LISC
LOCAL INITIATIVES
SUPPORT CORPORATION

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Pooja P. Patel
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 (Document Number 2023-04348)

Dear Ms. Patel:

The Local Initiatives Support Corporation (LISC) thanks the CDFI Fund for the opportunity to provide feedback on the fiscal year 2023–2025 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.

I) 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 and finalizing award sizes.*** 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 or

utilized by the Fund. The fiscal year 2022 CDFI Program Notice of Funding Opportunity (NOFO) describes a five step Financial Assistance (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 23 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 2022 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.

The CDFI Program NOFO and application guidance materials also provide very little on how the final award size is determined. The FY 22 CDFI Program NOFO includes high level information on award size determinations and states: "the CDFI Fund determines an award amount for each Application based on the Step 4 Total Policy Objective Review Score, the Applicant's request amount, and on certain other factors, including but not limited to, the Applicant's deployment track record, minimum award size, and funding availability." Recent CDFI Program and Covid-19 recovery program (which utilized the CDFI Program administrative framework) awards have generally included standardized award size amounts. CDFI Program award recipients though have no information to understand why they were funded at a certain amount and if the CDFI Fund identified deficiencies. LISC encourages the CDFI Fund to provide additional information on how award sizes are determined in each program funding round NOFO.

2. ***Structure award sizes to award Recipient capacity and ability to achieve FA application Objectives.*** As noted, the CDFI Fund doesn't provide much information on award size determinations. 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 2022, 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 of 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 1,400 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. In practice, this would require greater than two applicant categories. 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.

3. ***Ensure compliance requirements are commensurate with award funding determinations.*** The fiscal year 2022 FA Application Guidance document stated that applicants, which 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 CDFI 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.

4. ***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 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.

II) Specific Comments

LISC offers the following comments on specific questions in the fiscal year 2023–2025 FA Application for public comment.

8. What additional guidance can the CDFI Fund provide in order to assist Applicants with completing an FA Application?

As noted, LISC recommends that the CDFI Fund provide additional information to the public on how applications are evaluated and how award sizes are determined. LISC believes this information should be included in each CDFI Program NOFO, guidance materials, and debriefing documents.

12. Beneficiary Data. The CDFI Fund currently collects beneficiary data by income level in the Beneficiary Snapshot table to assess how well an organization is serving communities in economic distress. Reported data in this table combines those receiving Development Services and those receiving Financial Products/Financial Services and is only requested for the Applicant's most recent historic fiscal year.

CDFI Program applicants are required to provide three years of historic and projected data throughout the

application. We believe it's appropriate to capture beneficiary data over a three projected period in the application although do not recommend including this data as a performance goal and measure (PG&M) in the Assistance Agreement. This is due to the inability for applicants to accurately predict at the time of application how many beneficiaries will be served over the next three years. Market conditions and opportunities change over time so the CDFI Fund should utilize this information to generally understand projected impact while not formally including it as a PG&M since this would greatly increase award Recipient compliance risk.

14. FA Objectives. Currently, to select FAO 1-1: Increase Volume of Financial Products, an Applicant's three years of projected lending activity must exceed its historic three years of lending activity plus the FA award amount ("Increase in Volume"). The Increase in Volume becomes a Performance Goal & Measure (PG&M) in the Assistance Agreement. The CDFI Fund proposes to change the Increase in Volume formula for FAO 1-1: Increase Volume of Financial Products to be more consistent with other FAO PG&Ms and to more directly align with the amount of the FA award. One option is for the formula to be a multiplier of the award amount plus the Applicant's historic three years of lending activity. For example, for a $1 million award, if the multiplier were 2 and the Applicant's three most recent years of historic lending were $10 million, the FAO 1:1: Increase Volume of Financial Products PG&M would be $12 million ($1 million FA award times multiplier of 2 plus $10 million historic lending equals $12 million). For more detailed explanation of the proposed formula, please see Question 4d in the FA Application Template, found on the CDFI Fund's website at https://www.cdfifund.gov/requests-for-comments. The CDFI Fund is seeking input on the proposed change to FAO 1-1: Increase Volume of Financial Products. Is a multiplier of the FA award plus three years of historic lending an appropriate formula for FAO 1-1: Increase Volume of Financial Products PG&M? If yes, should the CDFI Fund require a standard multiplier or allow Applicants to propose their own multiplier as part of the Application? If a standard multiplier, what should the multiplier be? If a multiplier of the award plus three years of historic lending is not appropriate, why is it not an appropriate formula and what should the formula be?

LISC recommends allowing CDFI Program applicants to increase specific lending product activity instead of requiring an increase in total lending through a multiplier or overall increase as is currently required. We note that the current options do not allow an Applicant to propose to use FA to increase a specific lending product currently greater than five 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.

We also note that CDFIs are experts at aggregating and leveraging public and private resources to support critically needed projects meeting the needs of low-income families. According to the Treasury Department itself, CDFIs leverage grant investment 8:1 with private sector investment from banks,

foundations, and other impact investors.[1] It's unclear why a multiplier is necessary since the CDFI Fund's internal data already shows high leverage from CDFI Program resources. In addition, incorporating standardization through a multiplier will increase compliance risk since it requires Applicants to leverage the award by a set amount at the time of application over a three year period. This doesn't take into account changing market conditions, which impact the ability to leverage the award by the amount prescribed by Treasury.

C. Healthy Food Financing Initiative—Financial Assistance (HFFI-FA) Application

1. Is the information being collected sufficient to determine whether an Applicant (1) is financing eligible Healthy Foods transactions and (2) can deploy an HFFI-FA award? If no, what other information should the CDFI Fund collect in order to determine whether an Applicant is financing eligible Healthy Foods transactions and can deploy an HFFI-FA award?

The CDFI Fund should include information in the application which describes current HFFI-FA deployment compliance requirements so applicants understand what they will be held to if they receive an award. In addition, the CDFI Fund should state defined HFFI-FA terms, including Food Desert, Healthy Foods, Healthy Food Retail, and others so Applicants include data consistent 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 nonretail 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. Lastly, the CDFI Fund should list the total points available per HFFI-FA section.

LISC also recommends that the CDFI Fund allow standalone HFFI-FA awards. Currently, Applicants can only receive a HFFI-FA award if they receive a FA award, and we presume this is since the CDFI Fund wants to evaluate the CDFI at the enterprise level before providing project specific financing subsidies. This structure has been in place since the HFFI-FA award program was started over a decade ago although we note that the CDFI Fund collects much more information since that time to discern applicant risk.

For HFFI-FA applicants, with an active FA Assistance Agreement, LISC recommends that the CDFI Fund review annual compliance and certification data to understand and mitigate against any risk of decoupling the two programs. For HFFI-FA applicants without an active award, LISC recommends that the CDFI Fund continue to require a FA award or ask for a subset of that information to evaluate enterprise level risk. These recommendations will lower applicant burden since it would not require annual FA applications to receive a HFFI-FA award and leverages information that the CDFI Fund already collects.

D. Persistent Poverty Counties—Financial Assistance (PPC-FA) Application

1. Measuring Economic Distress. The CDFI Fund is considering developing place-based indicators to measure economic distress in the communities where CDFIs invest their dollars at the census tract level.

[1] https://home.treasury.gov/news/press-releases/jy0229

The CDFI Program's Policy Objective review criteria has an Economic Distress requirement, which requires reviewers to evaluate the extent of economic distress within CDFI Investment Areas and Targeted Populations. LISC supports defining economic distress criteria for these communities since it will allow greater application review standardization and scoring. We do recommend though that the CDFI Fund allow Applicants the ability to contextualize this data through a narrative response and provide an "other" data category for data which is difficult to standardize although provides important descriptions of economic distress.

2. Deep Impact Lending. In addition to assessing an Applicant's track record serving economically distressed communities/populations and creating economic opportunities, the CDFI Fund is interested in incorporating an Applicant's commitment to "deep impact" lending/investment in its projected activity as part of the evaluation and/or compliance process. "Deep impact" lending/investment is financing activities that reach the hardest to serve borrowers and most underserved communities/populations.

LISC is supportive of efforts to increase lending for the most economically distressed communities and people although notes that certified CDFIs are already required to serve economically distressed communities and/or populations through their Target Market requirements. CDFI Program awards must be utilized in a CDFI's Target Market and some of the proposed standards are duplicative of existing requirements, such as Lending to Low-Income Borrowers under 80 percent of area median income. This income standard generally aligns with CDFI Investment Areas and Targeted Population requirements.

We recommend that the Lending to Underserved Small Businesses standard is increased to at least $500,000 in revenues since under $100,000 would be difficult to serve with financing. Lastly, we note that the Deeply Affordable Housing Financing objective, which seeks to incentivize financing to deeply affordable or high opportunity rental housing, is based on factors outside the control of CDFIs applying for CDFI Program funding. For affordable rental housing serving extremely low-income residents, developers need to be able to access federal and state rental assistance resources, which are typically very limited. For higher opportunity housing, developers need to secure site control of land in higher income communities. We support both types of affordable rental housing although caution the Fund from including this since CDFI Program resources are not able to provide the external resources and approvals needed to develop these projects.

LISC also notes that the CDFI Fund already operates specific funding programs designed to incentivize targeted CDFI lending to highly distressed communities and populations. For example, there is funding specifically designated for CDFIs serving Native communities, persons with disabilities, and persistent poverty counties. While we believe it's appropriate to include a separate PG&M for Applicants which optionally commit to deep impact lending with the award, we don't recommend that the CDFI Fund set-aside or internally allocate a portion of CDFI Program funding for these activities. This is since many of these places and populations are already being served through CDFI Program supported lending or required by compliance requirements for CDFI Fund programs.

7. Funding Levels for CDFIs. The CDFI Fund is prohibited by statute from obligating more than $5 million in CDFI and NACA Program awards, in the aggregate, to any one organization and its Subsidiaries and Affiliates during any three-year period. Should the $5 million funding cap be reduced? If yes, what should the funding cap be?

The CDFI Program design should be structured to reward impact and the ability of CDFIs to deploy the

award. In practice, this means providing CDFIs award sizes based on performance, not artificial funding caps. Currently, the CDFI Fund internally caps Financial Assistance funding awards to make a larger number of awards. While well intended, it results in larger organizations receiving roughly the same award size as smaller CDFIs. 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. We recommend that the CDFI Fund provide larger awards if a CDFI can adequately show it can be deployed. These groups can then be restricted from participating in future funding rounds. This both rewards performance and reduces public burden since it doesn't require a CDFI to submit annual applications for relatively small award amounts.

We also note that the $5 million funding cap was set in 1994 and has never been adjusted for inflation. If tied to an annual inflation adjustment, the funding cap would be over $10 million.

8. Funding Levels for CDFIs. Should larger CDFIs be limited on the total dollar amount or number of FA awards they receive within a certain timeframe? If yes, what should be the minimum asset size to be classified as a larger CDFI for each type of unregulated institution, bank/bank holding company, and credit union? For the purposes of this Request for Public Comment, the CDFI Fund proposes the following asset sizes for "larger CDFIs":

- *Banks with assets of more than $1.5 billion*
- *Credit Unions with assets of more than $1 billion*
- *Unregulated institutions with assets of more than $25 million*

CDFIs of all sizes are in need of CDFI Program awards since it's one of the only no cost capital sources available to support CDFI lending activities and ultimately grow the field. We do not support limiting the dollar or number of FA awards outside of the Riegle Act's three year, $5 million cap. As noted, we believe that the CDFI Fund should structure the award sizes based on impact and deployment. If implemented, this would result in larger award sizes for bigger CDFIs in one year and ultimately disqualify them for the next two years due to the statutory maximum award amount restriction.

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 Senior Director of Policy, 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