



# Community Development Financial Institution Certification Application

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## Overview of Proposed Revisions and Modifications

MAY 2020

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

[www.cdfifund.gov](http://www.cdfifund.gov)

# CDFI Certification Application Revisions and Modifications



## Summary

The CDFI Fund is soliciting public comment on a revised CDFI Certification Application. Changes to CDFI Certification policies and procedures, as reflected in the Application, were informed by information collected during a public input process. The following presentation describes the requirements of CDFI Certification, the CDFI Fund's review of CDFI Certification policy, proposed revisions to the CDFI Certification Application, and information on how to submit comments to the CDFI Fund.

# Presentation Roadmap



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# CDFI Fund Overview



## OUR MISSION

The CDFI Fund's mission is to expand economic opportunity for underserved people and communities by supporting the growth and capacity of a national network of community development lenders, investors, and financial service providers.

# CDFI Fund Overview



## OUR VISION

The vision of the CDFI Fund is an America in which all people and communities have access to the investment capital and financial services they need to prosper.

# CDFI Fund Overview



The CDFI Fund manages six separate programs authorized through four different statutes:

- Riegle Community Development and Regulatory Improvement Act of 1994
  - Bank Enterprise Award Program (BEA Program)
  - Community Development Financial Institutions Program (CDFI Program)
  - Native American CDFI Assistance Program (NACA Program)
- Community Renewal Tax Relief Act of 2000
  - New Markets Tax Credit Program (NMTC Program)
- Housing and Economic Recovery Act of 2008
  - Capital Magnet Fund (CMF)
- Small Business Jobs Act of 2010
  - Bond Guarantee Program (BG Program)

# What is a Community Development Financial Institution (CDFI)?



- CDFIs are community-based organizations that expand economic opportunity in low-income communities and provide financial products and services to individuals and businesses often underserved by traditional financial institutions.
- CDFIs help families finance their first homes, support small and start-up businesses, establish and rebuild credit histories, and invest in local health, education, and community facilities, as well as provide financial services and training.
- CDFIs include banks, credit unions, loan funds, and venture capital funds.

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# CDFI Certification



- The CDFI Fund has responsibility for certifying CDFIs in accordance with the statutory requirements outlined in the Riegle Act.
- CDFI Certification is required to access most CDFI Programs.
- The CDFI Fund verifies that an organization meets the Certification requirements through a series of validations and tests in the Certification Application.
- The CDFI Fund uses a standardized application form to collect information and data, submitted through its Awards Management Information System (AMIS), necessary to make a Certification determination.
- CDFIs are required to confirm they still meet certification requirements on an annual basis, as well as report on their yearly lending and investment activity.

# CDFI Certification



- To become Certified, an organization must submit a CDFI Certification Application to the CDFI Fund for review and approval. The organization must demonstrate it meets each of the following requirements:
  - Be a legal entity at the time of Certification application;
  - Have a primary mission of promoting community development;
  - Be a financing entity;
  - Primarily serve one or more Target Markets;
  - Provide Development Services in conjunction with its financing activities;
  - Maintain accountability to its defined Target Market(s); and
  - Be a non-government entity and not be under control of any government entity (Tribal governments excluded).

# CDFI Fund Review of Certification Policy



- CDFIs have evolved over the past two decades in scope, scale and sophistication.
  - Certified CDFIs have grown from 196 in 1997 to nearly 1,100 today.
  - Assets of Certified CDFIs now total almost \$160 billion.
  - CDFIs are comprised of a mix of regulated financial institutions, loan funds and venture capital funds.
  - CDFI Certification is a qualifier for other Federal, State and local government and private sector programs and benefits.
  - CDFI Financial Products and Financial Services have expanded, including the use of technology to increase their market reach.
- The CDFI Fund undertook a review process in 2016 to ensure Certification policies are responsive to the evolving nature of CDFIs and sufficiently protect government resources.

# CDFI Fund Review of Certification Policy



- To assist the CDFI Fund in its review and garner public input, a Request for Information (RFI) was published in January 2017 seeking comments on current CDFI Certification policies and procedures.
- The public responded to the RFI with 28 letters containing over 200 pages of comments.
- Based on input provided through the RFI, the CDFI Fund developed a revised Certification Application that it has released for public review and comment.

# CDFI Fund Review of Certification Policy



- In developing the revised Certification Application, the CDFI Fund maintained five policy objectives:
  - Continue to foster a diversity of CDFI types, activities, and geographies.
  - Support the growth and reach of CDFIs, especially as it relates to their ability to innovate and take advantage of new technologies.
  - Protect the CDFI brand.
  - Minimize burden on CDFIs while improving data quality and collection methods.
  - Promote efficiency for CDFI Fund staff in rendering CDFI certification determinations.

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# CDFI Certification Application-in-Brief



The CDFI Certification Application is arranged around the CDFI Certification requirements. Information collected is used to validate an Applicant's ability to meet these criteria.

Application Section	Description
Basic Information	Collects general information about the CDFI Certification Applicant and any Affiliates that must be reviewed in connection with any of the CDFI Certification requirements. Information collected includes Financing Entity type, organization contacts, fiscal year, and affiliates.
Legal Entity	Information collected verifies that an Applicant is duly organized and validly exists under the laws of the jurisdiction in which it is incorporated or established.
Primary Mission	A Certified CDFI must have a primary mission of promoting community development. Information collected evaluates if an Applicant's activities are purposely directed toward improving the social and economic conditions of underserved people and/or residents of economically distressed communities.
Financing Entity	Verifies that an Applicant's predominant business activity is the provision of Financial Products and/or Financial Services.

# CDFI Certification Application-in-Brief



<b>Application Section</b>	<b>Description</b>
Target Market	Collects information that demonstrates that at least 60% of an Applicant's financing activity is in eligible Target Markets (either an Investment Area or Targeted Population).
Accountability	Applicants provide information demonstrating that they maintain accountability to their Target Markets - the residents of an Investment Area and/or members of a Targeted Population - through representation on their governing and/or advisory boards.
Development Services	An Applicant must provide Development Services in conjunction with and connected to its Financial Products. The application verifies the Development Services provided by the Applicant.
Non-Governmental Entity	A CDFI cannot be an agency or instrumentality of the United States, any State or political subdivision. The application verifies that the Applicant is a non-governmental entity.
Native American CDFI Designation	Organizations seeking designation as a Native CDFI (and thereby eligibility to apply for assistance under the NACA Program) must verify that at least 50% of their activity is directed to a Native Community.



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# CDFI Certification Application Changes: Basic Information



- The Basic Information section of the CDFI Certification Application collects general information about the CDFI Certification Applicant and its Affiliates that must be reviewed in connection with the CDFI Certification requirements.
- It contains information about the entity such as Financing Entity type, organization contacts, fiscal year timeframe, and Affiliates.
- Much of the Applicant Information in this section will be auto-populated based on data from the Applicant's AMIS account. Applicants should review the information to ensure it is accurate and complete.
- There are no substantial revisions or policy changes to the Basic Information section of the CDFI Certification Application compared to current practices.
  - However, non-regulated entities will now be required to submit Affiliate information in the Basic Information section.

# CDFI Certification Application Changes: Legal Entity



## CDFI Certification Requirement:

- To satisfy the Legal Entity test for CDFI Certification, the CDFI Fund requires evidence of an entity's incorporation, organization, and/or establishment, such as IRS documentation, establishing documents filed with appropriate authorities, or charter numbers for insured depository institutions and credit unions, at the time of submission of the Certification Application.

## Existing Policy:

- To be a Certified CDFI, the Applicant must be duly organized and validly exist under the laws of the jurisdiction in which it is incorporated or established as of the date the CDFI Certification Application is submitted. The Applicant must also have a valid Employer Identification Number (EIN).

## Policy Changes:

- No substantive policy changes are being implemented in the Legal Entity section of the CDFI Certification Application.

# CDFI Certification Application Changes: Primary Mission



## CDFI Certification Requirement:

- Per statute, a CDFI must have a “primary mission of promoting community development.”
- CDFI Fund regulations require that in “determining whether an Applicant has such a primary mission, the CDFI Fund will consider whether the activities of the Applicant are purposefully directed toward improving the social and/or economic conditions of underserved people and/or residents of economically distressed communities.”

## Existing Policy:

- The CDFI Fund currently allows Applicants to meet this test by providing board-approved organizational documents along with a narrative statement demonstrating they have a primary mission of promoting community development, as well as a brief description of Financial Products/Financial Services offered.
- Credit Unions that have received a Low Income Designation from the National Credit Union Administration are deemed to have met this requirement by virtue of their designation.

# CDFI Certification Application Changes: Primary Mission



## Policy Changes:

To protect the CDFI brand, the CDFI Fund proposes to strengthen the Primary Mission test by examining the extent to which an Applicant's Financial Products/Financial Services align with the Primary Mission, and will evaluate strategies, policies, and practices related to the products/services offered by the Applicant. Applicants will be required to attest and answer questions to determine adherence to mission-related principles, including:

- **Documenting Mission:** demonstrate that it has had an acceptable community development mission in place for at least the 12 months prior to submission of the CDFI Certification Application.
- **Community Development Strategy:** demonstrate it has an acceptable community development strategy such that products/services offered support community development objectives for underserved populations or economically distressed communities.
- **Responsible Financing Practices:** demonstrate that its products/services do not harm consumers. Financial Products should be affordable and based on a borrower's ability to repay, and CDFIs should practice transparency, fair collections, and compliance with federal, state and local laws and regulations. *Practices that do not align with these principles may disqualify an Applicant for certification as a CDFI.*
- **Affiliates:** Parent entities of all CDFI Applicants and Affiliates that provide Financial Products and/or Financial Services will now be required to demonstrate a community development Primary Mission, *thereby extending an existing rule that previously only applied to depository institutions.*

# CDFI Certification Application Changes: Financing Entity



## CDFI Certification Requirement:

- CDFI regulations require that “a CDFI shall be an entity whose predominant business activity is the provision, in arms-length transactions, of Financial Products and/or Financial Services.”

## Existing Policy:

- Insured Depository Institutions, Depository Institution Holding Companies, and Credit Unions with federal insurance are deemed automatically to meet the financing entity criterion.
- Non-Regulated CDFIs and regulated entities that do not have federal insurance must demonstrate they engage in direct financing activity per the regulations (i.e., the provision of Financial Products and/or Financial Services) as reflected in their financial statements and other documentation, and must dedicate a predominance of their assets and staffing to such activities.

# CDFI Certification Application Changes: Financing Entity



## Policy Changes:

- Require a minimum of 12 months of Financial Product or Financial Services activity prior to the submission of a CDFI Certification Application.
- Allow entities that are spun off from other entities that have an eligible Financial Product or Financial Services track record to apply for CDFI Certification less than 12 months after starting their own Financial Product or Financial Services activity, if the transactions are transferred to, and will continue under, the new entity.
- Allow assets related to, and staff time spent on, loans purchased from entities that are not Certified CDFIs but were directed to an Applicant's Target Market to count as assets and staff time devoted to financing.

# CDFI Certification Application Changes: Target Market



## CDFI Certification Requirement:

- Per statute a CDFI must “[serve] an investment area or targeted population,” defined by regulation as a CDFI’s Target Market. Target Market(s) may be:
  - Investment Areas: must meet at least one economic distress criteria, based on poverty, income, unemployment or population decline.
  - Low-Income Targeted Populations: individuals with a median family income not greater than 80% of the area or state median family income.
  - Other Targeted Populations: groups with a demonstrated lack of access to capital and/or Financial Products or Services.



# CDFI Certification Application Changes: Target Market



## Existing Policy:

- Applicants must designate the Investment Area(s) and/or Targeted Population(s) within a discrete geographic area that they propose as their Target Market.
- CDFIs must direct at least 60%, in both number and dollar amount of transactions, of all of their Financial Products to one or more eligible Target Markets. However, if an organization fails to meet either the number or the dollar amount threshold, an exception may be provided based on justification that is satisfactory to the CDFI Fund.
- CDFI Fund regulations allow the use of Financial Services to meet the Target Market test. However, the CDFI Fund has not had a mechanism to apply Financial Services activity to the 60% threshold Target Market test.

# CDFI Certification Application Changes: Target Market



## Policy Changes:

- Geographic boundaries and mapping requirements are eliminated for most Target Markets. Continue to allow entities to create a Customized Investment Area that consists of both qualified and non-qualified census tracts per current regulations.
- Operationalizes the use of Financial Services to meet the Target Market requirements; now a regulated institution Applicant can meet the Target Market test if at least 60% of its Financial Services depository accounts and 50% of its Financial Products are directed to a Target Market(s).
- Financial Products and, if elected, Financial Services activity will be measured for new CDFI Certification Applicants over the most recently completed 12-month period.
  - For existing CDFI Certification Applicants, Target Market compliance will be assessed based on a three-year average through the last day of their most recently completed fiscal year of Financial Products closed and, if elected, Financial Services accounts provided.
- Applicants must meet the relevant Financial Product activity threshold, without exception, in both the number and dollar amount of such activity.

# CDFI Certification Application Changes: Accountability



## CDFI Certification Requirement:

- Per statute, a CDFI must “[maintain], through representation on its governing board or otherwise, accountability to residents of its investment area or targeted population.”

## Existing Policy:

- Target Market representation on its governing board and/or advisory boards.
  - Board members must reside, work in, or represent Target Market.
  - Proportion of required accountable board members varies based on the Target Market type and geographic scope.
  - A CDFI with multiple Target Markets must meet the Accountability test for each Target Market it serves, separately.

# CDFI Certification Application Changes: Accountability



## Policy Changes:

- Removes the geographic connection from the source of board member accountability to conform with the removal of the geographic boundaries for most Target Markets.
- Sets clear board member percentages standards:
  - Applicants with formally established governing boards must:
    - Demonstrate that at least one governing board member is accountable to each proposed Target Market component and at least 33% of the governing board is accountable to the proposed Target Market overall; or
    - Demonstrate that at least one advisory board member is accountable to each proposed Target Market component; and
      - 60% of the advisory board is accountable to the proposed Target Market overall;
      - at least 20% of the governing board members are accountable to the proposed Target Market (with no specific representation required); and
      - at least one governing board member has a seat on the advisory board.
  - Applicants without a formally established governing board must demonstrate that at least one advisory board member is accountable to each proposed Target Market component; at least 80% of the advisory board members are accountable to the proposed Target Market overall; and at least one partner/owner/management leader has a seat on the advisory board.

# CDFI Certification Application Changes: Development Services



## CDFI Certification Requirement:

- Per statute, a CDFI must provide “development services in conjunction with equity investments or loans, directly or through a subsidiary or affiliate.”
- To meet this test and per regulation a CDFI “directly, through an Affiliate, or through a contract with another provider, must have a track record of providing Development Services in conjunction with its Financial Products and/or Financial Services.”

## Existing Policy:

- Development Services are activities undertaken by a CDFI, its Affiliate, or contractor that promote community development and prepare or assist current or potential borrowers or investees to use the CDFI’s Financial Products or Financial Services. Activities can include financial or credit counseling, homeownership counseling, and business planning and management assistance.

## Policy Changes:

- No substantive policy changes are being implemented in the Development Services section of the CDFI Certification Application.

# CDFI Certification Application Changes: Non-Governmental Entity



## CDFI Certification Requirement:

- Per statute, a CDFI shall not be “an agency or instrumentality of the United States, or of any State or political subdivision of a State.”

## Existing Policy:

- An entity that is created by, or that receives substantial assistance from, one or more, government entities may be a Certified CDFI provided it is not controlled by such entities and maintains independent decision-making power over its activities.
- Applicants must answer a series of questions designed to reveal issues or circumstances that may prevent an entity from meeting this criteria.

## Policy Changes:

- No substantive policy changes are being implemented through the Non-Governmental Entity section of the CDFI Certification Application.

# CDFI Certification Application Changes: Native American CDFI Designation



## CDFI Certification Requirement:

- While not defined in statute, the CDFI Fund allows entities that serve Native Communities to self-designate as Native American CDFIs and apply for Financial Assistance and Technical Assistance through the NACA Program.

## Existing Policy:

- A Native American CDFI primarily serves a Native Community.
  - “Primarily serves” is defined as 50% or more of an Applicant’s activity.
  - “Native Community” is defined as Native American, Alaska Native, and/or Native Hawaiian.

# CDFI Certification Application Changes: Native American CDFI Designation



## Policy Changes:

- The Native American CDFI designation will conform to the revised CDFI Certification Application.
- Applicants must demonstrate representation of a Native Community through one of two options.
  - Governing Board Only: At least 33% of the governing board are members of a Native Community population or residents of a Native Community geography; and at least 50% of such representatives are members of a Native Community population.
  - Advisory Board and Governing Board:
    - At least 60% of the advisory board are members of a Native Community population or residents of a Native Community geography;
    - At least 50% of such representative advisory board members are members of a Native Community population(s);
    - At least 20% of the governing board members are members of a Native Community population or residents of a Native Community geography; and
    - At least one governing board member has a seat on the advisory board.
- **Activity directed to Native Communities**: Applicants must demonstrate they primarily serve Native Communities as evidenced by at least 50% of their Financial Products/Financial Services having been directed to one or more Native Communities during the most recently completed 12-month period.



# CDFI Certification Application Changes: Additional Information



## Annual Certification and Data Collection Report (ACR):

- On an annual basis, CDFIs are required to submit an ACR, which allows the CDFI Fund to assess Certified CDFIs' ongoing compliance with Certification requirements.
- The CDFI Fund has issued a separate Request for Public Comment on proposed changes to the ACR. Some of the changes are aligned to changes proposed in the CDFI Certification Application and members of the public are also encouraged to review the ACR Request for Public Comment.

## Certification Transaction Level Report (CTLR):

- The CTLR is a new proposed requirement for CDFI Certification Applicants, and those certified CDFIs that are non-awardees and therefore not required to submit a Transaction Level Report (TLR).
- The CTLR would require transactional reporting of new originations for the most recently completed fiscal year by Certification Applicants and Certified CDFIs that are not Financial Assistance award recipients. The CTLR provides a method to evaluate the extent to which Certified CDFIs serve distressed areas and underserved populations.
- The CDFI Fund has issued a separate Request for Public Comment on the proposed CTLR that will support both the revised Certification Application and ACR. Members of the public are also encouraged to review.

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# Request for Public Comment



- Comments are due to the CDFI Fund 90 days from the date of publication in the Federal Register. Comments may be submitted to Tanya McInnis, Program Manager Certification, Compliance Monitoring and Evaluation (CCME), CDFI Fund via email at [ccme@cdfi.treas.gov](mailto:ccme@cdfi.treas.gov).
- To view the Request for Public Comment as published in the Federal Register or additional information related to proposed changes to the CDFI Certification Application, visit the CDFI Fund website at [www.cdfifund.gov](http://www.cdfifund.gov).
- The Office of Management and Budget will issue an additional Request for Comment that will occur separately and subsequent to the Treasury Department's Request for Public Comments.