



May 17, 2012

Ruth Jaure  
CDFI Program Manager  
Community Development Financial Institutions Fund  
U.S. Department of the Treasury  
601 13<sup>th</sup> Street, NW, Suite 200 South  
Washington, DC 20005

Re: **Request for Comment on CDFI Program Application**

Dear Ms. Jaure:

On behalf of the National Federation of Community Development Credit Unions (the Federation), I would like to thank you for your invitation to comment on the CDFI Fund's program application. As a trade association representing more than 250 community development credit unions (CDCUs) and a certified CDFI intermediary, the Federation is deeply committed to strengthening the CDFI Fund and increasing the impact of the capital deployed through the Financial Assistance (FA) and Technical Assistance (TA) programs.

As you know, the Federation has long been concerned that CDFI program applications put CDCUs and other regulated CDFIs at a structural disadvantage when competing with non-regulated CDFIs, and particularly in relation to CDFI loan funds. Our perspective on this issue is unique; although we represent CDFI credit unions and provide technical assistance with CDCU applications, the CDFI Fund classifies Federation itself as a loan fund for the purposes of our own FA applications. This dual role has given us valuable insights into the structural issues that give loan funds an edge over credit unions in the competition for FA and TA grants. The Federation believes that most of the disparity could be addressed by a single change in the application process: scoring applicants in separate pools based on the type of CDFI and allocating the awards to the strongest applicants from each category. We believe this change would strengthen the CDFI industry as a whole and would welcome the opportunity to explore this further through collaborative discussions with the CDFI Fund and our partners in the CDFI Coalition.

In keeping with our role as CDFI Intermediary for credit unions, most of our recommendations focus specifically on the concerns of CDCU applicants. But many of our recommendations apply equally to all types of CDFI applicants for FA and TA grants, and a number of our recommendations – particularly those regarding the use of technology and data – echo our earlier comments on the CDFI Certification and Recertification processes. For your convenience, we have included a copy of those comments in Annex 1.

The following comments and recommendations are organized according to the six specific areas of inquiry and four specific questions published in the CDFI Fund's request for comments.<sup>1</sup>

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<sup>1</sup> Federal Register/Vol. 77, No. 53/Monday, March 19, 2012/Notices, pages 16117-16118.

*(a) Whether the collection of information is necessary for the proper performance of the functions of the CDFI Fund, including whether the information shall have practical utility*

In our earlier comments on CDFI Certification, the Federation and the CDFI Coalition described three guiding principles for data collection:

1. **Data Collection Should Serve Multiple Purposes:** An integrated data collection system, including a web-based certification and recertification applications, FA and TA applications and Community Investment Information System (CIIS) reports would enable the Fund to maximize its use of the data it collects and enhance public reporting. Data updated for one purpose could then be used to auto-populate many of the required fields for competitive applications or annual reports.
2. **Data Collection Should Provide a Public Benefit:** The CDFI Fund collects data that is of vital interest to low-income, underserved consumers. Unfortunately, little of that information is shared in a way that helps these consumers connect with CDFIs that can meet their needs. As noted above, an integrated data collection system would enable the CDFI Fund to offer updated profile information on individual CDFIs, as is already the practice with institutions that receive NMTCA allocations.
3. **Data Collection Should Depend on CDFI Type:** Regulated CDFI banks and credit unions generate thousands of pieces of data on financial performance, products, services and institutional information, all of which are published by regulators on a quarterly basis. Unregulated CDFIs have no such reporting requirements, yet both regulated and unregulated CDFIs are required to provide essentially the same tables and narratives to demonstrate financial health and viability. The Federation believes that FA and TA applications need to be substantially restructured to recognize the fundamental differences between regulated and unregulated CDFIs, take advantage of the wealth of regulatory information already in the public domain, and eliminate needless duplication of effort by regulated CDFIs.

Much of the specific data collected for CDFI FA and TA applications is both practical and necessary to deploy its capital effectively. Yet, some forms and application requirements should be revised or eliminated because they have no or limited practical utility, they are redundant with other sources of information, or are internally inconsistent. Sections of the application that should be changed or removed include:

**Application Requirements to be Revised or Eliminated for FA Applicants**

Application Component	Required Form, Table or Attachment	Comments and Recommendations
Certification of Material Events	Certification of Material Events	<ul style="list-style-type: none"> <li>• Should be submitted through myCDFI fund with electronic signature to ensure receipt</li> <li>• Any changes in Certification of Material Events should be uploaded directly into organizational profile database.</li> </ul>
Part II: Eligibility	5. Quantitative Baseline / Economic Distress	<ul style="list-style-type: none"> <li>• Although the CDFI Fund must abide by Congressional mandates for targeting highly distressed areas, in each of the past two years the Fund has introduced new maps of geographic distress that are increasingly in conflict with the Fund's mapping system of CDFI Investment Areas.</li> <li>• The CDFI Fund urgently needs to incorporate updated census information into the myCDFI mapping program to ensure that FA/TA grant priorities are aligned with CDFI certification requirements.</li> </ul>

Application Component	Required Form, Table or Attachment	Comments and Recommendations
Part II: Eligibility	7. Customer Profile	<ul style="list-style-type: none"> <li>Table D, if required, should be incorporated directly into the PDF form and should not limit the number of census tracts to 50.</li> <li>This table has no practical utility and should be eliminated.</li> <li>Very few CDFIs track this information and most use a variety of unscientific methods to arrive at their estimates; as a result, the CDFI Fund cannot aggregate and report this data with any reliability.</li> <li>Credit unions, in particular, are forbidden by regulation from collecting information on race and ethnicity of their members.</li> </ul>
Part II: Eligibility	8. Matching Funds	<ul style="list-style-type: none"> <li>The CDFI Fund should award bonus points to CDFIs with all matching funds in-hand, and require documentation at the time of application only for those claiming the bonus points.</li> <li>All other applicants should only be required to present documentation of match at the time of the award.</li> <li>If, after receiving an award, a CDFI cannot document the amounts listed in their application as "in-hand" and "committed", they should be barred from submitting a CDFI FA or TA application for 1 year.</li> </ul>
Part III: Financial Products	Tables H - Q	<ul style="list-style-type: none"> <li>PDF form should enable copy and paste of entire Excel spreadsheets to save time and reduce errors</li> <li>Chart M2: Financial Data Input Chart for Credit Unions should identify each required field by its corresponding field on the NCUA 5300 call report, to ensure consistency across credit unions</li> </ul>
Part III: Financial Products	7. Action Plan	<ul style="list-style-type: none"> <li>Credit unions do not have Minimum Prudent Standards and should be exempt from answering question 7a</li> <li>Credit unions are examined by regulators on a regular basis and most do not receive opinions from auditors. As a result, credit unions should be exempt from answering question 7.c.</li> </ul>
Part IV: Narrative	5.A. Financial Products and Financial Services	<ul style="list-style-type: none"> <li>Character limits in this section should be based on the number of financial products and financial services listed in Table H, otherwise credit unions with a comprehensive array of financial products and services are at a distinct disadvantage when competing against unregulated CDFIs that specialize in a narrower range of products and services.</li> <li>For example, a loan fund that specializes in a single business loan product can use all 25,000 characters to describe the product in detail, answering the 4 specific questions required in the application. By contrast, a credit union that offers dozens of distinct consumer loans, business loans, mortgage loans, checking, deposit products, remittance services, online banking, check-cashing, each with a myriad of interest rates, terms and conditions for specialized products, would be hard pressed to provide full answers for each and every product and service without omitting critical information or exceeding the character limits.</li> <li>If character limits are not adjusted to the number of products and services in Table H, the application instructions should specifically direct credit unions to provide full descriptions of no more than three products and services for their Target Market, followed by a list of all other products and services with no more than one-sentence description of each.</li> <li>Table H also should allow applicants to group similar products and define their own subcategories, as well as adding the option of answering "Either/Both" for Yes/No questions</li> </ul>

*(b) The accuracy of the CDFI Fund's estimate of the burden of the collection of information*

The Federation believes the burden of data collection varies greatly by size and type of CDFI, but that the CDFI Fund greatly underestimates the burden for most CDFIs.

*(c) Ways to enhance the quality, utility, and clarity of the information to be collected*

As noted above, an application process that would separate different types of CDFIs would allow for more efficient applications for each type of CDFI. In particular, such a process would make greater use of regulatory reports for CDFI banks and credit unions, eliminating the need to collect and re-enter information that already is available in the public domain.

*(d) Ways to minimize the burden of the collection of information on respondents, including through the use of technology*

As noted in Part 1, technology could greatly reduce the burden of collecting and submitting information for FA and TA applications, including the following:

- Complete automation of certification and recertification applications, which would collect data that could be used to automatically populate much of the basic information required in FA and TA applications.
- Integration of the CIIS reporting system along with certification and FA/TA application databases.
- Enhance and update the myCDFI mapping program to incorporate U.S. Census Bureau American Community Survey updates or the more robust layers of information available through PolicyMap to reduce or eliminate conflicts between CDFI-designated Investment Areas and new geographic priorities established by Congress or the CDFI Fund
- Increase the capacity of the myCDFI mapping program to process larger batch files

The myCDFI mapping program does not currently meet the needs of CDFIs in three areas:

1. **Speed:** The myCDFI system is slow and can only process limited batches of data
2. **Quality of Data:** The underlying data on the myCDFI system is ancient and does not incorporate Census Bureau or other robust databases with updated information at the census tract, county and state levels
3. **Inconsistency:** The myCDFI mapping program still identifies Hot Zones that are no longer used by the CDFI Fund, but does not identify Priority Counties (used in 2011 FA applications), Distress Index census tracts (used in FY 2012) applications, or Persistent Poverty Counties (introduced for FY 2012 applicants after submission). These new designations conflict with many designations on the mapping program (for example, some high priority, distress or poverty counties and census tracts do not qualify as county-level or census tract-level Investment Areas, and *vice versa*).

The application burden would be significantly reduced with the installation of a more robust mapping system, with the capability to process large batch files and layer information from other sources, like TRF's PolicyMap.

*(e) Estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information*

The Federation has no cost estimates at this time.

The Federation has the following comments on the four specific questions asked about FA and TA applications.

**(1) Is targeting CDFI Program award funds into highly distressed communities an appropriate use of CDFI Program Funds?**

It is valid for the CDFI Fund to target highly distressed communities, but many of these communities cannot be identified by census-tract or county-level data. Pockets of poverty and extreme economic distress exist in every part of the country, and many CDFIs focus exclusively on serving communities of low-income people who cannot afford the financial products and services offered by local institutions that cater to their more affluent neighbors. CDFIs can build a critical bridge to these low-income populations, and we believe CDFIs in these areas should also be able to compete on an even basis for FA and TA awards.

Credit unions have a particular challenge with geographic targeting, since many credit unions have fields of membership that are defined by affiliation – such as membership in a given church – and not by geography. These geographically dispersed credit union members can include people with disabilities or recent immigrants with intense levels of financial distress. The current FA and TA application provides detailed quantitative measures of distress for geographic areas, but does not allow a similar presentation of distress among geographically dispersed populations served by CDFIs. If the CDFI Fund is to direct awards to highly distressed communities, the scoring system should be revised to recognize the levels of distress among communities that are defined in a variety of ways, and not simply by geography.

As noted above, indications of need in an area should be synchronized between the certification, mapping system and grant applications. They should all use the same measures of need, geographic units, and data sources. The application should use a measure of need and minimize changes from year to year.

**(2) Are there ways that the fillable PDF application form can be improved that would ease applicant paperwork burden?**

The PDF fillable form can be improved by thorough testing before release to make sure the fields will accept entries from all types of applicants, small and large. Three specific changes would greatly reduce the burden on applicants:

- ***Spreadsheets should be modified to allow applicants to copy and paste multiple cells from Excel workbooks or import entire spreadsheets.*** The current spreadsheet requires the manual re-entry of data from financial reports and spreadsheets, which increases both the time required and the probability of error.

- ***Narrative fields should allow formatting to include charts, tables and graphics.*** These narrative elements make it easier to summarize and present complex information in a simple, efficient manner, but the current text-only format forces applicants to use many more words than necessary.
- ***Tables should be expandable so that the full number of Board and key staff members can be entered.*** Most CDFIs have more board members and key staff than can be entered in the current format.

**(3) Should detailed Matching Funds 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?**

Although most credit unions use retained earnings for their match, some do not, and most non-depositories use grant and other income as match. Having to document matching funds as part of the application process is time-consuming for both the applicant and the Fund, if the legal staff is involved as early as they have been in the past. It would make more sense to delay this till at least an initial cut has been made.

The Federation is concerned about one specific requirement that applies only to credit unions that meet their match requirement with retained earnings since inception. Credit unions in this category must also demonstrate increases in loans and/or shares equivalent to 25% of the amount of their FA request within the last full fiscal year. For most credit unions, the total balances of loans and shares can fluctuate significantly from month to month and quarter to quarter, and there is no logical connection between a credit union's net worth, patiently accumulated since inception, and the end-of-year loan and share balances which will swing significantly with a due to cyclical and non-cyclical factors. The Federation asks that the CDFI Fund remove this needless requirement.

**(4) Does the application ask the appropriate questions to determine applicant's financial health and viability?**

As noted above, the financial health and viability questions are far too detailed and repetitious, particularly for regulated CDFI credit unions and banks that are publicly examined for this purpose.

We hope that these comments will strengthen the CDFI Fund FA and TA application process and welcome the opportunity to discuss them further at your convenience.

Sincerely,



Pamela Owens

Interim CEO