



May 13, 2019

Amber Bell, CDFI Program and NACA Program Manager
CDFI Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
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Subj: **Request for Public Comment on Proposed CDFI Program and NACA Program Applications¹**

Dear Ms. Bell:

On behalf of Inclusiv², I would like to thank you for the invitation to comment on the proposed applications for financial and technical assistance under the CDFI and NACA Programs. Inclusiv is a CDFI-certified intermediary, co-founder of the CDFI movement and trade association representing hundreds of community development credit unions serving more than nine million members in low-income rural and urban communities across the United States. Our roots in community development finance are deep; Inclusiv was founded a generation before the CDFI Fund with an unwavering commitment to economic justice and opportunity. This commitment is expressed through our ongoing efforts to strengthen standards, improve performance and increase the impact of CDFI credit unions, the CDFI industry and the CDFI Fund itself.

Before providing our detailed comments on individual questions in the Annex to this letter, we would like to offer context for our comments and summarize our key recommendations.

The Impact of CDFI Data Collection

Inclusiv strongly supports the efforts of the CDFI Fund to collect data that better reflects the scale, scope and impact of the CDFI industry. Regulated CDFIs have a particular interest in these efforts as the contributions of CDFI credit unions and banks have been systematically underreported since the inception of the CDFI Program. We also support efforts to better align the reporting requirements for CDFI Certification and the CDFI Program, which have grown increasingly inconsistent, redundant and burdensome over time. Nevertheless, we are deeply concerned that the transaction-level reporting required by the CDFI Program is being considered as a model for CDFI recertification. This is of particular concern to CDFI credit unions, a majority of which have never received or applied for an award from the CDFI Program. Out of 362 active credit unions that have been CDFI certified, only 139 have ever received a CDFI grant – and 73

¹ Federal Register / Vol. 84, No. 48 / Tuesday, March 12, 2019/Notices, pp 8947-8949

² InclusivTM is the new name for the National Federation of Community Development Credit Unions

have allowed their certifications to lapse due to the current annual reporting requirements.

The departure of large numbers of CDFI-eligible credit unions should concern the entire CDFI industry as it depletes our collective reserves of financial, intellectual and political capital. It also diminishes the powerful example of CDFIs within the much larger credit union industry, where CDFI credit unions consistently outpace their peers in earnings, growth and impact. We believe credit union attrition is due to two main factors:

- **Low participation rates in the CDFI Program:** Just 38% of all active credit unions that have been CDFI certified have ever received a CDFI Program Award – and none of the 73 with lapsed certification ever received an FA or TA grant. Most of these credit unions are small and many could specifically benefit from a TA grant, which is the most accessible part of the CDFI Program. However, while CDFI Banks with up to \$250 million may compete for TA grants, CDFI credit unions with more than \$10 million are barred from consideration.
- **Excessive, Unpredictable and Unnecessary Reporting:** In order to maintain smooth and continuous services to members, credit unions must carefully schedule and allocate scarce resources to deliver reports and data to state and federal regulators, external auditors, and the CDFI Fund. While regulatory data collections are clear in purpose, consistent in timing and format, and balanced in costs and benefits to regulated institutions, CDFI reports are not. For the majority of credit unions that do not participate in the CDFI Program, this raises the costs of maintaining certification far above any discernable benefits and hastens the exodus of fully eligible credit unions.

The recommendations below are designed to lower the costs and increase the benefits for the CDFI Fund, CDFIs of all types, and the millions of people served by certified and eligible institutions. Our recommendations have eight specific objectives:

- Increase the quality and quantity of data available to the CDFI Fund and industry
- Increase the utility of data provided by CDFIs to ensure that a single data collection can serve multiple purposes
- Increase the efficiency and effectiveness of the CDFI Program by providing better and more consistent data for all funding applicants.
- Increase the quality of the CDFI Program applicant pool with stronger, clearer eligibility requirements
- Increase access to the CDFI Program for smaller institutions
- Incentivize CDFIs to make better use of data to expand services in CDFI Target Markets
- Balance the costs of data reporting with the expected benefits and levels of participation of individual CDFIs

- Reduce the total burden of CDFI reporting and allow more resources to be devoted to serving people in CDFI Target Markets.

Recommendations

1. ***Institute a single, annual data collection on a fixed schedule.*** While the CDFI Fund has historically run certification and funding rounds on separate tracks, CDFIs expect a single, coordinated compliance schedule. Inclusiv recommends that Target Market data collection for all purposes be set for 180 days after the end of the fiscal year, which will allow CDFIs ample time to prepare quality reports.
2. ***Balance reporting requirements with levels of participation and benefits.*** CDFIs may be divided into three categories based on their participation in the CDFI Program: (a) CDFI Awardees; (b) Prospective FA Applicants; and, (c) Non-FA CDFIs. The CDFI Fund's annual data collection requirement should be aligned with the costs and benefits to each of these three tiers, as follows:
 - a. ***CDFI Awardees*** will be required to submit the current detailed transaction-level reports that will also serve as their Annual Certification Reports (ACR)
 - b. ***Prospective FA Applicants*** will submit a slimmer, de-identified transaction-level ACR as a requirement for participation in the next funding round. The CDFI Fund is considering this collection from all certified CDFIs, but it would be an unreasonable burden on CDFIs that do not. This will provide the CDFI Program with consistent and detailed information on all prospective applicants, and could even allow the CDFI Fund to establish clear eligibility thresholds that reduce the number of applications from non-competitive CDFIs.
 - c. ***Non-FA CDFIs*** can maintain their certification with a streamlined ACR that collects aggregated data on a county level. CDFIs that submit the streamlined ACR would not be eligible to apply for Financial Assistance but would be eligible to apply for TA grants, some of which could build their systems and capacity for CDFI Target Market tracking and reporting.
3. ***Explain the specific purpose and rationale for each data point collected.*** Most data points collected by the CDFI Fund have a clear purpose, but many do not. CDFIs have reasonable concerns about the utility of these more esoteric data points, as well as the questionable quality of data collected in these areas. The CDFI Fund should produce a document that clearly explains how each data point will be used and why it is needed. Data points with low response quality, high cost of collection and little utility should be dropped.
4. ***Auto-populate financial reports for regulated CDFIs with publicly available data.*** Inclusiv is pleased to note the increased collaboration with regulatory agencies that has streamlined some aspects of CDFI certification and CDFI Program applications. As noted in previous comment letters, regulated CDFIs report thousands of fields of financial data

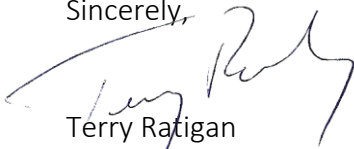
to regulatory on a quarterly basis, all of which is freely available to the public. Nevertheless, credit unions are required to manually re-enter financial data in CDFI Program applications and again in annual reports. We encourage the CDFI Fund to automate the collection of basic financial data for regulated CDFIs to reduce the burden of data entry and risk of error.

5. ***Increase TA grant asset limit for CDFI credit unions to \$100 million.*** As noted above, there is a tremendous disparity between the eligibility thresholds for small CDFI Banks (up to \$250 million in assets) and the \$10 million limit imposed on small credit unions. The National Credit Union Administration currently defines small credit unions as those with less than \$100 million in assets. Raising this eligibility would increase the participation of small credit unions in the CDFI Program and encourage greater retention of CDFI certification.
6. ***Provide detailed debriefings for all CDFI Program applicants.*** As noted in our previous comment letters, Inclusiv recommends that the CDFI Fund provide detailed and substantive debriefings to all applicants – successful and unsuccessful alike. At a minimum, applicants should receive their exact scores for each application section with specific reasons given for all point deductions. This change would provide all applicants with important, objective feedback on performance areas that are less competitive with their peer CDFIs and in need of improvement. Each year, this feedback would help CDFIs determine their readiness to apply, reduce the number of non-competitive applicants and raise the performance level of CDFIs across the board.

Inclusiv believes the recommendations above will strengthen the CDFI Program through a better alignment with CDFI Certification and a more strategic approach to data collection. Our detailed comments on the specific questions from the Federal Register are included in the Annex to this letter.

Many thanks for your consideration of our comments and recommendations. As always, we would welcome the opportunity to discuss these further at your convenience.

Sincerely,



Terry Ratigan
Senior CDFI Analyst

Copies: Cathie Mahon, President/CEO
Pablo DeFilippi, Senior Vice President, Membership & Network Engagement
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Eben Sheaffer, Chief Financial Officer/Chief Investment Officer
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Annex

Inclusiv Comments on Specific Questions Listed in Federal Register

General Questions on Application

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

- As noted in our cover letter, it is not clear that all of the data collected by the CDFI Fund is necessary for performance or has practical utility. The CDFI Fund should produce a document that clearly explains how each data point will be used and why it is needed. Data points with low response quality, high cost of collection and little utility should be dropped.

(b) the accuracy of the agency's estimate of the burden of the collection of information;

- The CDFI Fund generally underestimates the burden of information collection, largely because the estimates are separately considered for certification and the CDFI Program. As noted above, the lack of a unified, streamlined, predictable and appropriate data collection across all programs increases the burden for each individual data collection. Inclusiv believes the six recommendations offered in our cover letter would bring the compliance burden within the CDFI Fund estimates.

(c) ways to enhance the quality, utility, and clarity of the information to be collected;

- Recommendations 1, 2, 3 and 4 in our cover letter, above, are specifically designed to enhance the quality, utility, and clarity of the information to be collected.

(d) ways to minimize the burden of the collection of information on respondents, including through the use of technology; and

- Recommendations 1, 2, 3 and 4 in our cover letter, above, are also specifically designed to reduce the burden of information to be collected.

(e) estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services required to provide information.

- The current costs of CDFI compliance are largely dedicated to staff and consulting. The more predictable, unified and coordinated reporting system outlined in our recommendations would incentivize credit unions to automate much of the Target Market classification that is now done outside of their IT infrastructure. While the initial costs to install these systems would be comparable to the current annual costs of CDFI compliance, the recurring costs would be far below current levels, representing a strongly positive return on investment.

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 proposed to be collected is generally appropriate, but it is not sufficient to make consistent evaluations across FA applicants. Our Recommendation # 2 would require transaction-level ACR reporting as a pre-requisite for FA Applicants, which would provide more consistent and comprehensive data on all FA applicants and increase the quality of the applicant pool -- without unduly burdening CDFIs that do not apply for FA.
2. Are certain questions or tables redundant or unnecessary?
 - Most of the financial data for regulated CDFI should be auto-populated with publicly available data from regulatory agencies
 - If transaction-level data is reported by all FA applicants, then product portfolio tables would be unnecessary and beneficiary snapshots could be streamlined.
3. Should any questions or tables be added to ensure collection of relevant information?
 - Community Partner applicants should have a single additional question to describe the nature of the partnership. Currently Community Partner applicants are forced to squeeze additional narratives into questions that already have tight character limits.
4. In general, does the data and information requested in the Application allow an Applicant to demonstrate its ability explain its business plan and ability to meet the FA Objectives described in the Application?
 - CDFI Depositories will always be challenged to fully explain their business plan and capacity due to the comprehensive range of products and services they offer, but the data and information requested in the current application has produced the most balanced results to date across CDFI types.
5. Is the data and information requested in the Application to assess the business plan adequate to assess the different CDFI activities?
 - No, as per our Recommendation #2, it would be strengthened by the collection of lending data prior to the application round.
6. What, if any, additional data and information should be collected to assess business plan activities?
 - As per our Recommendation #2, the collection of de-identified loan data prior to the application round will strengthen the business plan analysis.
7. Are any of the questions particularly burdensome or difficult to answer? If so, please be specific as to type of CDFI (e.g., regulated, non-profit, sector) that find it difficult.
 - No comment.

8. Are the character limitations for narrative responses appropriate? Should certain questions allow additional or fewer characters? If so, please specify.
 - Character limits will always be a greater challenge for regulated CDFIs, but that challenge is not resolved by simply increasing the narrative limits (which also increases the burden)
9. Are there questions that lack clarity as to intent or purpose? If so, which questions, and what needs to be clarified in order for Applicants to provide a comprehensive response?
 - No comment
10. Tables in Questions 6 a–d ask for certain data and information that will be used to assess an Applicant’s projected Financial Assistance Objectives. Is the data collected in these tables adequate to assess an Applicant’s projected Financial Assistance Objectives?
 - Yes
11. Is there other information not requested in the Application that would demonstrate an Applicant’s projected business plan activities?
 - ACR data, noted above
12. The proposed application includes new questions from the Treasury Office of Civil Rights and Diversity (OCRD) concerning data collection for civil rights compliance and enforcement purposes under Title VI of the Civil Rights Act, and similar statutes applicable to Federal financial assistance.
 - a. Will Applicants be able to answer the questions?
 - CDFI credit unions will be able to respond to most of the questions that apply, but will not be able to answer Question #14.
 - b. Are there any questions that regulated institutions cannot answer?
 - Question #14 requires Applicants to “collect and report race and national origin data of the program beneficiaries,” but regulations prevent credit unions from the collection and tracking of such data.
 - c. What is the anticipated level of burden to answer the proposed questions?
 - For the questions that are applicable to CDFI credit unions, the estimated burden would be 8 – 10 hours.
13. 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 Comment

14. In previous application rounds, the CDFI Fund mandated that FA Applicants must be Certified as CDFIs prior to the announcement of award decisions in order to receive an FA award. Beginning with the FY 2020 application round, the CDFI Fund plans to change this requirement so that FA Applicants must be Certified CDFIs as of the date the NOFA is published in the Federal Register. In your opinion, would this requirement limit the number of organizations that apply for the FA award or cause undue hardship on Applicants? If so, in what way?

- Our recommendation that FA applicants submit transaction level data as pre-requisite for the FA competition means that all FA applicants would need to be certified or have submitted certification applications with transaction level data prior to the release of the NOFA.

15. The CDFI Fund is seeking input in order to update the current definition of Financial Services to better reflect the range of Financial Services offered by the industry. Financial Services is currently defined as FA expended for providing checking, savings accounts, check cashing, money orders, certified checks, automated teller machines, deposit taking, safe deposit box services, and other similar services. The CDFI Fund is also seeking input on how different Financial Services are measured in the industry.

a. What, if any, updates should the CDFI Fund make to the definition of Financial Services?

- None

b. How should the CDFI Fund measure each type of Financial Service based on industry practice?

- There is no industry standard to measure financial services in the aggregate, but individual services may be quantified along the lines of the examples. CDFIs that apply to expand financial services should be required to specify the financial service and provide quantitative measures that are appropriate for that particular service.

16. The current application has the following predetermined Eligible Lines of Business for the FA Award: Affordable Housing, Commercial Financial Services, Commercial Real Estate, Community Facilities, Consumer Financial Products, Consumer Financial Services, Intermediary Lending, Microenterprise, and Small Business. Are there other commonly provided Lines of Business not captured in this list?

- No, those Eligible Lines of Business are sufficient.

Technical Assistance (TA) Application

17. Based on its applicant type, do the questions in the TA Application allow the Applicant to clearly address the evaluation criteria for:

(a) An Emerging and Certifiable CDFI and its ability to achieve certification;

- Yes

(b) A Sponsoring Entity and its ability to create and certify a new CDFI; and

- No comment

(c) 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

18. How do CDFIs improve their capacity by spending TA award funds on Supplies, and Equipment? What questions could the Application contain that would provide this information about these capacity improvements?

- No comment

19. Are there questions in the TA Application that are unclear and/or repetitive?

- No comment.

20. What additional guidance can the CDFI Fund provide in order to assist applicants with completing a TA application?

- Inclusiv supports the CDFI Program’s efforts to simplify and streamline the TA application in recent years. We have observed that the remaining hurdles for first time applicants have less to do with the application than with the pre-application steps – i.e., SAM.gov, Grants.gov and AMIS registrations – that often derail otherwise eligible applicants. We recommend the CDFI Fund develop a user-friendly “Quick Start Guide” specifically designed to lead first-timers through these pre-application steps.

21. Can 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? If yes, what questions should the CDFI Fund include in the TA application and what evaluation factors should the CDFI Fund consider when evaluating an applicant’s ability to serve the unique needs of Native Communities?

- No comment

22. Should the CDFI Fund develop NACA Program TA application questions that are specific to organizations applying as Sponsoring Entities? If yes, what questions should the application include in order to assess an organization’s ability to successfully create an emerging CDFI within one year and ensure that the emerging CDFI achieves CDFI Certification within four years?

- No comment.

23. The primary purpose of making a Technical Assistance Award to a certified CDFI is to increase its capacity to serve its Target Market(s). How can the CDFI and NACA Programs update their Technical Assistance applications in order to make a more accurate determination as to whether or not a TA award will increase a certified CDFI's capacity to serve its Target Market?

- No comment

24. 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?

- As noted above, the pre-application guidance could be improved, but the TA application guidance is largely sufficient.

Healthy Foods Financing Initiative (HFFI-FA)

25. Is the information being collected sufficient to determine whether an Applicant is financing eligible Healthy Foods transactions? If no, what other information should the CDFI Fund collect in order to determine whether an Applicant is financing eligible Healthy Foods transactions?

- No comment

Persistent Poverty Counties (PPC-FA)

26. Is the information collected sufficient to determine whether an Applicant is providing eligible financing in Persistent Poverty Counties? What other information should the CDFI Fund consider in order to determine whether an Applicant is providing financing in Persistent Poverty Counties?

- Yes. The Persistent Poverty County supplemental financing is fairly straightforward. No additional information should be required.