



PROPOSED CDFI CERTIFICATION APPLICATION

REQUEST FOR PUBLIC COMMENT

REVISION QUICK REFERENCE

COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTIONS FUND
U.S. DEPARTMENT OF THE TREASURY

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INTRODUCTION

A Certified Community Development Financial Institution (CDFI) is a community-based organization that expands economic opportunity in distressed communities by providing financial products and services to individuals and businesses often underserved by traditional financial institutions.

Certified CDFIs provide a range of financial products and services in economically distressed markets. They 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.

CDFI Certification is a designation conferred by the Treasury Department's Community Development Financial Institutions Fund (CDFI Fund) and is a requirement for accessing Financial Assistance awards through the CDFI Program and Native American CDFI Assistance Program (NACA Program), bond guarantees through the CDFI Bond Guarantee Program (BG Program), as well as access to grants through the Capital Magnet Fund (CMF) and certain benefits under the Bank Enterprise Awards Program (BEA Program).

Organizations seeking to become a Certified CDFI, 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 as established in the CDFI Fund authorizing statute, the Riegle Community Development Banking and Financial Institutions Act of 1994 (P.L. 103-325, 12 U.S.C. 4701 et seq.), and further described the Interim Regulations (12 C.F.R. 1805.201):

- 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).

Since 1997, the number of Certified CDFIs has grown from 196 to over 1,100 in numbers today, with roughly \$160 billion in total assets and headquarters in all 50 states, the District of Columbia, Guam and Puerto Rico. The significance of CDFI Certification has increased over the years as CDFI status has come to serve as a qualifier for other Federal and state government, and private sector programs and benefits. In addition, CDFIs are taking advantage of new technology to expand the reach of their Financial Products and Financial Services and increase their impact.

The CDFI Fund undertook a review process in 2016 to ensure Certification policies were responsive to the evolving nature of CDFIs and to sufficiently protect government resources. To assist 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. The CDFI Fund has issued a Notice of Information Collection and Request for Public Comment to a modification of its CDFI Certification policies and procedures as reflected in a revised CDFI Certification Application. The following generally describes proposed revisions to each section of the CDFI Certification Application. Additional information on proposed changes and instructions for the submission of comments can be found on the CDFI Fund website at <https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/CertificationPRA.aspx>.

For reference, instructions and other guidance material regarding the existing CDFI Certification Application process is available on the CDFI Fund’s website at www.cdfifund.gov/cdficert under “[Step 1: Apply.](#)”

CDFI CERTIFICATION APPLICATION PROPOSED CHANGES

Section I—Basic Information

Description of Current Practice

The Basic Information (BI) section of the CDFI Certification Application currently collects general information about an Applicant (and for a regulated financial institution, its Affiliates) that must be provided for the CDFI Fund to evaluate an Applicant's adherence to CDFI Certification requirements. The BI section contains information about the organization applying for CDFI Certification, such as organizational contacts, fiscal year-end timeframe, Financing Entity type, as well as Affiliate information. Much of this information is auto-populated based on data from the Applicant's AMIS account.

Each CDFI Certification Applicant must possess a valid Employer Identification Number (EIN) and be a legal entity at the time it submits an Application for CDFI Certification. Failure to include this information will prevent a substantive review and result in the rejection of the Application. In addition, an EIN and a Dun & Bradstreet Data Universal Numbering System Number (DUNS Number) are required to establish an account in the CDFI Fund's Awards Management Information System (AMIS).

Proposed Changes

Similar to regulated financial institutions that apply for CDFI Certification, the CDFI Fund is now proposing to require that non-regulated entities also include Affiliate information in the BI section. There are no other substantive revisions or changes to the BI section of the CDFI Certification Application.

Section II—Legal Entity

Description of Current Practice

To be a Certified CDFI, an organization must be a legal entity as of the date the Certification Application is submitted to the CDFI Fund for review.

This section of the Certification Application is used to verify that the organization applying for Certification is duly organized and validly exists under the laws of the jurisdiction in which it is formed.

Most of the data in the Legal Entity section of the CDFI Certification Application is auto-populated from data previously entered by the Applicant on the Organizational Detail page in AMIS.

Where requested, Applicants must provide documentation and other supporting information related to their legal status or operating authority.

Proposed Changes

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

Section III—Primary Mission

Description of Current Practice

A Certified CDFI must have a primary mission of promoting community development. In evaluating if an Applicant for CDFI Certification meets this threshold, the CDFI Fund takes into consideration the degree to which an Applicant's activities are purposefully directed toward improving the social and/or economic conditions of underserved people and/or residents of economically distressed communities.

Applicants currently demonstrate that their organization has a primary mission of community development by providing incorporating documents or a board of directors-approved narrative statement that clearly indicate that the organization has a community development mission.

If the Applicant is a:

- Depository Institution Holding Company (DIHC), or the Affiliate or a Subsidiary of a DIHC, then relevant Subsidiary/Affiliate organizations must also have a documented community development mission.
- A Credit union that has received a low-income designation from the National Credit Union Administration (NCUA) is deemed to have fulfilled the Primary Mission criteria.

Proposed Changes

The CDFI Fund is enhancing the tests it utilizes to verify an Applicant's status as a community development-focused organization by examining the extent to which the Applicant's Financial Products and Services align with its community development mission. To accomplish this, the CDFI Fund will now require Applicants for CDFI Certification to attest to and provide additional information to determine their adherence to certain community development mission-driven principles, including:

- **Documenting a community development mission:** an Applicant must demonstrate it has had an acceptable community development mission in place for at least 12 months prior to applying for CDFI Certification.
- **Alignment with community development strategy:** an Applicant must demonstrate that its community development strategy is supported by the Financial Products and Financial Services it provides to distressed and underserved communities and/or populations.
- **Responsible financing practices:** an Applicant must show that its Financial Products and Financial Services do not harm consumers by demonstrating they are affordable and based on a borrower's ability to repay. Applicants also should practice transparency, fair collections, and compliance with federal, state and local laws and regulations.
- **Affiliates:** Parent entities of all Applicants for CDFI Certification, as well as any of their Affiliates that provide Financial Products or Financial Services must provide evidence of a primary mission of community development, except if the parent or Affiliate is a tribal government (enhancing an existing rule currently applied solely to DIHCs, Affiliates of DIHCs and Subsidiaries of insured depository institutions).

Section IV—Financing Entity

Description of Current Practice

A Certified CDFI must be an entity whose predominant activity is the provision, in arms-length transactions, of Financial Products and/or Financial Services.

Currently, regulated financial institutions, including Insured Depository Institutions, Depository Institutions Holding Companies, and Credit Unions, with federal insurance are deemed to automatically meet the financing entity criterion.

Non-regulated institutions, or regulated entities that do not have federal insurance, must demonstrate that they engage in direct financing activity, and show evidence of this activity in their financial statements and in executed notes. In addition, non-regulated entities must demonstrate that a predominant amount of their assets are dedicated to the provision of Financial Products and/or Financial Services.

Proposed Changes

An Applicant for CDFI Certification will now be required to demonstrate a minimum of 12 months of Financial Products and/or Financial Services activity at the time of the submission of its Certification Application.

Additional revisions to the Certification Application will allow:

- Entities that are spun off from other entities that have an eligible Financial Product or Financial Services track record to apply for Certification less than 12 months after launching their own Financial Product or Financial Services activity, provided eligible Financial Product transactions were transferred to, and will continue under, the new entity.
- Assets related, and staff time devoted, to loans purchased from entities that are not Certified CDFIs but were directed to an Applicant's Target Market, can be counted as assets and staff time devoted to financing.

Section V—Target Market

Description of Current Practice

To become a Certified CDFI, an Applicant must serve at least one eligible Target Market. Target Market(s) may be:

- Investment Areas: geographic units that meet at least one economic distress criteria, based on poverty, income, unemployment or population decline.
- Low-Income Targeted Populations: individuals with a 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 or Financial Services.

Applicants must currently submit Target Market maps for each of their individual Target Market components. CDFIs must then direct at least 60% of their Financial Product activity (in both number and dollar amount of transactions) to at least one Target Market type. If an Applicant fails to meet the 60% threshold, an exception may be provided based on a justification that is satisfactory to the CDFI Fund.

Per regulation, Applicants may utilize Financial Services to meet the Target Market requirements. However, this allowance was not operationalized as the CDFI Fund has not had a mechanism to measure Financial Services in connection with the 60% Target Market activity requirement.

Proposed Changes

Eligible Target Market activity will no longer be limited to specific maps or strict geographic boundaries. Targeted Populations that are not already approved by the CDFI Fund must be submitted for approval prior to being proposed in a CDFI Certification Application. The CDFI Fund will continue to require mapping for Applicants that submit customized Investment Areas that consist of both qualified and non-qualified census tracts, per existing regulation (12 CFR § 1805.201(a)(3)(ii)).

An Applicant that is a regulated institution also can now meet the Target Market test if at least 60% of its Financial Services depository accounts and at least 50% of its Financial Products are directed to a Target Market(s).

For new CDFI Certification Applicants, Financial Products and Financial Services activity will be measured for the most recently completed 12-month period. For existing Certified CDFIs, Target Market compliance will be assessed based on a three-year average of Financial Products closed and, if elected by regulated entities, Financial Services depository accounts provided through the last day of their most recently completed fiscal year.

Finally, Applicants for CDFI Certification must meet the relevant Financial Product activity percentage threshold, without exception, in both the number and dollar amount of such activity—the CDFI Fund will discontinue its current practice of providing exceptions to the Target Market threshold requirement.

Section VI—Accountability

Description of Current Practice

A Certified CDFI must maintain accountability to its Target Market—the residents of an Investment Area(s) or members of a Targeted Population(s)—through representation on its governing board or advisory board.

Currently, governing and advisory board members must represent both the Target Market(s) and the related geography(ies). The options for how board members may be representative of Target Markets are as follows:

Table 1: Target Market Representation for Board Members

For Investment Areas Board members may be:	For Low Income Targeted Populations Board Members may be:	For Other Targeted Populations Board members may be:
Residents of the Investment Area, residing in a qualified census tract.	Low-Income individuals who live or work in the geography served.	Members of the Other Targeted Population who live or work in the geography served: African American; Alaskan Native living in Alaska; Hispanic; Native Hawaiian living in Hawaii; or Other (as described in Target Market Criteria section of the Application Guidance)
Business owners located in qualified census tract in the Investment Area. (Business should employ residents of the Investment Area and/or provide goods and/or services to the Investment Area.)	Individuals who work for (as employee or board member) an organization that <u>primarily</u> provides services to <u>Low-Income</u> people in the geography served.	
Elected officials for the Investment Area.		
Individuals who work for (as employee or board member) an organization that primarily provides services to <u>residents</u> of the Investment Area.		

Proposed Changes

The revised CDFI Certification Application does not require there to be a geographic connection in order to satisfy board member accountability requirements. This is to conform with elimination of the requirement to identify geographic boundaries for most Target Markets.

Organizations that have 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.

Organizations without a formally established governing board must demonstrate that at least:

- one advisory board member is accountable to each proposed Target Market component;
- 80% of the advisory board members are accountable to the proposed Target Market overall; and
- one partner/owner/manager has a seat on the advisory board.

Section VII—Development Services

Description of Current Practice

To be Certified as a CDFI, an organization must have a track record of providing—directly or through an Affiliate or a contract with another provider—Development Services in conjunction with its Financial Products or Financial Services.

Development Services are activities that are undertaken by a CDFI, an Affiliate or Subsidiary that promote community development and prepare or assist current or potential borrowers to access a CDFI’s Financial Products or Financial Services. These activities may include financial or credit counseling, homeownership counseling, and business planning.

Proposed Changes

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

Section VIII—Non-Government Entity

Description of Current Practice

A CDFI cannot be an agency or instrumentality of the United States, or any State or political subdivision thereof. An entity that is created by, or that receives substantial assistance from, one or more government entities may be a CDFI provided it is not controlled by such entities and maintains independent decision-making power over its activities. In the existing Application for CDFI Certification, Applicants must answer a series of questions that are used to identify any issues or circumstances that may impinge on an organization’s ability to meet this requirement.

Proposed Changes

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

Section IX—Native CDFI Designation

Description of Current Practice

Currently, the CDFI Fund allows entities that primarily serve Native Communities to self-designate as Native CDFIs. The CDFI Fund defines:

- “Primarily serves” as 50% or more of an Applicant’s activity; and
- “Native Community” as Native American, Alaska Native, or Native Hawaiian.

Proposed Changes

In general, the Native CDFI designation will conform to the revised CDFI Certification Application. Applicants proposing Native designation will be required to 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 that 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.

HOW TO SUBMIT COMMENTS

The complete Notice of Information Collection and Request for Public Comment, CDFI Certification Application (for public comment), as well as additional information can be viewed on the CDFI Fund website at <https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/CertificationPRA.aspx>.

Written comments to this Notice must be received within 90 days of publication in the Federal Register. Please refer to the Federal Register notice for the specific deadline. Comments must be submitted via email to Tanya McInnis, Program Manager, Certification, Compliance Monitoring and Evaluation, CDFI Fund at ccme@cdfi.treas.gov.

In addition, the CDFI Fund is also soliciting public comment, through a separate Request for Public Comment, on proposed changes to the Annual Certification and Data Collection Report (ACR) and a new Certification Transaction Level Report (CTLR).

Revisions to the ACR and introduction of the CTLR are being made to align with and conform to revisions proposed to the CDFI Certification Application. Proposed revisions to the ACR are anticipated to automate key elements of existing reporting and improve data quality. Introduction of the CTLR will provide the CDFI Fund critical data that is not currently collected on new CDFI Certification Applicants and on Certified CDFIs that are not Financial Assistance Recipients. Additional information can be found on the CDFI Fund website at <https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/CertificationPRA.aspx>.