



December 19, 2022

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

RE: CDFI Target Market Assessment Methodologies

Dear Ms. Harris:

On behalf of NeighborWorks America (statutorily the Neighborhood Reinvestment Corporation) I want to thank the CDFI Fund (“the Fund”) for the opportunity to provide comments regarding the CDFI target market assessment methodologies. Please note that these comments have not been submitted to or approved by NeighborWorks America’s Board. They were developed based on analysis from subject matter experts within the NeighborWorks staff as well as consultation with network organizations who have received or are pursuing CDFI certification from the Fund. 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 82 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. In recent years, NeighborWorks has invested heavily in building the capacity of network organizations engaged in lending lines of business, both by supporting existing CDFIs as well as those organizations who are interested in becoming certified CDFIs.

NeighborWorks is appreciative of the Fund’s efforts to increase transparency and reduce burden by publishing a list of pre-approved Target Market assessment methodologies that Applicants and Certified CDFIs may use and rely upon to demonstrate that they are serving their identified Target Market(s). It is with this shared goal in mind that NeighborWorks offers the following comments.

Earlier this month, NeighborWorks filed comments on the proposed CDFI certification application. The construction of and definitions embedded within the application effectively serve as the policy governing which organizations can qualify as CDFIs. Because the application serves as the gateway for admission, its impact cannot be understated. We are grateful for this opportunity

to engage specifically on the proposed list of pre-approved Target Market assessment methodologies but note that these comments should be viewed in the context of the broader comments we previously offered. There is significant interplay between these methodologies and other components of the application, including requirements focused on accountability. NeighborWorks encourages the Fund to carefully consider the interplay between these sections as well as take a holistic view of the application and the policies that it sets.

Because of the complexities involved in applying the new certification criteria, including the new target market assessment methodologies, to existing books of business, NeighborWorks encourages the Fund to take a cautious and measured approach to initial implementation and enforcement. NeighborWorks anticipates there will be situations where existing CDFIs were unaware of this comment opportunity and will need time to make adjustments or submit AMIS service requests for review of additional assessment methodologies.

Investment Areas

NeighborWorks has heard from several CDFIs within our network about concerns relating to the application of the Investment Area criteria in rural areas. In rural geographies, census tracts can cover very large swaths of territory, often masking substantial demographic variations. For this reason, NeighborWorks recommends using block groups rather than census tracts as the unit of analysis for determining qualified investment areas in rural communities. By drilling down further, block groups provide a more precise picture of the populations who will be served and help to spotlight areas experiencing economic distress or where a concentration of low-income households are located.

As discussed in our previous letter, NeighborWorks is concerned that a customized investment area threshold of 85% of financing activity could be a barrier to focused place-based work. Such a high threshold inhibits CDFIs' ability to engage in "viability lending" that can balance or offset some of the risk and/or costs of focused investments. Furthermore, the proposal to only count activities within individually qualified census tracts poses a significant challenge for rural geographies, as described above. Additionally, in areas of low population density, it is common for residents to travel great distances for ordinary services, meaning that lending to small businesses or supportive services even beyond qualified census tracts directly impacts qualified track populations and should be counted as impacting the entire investment area.

Low-Income Target Populations

Detailed income documentation for the entire household, particularly when not all members of the household are applicants for the financial product, is burdensome, invasive, and potentially infeasible. Such an obstacle might even be sufficient to dissuade potential customers from doing business with CDFIs. For Low-Income Target Populations (LITP), proxies can serve as an important method for assessing eligibility (Question e). While NeighborWorks is supportive of the programs included on the proposed list, this list is far from comprehensive. NeighborWorks recommends that the Fund work with other federal agency partners to identify additional programs that can serve as appropriate proxies. In particular, NeighborWorks suggests researching additional rental assistance programs (including public housing and project-based Section 8, as

well as USDA-based programs), weatherization and utility assistance programs, broadband and other telecommunications access assistance programs, Head Start and other educational programs, and medical assistance programs.

NeighborWorks is also supportive of using geography-based proxies to identify members of a LITP, regardless of whether other methodologies are available (Question f(i)-(ii)). Identification of eligible areas based on the share of households in the area that earn less than 80 percent of AMI can provide a reasonably high likelihood that any given customer from this area would themselves be low-income. The 70 percent standard proposed in the notice would be a reasonable threshold, and no individual attestations should be required (Question f(iii)-(iv)). While there is a likelihood that some financing products considered eligible under this scenario would go to customers who are not low-income, the residual and spillover benefits of investment in predominantly low-income communities adequately mitigates this diversion. However, NeighborWorks believes that there is a significant distinction between the use of a geographic proxy for LITPs and for OTPs. For OTPs, historical factors including redlining and other forms of institutionalized discrimination make geographic proxies inappropriate and NeighborWorks does not believe they should be approved as an alternative assessment methodology.

Other Target Populations

NeighborWorks, in consultation with Native CDFIs from within our network and beyond, is concerned about the proposed requirements around documentation of Native status. Like all other minority groups, Native peoples should be given the option to self-identify without requirement for further documentation (Question h). In addition to being unfairly burdensome, this requirement is overly restrictive given that many Native people are descended from multiple tribes, limiting their eligibility to claim membership in any one particular tribe. Furthermore, the restrictions on serving Native Hawaiians and Native Alaskans outside of their ancestral homelands are unwarranted.

Business and Intermediary Lending

NeighborWorks encourages the Fund to identify an end-user focused methodology by which financial products transactions where a non-profit entity is the consumer can be counted as having been directed to any Other Targeted Populations – in addition to LITPs and Investment Areas—for CDFI certification purposes. This lending represents an important source of capital for the non-profit entities who borrow from CDFIs. Furthermore, it is essential that the Fund count lending to LIHTC projects and other affordable housing developments, where program restrictions or other forms of recorded restrictions provide certainty that the end beneficiaries of the development will be part of the target population.

Financial Products delivered to a business providing jobs, products, or services to a Targeted Population or Investment Area should be deemed delivered to a Target Market. While NeighborWorks appreciates the Fund's interest in ensuring that the resulting jobs are of a high quality, setting a specific standard for eligibility is impracticable and should not be instituted (Question g).

Conclusion

NeighborWorks appreciates the Fund's efforts to streamline identification of target markets in the CDFI program. However, change always comes with costs and can result in unintended consequences. We encourage the Fund to carefully consider the effects that these proposed changes would have on existing and emerging CDFIs, and we urge the Fund to direct its resources to maximally assist organizations in meeting the new certification criteria, including developing the infrastructure necessary to complete the required reporting.

We greatly appreciate the opportunity to engage with the Fund on changes to target market assessment methodologies. We would be happy to answer any questions or offer additional information if needed.

Sincerely,



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