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May 18, 2012

Ruth Jaure
CDFI Programs and Native Initiatives Program Manager
U.S. Department of the Treasury
Community Development Financial Institutions Fund
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Ruth:

The CDFI Coalition ("Coalition") values the work of the CDFI Fund (the "Fund") in implementing the CDFI Program, including NACA. We write this letter to offer comments and suggestions both on the Fund's plan to implement the "persistent poverty" language included in the FY 2012 Appropriations bill and in response to the March 19 Federal Register request for public comment on the CDFI Program application.

<u>Efforts to Expand CDFI Coverage into Rural Areas and the FY 12 Approps Persistent Poverty Provision:</u>

The Coalition is committed to ensuring that all low income communities, urban and rural, have access to CDFI financial products and services, While the recent GAO report found that the CDFI Fund has consistently satisfied its proportionality goal in terms of funding nonmetropolitan areas, we understand the frustration felt by some Members of Congress representing rural areas where there is not a CDFI presence, and we are committed to looking for ways to address those concerns. We look forward to working with the Fund to support the expansion of CDFI lending and investing into hard to serve areas, particularly rural areas where population density and distance can make such efforts difficult.

That said, we are concerned that the language in the FY 2012 appropriations language requiring the Fund to award not less than 10 percent of its FY 12 funds to "projects that serve populations living in persistent poverty counties" is too narrow and leaves out a number of rural communities that are currently underserved by CDFIs. That language reads:

Provided further, ... That of the funds awarded under this heading, not less than 10 percent shall be used for projects that serve populations living in persistent poverty counties (where such term is defined as any county that has had 20 percent or more of its population living in poverty over the past 30 years, as measured by the 1990, 2000, and 2010 decennial censuses).

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Based on the experience of the field, geography is one of many variables that contributes to a community's status as underserved. We urge the CDFI Fund to use its Capacity Building initiative to assess the location and nature of areas or persons underserved by CDFIs, and then develop guidance and tools either existing or to-be-formed CDFIs can use to respond.

The appropriations language also references "projects" and we would encourage the Fund to interpret that as CDFIs.

Having said that, we recognize that the CDFI Fund must implement the persistent poverty directive as part of its FY 2012 program activity. In our view, the language should be read as requiring the CDFI Fund to ensure that an amount equal to 10% of the program dollars, amounting to $19,803,500 (10% of $221 million less the administrative expenses of $22,965,000) goes to CDFIs who lend or invest in such counties.

The CDFI Coalition understands that the Fund has requested that all CDFIs with pending FY 2012 FA and NACA applications respond to the Fund regarding their willingness to make commitments to deploy all or a portion of an award in "persistent poverty" counties. We agree with that approach. In addition, we make the following suggestions as the CDFI Fund works to implement the language:

- The Fund should consider initially only the highly qualified applicants in implementing the persistent poverty directive. Only if highly qualified CDFIs do not commit to lending the required $19.8 million in such areas respond, should the Fund consider making awards to applicants with lower ranked scores. And we would encourage the Fund to note those rural CDFI that could benefit from a capacity building effort so in future years they might submit a highly qualified CDFI Program application for funding.
- The Fund should adjust its CIIS data collection as needed to track the use of funds.

FY 2012 CDFI Funding Application:
The CDFI Program is a significant source of capital for CDFIs, particular to leverage other sources of lending or investing capital. In the Coalition's view, it is important that the application and the underlying process, be fair and offer funding for strong comprehensive business plans. The Fund has asked 4 specific questions in its March 19 request for comments.

1. Is targeting CDFI Program award funds into highly distressed communities an appropriate use of CDFI Program funds?
2. Are there ways that the fillable PDF application form can be improved that would ease applicant paperwork burden?
3. Should detailed Matching Fund documentation be collected later in the application review process and, if so, what would be a reasonable amount of time to expect an applicant to provide such documentation?
4. Does the application ask the appropriate questions to determine applicant's financial health and viability?

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The CDFI Coalition has the following comments on each:

1. Targeting Program Funds to Highly Distressed Communities
   The CDFI Coalition believes that all CDFIs are serving markets and borrowers/investees that are underserved, and generally in most CDFI's service areas there are a number of communities or populations that are experiencing high distress. Thus, we endorse CDFIs as the only class of lenders exclusively devoted to low income communities and to borrowers who cannot access credit and capital from other sources. We do not, however, believe that the use of geographic units, such as counties or census tracts, is an appropriate means for targeting program funding. For example, CDFIs engaged in business lending assess their market by the difficulty borrowers have in accessing credit, not by the location of the borrower in a particular census tract.

   Because distress does not fit neatly into geographic locations, the Fund should require applicants to describe the types of distress being experienced by their target borrowers/investees. Such distress may be based on geographic location or other factors, and applicants should provide sufficient information to enable the Fund to ensure that program funding is going to CDFIs who best understand their markets, the distress among their borrowers/investees, and that they are offering financial products and technical assistance that are responsive.

2. Improving the Fillable PDF
   As with any significant change to a process, the introduction of the fillable pdf presented challenges to applicants in terms of format, content, and process. While we understand and appreciate the Fund's desire to use this government-wide platform, we believe all of these areas can be improved with more flexibility and clarity. Members have commented that they would prefer a return to a Word/Excel version of the application.

Format

- Within the PDF files there were issues that made it harder, longer, and more subject to errors for applicants to provide information. These include:
  - Inability to cut and paste from Excel files
  - Inability to expand rows, for example on the Board and Staff charts which led to both a 5 person limitation and a 50 character limit on their importance to the organization.

- The PDF limited the presentation of information in the narrative sections, as well. For example, it was not possible to insert self-created tables or charts that might have presented data in a more economical manner than text, which uses a higher number of precious characters.

Content

- Question 4, regarding distress in the Target Market seems very repetitive, and we suggest that it be changed as follows:
  - Discuss your Target Market in the context of the Distress Index found at [link].
  - Please provide additional information and data from the field that corroborates the Distress Index data in your Target Market.
    - If there are other types of data beyond that presented in the Distress Index, or if the Distress Index is in some way inadequate to substantiate the distress in the

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Target Market please discuss, using quantitative and/or qualitative data to the extent possible.

- Discuss the extent of economic distress within your Target Market, in terms of access to credit, capital, and financial services.

- Question 5a no longer includes a subquestion about the sustainability of the applicant's products, and that subquestion was moved to Q 6b, which is where it seems most appropriate. However, the number of characters in Q 5a was not reduced, nor was the characters increased in 6b to give applicants more room to respond.
- Question 6b could be condensed. For example, applicants are asked to describe their portfolio and financial management policies. Both of those topics relate directly to the health and viability of an organization, and the discussion of the health of its loan portfolio. The discussion of Charts O and P could be incorporated into this subquestion. Applicants must submit 3 years of audited financial statements plus the most recent quarter. It would be helpful to have the Fund direct the date through which they expect the unaudited statements. It was not clear whether 9/30 was acceptable since the application was due after December 31, 2011.
- It was confusing to be asked for 5 years of projections in some questions, and 3 years for purposes of the award period in others. We suggest the Fund have one projection period in the application, preferably a 3 year period, as the 4th and 5th year projections as subject to numerous assumptions.
- Table B asks whether an applicant intends to apply for other CDFI Programs in the same FY. The application is related to FY 12. It was not clear whether applicants were to indicate if they had an NMTC application currently pending, as those applications were submitted during FY 11. It was not clear if the question was asking about an intention to apply in FY 12 for NMTC when it has not been extended into FY 12 by Congress.
- It was confusing to applicants to have charts covering similar topics in both the Grants.gov PDF and on the Fund's website. For example, there was one version of Table D in the PDF, and another version on the Fund's website. There were also two charts for Matching Funds, one in the PDF and one on the Fund's website. If the Charts in the PDF could be expandable, there would not appear to be a reason to have 2 sets of charts.
- Similarly, the applicant should be able to change the headings of the charts for the Fiscal Year that matches their FY. Applicants were defaulted to FY 11, even though those with a 3/31 Fiscal Year End were nearly 9 months through FY 12. While applicants explained this in the narrative, it could cause confusion on the part of the readers that could lead unnecessarily to point deductions.
- For the H and J charts, the pre-selected types of loans were too narrow for many applicants. It would be better to allow applicants to decide what types of loans they provide and make their naming conventions for the charts consistent with their narrative.

Submission Process

- There should be more guidance about the Grants.gov interface, and the Fund should publicize the FAQs on the grants.gov website to avoid multiple issues including:
    - The version of Adobe Acrobat various persons within the applicant organization used to open and insert information

- Differences in the way the grants.gov PDF counted characters for the “validation” process and the way grants.gov ultimately calculated characters when it accepted the application
- File naming conventions that applicants were not made aware of
- Inability to open the grants.gov application due to a need for a Chinese language module

3. Matching Funds:
   The requirement to assemble matching funds documentation could be done at a point in the process when the Fund knows which applications are highly scored and likely to receive funding. This would reduce the paperwork burden by eliminating the submissions for applicants that did not score highly enough. Accordingly, we recommend that applicants fill out the Matching Funds chart and submit it with the application, but not require submission until the award pool is clearly define.

4. Questions to Determine Financial Viability
   The Fund should ask for more discussion in the narrative responses, in particular to subquestions 13-17 in Question 6b. Subquestion 13 could be revised to ask that the applicant refer to entries on the M chart that support its narrative and direct the applicant to more fully explain why a particular ratio is indicative of financial health, and how the financial ratios relate to one another with respect to their financial health. Subquestions 16 and 17 could be revised to ask the applicant to describe their plans to raise additional lending capital and to describe their budget as well as how they plan to support their operating expenses over the 3 year period, again with specific references to the M chart.

Thank you for the opportunity to provide this information to the CDFI Fund.

Sincerely,

Elizabeth Ortiz
CDFI Coalition Chair