Credit Unions United to Serve the Underserved

September 12, 2016

Amber Bell
CDFI Program and NACA Program Manager
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20020

Re: **Request for Comment on CDFI Program Financial Assistance Application**

Dear Ms. Bell:

On behalf of the National Federation of Community Development Credit Unions (the Federation), I would like to thank you for the invitation to comment on the CDFI Fund's expected revision of the CDFI Program Financial Assistance application for 2017-2019.

We are pleased to see that the new application provides more room to explore and explain the business strategies of applicant CDFIs and believe this is a major improvement over the previous application format. However, we remain deeply concerned that the application has been designed according to the business model and financial structure of unregulated CDFIs and does not permit regulated CDFIs to compete effectively for Financial Assistance. Our specific concerns are detailed in the pages that follow, but may be broadly grouped into two areas:

- ***The application is structured as a lending competition, with little or no space to present data and narratives for a business strategy centered on financial services and development services.*** Although the CDFI Fund's statutes specify that Financial Assistance must be used to provide "new Financial Products, Financial Services and/or Development Services; and/or increase the volume of current Financial Products, Financial Services and/or Development Services", the application is focused only on products and excludes meaningful data and discussion related to services. Research has shown that financial services are often more important than loan products in promoting financial inclusion among very low income consumers, a key goal of Treasury Secretary Lew. Many regulated CDFIs use services as the key tool for expansion strategies in CDFI Target Markets, yet the proposed application does not collect sufficient information for the CDFI Fund to make award decisions on that basis. These concerns have been raised in prior comment letters submitted to the CDFI Fund, most recently in our letter of December 2015 which provided specific recommendations for the collection and assessment of data related to Financial Services and Development Services. A copy of that letter is attached for your reference.

- ***The financial information required in the application does not conform to the definitions and rigorous standards established over decades by federal regulatory agencies for banks and credit unions.*** In contravention of the Paperwork Reduction Act, regulated CDFIs that already produce detailed financial statements on a quarterly basis for one federal agency are required to reclassify and resubmit this same data for another. This burden on regulated CDFIs is tripled by the inconsistent account structure and definitions used by the CDFI Fund for three types of financial reports: (i) FA/TA applications; (ii) CDFI Annual Data Collection and Recertification Reports; and, (iii) CIIS Institution Level Reports. Last year the CDFI Fund issued a "crosswalk" to help regulated CDFIs present their financial data according to the CDFI Fund's FA application format. The crosswalk itself contained numerous errors that we expect to be corrected in the future, but we maintain that the entire exercise is misguided; regulated CDFIs simply should not be required to reclassify their financial data. That process adds significant costs for regulated CDFIs with no discernable benefits, since the CDFI Fund can and should assess the financial health, viability, performance and trends for all regulated CDFIs using the detailed financial data that is already publicly available and represents the global standard for comparative analysis of financial institutions. Indeed, we believe that the CDFI Fund should encourage unregulated CDFIs to move towards the more rigorous and consistent reporting standards of banks and credit unions, not the other way around. We urge the Fund to retain the services of an expert in financial statements and reporting for regulated institutions to ensure consistent conformity with regulatory standards and definitions.

In addition, the Federation notes that the process used to review and score applications is at least as important as the format of the application itself. For this reason, we have attached to a copy of the Federation's comment letter of November 2015 that included the following recommendations:

- Substantive debriefings for <u>all</u> applicants, successful and unsuccessful alike.
- Improved consistency in scoring quantitative data
- Increased diversity and training of application reviewers.

The Federal Register notice requested responses to five general questions and fifteen specific questions regarding the proposed revisions to the FA and TA applications.[1] Our responses to the five general questions are included in Part I, below. Part II includes our responses to fifteen specific questions from the Federal Register.

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[1] "Information Collection, CDFI and NACA Programs" Notice by the CDFI Fund, Federal Register, July 12, 2016.

Part I: General Questions from Federal Register

(a) Whether the collection of information is necessary for the proper performance of the functions of the CDFI Fund, including whether the information shall have practical utility

Data collection is clearly essential for the effective deployment of capital through the CDFI FA and TA application process. In previous comments on CDFI Certification, the Federation and the CDFI Coalition have asked that the CDFI Fund ensure, to the maximum extent possible, that all data collection:

1. serves multiple purposes;
2. provides a public benefit; and,
3. is tailored to the institutional type of CDFI

As noted in the introduction, we remain concerned that the collection of information does not fulfill these criteria, as follows:

- Information requested in the FA application requires the re-entry and often reclassification of data that has already been submitted in other reports to the CDFI Fund and to federal regulators
- Information in the FA application is incomplete, as it does not enable CDFIs to present comprehensive business strategies for CDFI expansion that center on financial services, development services and certain lending activities.
- Information collection is not tailored to the specific institutional type of CDFI as it requires regulated CDFIs to reclassify and restructure data from financial statements that meet regulatory standards in ways that do not adhere to regulatory norms.

(b) The accuracy of the CDFI Fund's estimate of the burden of the collection of information

As noted in earlier comment letters, the burden of data collection varies greatly by size and type of CDFI, but the CDFI Fund typically underestimates the burden for most CDFIs. As noted above, we continue to be concerned about the added burden of inconsistent and redundant financial reporting requirements for regulated CDFIs.

(c) Ways to enhance the quality, utility, and clarity of the information to be collected

As noted above, the structure of the proposed application implies that only business strategies that center on loan products will meet the objectives of the CDFI Program and that FA may only be awarded for lending activities. If the FA competition remains focused almost exclusively on Financial Products, then we recommend that the CDFI Fund open additional competitions that focus on financial inclusion and asset building. However, if this competition remains the sole means to allocate Financial Assistance to meet the statutory requirements of the CDFI Program, then the application **must** be revised to collect clear and meaningful information on Financial Services and Development Services and allow CDFIs to compete on the basis of these activities as well.

(d) Ways to minimize the burden of the collection of information on respondents, including through the use of technology

As noted in our previous comment letters and elsewhere in this letter, the burden on regulated CDFIs would be minimized by:

- Adherence to the structure and definitions for financial statements used by federal regulators for banks and credit unions
- Automatically populating financial statements in reports and applications for regulated CDFIs with information that is already publicly available from regulatory agencies
- Ensuring that formats for financial reporting are consistent across multiple platforms used by the CDFI Fund (i.e., FA/TA Applications, Annual Report, CIIS Report)

Part II: Specific Questions from Federal Register

(1) 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?

As stated in the Federal Register, Financial Assistance under the CDFI Program must be used to provide "new Financial Products, Financial Services and/or Development Services; and/or increase the volume of current Financial Products, Financial Services and/or Development Services." The proposed FA application collects ample information about Financial Products, but almost no meaningful information on Financial Services and Development Services. Research has shown that financial services are often more important than loan products in promoting financial inclusion among very low income consumers and many regulated CDFIs find that financial and development services are the key to effective expansion into CDFI Target Markets. However, the almost exclusive focus on lending in the proposed application does not permit applicants to compete for FA on the basis of "Financial Services and/or Development Services." For example – and as discussed further below – the application has no tables dedicated to data on Financial Services, and instead asks applicants in several places to combine data on financial products and services in the same line. As noted above, the Federation's attached letter of December 2015 includes a set of data and metrics that would allow for a more comprehensive view of a CDFI's business strategy. Yet despite Treasury's stated goal to promote financial inclusion – including a very public focus on unbanked and underbanked consumers during the CDFI Fund's 20th Anniversary celebration – the proposed application reflects a continuing failure to recognize and support the strategies that can actually achieve inclusion and build financial security among low-income Americans.

(2) Are certain questions or tables redundant or unnecessary?

(a) The first tables on pages 1 and 2 are identical, and it is not clear that the information requested is substantially different from the data already submitted with CDFI Annual Reports.

Loans/Financing/Loan Guarantees/Financial Services Currently Offered			
Line of Business		$ Portfolio Outstanding	Product Description
☐	Business Loans		
☐	Commercial Real Estate Loans		
	☐ Education Facilities		
	☐ Commercial		
	☐ Community Facilities		
	☐ Health Care Facilities		
☐	Consumer Loans		
☐	Intermediary Loans		
☐	Microfinance Loans		
☐	Residential Real Estate Loans		
☐	*Consumer Financial Services (Regulated Institutions Only)*		
☐	*Commercial Financial Services (Regulated Institutions Only)*		
☐	Other (Please Describe):		

(b) In its current form, this first table is difficult or impossible for most regulated CDFIs to complete, specifically:

- ✓ The left column lists broad categories of loans identified by purpose, but banks and credit unions are required by federal regulators to produce detailed quarterly reports that classify lending by risk and collateral. Rigorous federal regulatory standards, developed over many decades, are the gold standard for comparative analysis of financial institutions. Yet this table asks regulated institutions to reclassify financial data to conform to the less rigorous categories common among unregulated CDFIs.

- ✓ In addition to the broad categories of lending, the table adds two lines for regulated CDFIs to list "Consumer Financial Services" and "Commercial Financial Services", which raises two distinct problems:

  - First, these two lines cannot be expressed in terms of "$ Portfolio Outstanding," as required by the table, and;

  - Second, they require applicants to somehow lump together things as distinctly different as savings accounts, checking accounts, mobile banking, money orders, international remittances and much, much more.

- ✓ The second column of the table asks for the "$ Amount Portfolio Outstanding" that regulated CDFIs, as noted above, can easily generate for some categories, but not others. The column makes no sense for the two financial services lines – while regulated CDFIs could list total savings, but most financial services cannot be expressed in terms of outstanding portfolio.

- ✓ The final column asks for a singular "Product Description" for categories of loans and financial services that each contain dozens of distinctly different products and services.

These tables are unnecessary and redundant if the Fund would simply accept call reports from regulated financial institutions as financial statements. We would be happy to provide assistance to help CDFI Fund staff understand how the wealth of information available in credit union call reports can meet multiple needs of the CDFI Fund.

(3) Should any questions or tables be added to ensure collection of relevant information?

(a) Given the critical importance of savings in helping consumers to achieve financial stability and security, and some of the innovative savings products and programs developed in recent years (e.g., reverse-tier and prize-linked savings), savings should be included as a product category.

(b) Financial Services should be listed in a separate table. The categories of financial services can be taken directly from the categories used for regulatory reports

(c) The tables on pages 1-3 emphasize lending and provide little room to describe the depth and breadth of financial services

(d) For example, the first table in Question 6c is substantially the same as the first tables on pages 1 and 2 of the proposed application. In addition to the concerns already noted above, this table again makes it difficult to represent projections related to financial services, since "$ Portfolio Outstanding" is relevant to loan portfolios, not financial service activities.

New Loans/Financing/Loan Guarantees/Financial Services To Be Offered		
Line of Business (select all that apply)		$ Portfolio Outstanding*
☐	Business	
☐	Commercial Real Estate	
	☐ Education Facilities	
	☐ Commercial	
	☐ Community Facilities	
	☐ Health Care Facilities	
☐	Consumer	
☐	Intermediary	
☐	Microfinance	
☐	Residential Real Estate	
☐	Consumer Financial Services (Regulated Institutions Only)	
☐	Commercial Financial Services (Regulated Institutions Only)	
☐	Other (Please Describe):	

(4) In general, does the data and information requested in the Application allow an Applicant to demonstrate its ability to meet the eligible uses (commercial facilities, small businesses, microenterprises, community facilities, consumer financial products and services, affordable housing, and intermediary lending to nonprofits and CDFIs) of CDFI Fund Program awards?

No, as noted above, the current application does not permit applicants to demonstrate the depth and breadth of financial services and development services activities that can be central to the CDFI expansion strategy for regulated CDFIs. Part of the challenge is the lack of a clear separation between financial and loan portfolio data, which should be reported according to regulatory standards, and activity and impact data that can be reported in three distinct categories:

i. Lending Activities
ii. Financial Services
iii. Development Services

The attached letter from December 2015 includes specific recommendations for sub-categories and metrics that can be used for these three categories.

(5) Is the data and information requested in the Application to assess proposed Financial Assistance activities adequate to assess these different activities?

No. As noted in question 2(c), the Activities Level Chart omits many critical activities that are eligible for Financial Assistance.

(6) What, if any, additional data and information should be collected to assess Financial Assistance activities?

Our letter of December 2015, the Federation included a detailed proposal for data that could be included to better capture the scale and scope of financial services, lending and development services activities. We have attached a copy of this letter for reference.

(7) Are any of the questions particularly burdensome or difficult to answer? Please be specific to type of CDFI (e.g., regulated, non-profit, sector)?

As already noted in this letter, the request for financial data in formats that do not conform to regulatory norms imposes an unnecessary burden on CDFIs banks and credit unions.

(8) Are the character limitations for narrative responses appropriate? Should certain questions allow additional or fewer characters?

We appreciate the additional narrative space that has been allocated to the Business Strategy section of the application. However, as noted elsewhere, the application does not allow sufficient narrative space to describe strategies focused on the delivery of high-impact financial services or development services.

(9) Are there questions that lack clarity as to intent or purpose? If so, which questions, and what needs to be clarified in order to provide a comprehensive response?

See response to question 10, below.

(10) Are there questions that would require additional guidance in order to respond adequately? If so, which questions, and what type of instructions would be helpful in order to be able to provide a response?

The narrative questions are sufficiently clear, but the charts in their current form would need extensive clarifications and instructions for regulated CDFIs.

(11) Is the financial data that is intended to be collected adequate to assess an Applicant's financial and portfolio performance?

No. As stated elsewhere, the detailed quarterly financial reports that are publicly available for all regulated CDFIs provide a clearer picture of financial and portfolio performance over time.

(12) Is there other information not requested in the Application that could demonstrate an Applicant's financial and portfolio performance?

No additional information is needed. With better use of publicly available data on banks and credit unions, less data would be required from regulated CDFIs.

(13) Tables in Questions 6 a-d ask for certain data and information that will be used to assess an Applicant's projected Financial Assistance activities. Is the data collected in these tables adequate to assess an Applicant's projected Financial Assistance activities?

The Activity Levels Chart and Projected Activity Levels Charts are problematic for regulated CDFIs in three ways:

- ✓ First, as shown in the table below, the lending categories do not conform to the standards and definitions set by federal regulators for banks and credit unions and also does not match the CDFI Fund's own portfolio breakdown used for CDFI Annual Data Collection and Recertification. As a result, regulated CDFIs that already produce rigorous, detailed and public financial statements on a quarterly basis are asked to reconfigure this data multiple times to meet the different classifications used for FA applications and CDFI Annual Reports. While this may seem to allow the CDFI Fund to compare activities of regulated and unregulated CDFIs on a common basis, the definitions do not conform regulatory standards and, as shown in the table below, omit significant portions of regulated lending activities. It is not altogether clear how the CDFI Industry benefits from definitions that do not conform to federal regulatory standards, but these non-conforming definitions continue to impose an unreasonable burden on regulated CDFIs.

✓ Second, the Activities Level Chart includes a box that asks for the number and dollar amount of “Consumer Financial Products and Services”. As noted above, financial services cannot be bundled in this way, and certainly cannot be bundled with consumer loans in any coherent fashion.

✓ Third, applicants cannot compete effectively for FA with a strategy focused on Financial Services or Development Services if the Activity Levels Chart does not permit the entry of meaningful data. Separate sections of the Activity Level Chart should be created for Development Services and Financial Services, with appropriate metrics.

Comparison of Activities Level Categories with CDFI Portfolio Reports and Regulated CDFI Standards

CDFI FA Application Activities Level	CDFI FA Application Portfolio Categories	CDFI Fund Annual Report Portfolio Categories	Bank Classifications	Credit Union Classifications
Omitted: all Business loans except for Small Business & Microfinance	Business Loans	Business Financing	DOM: Commercial & Industrial Loans	Outside MBLs: Commercial & Industrial
Commercial Facilities/ Small Business/ Microenterprise	Microfinance Loans	Microfinance Financing	Not Available	Not Available
Affordable Housing	Other	Other	US RE: Multifamily Loans	Not Available
Omitted: all residential RE lending	Residential Real Estate Loans	Residential Real Estate Financing	US RE: CL-end First lien 1-4 US RE: Cl-end Jr Lien 1-4	US RE: Cl-end First Lien 1-4 Total Other RE lns/LOC
Community Facilities Omitted: all commercial RE loans other than community facilities	Commercial Real Estate Loans - Education Facilities - Commercial - Community Facility - Health Care Facility	Commercial Real Estate Financing - Charter School - Commercial - Community Facilities - Health Care Facilities	US RE: Comm RE (Nonfarm, non residential)	Outside MBLs: Owner-Occupied Outside MBLS: Non-Onr Occupied
Consumer Financial Products and Services Note: Combines consumer loans with financial services	Consumer Loans	Consumer Financing	DOM: Consumer Loans	Unsecrd Credit Card Lns All other Unsecrd loans Payday Alternative Lns Non-Fed Gtd Stdnt Lns New Vehicle Loans Used Vehicle Loans Leases Receivable All Other Lns/LOCs
Intermediary Lending to Non-Profits and CDFIs	Intermediary Financing	Intermediary Loans	Not Available	Not Available
Omitted	Other	Other	Agriculture: US RE: Farm Loans	Agriculture: MBLs Secured by Farmland
Omitted	Other	Other	Construction & Land Development	Construction & Development
Omitted	Consumer Financial Services	Not included in Annual Report	Not Available in this form	Not Available in this form
Omitted	Commercial Financial Services	Not Included in Annual Report	Not Available in this form	Not Available in this form
Omitted	Not included	Not included	Total customers	Total Members
Omitted	Not included	Not included	$ Total Savings	$ Total Shares
Omitted	Not included	Not included	# Checking Accts	# Share Draft Accts

(14) Is there other information not requested in the Application that would demonstrate an Applicant's projected Financial Assistance activities?

Please see our response to question (6), above.

(15) Are there requests for data in the Application that Applicants do not have readily available or that are burdensome to obtain and/ or calculate?

As noted throughout this letter, there are multiple areas where the proposed application requests data in a way that is unnecessarily burdensome for regulated CDFIs. We recommend that the CDFI Fund use the financial statements of regulated CDFIs as the structural foundation for all financial reporting and only request data and information that is not already publicly available in that format.

Conclusion

The CDFI Fund has a rare opportunity to expand the leverage of its Financial Assistance resources and spur an industry-wide competition to promote financial inclusion. We encourage the CDFI Fund to seize this opportunity. While regulated CDFIs are well prepared for this competition, we believe the impact would extend far beyond the small number of successful FA applicants to the CDFI and financial services industries at large. Indeed, a transparent application process that recognizes and rewards effective financial and development services would serve as a powerful incentive to transform industry practices and extend safe and secure financial products and services to tens of millions of low-income consumers in CDFI deserts across the country.

Again, many thanks for the invitation to submit these comments. As always, we would welcome the opportunity to discuss our comments and recommendations further at your convenience.

Sincerely,

Terry Ratigan
Senior CDFI Specialist

Copies: Cathie Mahon, President/CEO
Pablo DeFilippi, Vice President, Membership and Business Development
Pamela Owens, Vice President, Programs
Federation CDCUs

Federation
Credit Unions United to Serve the Underserved

Attachment A

December 2015 Letter to the CDFI Fund

December 3, 2015

Ms. Annie Donovan
CDFI Fund Director
U.S. Department of Treasury
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Ave. NW
Washington DC 20020

Dear Director Donovan:

I appreciate the opportunity to share my organization's perspective on how simple adjustments to the CDFI Fund's Financial and Technical Assistance Application could yield significant results in promoting financial inclusion to unbanked and underbanked consumers. Despite considerable progress made in connecting people to productive banking relationships, the FDIC estimates that nearly 1 in 13 US households remain unbanked. The Federation is encouraged by the attention that the Administration and US Treasury has placed on making financial inclusion a priority. The CDFI Fund is the ideal vehicle for Treasury to demonstrate this commitment to financial inclusion by investing in the expansion of coverage and service from CDFI depository institutions.

The National Federation of Community Development Credit Unions (the Federation) is the national association for credit unions with a primary mission of community development and promoting financial inclusion, security and well-being among low-income consumers and communities. In recent years, the Federation has worked closely with the Fund to increase the size, number and impact of credit unions promoting community development.

In remarks earlier this week, US Treasury Secretary Lew cited three obstacles to banking access: affordability, simplicity and safety. Credit unions can provide solutions for low-income consumers that overcome each of these obstacles. By offering basic transactional, savings and credit products to low- and moderate-income people, community-owned CDFI credit unions are uniquely positioned to deliver upon the Secretary's goal. Credit unions build trust in financial institutions among their members because of their cooperative structure and emphasis on member education. For those credit unions serving predominantly low-income communities, these trusted relationships are critical to making informed financial decisions that expand financial security.

As Treasury works to finalize the specific measures by January, the Federation believes that the CDFI Fund can play a central role in this effort by targeting support to CDFI depository institutions that are on the front lines of reaching underserved consumers. The Federation would like to propose three specific ways that the CDFI Fund could help to achieve Treasury's goal:

1. **Expand the pool of CDFI depositories committed to reaching underserved markets.** The Federation has worked diligently to engage the CDFI Fund, the National Credit Union Administration (NCUA) and the broader credit union movement to connect those credit unions that are actively serving low-income and underserved target markets to apply for and become certified as CDFIs. We have assisted the vast majority of the 265 credit unions that have been certified or re-certified over the last 3 years. While the Fund staff is responsive to our input on how to adapt their review criteria to the operational and governance structure of credit unions, the process itself remains inefficient as most of the required data -- and much more -- is already captured by another federal agency, the NCUA. In recent years we submitted a number of formal recommendations to streamline the process and look forward to significant improvements under your leadership. We applaud the Treasury Department's dialogue with NCUA to create systems that can share data and improve the efficiency of the CDFI certification process for credit unions. We estimate this will open the door for hundreds and possibly thousands of new CDFI depository institutions that can leverage Fund resources to vastly expand access to banking for low-income people.

2. **Provide targeted resources for access to banking initiatives** similar to other Fund initiatives (e.g, Healthy Food Financing, Capital Magnet Fund). Title XII of Dodd-Frank calls for dedicated funding mechanisms for federally insured depository institutions, community development financial institutions and State, local or tribal governments for the express purpose of connecting low- and moderate-income individuals to account services at regulated depositories, affordable small-dollar loans and financial education and counseling. Yet, this provision has not been adequately implemented. The Federation believes the CDFI Fund is the ideal vehicle for delivering on this promise. There are two ways in which the Fund can direct its support for expanding access to CDFI depository services: targeting the New Markets Tax Credit to preference development that allows for branch expansion in impoverished communities with limited financial institution presence and establishing a dedicated funding stream at the Fund to:
    - Promote the expansion of CDFI depository account services by providing working capital support for the first two years on new branch expansion
    - Support small dollar lending in safe and responsible manners consistent with CFPB guidelines (once finalized)
    - Develop outcome-driven financial counseling and coaching services to help people not only access CDFI services but to use them to move toward greater financial health and security

3. **Revise the CDFI Fund Financial Assistance and Technical Assistance Applications to allow complex depository CDFIs to tell the full story of their institutions.** The current CDFI application is targeted to CDFI loan funds which traditionally engage in a limited number of large-transaction financing activities. The application is tailored to institutions with a narrow range of lending and financing over complex institutions that encompass numerous products, services and business lines. It also ignores the majority of best practices that have developed over the years when serving unbanked and credit-challenged consumers. This leaves CDFI depositories with little or no opportunity to demonstrate performance, innovation and impact in reaching and serving unbanked and underbanked consumers, which constitutes the bulk of its business. Moreover, it treats all lending equally, whether to thousands of consumers or to a handful of firms, thereby underestimating (and undervaluing) the level of investment needed to do small transactions and loans well. The application prioritizes $$ disbursed versus people

served. This prioritization directs the CDFI field toward fewer, large transactions, not where the gaps in the system are. In the attachment, we detail specific recommendations as a starting point for greater dialogue on how the CDFI Application may be improved. We would welcome an opportunity to dialogue with the Fund in order to dig more deeply into each of these areas.

The Federation deeply values the enormous role that the CDFI Fund has played in building a vibrant and dynamic field. With the recent announcements and the push toward developing specific measures to promote greater financial inclusion, credit unions present concrete solutions. We look forward to working closely with the Fund in the coming months to further develop these ideas to scale the work of CDFI depository institutions. Thank you for your time and attention.

Sincerely,

Cathleen A. Mahon
President and CEO

Federation Recommendations for CDFI Fund Financial Assistance and Technical Assistance Application Improvements

Overview

In recent years, the CDFI Fund has worked hard to reduce subjectivity in the application and review process and increase reliance on measurements that are considered more objective. In this process, the core of the application was reduced from what had once been a "comprehensive business plan" to an "application narrative", with a limited set of metrics that are, by the very nature of their selection, highly subjective in nature. As a result, there has emerged a bias toward a certain type of community development finance: large, one-time, real estate transactions for community facilities (e.g, housing, health centers, charter schools, small business centers, etc.)

In contrast to large, infrequent, single purpose transactions, the community development impact of depository CDFIs is diffuse within the communities they serve. Depository CDFIs serve individuals in many business lines, and these transactions are smaller and more frequent. The community impact can be seen in the consumer savings vs. other predatory services (deposit or lending), the partnerships they in engage in, the clients of social service agencies that can retain more of their income, the guidance they provide a consumer on difficult financial choices. A depository CDFI is a core part of its local ecosystem generating incremental change through thousands of transactions, financial decisions and improvements in financial health to ever growing numbers of people that over time can be transformational for the community.

As a CDFI intermediary and a leading lender for CDFI credit unions, the Federation maintains that in order to understand a complex institution (like a regulated depository) it must be viewed in the totality of its offerings with an opportunity to understand how it intends to grow its business and serve its community.

The Federation recognizes that the CDFI Fund needs a certain amount of data in standardized formats; in fact CDFI credit unions already provide more than 2,000 fields of data to NCUA every quarter. But somehow the increased reliance on an application with multiple fill in the blank charts and drop-down boxes has obscured the much fuller picture and the essential context that can only be provided in a truly comprehensive business plan.

In drafting these recommendations we grappled with whether it would be more useful for us to present our suggestions according to the current application instrument or provide guidance for a whole redesign. The result is a bit of a hybrid where we lay out essential components to capture and address existing items. We hope this will serve as a guide to help the Fund to better understand, assess and invest in financial inclusion, while addressing the existing requirements as needed.

I. Purpose

There will always be various and unique potential uses of CDFI Investment. For complex institutions, there may be several different uses for the investment within a single institution's plan. There should always be an expectation that applicants demonstrate how an injection of CDFI capital will contribute to growth and expanded service even though that may differ depending upon their strategy. Examples of allowable purposes should include (but not be limited to): equity infusions (to accelerate growth), loan loss reserves, capital expenditures, capacity building technologies, system enhancements and upgrades for new product innovation (e.g. mobile banking platforms and payment systems), merger\acquisition support and working capital to support service expansion (e.g, 2-year working capital for new branch). CDFI Credit unions should be able to show in the application how they would leverage FA dollars to (a) increase lending in their CDFI Target Market; (b) encourage savings and build assets among the financially vulnerable; (c) increase financial inclusion of unbanked or underbanked; or (d) all of the above. The CDFI Fund is encouraged to continue using scoring incentives, which recently have been used to direct lending to Persistent Poverty Counties, and consider expanding them to include deployment of a certain percentage of loan dollars to subprime borrowers with scores below a certain cutoff (e.g., 620). This gives the consumer lending activity equal value to total funds deployed.

II. Market Condition, Products and Market Strategy

A. Market Condition

CDFIs operate in complex, rapidly changing environments, but the current customer profile in the CDFI application does not allow CDFIs to show how they respond to evolving market needs. Strong business plans must include a section where CDFIs can provide information about their market that is relevant to their business strategy.

The application should have a specific section on Market Condition to information on both the current customers as well as the potential market to be reached. If the CDFI is launching major initiatives targeted to particular underserved segments of their community (e.g., African Americans in rural areas, Latino immigrants, people with disabilities) applicants would be encouraged to provide information specific to those needs. While certain demographic information may be standardized through a chart, applicants must be able to present qualitative and quantitative market information. The CDFI Fund could automate the presentation of quantitative information by linking the approved Target Market maps of CDFIs with the data compiled by PolicyMap, which could include relevant data on demographics of target market, estimates of underserved (both unbanked and underbanked) populations, and bank branch\ATM service. CDFIs can provide qualitative information elaborating on the banking needs, preferences and obstacles faced by consumers in the target market and may come either from existing studies\surveys or through discussions with local leaders, employers and community organizations.

B. Products and Services

The current application charts do not encourage depository institutions to include all their products and services in a manner that reflects the overall impact of the institution. This limits the ability of reviewers to understand the overall institution and its integrated strategy to serve its target market.

The ideal application would both separate out retail banking from lending activities clearly and provide multiple opportunities for the CDFI to demonstrate how they orient their operations to the needs of the community. Similarly following the chart, there must be a brief opportunity for the CDFI to describe how these products and services work together to help low-income consumers not only access good, affordable financial services but to use them productively and to promote pathways for financial health and empowerment.

1. Retail Banking

By asking CDFIs to elaborate their retail banking products with features and terms, the CDFI Fund will be able to assess whether the product and service mix of the CDFI is *aligned* with the needs of the community. Through our Emerging Market Reviews, the Federation helps credit unions to review their overall operations and determine whether and how the institution is aligned with the needs of lower-income consumers. In the table below, we provide **examples** of how the Fund may assess whether and how the CDFI is developing appropriate services for their member needs. Given that the financial service industry is constantly evolving, we do not present these as a definitive list of products and services for, low-income consumers, but simply as examples of some of the best practices today.

Please note that NCUA already collects information on many of the products and services listed in the tables below, which is publicly available on the NCUA website in quarterly call report data. NCUA regularly updates the list of information collected for credit union profiles to keep up with changes in the industry. The Federation uses this information to assess how well credit unions respond to the needs of low-income and underserved target markets through the provision of the most appropriate community development products and services. While NCUA data shows whether or not a product or service is offered, the agency does not yet collect information on the fees, number or amount of transactions or people served by individual credit unions. CDFI certified credit unions should be prepared to track this more detailed information on their key community development offerings

	Currently Offered			Planned with CDFI investment		
	Features (minimum balance; interest, direct deposit	Fees (monthly; OD)	People served	Features (minimum balance; interest, direct deposit)	Fees (monthly; OD)	People served
Services						
Savings accounts						
Transaction Accounts						
Checking						
Checkless checking \ Debit card						
Phone banking?						
Online banking?						
Mobile banking (app)?						
Remote Deposit Capture?						
Electronic Bill Pay						
International Remittances Other: Other:						

	Currently Offered	Planned with CDFI Investment
Account Access		
Youth Accounts		
Alternative Forms of ID Accepted		
ITIN		
Second Chance checking (chex system waiver)		
Remote Account Opening		
Shared Branching		
ATM Network Access (free ATMs, etc.)		

2. Lending

	Currently Offered			Planned with CDFI investment		
High Impact Consumer Lending	Product Features	Rates \ Terms	Annual Originations (#\$)	Product Features	Rates\ Terms	Annual Originations (#\$)
Small dollar loans (<$2500)						
Credit Building						
Debt Consolidation						
Workforce or transportation related lending (e.g., Wheels to Work)						
Consumer loans						
Capital Intensive Community Development Activities						
Affordable Home Mortgage Lending						
Microfinance \ Microenterprise lending						
Small Business Lending						
Community Facilities						
Non-Profit Lending						

3. Development Services

Development Services	Currently Offered		Planned with CDFI investment	
	Description	Numbers served	Description	Numbers served
Financial Counseling and Coaching				
Housing Counseling				
Education and Outreach to underserved target populations including immigrant, youth, older Americans, people with disabilities and\or other underserved population				
Asset building programs (e.g. IDAs, child accounts)				
Other (e.g, EITC\VITA)				

To the extent possible the Federation recommends that the CDFI Fund enables CDFI credit unions, high-impact products and services to automatically download from NCUA data. Credit unions would then be required to provide the detailed information in the table for any product listed in their profile or indicate that the information is "not tracked". Credit unions would also be able to add products and services that may not be listed in NCUA profiles.

C. Market Strategy: Allow for a brief narrative where the applicant can highlight how certain products and services listed in the tables above will address particular needs identified in the community. In this brief section, applicants should reflect upon other aspects of their operations that will be adjusted to engage underserved members of their community. Examples include: expanded branch hours; mobile app to provide greater access in more remote areas; member education to ensure people use the technology wisely and productively; signage and languages spoken in different branches; marketing campaigns; and most importantly partnerships to better serve the market.

III. People\ Management Capacity

Credit union boards are made up of members who are democratically elected by other members and serve as volunteers. The Board members value to the institution is measured by the balance of skill sets they bring (local organizers, small business owners, accountants, legal backgrounds, etc.) and the extent to which they represent the voice of the membership, not in the level of connections or potential leverage they bring from external investors or funders. In recent comments to the Fund, the Federation indicated that reviewers should recognize the importance of local leadership. We believe the application should in fact reinforce this by specifically asking CDFIs to identify leadership from their target market. The Federation also recommends the Fund establish measures to determine diversity among board and leadership. Large national funders that seek to establish diverse leadership amongst their grantees ask applicants to complete diversity charts. This should be incorporated into the assessment of adequate CDFI management. CU staff and board should be given priority points for a commitment to diversity (economic and racial) for key positions (regardless of TM certification) as well as additional consideration for CU CDFIs when board and/or staff members serve on the boards of community nonprofits with a stated anti-poverty mission.

IV. Partnerships

The Federation recommends that this section be removed and incorporated into market strategy (as identified above). It is inappropriate to define partnerships for a depository institution based upon how many grants and capital it receives. It is simply not the right measure for leverage of CDFI investment and moreover it is not the motive with which CDFI depositories forge relationships. Leverage questions should be reserved for financial performance and projections.

V. Financial Performance

The recent applications have gotten away from the fundamentals: an analysis of the overall institutional capacity of an institution. We recommend that this section in which an institution presents consolidated 3-year financial performance information enables applicants to tell a brief narrative of how the institution's business is growing, changing, adapting to market needs and opportunities; and to highlight the core strengths of the institution and weaknesses. For depository CDFIs it will be critical to show patterns that may call ratios into question: e.g., recent rapid deposit growth causing temporary declines in deployment and prompts need for capital; operating ratios for high-touch transaction services that may prompt push toward mobile banking.

Applicants with previous awards should be challenged to demonstrate significant increased year-over-year deployment in loans to shares. We have seen considerable examples of unsuccessful applicants that are 97% lent out and some awardees hovering closer to 60% with multiple awards. It seems a more effective way to leverage CDFI investment to prioritize applicants that are deploying the funds and have clear financial need.

VI. Financial Projections

The Three-Year Projections should include the expected growth with the requested CDFI Investment. To the extent possible, loan products should be broken out to demonstrate the key areas of growth. Credit unions with multiple branches may choose to provide consolidated projections but should provide growth assumptions by branch in the notes. Financial projections should be assessed both on the expected growth in activity resulting from the investment as well as by prudent measures of organizational growth.

VII. Matching Funds

We recommend the Fund revise its matching funds criteria, which currently stipulates that if a credit union has non-federal matching funds other than Retained Earnings, those must be used as a match before the REs can be used. This can be a time consuming process with immaterial consequences if the applicant has retained earnings available. It would save considerable time both to the applicant and to the CDFI Fund to provide the flexibility to the applicant to present its match in the most efficient manner.

VIII. Community Development Impact:

Applicants and investees should demonstrate current initiatives or plans to address financial service gaps and needs within their market (current and prospective), as well as the outcomes by which they will measure success. This section should probe the intended impact the CDFI seeks to achieve with this investment. An example would be: what overall results are expected from the expansion of retail banking services within a CDFI Target market? What impact will those services have on a consumer's finances?

The Federation provides here certain metrics begin to gauge consumer and community outcomes to their work. The examples are not exhaustive and are intended as the beginning of a dialogue. The Federation would like to develop these outcome indicators in conjunction with the Fund and best practice in what can be captured from data processing systems.

Retail Banking Outcomes

- Net gain to consumers using CDFI products (i.e., Difference between of avg cost of service at CDFI vs local competitors multiplied by transactions). The CDFI Fund can provide charts in the application providing typical financial transaction cost at fringe service providers by state
- Increases in savings
- Expanded use of mobile banking (saving time, etc)
- Improved account management by consumers

Lending Outcomes

- Net gain to consumers on small dollar loans and other consumer products with product price comparisons
- Improved credit scores
- Movement of consumers to higher-return, higher impact products

Financial Counseling and Coaching Outcomes

- Number of unbanked individuals now engaged with a financial institution
- Number of individuals that establish credit
- Number of individuals that improve credit category
- Number of individuals that reduce debt
- Number of individuals that increase savings

Federation
Credit Unions United to Serve the Underserved

Attachment B

November 2015 Letter to the CDFI Fund

Federation
Credit Unions United to Serve the Underserved

November 24, 2015

Ms. Annie Donovan
CDFI Fund Director
U.S. Department of Treasury
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Ave. NW
Washington DC 20020

Dear Director Donovan:

The National Federation of Community Development Credit Unions (the Federation) is the national association for credit unions with a primary mission of community development and promoting financial security and well-being among low-income consumers and communities. In recent years, the Federation has worked closely with the Fund and partners in to increase the size, number and impact of credit unions promoting community development. The increased participation of credit unions with the CDFI Fund has the potential to significantly expand access to capital in some of our nation's most underserved communities. And yet, the Federation believes there remains tremendous untapped potential.

Through this letter and corresponding discussions, we seek to provide guidance to the Fund on how to better understand, assess and value high-performing and high-impact credit unions for investments that will significantly increase the level of safe, responsible banking services and financing to communities most in need.

In this letter, we would like to recommend an improved process for scoring applications for Financial Assistance and Technical Assistance (FA/TA) under the CDFI Program. We recognize that the CDFI Fund will not be able to make significant changes to the application structure before the 2017 funding round. However, we do believe it is possible to improve the scoring and allocation process in anticipation of a more ambitious redesign process for FY 2017. While our primary focus is on CDFI credit unions, we believe that some of these recommendations would strengthen the evaluation of performance and impact of the CDFI industry as a whole. For this reason, we have presented our recommendations in three parts:

- Part 1 offers general recommendations to improve the quality, consistency and efficiency of scoring application data for all types of CDFI applicants.
- Part 2 offers specific recommendations for reviewers of credit union applications for the next FA/TA competition. These recommendations assume that the FY 2016 application will be substantially unchanged from the FY 2015 version.

National Federation of Community Development Credit Unions
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- Part 3 offers recommended criteria to help determine the size and distribution of FA/TA allocations to CDFI credit unions to ensure the greatest leverage and impact.

In a separate letter we will offer our thoughts and recommendations for an expected redesign of the FA/TA application beginning in FY 2017, including a unified impact indicator for all CDFIs that are engaged in consumer finance.

These review-specific recommendations have been designed to meet five overarching objectives:

1) Improve the efficiency and consistency of the review process for FA/TA applications
2) Increase the transparency of review criteria for all applicants
3) Increase the leverage and impact of CDFI Financial Assistance and Technical Assistance (FA/TA) allocated to CDFI credit unions
4) Establish improved performance standards for credit unions that receive FA/TA
5) Create clear incentives for all CDFI credit unions to increase their provision of financial products, financial services and development services in CDFI Target Markets.

Part 1: General Recommendations for the Review of All CDFI Applications

a) Substantive Debriefings for All Applicants

The Federation has long noted the lack of consistency in the scoring of credit union applications, with little or no clear pattern to distinguish successful from unsuccessful applicants. Without discernable criteria for success or a substantive debrief, credit unions are left without any guidance or incentives to improve specific areas of performance. As a result, the CDFI Fund has missed an opportunity to leverage improved performance and increased impact across the industry, beyond the reach of FA/TA recipients.

Other federal agencies provide robust debriefings to applicants in competitive grant competitions. For example, since 2008 the Federation has served as a HUD-approved National Housing Counseling Intermediary for credit unions. Every year the Federation submitted successful grant applications, and every year had the opportunity to receive a detailed debriefing. Even though our applications were successful, these debriefings helped us to target specific areas for improvement and helped us to strengthen performance across our network of housing counseling agencies.

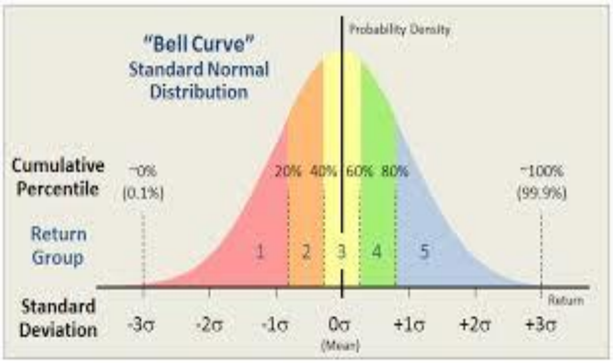
The Federation recommends that the CDFI Fund provide detailed and substantive debriefings to all applicants – successful and unsuccessful alike. At a minimum, applicants should receive their exact scores for each application section with specific reasons given for all point deductions. This change would 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, spurred on by this feedback from the CDFI Fund, the CDFI industry would experience a “race to the top,” with ever strengthening applicants competing in each successive year.

b) Recommended Approach to Scoring Quantitative Data

No application component is more amenable to objective analysis than quantitative performance data, but here, too, scores are highly inconsistent. Currently, four of the seven application sections rely heavily on data -- financial, target market, activity level or impact – that is contained in the application workbook. This data accounts for more than half of the total application score, but most is not comparable across different types of CDFIs. As a result, the CDFI Fund has customized both the application workbook and the scoring guidance given to reviewers to accommodate different types of CDFIs. For example, the Financial Data Input Chart for credit unions is different than for banks or loan funds, as are the Minimum Prudent Standards (MPS) benchmarks for each type of CDFI. The scoring instructions given to reviewers are likewise customized for different types of CDFIs.

The Federation has welcomed the CDFI Fund’s many efforts to adapt the application and scoring to fit different types of CDFIs, but the current guidance still leaves considerable discretion to reviewers to rate the comparative performance of all CDFIs that exceed the MPS benchmarks. To give a few examples from just one part of the Performance section of the application:

- For loan funds, reviewers are instructed to give a top rating to CDFIs that exceed the 50% MPS benchmark for loan fund deployment, but there is no guidance to differentiate the scores of loan funds with deployment rates between 51% and 100%.
- In that same Performance section, credit unions do not have an MPS benchmark and are not evaluated at all for deployment.[1]



Of course, numbers do not tell the whole story; reviewers must also consider the qualitative information in the application narrative in combination with the quantitative data in the workbook. But this is difficult to do without knowing how a single applicant compares with the others of their type in the pool. For this reason the Federation recommends each quantitative performance indicator be reviewed in the context of the total pool of applicants for each CDFI type on a normal scale, like the one shown at right. This combined with historical performance from recent application rounds will give reviewers greater context for what is occurring overall in the marketplace.

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[1] The sole MPS benchmark for credit union financial performance is a minimum 6% ratio of Net Worth to Total Assets. As with loan fund deployment, reviewers are left with no guidance on how to score credit unions with Net Worth Ratios of 7% compared with those with ratios above 10%, 15% or even higher. In Part 2 of this letter, we recommend a full set of MPS benchmarks for credit union financial performance.

In terms of the examples discussed above, the scoring process for loan deployment could look like this:

- Deployment for unregulated loan funds would be rated on a scale from zero (for those that fail to meet the 50% MPS benchmark) to five points (for those with deployment percentages in the top quintile of all loan fund applicants that exceed the MPS). Reviewers would derive a final score for deployment by evaluating the qualitative narrative for consistency with the quantitative score for this benchmark, and adjust scores for applicants with strong explanations for relatively weak performance data.
- Deployment for credit unions could be evaluated for the first time along similar lines, with deployment measured by the loans-to-shares ratio, a readily comparable measure for all credit unions. Although no MPS currently exists for credit union deployment, the CDFI Fund could adopt a 50% loans-to-shares MPS. Credit unions would then be scored from zero (for those that fall below the 50% MPS benchmark) to five points (for those with loans-to-shares ratios in the top quintile of all credit union applicants that exceed the MPS). As with loan funds, reviewers would derive a final score for deployment by evaluating the narrative for consistency with the quantitative score for this benchmark, and adjust scores for applicants with strong explanations for lower deployment rates (e.g., recent surge in deposits due to rapid growth).

By providing reviewers with the data of distribution in the most recent rounds as additional context, they will be able to identify how the applicants they review align within their industry and how the total applicant pool is distributed in relation to recent prior year awards. This normalized scoring of performance data will ensure that each type of CDFI can be scored against the metrics and benchmarks that are most appropriate for their structure and performance. The objective scoring of quantitative data will increase the consistency and efficiency of the review process itself, while establishing dynamic performance benchmarks as incentives for all CDFIs.

Part 2: Specific Recommendations for the Review of Applications from CDFI Credit Unions

a) Selection and Preparation of Reviewers

In recent years the Federation has documented many cases where credit unions have received low scores in areas that have earned top marks from NCUA examiners. This indicates a significant disconnect between the expectations of reviewers (that may be drawn from a broader community development pool) with the realities of operating a strong, successful and well-balanced regulated depository institution. We strongly recommend that all reviewers of credit union applications have credit union expertise. At a minimum, reviewers must understand the following:

- Federally-insured credit unions are required by their regulator to maintain adequate checks and balances, including comprehensive policies and procedures that meet regulatory standards. These policies must address a broad range of federal laws and regulations and therefore contain language that reviewers must understand and be comfortable with.

- Credit unions can only grow in direct proportion to their net worth, which can only be increased through retained earnings and equity grants. Similarly growth in specific financing activities must be balanced with growth in the overall loan portfolio to assuage concentration considerations. The interplay between dynamic growth to meet community needs and opportunities must always be balanced with safety and soundness considerations from the regulator. Thus, credit union growth patterns will naturally differ significantly from their non-regulated counterparts. Reviewers must understand management of complex financial institutions prior to reviewing credit union applications.
- Credit union boards are made up of members who are democratically elected by other members and serve as volunteers. Credit union boards are not expected to raise external funds for the institution. Their collective value to the institution is measured by the balance of skill sets they bring (small business owners, accountants, legal backgrounds, etc.) not in the level of connections or potential leverage they bring from external investors or funders.
- The cooperative ownership structure of credit unions ensures community oversight and accountability, but also prevents credit unions from raising equity from capital markets in times of rapid growth.
- Credit unions do not use institutional partnerships to leverage loan capital, but instead leverage their net worth to mobilize deposits from the community for loans to the community.
- Credit unions instead use partnerships primarily to expand outreach, improve delivery and increase impact in the communities that they serve.
- Credit unions predominantly focus on consumer finance – the products and services that help low-income individuals to establish or build credit, consolidate and reduce debt, avoid predatory payday lenders and buy affordable used cars that are essential for employment. In short, credit unions help consumers to protect and build assets, which slow the debilitating drain of wealth from low-income communities. Reviewers must understand that safe and affordable consumer finance is essential for communities to safeguard the positive impacts generated by commercial loans or affordable housing developments.

b) Specific Recommendations by Application Section

i. Purpose

The Federation has noted a tremendous variation in scores given to credit union applicants that describe essentially the same purpose. For example, many credit unions apply for FA for the purpose of increasing their capital or loan loss reserves to leverage increased lending across a spectrum of consumer financial products. Some credit unions receive top scores for this purpose, but most are marked down. We believe there are two possible explanations for this variation;

i. Reviewers who have a limited knowledge of the financial structure of credit unions may not understand how credit unions use grant capital on their balance sheets to leverage deposits and increase lending in their Target Market; and,

ii. Reviewers may find the Target Market concentration data in this section to be unimpressive when compared with other types of CDFIs that can concentrate up to 100% of their activities in their CDFI Target Market.

The first point would be addressed by our recommendation to have reviewers with sufficient credit union expertise. Rather than reward CDFIs with a single clear purpose, reviewers must be able to evaluate the full range of financing activities that CDFI credit unions can accomplish with CDFI financial assistance plus the deposits leveraged by a CDFI grant.

The second point is a bit trickier. While reviewers in the past have been instructed to give top scores to applicants with more than 90% of their loans concentrated in their CDFI Target Market, very few regulated CDFIs can sustain such concentrations without incurring the wrath of their regulatory authorities, jeopardizing their financial sustainability, and refusing to meet their obligation to a portion of their membership. The current metric is designed for simple CDFIs that have few large transactions as opposed to more complex high volume transactional CDFIs that are unable to "restrict" lending or service to a specific target market. Reviewers with more credit union knowledge would certainly help. But instead of comparing Target Market concentrations against a fixed standard, it would be much more helpful for reviewers to know how each CDFIs Target Market concentration data compared with other CDFIs of their type in the applicant pool. This could be done through the normalized analysis recommended in Part 1 of this letter, above. Since CDFI certification sets the baseline metric of 60% of financing activity in a target market, we recommend that this serve as the MPS benchmark for all CDFIs.

ii. Products

In the most recent FA/TA application, all financial products had to be entered in the "Activities Level" chart on the Input Sheet, with descriptions and metrics provided on the Products tab. While the workbook allowed credit unions to enter a small number of financial services, all of the metrics on the Products tab were designed exclusively for *loans*. We realize that this is unlikely to change in FY 2016, and will offer recommendations on a redesigned application in our next letter. In the meantime, we recommend that all reviewers of credit union applications read our report, "*From Distrust to Inclusion: Insights into the Financial Lives of Very Low-Income Consumers*," (http://www.cdcu.coop/from-distrust-to-inclusion-insights-into-the-financial-lives-of-very-low-income-consumers/) that describes the critical role of financial services in community development finance.

In this section of the application, reviewers are also asked to evaluate the quantitative data contained in the Customer Snapshot Table. As with the Target Market concentration data in the Purpose section, it would be helpful for reviewers to know how a single credit union's data compared with their peer credit union applicants.

iii. Policies

Credit Unions are regulated entities that have rigorous oversight, rules, and checks and balances. Assurance that these systems are in place are provided by the regulator, NCUA, which would take action if the credit union wasn't performing or operating in an effective manner

The questions in the application workbook – focused on underwriting processes, loan approval authority, loan closing and disbursement, portfolio monitoring, write-off methodology, and loan loss reserve determination – are all standard procedures at credit unions. In light of the rigorous oversight provided by NCUA, one might expect credit unions to excel in this section, yet our member credit unions have consistently scored low on their policies. We suspect the issue may rest in the review process; that perhaps the average reviewer does not know the exacting standards applied to regulated depositories and the degree to which NCUA regulates and oversees credit union policies and procedures.

iv. People

Credit unions elect their board of directors from the general membership. This provides critical skill sets for oversight as well as close relationships and information from the community and membership to guide product and service development. Most credit union boards are not populated by bankers or investors, but rather the common voice that allows credit unions to remain closely integrated into the community and the people it serves, drawing from real and diverse skill sets directly from the people benefiting from the service. As in other areas, we have seen cases where reviewers have rated a credit union "average" or "poor" in this section while NCUA has given the same credit union its top score for "Management".[2] This community engagement is valued in the CDFI certification test as a strong indicator of accountability; however it is significantly undervalued in the current review process. Reviewers should be trained to recognize that this governance structure keeps credit unions tightly accountable to the people they serve. This is valued in the certification process and should be equally valued in the financial assistance review process.

v. Partnerships

The first half of the Partnerships section of the current application is devoted to the use of institutional partnerships to leverage financial resources for lending. As regulated, insured depositories, credit unions **do not leverage loan capital in this way,** but rather leverage their net worth to mobilize shares and deposits for lending. Even though the median credit union has nearly ten times the leverage of the median loan fund, credit unions often receive less than half the available points for this section. Reviewers should be instructed to provide

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[2] NCUA examinations of credit unions produce a CAMEL rating based on five factors: Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity/Asset-Liability Management. Each factor is rated on a five-point scale, with a top score of 1 being the most difficult to achieve. As noted above, when a credit union that has been rated "1" for Management by NCUA nevertheless receives a "poor" rating for People from a team of three CDFI reviewers, it raises concerns about the credit union expertise of the reviewers.

all credit unions with full marks on the leverage portion of the Partnership Section. For credit unions, the Partnership Table should simply be reviewed to determine relationships that may help to make the CDFI more effective in its community development mission.

The second half of the partnership section is devoted to Community Partnerships. The questions and reviewer instructions for this part of the application seem appropriate at this time. Our only caveat is the extent to which CDFIs are partnering together. The Fund can play an instrumental role in forging greater alliances among CDFIs by ensuring that reviewers can identify when two or more CDFIs are partnering to leverage resources and provide more comprehensive and cohesive services to target markets. There is currently the perception that CDFIs are disadvantaged when more than one CDFI is applying from a similar location or target market. Yet coordinating diverse activities to provide greater impact should be encouraged and rewarded within the review process.

vi. Performance

The Performance section counts for 40% of the total application score, yet the current application does not capture some of the most important dimensions of credit union financial and target market performance. We have several concerns with the current evaluation process in this area:

- While the CDFI Fund has developed a customized financial data input sheet for credit unions, the financial data is not as robust as the data that is publicly available in NCUA 5300 call reports and Financial Performance Ratios.
- The financial data that credit unions enter in their applications is expected to agree with the accompanying audit reports, but audit reports often contain immaterial differences with NCUA call reports. In addition, some credit union audit reports are based on non-calendar fiscal years, which differ from the majority of credit unions.
- The need to manually enter data is duplicative and increases the possibility of small typographical errors in these detailed financial input sheets, which can result in significant point deductions

The Federation recommends that the CDFI Fund base its quantitative analysis of credit union financial performance on NCUA 5300 call reports and Financial Performance Ratios. This data has the advantage of being comparable in quality, format and time period for all credit unions, which would facilitate the comparative quantitative analysis. For FY 2016, the CDFI Fund could still require that credit unions complete the Financial Data on the Input Sheet, but should use publicly available data from NCUA to evaluate quantitative data on financial performance. By using NCUA reports, the CDFI Fund would be able to produce more substantial analysis.

The Federation has provided some benchmarks that may be useful to the CDFI Fund when reviewing CDFI credit union applicants:

CDFI Minimum Prudent Standards	Metric	CDFI Definition	MPS (FA Applicants)	MPS (TA Applicants)
Capital/ Leverage	Net Asset Ratio	20% for CDFI Loan Funds 6% for Credit Unions	6% No proposed changes.	6% No proposed changes.
	Financing Entity Test	Formula: Financing + Development Assets/Total Assets MPS > 50%	No proposed changes.	No proposed changes.
Liquidity	Current Ratio	Formula: Current Assets divided by Current Liabilities MPS >1.25	No proposed changes.	No proposed changes.
	OP Liquidity Ratio	Formula: Operating Cash/ (Annual OP expenses x 25%) MPS >1	No proposed changes.	No proposed changes.
Performance	Deployment	MPS > 50% minimum Goal	50% Total Loans to Total Shares & Deposits (with exception for rapid deposit growth in recent years)	50% Total Loans to Total Shares & Deposits (with exception for rapid deposit growth in recent years or unless TA is targeted to increase lending)
	Net Income	Greater than or equal to 1	Greater than equal to 0 for 2 of the past 3 years	Greater than equal to 0 for at least one of the past 3 years
	Self-Sufficiency	Formula: Financing + Development Assets/Total Assets MPS > 40%	No proposed changes.	No proposed changes.
Portfolio Quality	Write-Offs	Formula: Loans charged off % of Net Loans Receivable MPS Housing Loans 1st Lien < 1% MPS Housing Loans Subordinated < 3% MPS Business Non-Micro Loans < 5%	Net Charge-Offs/ Avg Loans for the full loan portfolio versus the current methodology of looking at segregated portfolio ratios.	Net Charge-Offs/ Avg Loans for the full loan portfolio versus the current methodology of looking at segregated portfolio ratios. Net Charge-Offs/ Avg Loans: Less than or equal to 2.00% (unless TA request is targeted

		MPS Micro and Consumer Loans < 9%	Net Charge-Offs/ Avg Loans: Less than or equal to 1.50%	to improved servicing and collections)
	Loan Loss Reserves	Formula: 50% and 150% of PAR ($ value of loans delinquent 90 or more days) compared to sum of cash plus accrual loan loss reserves. MPS : .5 PAR < LLR < 1.5 PAR	No proposed changes.	No proposed changes.

vii. Projections

One of the most critical ways that CDFI Financial Assistance can build a credit union is through its balance sheet leverage. However, the current application only allows credit unions to project two financial line items (Unrestricted Cash and Total Assets), which restricts any discussion of this greater impact to the narrative. Since it is unlikely that the financial chart will be substantially revised for FY 2016, reviewers should be instructed to take careful note of narratives that show how credit unions can leverage their CDFI grant to mobilize deposits and increase lending and other activities in their Target Market.

Part 3:Recommended Criteria for Allocations to Credit Union Recipients

The recommendations in Part 1 and Part 2 are designed to ensure that the strongest CDFI applicants will consistently receive the highest scores. But for CDFI credit unions, does this mean that a small group of institutions will continuously dominate the FA/TA competition? The Federation is concerned that this is already the case. Since inception, 21 credit unions have received half of all the dollars disbursed to CDFI credit unions. While a small number of credit unions may be expected to earn grants in successive years, the concentration of FA grants can diminish the impact of capital by flooding institutions with capital faster than it can be deployed and leveraged. The Federation recommends that the CDFI Fund implement measures to increase the geographic and institutional diversity of FA recipients by considering the following factors:

- CDFIs that have received three consecutive FA grants should be advised not to reapply unless their total Target Market loans have increased by more than three times the value of their current award, they have expanded their CDFI Target Market or the availability of capital in the geographic is highly limited (e.g, rural communities outside large bank market areas).
- Allocations are targeted to CDFI credit unions that have merged smaller credit unions and serve particular underserved target markets. The ongoing consolidation of the credit union industry has increased the number of mergers of small credit unions into larger ones. Many of these small credit unions are minority institutions serving particular

communities through niche loans and services. It is critical that when this occurs the service to that community is maintained.

We recognize that we are providing considerable specific input into the review process. As the association for the CDFI credit union field we would like to offer the opportunity to provide training and\or background materials to Fund staff and consultants prior to the 2016 CDFI FA\TA round.

I deeply appreciate your thoughtful review and consideration of this letter and I look forward to robust discussions on each of these areas.

Sincerely,

Cathleen A. Mahon
President and CEO