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# CDFI CERTIFICATION APPLICATION

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## Frequently Asked Questions

DECEMBER 5, 2022

CDFI FUND  
U.S. DEPARTMENT OF THE TREASURY

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## Introduction

On November 4, 2022, the Office of Management and Budget (OMB) published in the Federal Register the CDFI Fund's updated CDFI Certification Application for a final round of public comment. This Frequently Asked Questions (FAQs) document addresses questions for clarification received by the CDFI Fund in connection with revisions to the final Application.

Additional clarifying questions, related to the CDFI Certification Application only, can be submitted to [cert-review@cdfi.treas.gov](mailto:cert-review@cdfi.treas.gov). Please note, official comments on the CDFI Certification Application MUST be submitted to OMB in accordance with directions in the official Request for Comments published in the Federal Register. The CDFI Fund is unable to accept official comments.

### 1) How will the three-year average be implemented for Target Market compliance?

CDFI Applicants that submit the new CDFI Certification Application must meet the applicable Target Market percentage benchmarks over their most recently completed fiscal year prior to submission of the Application.

In order to maintain their CDFI Certification status, Certified CDFIs must demonstrate compliance with the Target Market percentage benchmarks each fiscal year. A Certified CDFI that fails to meet the Target Market benchmark over its most recently completed fiscal year may maintain its Certification by demonstrating that it met the benchmark over a three-year period through the last day of its most recently completed fiscal year. Target Market activity will be confirmed via the submission of transaction level data, annually.

To determine whether a CDFI has met the Target Market benchmark over a three-year period, AMIS will calculate the cumulative percentage of Target Market activity over its three most recently completed fiscal years using submitted TLR data. The basic calculation is as follows:

$$\frac{[\text{Originations to TMT1} + \text{Originations to TMT2} + \text{Originations to TMT3}]}{[\text{Total Originationst1} + \text{Total Originationst2} + \text{Total Originationst3}]}$$

Certified CDFIs that fail to meet the annual Target Market benchmark and have less than three years of CDFI Certification or reported data in the TLR will have the option to be evaluated based upon the full history of their reported financing activity, up to three full fiscal years, but not earlier than one full fiscal year prior to the submission of their Application.

No additional cure periods will be granted for a reporting entity that fails to demonstrate sufficient Target Market activity, either in its most recently completed fiscal year or over the most recent three-year period.

### 2) To qualify as a spinoff-entity, must an Affiliate have transferred at least one product to the Applicant, or can the Applicant just offer at least one of the same products as the Affiliate?

The purpose of this provision is primarily to provide an accelerated path to CDFI Certification for Applicants that have been spun off from entities that have offered Financial Products for at least a full fiscal year, but that were unable to meet the Financing Entity test because the production of Financial Products and/or Financial Services

is not their predominant activity. In order to qualify for CDFI Certification as a spinoff entity, the Affiliate must have transferred at least one Financial Product to the Applicant CDFI and the Applicant CDFI must have continued to offer that product.

### 3) What are the requirements for demonstrating an Applicant has an acceptable strategic plan?

An Applicant's strategic plan must be board-approved (or, for institutions without a board of directors, owner-approved) and show evidence of a community development strategy. In addition, Applicants are asked to supplement the submission of a strategic plan with a description of the Applicant's theory of change, that is, the community development outcomes that the Applicant believes will result from the provision of its Financial Products and Financial Services, and how those Financial Products and Financial Services lead to those outcomes.

The purpose of the strategic plan requirement is to measure, through more than a simple narrative, the extent to which 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. Governing board approval of the strategic plan is required to provide greater evidence that the impact of the Applicant's activities towards achieving these ends has been duly considered and is intentional.

### 4) What should be included in an Applicant's community development strategy to support its mission of community development?

The Applicant must be able to demonstrate that it has an acceptable community development strategy such that the Financial Products and/or Financial Services it offers support a community development objective(s) for underserved populations and/or residents of economically distressed communities.

For example, as evidence of a community development strategy, the Applicant's strategic plan could include references to one or more of the terms (or related terms) listed in questions PM09 and PM10 and/or how the Applicant intends to meet any community development goals and objectives it has identified. Similarly, the Applicant's strategic plan could include discussion of the organization's Target Market and how the Applicant's Financial Products and/or Financial services are expected to improve the social and/or economic conditions of that Target Market. While an Applicant's strategic plan should contain some evidence of a community development strategy, to the extent that it is not explicit, Applicants have the opportunity to supplement the strategic plan with a description of the Applicant's theory of change.

Affiliates are not 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.

### 5) Will Native CDFIs be required to meet the standards of the Military Lending Act and the Truth in Lending Act when pricing their loans?

All CDFIs, regardless of institution type, must determine whether any of their consumer loans exceed an annual percentage rate (APR) of 36% as calculated using the methodology prescribed by the Military Lending Act (MLA), or whether any of their small business loans exceed an APR of 36% as calculated using the methodology

prescribed by the Truth in Lending Act (TILA). An Applicant that offers loans that exceed these rates is not automatically disqualified from CDFI Certification, but must respond to a set of secondary questions and demonstrate that its high cost loans meet each of the identified safety and consumer protection standards.

The CDFI Fund does not require Applicants to disclose the Military APR (MAPR) of a loan to its consumer borrowers or to apply other MLA disclosure requirements, except to the extent that an Applicant is already required to do so for MLA covered borrowers.

6) In question PM16, are “mortgage loan products” defined as only those pertaining to individual residential mortgages, or does it include commercial mortgages and housing development projects?

PM16 applies only to residential first mortgages.

7) Does question PM16 apply to forgivable down payment assistance loan products that include interest-only payments and a balloon payment only when/if the homeowner sells before a certain time period has passed, or home equity or other lines of credit?

PM16 applies only to residential first mortgages.

8) Will CDFIs be allowed to offer patient capital products (repayments based on royalties or a percentage of monthly sales revenue, straight-up equity products, and products with a combination of debt and equity characteristics) that could produce returns that potentially exceed 36% in one or more years?

Limitations on rates offered on an Applicant’s Financial Products (as identified in questions PM13 and PM14) apply to the Applicant’s consumer and small business loan (i.e., debt) products only, and not an Applicant’s equity products. An Applicant that offers consumer or small business loans that exceed an APR of 36% (as determined using the appropriate methodology) is not automatically disqualified from CDFI Certification, but must respond to a set of secondary questions and demonstrate that its high cost debt products meet each of the identified safety and consumer protection standards.

If an Applicant is uncertain whether a Financial Product should be recognized as debt or equity for the purposes of questions PM13 or PM14, it should consult with the CDFI Fund.

9) Can an interest-only payment count as a payment towards a forgivable loan if it is made within 12 months of the loan closing date?

Yes, for the purposes of determining whether a forgivable loan is an eligible Financial Product, an interest-only payment on a forgivable loan counts as a payment if it is made within 12 months of the loan closing date.

## 10) For Native Other Targeted Populations (OTPs), are members of a Native Community eligible for inclusion if they reside outside of the identified Native Community geographies?

The CDFI Fund currently recognizes the following Native Community populations as eligible OTPs: Native Americans/American Indians with maintained tribal affiliation or community attachment; Native Alaskans residing in Alaska with maintained tribal affiliation or community attachment; and Native Hawaiians residing in Hawaii. Where noted (i.e., Native Alaskan and Native Hawaiian), members of the Native Community population must reside within the geographies identified to be eligible as a member of the OTP Target Market.

## 11) What constitutes “formal” in the new definition of Development Services?

Neither the CDFI Fund’s definition of Development Services, nor the list of eligible Development Services activities has changed from the current CDFI Certification Application. Development Services continues to be defined, by regulation, as “activities undertaken by a CDFI, its Affiliate or contractor that promote community development and shall prepare or assist current or potential borrowers or investees to use the CDFI's Financial Products.”

Consistent with current policy, a CDFI must offer at least one formal structured Development Service in conjunction with at least one Financial Product. A formal and structured Development Services is offered on a regularly scheduled basis, has a defined start and end time, may have a defined curriculum or set of goals and objectives and the borrower growth of knowledge may be measureable. A series of one-on-one, goal-oriented conversations with consumers that have measureable outcomes, may count as Development Services.

Activities recognized as eligible Development Services under current policy may continue to be recognized as eligible under the revised Application, if it conforms to the clarifications made. Similarly, activities that were ineligible for the purposes of measuring an Applicant’s Development Services will remain ineligible.

## 12) Would a small business training for high school-aged youth that teaches financial literacy and entrepreneurship qualify as a Development Service?

The CDFI Fund will not consider financial education that is not directed to a potential borrower or recipient of a Financial Product to be a Development Service. Consistent with current policy, in order to consider Development Services provided to youth, the CDFI must demonstrate that it offers a Financial Product directed towards that population. Small business training for high school-aged youth that teaches financial literacy, entrepreneurship or other relevant information may qualify as a Development Service if the trainings are structured, as described in question #10, and is related to at least one Financial Product that the Applicant offers to that population.

13) How is the CDFI Fund’s financial interest policy restrictions for the purposes of demonstrating accountability to a Target Market different from an Applicant’s own financial conflict of interest policies?

The CDFI Fund recognizes that Applicants may have their own conflict of interest policies to limit situations in which a board member is in a position to derive personal benefit, from interests outside of the Applicant organization, as a result of decisions made in their official capacity with the Applicant organization. The CDFI Fund’s financial interest policy, on the other hand, is intended to ensure that board members accountable to a Target Market do not have a financial interest in the Applicant organization that might conflict with the interests of the Target Market.

14) For purposes of the collective review, please clarify which affiliates must demonstrate accountability. The Application identifies “Affiliates,” “relevant Affiliates,” and “Affiliates subject to review.”

Applicants subject to the CDFI Certification collective review process include depository institution holding companies (DIHCs), Affiliates of DIHCs, and Subsidiaries of insured depository institutions (IDIs). Under the collective review, relevant Affiliates (also referred to as Affiliates subject to review) must meet the Primary Mission requirements; will be included in the aggregate Target Market benchmark test; and must demonstrate Accountability to the Applicant’s CDFI Certification Target Market.

Affiliates relevant to the collective review are as follows:

- If the Applicant is a DIHC – any Affiliate of the Applicant that is a DIHC or that engages in the direct provision of Financial Products and/or provides checking/savings accounts is relevant to the CDFI Certification collective review process.
- If the Applicant is the Affiliate of a DIHC – any DIHC Affiliated with the Applicant and any Affiliate of a DIHC Affiliated with the Applicant, if that Affiliate engages in the direct provision of Financial Products and/or provides checking/savings accounts, is relevant to the CDFI Certification collective review process.
- If the Applicant is the Subsidiary of an IDI – any IDI that Controls the Applicant and any Subsidiary of any IDI that Controls the Applicant, if that Subsidiary engages in the direct provision of Financial Products and/or provides checking/savings accounts, is relevant to the CDFI Certification collective review process.