

Mr. Greg Bischak  
Program Manager for Financial Strategies and Research  
Community Development Financial Institutions Fund  
U.S. Department of the Treasury  
601 13th Street, NW., Suite 200 South,  
Washington, DC 20005

July 6, 2010

Dear Mr. Bischak:

Opportunity Finance Network (OFN) appreciates the opportunity to comment on the CDFI Fund's awardee and allocate annual reports.

OFN commends the Fund on undertaking a serious review of its awardee reporting and data collection strategy. In the time since the development of the Fund's Community Investment Impact System (CIIS), the CDFI industry is operating in a very different environment: the industry has grown in both asset size and number of institutions; technology and the capacity of CDFIs to manage it has significantly improved; and demand for information about CDFIs is coming from new investors less familiar with our strategy. The Fund must improve and adapt its data collection, including annual reporting, to this new environment. Though the Fund's data collection and associated reporting and research has yielded some valuable information about the industry, the significant burden of the TLR and the lack of timely release of Fund data, in particular, have limited the utility of the Fund's data collection.

Our recommendations are informed by consultation from our network of CDFIs, who represent about 60 percent of Fund awardees and so a significant portion of past respondents to the Fund's reporting; our own experience as a CDFI Fund awardee; our more than twenty years of data collection for OFN's annual survey of its Membership and our use of that data for advocacy, consulting, CARS™ analysis, and other purposes; and our experience as manager of the industrywide CDFI Common Data Project (CDP).

While this letter includes recommendations for specific components and data points in the Institution-Level Report (ILR) and Transaction-Level Report (TLR) for CDFI awardees, it primarily focuses on the strategies and principles that the Fund should use in collecting data from its constituency. The annual reports provide the Fund with a rich source of data about the CDFI industry; the structure and contents of these reports have implications for CDFIs and investors beyond the Fund's own use of them, and so must be considered in this context. We recognize that the Fund and CDFIs will use information from the reports for several purposes: for the Fund's own compliance purposes; for research on the CDFI industry and its role; and to demonstrate the reach and impact of the industry.

Though we also provide some comments on specific data points for inclusion, the specific data collection instruments require in-depth discussion with CDFIs and users that is beyond the scope of this regulatory process. OFN strongly recommends that the Fund consult extensively with those CDFIs and CDEs completing the reports, including a representative sample of CDFIs of all sectors,



sizes, organizational types, and ages.

OFN believes that the Fund should adopt the following principles in defining, developing, and using its data collection instruments and the information that results from CDFIs' completion of them. The following sections of our comments elaborate on each of these principles.

- The Fund should be a source of high-quality, reliable data about the CDFI industry.
- Collection of some transaction-level data is important for CDFIs and their investors as one tool for understanding their markets.
- With appropriate protections and safeguards, data should be made public in a timely fashion.
- The Fund must minimize burden on CDFIs.
- Improving infrastructure for submission and use is critical.
- The Fund's information is valuable as one, but not the only, tool for use by current and potential investors.
- Information collection, particularly information collection used for compliance, should include qualitative as well as quantitative factors.

### **The Fund Should Be a Source of High-quality data about the CDFI Industry**

The CDFI Fund has a reporting, certifying, or compliance relationship with the largest number of CDFIs in the universe of such institutions, and can collect information about a large number of institutions. Many of the other points and recommendations raised by OFN in this letter are intended to inform the Fund's strategy to collect high-quality and usable data.

The Fund's data should be useful not only to the Fund in evaluating compliance and impact, but also should also serve the needs of advocates making the case for the CDFI Fund and for further investment in CDFIs; CDFIs trying to better understand their own markets and performance; researchers investigating the work of CDFIs; and public and private investors trying to better understand the industry.

To serve these purposes and to position the Fund as a source of information about the entire CDFI industry, the Fund should begin to collect a small number of data points on an annual basis from certified CDFIs as well as for awardees. Most certified CDFIs provide basic information on assets and lending to other investors and partners, and the collection of some information would not be unduly burdensome. In any case, the benefit of having comprehensive data about the size and activity of most, if not all, of the CDFI industry would outweigh any burden. The Fund would also benefit, by being better able to maintain its list of certified CDFIs and keep that list current. Common data points collected for the CDFI Data Project are included in the "Suggestions on Data Points" section of this



letter; these points are information that has proven available from CDFIs of all sizes, ages, and sectors.

### **Collection of Transaction-Level Data**

Transaction-level data, particularly geographic information, provides a picture of the reach of the CDFI industry and of CDFIs. It assists advocates, researchers, and CDFIs understand specific CDFI markets, and helps to place the CDFI industry in the context of the financial services landscape.

However, the TLR has proven for many CDFIs to be the most challenging and burdensome part of their relationship with the CDFI Fund and consumes significant resources of CDFI awardees. Some suggestions for improving the TLR are outlined in the “Minimize burden on CDFIs” section and included in the “Suggestions on data points” section. We strongly encourage the Fund to reconsider its strategy for collecting transaction-level data, and to use input from CDFI practitioners to identify those data points most useful, most available to and able to be collected from the greatest number of CDFIs, and of most use for describing CDFIs’ impact. A key thread in our conversations with CDFIs is that the TLR simply has too many data points and too little value added for completing them. The Fund’s TLR has significantly more data points than the data required for Home Mortgage Disclosure Act (HMDA): the CDFI TLR asks for 100 different data points for each loan ever active during the reporting year, and the HMDA report contains only 26 fields for each home loan originated during the fiscal year (including optional fields). The large number of data points works particularly against CDFIs that have a large number of loans and transactions.

Feedback from our CDFI network also indicates that few awardees provide answers to “non-mandatory” questions, and that researchers found little value in trying to analyze the sparse data in non-mandatory fields. OFN recommends that the Fund determine a small number of the most valuable and least burdensome data points, as discussed above, and make all questions mandatory.

As conceived and developed, the current TLR has other shortcomings that work against the Fund’s goals:

- It does not appear that the data collection model being used for the transaction level report accounts for double counting of outputs. Because the system seems to be modeled on loans, rather than projects, it will over-report impacts (e.g., the number of housing units supported) if a CDFI makes more than one loan to the same project. Similarly, if more than one CDFI supports the same project and reports on that project to the Fund, the outputs will be over-reported.
- Many CDFIs do not lend directly to individuals, and do not have demographic information on end-users easily available. They likely cannot or will not want to require their borrowers to collect this information. In addition, CDFIs engage in significant pre-development lending; it is often impossible to obtain accurate demographic information on the end-users at the time the loan is committed.



It is clear that the current TLR does not adequately serve the needs of investors, CDFIs, researchers, or the Fund; and is a significant burden on CDFIs. The rethinking of transaction-level data collection that the Fund must undertake may extend to a new or different report. Especially if the Fund determines that it can collect only a small number of transaction-level data points, it and the industry may be better served by including that data in an expanded ILR. It is also critical, as noted below, that data and reports be made publicly accessible.

### **Data Should Be Made Public**

The slow pace with which the Fund has made CIIS data publicly available has frustrated CDFIs, who cannot use the data to better benchmark their own institutions; researchers and advocates, who cannot mine the data to better tell the CDFI story; and industry associations, who use their own resources to collect and compile data that is likely duplicative of the Fund's information. The Fund must make its data publicly available in a timely manner—within 180 days from the end of its collection cycle.

With clear policies in place to protect confidential information, publicly available data will help CDFIs better understand their markets; improve CDFI performance by providing benchmarks and information for comparison; provide transparency for investors; and further reduce CDFIs' reporting burdens. Public data would also allow OFN and others to significantly reduce our own data collection efforts, saving costs and improving efficiency for trade associations and individual CDFIs as well as minimizing reporting.

OFN's experience indicates that when CDFIs can access the data they have provided and use it to analyze their own institutional performance, impact, and markets, they are more motivated to complete data collection instruments. While the Fund has a funding relationship that can compel reporting, making its data public can give CDFIs added understanding of the data's importance and use.

In addition to providing an additional incentive for CDFIs to provide timely and accurate data, making the Fund's information publicly accessible solidifies the agency's reputation as a source of high-quality data. If advocates, investors, and researchers know that the CDFI Fund can provide sound, timely information about the CDFI industry, the Fund can help position CDFIs as a key strategy in the financial services landscape.

We recognize that CDFIs and their customers do, however, have confidentiality concerns that must be addressed. The Fund should continue clear policies and procedures for masking individual CDFIs and individual transactions. Many other federal agencies' data collection, including the U.S. Census, offer models for providing public access without compromising confidentiality. The Fund might offer different levels of access to CDFI awardees, the general public, and other audiences.



## Minimizing Burden on CDFIs

The Fund will collect the most accurate and usable data if it seeks to minimize burden on the CDFIs from which it collects information. It can do so by:

- Minimizing the number of changes and new data points from year to year. In the rare cases in which it must require new or different data points, such points should be collected only in the current year and going forward; the Fund should not require CDFIs to incorporate new data points retroactively.
- Incorporating significant feedback from end users. Particularly if the Fund's approach includes new reporting or new interfaces, the reports should be tested with CDFIs before rollout. If the Fund is unable to consult directly with CDFIs through focus groups or webinars, an alternative mechanism for soliciting and incorporating this input might be the formation of a subcommittee of the Fund's Community Development Advisory Board. Consultation with end users should occur during the development of new instruments and strategies (as the Fund has begun to do with this comment process) and continue during the "rollout" of new instruments and implementation of the "next phase" of CDFI data collection.
- Collecting data no more frequently than annually. More frequent data collection would be unduly burdensome, particularly in the case of any transaction-level data, and would not add additional value to the Fund's purposes.
- Storing validated data and information from previously certified reports on the Awardee's *MyCDFI Fund* website or a comparable data warehouse. All validated information would be stored on the site and the Awardee would be responsible for updating data/information required for the annual reporting period, such as new originations or inactive loans. Information from the previous year would be applied to the current year and remain validated in the system, unless the Awardee chooses to remove a data field. This will create efficiency for the Awardee and allow Awardees more time to focus on the accuracy and quality of new information collected and reported.

As noted above, the TLR report has proven most burdensome for CDFI awardees; significant reform to the instrument the Fund uses to collect transaction-level data and reducing the number of points in it will be an enormous step forward in minimizing burden. As noted in the following section, technological upgrades are also key to minimizing burden.

## Improving Infrastructure

Since the Fund designed the CIIS, the industry has benefited from and embraced significant technological advances. The CIIS interface has lagged these advances and caused difficulties for CDFIs uploading data. In particular, CDFIs with large numbers of consumer transactions have



reported technical problems uploading information. CDFIs also experience difficulty being unable to upload any data if any single records cannot be validated. Such technical problems add additional burden to the reporting. While the industry appreciates the need for validation to ensure data quality, CIIS should have a better way of identifying errors so that CDFIs can quickly locate and correct them.

### **One, but Not the Only, Source of Data**

Though the Fund should strive to be a leading source of information about the CDFI industry generally, the variety among CDFIs and the unfamiliarity with many investors means that the CDFI Fund's data cannot be taken out of context or as the sole source of information about a particular CDFI.

The Fund must also recognize and make clear the limitations of its dataset. While annual data collection is the best option for CDFIs, yearly frequency and varying fiscal years mean that the public release of CDFI data will be fifteen to eighteen months behind the time it was current. It cannot be used as an indicator of an individual CDFI's status or as a current "market conditions" indicator.

### **Include qualitative as well as quantitative factors**

While some information can be collected uniformly across the CDFI industry, individual CDFIs can always tell their stories best with qualitative information that may emphasize non-financial impacts or explain seeming anomalies in financial statements. Though we caution above against the use of CIIS as a sole source of data on CDFIs, we recognize that the Fund will use the financial information provided by awardees for its own internal analysis of CDFI performance, and so urge the Fund to continue to include qualitative factors in determining whether a CDFI has met its goals. Even a vastly improved quantitative system cannot capture the scope and impact of CDFI activity.

Any analysis OFN has ever done on CDFIs—whether for underwriting, rating, or peer groups analysis—has had a qualitative component. Ratio analysis always produces outliers, often for sound reasons that do not indicate poor performance (i.e. if a CDFI starts a new product or program, engages in advocacy or other mission-related activities, or receives an unusual investment, its ratios will be skewed). Using ratios to analyze CDFIs does not tell the "story behind the numbers" and can be misleading. A qualitative assessment can help include additional critical information about a CDFI's performance, including management, civic relationships, and other crucial elements of impact. These factors are relevant principally in the Fund's use of reporting for compliance purposes.

An important "qualitative" element currently missing in the information the Fund makes public is the geographic scope of the industry. An important part of telling the industry's story is understanding the communities in which CDFIs work. The Fund should develop a standard way of reporting a CDFI's service area that does not unduly burden CDFIs that serve a targeted population rather than a geographic target market, and make this information public. Better understanding of CDFIs' geographic scope will help CDFIs identify underserved markets; match mainstream financial



institutions to CDFI partners; and help the Fund identify and define areas that may benefit from Fund investment. As part of the Certification process, the Fund should develop a better way to collect CDFIs' geographic target markets so that it can make this data publicly available. The Fund should consider leveraging existing systems, such as PolicyMap, for this purpose. It must also develop a way to collect and report coverage of targeted populations.

### Suggestions for Data Points

Opportunity Finance Network offers the following suggestion for the data points to be collected from all certified CDFIs. This small number of data points, self-reported by CDFIs, will provide a snapshot of the CDFI industry and the impact it is making.

- Total Financing Outstanding
- Direct Financing Outstanding for Businesses \$
- Direct Financing Outstanding for Housing \$
- Direct Financing Outstanding for Microenterprise \$
- Direct Financing Outstanding for Other \$
- Direct Financing Outstanding for Personal Development \$
- Direct Financing Outstanding for Community Facilities \$
- Direct Financing Outstanding, Total Reported \$
- Total Assets \$
- Total Debt Capital , Total Reported \$
- Capital, Total Reported \$
- Total of Housing Units Created or Renovated within FY (Projects developed by CDFI or organization financed #)
- Percent of FY Clients located in Major Urban areas %
- Percent of FY Clients located in Minor Urban areas %
- Percent of FY Clients located in rural areas %
- Percent of female FY Clients %
- Percent of clients served with low to moderate household income %
- Percent of FY Clients identified as a racial/ethnic minority %
- Jobs (FTEs) assisted by Microenterprise and Business units that closed financing with the CDFI in the FY.

These are points which have been collected from all CDFIs participating in the CDP. OFN believes that they are available from most if not all CDFIs and provide the information necessary to provide a general picture of the scope, activities, diversity, and outcomes of the CDFI industry.

We also recommend that the Fund collect off-balance-sheet information to fully understand the assets managed by CDFIs. A question might be: *Please report your CDFI's off-balance sheet financing outstanding. This would include any financing that is not shown on your audit. Examples could be NMTC loans held in a separate entity, as well as loans you service for other financial institutions that are on their books.*



Though, as stated above, we strongly encourage the Fund to rethink its strategy and instruments for transaction-level reporting, we reiterate concerns we had with data points in the TLR while it was developed and initially released for public comment. That these concerns remain six years after the development of CIIS speaks to the ongoing problems with the TLR and the disconnect between the information it seeks and the way the CDFIs do business and reinforces the need for a significantly revised method of collecting transaction-level information.

#### *Impact Profile*

- Collecting the FICO score both at intake and longitudinally would be difficult, as many CDFIs do not collect this information.
- There are several questions related to a borrower's banking relationship. The Fund needs to provide substantially more clarity around these questions, including:
  - Will this question apply to investees that are seeking venture capital who may never approach banks?
  - We recommend removing the data point on the Date of Successful Bank Loan.
  - The Fund will need to specify if "rejected by bank?" means for this particular project or ever.

#### *Entity Profile*

- The requirement that CDFIs and CDEs provide North American Industry Classification System (NAICS) codes seems somewhat onerous. Many CDFIs/CDEs are unfamiliar with this system and do not use it, and updating loan systems to include this information could be laborious. The Fund might instead come up with a few general categories of business types.
- Some CDFIs are opposed on legal or other grounds to recording and reporting statistics on their borrower's race or ethnicity. These data points could be recommended, but not required.

#### *Transaction Profile*

- Most of the transaction profile data is relevant for loans, but not for other types of financing instruments. The Fund may want to have shorter sections for different types of financing instruments.
- "CDFI Fund Designated Target Market" should be defined. Does this term mean the market that CDFI identified when they applied for certification or does it mean a target market defined by the Fund? Is this something that the CDFI Fund can easily and automatically determine by having the address and location of the borrower?
- We recommend removing the "Date of First Payment" datapoint.
- Are the transaction types (term loan, equity, line of credit) comprehensive? Should there be other options available, at the very least "other"?
- What type of valuation should CDFIs report on collateral? (Book, Cost, Market Value, etc.). We recommend removing the data point on value of collateral as it could be reported inconsistently across CDFIs/CDEs.
- We recommend removing the datapoint on "Has the loan been restructured" and the longitudinal datapoint on "Date of restructuring." CDFIs/CDEs track this information in many different ways, they may restructure a loan more than once, and they restructure loans for a variety of purposes including problem loans, interest rate changes, or changing maturity dates. We do not believe these data will provide insight into CDFI portfolio performance.



- Will the CDFI be reporting on loans and investments outstanding or loans and investments closed during the year? We recommend that CDFIs report only on loans outstanding, although the Fund should clarify which it means.

#### *Longitudinal Points*

- We recommend removing Training and Technical assistance as a longitudinal data point. Most CDFIs/CDEs do not track T&TA on a loan-by-loan basis like this.
- We recommend not having separate questions for FTEs permanent and FTEs short-term. Tracking FTEs in this way is not the industry standard. Most CDFIs track FTEs at different points in time, and do not track this information by permanent and short-term. We recommend having just one FTEs datapoint. If the Fund keeps these as separate questions, the Fund will need to clarify the definitions of FTEs Permanent and FTEs short-term.

#### *Purpose Table and Sub*

- This sector should have an “other” option, because not all CDFI loans fit into these categories. Where would a loan to another CDFI be classified? What about community services loans – are they all classified under Real Estate Commercial?

#### **Conclusion**

The CDFI Fund has the potential to be a rich source of information on the CDFI industry, and its annual reporting instruments are an important tool in that effort. Further minimizing burden on CDFIs, particularly through rethinking of the TLR; expanding collection of basic information to certified CDFIs; and making the Fund’s data collection available in a timely fashion will ensure that the Fund can make good on that potential.

Thank you for the opportunity to comment. If you have concerns or questions about this letter, please do not hesitate to contact me at 215.320.4304 or [mpinsky@opportunityfinance.net](mailto:mpinsky@opportunityfinance.net).

Sincerely,

Mark Pinsky  
President and CEO