



November 5, 2020

Ms. Jodie Harris
Director, Community Development Financial Institutions Fund
U.S. Department of Treasury
1500 Pennsylvania Avenue NW.
Washington, DC 20220

**RE: Community Development Financial Institutions Program— Certification Application
(OMB Number: 1559–0028)**

Dear Ms. Harris:

On behalf of NeighborWorks America (statutorily the Neighborhood Reinvestment Corporation) I want to thank the CDFI Fund for the opportunity to provide comments regarding the standards and criteria for CDFI certification. Please note that these comments have not been submitted to or approved by NeighborWorks America’s Board. They reflect the view of NeighborWorks America management and do not necessarily represent the views of its Board members, either collectively or as individuals.

NeighborWorks offers specialized supports to our network organizations that engage in lending, particularly to the eighty-one U.S. Treasury-designated Community Development Financial Institutions currently in the network. CDFIs play a critical role in promoting homeownership by offering first and second mortgages, down payment assistance for homebuyers, and rehabilitation loans. They also support the broader community development industry by offering commercial loans for economic development, real estate development, and community facilities, as well as consumer loans. Loans made by NeighborWorks network CDFIs have tremendous local impact. In FY 2019, these CDFIs made 9,545 residential loans totaling \$441 million. In addition, NeighborWorks America organizations made \$313 million in commercial loans, split between economic development (35 percent), real estate development (36 percent), and other types of projects (28 percent). In addition to the principal investment, the commercial loans made by CDFIs leveraged \$752 million in additional investment. For FY 2019, NeighborWorks assisted 26 network CDFIs to successfully compete for a total of over \$19 million in awards from the CDFI Fund. NeighborWorks also supports network organizations who are interested in becoming CDFIs to assess their readiness.

We are pleased to offer the following comments in response to the CDFI Fund's solicitation of public comment on the CDFI Certification Application.

Emphasis on Mission

NeighborWorks supports the Fund's proposal to raise the bar for certification by strengthening the primary mission test. Importantly, strengthening the mission test allows the Fund to provide CDFIs with additional flexibilities around defining their Target Markets while maintaining appropriate safeguards.

Certification as a CDFI provides organizations with myriad benefits beyond simple access to the Fund's programs. Organizations can leverage this credential to create and strengthen partnerships, gain access to additional resources, and bolster their reputation within their community. By placing additional emphasis on the primary mission test, the Fund will reinforce and elevate the community development work. Additionally, in a system where resources are limited, it is critical that the Fund's grants be restricted only to those organizations that truly meet the spirit of the designation. However, NeighborWorks is concerned about the potential for unintended consequences. The proposal (p. 18) would apply the mission test not just to the CDFI and parent entity, but also to other affiliates. As corporate structures become increasingly complex and organizations work to diversify revenue sources to become self-sustaining, some have incorporated for-profit affiliates whose revenues support the work of the CDFI. Individually, these affiliates may not pass the mission test, but they should be evaluated within their context. For example, an affiliate could be deemed to pass the test if a) its activities are not inconsistent with the CDFI's community development mission, b) the affiliate is controlled by the applicant and not vice versa, and c) any profits would support the CDFI's mission.

Reporting Burden

As an organization that collects and analyzes data from grantees to demonstrate the impacts of our resources, NeighborWorks is sympathetic to the Fund's desire to collect additional data. Comprehensive data collection can inform strategies, demonstrate outcomes, and play a critical role in building support for the work of the Fund and the community development sector as a whole. However, NeighborWorks is concerned that the proposed reporting will create burdens that are too great for small or emerging CDFIs. The CLTR will be new for groups that have not yet received certification and never received an award, and needing to prospectively report this data could present an insurmountable obstacle to achieving certification. As a result, NeighborWorks recommends that the Fund scale back this proposal and require this data only of those organizations that are under an active FA or TA award. This change would provide a more appropriate balance between the Fund's desire to better understand the work of CDFIs and the needs of small and emerging CDFIs to achieve and maintain certification.

Of the 81 CDFIs in the NeighborWorks network, 24 organizations have not received an FA or TA award in the past 6 award years (including 2020). These organizations maintain certification for the cache or entrée it provides in other applications, and the burdens imposed on them would be significantly and unduly increased. While they may appear dormant from the perspective of the Fund, we know that they continue to engage in lending activities. NeighborWorks is concerned that far more would be lost than gained by weeding out these CDFIs and encourages the Fund to tailor its actions so as not to inadvertently penalize these organizations.

Based on past challenges with technology infrastructure, we would urge the Fund to ensure that the necessary investments are in place to successfully collect this information and allow for it to be used for meaningful evaluation. The incremental burden being placed on CDFIs can only be justified if the data collected is utilized to advance programmatic design or policy. Historically, the CDFI Fund has been understaffed, leading NeighborWorks to question whether the Fund truly has the capacity and resources to make meaningful use of this information. NeighborWorks also urges the Fund to make any data collected available to the public in an appropriately deidentified fashion. Access to these data would allow CDFIs, researchers, public policy makers, and other interested stakeholders to better understand the work of CDFIs and the value they bring to their communities. This data could help to demonstrate the differences between the populations served, products offered, and capital sources accessed by CDFIs and the traditional marketplace, helping to illustrate the value-add of the CDFI sector.

In general, NeighborWorks urges the Fund to focus on the clarity of its reporting and application guidance while ensuring that Fund staff are accessible and knowledgeable enough to assist organizations with the data requirements. Uncertainty often leads organizations to feel that they must rely on the expertise of expensive consultants to interpret and understand the requirements, draining resources away from other purposes.

Accountability

NeighborWorks is concerned that the accountability measures created by the board governance requirements are too weak to reliably serve their purpose. With a three-member board, only a single representative would be required to be accountable to the Target Market. Industry best practices recommend a minimum of five unrelated members for a governing board, and often recommend additional members to better serve the range of needs and interests of the organization. NeighborWorks urges the Fund to adopt this minimum standard for CDFIs to better ensure that they are accountable to their Target Markets.

Target Markets

NeighborWorks supports the Fund's move away from imposing a geographic requirement on target markets. Based on the experience of CDFIs within our network, geographic requirements can become an impediment to CDFIs' ability to serve additional needs in new places, constraining their growth. The proposed changes would eliminate these barriers.

Specific Comments

BI-A08 (p. 20): NeighborWorks supports the proposal to create a special certification for spinoffs, which would allow up-and-coming organizations to rely on the history of efforts of the larger organization.

(p. 30): While NeighborWorks supports the Fund's desire to ensure that certified entities engage in responsible financing practices, the standards for assessing this should not be overly prescriptive such that they improperly limit CDFIs' ability to serve consumers. For example, CDFIs within the NeighborWorks network have created alternatives to payday lending products that meet consumers' needs for access to financing without subjecting them to the predatory and abusive practices of others serving this market. The Fund should support efforts such as these by finding flexible ways to ensure consumer safeguards are in place without creating rigid ratios or metrics.

PM-17 (p. 38): This type of scrutiny should not be reserved only for loan products with an MAPR that exceeds 36%. Loan products with interest rates at or below 36% should also be subjected to these questions to ensure that they are safe lending products.

(p.44): NeighborWorks is disappointed that forgivable loans are not listed as eligible financial products and urges that they be added. Forgivable loans are one of the most powerful tools that organizations like NeighborWorks possess for bringing sustainable homeownership within reach. In fact, NeighborWorks has helped over 24,000 families become homeowners through our LIFT Down Payment Assistance Program. Like LIFT, HOME funds provided through local DPA and closing cost programs, and others encourage longevity and are distinct from grants. Just like other loan products, these loans still require origination activity and portfolio management. They are serviced and, depending on how the organization does their accounting, they also may appear on the entity's balance sheet. Even some traditional loans contain a clause permitting the loan to be forgiven at resale if proceeds are insufficient to cover repayment. NeighborWorks does not believe that a pre-approval process is the best way to address these products and would welcome the opportunity to engage the Fund in additional conversation to develop a more appropriate definition of eligible forgivable loans based on features and characteristics of the loan products.

FE-A05 (p. 48): This section of questions would create enormous burdens as most organizations do not structure their accounting in this way. To provide this data, organizations would need to

deploy additional professional resources to create these records. As proposed, these categories are confusing and should be further clarified. Previously, the Fund has requested information about the organization's balance sheet assets dedicated to lending and the assets available for lending. Given that it is not apparent what additional value the questions enumerated in this section offer, NeighborWorks encourages the Fund to consider whether the anticipated benefits of collecting this data are sufficient to merit such administrative burdens.

FE-AS (p. 50): This question does not request information about staff dedicated to loan servicing and development services. Along with the other activities listed, these services should count as Financing Activities.

FE-AS11.2 (p.51): This question seeks a level of detail that is not necessary and would require significant new recordkeeping. Instead, the Fund should maintain the current practice of requesting only the total number of FTEs engaged in non-financing activities.

(p. 55): NeighborWorks is concerned that a customized investment area threshold of 85% could be a barrier to focused place-based work.

TM-03.1 (p. 58): Mortgage lending should be included on the list of activities.

(p. 60): It is not clear from the definition of Development Services whether online homebuyer education courses such as eHome America are included. For CDFIs engaged in mortgage lending, these types of publicly available, fee-based courses are a primary tool for educating and preparing customers. While individual CDFIs do enter into a contract with eHome, the CDFI does not maintain control over the content. NeighborWorks encourages the Fund to consider a more tailored definition that includes these arrangements.

This definition could focus instead on the quality of the Development Services. NeighborWorks and a network of partners including national lenders, Freddie Mac and Fannie Mae, HUD, mortgage insurers, and other national counseling organizations have developed the National Industry Standards for Homeownership Education and Counseling. The Standards were developed to ensure a higher quality of homeownership education and counseling. When a counseling organization adopts the standards, it strengthens the professional credentials of its homeownership educators and counselors to ensure consumers have access to high quality, ethical and comprehensive housing information and services.

We appreciate the opportunity to engage with the Fund on changes to the certification application as we work towards our mutual goal of strengthening the CDFI industry. We would be happy to answer any questions or offer additional information if needed.

Sincerely,

A handwritten signature in blue ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

Kirsten T. Johnson-Obey
Senior Vice President, Public Policy and Legislative Affairs