



Community Development Financial Institution Certification Application

Overview of FINAL Revisions and Modifications

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COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

www.cdfifund.gov

CDFI Certification Application Revisions and Modifications



Summary

In May 2020, the CDFI Fund released for public comment proposed updates to the CDFI Certification Application. The CDFI Fund received 55 unique comment letters in response to this request. In preparation for a final round of public comments that will be solicited by the Office of Management and Budget (OMB), the CDFI Fund is providing a summary of revisions to the proposed CDFI Certification Application in response to the initial comment solicitation. The following presentation describes the requirements of CDFI Certification, the CDFI Fund's review of CDFI Certification policy, and updated revisions to the proposed new CDFI Certification Application.

Presentation Roadmap



About the CDFI Fund and Community Development Financial Institutions

CDFI Certification and the CDFI Fund's Review of Certification Policy

The CDFI Certification Application-in-Brief

Changes to the CDFI Certification Application: Section-by-Section

Request for Public Comment on CDFI Certification Application Changes

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.

About the CDFI Fund



The CDFI Fund manages 10 separate programs authorized through six 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
 - CDFI Bond Guarantee Program (BG Program)
- Dodd-Frank Wall Street Reform and Consumer Protection Act
 - Small Dollar Loan Program (SDL Program)
- Consolidated Appropriations Act of 2021
 - CDFI Equitable Recovery Program (CDFI ERP)
 - CDFI Rapid Response Program (CDFI RRP)
 - Economic Mobility Corps (EMC)

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 is responsible for certifying CDFIs in accordance with the statutory requirements outlined in the Riegle Act.
- CDFI Certification is required to access most CDFI Fund 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, through the Annual Certification and Data Collection Report (ACR).

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 at the time of application:
 - Be a legal entity;
 - 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 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.
 - The number of Certified CDFIs has grown from 196 in 1997 to nearly 1,400 today.
 - Assets of Certified CDFIs now total almost \$160 billion.
 - 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, as has the use of technology to increase 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 released for public review and comment in May 2020.

CDFI Fund Review of Certification Policy



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

CDFI Fund Review of Certification Policy



- In response to the May 2020 request for public comment, the CDFI Fund received 55 letters with more than 600 individual comments.
- Since the comment period closed in November 2020, the CDFI Fund has reviewed these comments and recommendations, conducted additional research, and consulted with other federal agencies.
- As a result of this adjudication process, there are some significant changes to the Application that was released for public comment in May 2020.

CDFI Fund Review of Certification Policy



- The Office of Management and Budget (OMB) will soon open a final round of public comment on the proposed revisions to the CDFI Certification Application and Certification policies before the Application is completed and implemented in April 2023.
- The CDFI Fund is providing details on further modifications made to the proposed CDFI Certification Application and reporting policies in advance of the OMB request for public comment to ensure interested organizations have sufficient time to review and analyze the changes.
- The upcoming OMB request for comments will provide an additional opportunity to comment on final changes to the proposed CDFI Certification Application.

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Request for Public Comment on CDFI Certification Application Changes

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



Application Section	Description
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 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: Section-by-Section Analysis



- The following slides are intended to provide a **general overview** of changes to each section of the proposed CDFI Certification Application that were released for public review and comment in May 2020, as well as the 2022 revisions to the proposed CDFI Certification Application.
- Each section analysis includes a general description of:
 - The specific CDFI Certification requirement;
 - The CDFI Fund’s existing policy or process for evaluating a CDFI’s compliance with each Certification requirement as part of the CDFI Certification Application;
 - Changes in the CDFI Certification Application as proposed by the CDFI Fund in the May 2020 request for public comments; and,
 - Significant revisions that are being made to the CDFI Certification Application that was proposed in 2020. Where applicable, limited commentary on revisions is included.
- **NOTE:** *This overview does not cover all changes to the questions in the Application. However, unless otherwise indicated as part of the 2022 revisions to the proposed CDFI Certification Application, policies reflected in the proposed Application are as they originally appeared and remain unchanged from the proposed CDFI Certification Application that was released for public comment in May 2020.*

CDFI Certification Application Changes: Basic Information



Existing Practice:

- 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.

May 2020 Proposed Changes:

- There were no substantial revisions or policy changes to the Basic Information section of the CDFI Certification Application compared to current practices.
 - Non-regulated entities will be required to submit Affiliate information.

October 2022 Significant Revisions:

- Addition of questions to collect demographic data on board members and executive staff.

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).

May 2020 Proposed Changes:

- No substantive policy changes were proposed in the Legal Entity section of the CDFI Certification Application.

October 2022 Significant Revisions:

- No significant revisions have been made to the Legal Entity section of the proposed 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 the Applicant has 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



May 2020 Proposed Changes:

To protect the CDFI brand, the CDFI Fund proposed 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 to evaluate strategies, policies, and practices related to the products/services offered by the Applicant. Applicants would 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 are intentionally provided to 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 from CDFI Certification.*
- **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: Primary Mission



October 2022 Significant Revisions:

The CDFI Fund has made substantial modifications to the Primary Mission section of the proposed CDFI Certification Application due to comments received, consultation with other federal agencies, and additional research. Revisions include:

- **National Credit Union Administration (NCUA) Low-Income Designation (LID):** The revisions eliminate the use of the LID as acceptable documentary evidence of a *primary mission* of community development.
- **Community Development Strategy:** The proposed CDFI Certification Application (issued May 2020) asked a series of new questions about an Applicant's community development objectives and outputs, along with the terms, conditions, or practices for each of the Applicant's Financial Products that were used to achieve those objectives and outputs. Commenters indicated, and the CDFI Fund agreed, that the questions had the potential to be unduly burdensome and were unlikely to yield meaningful responses.

Instead, the revisions to the proposed Certification Application will include a narrower set of questions limited to an Applicant's community development objectives and goals, and require the submission of a board-approved strategic plan evidencing a community development strategy. ***Applicants that do not have a board-approved strategic plan will be deemed ineligible for CDFI Certification.*** (Affiliates will not be required to demonstrate a community development strategy, but must describe how their activities support and/or are consistent with the community development mission of the Applicant.)

CDFI Certification Application Changes: Primary Mission



October 2022 Significant Revisions (cont.):

Responsible Financing Practices: this section of the proposed CDFI Certification Application elicited the greatest number of comments. Commenters supported a review of an Applicant's adherence to responsible financing practices to ensure it truly benefits underserved or distressed people and communities. Revisions to the proposed CDFI Certification Application cover several of these areas.

- **Bright-Line Questions:** The CDFI Fund agreed with commenters who argued that adherence to responsible financing practices should be a CDFI Certification prerequisite and clear standards for the disqualification of CDFI Certification Applications be established. Where appropriate and feasible, the proposed CDFI Certification Application sets bright-line questions related to financing activity.

If a clear-cut distinction can be made that the Financial Product characteristic or practice offered by an Applicant for CDFI Certification is harmful to low-income and underserved communities, indicates absence of a community development mission, or harms the CDFI brand, the proposed CDFI Certification Application disqualifies the Applicant for failing to meet set standards. Questions that are not identified as individually disqualifying will be evaluated holistically and could assist borderline Applicants.

CDFI Certification Application Changes: Primary Mission



October 2022 Significant Revisions/Responsible Financing Practices (cont.):

- **Ability-to-Repay:** Revisions to the proposed CDFI Certification Application narrow the scope of the ability-to-repay question to apply to consumer (including mortgages) and small business lending only. (Previously, Applicants that offered consumer loans were required to respond to this question only if the loans exceeded a 36% rate.) An Applicant that does **NOT** consider a borrower's ability to repay a loan (regardless of the Financial Product's rate) may be determined ineligible for CDFI Certification if an acceptable justification is not offered.
- **Working with Struggling Borrowers:** The CDFI Fund believes that a demonstrated willingness to work with struggling borrowers is an important CDFI characteristic. However, in response to comments, the revised CDFI Certification Application retains a modified version of this question. CDFIs are encouraged but not required to have accommodative or concessionary policies or programs for struggling borrowers.

CDFI Certification Application Changes: Primary Mission



October 2022 Significant Revisions/Responsible Financing Practices (cont.):

- **Affordability:** The CDFI Fund received comments supporting and opposing the inclusion of a rate test — 36% as calculated by the Military Annual Percentage Rate (MAPR) standard — as part of the proposed CDFI Certification Application, which would trigger a series of additional questions related to Financial Products that exceed this threshold.
 - Revisions to the proposed CDFI Certification Application narrow the scope of this question to apply to non-mortgage consumer and small business loans only.
 - Use of the MAPR standard is maintained for consumer loans, while the revisions allow for use of the Truth in Lending Act (TILA) methodology to calculate the rate on small business loans.

CDFI Certification Application Changes: Primary Mission



October 2022 Significant Revisions/Responsible Financing Practices (cont.):

- **Consumer Protections for High-Cost Loans:** The CDFI Fund will disqualify any CDFI Certification Applicant that offers loans in excess of a 36% rate and fails to demonstrate those loans meet each of the safety and consumer protection standards set by a series of secondary questions. Revisions to the proposed CDFI Certification Application modify the CDFI Fund's policies related to the following secondary questions:
 - *Deferred Presentment Loans:* A CDFI Certification Application would be disqualified if the Applicant has offered loans that exceed a 36% rate that also include a leveraged payment mechanism, as defined by the Payday Lending Rule (12 CFR Part 1041) issued by the Consumer Financial Protection Bureau (CFPB).
 - *Refinancing and Reborrowing Limits:* Any Applicant for CDFI Certification that offers loans exceeding a 36% rate and charges a new fee for any new loans to the same borrower during a 12-month time period would be disqualified from CDFI Certification.
 - *Small Business Loans:* Would apply a subset of the secondary questions to CDFI Certification Applicants that offer small business loans that exceed a 36% APR.

CDFI Certification Application Changes: Primary Mission



October 2022 Significant Revisions/Responsible Financing Practices (cont.):

- **Rent-a-Bank Prohibition:** The revision to the proposed CDFI Certification Application disqualifies any non-depository Applicant participating in any arrangement to originate, purchase interests in, offer, market, or service loans that exceed either a 36% MAPR or the interest rate limits that apply to non-depository institutions in the state where the borrower resides.
- **Transparency:** The CDFI Fund agreed with commenter recommendations to narrow the scope of a transparency-related question to exclude larger commercial and real estate loans, and that federal disclosure laws make the question unnecessary for consumer lending. Revisions to the proposed CDFI Certification Application modify the question, regarding disclosure of certain loan features, and applies it only to small business loan products. In addition, the question will remove reference to the “effective APR” for open end loans, which is consistent with the Truth in Lending Act (TILA).
- **Debt Collection:** Commenters generally supported the questions in the proposed CDFI Certification Application that examine an Applicant’s debt collection practices. The revisions include a modified question that would disqualify any Applicant for CDFI Certification that engages in the sale of charged-off debt.
- **Community Reinvestment Act (CRA):** The revision to the proposed CDFI Certification Application would disqualify any bank applying for CDFI Certification whose most recent CRA rating is below “Satisfactory” (i.e., “Needs to Improve” or “Substantial Noncompliance”).

CDFI Certification Application Changes: Primary Mission



October 2022 Significant Revisions/Responsible Financing Practices (cont.):

- **Mortgage Protections:** Several commenters suggested that although CDFIs are exempt from the Ability-to-Repay/Qualified Mortgage Rule (ATR/QM Rule) established by the CFPB, product protections consistent with the ATR/QM rule should be required for any CDFI engaged in mortgage lending. These include: (a) no negative amortization, interest-only payments, or balloon payments; (b) adjustable rate mortgages underwritten at the maximum rate in the first five years; (c) original maximum term of 30 years; and (d) total points and fees generally not exceeding three percent of the loan amount. The CDFI Fund agreed with these comments and the revision to the proposed CDFI Certification Application includes a question determining whether an Applicant's mortgage loans include these protections, as well as whether the Applicant verifies the borrower's income. A CDFI Certification Application would be rejected for failing to meet these standards.
- **Responsible Financial Services:** The revision to the proposed CDFI Certification Application includes a modification to questions evaluating responsible Financial Services. Instead of requiring depository institution Applicants to offer accounts that include specific features, or placing an explicit limit on the number and frequency of overdraft fees that can be charged, the CDFI Certification Application would ask these types of Applicants to select from a list of safe account and overdraft program features that they offer. Any Applicant offering products that lack reasonable protections or that charge excessive fees, inconsistent with regulatory guidance or a community development mission, may be determined ineligible for CDFI Certification.

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 entities and regulated entities that do not have federal insurance must demonstrate they engage in direct financing activities 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



May 2020 Proposed Changes:

- Required a minimum of 12 months of Financial Product or Financial Services activity prior to the submission of a CDFI Certification Application.
- Allowed entities, spun off from existing entities, that have an eligible Financial Product or Financial Services track record to apply for CDFI Certification earlier 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.
- Allowed 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.

October 2022 Significant Revisions:

- No substantive revisions are made to the Financing Entity section of the proposed CDFI Certification Application beyond those that were released in May 2020.

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 Applicant 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



May 2020 Proposed Changes:

- Geographic boundaries and mapping requirements eliminated for most Target Markets.
- Continued to allow applicants to create a Customized Investment Area (CIA) that consists of both qualified and non-qualified census tracts, per current regulations, but required at least 85% of an Applicant's CIA financing activity be directed within the individually qualified census tracts of that CIA for activity in non-qualifying tracts to count toward the 60% Target Market benchmark.
- Operationalized the use of Financial Services to meet the Target Market requirements; a regulated institution Applicant would be able to 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).
- Added persons with disability as a pre-qualified Other Targeted Population.
- Financial Products and, if elected, Financial Services activity would be measured for new CDFI Certification Applicants over the most recently completed 12-month period.
 - For existing CDFI Certification Applicants, Target Market compliance would 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: Target Market



October 2022 Significant Revisions:

- **Target Market Assessment Methodologies:** The CDFI Fund will solicit input regarding a proposed list of pre-approved methodologies to allow organizations applying for Certification (or for a Target Market Modification Application) to demonstrate they are serving their identified Target Market(s).
- **Target Market Financing Activity Period:** The revised Certification Application will now measure an Applicant's Target Market financing activity over the most recently completed fiscal year only, eliminating the requirement that Applicant also provide data on its year-to-date activity.
- **Financial Services Test:** Commenters were supportive of the CDFI Fund's proposal to operationalize the use of Financial Services to meet the Target Market test, but disagreed with the proposed metrics. The CDFI Fund agreed broadly with many of the commenter recommendations and included the following changes to the Financial Services option:
 - Leaving the bar for Applicants to be eligible for this option at 50% of the dollar volume of Financial Products, but raising the bar for the number of Financial Products to 60%;
 - Counting unique depository account holders, not total accounts; and
 - Counting all account holders as of the end of the most recently completed fiscal year, not just those that opened an account in the last year.

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.
 - Credit unions that could demonstrate that at least 50% of their members were of a Target Market component could be deemed accountable to that Target Market.

CDFI Certification Application Changes: Accountability



May 2020 Proposed Changes:

- Removed the geographic connection from the source of board member accountability to conform with the removal of the geographic boundaries for most Target Markets.
- Set 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: Accountability



October 2022 Significant Revisions:

- **Advisory Board Options:** In recognition of comments received highlighting the unique challenges and limits on governing board flexibility for regulated entities, the revisions to the proposed CDFI Certification Applications creates two new advisory board-only options for banks and credit unions to meet the Accountability test for CDFI Certification.

Depository Institution Holding Companies & Insured Depository Institutions

- At least one advisory board member is accountable to each proposed Target Market;
- At least 80% of the advisory board is accountable to the overall proposed Target Market(s);
- At least one governing board member has a seat on the advisory board; and
- The applicant has adopted an organizational accountability policy.

Credit Unions (Replaces current special accountability provision for credit unions)

- At least 33% of a credit union's members are determined to be members of an individual Target Market, using a CDFI Fund-approved Target Market assessment methodology;
- At least one Advisory Board member is accountable to each proposed Target Market;
- At least 60% of the Advisory Board is accountable to the overall proposed Target Market(s);
- At least one governing board member has a seat on the Advisory Board; and
- The applicant has adopted an organizational accountability policy.

CDFI Certification Application Changes: Accountability



October 2022 Significant Revisions (Advisory Board Options Cont.):

- **Organizational Accountability Policy:** Applicants that rely on an advisory board to maintain accountability must maintain an organizational accountability policy that includes descriptions of:
 - The role of the advisory board, including methods by which the advisory board has the opportunity to provide advice to the governing board and other decision-makers (e.g. regular meetings, written feedback on strategic decisions, etc.).
 - How the Applicant informs itself about the Target Market(s) (e.g. gathers data, engages in outreach to community members, etc.).
- **Board Membership as a Means of Accountability:** Revisions to the proposed CDFI Certification Application eliminate the existing option of utilizing an Applicant's board member's participation on the governing or advisory board of an unconnected organization as a means of demonstrating accountability to a Target Market.
 - For Applicants seeking to serve a Target Market of OTP-Persons with Disability, family members of a person with disability may serve as an accountable board member.

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 the regulations 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.

March 2020 Proposed Changes:

- No substantive policy changes were proposed to the Development Services section of the CDFI Certification Application.

October 2022 Revisions:

- No substantive policy changes were proposed. However, per regulation, the CDFI Fund has clarified that Development Services offered in connection with Financial Services cannot be considered in a 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.

May 2020 Proposed Changes:

- No substantive policy changes were proposed to the Non-Governmental Entity section of the CDFI Certification Application.

October 2022 Revisions:

- No revisions are made to the Non-Governmental Entity section of the proposed CDFI Certification Application.

CDFI Certification Application Changes: Native CDFI Designation



CDFI Certification Requirement:

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

Existing Policy:

- A Native 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 CDFI Designation



March 2020 Proposed Changes:

- The Native CDFI designation would 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 full fiscal year.

CDFI Certification Application Changes: Native CDFI Designation



October 2022 Significant Revisions:

- **Advisory Board Options:** The revisions to the proposed CDFI Certification Applications creates advisory board-only options for Native CDFIs that mirror those newly added to the Accountability section (see slides 40-41).

Presentation Roadmap



About the CDFI Fund and Community Development Financial Institutions

CDFI Certification and the CDFI Fund's Review of Certification Policy

The CDFI Certification Application-in-Brief

Changes to the CDFI Certification Application: Section-by-Section

Request for Public Comment on CDFI Certification Application Changes

Request for Public Comment



- This information is being provided in advance of OMB's publication of a Request for Public Comment on the proposed CDFI Certification Application. Comments will be due to OMB 30 days from the date of publication in the Federal Register.
 - Once published, view the Request for Public Comment in the Federal Register. For additional information related to proposed changes to the CDFI Certification Application, visit the CDFI Fund website at <https://www.cdfifund.gov/programs-training/certification/cdfi/certification-pra>.
 - Follow the instructions in the coming Federal Register notice to submit comments to OMB. Do NOT submit comments to the CDFI Fund.
- For questions about the proposed CDFI Certification Application or the accompanying revisions, contact the CDFI Fund's Office of Certification Policy and Evaluation via email at ccme@cdfi.treas.gov or AMIS Service Request.