April 25, 2012

Ruth Jaure
Manager, CDFI Program
CDFI Fund
601 13th Street, Suite 200
Washington DC 20005

Dear Ms. Jaure,

Thank you for offering the opportunity to comment on the CDFI Program's award determination process, as indicated in your Request for Public Comment of March 19, 2012.

First, let me commend the entire CDFI Program team on doing an outstanding job operating the Fund's flagship program. Challenging work in the best of circumstances, the Program team's ethos of continuous improvement has had demonstrable impact in the community development field.

The first question on the public comment notice is the most critical for ensuring the CDFI Program continues to achieve high social impact. The notice asks: *Is targeting CDFI Program award funds into highly distressed communities an appropriate use of CDFI Program funds?* This question of "targeting distress" is not simply a matter of application scoring. It goes to the heart of how the Fund distributes its scarce program resources (i.e. award dollars) across a national mission area.

It is important to recall the CDFI Program application has always included questions regarding the levels of distress and/or need among the communities served by applicants. In past applications, these concepts were left undefined. Applicants were unclear about what dimensions of need would score well. Reviewers, without standard measures, would interpret the scoring guidance inconsistently.

The value of the current indicators of distress is that it applies the same quantitative measure consistently across all applications. The distress indicator table uses Federal data sources that are commonly used within the community development field. The scores for specific geographies are made public, giving applicants an understanding of the competitiveness of their applications. Furthermore, the use of a quantitative measure relives the burden on the reviewer to evaluate narratives describing community distress. It thus reduces the bias of applications scoring higher due to the quality of the writer, rather than the need in the community.

If the Fund were to discontinue the use of the distress indicators (or for the first time implement a policy of not targeting distressed communities) it would lead to potentially- severe unintended consequences. States hit hardest by the economic crisis – such as Michigan or Florida – could be entirely shut out of receiving any capital awards during a funding round.

Therefore, I offer three recommendations to enhance the Fund's ability to meet its mission.

Recommendation 1: The Fund should double the current weighting of distress indicators within the application scoring. The robustness of the current approach supports such a step. This would further insure that scare capital is provided to the most disadvantaged communities.

Recommendation 2: The Fund should increase its communication to applicants regarding how applications are scored and the role of the distress indicators within them. While these factors are presented clearly in the program NOFA and application guide, continued communications are always beneficial. In particular, The Fund should reiterate how, ultimately, the best applicants score highest and receive awards. A high score for distress/need will not cause an award to be made to an applicant that is a poor performer or financially unsound.

Recommendation 3: To increase the diversity of institution types served, the Fund should recognize a third grouping of CDFIs that exist between the SECA and CORE categories. As it stands, the Core category is overly-broad, grouping local and regional organizations with the largest CDFIs. A loan fund with $6 million in assets must compete in the same pool as one with $100 million in assets.

As the Fund's data has shown, along its growth curve, a loan fund begins to "hit its stride" at approximately the $25 million level of total assets. At this level, loan funds are at a volume where fee and interest income are able to sustain operational expenses. The Fund should set an explicit goal of supporting the growth of SECA organizations into "Sustaining" CDFIs.

The CDFI Program should divide the Core category, allowing loan funds up to $25 million in total assets to compete only amongst themselves in the new Sustaining category (the Fund should consult with the industry to set comparable asset levels for the other CDFI types). Sustaining CDFIs would receive the same award size as Core applicants. The overall balance of funds available for Sustaining awards would be roughly proportionate to the applicant pool.

In combination with these awards, the Fund can also use its Capacity Building Initiative to support the transition of more emerging organizations to the Sustaining CDFI stage, thereby strengthening the financial infrastructure serving this nation's most distressed communities.

I wish the Fund continued success with the CDFI Program.

Sincerely,

James Yagley
Hyattsville, MD