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

May 15, 2012

Dear Ms. Jaure:

FUND Consulting is a women-owned business founded in 2000 that provides quality service to mission driven organizations nationwide. FUND approaches all projects using data to achieve results for organizations seeking to realize goals around business practices, funding opportunities, and public policy issues.

For the past twelve years FUND has delivered both strategic and operational services to approximately 153 CDFIs nationwide. FUND Consulting provides support to CDFIs through market analyses, capitalization planning, strategic and business planning, and by preparing funding applications, including applications for CDFI Fund programs. Since its inception, applications prepared by FUND Consulting have resulted in a total of $268,020,518 in awards from the CDFI Fund. This includes $31,138,679 in CDFI program funding, $500,000 in HFFI awards, $8,918,754 in NACA awards, $175,892,778 in NMTC allocations, $3,820,478 in CMF funding, and $47,749,829 in BEA awards.

FUND Consulting has extensive experience with the CDFI Program and application. FUND's Founding Partner served as an application reader from the program's inception through 2005. Over the past twelve years, FUND Consulting has assisted clients with the preparation of 315 funding applications for both the CORE and NACA Financial and Technical Assistance award programs.

With this unique insight into the program, FUND Consulting respectfully submits the following comments on the CDFI program application:

<u>Targeting CDFI program award funds into highly distressed communities</u>

The CDFI Fund's goal of targeting CDFI program funds into highly distressed areas is an important strategy and one that is essential in fulfilling the Fund's mission to build the capacity of CDFIs to provide credit, capital and financial services in communities

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that need it most, but which are often overlooked. However, the means by which the CDFI Fund currently selects these communities – through the use of a priority point system to target specific geographic areas – does not always serve in the best interest of achieving this goal.

In the past, the market study section of the application served this goal well – it provided applicants with the opportunity to clearly describe the communities within their designated Target Market that demonstrated the greatest need and demand for capital and financial services. More importantly, the market study section of the application served to highlight an applicant's understanding of its Target Market and its direct relationship with the organization's mission, products, and real world business plan.

Although not the intent of the priority point system, because the application round is highly competitive, the reality of the system is that applicants feel as if they must commit to priority point areas in order to receive an award. Therefore, the priority points system pigeonholes most applicants, compelling them to selectively target geographic areas in order to receive priority points – even when such a strategy is not a good fit for the organization. One possible solution to this problem that would maintain the intent of the system would be to determine priority points based on the percentage of an organization's past activities provided to highly distressed communities. This system would also build on the CDFI Fund's goal of capacity building through the CDFI program. By awarding priority points to applicants that have a track record of serving highly distressed communities, the CDFI Fund will be supporting CDFIs that have demonstrated serving these communities as part of their business plan. It would also seek to highlight those CDFI's with the greatest capacity and ability to effectively serve highly distressed communities.

In addition, the current priority points system excludes applicants primarily serving Other Target Populations or Low-Income Target Populations. These CDFIs are at a disadvantage due to the fact that the priority points system focuses on geographic location, thus favoring applicants whose primary Target Market is an Investment Area.

Lastly, the CDFI Fund should not allow organizations to change priority points designations after the application has been submitted. After the close of the FY2012 funding round, the CDFI Fund has gone back to certain applicants and permitted them to choose highly distressed communities not originally selected as part of the application. This provides an unfair advantage to those applicants to earn additional points on their application when priority points were not part of the original business plan.

Improving the fillable PDF application

The fillable PDF currently utilized by the CDFI program is difficult for applicants to use for a number of reasons as outlined below. The primary difficulties with the fillable PDF are that it duplicates the effort necessary to complete the application and greatly increases the chance for errors and confusion:

- The application charts do not allow applicants to copy and paste information into the fillable PDF. In addition to increasing the amount of time and effort for applicants to complete the application, this increases the chances that incorrect information is entered. This is of particular importance with Table M (Financial Data Input) from which the minimum prudent standard ratios are calculated for loan fund applicants.
- Table N (MPS Ratios) for banks does not allow for a negative number to be entered for the equity capital ratio in the 2010 column.
- Several versions of the FY2012 application were released, which resulted in inconsistencies with the number of years for which projections were requested and the fiscal year information automatically populated for Table J (Financial Activity Levels) and Table M (Financial Data Input). Some applications were submitted and accepted with three years of projections, while others completed and discussed five year projections as requested by the CDFI Fund. In addition, the incorrect fiscal year for the current, past, and projected years for any applicant without a 12/31 fiscal year end lead to much confusion and difficulty in comparing the application narrative to the application tables.
- With the introduction of priority points for census tracts in the FY2012 application, Table D (Score for Quantitative Baseline/Economic Distress) is confusing to applicants because it requests county information.
- The current character limits for Tables K and L (Staff and Board Summary Information) do not allow an applicant to accurately describe the important role these individuals serve in implementing the comprehensive business plan.
- Character limits for Table H (Financial Products Rate Sheet) and Table I (Financial Services Rate Sheet) do not allow an applicant to accurately describe a product and any special characteristics that fall outside of the current drop down options.
- After the application was submitted via Grants.gov any quotation mark (“) or apostrophe (‘) in the document was converted into three question marks (?). Applicants had no knowledge of this problem and applications that were close to the character limit received a validation error because the extra question marks caused their narrative to exceed the character limit. While FUND Consulting was able to figure out this problem and handle it for clients, many applicants most likely had a difficult time figuring out why they received the validation error.

A return to allowing applicants to provide the narrative and charts as attachments to the PDF application would significantly ease applicant burden and would greatly reduce errors in the application package as well as with completion and submission of the application.

Matching Funds

Applicant paperwork burden could be reduced if applicants did not have to provide proof of matching funds documentation at the time the application is submitted. Currently, matching funds documentation is required of all applicants, regardless of scoring. By requesting matching funds documentation at a later time and only from applicants whose scoring meets the threshold for award consideration, the paperwork burden on applicants as well as the CDFI Fund would be greatly reduced.

Determining applicants' financial health and viability

The financial data that the CDFI Fund currently requests from applicants is not comparable to the actual structure of most organizations' finances and financial statements. As such, the data collected in Table M should be more closely aligned with the way that organizations track and maintain their own finances and the manner in which audits are completed in order to streamline the information collected.

In addition, the financial data requested of regulated institutions is not consistent with the financial reviews completed by regulators. By requesting regulated entities to complete Table M and also submit Call Reports, which are standardized among banking institutions as well as credit unions, the CDFI Fund is increasing the paperwork burden and duplicating the information provided. More importantly, the CDFI Fund should request specific peer data to provide a consistent comparison and a benchmark for regulated entity performance ratios.

Further, applicants should only be required to provide three years of financial projections instead of five. Requesting that applicants provide five years of financial projections does not align with the three year performance period for FA awardees. Additionally, projections beyond three years are not typical for business plans as they are not very accurate. Projecting out five years is difficult with the many environmental and organization changes that can take place over the course of five years.

CDFI program restrictions on CDFI holding companies

In addition to the above points, FUND Consulting appreciates the opportunity to weigh in on the restrictions placed on holding companies applying for the CDFI program in FY2012. As stated in the FY2012 NOFA, transfer of an award from a bank holding company to a subsidiary CDFI bank is not permitted. This restriction severely limits the potential impact of the award dollars as well as the strengthening of CDFI banks' core financial strength. Further, the restriction acts as a disincentive to CDFI banks and their holding companies to participate in the CDFI program.

While an award made directly to a CDFI bank is not recognized by bank regulators as Tier 1 capital, an award transferred from a holding company to a subsidiary bank *is* recognized as Tier 1 capital. Tier 1 capital is considered a core financial strength by bank regulators and enables banks to leverage these dollars at a much higher rate. In short, the exact same dollars awarded by the CDFI Fund would result in much greater leverage when awarded at the holding company level. As such, the CDFI Fund should reconsider this provision to increase the impact of its awards, the resources CDFI bank awardees are able to leverage, and the services provided to underserved communities. Although currently this provision mostly affects depository institutions, we are starting to see the holding company structure more and more frequently in the nonprofit loan fund sector as well. As such, FUND Consulting respectfully requests that the CDFI Fund reexamine its position on holding companies in general, as they are a vital corporate structure to help mitigate risk for both depository institutions and loan funds alike.

We thank you for the opportunity to provide comments on this valuable program. The CDFI program is a vital tool to help CDFIs build capacity and leverage additional resources to continue providing credit, capital, and financial services in our nation's most distressed and underserved communities. Please feel free to contact us at 773-281-8845 should you wish to discuss any of these comments further.

Sincerely,

Ruth E. Barber   Lolita Sereleas

Ruth Barber, Partner   Lolita Sereleas, Founding Partner