LISC
LOCAL INITIATIVES
SUPPORT CORPORATION

December 19, 2022

Ms. Michelle Dickens
Program Manager
Office of Certification Policy and Evaluation
Community Development Financial Institutions (CDFI) Fund
U.S. Department of Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

Re: CDFI Target Market Assessment Methodologies

Dear Ms. Dickens,

The Local Initiatives Support Corporation (LISC) thanks the CDFI Fund for the opportunity to provide feedback on proposed methodologies for assessing how CDFI lending is being used for Target Market recipients. We appreciate the CDFI Fund's ongoing efforts to strengthen CDFI certification practices and encourage Treasury to continue to work with stakeholders as certification policies and procedures are updated.

Established in 1979, LISC is a national nonprofit housing and community development organization and certified CDFI dedicated to helping community residents transform distressed neighborhoods into healthy and sustainable communities of choice and opportunity. LISC mobilizes corporate, government, and philanthropic support to provide local community development organizations with loans, grants, and equity investments; as well as technical and management assistance. Our organization has a nationwide footprint, with local offices in 38 cities. In 2021, LISC invested over $2 billion in these communities. Our work covers a wide range of activities, including housing, economic development, building family wealth and incomes, education, and creating healthy communities.

<u>Background</u>
To be a Certified CDFI, an organization must demonstrate that it serves at least one eligible Target Market (either an Investment Area or a Targeted Population). In addition, it must direct at least 60 percent of both the number and dollar volume of arm's-length, on- balance sheet Financial Products to one or more eligible Target Market components. Under the current policies, Applicants must describe and seek approval for each assessment methodology they have used and intend to use to confirm financing activity to their identified Target Market(s).

The CDFI Fund has released a proposed list of pre-approved Target Market assessment methodologies and states that Applicants which use one of the pre-approved options will no longer be required to describe the assessment process used to confirm financing activity to their Target Market(s) as part of the certification application or a Target Market modification. If an applicant or certified CDFI seeks to use an alternative or modified Target Market assessment method, it will need to submit a service request for consideration of that process by the CDFI Fund. If new assessment methodologies are approved, the CDFI Fund intends to update the list of pre-approved methodologies as appropriate, so that any newly approved methodologies may be available to other applicants and certified CDFIs.

Recommendations

LISC offers the following recommendations on the proposed pre-approved Target Market assessment methodologies guidance.

1) Do each of the listed Target Market assessment methodologies, if used, provide sufficient confidence as to the level at which an Applicant or Certified CDFI is serving an Investment Area, LITP, or OTP? If no, please identify the methodology, the reason it may inaccurately capture the level of service to an Applicant's or CDFI's Target Market, and how the methodology could be strengthened.

a) *LISC believes that the Target Market assessment methodologies generally strikes the right balance of ensuring that CDFI lending is assisting TM recipients.* ***LISC believes though that the guidance can be strengthened by explicitly stating that CDFIs are only expected to utilize closed loans (with no ongoing income monitoring or reporting) for a CDFI certification application or annual reporting****. This would be in line with current transaction level reporting requirements.*

b) ***We strongly encourage the CDFI Fund update its proposed guidance for Low-Income Targeted Populations so it includes an End User option for for-profit recipients of CDFI lending****. This is necessary since many CDFIs such as LISC lend to for-profit developers to construct affordable rental housing, early childcare facilities, charter schools, healthy food retail, or other projects primarily serving low-income populations. The proposed for-profit guidance only includes a requirement that at least 50 percent of the owners are assessed as low-income. LISC recommends this guidance be updated to also include an option that at least 50 percent of the End Users be low-income, as is permitted with nonprofit borrowers.*

c) ***LISC recommends that the proposed Investment Area recipient type eligibility guidance is updated to remove the requirement that at least 50 percent of the owners' business locations are located in qualifying census tracts.*** *It's unclear why a CDFI would need to show that an owner's projects are primarily in a low-income census tract when a CDFI is only typically financing one project in a specific community. We recommend that the CDFI Fund only review the transaction to ensure it's in a qualifying Investment Area census tract.*

2) Are there additional assessment methodologies the CDFI Fund should consider that it may not have previously approved, but that would serve to provide sufficient confidence as to the level at which an Applicant or Certified CDFI is serving a Target Market? If yes, please provide the following information for each proposed methodology:

a) The proposed pre-approved assessment methodologies for Low-Income Targeted Populations allows for CDFIs to either collect income data and primary residence information from an individual, owners, or End User, and assess their low-income status using HUD data OR allows the use of a programmatic proxy. The Fund proposes that the programmatic proxy should apply an income limit aligned with the CDFI Fund's definition of low-income (generally under 80 percent of area media income) and that meets one of the following conditions:

i. *Verification that the Financial Product individual/owner/end-user has been approved to participate in a Federal, State, local or Tribal government program that is Low-Income directed.*
ii. *Confirmation of income-based assistance program participation status for all of the community service provider's end-users.*
iii. *Confirmation of clear, government-established/approved minimum standards regarding the percentage of the project slots that must be reserved for/occupied by Low-Income participants.*

LISC believes the use of a programmatic proxy is a valuable and necessary option since confirming income can be challenging for CDFIs financing multiple project types. ***We recommend that the CDFI Fund update the list of pre-approved programmatic proxies for Low-Income Targeted Populations to also include other federal programs, which are low-income directed and impose income limitations aligned with CDFI certification practices****. Specifically, we'd recommend that Low-Income Housing Tax Credit developments be added since rents are restricted in those units to households earning up to 80 percent of area median income, if the overall project average is 60 percent.*

In addition, ***LISC recommends that all forms of HUD Section 8 rental assistance be listed, instead of just tenant-based vouchers through the Housing Choice Voucher (HCV) program****. Section 8 Project-Based Rental Assistance and Project Based Vouchers have income standards generally aligned with HCVs and are an important resource for tenants and a financing support for affordable rental housing targeted towards extremely- and very low-income families.* ***Similarly, LISC recommends that U.S. Department of Agriculture (USDA) affordable multifamily financed properties (Section 514, 515, and 516) are included since the majority of tenants in this housing are very low-income.*** For instance, most Section 515 properties are occupied by seniors and people with disabilities on fixed incomes, with an average tenant income of $13,600.[1]

We also recommend the Fund include other federal programmatic proxies to reflect the wide range of CDFI financing activities. ***We recommend the list be updated to include federally qualified health centers (FQHC), Title 1 schools, Head Start, Child Care and Development Block Grant (CCDBG) and food retail outlets located in USDA defined Food Deserts****. FQHCs are community-based organizations that provide primary and preventive care, regardless of a patient's ability to pay or health insurance status. According to the U.S. Department of Health and Human Services, almost 90 percent of all patients are at 200 percent of the federal poverty level, which is under the 80 percent area median income threshold.*[2]

Title 1 school designations are based on the number of low-income students who are considered at-risk for school achievement. To be considered a Title 1 school, a minimum of 40 percent of the students must qualified for free or reduced lunch. Reduced price lunches are available to households making up to 185 percent of federal poverty rates, while free lunches are available if

[1] https://ruralhome.org/wpcontent/uploads/storage/documents/publications/rrreports/HAC_A_PLATFORM_FOR_PRESERVATION.pdf
[2] https://data.hrsa.gov/tools/data-reporting/data-snapshot

a family makes up to 130 percent of federal poverty guidelines. Both are under 80 percent of area median income.[3]

Head Start is a national child development program that serves children from birth to age five and who are in families with incomes below federal poverty guidelines.[4] *Children from homeless families and families receiving public assistance are also eligible. These families and those receiving CCDBG assistance would generally be under the 80 percent of area median income threshold.*

Lastly, the CDFI Fund should include USDA defined Food Deserts since the criteria for identifying a census tracts as low-income is: a) tract's poverty rate is 20 percent or greater (same as New Markets Tax Credit program); or tract's poverty rate is 20 percent or greater; or tract's median family income is less than or equal to 80 percent of the statewide MFI or the metropolitan area's MFI.[5]

3) What standards should the CDFI Fund use in its decision making to approve or disapprove a proposed assessment methodology?

LISC recommends that the CDFI Fund structure its decision making for approving or disapproving programmatic proxies based on End Users. End Users are the low-income beneficiaries of CDFI lending, so while it's necessary and appropriate to review the ownership entity for CDFIs with a Low-Income Targeted Population Target Market, the goal should be to understand how this lending benefits underserved people*. This is why it's critical that the CDFI Fund update their LITP pre-approved assessment methodology guidance to also include End Users for lending to for-profit organizations, since most will not be owned by low-income people although the projects they support will ultimately assist such families. Requiring at least 50% of End Users to be low-income is an appropriate standard, and in line with current transaction level report guidance.*

4) The CDFI Fund also is considering whether to include as a pre-approved assessment methodology the use of a geography-based proxy to identify members of a Low-Income Targeted Population in the absence of documentation of an individual's actual income. One such approach would be to identify eligible areas based on the share of households in the area that earn less than 80 percent of the Area Median Income (AMI), such that for a Financial Product or Financial Service delivered to a resident of the area there would be a reasonably high likelihood that the resident would be determined to be low-income.

i. Should the CDFI Fund establish a geographic proxy for Low-Income status as an approved Target Market assessment methodology, such that a Financial Product or Financial Service delivered to a resident of a qualifying block group would be deemed delivered to an LITP, even if the proxy might overestimate the share of LITP borrowers served by an Applicant or Certified CDFI?

LISC supports the use of a geographic proxy for determining low-income status since it can be challenging in practice to verify the income of End Users from a CDFI's lending*. Some CDFI*

[3] https://www.fns.usda.gov/cn/fr-021622
[4] https://eclkc.ohs.acf.hhs.gov/eligibility-ersea/article/poverty-guidelines-determining-eligibility-participation-head-start-programs
[5] https://www.ers.usda.gov/data-products/food-access-research-atlas/documentation/

lending sectors are easier to understand household income, such as financing for affordable rental housing, where there are income restrictions imposed by other federal sources. This is not the case with CDFI lending for commercial real estate projects, such as grocery stores in undeserved communities. This is why it's important that the Fund allow places which are primarily low-income to be allowed as an approved LITP assessment methodology, since the End Users and employees of such projects are primarily low-income.

ii. Alternatively, should the CDFI Fund accept the use of such a proxy only when other methodologies are unavailable (*e.g.,* documentation of actual income or borrower participation in another program with income-based eligibility restrictions)?

LISC believes it's appropriate that a geographic proxy only be allowed if a CDFI can't meet the other methodologies available. *This is needed since LITP designated CDFIs should make their best efforts to ensure that low-income families are being served by their lending, either through direct tracking or through the use of CDFI Fund approved proxies, some of which we recommend above. In practice, this should mean that a CDFI certification applicant or existing certified CDFI would attest it can't verify income, so it's using a CDFI Fund approved end-user or geographic proxy to show that the project is primarily serving low-income people.*

iii. If the share of Low-Income households in a census tract block group is an acceptable proxy for LITP status, is 70 percent an appropriate qualifying threshold to maintain the integrity of the CDFI Certification? If no, what is an appropriate threshold?

LISC recommends the share of low-income households in a census tract block group should be set at 60 percent to qualify as a geographic LITP proxy. *We believe 60 percent is a more appropriate standard since it's in line with the requirement that 60 percent of a certified CDFI's annual lending is in it's Target Market. In addition, 60 percent ensures that low-income households are the majority of a block group residents, mitigating concerns that the financing isn't benefitting LITPs.*

5) Are there guardrails the CDFI Fund could place on such a proxy to limit opportunities for abuse of the proxy, *e.g.,* an entity that chooses to use the proxy because it will allow it to represent more activity as directed to an LITP than would otherwise qualify? If yes, describe those guardrails? If the CDFI Fund allows the use of a geographic LITP proxy, should it also require users of the proxy to obtain an attestation from a Financial Product or Financial Services recipient that their income is below 80 percent of the area median family income?

LISC doesn't believe that the CDFI Fund should impose additional restrictions on CDFIs which utilize a geographic proxy, since these tracts are overwhelmingly low-income, providing reasonable assurance to Treasury that the financing is benefitting underserved people. LISC notes that additional restrictions instituted by the Fund may cause unintended consequences, including depressing CDFI lending where it's difficult to evaluate the income status of End Users or others. CDFIs reporting their entire lending volume as one component of qualifying for CDFI certification and maintaining that status. These loans are overwhelmingly not subsidized through CDFI Fund assistance programs. We believe it is necessary to provide CDFIs with flexibility when a loan is delivered to an area that is primarily low-income, since it incentives the CDFI to make every effort to assist LITPs.

We thank you for the opportunity to offer suggestions and please contact Mark Kudlowitz (mkudlowitz@lisc.org), LISC's Senior Director of Policy, if you have any questions.

Sincerely,

Matthew Josephs
Senior Vice President, Policy