Ruth Jaure
CDFI Program Manager
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1801 L Street, NW
6th Floor
Washington, DC 20220

May 18, 2012

Dear Ms. Jaure:

Opportunity Finance Network appreciates the opportunity to comment on the Financial Assistance application. Our comments address both the application itself and the goals the Fund should accomplish with its flagship program.

When the CDFI Fund in 2010 issued a request for comments on its authorizing statute, OFN offered an overview of the Fund's role in the next fifteen years. The CDFI Fund's Financial Assistance program is its main tool to accomplish its goals, so the FA application should reflect a commitment to these strategies and ensure that the Fund's resources are deployed in a way that meets them.

In that 2010 letter, OFN said:

In its first 15 years, the CDFI Fund has helped build the capacity of community development intermediaries with on-the ground market experience in meeting the financing needs of distressed communities. To respond to a changing industry and environment, the CDFI Fund's programs, policies and initiatives should be informed by the following principles:

- ***Invest in CDFIs of all types, sizes and sectors without prejudice.*** *There is no "one-size-fits-all" approach to community development or providing financial services to distressed markets. The CDFI Fund has helped seed a vibrant national CDFI industry by providing equity capital to the full range of CDFIs that offer loans, investments, and financial services. Different CDFIs serve different target populations and geographies with a variety of products and services. The Fund must assure that application materials and the review process for Fund programs acknowledge and value the different business strategies pursued by community development banks, credit unions, loan funds and venture funds.*

- ***Recognize that equity capital is still the most important resource the Fund can provide to CDFIs.*** *As in 1994, equity capital continues to be the most pressing need of the opportunity finance industry; institutions' need for equity infusions does not diminish with age, growth, or success.*

- ***Continue strong emphasis on performance-based awards.*** *The Fund's use of competitive application processes to make performance-based awards, with enforceable performance covenants, is a significant strength which differentiates the Fund from other federal programs. The Fund should continue to ensure that all its programs reward financial performance and excellence in community development impact.*

- ***Support institutions, not projects.*** *The best CDFIs are flexible and market-responsive, providing the products, services, and expertise that meet market demand. By directing its resources toward building the capacity of permanent institutions, the Fund has helped ensure a vibrant and enduring opportunity finance industry nimble enough to adapt to changing conditions. The emphasis on supporting institutions, not projects, is a significant strength of the Fund and should be maintained.*

- ***Promote the CDFI Fund model of supporting intermediary institutions to leverage private resources.*** *Other federal agencies and programs have much to learn from the CDFI Fund approach to government investment. The Fund should use its Community Development Advisory Board to promote its model of making competitive awards based on performance and sound business plans. The Fund can also be an advocate for new federal strategies to support CDFIs.*

- ***Build on the experience of established CDFIs in providing training and technical assistance.*** *From its inception, the Fund has turned to experienced CDFIs in developing and shaping its programs, echoing the market-responsiveness of the opportunity finance industry. Even in targeted initiatives to establish new CDFIs, such as in the Fund's Native American programs, success comes from heeding the lessons of experienced institutions in delivering high volume, high impact financing.*

- ***Support research and development and knowledge-sharing for the CDFI industry.*** *Both CDFIs and the CDFI Fund represent innovations in public investment in community development. The Fund can take its history of innovation further with a commitment to support research and development in the industry in several ways: to invest in innovative, replicable CDFI strategies; to share innovations and "best practices" of Fund awardees; to maintain basic, high-quality data about the CDFI industry; and to help CDFIs understand their market, environment, and trends.*

The strength of the CDFI Fund as a federal program has been its unique model of investing in strong institutions through an entrepreneurial, merit-based selection process. The Fund has made awards based on an institution's overall strategy and is obligated by statute to review applicants' comprehensive business plans. This application and review process has allowed CDFIs considerable flexibility in telling their own stories about their work in particular markets. Recent changes to the application have constrained that flexibility. The Fund should revise the application to ensure applicant CDFIs the opportunity to share their full strategies and effectively tell their stories.

In addition to this general perspective, OFN offers the following comments on the questions posed by the Fund:

- **Is targeting CDFI Program award funds into highly distressed communities an appropriate use of CDFI Program funds?**

OFN has believed since the Fund's inception that its unique strength is the awarding of grants and investments through a competitive application process based on a CDFI's strategic business plan, the CDFI's own assessment of its market, and the organization's capacity to provide products and services in that market. The Fund has developed and taken on a mix of programs to meet the needs of CDFIs of all sectors, sizes, and stages of development. Adherence to this philosophy of competitive application is critical to the Fund's continued success, and "set asides" or other awards for CDFIs not based on this philosophy will be counterproductive.

Each time the Fund has tried to target its awards with geographic priorities, its efforts have had the unintended consequences of disadvantaging CDFIs that serve markets that have significant distress but do not qualify under the Fund's parameters. Tweaks in the "formula" advantage some groups but disadvantage different ones.

In particular, geographic targeting at any level disadvantages CDFIs with regional or national service areas. Such CDFIs simply cannot predict in advance the specific geographies in which they might have deals as far in advance—one or two years—as might be required between applying for and deploying a CDFI Fund award.

Using this geographically targeted approach contradicts two of the principles OFN laid out. By prioritizing certain geographies, the Fund places other factors above performance. In addition, its focus on the end result of financing undermines the support of *institutions* rather than projects that has been a hallmark of its success.

As part of its own strategic planning process, OFN has begun to look at what CDFI "coverage" means to communities across the nation. Coverage means that the **supply** of affordable, responsible financial products and services is adequate to meet the **need** for these products and services. We specifically talk about need rather than demand because communities may not always recognize their needs: for example, a community that is amply served by relatively high-priced payday lenders may not demand more affordable short-term consumer loan products; however, OFN would say that there is a need to provide affordable, responsible alternatives that do not strip wealth from the community. To the extent the Fund targets resources, it should do so to CDFIs that will extend this geographic coverage of products and services. As we refine our model and practice around this concept, OFN looks forward to working with the Fund to suggest ways that the Fund's resources can support expansion of CDFI coverage.

As this model evolves, the Fund might in narrow, targeted circumstances identify markets that are underserved by the CDFI industry. The Fund's Native American CDFI Assistance (NACA) programs are one such example; NACA provides a roadmap for providing assistance to underserved markets. In extending CDFI products and services in such markets, the Fund could waive or add additional flexibility to some of its requirements. For example, the Fund could provide flexible match requirements or waive them and take other steps to encourage the growth of CDFI coverage into underserved markets. In such cases, the Fund should look to support the expansion of existing, highly qualified CDFIs as well as support for startup institutions as a strategy for reaching these markets. The Fund's first priority should be on supporting high-performing CDFIs, and its goals for targeting should use those institutions as vehicles whenever possible.

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

Recent changes to the CDFI Fund application have severely curtailed CDFIs' ability to tell their own stories about their own markets. Many CDFIs are complex, multifaceted institutions that offer a variety of products and services and rely on many staff and volunteers to demonstrate their accountability, financial soundness, and strong policies and procedures. In general, CDFIs' inability to change dates and add lines to tables limited their ability to fully describe their products, strategies, and capacity. These restrictions on the application tables, in particular, forced CDFIs to use their limited narrative space explaining information that could have been included in a table.

Some specific changes that caused problems for CDFIs in the FY2012 round include:

- Inability to cut and paste information from an Excel or other spreadsheet. Instead, applicants had to manually input information into the PDF application. In addition to the additional workload, this format restricted applicants' ability to test scenarios and variables, and limited the ability to share the work of the application across staff members of an organization.

- Table H, the financial products rate sheet, allowing for too few products in the case of a CDFI with a number of product offerings. The information entered in this table autopopulated into other tables, constraining CDFIs' ability to paint a full picture of its products and services.

- Providing for only a limited number of Board Members and key staff. CDFIs of all sizes rely on many staff members and volunteers to ensure that their products are effectively delivered. Restricting the lists of Board and staff members to only five in Tables K and L is inadequate.

- Inability to include an applicant's own charts and diagrams as part of the application. Some CDFIs can explain a concept more clearly with graphic than with text—and use less space to do so—but could not on the most recent version of the application. Particularly, items that include trends (such as deployment or capitalization history) are more easily explained by the CDFI and understood by a reviewer in chart form than as a series of numbers.

- Inability to change the dates of the fiscal year start and end on the spreadsheets. If a CDFI uses a different fiscal year than is listed on the Fund application, it must use limited narrative space clarifying its FY calendar.

The Fund's instructions to reviewers should make clear that applicant CDFIs are likely to have supplemented information on the tables in the narrative section of the application, and that reviewers should not consider tables in isolation but rather in conjunction with the corresponding narrative information. The letter submitted by the CDFI Coalition includes additional specific recommendations on the format of the application, and OFN encourages the Fund to consider these suggestions as well.

- **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?**

Requiring matching funds of program awardees is critical to maximizing leverage of the Fund's resources. While the waiver of the matching funds requirement in recent funding rounds was an appropriate response to the severe economic downturn, in general, the Fund should require applicants to the CDFI Financial Assistance program to provide matching funds. This requirement helps increase private investment in CDFI markets and assures greater discipline and accountability in the program.

The CDFI Fund should continue its recent practice of requiring applicants under the Small and Emerging CDFI (SECA) component to demonstrate only a portion of the match at the time of application with a firm deadline for securing the remainder. The Fund should also continue the recent practice of requiring that applicants under the Core component demonstrate a significant proportion of the match at the time of application. Such a requirement helps ensure that award recipients are sustainable institutions with sound capitalization strategies. Expectation of a high proportion at time of application signals that fundraising capacity is an important part of the Fund's application process. The Fund could incorporate the status of an applicant's match into its evaluation of the CDFI's financial and managerial capacity, recognizing the strength of applicants that have secured the full match.

Though OFN supports a stringent match requirement, at the same time we recognize that the fundraising environment for CDFIs continues to be challenging and that some markets lack significant sources of private sector capital for CDFIs. To mitigate this challenge for CDFIs, the CDFI Fund should extend the eligible match period beyond the one year "lookback" it has historically employed.

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

The questions the application asks are appropriate. The Fund's approach to using the information is also appropriate. While the Fund has developed "Minimum Prudent Standards" (MPS) to help it gauge CDFIs' financial position, it has correctly used the MPS as a guide rather than an absolute standard of eligibility for an award. The Fund should continue this practice of ensuring CDFIs the opportunity to explain any anomalies in their financial ratios and ways that their unique business practices might contribute to them.

Other Issues

Geographic and Institutional Diversity

Rather than setting quotas or developing separate applications for different kinds of institutions, the Fund should take steps to ensure that various types of CDFIs can compete effectively. Such steps include:

- Ensuring that reviewers are well-versed in the structure, mission, and products of various CDFI sectors, or that only reviewers experienced in a particular sector review applications from those CDFIs;
- Tailoring applications so that, for example, depository institutions can demonstrate their transaction services; CDFIs can use primary-source data to explain their strategy; CDFIs with national marketplaces can describe that national market rather than focusing on only part of it; and intermediary CDFIs can adequately discuss their impact;
- Facilitating the use of FA awards as Tier 1 equity capital in depository institutions.

A recent report from the Government Accountability Office[1] noted a change in the CDFI Fund procedures that would permit bypassing applicants on the ordered ranking list in order to select lower-ranking applicants. OFN is concerned that this change is counter to the principle of selecting the strongest institutions for CDFI Fund awards.

Supporting CDFIs of All Sizes and Stages

As the industry and individual CDFIs have matured, many institutions can make use of larger award amounts than the statute envisioned in 1994. The Fund should take steps to lift the cap limiting an individual CDFI to $5 million in assistance over three years. To ensure diversity among awardees, the Fund might consider capping the proportion of the total award pool that could go to any one CDFI in a particular year. The Fund should consider any annual caps on a year-by-year basis, dependent on available appropriations.

Large and mature CDFIs still have need of the range of Fund resources—FA to build an equity base and leverage additional private investment; technical assistance to assess the market for a new product, conduct strategic planning, or train staff in sophisticated products; New Markets Tax Credit allocations or Capital Magnet Fund grants to facilitate large deals. The Fund should make all its resources available to CDFIs of all sizes, types, and age; it should not set a point at which CDFIs "graduate" from any of its programs. It should reverse its recent decision to restrict an applicant to either an FA or a TA grant in a single application round.

[1] GAO-12-547R, p. 9.

Conclusion

Opportunity Finance Network and its Members recognize the enormous value of the CDFI Fund's Financial Assistance and Technical Assistance programs to the development of individual CDFIs and to the opportunity finance industry. The CDFI Fund has been an exemplary model of successful federal support to leverage private investment into underserved communities. Its flagship programs should continue the factors that have led to this solid track record and ensure support of strong and diverse institutions.

We look forward to continuing our partnership with the CDFI Fund.

Sincerely,

Mark Pinsky
President and CEO