

May 12, 2023

Pooja Patel, CDFI Program and NACA Program Manager  
CDFI Fund  
Department of the Treasury  
1500 Pennsylvania Avenue NW  
Washington, DC 20220

RE: Inclusiv Comment: CDFI/NACA Program FY 2023-2025 Financial Assistance and Technical Assistance Applications

Dear Ms. Patel:

Thank you for the opportunity to comment on the CDFI Fund's proposed changes to the FA Application and TA Application Templates. We appreciate the Fund's soliciting comments on the documents, and the format in which the proposed changes were shared with the public. Providing documents that show proposed changes tracked and highlighted is an effective way to facilitate public input.

In general, the Fund's proposed edits to the FA Application and TA Application Templates are thoughtful and will make the application process easier and more accessible to CDFIs. In the FA Application, however, there are still key improvements needed to the Financial Assistance Objectives to ensure that all the Objectives can be used by CDFI credit unions given the regulatory and business contexts in which they work.

#### About Inclusiv

Inclusiv is the first and only CDFI Intermediary for credit unions and the national network of community development credit unions. Our mission is to promote financial inclusion and equity through credit unions. Credit Unions are not-for-profit financial cooperatives owned by, governed by, and focused on providing safe and affordable financial services to their members. Inclusiv members comprise Low Income Designated, Minority Depository Institution, and CDFI credit unions, as well as financial Cooperativas based in Puerto Rico. The Inclusiv network represents more than 460 credit unions serving 17.2 million people in predominantly low-income urban, rural, and reservation-based communities across 47 states, Washington DC, the U.S. Virgin Islands and Puerto Rico. Inclusiv channels capital to and builds capacity of these institutions that are dedicated to serving low-income people and redlined and disinvested communities. We offer technical assistance at no cost to our 309 CDFI-certified members each year and have helped hundreds of credit unions obtain and maintain their CDFI certification.

#### Changes to the FA Application Financial Assistance Objectives

The Fund's proposal to limit applicants to just one FA Objective is a positive change that will streamline a CDFI's application to the Fund and the Fund's review of FA applications. Removing Objectives 1-5 and 1-6, New Financial Service(s) and New Development Service(s) is a positive change. However, the way the remaining Objectives are defined effectively narrows the options for most CDFI credit unions to just one: Increase Volume of Financial Products. This option requires CDFIs to commit to growth of their total Target Market lending activities over a three-year period, regardless of changes in economic conditions. The commitments are commonly hundreds of times greater than the amount of the FA grant and represent an unreasonable amount of leverage. For example, while the average FA grant in 2022 was just \$545,000, many CDFI credit unions had to commit to issuing tens or hundreds of millions of

dollars of lending over the next three years. This extreme leverage elevates the risk of potential non-compliance for CDFIs in the event of economic crises, such as global recessions or local emergencies.

To address this issue, we recommend the CDFI Fund amend the objectives as follows:

1. Modify Objective 1-1, "Increase Volume of Financial Products," to allow sufficient flexibility to allow for changes in economic conditions that affect lending volume, especially for small institutions.
2. Broaden Objective 1-3 from "New Geographic Area(s)" to "Increased Volume of Financial Products in a Specific Geographic Area" to support activities that meet the needs of targeted communities through the delivery of significantly increased volumes of high impact financial products over the baseline period.
3. Broaden Objective 1-4 from "New Financial Product(s)" to "New, Improved, or Increased Volume of Specific Financial Product(s)" to support the efforts of CDFIs to use the full range of innovative marketing, outreach, and delivery channels to significantly and measurably, increase access to specific high-impact financial products in CDFI Target Markets compared with the baseline period.
4. Broaden Objective 1-7 from "Serve New Targeted Population(s)" to "Increase Service to Specific or New Targeted Population(s)" to support the efforts of CDFIs to increase the delivery of high-impact financial products on specific Targeted Populations through significant, measurable increases in volume over the baseline period.

*Recommended Modifications of Objective 1-1: "Increase Volume of Financial Products"*

Although the Fund's proposal that compliance with Increase Volume of Financial Products be based on a three-year historical lookback and a multiplier of an institution's FA grant seems eminently reasonable on its face, in practice there are two problems with this measure that we encourage the Fund to address.

First, although a three-year lookback period is certainly smoother than a single-year lookback, it still runs a significant risk of creating a lending volume benchmark that may either be too low or too high depending on current economic conditions and conditions over the prior three years. 2022 is an excellent example of this issue. Over the prior three years, the highest Federal Funds effective rate was just 2.41% and for much of the COVID-19 pandemic response, rates were near zero. In December 2022, however, the Fed Funds effective rate was 4.1% -- 68 times higher than the lowest rate of the historical lookback period. Although still relatively low by historical standards, rising rates slowed demand for mortgage loans. And during the lookback period, PPP increased small business lending markedly for many CDFIs in a way that is not replicable without significant federal support. If a CDFI that made many PPP loans and focused a significant portion of its lending on providing access to affordable home loans were subject to this lookback period, it would likely be extremely challenging for them to meet the Increase Volume of Financial Products goal even with grant support from the Fund.

In addition, the structure of the goal penalizes smaller institutions. The most recent round of FA grants included base grants ranging from \$250,000 to \$950,000. A CDFI with a billion dollars in assets that must lend at least as much as in the prior three years plus a 2x multiple of even the largest FA grant will have to increase their lending by a much smaller percentage than a CDFI with \$100 million in assets that receives the smallest FA grant.

To address these issues, the Fund should set deployment goals based primarily on the FA grant award amount. Multipliers should be based on historical volume and then adjusted upward or downward based on institutions' analysis of current and projected economic conditions and how those are likely to affect their lending as well as a size adjustment to make sure that the Fund is not seeking an unrealistically large percentage change in lending volume from smaller CDFIs.

#### *Recommended Changes to Objectives Focused on New Geographies, Products or Targeted Populations*

Although serving new geographies, developing new products, and serving new targeted populations are all critical, many CDFI credit unions already serve all geographies that they are permitted to serve, serve all targeted populations, and may need more than a single FA reporting period to develop new financial products. In addition, deepening work in these three areas can be just as, if not more, valuable to the communities CDFIs serve than focusing on new initiatives.

For example, CDFI credit unions already offer a wide range of products and are creative in using their existing products and services to effectively meet their members' needs. Although there are certainly new products that they could develop, many of the most impactful loan products that could be created would be adaptations of existing products rather than entirely new ones. For example, a CDFI credit union designing a mortgage program to help address the racial wealth gap might adjust the underwriting process of the mortgages they offer through the program to avoid using racially-biased credit scores and instead focus on potential borrowers' rent payment histories, but the key financial product would be an existing product even if the supporting services, underwriting and outreach approaches used were all new. In other cases, the key innovation may be in the marketing and outreach strategy that allows a CDFI credit union to increase lending of a particular product in a specific Target Market. For example, many CDFI credit unions have increased the impact of existing affordable used auto loan products by creating Wheels-to-Work programs with innovative marketing and support services. Similarly, focusing on increasing services to targeted geographies with significant unmet credit needs or to underserved targeted populations could have a much deeper impact than adding a new geography or new targeted population.

The Fund should expand the permissible range of activities for these three Objectives to include increasing the volume of financing activities in specific underserved communities, modifying products to better meet community credit needs, and expanding programs with proven impact.

#### *Other Changes*

Of the Fund's other proposed changes to the materials, Inclusiv supports the removal of Opportunity Zones, and the clarification that subcontractors and staff from affiliated organizations may support the CDFI in executing its strategic plan.

In Appendix A, section C2, the Fund should make clear that C2 is not applicable to CDFI credit unions as the Fund obtains this information directly from the National Credit Union Administration.

#### *Debriefing Notes*

Although the documents subject to this comment process do not include the debriefing, as noted in our previous comment letters, Inclusiv recommends that the CDFI Fund provide detailed and substantive debriefings to all applicants – successful and unsuccessful alike. At a minimum, applicants should receive their exact scores for each application section with specific reasons given for all point deductions. This change would provide all applicants with important, objective feedback on performance areas that are less competitive with their peer CDFIs and in need of improvement. Each year, this feedback would help

CDFIs determine their readiness to apply, reduce the number of non-competitive applicants and raise the performance level of CDFIs across the board.

#### *Supporting Native CDFIs & Sponsoring Entities*

Inclusiv supports a diverse range of credit unions and partners that serve Native communities across the United States. It is critical that at every level of program and funding development include the voice and experience of Native communities directly impacted. Similarly, to the need for the CDFI Fund to create deep interaction of CDFI feedback on change implementation, Native community input poses a vital contribution on implementation of new or altered program by the CDFI Fund.

Many Native communities are currently working to or are interested in organizing new credit unions to provide critically needed financial services and access to credit. An award with flexibility to allow for innovative proposals that allow existing CDFIs serving Native communities to pursue diverse strategies to support a broad range of efforts to expand access in their communities would be most useful. An example of this sort of flexible award is supporting existing CDFI credit unions serving Native communities to structure an incubator for start-up tribal credit unions. This could include developing a turnkey package of operational support to help these new institutions navigate common operational challenges, among other supports. This is distinct from Sponsoring Entities that create a new legal entity that will become a CDFI, instead, the sponsor would support community-organized efforts as an advisor and help the new institution connect to needed resources. This would not only increase access to financial products and services in Native communities but could also lay the foundation for a broader effort to support new CDFI credit unions. The National Credit Union Administration provides grant support for new credit unions themselves through its Community Development Revolving Loan Fund but does not support sponsor credit unions that play a key role in ensuring the success of new ventures. So, this is a key gap that the Fund could fill.

#### *Deep Impact Lending – ECIP Alignment*

The Fund's interest in measuring deep impact lending is appreciated as CDFIs are most impactful when they reach members of the community who are unable to access financial products and services from other institutions. Aligning the Fund's definitions with ECIP definitions will be a significant help to institutions that have received CDFI awards and ECIP as it will avoid duplicative data tracking and reporting.

#### *Net Asset Ratio*

Net Asset Ratio. The CDFI Fund has asked whether a CDFI's Net Asset Ratio can be used to assess if a CDFI is effectively utilizing its balance to leverage resources. Since Net Asset Ratios are specific to *unregulated* CDFIs, Inclusiv does not have a comment on their appropriate use in this regard. The capital ratios used by CDFI depositories are highly complex and are closely monitored by prudential regulators. As a result, it would be inappropriate to use the complex capital ratios of CDFI depositories as a competitive element in FA applications, beyond the threshold evaluation of financial health and viability.

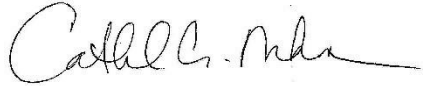
#### *Funding Levels for Large CDFIs*

The CDFI Fund is proposing a funding level for large CDFIs. As recognized by the proposed changes this includes a \$1 billion asset size limit for CUs and \$1.5 billion for banks. Large CDFI credit unions should have the opportunity to access financial assistance grants. Many times, these funds are allocated to specific programs or loan loss reserves within the credit unions that would not otherwise be

opportunities for deeper lending and impact to members and historically underbanked communities. Inclusiv sees this as an opportunity for restructuring application frequency for large CDFIs, not eliminating a subset of CDFIs due to their size, to achieve more equitable levels for large CDFIs.

Thank you for the opportunity to comment on this important aspect of the CDFI Fund's work. If you have any questions about this comment letter, please contact Alexis Iwanisziw, Senior Vice President of Policy, and Communications, at [aiwanisziw@inclusiv.org](mailto:aiwanisziw@inclusiv.org).

Sincerely,

A handwritten signature in black ink, appearing to read "Cathie Mahon". The signature is fluid and cursive, with a long horizontal stroke at the end.

Cathie Mahon  
President/CEO, Inclusiv