



May 13, 2019

Amber Bell
CDFI and Native Initiatives Program Manager
Community Development Financial Institutions (CDFI) Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, D.C. 20220

RE: CDFI Program Paperwork Reduction Act Notice and Request for Public Comments

Dear Ms. Bell:

The Local Initiatives Support Corporation (LISC) thanks the CDFI Fund for the opportunity to provide feedback on the fiscal year 2020–2022 CDFI Program application. We appreciate the CDFI Fund’s ongoing engagement with stakeholders and encourage Treasury to continue to work with the public as further program changes are made. We offer the following comments and look forward to working with the CDFI Fund on future CDFI Program changes.

D) General Comments

Before we address specific questions posed in the Notice, we have some general comments about the CDFI Program. As you know, the CDFI Program is the most important program available to build the capacity of CDFIs to achieve community impact. LISC has been fortunate to receive multiple CDFI Program awards, which have supported activities ranging from affordable housing to charter schools facilities to healthy food financing. We value our partnership with the CDFI Fund and the ability to use CDFI Program resources flexibly to expand our lending and grow our impact nationally.

The CDFI Program has undergone many changes in recent years, from the introduction of the Awards Management Information System (AMIS) web-based interface, new compliance requirements, and revised application review metrics and processes. We believe most of these changes have been positive since they increased the ability of the CDFI Fund to discern impact from awards while also decreasing applicant burden.

LISC offers the following recommendations based off the achievements the CDFI Fund has made in recent years:

1. ***Provide additional feedback on how the CDFI Fund is reviewing application information.*** The CDFI Fund collects a wide array of information in the CDFI Program application although provides the public very little detail on how this information is evaluated by the Fund. The fiscal year 2018 CDFI Program Notice of Funding Availability (NOFA) describes a five step FA application review process, which includes the evaluation of financial, loan portfolio, compliance, business plan, and other information. The NOFA lists the total scores available by section although doesn’t provide FA applicants an understanding of what the CDFI Fund considers to be exemplary in each scoring category. For instance, the NOFA states that the “Total Financial Composite Score is based on the analysis of 24 financial indicators and that Applicants must receive a score of one, two, or three to advance to Step 3.” Neither the NOFA, nor the fiscal year

2018 FA Guidance, provides any information on how the CDFI Fund is reviewing this financial information and what an Applicant needs to receive the highest score. Sections 203-205 of OMB's Uniform Administrative Guidance require federal agencies to provide applicants an understanding of a federal agency's application review procedures and LISC encourages the CDFI Fund to provide applicants additional information on how applications are being reviewed internally. LISC notes that the CDFI Fund previously provided FA Applicants information on the standards used to evaluate an Applicant's financial health and loan portfolio quality.

2. ***Allow CDFI Program Applicants to Increase Specific Lending Product Activity Instead of Requiring an Increase in Total Lending.*** The fiscal year 2020 FA Guidance is similar to previous FA Guidance, which mandates that CDFI Program applicants choose specific FA Objectives. The fiscal year 2020 Guidance lists four options – 1) Expand operations into a new geographic area or areas; 2) Serve a new targeted population or populations; 3) Provide additional or new products or services; and 4) Increase the volume of current products and services. LISC notes that the current options do not allow an Applicant to propose to use FA to increase a specific lending product currently greater than 5 percent of their existing portfolio. Applicants looking to use FA to increase their lending volume must either “increase the *total* volume of current products and services”, which looks at the total Financial Products to be deployed over the three year reporting period or “provide additional or new products or services” for those products which are currently less than 5 percent of the current portfolio. LISC recommends that the CDFI Fund provide applicants a FA Objective, which would allow applicants to use FA to increase certain lending products. This is in line with 12 U.S.C. 4704, Section 105(b)(4) and (5) which state that the Fund should review if the applicant will “offer more products or services, or increase the volume of its business.” The law does not prescribe the current FA Objective structure and provides the CDFI Fund discretion on the programmatic and compliance framework. LISC recommends this new FA Objective so Applicants have flexibility to use FA subsidy to increase specific lending products. This will also allow Applicants to better align their business strategy described in the FA narrative with their FA Objective request, since the current framework precludes using FA for Applicants interested in targeting the subsidy to specific products they want to increase.
3. ***Structure award sizes to award Recipient capacity and ability to achieve FA application Objectives.*** The fiscal year 2018 CDFI Program NOFA states that “the CDFI Fund determines an award amount for each Application based on Step 4. Total Policy Objective Review Score, the Applicant's request amount, and on certain variables, including but not limited to, an Applicant's deployment, track record, minimum award size, and funding availability.” LISC has no objection to the variables being reviewed when the CDFI Fund is determining the appropriate FA award size. We note though that Core FA awards have been capped at \$1 million in recent years, which is inconsistent with the CDFI Fund's objective of providing additional CDFI Program funding for Applicants with an identified ability to leverage and deploy the funding for FA eligible activities. LISC encourages the CDFI Fund to use the award making process to reward the ability to deploy FA dollars consistent with the CDFI Program's objectives.

LISC also encourages the CDFI Fund to revisit the current bifurcation of the FA application pool into small and emerging CDFIs (SECA) and Core applicants. As of fiscal year 2019, SECA applicants were defined as Applicants which are certified or certifiable CDFIs, request less than \$700,000 in FA funds and either have a relatively small amount of assets (differentiated by institution type although \$5 million or less for nonprofit loan funds) or less than four years of operating history. All other applicants are Core applicants. This bifurcation doesn't recognize the maturation of the CDFI industry since the Fund's inception. For instance, there are now over a 1,000 certified CDFIs, with varying levels of size and capacity and this current bifurcation

provides small CDFIs roughly the same FA award size as a much larger CDFI (\$700,000 vs. \$1 million). LISC recommends that the CDFI Fund create differentiated applicant categories based on financial and loan portfolio metrics so CDFIs of like size and capacity compete amongst one another. And to further our point above, we recommend award sizes be structured based on the ability of the CDFI to deploy the award. In practice, this means providing CDFIs award sizes based on performance, not artificial funding caps. The Riegle Act's three year, \$5 million funding cap mitigates risk to the CDFI Fund of reducing the amount of yearly awards, since a large CDFI, which receives a larger FA award amount, would effectively be shut out of future funding rounds.

4. ***Ensure compliance requirements are commensurate with award funding determinations.*** The fiscal year 2018 FA Application Guidance document stated that applicants, who received a reduced award amount, would still be held to the FA Objective goals entered in the application even though these are based on the receipt of a full award request. LISC believes this penalizes organizations that receive award cuts and that the CDFI Fund should reduce compliance requirements on a pro rata basis. Moreover, we believe that this effectively results in a modification of the performance goals, since the reduction in the award with no proportionate reduction in the performance goals results in the applicants having to make up the difference in the financing needs to yield those performance goals. We think this is inconsistent with 12 U.S.C. 4707(f)(2)(B), which specifically states that performance goals are to be negotiated between the Fund and each Recipient and that goals should be modified with the consent of the parties. It ultimately results in forcing CDFI award Recipients to find other zero cost funds to support the same blended interest rate lending projections submitted in the application. This is difficult since few other similar sources exist, which will require Recipients to fund each loan with a smaller percentage of FA funds, reducing any interest rate advantages to the borrower.
5. ***Provide debriefing documents for all applicants, regardless of whether an organization receives an award.*** The CDFI Fund only provides CDFI Program applicants a debriefing document if they do not receive an award. Awarded applicants, including those which receive a reduction in their award, do not receive any feedback on how their application was evaluated. LISC recommends that the CDFI Fund produce debriefing documents for all applicants, so awarded organizations can see where the CDFI Fund identified weaknesses and strengths. This will especially assist Recipients that receive reduced award amounts, since the CDFI Program's current practice doesn't allow these organizations to understand where the CDFI Fund identified concerns.
6. ***Define "close" and "deployment" for the purposes of the CDFI Program application and Assistance Agreement.*** The terms "close" and "deployment" are used in the FA Application Guidance, Assistance Agreement, and NOFA although are not defined in any of these documents or other ancillary materials. LISC encourages the CDFI Fund to define "close" and "deployment" so all applicants and award Recipients have a standard definition for submitting lending information at application and during the post-award compliance period. The CDFI Fund should also issue guidance on how these newly defined terms will be treated for existing awards and issue corresponding amendments for compliance purposes.

II) Specific Comments

LISC offers the following comments on specific questions in the fiscal year 2020–2022 FA Application for public comment.

A) Executive Summary

Question 1. Can the CDFI Fund prepopulate this field using annual CDFI certification data instead of asking applicants to resubmit this information?

Question 2. AMIS Tables.

- a) Table 1. Table 1 states “Clients and Beneficiaries Receiving Financial Products” although lists Financial Products, Financial Services, and Development Services under Aggregate Activity which is inconsistent with the title. Is this due to AMIS population taking place in other places in the application?
- b) Table 1. The CDFI Fund should allow applicants to count a client or beneficiary in both Financial Products and Development Services when they receive both forms of assistance.
- c) Table 3. Moderate Income should be defined as 81%-120% and Low Income should be 50%-80%.
- d) Table 5. The table requests the amount of loan and equity outstanding in each state although the title should be reworded to reflect this since it states “Application Geographic Areas”, which makes it seem like the CDFI Fund wants information on how the award will be geographically targeted. LISC recommends this table be titled “Table 5. Applicant’s Geographic Financing Coverage” or something similar.

B) Business Strategy

Question 6.

Overall:

- CDFI Fund should clarify for Applicants when they should anticipate the beginning of the three year award period since it’s referenced in multiple tables.
 - CDFI Fund should specify for Applicants what information they are being held to in the application for compliance purposes and provide additional clarity in the introductory paragraph before Question 6a.
- a) Table 10. Include a “\$ or %” in front of “Projected Activity to this Area.”
 - b) Table 12. Change third row in Financial Product table to state: Must be 5% or less of existing portfolio for most recently completed historic fiscal year to be considered a new Financial Product (remove “or service” since that’s not applicable in this table).
 - c) Table 12. “Intermediary Lending to Nonprofits and CDFIs” appears twice in the table so one row should be removed.
 - d) Table 13. Change fourth row to state: Must be 5% or less of existing portfolio for most recently completed historic fiscal year to be considered a new Financial Service (remove “financial product or” since that’s not applicable in this table).

Question 8. Previous awards.

- a) Table 17. The CDFI Fund should specify what fiscal year time period previous Award Recipients should cover for Table 17 and the narrative response.

Office of Civil Rights and Diversity (OCRD) Title VI Requirements

Overall:

- Title VI requirements are required for federal financial assistance award Recipients. Why is this information being collected at application instead of post award reporting? This increases applicant burden, without a clear rationale. If possible, Treasury should only require this reporting for award Recipients.

- Instead of having individual questions for Award Recipients, can the CDFI Fund utilize an OMB standard form, which requires the Recipient to assure its compliance with Treasury's Title VI requirements? This would reduce award Recipient burden and ensure compliance through certifications and Treasury audits.
- The CDFI Fund or ORCD should provide as much guidance as possible on these questions since they don't fit well with the CDFI Program's award model. If possible, Treasury should reference civil rights regulations, guidance documents, or model forms where available to help award Recipients.

Question 1. The CDFI Fund or the OCRD needs to provide additional guidance on the relationship between the CDFI Program financial assistance and compliance before asking individual questions. For instance, question 1 asks for the "demographic profile of the service area that includes identification of the locations of minority population in the aggregate." Is this referencing an Award Recipient's entire certified Target Market or only the areas served through the expenditure of a Financial Assistance award? Related, can the CDFI Fund provide this information to OCRD since they have a database of all certified CDFI Target Markets and should be able to provide this through Census and other publicly available secondary datasets?

Question 2. This question is vague and difficult to understand in terms of CDFI lending and development services provision. For instance, what is Treasury's expectation and standards for engaging minority populations when CDFIs lend for projects? Many borrowers approach CDFIs to access credit for a wide variety of project types (affordable housing, small business, community facilities, etc.) and CDFIs don't often have the procedures nor the back office infrastructure to collect this data. CDFIs are structured and certified by Treasury to increase access to credit and services for low-income areas and/or low-income populations, including targeted populations, which often include minority residents. Many CDFIs are removed from the direct beneficiary of their credit since organizations often lend to third parties, such as a developer, which creates real estate projects benefitting low-income people. This model limits the ability for CDFIs to engage local populations. LISC recommends that additional guidance be provided on how minority populations are ideally engaged with traditional CDFI financing and service activity and that Treasury cite (or create) publicly available best practice templates. LISC notes that question 1 above in the OCRD Title VI Requirements document asks for a demographic profile of the service area and that this response should be sufficient and negate the need for this question.

Questions 3, 4, 5, and 11. Treasury should explicitly state that CDFI Program applicants and award Recipients do not need to complete this question unless they are a Depository Institution Holding Company, which intends to pass through the dollars to a bank.

Question 6. Treasury should provide best practices and resources with Title VI compliance in each question. For instance, in question 6, it asks that a "statement of the locations where the Title VI notice to the public is posted indicating the recipient complies with Title VI..." Are notices required at each local office of a CDFI? Are they required when there is any Department of Treasury grant assistance in a funded project? Does the Department of the Treasury provide boilerplate text for Recipients to use when complying, and if so, is this question referencing this [document](#)? Also, are there recommended practices for where statements should be located in a Recipient's office or funded projects? LISC highly recommends that Treasury provide additional guidance and resources since this proposed data collection is new and many organizations will not know how to comply.

Question 8. How often do federal agencies conduct Title VI reviews, and is there a publicly available website where award Recipients can receive copies of those reviews?

Question 12. CDFIs are lenders, not developers, although fund commercial and residential real estate

projects. How does this question apply to CDFIs who aren't involved in the facility selection process and only originate the loan? In addition, Treasury should define "facility" for the purpose of this question.

Question 13. Treasury should define "existing assistance" in this sentence.

Question 14. Treasury should define "program beneficiaries" and "benefits or services" in this question, and provide additional guidance on what this means for a CDFI. For instance, is this only applicable to Development Services where a CDFI provides a direct service to an individual? Treasury should note that many CDFIs provide Development Services to nonprofit organizations and other business partners where the race and national origin of the employee of that organization receiving a service doesn't seem applicable for the purpose of this question. Treasury should provide more detail and resources if this is intended to cover the provision of Financial Products since its unclear how this would work for a developer constructing a residential or commercial real estate project.

Healthy Food Financing Initiative – Financial Assistance (HFFI-FA)

Overall:

- The CDFI Fund should include a paragraph, which describes current HFFI-FA deployment compliance requirements so applicants understand what they will be held to if they receive an award.
- The CDFI Fund should state defined HFFI-FA terms, including Food Desert, Healthy Foods, Healthy Food Retail, and others so Applicants include data in line with the Fund's terminology. The CDFI Fund should also link to outside references used in HFFI-FA compliance (USDA Food Access Research Atlas and USDA Dietary Guidelines) and specify which standards are used for compliance purposes. For instance, the CDFI Fund should state which USDA Food Desert Research Atlas Food Desert options the Fund will accept for HFFI-FA deployment Performance Goals and Measures and provide specific examples, where necessary, on what constitutes non-retail Healthy Foods in the 144 page USDA Dietary Guidelines document. This information will provide applicants with standardized data and outside reference sources when applying for HFFI-FA awards, which will lower applicant burden, and increase the CDFI Fund's ability to standardize application review and compliance procedures.
- The CDFI Fund should list the total points available per HFFI-FA section.

We thank the CDFI Fund for the opportunity to offer suggestions and welcome opportunities to explore these and other possible improvements to the CDFI Program. Please contact Mark Kudlowitz (mkudlowitz@lisc.org), LISC Policy Director, if you need additional clarification or follow up on any of the recommendations provided in this letter.

Sincerely,



Matt Josephs
Senior Vice President for Policy