NATIONAL BANKERS ASSOCIATION
CDFI Fund Program Recommendations

CDFI Fund Financial Assistance (FA) & Technical Assistance (TA) Program Recommendations:

Program and Application Recommendations

1. **Clarification of Compliance Ramifications with Distressed Community Points** – Currently, the Fund allows up to 4 priority points for applicants that select certain geographies at the census tract-level which constitute Investment Areas; however, the guidance is unclear with regard to compliance requirements. For example, it is unclear whether an awardee will be deemed noncompliant if it fails to serve ALL of the selected distressed census tracts. As loan funds are not subject to the rigorous regulatory requirements of financial institutions to include the Community Reinvestment Act (CRA) and regulatory safety and soundness requirements, a Fund requirement that ALL of the listed priority census tracts must be served is a much more sensitive issue for financial institutions. Of particular note, many Minority Depository Institutions (MDIs) have designated an Other Targeted Population (African-Americans, Hispanics, Native Americans, etc.) as a Target Market versus Investment Areas. ***As many MDIs serve Other Targeted Populations, priority points should be available for loans to Other Targeted Populations within certain distressed counties that are part of the Applicant's CDFI-approved Target Market. The Fund should also clarify compliance requirements with regard to the selection of Distressed Community Points.***

2. **Additional Clarifications/Tips for Financial Health & Viability Section -** The application tips within the Financial Health & Viability section should be enhanced to include more detailed guidance for bank applicants. Specifically:

    a. The FA Application guidance does not address the Fund's expectations regarding the level of detail required to score well for applicants requesting Loan Loss Reserves (LLR). ***The Fund should provide specific guidance to Applicants regarding Loan Loss Reserves requests***. For example, the Fund should consider requiring Applicants to discuss the products that primarily drive their need for Loan Loss Reserves, the regulatory environment, leverage, and other industry factors that drive the need for LLR.

b. Table M3 (Financial Data Input Chart/Balance Sheet for Financial Institutions) – Table M3 does not calculate ratios or other quantitative data. And, as such, the Fund's specific expectations with regard to health and viability for financial institutions (and the corollary substance of the narratives) are unclear. ***Additional context for the evaluative information the Fund is looking for would enhance the quality of narratives provided to support this chart.***

c. Table N3 (MPS Ratios for Banks) - The FA/TA Application Guidance (page 26) states that "For regulated entities, the CDFI Fund requires key ratios found on the respective Call Reports. Regulated entities must provide information as to the applicable MPS that is held by its regulator." As there are no prescribed "MPS" beyond Tier 1 Capital from a regulatory perspective, the specific context for how banks are evaluated is unclear. ***Additional context for the evaluative information the Fund is looking for would better inform the narratives that support this chart.*** For example, requiring applicants to address their performance trends relative to economic conditions, as well as their performance relative to peers (and permitting the flexibility to select peer groups within their own context) would be helpful.

d. Table O (Loan Portfolio Quality) and Table P (Loan Loss Reserves & Writeoffs) – The Fund's Loan Portfolio Quality MPS for Regulated Entities do not reflect the realities of the current economic environment. As a result, in most instances, financial institutions do not meet the MPS and are required to develop a narrative to explain how the failure will be mitigated. **The Fund should update the MPS for Regulated Entities by aggregating CDFI Bank peer data or to more closely approximate the market and economic conditions in which financial institutions operate.**

<u>Review Process Recommendations :</u>

Refinement of the Reviewer Pool for Bank Applicants – Community development lending experience in a banking environment does not necessarily correlate to a broader understanding of capital markets, the regulatory environment for financial institutions and corollary capital requirements. Given the effects of the economy on financial institutions, understanding the performance context for financial institutions is particularly critical. **As such, it is imperative to ensure that the reviewer pool contains professionals with a particular expertise in and understanding of financial institutions to ensure that the evaluations of FA/TA applications**

from financial institutions are conducted in the proper context as financial institutions have regulatory constraints that loan funds do not.

Bank Enterprise Award (BEA Program)

<u>Program and Application Recommendations</u>

1. **Adjustment of FA Program and BEA Program Deadlines to Avoid Post-Submission Disqualified Applications and Related Expenses** – Currently, the Fund's guidelines do not allow Applicants to receive both FA and BEA program awards in the same fiscal year. The FA application deadline occurs prior to the release of the BEA application; however, the announcement of FA awardees does not occur prior to the deadline for the BEA application such that a Bank Applicant can make a determination as to whether or not they are eligible to apply for BEA. As a result, many Bank Applicants apply for both programs in hopes of receiving either an FA or BEA Award. If a Bank Applicant is later selected for a FA award, their BEA application is automatically disqualified. In these cases, Bank Applicants incur significant expenses and staff time applying for a program (BEA) for which they may not ultimately qualify. **The adjustment of the FA and BEA deadlines and review processes would ensure that a Bank Applicant is made aware of whether they have received an FA award prior to the investment of staff resources and other capital associated with submission of a BEA application.**

2. **Bank Holding Companies are Prohibited from Down-Streaming FA Funds to their Subsidiary Banks** – As noted above, Bank Applicants are not allowed to receive awards from both the BEA and FA programs. Historically, Bank Holding Companies have been permitted to apply for FA or BEA awards and downstream the awards proceeds to the Bank, which enables the financial institution to leverage both programs for maximum community impact. Banks and Bank Holding Companies are unique legal arrangements in which Bank Holding Companies do not engage in the lending activities (such as those supported by FA and BEA award capital) that are performed by a Bank. The accountability for award funds passed from the Bank Holding Company to the Bank can be implemented via legal documents to address the Fund's concerns with regard to award agreement compliance. The NBA's consultant recently facilitated a discussion with Fund staff and a legal expert on this issue. **We encourage the Fund to explore ways to enable Bank Holding Companies to apply for CDFI Fund awards that can be passed to the Bank level for execution of the corollary business plans for the award.**

3. **BEA Award Debriefings** – While the BEA program has a significant applicant success rate, it would be helpful for unsuccessful Bank Applicants, as well as Applicants whose award amounts have been reduced, to receive debriefing documents to assist in understanding the activities that were not awarded BEA funds. We understand that funding limitations and award maximums are contributing factors to awards versus requests; however, **in those instances where transactions are eliminated from BEA consideration solely due to technical issues, we encourage the Fund to send debriefing comments to BEA Applicants to improve the quality of the next BEA submission.**

4. **BEA Program Successes** – The CDFI Fund does an excellent job in both capturing and reporting the impact of its award programs; however, the BEA program is not highlighted as aggressively as the other flagship programs. There are no press events or other project profiles for the BEA program and we believe that additional data on the impacts of the BEA program and the sustainable impact generated by BEA Awardees will do much to increase support of the program. This is particularly important as BEA-eligible census tracts represent some of the most distressed census tracts relative to other CDFI programs. The BEA program also engages the private sector in supporting other CDFIs, a core objective of the CDFI Fund. **We encourage the Fund to highlight the many successes and impacts generated by BEA Awardees within distressed communities.**

New Markets Tax Credits (NMTC) Program

The NBA is deeply concerned about the low representation of MDIs and other minority-controlled CDEs in the NMTC program. The recent 2011 round was particularly devastating in that regard. The 2009 U.S. Government Accountability Office (GAO) study titled "New Markets Tax Credit: Minority Entities are Less Successful in Obtaining Awards Than Non-Minority Entities" continues to have relevance. As noted in the study, for the period 2005-2008, minority-owned CDEs were successful with a nominal 9% of the NMTC applications that they submitted to the CDFI Fund. While this report did not consider MDI success rates, MDIs have not fared much better.

On February 8, 2012, CDFI Fund staff provided an analysis of MDI NMTC application and success rates for 2009 and 2010 (2011 MDI application and success rate data was unavailable at that time). In 2009, MDIs received $20 million in NMTCs (.4% of the $5 billion available) and received $70 million in the 2010 round (2% of the $3.5 billion available). While we understand that the number of MDI applications and requested amounts must also be considered, these rates coupled with the conclusions of the GAO report reflect the need for an urgent and comprehensive approach to improve these statistics.

In this regard, the NBA recommends the following:

1. The Fund provides a limited debriefing document to NMTC unsuccessful applicants which does not include reviewer comments. As reviewer comments are collected by the Fund as part of the review process and represent important scoring context, they are particularly instructive to Applicants with regard to each section of the application and items that should be improved. **As such, the NBA recommends that the Fund provide reviewer comments as part of the NMTC Debriefing Document.**

2. As the underlying reasons for both the number of MDI NMTC applications and success rates are complex, **the NBA requests a meeting with the Fund to discuss the following items and develop a collaborative approach to improving MDI performance in the NMTC program:**

    a. Further analysis of the 2009 GAO study recommendations, and a review of the Fund's initiatives, outreach and successes in that regard.

b. A focused analysis of the NMTC application sections where MDIs attain the highest and lowest scores to evaluate any particular trends or other areas where the NBA can assist in promoting greater success rates for MDIs.

c. Enhanced NMTC training for MDIs provided in a partnership between the NBA and Fund staff that extends beyond NMTC program guidelines and includes: case studies of successful versus unsuccessful application language/strategies, tips from Fund staff, and common applicant mistakes from the perspective of Fund staff and reviewers.

We believe the above next steps will have a significant impact on MDI success rates in the NMTC program.