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RE: OMB-1559-0021 (CDFI Program and NACA Program Financial Assistance and Technical Assistance Applications)

The African American Alliance of CDFI CEOs (the Alliance) is pleased to submit comments regarding the Community Development Financial Institutions Program (CDFI Program) and the Native American CDFI Assistance Program (NACA Program) Financial Assistance (FA) and Technical Assistance (TA) Applications, for the Fiscal Year (FY) 2023–FY 2025 funding rounds. The Alliance is a national membership-based organization with a mission to empower Black communities by promoting economic stability, wellbeing, and wealth. Leveraging a network of 77 Black-led Community Development Financial Institutions (CDFIs), the Alliance is working towards establishing power and promoting equal economic opportunity for Black individuals, families, and communities across all 50 states.

A. Financial Assistance (FA) Application

Is the information that is proposed to be collected by the Application necessary and appropriate for the CDFI Fund to consider for the purpose of making award decisions?

> Alliance Response: The Alliance believes that the information sought in the proposed FA Application for the CDFI and NACA programs is both necessary and important for the CDFI Fund to make informed decisions regarding the allocation of FA. The data collected through the application process is necessary to evaluate an applicant's capacity to execute proposed activities, the effectiveness of their business plan, and their ability to serve disadvantaged communities. This approach enables the CDFI Fund to allocate resources in a targeted and effective manner, ultimately promoting economic growth and opportunity in underserved areas. Finally, the thorough application process allows for ongoing evaluation and refinement of the grant-making process to maximize its impact.

What additional guidance can the CDFI Fund provide in order to assist Applicants with completing an FA Application?

> Alliance Response: The Alliance believes that the CDFI Fund already provides several helpful resources to assist applicants with completing the FA Application for the CDFI and NACA

Programs. For example, the Application Guidance and Frequently Asked Questions (FAQs), which are easily accessible on the CDFI Fund website, provides detailed guidance for completing the FA Application, including instructions for each section of the application, definitions of key terms, and examples of successful applications. Also, the CDFI Fund provides technical assistance (TA) to applicants throughout the application process (e.g., webinars, training sessions, making CDFI Fund staff available for consultations, etc.) to help them better understand the application requirements, strengthen their business plans, and increase their likelihood of receiving an award. Finally, the CDFI Fund provides applicants with grant writing resources to help applicants make their best case for funding and demonstrate their ability to manage FA funds effectively.

However, there may be an opportunity for the CDFI Fund to provide additional guidance that can help applicants build their capacity and, ultimately, expand access to credit, capital, and financial services in communities underserved by traditional finance. For instance, the CDFI Fund may consider providing compliance guidance to help ensure CDFIs are meeting federal regulations and reporting requirements for receiving FA awards, as compliance is critical to maintaining an application's eligibility for future funding. The CDFI Fund may also consider providing applicants with impact measurement guidance that helps them to develop relevant impact metrics and more effectively demonstrate their ability to achieve measurable impact, which can greatly improve their chances of receiving FA awards. These additional guidance resources that are outside that of which is currently provided by the CDFI Fund can help CDFIs submit stronger applications, increasing their ability to receive an FA award.

Business Plan. In general, does the data and information requested in the Application allow an Applicant to demonstrate its ability explain its business plan and ability to meet the FA Objectives described in the Application? Is the data and information requested in the Application to assess the business plan adequate to assess the different CDFI activities? What, if any, additional data and information should be collected to assess business plan activities?

Alliance Response: CDFIs were formed to address market failures and traditional market metrics that measure our performance often fail to account for the value created by carving pathways to wealth creation in historically underestimated communities and mitigating systemic risk to our economy and democracy from recalcitrant racial and gender wealth gaps. The traditional impact frontier comparing impact and return fails to account for societal return. With the understanding of the role that CDFIs play in the community market place, the Alliance generally believes that the comprehensive and customized data and information prerequisites of the Application are designed to enable applicants to demonstrate their ability to explain their business plans and meet the FA objectives.

Beneficiary Data. The CDFI Fund currently collects beneficiary data by income level in the Beneficiary Snapshot table to assess how well an organization is serving communities in economic distress. Reported data in this table combines those receiving Development Services and those receiving Financial Products/Financial Services and is only requested for the Applicant's most recent historic fiscal year. The CDFI Fund is proposing to request beneficiary data separately for (1) Financial Products/Financial Services and (2) Development Services to provide a more accurate depiction of beneficiaries served. Is the proposal for separating out the beneficiary data points between beneficiaries receiving Financial Products/Financial Services versus those receiving Development Services appropriate? If not, why not? Will this proposed change be difficult or overly burdensome to report?

Alliance Response: The Alliance believes that separating the beneficiary data between Financial Products/Financial Services and Development Services can generate more specific and detailed information about the beneficiaries served by an organization. This proposal can help the CDFI Fund assess how effectively the organization is serving low-income communities in need of either financial services or development services and identify areas where additional assistance may be required to ensure that all low-income communities are adequately served. However, there is a chance that separating beneficiary data points between Financial Products/Financial Services and Development Services could be more time-consuming and potentially lead to a higher burden of reporting requirements for CDFIs. Therefore, the CDFI Fund should carefully consider the potential benefits and challenges of such a shift and collaborate with CDFIs to ensure that data collection and reporting requirements are consistent and accurate, without being unduly burdensome on CDFIs.

Beneficiary Data. The CDFI Fund is considering to request beneficiary data projections for the three year Period of Performance to help assess the impact an Applicant's proposed activity with the FA award. Is the proposal to collect projected beneficiary data appropriate for use in assessing the impacts of an Applicant's proposed activity with the FA award? If not, why not? Will this proposed data collection be difficult or overly burdensome to report?

Alliance Response: The Alliance believes that the collection of projected beneficiary data for the three-year Period of Performance can offer important insights into a CDFI's proposed activity's expected impact with the FA award. By providing such data, Applicants can assist the CDFI Fund in evaluating the effectiveness of the proposed activity and its alignment with the overall goals of the CDFI program. However, such a requirement can be challenging and potentially burdensome for some Applicants. Applicants must accurately predict the number and characteristics of beneficiaries that will be served by the proposed activity over the next three years, which can be difficult due to various external factors that can impact the success of the proposed activity. Also, CDFI Fund should be cognizant of the risk that the projected beneficiary data may suffer from inaccuracies since predictions about future events are inherently vague and uncertain and can be affected unforeseeable factors. As a result, applicants may be hesitant to provide such data, fearing that the actual number of beneficiaries served may vary from the forecasted figures, which may create the perception of failure on the part of the Applicant.

FA Objectives. Currently, FA Applicants can select from the following list of seven FA Objectives (FAO): 1–1: Increase Volume of Financial Products, 1–2: Increase Volume of Financial Services, 1–3: New Geographic Area(s), 1–4: New Financial Product(s), 1–5: New Financial Service(s), 1–6: New Development Service(s), and 1–7: New Targeted Population(s). The CDFI Fund proposes to eliminate certain FAOs that are difficult to measure, evaluate and administer (i.e., FAOs 1–2, 1–5, and 1–6). Further, these FAOs are rarely selected by Applicants. Would all types of regulated CDFIs still be interested in applying if they could no longer select these FA Objectives and required to select another one instead? If no, why not?

Alliance Response: The Alliance believes eliminating FAOs that are difficult to measure, evaluate, and administer may streamline the application process and allow the CDFI Fund to more accurately assess an Applicant's activities. Per the proposed shift, regulated CDFIs that primarily focus on providing financial services and development services may need to select another FA Objective that aligns with their primary activities, but this could also lead to more targeted and effective use of resources and increased impact of the FA awards.

However, the elimination of FAO 1–2: Increase Volume of Financial Services, FAO 1–5: New Financial Services, and FAO 1–6: New Development Services, from the list of FAOs that Applicants can choose in the FA Application could deter some regulated CDFIs from applying for an FA award. Specifically, CDFIs that mainly focus on offering financial services and/or development services may find it challenging to demonstrate their impact on the targeted population, particularly if they are required to select another FAO that is not aligned with their primary activities. The Alliance also urges the CDFI Fund to consider the strong likelihood that CDFIs that offer financial services and/or development services may not be able to accurately measure and evaluate their impact on the remaining available FA objectives, which may lead to them to not pursue an FA award and/or effectively leverage the benefits of the award.

Is a multiplier of the FA award plus three years of historic lending an appropriate formula for FAO 1–1: Increase Volume of Financial Products PG&M? If yes, should the CDFI Fund require a standard multiplier or allow Applicants to propose their own multiplier as part of the Application? If a standard multiplier, what should the multiplier be? If a multiplier of the award plus three years of historic lending is not appropriate, why is it not an appropriate formula and what should the formula be?

Alliance Response: The Alliance believes that a multiplier of the FA award plus three years of historic lending an appropriate formula for FAO 1–1: Increase Volume of Financial Products is reasonable, but we urge the CDFI Fund to consider drawbacks of such a shift.

The current formula for FAO 1-1 requires an applicant's three years of projected lending activity to exceed its historic three years of lending activity plus the FA award amount, which is an outlier among the FAO program's PG&Ms. This can lead to confusion among applicants who may not understand the criteria for meeting this PG&M, and it can also make it difficult to compare the results of this PG&M with other FAO program outcomes. By aligning the formula for FAO 1-1 with other PG&Ms, the Alliance believes that the CDFI Fund can make the program easier to understand for Applicants. Further, tying the PG&M directly to the amount of the FA award can help applicants better understand about the level of performance that is expected of them, as well as the potential benefits they may receive from meeting the PG&M. The current formula, which requires applicants to exceed their historic lending activity plus the FA award amount, does not indicate exactly how much an applicant should expect to increase its lending activity by in order to receive the full benefits of the award. By using a multiplier of the award amount, the CDFI Fund can provide a more easily understandable target for applicants to aim for, which can help motivate them to perform at a high level.

However, the Alliance is somewhat concerned that the multiplier formula may not be an accurate measure of performance CDFIs and their use of FA awards. The proposed formula assumes that boosting the number of financial products is the primary objective for all CDFIs, but this may not be an accurate assumption for the CDFI industry as a whole. To be sure, increasing the volume of financial products is the most important goal for many CDFIs. However, for many other CDFIs, including those in the Alliance membership, the priority may be on alternative goals, such as extending their services to marginalized communities, devising new financial products or services, or establishing partnerships with other organizations. Given that the proposed formula concentrates exclusively on the volume of financial products provided, it may not fully reflect the broader objectives and impact of CDFIs. Furthermore, the multiplier formula may unfairly disadvantage CDFIs that experience unforeseen circumstances. For example, some CDFIs may have limitations on their lending capacity, either due to staffing or capital concerns, and may not be able to achieve the same level of increase in volume of products provided as other CDFIs. Finally, if the multiplier formula is adopted, then the CDFI should guard against disproportionate impacts faced by smaller CDFIs relative to their larger counterparts. For instance, using the example in the Federal Register Notice, if the multiplier were set at 2 and a CDFI with $10 million in historic lending activity received a $1 million award, it would need to increase its lending activity by $12 million in order to meet the PG&M. However, applying the multiplier formula to a CDFI with $1 million in historic lending activity and the same award amount would need to increase its lending activity by $3 million to meet the PG&M. This could potentially make it more difficult for smaller CDFIs to compete for and receive FA funding, to the extent they may be less likely to achieve the larger increases in lending activity required by the multiplier formula. Though the multiplier formula has the potential to provide greater clarity and alignment with other PG&Ms in the FAO program, it is important for the CDFI Fund to carefully consider the potential drawbacks and ensure that the formula is applied fairly and consistently across all CDFIs.

Ability to Serve Native Communities. Should the CDFI Fund adjust its FA Application in order to better collect information and evaluate an Applicant's ability to serve the unique needs of Native Communities? If yes, what questions should the CDFI Fund include in the FA Application and what evaluation factors should the CDFI Fund consider when evaluating an Applicant's ability to serve the unique needs of Native Communities?

<u>Alliance Response:</u> The Alliance believes that the ability to serve Native Communities is an appropriate factor for the CDFI Fund to consider in evaluating a CDFI FA program applicant. The modifications made to the FA application for the Native American CDFI Assistance Program over the years has improved the collection of information and the evaluation of an Applicant's capability to cater to the specific requirements of Native Communities.

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<u>B. Technical Assistance (TA) Application</u>

Is the information that is proposed to be collected by the Application necessary and appropriate for the CDFI Fund to consider for the purpose of making award decisions?

<u>Alliance Response:</u> The Alliance believes that the information collected in the TA application is critical to the CDFI Fund's decision-making process and helps ensure that the technical assistance funding is reserved for only those CDFIs that have the capacity and commitment to deliver high-quality financial products and services to underserved communities.

Evaluation Criteria by Application Type. Do the questions in the TA Application allow the Applicant to clearly address the evaluation criteria for the following Applicant types? If no, what additional information should be included in the Application for each Applicant type? (a) An Emerging and Certifiable CDFI and its ability to achieve certification; (b) A Sponsoring Entity and its ability to create and receive certification for a new CDFI; and (c) A Certified CDFI and its ability to build its

capacity to expand operations, offer new products or services, or increase the volume of current business?

Alliance Response: The Alliance believes that the TA Application is designed with questions that cater to each of the three applicant types: (a) an Emerging and Certifiable CDFI, (b) a Sponsoring Entity seeking to create and receive certification for a new CDFI, and (c) a Certified CDFI seeking to build its capacity. The application's questions focus on various aspects such as eligibility criteria, readiness for certification, collaboration and partnership abilities, financial and programmatic capacity, and expansion plans. Answering these questions can enable the applicant to demonstrate their ability to meet the evaluation criteria for their specific situation, allowing for a more effective and efficient application process.

Capacity to Serve Target Market(s). The primary purpose of making a TA award to a Certified CDFI is to increase its capacity to serve its Target Market(s). How can the CDFI Program and NACA Program update the TA Application in order to make a more accurate determination as to whether or not a TA award will increase a Certified CDFI's capacity to serve its Target Market(s)?

Alliance Response: The Alliance believes that the CDFI Fund can update the TA application to assess the impact of TA awards more accurately on the capacity of Certified CDFIs to serve their target markets. This can be achieved by introducing specific questions that highlight the target markets of the CDFI and how the TA award will improve its services to those markets. Moreover, mandating that applicants submit a detailed plan, including timelines, objectives, and metrics, for utilizing the TA award to improve their capacity can facilitate informed decision-making. Further, requesting additional information on the organizational structure and governance of Certified CDFIs can also ensure that they are equipped to effectively utilize the TA award to enhance their operations and serve their target markets. Additionally, conducting a needs assessment or market analysis can help identify the specific requirements of the target market(s) and how CDFIs can best meet those needs. Finally, gathering feedback from past TA award recipients can also provide useful insights into the most effective types of TA to boost capacity to serve target markets. By integrating these updates, the TA award process can be more effective in supporting the CDFI Fund's mission.

Eligible Uses of Funds. Does the current TA Application, related guidance materials, and NOFAs provide sufficient clarity to help potential Applicants clearly understand what are, and are not, eligible uses of TA funds?

Alliance Response: The Alliance believes that the current TA Application, guidance materials, and NOFAs may not offer enough clarity to assist potential Applicants in comprehending what activities are eligible for TA funds and what activities are not. Although the TA Application contains detailed instructions for completing each section, it does not provide sufficient information on which activities are eligible for TA funds and how they align with the mission of the CDFI Fund. Providing specific examples of eligible activities in the guidance materials and NOFAs would increase clarity and help potential Applicants understand how their activities align with the mission of the CDFI Fund. The present lack of clarity might lead to confusion among potential Applicants, limiting the efficacy of the TA award process in enhancing the capacity of CDFIs. Therefore, the CDFI Program and NACA Program may need to review and improve the TA Application, guidance materials, and NOFAs to provide greater clarity on eligible uses of TA funds.

Ability to Serve Native Communities. Should the CDFI Fund adjust its TA Application in order to better collect information and evaluate an Applicant's ability to serve the unique needs of Native Communities? If yes, what questions should the CDFI Fund include in the TA Application and what evaluation factors should the CDFI Fund consider when evaluating an Applicant's ability to serve the unique needs of Native Communities?

Alliance Response: The Alliance believes that the current TA application could be more effective in collecting information and evaluating an Applicant's ability to meet the unique needs of Native Communities. While the application does contain some questions related to serving Native Communities, the level of detail and specificity provided is insufficient for properly assessing an Applicant's capacity to address the challenges and opportunities specific to these communities, such as language barriers, remote locations, and cultural differences. To improve the evaluation process, the questions should be rephrased to more accurately target the challenges and opportunities faced by Native Communities. Additionally, the application could request information on the Applicant's experience working with Native Communities, partnerships with Native organizations, and strategies for incorporating traditional knowledge and practices into their operations. These modifications would strengthen the TA award process and better support the capacity building of Native CDFIs and their ability to serve their communities.

Sponsoring Entities. The NACA Program allows organizations that serve Native Communities, Sponsoring Entities, to apply for TA awards in order to create a new legal entity that will become a Certified CDFI. In recent history, Sponsoring Entities have largely struggled to find success in establishing a Certified CDFI. Between 2013 and 2020, only two Sponsoring Entities have created new legal entities that ultimately achieved CDFI Certification. a. What questions should the Application include in order to better assess a Sponsoring Entity's ability to successfully create an emerging CDFI within one year and ensure that the emerging CDFI achieves CDFI Certification within four years? b. Should the CDFI Fund require Sponsoring Entities to create the new legal entity that will become the Certified CDFI before being eligible to receive a NACA TA award?

Alliance Response: To better assess a Sponsoring Entity's ability to successfully create an emerging CDFI within one year and ensure that the emerging CDFI achieves CDFI Certification within four years, the CDFI Fund could consider the inclusion of several questions in the NACA Program's TA application. One potential question could be whether the Sponsoring Entity has expertise and track record in creating and operating CDFIs or similar financial institutions to evaluate its familiarity with the regulations and requirements necessary for establishing a CDFI. Another possible question could be whether the Sponsoring Entity's board and staff have diverse and skilled expertise in areas such as finance, community development, and business management, to guarantee that the emerging CDFI has the required knowledge and skills to succeed. The application could also include questions about the Sponsoring Entity's strategic plan for the emerging CDFI, including goals, timelines, and success metrics, to assess its readiness to create and run a successful CDFI. Additionally, the application could inquire about the Sponsoring Entity's partnerships and relationships within the community, including with other organizations, businesses, and government agencies, to determine the level of community support and engagement for the emerging CDFI. By including these questions, the NACA Program's TA application can effectively evaluate a Sponsoring Entity's capacity to establish a successful CDFI within the given four-year timeframe.

The proposal to require Sponsoring Entities to create a new legal entity that will become the Certified CDFI before being eligible for a NACA TA award has its benefits, such as filtering out

Sponsoring Entities that are not committed to establishing a CDFI. However, the Alliance advises the CDFI Fund to carefully evaluate the potential consequences of this requirement on promising Sponsoring Entities that may face resource or capacity constraints in establishing a new legal entity prior to receiving a TA award.

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C. Other CDFI Program and NACA Program-Related Topics and Considerations

Measuring Economic Distress. The CDFI Fund is considering developing place-based indicators to measure economic distress in the communities where CDFIs invest their dollars at the census tract level.

Are the following indicators appropriate to measure track record of serving economically distressed communities/populations? What, if any, other metrics should be used to measure the level of economic distress of communities/populations served? i. Median Family Income (MFI): Calculated by dividing MFI of the census tract by the appropriate benchmark (Metropolitan Statistical Area MFI, state MFI, national metro MFI, or national non-metro MFI). For example, if MFI share is 136.9%, it means the census tract has an MFI that is 36.9% larger than the corresponding geographic benchmark. The benchmark used to calculate the MFI share of a tract is dependent on whether the census tract is within a metro or non-metro area. Within a metropolitan area, the Metropolitan Statistical Area MFI or the national metropolitan area MFI, whichever is greater is used. Outside of a metropolitan area, the statewide nonmetropolitan area MFI or the national non-metropolitan area MFI, whichever is greater is used. Ii. Unemployment Rate: Represents the number of unemployed people living in the census tract as a percentage of the labor force (the sum of the employed and unemployed). Iii. Poverty Rates: The ratio of the number of people living in the census tract whose income falls below the poverty line (minimum level of income deemed adequate in a particular area) as a percent of the population. Iv. Historical Poverty: An average of the poverty rates of people living in the census tract in the most current and previous two decennial censuses for the census tract. V. Percentage of Other Targeted Populations residing in the underlying census tracts: Represents the number of OTPs living in the census tract as a percentage of the population.

<u>Alliance Response:</u> The Alliance believes that the metrics indicated in the Notice can all be useful indicators to measure economic distress in communities where CDFIs invest their dollars. However, on their own, they may not capture the complexity and nuance of economic distress in a particular geographic location. For instance, though MFI and poverty rate are useful tools for understanding the economic conditions and needs of a community, they do not account for the distribution of income within the community or disparities in wealth. Similarly, the unemployment rate may identify communities with limited jobs, but it does not factor in those who have left the job market or those who are underemployed, both of which can substantially impact the economic health of a community. For these reasons, the Alliance urges the CDFI Fund to consider the limitations of the indicators provided as they tailor strategies to measure and address economic distress in communities where CDFIs invest.

That said, the Alliance believes that in addition to the metrics already discussed, there are other indicators that the CDFI Fund could utilize to measure the level of economic distress of communities more effectively and/or populations served. For example, housing affordability (i.e., a metric that measures the percentage of a community's population spending a high percentage of their household income on housing) metrics can indicate a household's capacity to save and invest in other areas. Another metric that the CDFI Fund could consider is food insecurity (i.e., metric that shows the percentage of households in a community that lack consistent access to adequate food), which can indicate economic distress that negatively affects physical and mental health. A final metric that the CDFI Fund may consider is asset poverty (i.e., metric that measures the percentage of households in a community that lack sufficient savings and assets to cover basic expenses for three months in the event of an emergency), as this can be an indicator of economic vulnerability that can limit a household's ability to withstand financial setbacks. The Alliance believes these indicators in conjunction with those highlighted in the Notice and others can help CDFIs develop a more holistic view of the economic conditions and needs of the communities they serve.

For CDFIs with Low Income Target Population or Other Targeted Population Target Markets (versus geographically based Target Markets), are the indicators listed above in Question 1. Appropriate to measure the track record of serving economically distressed communities/populations? What, if any, other metrics should be used to measure the level of economic distress of communities/populations served?

Alliance Response: In addition to those metrics discussed in the previous response, the Alliance believes that Median Family Income (MFI), unemployment rate, poverty rate, historical poverty, and percentage of Other Targeted Populations residing in the underlying census tracts are important metrics to consider when measuring the economic distress of a community or population. However, they may not be sufficient when it comes to CDFIs with non-geographically based target markets (e.g., Low Income Target Population (LITP) or Other Targeted Population (OTP) Target Markets). These CDFIs often serve populations that are underserved by traditional financial institutions and may face unique economic challenges and maybe more effectively analyzed by metrics that directly relate to the needs of their target populations (i.e., access to affordable housing, education, and healthcare). The CDFI Fund may also consider the CDFI's track record of serving their targeted populations, including loan performance and impact metrics, such as job creation, small business growth, and community development.

Deep Impact Lending. In addition to assessing an Applicant's track record serving economically distressed communities/populations and creating economic opportunities, the CDFI Fund is interested in incorporating an Applicant's commitment to ''deep impact'' lending/investment in its projected activity as part of the evaluation and/or compliance process. ''Deep impact'' lending/investment is financing activities that reach the hardest to serve borrowers and most underserved communities/populations.

Please provide input on the proposed definitions/metrics to qualify as ''deep impact'' lending, as defined by the U.S. Department of Treasury's Emergency Capital Investment Program (ECIP) Rate Reduction Incentive Guidelines. Are the following definitions appropriate to measure ''deep impact'' lending/investment for CDFIs? If not, why not? What, if any, other definitions/metrics should be used to qualify as ''deep impact'' lending/ investment? i. Lending/investment to Low-Income Borrowers. Low-Income means equal to or less than 80% of the area median income. ii. Mortgage Lending to Other Targeted Populations. iii. Lending/investment in Persistent Poverty Counties (PPC): PPC includes any county, including county equivalent areas in Puerto Rico, that has had 20% or more of its population living in poverty over the past 30 years, as measured by the 1990 and 2000 decennial censuses and the 2011–2015 5-year data series available from the American Community Survey of the Bureau of the Census or any other territory or possession of the United States that has had 20% or

more of its population living in poverty over the past 30 years, as measured by the 1990, 2000 and 2010 Island Areas Decennial Censuses, or equivalent data, of the Bureau of the Census. iv. Lending/investments in Indian Reservations and Native Hawaiian Homelands. v. Lending/investments in U.S. Territories: U.S. Territories include American Samoa, Guam, Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands. vi. Lending/investments to Underserved Small Businesses: A loan/ investment made to a business with revenues that do not exceed $100,000 or that is majority owned by individual(s) that are low income and/or from Other Targeted Populations. vii. Deeply Affordable Housing Financing: Financing for any (1) affordable housing units restricted to households earning below 30% of AMI for a period not less than 10 years, prorated based on the percentage that such units make up the total number of housing units; or (2) affordable housing development project in a ''high opportunity area'' as defined by the Federal Housing Finance Agency (FHFA). viii. Public Welfare and Community Development Investments: Public Welfare Investments pursuant to 12 U.S.C. 24(eleventh) or 12 U.S.C. 338a if they primarily benefit Low-Income or Minority individuals or businesses.

> <u>Alliance Response:</u> The Alliance believes the proposed definitions and metrics for measuring deep impact lending and investment for CDFIs offer a comprehensive and suitable framework for assessing CDFI activities, as they specifically target the needs of economically distressed communities and marginalized populations. In doing so, they emphasize the importance of CDFIs prioritizing lending activities to those facing the most significant obstacles to financial inclusion, such as low-income individuals and businesses, Native American communities, and residents of U.S. territories. The inclusion of affordable housing financing and public welfare investments further enhances the ability of CDFIs to promote sustainable and equitable economic growth that benefits all segments of society. Overall, the Alliance believes the metrics offer a comprehensive framework for evaluating CDFI lending and investment activities, ensuring that they remain aligned with the organization's mission to foster economic opportunity and growth for all.

The CDFI Fund is contemplating adding a CDFI's commitment to engage in ''deep impact'' lending going forward as part of the evaluation process and/or compliance process. As such, the CDFI Fund is considering adding a new PG&M based on an Applicant's projected activity for ''deep impact'' lending and investment. The new PG&M would be an additional performance goal and would not replace existing PG&Ms. Is it appropriate to consider ''deep impact'' lending/investment as part of the evaluation process? How should such a PG&M be structured—as a percentage of overall projected activity, a percentage of the FA award amount, a dollar volume commitment to deep impact lending/investment, or something else (please describe)?

> <u>Alliance Response:</u> The Alliance generally supports the inclusion of "deep impact" lending/investment as part of the evaluation process for CDFIs. CDFIs are primarily established to provide financial services and investment to underserved communities and populations, with a focus on promoting economic growth and opportunity for all. Therefore, evaluating CDFIs based on their effectiveness in serving these communities and populations is essential. Incorporating a performance goal and metric based on an Applicant's commitment to "deep impact" lending and investment would create a measurable and clear way to evaluate CDFIs' performance in reaching the hardest to reach borrowers and the most underserved communities. This could ensure that CDFIs are fulfilling their mission and providing the required financial services to the individuals who need it the most. However, we are concerned that it may be difficult to measure "deep impact" lending and investment accurately and consistently across different CDFIs and set specific targets for "deep impact" lending that may not align with the unique needs and circumstances of individual communities.

Net Asset Ratio. The CDFI Fund is interested in prioritizing FA awards to CDFIs that are most effectively leveraging their balance sheet and the resources they already have available to them, and for which an FA award is the most essential for the CDFI's growth and ability to leverage additional funds to serve communities in need. A CDFI's Net Asset Ratio represents a CDFI's net assets compared to its total assets and can be a measure of the overall capital structure of an organization.

Is a CDFI's Net Asset Ratio the appropriate measure to assess if a CDFI is effectively utilizing its balance to leverage resources? If yes, what should the target Net Asset Ratio be? If not, what is the appropriate measure(s) and target benchmark(s)?

Alliance Response: The Alliance believes that using a CDFI's net asset ratio as a measure to assess its effectiveness in utilizing its balance sheet to leverage resources has both benefits and drawbacks. On the one hand, the net asset ratio is a simple and easily calculable measure that can provide insight into a CDFI's overall capital structure. It can help identify CDFIs that may be undercapitalized and in need of additional funding to support their lending and investment activities. Additionally, using the net asset ratio to assess a CDFI's ability to leverage resources can incentivize CDFIs to maintain a strong capital base and use their existing resources effectively. On the other hand, the net asset ratio may not fully capture a CDFI's ability to leverage resources effectively, as it does not consider other factors that can impact a CDFI's lending and investment activities. For example, a CDFI with a high net asset ratio may not be effectively utilizing its resources if it is not making loans or investments that benefit underserved communities. Additionally, the net asset ratio may not be an appropriate measure for newer CDFIs that are still building their capital base and may require additional funding to support their growth. For these reasons, the Alliance believes that it may be beneficial for the CDFI Fund to use the net asset ratio in combination with other measures to assess a CDFI's effectiveness in utilizing its balance sheet to leverage resources. For example, CDFIs could be evaluated based on the types of loans and investments they are making and how these activities are promoting economic growth and opportunity in underserved communities. Additionally, newer CDFIs could be evaluated based on their business plans and growth projections to determine if additional funding is necessary to support their growth. Finally, to ensure consistency and comparability across organizations, the CDFI Fund should collaborate with CDFIs in standardizing the calculation of the net asset ratio.

Small and Emerging CDFI Assistance. CDFIs may qualify as Small and Emerging CDFI Assistance (SECA) Applicants if their asset size does not exceed a pre-determined maximum amount based on financial institution type OR if they have conducted financing activities for four years or less prior to the opening of the funding round. Certified CDFIs that exceed the pre-determined maximum asset size thresholds and have more than four years of financing activity are considered as Core Applicants. Currently, SECA Applicants have different Application requirements and evaluation parameters than Core Applicants because of their small and/ or emerging status. Mainly, Matching Funds requirements are typically waived for SECA Applicants. Also, a higher percentage of the SECA Applicant pool progresses from Step 3 to Step 4 of the award evaluation process (the top 70% of SECA Applicants versus top 60% of Core Applicants).

Should CDFIs be required to apply as Core Applicants after they receive a maximum number of three FA awards under the SECA designation, regardless of asset size or financial activity start date of the CDFI? If not three, what should that maximum number of SECA awards be? If there should be no limit on the number of FA awards that a CDFI can receive as a SECA Applicant, why not?

Alliance Response: The Alliance believes that a requirement to move CDFIs to the Core Applicant category after receiving three FA awards under the SECA designation, regardless of their asset size or financial activity start date, incentivizes SECA-designated CDFIs to continue to grow and develop beyond the small and emerging stage. By holding them to the same application and evaluation requirements as Core Applicants, the CDFI Fund could increase competition and better CDFI performance overall. However, the Alliance urges the CDFI Fund to be cognizant of the unique challenges faced by individual CDFIs when considering this shift. For any number of reasons, some SECA-designated CDFIs may not be prepared to move into the Core Applicant category, even after receiving three FA awards. Requiring them to do so could result in fewer CDFIs applying for FA awards. Similarly, such a requirement may push some CDFIs to apply prematurely, resulting in weaker applications and lower-quality awards.

Small and Emerging CDFI Assistance. Per the FY 2022 NOFA, the maximum FA award request for SECA Applicants is currently $700,000 whereas the maximum FA award request for Core Applicants is $1 million. Currently an FA Applicant that meets SECA requirements (called ''SECA qualified Applicant'') may choose to apply as a Core Applicant if the Applicant wants to request more than the $700,000 SECA maximum award request (up to the $1 million maximum award request for Core Applicants). SECA qualified Applicants that apply as Core are treated as Core Applicants, and are held to the Application requirements and evaluation parameters of a Core Applicant. The CDFI Fund is considering removing the option for SECA qualified Applicants to apply as Core Applicants, therefore only allowing SECA qualified Applicants to apply under the SECA Application (which would mean all SECA qualified Applicants would be limited to the lower maximum award request). What feedback do CDFIs have on removing the option for SECA qualified organizations to apply as Core Applicant? Are there ways the CDFI Fund can implement this change to minimize impacts to the affected Applicants?

Alliance Response: The Alliance believes that such a shift would impact CDFIs differently based on their unique circumstances. However, to minimize the impact on affected Applicants, the Alliance recommends that the CDFI Fund consider implementing the change over a phased-in period. For example, the Fund could announce the change in advance and allow SECA-qualified organizations to apply as Core Applicants for a limited period, after which the option would be removed. This would give organizations time to prepare for the change and adjust their strategies accordingly. Additionally, the CDFI Fund could consider providing additional support and resources to SECA-qualified organizations to help them meet the standards for Core Applicants. This could include technical assistance, training, and mentoring programs designed to help small and emerging CDFIs improve their operations and achieve their growth objectives.

Continued Viability for CDFIs. The Riegle Act requires that Applicants for FA provide a comprehensive strategic plan for the organization that contains a business plan of not less than five years in duration. The plan should demonstrate that the Applicant will be properly managed and will have the capacity to operate as a CDFI that will not be dependent upon assistance from the CDFI Fund for continued viability.

To what extent are CDFIs reliant on FA funding from the CDFI Fund for their continued viability?

Alliance Response: Given that CDFIs usually operate in underserved communities and serve populations that lack access to capital, it should come as no surprise that they often face challenges in securing the capital necessary to operate and grow their businesses. FA awards from the CDFI Fund can be essential to support the ongoing operations of a CDFI, but the extent to which the FA funding is necessary for a CDFI's continued viability will vary by CDFI.

What do CDFIs need in order to be independent from the CDFI Fund's assistance for continued viability?

Alliance Response: The Alliance believes that for CDFIs to become less reliant on the CDFI Fund's assistance for continued viability, they may need to focus on building up their own capital reserves and developing sustainable business models that generate income from lending and other services. This could involve increasing the volume of loans they make, expanding into new markets, and diversifying their products and services. CDFIs may also need to invest in technology and staff training to improve their efficiency and ability to serve their customers. Furthermore, CDFIs can become less reliant upon CDFI Fund assistance by cultivating partnerships with other financial institutions and community organizations to access additional sources of funding and support. The Alliance believes that by building these capabilities, CDFIs can better serve their communities and achieve their mission of promoting economic development and financial inclusion, with a reduced reliance on CDFI Fund assistance.

Would a program model in which CDFIs receive significantly larger award sizes for a three- to five-year period support viability independent from the CDFI Fund? If not, what would support a CDFI's growth towards such independence?

Alliance Response: Although providing significantly larger award sizes to CDFIs for a limited period may aid their growth and development, the Alliance does not believe this alone guarantees CDFIs long-term independence from the CDFI Fund's assistance. CDFIs require a sustainable business model, capable management, access to capital, and a robust partnership network to succeed and remain financially stable over the long run. To achieve viability independent from the CDFI Fund, CDFIs will need to broaden their funding sources, create products and services that cater to their target markets, build capacity and skills among their employees, establish solid governance structures, and collaborate with other organizations that can provide technical assistance, training, and access to capital. They may also need to advocate for policies and programs that promote their mission and the communities they serve.

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On behalf of the African American Alliance of CDFI CEOs, we thank you for the opportunity to provide recommendations regarding the CDFI Program and the NACA Program FA and TA Applications for the Fiscal Year (FY) 2023–FY 2025 funding rounds. Please do not hesitate to contact us for clarifying questions or comments.

Sincerely,

Lenwood V. Long, Sr., President and CEO
African American Alliance of CDFI CEOs