is problematic.
 - a. The Fund should provide further clarification on what is meant by the phrase, “consumed or converted into cash,” and engage in discussions with the CDFI industry.
 - b. The prohibition from reporting jobs created or retained through the financing of machinery and equipment, furniture and fixtures, and leasehold improvements, if they are unrelated to a business expansion or startup offers an incomplete understanding of the impact of the financing. This approach to reporting makes assumptions that may not hold true for many projects, particularly those involving smaller businesses. For example, a business borrower may need financing to purchase equipment that simply needs to be replaced or upgraded to allow the firm’s machinery to remain competitive or improve efficiency. Those jobs that existed when the loan was closed, often times would have been lost if the loan had not been made. Further, the reporting requirement prohibiting CDFIs from counting those jobs may inadvertently discourage CDFIs from making loans to finance business assets if they are not able to report the jobs created or retained.

TLR Microloan Job Calculation

As stated above, CDFIs are quite diverse. The manner for calculating jobs outlined in the TLR guidance for jobs reporting is burdensome and does not allow for a complete evaluation of the real impact of CDFI investments. This is especially true for microloans. Using the same method for microloan job calculations as business loans does not allow many working capital microloans to a sole-proprietorship to even one full-time (FTE) job.

(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 has practical utility;

In general, if a data point is not useful in monitoring compliance with grant goals or certification, there does not seem to be a clear rationale for its collection. The current inclusion of optional categories in CDFI reporting data will never be useful in terms of research, as it is not representative of the industry as a whole. Therefore, the Coalition recommends the Fund not include optional data points.

ILR Comments

1. We suggest that in the future that the Fund first discuss contemplated changes in reporting with industry stakeholder organizations with a specialized financial knowledge and focus. The Fund should then request public comment on proposed changes before implementation.

TLR Comments

1. The categories presented in the TLR Form may be more relevant for NMTC transactions where loans are more likely to be made for a single purpose. However, these categories bear little if any resemblance to the small business loans that many CDFIs originate making this reporting format difficult if not impossible to use/follow. For example, a single loan to a small business may finance more than one activity: purchase or rehab of a facility, acquisition of a new piece of equipment and providing working capital. It is unclear whether this guidance would require CDFIs to disaggregate the financing to calculate job creation or retention. If that is the intention, it would be a significant paperwork burden and may result in less reliable data on the impact of CDFI loans.
2. The Fund should consider sharing impact stories that are submitted as part of the TLR with the CDFI industry. It is a good tool for all CDFIs to use for advocacy, PR, peer learning, and more.

(d) The accuracy of the CDFI Fund's estimate of the burden of the collection of information;

New required fields should only be added after the Fund has assessed the effectiveness and feasibility of new data points, as well as the burden of the collection of information imposed on organizations.

1. In the past, the Fund has converted formerly optional fields to mandatory fields. This has created a significant burden, especially as these changes have been retroactive. Again, we recommend that the Fund make such changes sparingly.
2. The CDFI Fund's evaluation process should include feedback from a diverse range of CDFIs, and could include listening sessions on the ways in which they are collecting data and the implication of proposed changes. Before being implemented, all changes should be publicized and comments should be requested broadly. This approach would provide the Fund with valuable feedback from the groups most directly involved in each program and impacted by the proposed changes.

(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 TLR reporting for upload to CIIS;

We applaud the Fund's goal of transitioning this reporting to AMIS, and encourage this transition to happen as quickly as possible. Currently, there is a lot of duplicative data entry: organizational information, financials, and portfolio information are all entered into the ILR and AMIS. We look forward to streamlining this process.

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

The CDFI Fund should update and publish a Glossary of Terms that uses consistent definitions, following industry standards for terminology that will be used across the funding applications, certification definitions, and CIIS reporting.

Conclusion

Much of the CDFI community was surprised by the new jobs reporting guidance in CIIS and would have appreciated the opportunity to provide input and, at a minimum, sufficient time to prepare. While we understand that the changes to job calculation in the TLR are not required, when the Fund provides instructions they are taken as more than a suggestion in practice. Further, the CDFI Fund has, in the past, converted formerly optional fields to mandatory fields.

Many of the optional changes could have a significant impact on CDFIs in practice and limit their ability to fully document the outcomes of their project financing. Therefore, the Coalition recommends that when major changes are proposed, even if they are optional data points, the Fund should solicit input into those changes ahead of time and publicize them widely.

The CDFI Coalition would like to thank the CDFI Fund for requesting public comment on this important element of the Fund's work. We believe the federal government and the CDFI industry have a shared interest in collecting and disseminating timely data. We support the CDFI Fund's devotion of the necessary resources to the effort to collect the data, and to update the mechanisms to make data more useful to the CDFI Fund, CDFIs and community development practitioners. It will remain important for us to work together to respond to the many stakeholders who need data to support our work.

Sincerely,

A handwritten signature in blue ink, reading "James R. Klein". The signature is fluid and cursive, with the first name "James" and last name "Klein" clearly legible.

CDFI Coalition
James R. Klein, Chair