May 12, 2023

Pooja Patel
CDFI Program and NACA Program Manager
CDFI Fund
US Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Ms. Patel:

Thank you for the opportunity to submit comments related to the CDFI and NACA program applications.

Opportunity Finance Network (OFN) is a leading national network of more than 390 community development financial institutions (CDFIs), specialized lenders that provide responsible financial products and services in low-wealth rural, urban, and Native communities nationwide. Since its founding in 1986 and through 2021, the network has originated more than $100.4 billion in financing.[1]

The CDFI and NACA programs are uniquely valuable to the CDFI industry as they offer grant support at the entity – as opposed to project – level, allowing CDFIs to leverage private sector debt capital for the benefit of the low-wealth markets. No other federal program has done as much to build the capacity of CDFIs to offer responsible financing to underinvested people and places.

OFN has chosen to focus our recommendations on the following topics identified by our members as most important.

A. Financial Assistance (FA) Application

> *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 of 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?

OFN welcomes greater clarity and transparency in the formula for measuring an increase in volume of Financial Products. The current approach to setting Performance, Goals & Measurement (PG&M) is confusing to some applicants.

In addition, we recommend that the CDFI Fund ties PG&M expectations to the actual amount of the award. Currently, applicants project their PG&M on the award size requested. In most cases, the CDFI Fund awards a smaller amount, but the projected PG&M are not adjusted downward. A multiplier tied to the amount of the actual FA award is one approach to addressing this issue.

A multiplier of 2 may be appropriate in many instances but applicants should have the option of proposing an alternative multiplier specific to their CDFI's circumstances.

Using 2020, 2021, and 2022 as a historic baseline is problematic given pandemic-related anomalies. CDFI lenders in the Paycheck Protection Program (PPP) experienced significant expansion in their lending in 2020 and 2021, which will drop with the expiration of PPP. The economic disruption associated with the pandemic itself is also a factor. More recently, the Economic Recovery Program awards that many CDFIs received could skew the baseline for 2023.

15. Ability to Serve Native Communities. Should the CDFI Fund adjust its FA 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 FA Application and what evaluation factors should the CDFI Fund consider when evaluating an Applicant's ability to serve the unique needs of Native Communities?

OFN advises against adding to the information reporting requirements in the FA application which are already burdensome. We agree with the opinion expressed by several Native CDFIs that non-Native CDFI applicants for CDFI-FA should demonstrate their accountability to Native communities.

F. Other CDFI Program and NACA Program-Related Topics and Considerations

> *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.
> Are the following indicators appropriate to measure track record of serving economically distressed communities/populations? What, if any, other metrics should be used to measure the level of economic distress of communities/populations served?
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> *iii. Poverty Rates:* The ratio of the number of people living in the census tract whose income falls below the poverty line (minimum level of income deemed adequate in a particular area) as a percent of the population.
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> *iv. Historical Poverty:* An average of the poverty rates of people living in the census tract in the most current and previous two decennial censuses for the census tract.

OFN encourages the CDFI Fund to use census tract level data to measure persistent poverty geographies in the CDFI-FA, and Persistent Poverty Counties–FA programs. As the quality and granularity of poverty data improves, it allows for greater targeting of resources to persistent poverty areas. Individuals residing in a persistent poverty census tract contained in a county with wealthier regions are not eligible to benefit from the Fund resources targeted to persistent poverty counties. This measure of economic distress should be updated.

> *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.
> a. Please provide input on the proposed definitions/metrics to qualify as ''deep impact'' lending, as defined by the U.S. Department of Treasury's Emergency Capital Investment Program (ECIP) Rate Reduction Incentive Guidelines. Are the following definitions appropriate to measure ''deep impact'' lending/investment for CDFIs? If not, why not? What, if any, other definitions/metrics should be used to qualify as ''deep impact'' lending/ investment?

OFN believes that CDFIs, particularly CDFI Fund program awardees, should be held to a high standard of impact. This is why our organization is supportive of the reforms to CDFI certification that the Fund plans to implement in the fall of 2023. Given the fierce competition for limited CDFI Fund awards, successful applicants are already demonstrating levels of impact that far exceed the eligibility requirements expected of certified CDFIs. In addition, the Persistent Poverty Counties–Financial Assistance program already steers program grant dollars to "deep impact" geographies.

> *3. Net Asset Ratio.* The CDFI Fund is interested in prioritizing FA awards to CDFIs that are most effectively leveraging their balance sheet and the resources they already have available to them, and for which an FA award is the most essential for the CDFI's growth and ability to leverage additional funds to serve communities in need. A CDFI's Net Asset Ratio represents a CDFI's net assets compared to its total assets and can be a measure of the overall capital structure of an organization. Is a CDFI's Net Asset Ratio the appropriate measure to assess if a CDFI is effectively utilizing its balance to leverage resources? If yes, what should the target Net Asset Ratio be? If not, what is the appropriate measure(s) and target benchmark(s)?

Assessing which CDFIs will most effectively use an FA award to leverage their balance sheet is complicated. OFN recommends that the Fund NOT rely on a CDFI's net asset ratio to measure leverage.

Historically, many private investors have required a net asset ratio of 20% but this high percentage is not always warranted. OFN believes that for many CDFIs, a ratio of 15% is more than adequate to protect the investor and allow the CDFI to lend and invest in its community for maximum benefit.

Business strategy and the lending sector impact decisions about leverage. Prudent practice for a housing lender will be different from a small business lender. Some CDFIs choose to use some of their grant capital for lending to make their products more affordable to their borrower. Others may choose to be more conservatively leveraged based on portfolio risk.

The availability and pricing of debt capital in a particular market is a consideration. Some sources of debt capital restrict its use by geography or other factors, limiting the ability of a CDFI to deploy this capital which can lead to a higher than desired net asset ratio. Rural serving CDFIs identify this as a concern.

> *4. Small and Emerging CDFI Assistance.* CDFIs may qualify as Small and Emerging CDFI Assistance (SECA) Applicants if their asset size does not exceed a pre-determined maximum amount based on financial institution type OR if they have conducted financing activities for four years or less prior to the opening of the funding round. Certified CDFIs that exceed the pre-determined maximum asset size thresholds and have more than four years of financing activity are considered as Core Applicants. Currently, SECA Applicants have different Application requirements and evaluation parameters than Core Applicants because of their small and/or emerging status. Mainly, Matching Funds requirements are typically waived for SECA Applicants. Also, a higher percentage of the SECA Applicant pool progresses from Step 3 to Step 4 of the award evaluation process (the top 70% of SECA Applicants versus top 60% of Core Applicants).
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> a. The CDFI Fund is seeking input on whether there should there be a maximum number of three FA awards a CDFI can receive as a SECA Applicant. In other words, should CDFIs be required to apply as Core Applicants after they receive a maximum number of three FA awards under the SECA designation, regardless of asset size or financial activity start date of the CDFI? If not three, what should that maximum number of SECA awards be? If there should be no limit on the number of FA awards that a CDFI can receive as a SECA Applicant, why not?

b. As noted above, organizations may qualify for SECA if they started financing activities no more than four years prior to the opening of the funding round, regardless of asset size. Is the start date for financing activity to qualify for SECA appropriate? If not, what should it be? What, if any, other changes would you make to the financing activity start date component of the SECA definition?

5. Small and Emerging CDFI Assistance. As noted above, organizations may qualify as SECA Applicants if their asset size does not exceed a pre-determined maximum amount based on financial institution type, regardless of financial activity start date. SECA asset size thresholds have not been uniformly assessed and updated across all financial institutions types. The CDFI Fund is seeking input on the SECA maximum total asset size thresholds as follows:

c. Unregulated Institutions: The SECA asset size threshold for unregulated institutions is $5 million and has not been updated since 2006. The CDFI Fund is considering updating the SECA asset threshold for unregulated institutions. One option is to adjust the current $5 million threshold for inflation using the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI–W), the same index used by the Federal Reserve Board and Federal Depository Institution Corporation (FDIC) in adjusting its threshold amounts for small banks. Using the CPI–W to adjust the $5 million threshold in 2006 dollars would represent approximately $7.5 million in 2022 dollars. Should the threshold be updated? If yes, is $7.5 million the appropriate threshold? If $7.5 million is not the appropriate threshold, what is the appropriate threshold and why? If the threshold should not change, why should it remain $5 million? Should the threshold be updated regularly? If not, why not? If yes, is the CPI–W the appropriate inflation factor to use? If not, what source should be used as the benchmark for the updates?

6. Small and Emerging CDFI Assistance. Per the FY 2022 NOFA, the maximum FA award request for SECA Applicants is currently $700,000 whereas the maximum FA award request for Core Applicants is $1 million. Currently an FA Applicant that meets SECA requirements (called ‘‘SECA qualified Applicant’’) may choose to apply as a Core Applicant if the Applicant wants to request more than the $700,000 SECA maximum award request (up to the $1 million maximum award request for Core Applicants). SECA qualified Applicants that apply as Core are treated as Core Applicants, and are held to the Application requirements and evaluation parameters of a Core Applicant. The CDFI Fund is considering removing the option for SECA qualified Applicants to apply as Core Applicants, therefore only allowing SECA qualified Applicants to apply under the SECA Application (which would mean all SECA qualified Applicants would be limited to the lower maximum award request).

a. What feedback do CDFIs have on removing the option for SECA qualified organizations to apply as Core Applicant?

b. Are there ways the CDFI Fund can implement this change to minimize impacts to the affected Applicants?

OFN members have found the Small and Emerging CDFI Assistance Award (SECA) category valuable. We do not support limiting the number of SECA awards a CDFI can obtain to three or any other number.

A CDFI meeting the criteria for the SECA category should be allowed to apply to the CORE FA program, at the CDFI's discretion. We support raising the asset size threshold to $7.5 million for unregulated institutions applying for a SECA award.

> *10. Continued Viability for CDFIs.* The Riegle Act requires that Applicants for FA provide a comprehensive strategic plan for the organization that contains a business plan of not less than five years in duration. The plan should demonstrate that the Applicant will be properly managed and will have the capacity to operate as a CDFI that will not be dependent upon assistance from the CDFI Fund for continued viability.
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> a. To what extent are CDFIs reliant on FA funding from the CDFI Fund for their continued viability?
> b. What do CDFIs need in order to be independent from the CDFI Fund's assistance for continued viability? Would a program model in which CDFIs receive significantly larger award sizes for a three- to five-year period support viability independent from the CDFI Fund? If not, what would support a CDFI's growth towards such independence?

The statute requires that a CDFI applying for FA not be dependent on receiving an award to assure its viability. An FA award should not be used to "prop up" an institution that would otherwise fail.

Any public or private source of subsidy, including an FA award, enables a CDFI to expand its work in its target markets and increase its community development impact. Subsidy will always be important to address the systemic inequities and injustice present in the US economy. If CDFIs could achieve self-sufficiency without grant support (from the CDFI Fund or other sources) and still serve low-wealth communities, wouldn't mainstream financial institutions be doing this work?

OFN has chosen not to make recommendations on some issues where ally organizations have more specialized expertise and experience. With regard to the NACA, Disability – FA, and Persistent Poverty County – FA topics, we encourage you to consider the comments submitted by the Native CDFI Network, National Disability Finance Coalition and Partners for Rural Transformation.

Thank you for your interest in OFN's perspective on the CDFI and NACA program applications. Please contact me at jvasiloff@ofn.org or 202.618.6096 with any questions about these recommendations.

Sincerely,

Jennifer A Vasiloff

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