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U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
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Subject: **Information Collection for CDFI Certification**

Dear Mr. Meyer:

On behalf of the National Federation of Community Development Credit Unions (the Federation), I would like to thank the CDFI Fund for this opportunity to comment on the current information collection requirements for credit unions seeking CDFI certification. As a CDFI-certified intermediary, a founder of the CDFI movement, and a trade association representing community development credit unions that serve more than four million residents of low-income and underserved communities across the country, the Federation is deeply committed to strengthening the CDFI Fund and the CDFI industry. While we strongly support rigorous standards for CDFI certification, we believe the current process places undue burdens on regulated CDFI credit unions, creates unnecessary work for the CDFI Fund, and does not generate information that could be tremendously useful to the CDFI Industry and the public at large.

Our central concerns echo our previous comments about the proposed annual data collection tool; namely, that credit unions and other regulated applicants for CDFI certification are required to use an application format that is primarily designed for unregulated CDFIs and is poorly adapted to the legal, governance, operational, compliance and reporting characteristics of regulated credit unions. The Federation would welcome the opportunity to discuss more efficient and consistent processes to determine credit union eligibility for CDFI certification.

Our detailed comments are organized into two sections:

- I. Comments and Recommendations on Current CDFI Certification Process for Credit Union Applicants
- II. Responses to Specific Questions in the Notice for Public Comment

While our recommendations are derived from specific experiences of CDFI credit unions, we believe many apply equally to all applicants for CDFI certification.



I. Comments and Recommendations on Current CDFI Certification Process for Credit Union Applicants

The CDFI Fund requires financial institutions to meet seven criteria for CDFI certification. The current application, including the Supplemental Guidance and Tips released in February 2014, is primarily designed for two purposes:

- To collect sufficient information to determine eligibility of applicants for CDFI certification; and,
- To record the geographic footprint of certified institutions in various CDFI Target Markets.

The CDFI Fund has a compelling need for clear evidence that an institution meets each of the seven criteria for certification. In addition, the CDFI Fund is obligated by the terms of the Paperwork Reduction Act to minimize the burden on applicants of information collection and reporting. To balance the needs for information and efficiency, the certification process needs to:

- Limit information requests to the minimum needed to determine eligibility for each of the seven certification criteria; and,
- Eliminate duplicate requests for information that is routinely provided to (and available from) other government agencies.

As described below, the current certification process frequently asks for information that exceeds these requirements, which places undue burdens on credit unions and on the CDFI Fund itself.

1. Legal Entity Test

a. Current Requirements

Credit unions are currently required to submit copies of their original charters and all amendments since inception. The first credit unions in the United States were established more than a century ago; the median credit union is now 60 years old. For mature credit unions, documentation of mergers, acquisitions, expansions to fields of membership, name changes and other material events can reach many dozens of pages and are rarely maintained in current files. Staff often need days to dig deep into archives to locate, retrieve and copy this information; the CDFI Fund must then spend many more hours to review these detailed amendments, many of which are decades old, all of which are on file with federal and state regulators.

Since the inception of the CDFI Fund, thousands of hours have been spent tracing the documentary history for hundreds of credit unions seeking certification and periodic recertification. Unfortunately, this massive effort is largely for naught; a credit union that has merged or liquidated can produce exactly the same historical documentation as an active credit union, even though it is no longer a legal entity. To determine



whether a credit union qualifies as a legal entity at the time of application, the CDFI Fund must follow this exhaustive documentary review with a simple validation of the charter number with the National Credit Union Administration (NCUA), the federal agency that regulates, insures and examines 98% of all credit unions in the United States.

b. Legal Entity Recommendations

- Credit unions that are chartered and/or insured by NCUA should only be required to submit their EIN, DUNS and Charter Numbers, along with IRS documentation of their EIN and NCUA documentation of their Charter Number.
- State chartered credit unions with private deposit insurance (which account for less than 2% of all credit unions) may be further required to submit a Certificate of Good Standing from their state chartering agency.

2. Primary Mission Test

a. Current Requirements

According to CDFI Fund policy, all credit unions that are Low-Income Designated by NCUA are deemed to have a Primary Mission of community development. The certification application requires that credit unions indicate this status on their application and document the designation with a copy of their NCUA letter. Once this is done, low-income designated credit unions have established their Primary Mission, but the CDFI Fund requests further information that is immaterial to the core determination. Specifically, question PM04 requires that all applicants, including low-income designated credit unions: (i) provide a list and description of all loan products; (ii) provide a narrative to describe how credit union products and services support the primary mission; and (iii) provide a profile of credit union members. While this additional information is of general value, it is superfluous to the Primary Mission determination for credit unions with low-income designations from NCUA.

Credit unions without NCUA low-income designation are required to provide board-approved documentation of their Primary Mission and submit an additional narrative to describe their mission.

b. Primary Mission Recommendations

- Credit unions with NCUA Low Income Designation should be required to indicate their status in the Attachment A workbook and attach a copy of their determination letter from NCUA. No other narratives should be required for this section.
- Credit unions without NCUA Low-Income Designation should be required to submit the appropriate board-approved documentation along with a single narrative to explain how the credit union meets the Primary Mission criteria.



- CDFI Products and Services are valuable information that should be collected from all applicants. However, the Products Table is a poor and limited tool for this purpose and should be removed from the “Primary Mission” tab of the Attachment A Workbook. Instead, a Basic Information form should be inserted that uses standard checklist descriptions of products and services to facilitate aggregation into the CDFI Fund’s master database. For credit unions, the form should offer the same descriptive fields for products and services as those listed on their current NCUA Credit Union Profile.
- Credit unions should be required to attach a copy of their current NCUA Profile to all certification applications to verify the information on the Basic Information form, with a single narrative box provided to explain any discrepancies between the NCUA Profile and the Products and Services form.
- For public information purposes, the CDFI Fund should arrange to have current Profile information automatically uploaded to the CDFI Fund database for all CDFI credit unions.
- The product and service data from all certified CDFIs should be integrated into the CIMS3 mapping system or uploaded to a public platform, such as PolicyMap, to facilitate analysis of CDFI coverage and help members of the public to locate desired CDFI services.

3. Financing Entity Test

The current CDFI Certification application presumes that Insured Credit Unions are financing entities that meet the Financing Entity criterion. No additional information or narratives are required. The Federation considers this appropriate and has no recommendations for this section.

4. Target Market Test

a. Current Requirements

Credit unions must demonstrate that at least 60% of their Financial Product activities are directed towards one or more eligible CDFI Target Markets. The Target Market test defines activities as loan transactions originated during the current and prior fiscal year, yet for many credit unions new loans represent a small portion of their total loan deployment. Smaller credit unions in particular may experience considerable volatility in transaction data from year to year, even as their outstanding portfolio remains heavily deployed in CDFI Target Markets.

Credit unions are also required to submit Target Market data on Shares and Deposits, Members and Development Services, although the Guidance indicates that this information is immaterial to the Target Market determination.



Narrative question TM01 requires credit unions to describe their entire market and question TM04 asks for the methodologies used to generate the data for the Target Market tables. Questions TM05 through TM07 ask for descriptions of the unmet needs of Investment Areas, the unmet needs of customized “Other Targeted Populations” (OTPs), and means of verifying ongoing service to CDFI Target Markets. No narratives are required to describe the unmet needs of the two other standard CDFI Target Markets.¹

Credit unions also must construct maps in the CIMS3 system to represent geographic target markets (Qualified Investment Areas) and non-geographic target markets (LITP, OTP).

b. Target Market Recommendations

- Credit union loan activities do not stop at the point of disbursement, but consist of both new transactions and the monitoring and management of active outstanding loans. Applicants should be permitted to present data on either new loans (as is currently the case) or data on total outstanding loan portfolios to demonstrate Target Market loan activities.
- The TM01 narrative description of entire target market significantly overlaps with the information requested in PM04 and the information provided through the CIMS3 Target Market map(s). As recommended above, PM04 should be eliminated and credit unions should be directed to use TM01 to describe their current membership and broader field of membership.
- The CDFI Fund stipulates the unmet needs for LITP and standard OTP Target Markets, yet TM05 asks for applicants to provide a narrative description of the unmet needs for CDFI-designated Investment Areas (IAs). This question should be eliminated as: (i) it is inconsistent with the requirements for LITP and OTP Target Markets; (ii) data used to designate IAs provide ample indications of unmet needs; and, (iii) the question is superfluous to the determination of Target Market eligibility.
- Notwithstanding the previous recommendation, question TM06 should be retained as it is needed to provide evidence for the designation of a custom OTP Target Market in specific locations.
- The CIMS3 mapping program should enable applicants to enter data from the Target Market Tables to represent the numbers of people served and capital deployment in each defined Target Market. Such data collection from certification applicants, particularly if made available through a public portal such as PolicyMap, would vastly improve the ability of the CDFI industry to analyze intensity and gaps in coverage at local, regional and national levels.

¹ The other two standard CDFI Target Markets are Low Income Targeted Populations (LITP) or OTPs that consist of African Americans, Alaska Natives residing in Alaska, Hispanics, Native Americans, Native Hawaiians residing in Hawaii, and Other Pacific Islanders living in Other Pacific Islands.



5. Accountability Test

a. Current Requirements

Credit unions are required to evaluate the Target Market accountability for each Board member for each Target Market, complete the Board and Accountability Tables of the Attachment A workbook and complete narratives AC03 and AC04, as applicable, to provide information about community meetings and surveys.

In 2008 the Federation formally recommended that the CDFI Fund accept the annual democratic election of credit union board members as sufficient evidence of accountability for any credit union that passes the Target Market test. In 2010, the CDFI Fund accepted this automatic accountability only for LITP Target Markets that comprised a majority of members. Since the democratic governance of credit unions applies equally to all Target Markets, not just LITP, we continued to advocate for full recognition of the accountability structure of credit unions -- the only type of CDFI that provides every person served with an equal voice in the selection of directors. In June 2013, at the Federation's Annual Conference in Baltimore, Maryland, Director Donna Gambrell announced that the CDFI Fund would accept automatic accountability for any Target Market that comprises a majority of a credit union's membership. While this was still not the full proportional accountability sought by the Federation, it was a logical extension of the rule that had previously applied to credit unions for LITP only.

In February 2014 the CDFI Fund issued updated Supplemental Guidance and Tips for CDFI Certification Applications that needlessly complicated the clear logic of credit union accountability. According to the Guidance, credit unions that have a majority of members in two or more Target Markets can only claim that their Board is accountable to one of those Target Markets.

This is hard to fathom and even more difficult to explain, so we will illustrate with an example. Consider a credit union where:

- 55% of members reside in an Investment Area (IA)
- 54% qualify as Low-Income Targeted Population (LITP)
- 34% of members meet *both* IA and LITP criteria

To avoid double counting, the Target Market tables require that the 34% of members who meet both IA and LITP criteria be assigned to one Target Market or the other, but not both. In this example, the credit union has a choice; they can show either:

- 55% IA and 20% LITP or
- 21% IA and 54% LITP.



Either way, the total combined Target Market accounts for 75% of credit union members. Regardless of which Target Market is given preference on the Target Market Tables, a majority of credit union members who elect the board of directors belong to the IA Target Market and a majority also belong to the LITP Target Market.

Yet despite clear majorities in two Target Markets, the CDFI Fund currently will only recognize automatic Board accountability for the market shown to be in the majority on the Target Market table. In other words, a voting credit union member can only represent a single interest when voting for board members, even though Board members (who also must be credit union members) can be individually accountable to multiple target markets.

One smaller issue for credit unions in this section relates to the “Date of Board Composition” on the Accountability Table. Credit union boards are established at inception and board members are elected on an annual basis. Although board members may change every year, the election and accountability process remains the same. As a result, some credit unions enter their date of inception as the “Date of Board Composition” while others enter the date of the most recent annual election. Both approaches are logical, but both approaches have been challenged by CDFI reviewers; on one hand asking how a board composed decades ago is accountable today, and on the other hand asking how a board composed this year was accountable in prior years.

b. Accountability Recommendations for Credit Unions

- Under current rules, the CDFI Fund should acknowledge automatic credit union board accountability to any Target Market that comprises a majority of the credit union’s membership, including cases where majorities of members belong to more than one CDFI Target Market.
- Credit unions remain the only type of CDFI with boards that are comprised of members who are democratically elected by members. Boards are thus accountable to their CDFI Target Market in direct proportion to the representation of each Target Market in the Membership. The Federation continues to recommend that automatic accountability be extended to all Target Markets in direct proportion to their representation in the membership.
- Reviewers should be instructed that the “Date of Board Composition” is immaterial for credit unions due to their annual board elections. If credit unions are required to complete this field, instructions should be amended to clarify whether credit unions should enter the date the board was first established or the date of the most recent board election.



6. Development Services Test

a. Current Requirements

The CDFI Fund narrowly defines Development Services by their direct link to loans or equity investments. This narrow definition overlooks the critical need to build the capacity of low- and very-low income consumers to use safe and responsible financial services that help them to conserve, protect and build assets. While credit unions deliver many development services connected to loan products, CDFI credit unions also provide educational and counseling services that help members to move from high-cost check-cashers to free transaction accounts, from payday loans to payday savings, and much more. True development services build the capacity of individuals to use the full range of credit union products and services to manage debt, use safe and affordable transaction services, build savings that are fully insured and protected, and increase their financial independence.

b. Development Services Recommendations

- Development services should include efforts to build the capacity of individuals in CDFI Target Markets to use financial services as well as financial products.

7. Non-Government Entity Test

Credit unions are cooperatives, owned and managed by their members. Although credit unions are chartered and regulated by government entities, they remain sovereign entities, democratically governed by their members. As a result, almost all of the Non-Governmental Entity sections of the certification application do not apply to credit unions. That said, the sections are quite simple to complete for credit unions and do not represent an undue burden.

II. Answers to Questions in Notice for Public Comment

(a) Whether the collection of information is necessary for the proper performance of the functions of the CDFI Fund, including whether the information shall have practical utility?

The Federation believes the collection of information is essential to the CDFI certification process. However, in some cases the current information collection has no practical utility because it exceeds the requirements for determination of eligibility (for example, the excess documentation required for the Legal Entity test noted above); in other cases the methods used to collect information fail to provide practical utility to the CDFI Fund, the CDFI industry and the public at large (for example, the non-standard collection of information on financial products – and no services – that cannot be productively aggregated, mapped or communicated). Our specific recommendations in Part I of this letter are designed to reduce the burden and



increase the practical utility of the data collected during the certification application process.

(b) The accuracy of the CDFI Fund's estimate of the burden of the collection of information?

The estimated burden of 37.5 hours is a minimum estimate. Although the application narrative form and workbook are not overlong, considerable time is required to collect documents and data, conduct data analyses, generate appropriate Target Market maps and produce the required attachments. Limitations to the mapping system and periodic system outages can add considerable time to the application process for large credit unions and those in dense urban areas with complex maps. While some credit union applicants can complete all tasks in 37.5 hours, most credit union applications require more than double that estimate.

(c) Ways to enhance the quality, utility, and clarity of the information to be collected?

Information collected to determine eligibility for CDFI Certification also has a public utility; institutions that become certified offer loan products, financial services and development services that are critically needed in distressed communities. Consequently, the information collected by the CDFI Fund during the certification process is potentially of vital interest to the people in those communities. Currently, much of that information is collected in a form that cannot be usefully aggregated or communicated to the CDFI Industry or the public at large. As noted in our recommendations in Part I of this letter, increased automation and standardization would enable the CDFI Fund to communicate a deeper and richer map of the CDFI industry; one that does more than provide a name and address of a certified entity, but helps people to find the products and services they desperately need.

(d) Ways to minimize the burden of the collection of information on respondents, including through the use of technology?

Our recommendations in Part I of this letter would minimize the burden of information collection and increase the efficiency and utility of the information collected. Our key recommendations related to the use of technology include:

- Provide automated checklist of products and services that use standard definitions.
- Enable credit unions to download information from their NCUA profiles to pre-populate products, services and financial data fields.
- Enable the integration of data on products, services and total loans into the CIMS3 Target Market maps.
- Upload information on CDFI coverage, products and services to a free public web portal.



(e) Estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information?

Credit unions commonly purchase consulting services to assist with their CDFI certification, with prices ranging from \$2,500 to \$10,000, depending on the credit union and the consultant. We do not know of any credit unions that have purchased operating or technology systems specifically for their CDFI certification application.

As noted in our previous comment letters, the Federation remains firmly committed to the mission of the CDFI Fund and the growth of the CDFI industry. We hope that these comments and recommendations contribute to the achievement of our common goals.

If you have any comments or questions on the contents of this letter, we would welcome the opportunity to discuss these further at your convenience.

Again, many thanks for this opportunity.

Sincerely,

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