

**COMMUNITY DEVELOPMENT ADVISORY BOARD**

Community Development Financial Institutions Fund  
United States Department of the Treasury

**Minutes**

**Date:** Monday, July 31, 2023

**Place:** Meeting conducted via video teleconference

**Presiding:** Marla Bilonick, Chair, Community Development Advisory Board; President and CEO, National Association for Latino Community Asset Builders

**Board Members in Attendance:**

Marla Bilonick, Chair, Community Development Advisory Board; President and CEO, National Association for Latino Community Asset Builders

Dave Glaser, Vice Chair, Community Development Advisory Board, President and CEO, MoFi

Patrice Kunesh, Founder and Director, Peñiñ Haha Consulting

Harold Pettigrew, CEO, Opportunity Finance Network (OFN)

Mia Pittman, Deputy Assistant Secretary for Risk Management and Regulatory Affairs, Federal Housing Administration, U.S. Department of Housing and Urban Development

Graham Steele, Assistant Secretary for Financial Institutions, U.S. Department of the Treasury

Michael Swack, Chair, CDFI Certification Subcommittee, Director of the Center for Impact Finance, Carsey School of Public Finance, University of New Hampshire

Darrin Williams, CEO, Southern Bank Corporation

**Also Present:**

Craig Buerstatte, Deputy Assistant Secretary for Regional Affairs, U.S. Economic Development Administration

William Bynum, Founding CEO, HOPE (Hope Enterprise Corporation, Hope Credit Union, and Hope Policy Institute), Jackson, MS

William Luecht, Designated Federal Official, Community Development Advisory Board, and Senior Advisor, Legislative and External Affairs, Community Development Financial Institutions Fund, U.S. Department of the Treasury

Marcia Sigal, Acting Director, Community Development Financial Institutions Fund, U.S. Department of the Treasury

### **Welcome and Overview of the Agenda, by Marla Bilonick**

At 1 p.m. Eastern Time (ET), Community Development Financial Institutions Fund (CDFI Fund) Chair of Advisory Board, Marla Bilonick, introduced herself and welcomed everyone to this virtual meeting of the CDFI Fund's Community Development Advisory Board (CDAB).

Board Chair Marla Bilonick extended a special welcome to the advisory board members.

Board Chair Bilonick welcomed the members of the public through the webcast and thanked them for their interest in the work of the CDFI Fund.

Board Chair Bilonick stated that this is a particularly important time for the Advisory Board to be engaged. The CDFI certification process is being revamped as the CDFI fund process is significant input that was collected through their request for information. The advisory board wanted to provide their feedback via this public meeting before the process is finalized.

Board Chair Bilonick stated that the CDFI industry has never been more relevant or more needed. The advisory board honors the fund's objectives of protecting the CDFI's brand; supporting the growth and reach of CDFIs; fostering a diversity of CDFI types, activities, and geographies; and minimizing the burden of CDFI while improving data collection and quality; and promoting efficiency for CDFI Fund staff in rendering a CDFI certification determination.

Board Chair Bilonick stated that the advisory board felt it was their duty to share feedback and input from individual board members to help ensure those objectives are met. The advisory board is statutorily mandated, and its purpose is to provide advice to the Director of the CDFI Fund on the activities of the CDFI Fund.

Board Chair Bilonick stated that one way the advisory board does that is through the formation of subcommittees, so they created a subcommittee focused on changes to CDFI certification.

Board Chair Bilonick stated that the attendees of the meeting will hear from Michael Swack who chaired the CDFI certification committee. Michael will provide a high-level overview of the work and propose recommendations from the subcommittee.

Board Chair Bilonick will lead a discussion among the Advisory Board members, particularly answering any questions non-subcommittee members may ask. After this deliberation, Board Chair Bilonick will call for a vote on adopting the subcommittee's recommendations. After that,

everyone will hear from CDFI Fund Acting Director, Marcia Sigal, regarding CDFI certification implementation.

Board Chair Bilonick stated that the members of the viewing public can find the agenda at <https://www.cdfifund.gov/advisory-board> under July 31st, 2023.

Board Chair Bilonick invited Vice Chair, Dave Glaser, to say a few words.

Board Vice Chair Glaser thanked Board Chair Bilonick and extended a welcome to everybody. Board Vice Chair Glaser stated that it has been empowering to work with representatives from all types of CDFIs, as well as Acting Director Sigal on CDFI certification improvements. Board Vice Chair Glaser extended his sincere thanks to all the members of the CDFI Certification Subcommittee for their diligent work over the last two months. Board Vice Chair Glaser stated that he and Board Chair Bilonick both appreciate the subcommittee's willingness to serve. Board Vice Chair Glaser stated that he would like to extend a special thanks to Michael Swack, who agreed to chair this subcommittee and drafted the recommendations after extensive input from all subcommittee members.

Board Vice Chair Glaser stated that the subcommittee members included himself, Marla Bilonick, Patrice Kunesh, Harold Pettigrew, Michael Swack, and Darren Williams. In addition, when the advisory board formed this subcommittee at the beginning of June, the advisory board wanted to ensure that all segments of the CDFI industry were represented, so they invited two past advisory board members to join the subcommittee, both respected in the field.

Board Vice Chair Glaser stated that the advisory board invited Mr. Bill Bynum, who is the founding CEO of Hope Credit Union, to represent credit unions, and Mr. Ray Moncrief, who is the Executive Vice President and COO of Kentucky Highlands Investment Corporation to represent venture funds. Board Vice Chair Glaser thanked everyone for their time and effort over the last two months.

Board Chair Bilonick thanked Board Vice Chair Glaser again and formally began the meeting with the roll call of the advisory board. Board Chair Bilonick stated that for the record, both Seema Agnani and Dennis Alvord are both traveling and unable to join the meeting for July 31<sup>st</sup>.

Board Chair Bilonick stated that this past May, Associate Administrator of Capital Access, Patrick Kelley, stepped down from his position at SBA. The advisory board is working with the SBA to get to identify a new representative.

### **CDFI Certification Subcommittee, by Michael Swack**

Board Member, Michael Swack stated that as Board Chair Glaser mentioned, the CDFI certification subcommittee was formed in June to give the members of the advisory board an opportunity to provide perspective on the proposed revisions to the CDFI certification application.

Board Member Swack stated that the subcommittee formulated their recommendations after the reviewing CDFI certification presentation that was provided at the CDAB February meeting and looked at other resources on the CDFI Fund's public web site, including the comments provided. The subcommittee also had a meeting in June to discuss and formalize proposed recommendations, and they reviewed three written statements submitted by the public in advance of the CDAB meeting.

Board Member Swack stated that based on the advisory board's individual experience and expertise of this committee and the reason the members were appointed to the advisory board, the advisory board strongly supports the CDFI Fund's goals of ensuring that CDFIs lend responsibly and serve low-income people and people of color equitably. Board Member Swack stated that everyone is in favor of taking a look at the certification and making appropriate changes.

Board Member Swack stated that the CDFI certification should foster a diversity of CDFI types, activities, geographies, and allow for innovation that supports the growth and reach of CDFIs. The CDFI Fund has a responsibility to keep certification standards high and to prevent untrustworthy and dishonest financial service providers in low-wealth communities from becoming certified CDFIs. Board Member Swack stated that the CDFI Fund is an important brand and should be retained.

Board Member Swack stated that the committee applauds the work of the CDFI fund in seeking to further define, improve and strengthen the certification guidelines in a changing financial environment.

Board Member Swack stated that the substantial agreement exists among the committee members and among most CDFIs regarding the proposed changes. Board Member Swack stated that his presentation today and the memo focuses on the key issues of the proposed certification changes that could negatively affect existing CDFIs or potential new CDFIs. It does not focus on the many recommendations in the proposed new certification. Board Member Swack stated the subcommittee is trying to point out where could there be potential problems.

Board Member Swack stated that he reflected on his experience over many decades in the field and stated that it is helpful to go back to the starting point when thinking of CDFI certification.

Board Member Swack stated that CDFIs were created because the populations it serves have been excluded from participating in financial markets. Often that exclusion occurred because borrowers didn't meet certain standardized underwriting criteria that define the field.

Board Member Swack stated that the word, standardization is viewed as negative when associated with CDFIs. Standardization allows more exclusions. CDFIs often innovate by developing nonstandard products. So, the committee cannot regulate those products away through certification.

Board Member Swack stated that standardization is not the goal for CDFI certification. The committee is really focused on in the proposed certification guidelines with the law of

unintended consequences, that is when a regulation could actually have the opposite of its intended effect.

Board Member Swack asked how can the CDFI certification allow flexibility for CDFIs? Board Member Swack stated the committee recommends giving CDFIs a chance to present why a nonstandard approach makes sense. There are certain certification rules that Board Member Swack will go over that would impede the ability of CDFIs to do the good work they're doing, even though that's not the intention. Board Member Swack will focus on a few of those.

Board Member Swack stated that the comments today, due to time limitations, are selective and does not include the full range of recommendations. These are a few representative examples of where unintended consequences or unintended side effects occur because of a certification standard that is being proposed.

Board Member Swack stated that one unintended consequence is the ability to repay requirements for mortgage lenders. While CDFIs are exempt from the ability to repay qualified mortgage (ATR QM) rule established by the Consumer Finance Protection Board, product protection consistent with the intent of the ATR QM rule should be required for any CDFI involved in mortgage lending. That is, CDFIs should be held to a standard where all loans are underwritten based on a borrower's ability to repay and mortgages should meet the QM standards. At the same time, as with any development finance lending, there will be exceptions.

Board Member Swack stated that he knows from boards he has served on and loan review committees that there are consistently exceptions particularly in instances where there's a clear community development purpose and no predatory intention is advanced.

Board Member Swack stated that rather than a bright line that automatically excludes CDFIs from certification, the fund allows CDFIs a narrative option to explain why these products have a legitimate community development purpose and how this entity is assuring the product is affordable.

Board Member Swack stated that for example, interest only or balloon mortgages, there are instances where there's a clear CDFI purpose. It is the only way to get a borrower into a product right away that could be refinanced later. Board Member Swack stated that again, this is just an example.

Board Member Swack stated that another example of unintended consequences, is income verification of indirect beneficiaries. The proposed certification application does not allow an applicant to include loans and investments that primarily benefit a targeted population indirectly especially for low-income targeted populations.

Board Member Swack stated that both the Riegle Act and the CDFI fund regulations are clear that a targeted population may be served directly via loans to members of targeted populations, but also indirectly by, for example, providing employment or services. Board Member Swack stated that he mentioned this because this omission may have repercussions for a variety of lenders, for example, small business lenders.

Board Member Swack stated that the assessment methodology listed in the certification application would require the CDFI to collect individual or household data from beneficiaries. However, it is not feasible to expect the CDFI financing a community facility to require the facility to collect tax returns or other forms of income verification.

Board Member Swack stated that another example of a compliance challenge is if a CDFI lends to a small business that is committed to employing low-income people but does not have the ability to require income verification from employees or to share that data with the CDFI. This would be burdensome. Similarly, a community facility that serves low-income people may rely on self-reporting to verify income of its users.

Board Member Swack stated that another example of income verification where flexibility would be necessary is in the resident-owned manufactured housing co-ops. Financial products delivered to manufactured housing co-ops include pre-development, community acquisition, infrastructure improvement loans. However, the borrowers aren't individual homeowners. Rather, the borrowers are not-for-profit corporations organized under state law.

Board Member Swack stated that while these businesses are not-for-profit corporations, they're not tax-exempt charitable corporations. They are not required to report to the federal government on annual charitable mission of serving low-income people. This is similar to the small business and community facilities recommendation that what the advisory board is recommending is to permit the low-income population, comprised of homeowners in land-leased, manufactured co-ops, for example, to be assessed for low-income status based on self-reported income surveys or by proxy measures of which there are many.

Board Member Swack stated that the third point he wants to make is about financing entity and what makes a strong financing entity. There have been issues raised about allowing staff time on development services to count towards the financing entity test. Changes to the financing entity test require entities applying for certification to dedicate a predominance of both assets and staff time to provision of financial products and or financial services.

Board Member Swack stated that assets and staff dedicated to development services would no longer count towards these tests. However, to become a certified CDFI, borrowers must provide these development services. This change ignores the reality of CDFI lending in which borrowers may require extensive coaching and technical assistance before they are ready to receive capital.

Board Member Swack stated that for example, CDFIs, in particular with native communities and small and rural CDFIs, have raised concerns with the advisory board about their ability to meet this financing entity test because a significant part of their financial success is the provision of credit building services. Board Member Swack stated that the committee recommends the fund maintain the most recent requirements that a majority of staff time must be dedicated to a combination of financing, activities, and development services.

Board Member Swack stated that the committee feels this may be the unintended consequences that may occur to focus solely on financing. Board Member Swack stated that the reality is for many CDFIs development services might be the most important benefit provided by the CDFI.

Board Member Swack stated that this leads to point number four, development services. The committee is asking that the CDFI Fund reconsider the narrow definition of development services. The committee feels like the updated definition is too narrow. Board Member Swack stated that while it is important for certified CDFIs to offer meaningful development services to their customers, there is no one size fits all. Board Member Swack stated that the CDFI Fund should let a CDFI make an argument about how it provides these services.

Board Member Swack stated that classroom-based training is not always feasible or accessible way to offer technical assistance. The CDFI Fund should build more flexibility into this requirement and allow for different models. The proposed certification application also states that online Technical Assistance (TA) is not allowed. The CDFI Fund should clarify if this applies to the use of online meetings via Zoom or other video conferencing platforms which are an adequate and often a very cost-effective substitute for in-person meetings for customers residing in remote locations. The committee feels that might be an unintended side effect of narrowing the definition.

Board Member Swack stated that for point number five is to look at accountability requirements, in particular, reconsider executive-level requirements for board accountability. Executive-level requirements for CDFI board service may be challenging for some CDFIs. In addition, some markets' non-executive-level staff, such as lending staff, could make valuable contributions to the board of certified CDFI.

Board Member Swack stated that the second point for number five is allowing service on other qualified boards to demonstrate accountability. The proposed application would 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.

Board Member Swack stated that the committee believes members of a board can offer specific expertise in areas like finance or real estate while demonstrating accountability through meaningful work with other organizations representing and serving low-income people and places. Board Member Swack stated that the committee feels that this guideline should be retained.

Board Member Swack stated that for point number six, the CDFI Fund should reassess financial conflict of interest policy for board service. The proposed certification application would prevent board members with certain types of financial interest in an organization from being considered accountable to any target market component as the financial interest may conflict with the board member's ability to represent the interest of the target market.

Board Member Swack stated that the potential for conflict of interest is valid, and the committee supports that. However, client representation on a CDFI board often provides invaluable insight

into the needs, challenges and opportunities of communities being served and embeds this perspective at the core of the CDFI's influence.

Board Member Swack stated that over the past years with any conflict of interest, if there is a specific conflict of interest for a board member, that board member would recuse themselves from that decision. Board Member Swack stated it seems like too much to say the CDFI Fund is going to exclude anyone who has any sort of financial interest in an organization, in this case having a loan from the organization from being excluded.

Board Member Swack stated that for example, in some rural markets, the local CDFI is the only affordable source of financing in the region. Board Member Swack asked if this mean the CDFI Fund would exclude a borrower from being on the board because they have a loan from the CDFI. Community members should not have to choose between accessing capital from their CDFI or providing valuable service to the board.

Board Member Swack stated there are a number of examples of community members that have to choose between accessing capital from their CDFI or providing valuable service to the board. Credit unions whose members are also elected to their board should not be from prohibited getting mortgages or small business loans. When looking at credit union boards, they are definition elected from their members who are getting financial services and products from the CDFI. Allowing the CDFI to explain why they would select a certain board member and why that would still address the accountability requirements without conflict of interest.

Board Member Swack stated that the seventh point is to be careful of the impact of conflicting regulations and policies. In particularly talking to the regulated financial institutions, the CDFI Fund mentioned issues around ensuring that demographic and household income data collection requirements that allow regulated financial institutions to comply with the Equal Credit Opportunity Act and avoid burdening people of color and low-income people with data collection requests that are not required at mainstream financial institutions.

Board Member Swack stated that in general, and there were a number of issues raised in the comments, the committee does not want the CDFI fund to have policies and procedures that are actually in conflict with the regulatory requirements that regulated financial institutions, CDFI banks and credit unions have.

Board Member Swack stated that the eighth point is that CDFI certification is a valued credential relied upon by public and private sector investors. The committee sees that frequently investors are asking, "Are they a CDFI? Are they certified as a CDFI?" Board member Swack stated that this is a good housekeeping seal of approval, and the committee wants it to stay that way.

Board Member Swack stated the Advisory Board commends the CDFI Fund for introducing reforms to CDFI certification applications that will strengthen accountability to customers and the communities that CDFIs serve. The key is striking a balance between offering flexibility and maintaining the integrity of the CDFI credential.

Board Member Swack stated that there are areas where there could be improvement or additional flexibility as responsible products might look differently based on market conditions on the ground.

Board Member Swack stated that the committee recommends that the CDFI Fund continue to provide flexibility for truly mission driven CDFIs, to develop and tailor financial products and services to best meet the needs of their communities.

Board Chair Bilonick invited people to ask questions or provide comments with any particular priority to those who did not serve on the subcommittee so that they can share any thoughts that were not captured in the memo and/or ask questions about the memo. Board Chair Bilonick invited anyone who is on the subcommittee who would like to underscore or add a comment as well.

Board Member Patrice Kunesh asked if she could start and Board Chair Bilonick agreed.

Board Member Kunesh stated that she is the CDFI representative for Native communities and would like to share a few thoughts about Native CDFIs.

Board Member Kunesh stated that Native CDFIs are very concerned about maintaining their ability to serve Native communities and be both responsive to those community needs and be innovative in serving their unique geographic and demographic challenges.

Board Member Kunesh stated that Native CDFIs are incredibly excellent sources of an array of financial services and without this ability there will be some dire consequences.

Board Member Kunesh stated that the lack of access to credit and financial services is a key barrier to economic development in Native communities and recent research has shown that establishing Native-focused community development financial institutions on or near the reservations can substantially improve individual credit outcomes and access to credit.

Board Member Kunesh stated that some of the most successful tools are financial education programming, credit counseling, and lending, and loan programs specifically designed to build or repair individual's credit which can look a little different.

Board Member Kunesh reiterated the need for capital in Indian Country and that the Native CDFIs are incredibly responsive to this need. The proposed changes could greatly impede Native CDFI services and these unintended consequences cascade could impede development services, financial services, and certainly community-based needs.

Board Member Kunesh thanked the committee members for the opportunity to share a few thoughts.

Board Chair Bilonick thanked Board Member Kunesh and invited others to comment.

Board Member Harold Pettigrew, President, and CEO for the Opportunity Finance Network stated he would like to make some comments and thanked Board Member Swack on his comments on the CDFI application. The CDFI Fund has been tasked with changes that have not been made over 25 years so this is a significant effort.

Board Member Pettigrew stated that he wants to applaud Interim CDFI Fund Director, Marcia Sigal, and the rest of the team on trying to strike a balance here, while ensuring the preservation and the integrity of the brand. Board Member Pettigrew stated that when an organization carries the brand of CDFI, that the most important parts of those letters are CD. This is the community development side of it, and organizations are committed in the performance of what they do in the community.

Board Member Pettigrew stated that he thinks there is a universal agreement in making sure that at least the essence of what's being put forward is the true desire to preserve the CDFI brand which we all rely on because it impacts us all collectively. Board Member Pettigrew stated that he wants to applaud the CDFI Fund and the members of the advisory board for advancing this perspective here.

Board Member Pettigrew stated that he wants to provide a couple of thoughts. There are a couple of other areas that he wanted to lift up through the OFM vantage point as well as having run a CDFI. Board Member Pettigrew stated that he thinks some of the points of flexibility is necessary to ensure the CDFIs on the ground have the tools that they need and the space that they need to meet where it may be within community.

Board Member Pettigrew stated that regarding development services, he thinks that whether CDFIs are focused on small business supports or housing supports, there is an important connection of development services with knowledge capital. When pairing knowledge capital and financial capital together, it becomes more catalytic.

Board Member Pettigrew stated that the ability of allowing development services to be applied or to be counted towards the financing entity test, he thinks is a critical point, even just aligning it with federal programs that are appropriate. When thinking of agencies like the Small Business Administration and its use of the microloan fund that is getting small business capital to the most needed parts of our country where the SBA provides technical assistance dollars and loan capital for organizations, for microlenders to deploy that within communities.

Board Member Pettigrew stated that the CDFI Fund is recognized that it is not just about money. It is also about equipping members within our communities with the knowledge capital that they need or deployment services so that they can be fully equipped to leverage capital in a way that's catalytic.

Board Member Pettigrew stated that the next area he will mention are grants. Over the last number of years, particularly since 2020 and the start of the pandemic, CDFIs have been called to duty to deploy billions of dollars' worth of grants and transactions that the advisory board needs to make sure that definitions of a financial product allow for the recognition of this activity over the last couple of years.

Board Member Pettigrew stated that when he says CDFIs, he is talking from banks to loan funds, credit unions, the full spectrum of organizations that were leveraged to get capital into communities to ensure that they could continue. Board Member Pettigrew stated that grants were a part of that. To eliminate that spectrum or that recognition, not only is the CDFI Fund not recognizing the efforts of the industry in its fullest representation since 2020, it also may have an unintended consequence as well for the opportunities that are to come. Specifically, with the EPA and the Greenhouse Gas Reduction Fund where we are talking about \$27 billion worth of grant dollars that in one shape or fashion will get down into communities.

Board Member Pettigrew stated that now, much of those grant dollars are proposed to be used to mobilize capital and broader ways not just grant dollars. The advisory board wants to make sure that organizations have the flexibility and the ability to leverage financial products in its fullest means to meet communities where they are. Board Member Pettigrew stated that he thinks the advisory board has learned over the last couple of years that grants are a part of that spectrum.

Board Member Pettigrew stated that from the points that Board Member Swack mentioned that summarizes the advisory board activities and perspective and the paper submitted by OFN as well captures, certainly some of the broader perspectives, he wants to applaud again the CDFI Fund as this is a difficult task.

Board Member Pettigrew stated that he knows as the committee talks through the changes to the certification process, he would also hope that the committee can create space for the CDFIs as well to talk through the pathway after the release of the certification changes. Board Member Pettigrew stated that this is to understand, not only some of the steps that the CDFI Fund will go through to work with CDFIs if there are concerns and challenges, but also what the environment will be like after working with the industry to ensure there are not unintended negative consequences.

Board Member Pettigrew thanked Board Chair Bilonick, Board Member Swack and the Advisory board for giving him time to speak.

Board Chair Bilonick invited others to speak on the CDFI changes.

Board Member Darrin Williams stated that he is the CEO of Southern Bancorp and among the first CDFIs to be certified back during the original certification. Board Member Williams stated that he would like to acknowledge and applaud the work of the CDFI Fund and for their efforts and the work they've done so far.

Board Member Williams stated that as one of the oldest and largest and rural CDFIs, Southern completely supports the recertification updates that are designed to protect the CDFI brand.

Board Member Williams stated that Southern Bancorp is a collection of three different CDFIs: a holding company, a bank, and a nonprofit loan fund. His group wants to continue to foster diversity of CDFI types, activities, and geographies which is also consistent with the policies outlined in the industry's recertification practice and just want to applaud their efforts there.

Board Member Williams stated that in addition to serving as CEO of Southern Bancorp, he serves as the chair of the board of the Community Development Bankers Association, trade association for CDFI Banks. He wants to acknowledge that the CDBA and the National Bankers Association, the leading trade association for MBI, have jointly submitted a comment letter last year about these proposed certification changes. Board Member Williams stated that he would like to incorporate those recommendations and offer a few points to what has already been offered.

Board Member Williams stated that first, as one of the largest rural CDFIs, he wants to highlight of the things regarding the impact of proposed changes on rural communities.

Board Member Williams stated that 70% percent of the branches Southern Bancorp serve, that is about 56 locations, are in rural communities. In nine of those markets, Southern Bancorp is the only bank in town. 55% percent of Southern Bancorp branches are located in persistent poverty counties (20% or more of the population has lived at or below the poverty level for 30 years). More than 40% of their locations are predominantly African American census tracts. More than 40% of their locations are in counties with less than 25,000 people.

Board Member Williams stated that Southern Bancorp understands and knows how to make loans to rural communities. Board Member Williams stated that it is important because often, in those markets, they are not competing with another CDFI or a community bank. They are often competing with a payday lender.

Board Member Williams stated that, in the state of Mississippi, there are more storefront payday lenders than are McDonald's, Burger King, Starbucks combined. Board Member Williams stated that in those markets, last year, for example, Southern Bancorp originated about \$800 million in loans, over 8,000 loans. 54 % of those loans were for less than \$10,000. More than a quarter of those, less than \$1,000. Board Member Williams stated that Southern Bancorp understands how to make loans that are responsive to the communities' needs including small dollar loans.

Board Member Williams stated that he encourages that the CDFI Fund to be careful about blanket prohibitions that have impacts on rural communities in ways that may not have in more urban markets. Board Member Williams stated that one example is the mortgage prohibition against balloon payments. A prohibition would have prevented Ms. Vernetha Jackson, who is a 63-year-old school employee who lives in Mississippi and became a first-time home buyer because the Southern Bancorp were able to provide her a loan through our non-profit loan fund that carried a balloon payment.

Board Member Williams stated that the only way Southern Bancorp could get Ms. Vernetha Jackson into a home was with a loan that carried a balloon payment and one that it carries on its books through the life of the mortgage. Because of the lack of appraisals in rural communities there is no ability to offer customers a secondary market loan with a fixed rate for 30 or more years. Given the problem with appraisals in rural communities, CDFIs like Southern, who can't take the interest rate risks of a 30-year loan, offer their customers shorter term loans with balloon payments, that they routinely finance at the end of the term at reasonable rates to the borrower.

Board Member Williams stated that the proposed rules could have a negative impact on rural communities, particularly related to how the CDFI Fund defines target market. The demand for lending in rural communities is often regional. Board Member Williams stated that to create arbitrary rules around census tracts may not allow CDFIs to offer the full support for a rural community that they have traditionally been able to do.

Board Member Williams stated that he would encourage the CDFI Fund to be careful and give itself plenty of flexibility in how rural target markets are identified to allow for rural communities to be properly served.

Board Member Williams stated that he would highlight one of the proposed policies of the CDFI Fund is to encourage innovation in the types of practices and products that CDFIs offer. Southern Bancorp, who has often been a leader from a technology standpoint, created several mobile applications. There are three apps in the mobile stores now that can be downloaded.

Board Member Williams stated that one CDFI is trying to become an alternative to the payday lenders who's interest rates and practices kind of shock the conscience. A blanket prohibition around certain areas could have an impact of limiting innovation.

Board Member Williams stated that Southern Bancorp has created an application that is being tested called Money on Demand, it offers alternative underwriting that will hopefully provide a sustainable alternative to current payday lenders. This app allows a person to borrow small amounts of money, \$25 bucks, and when the customer pays it back, they are allowed to access larger amounts of money, up to \$400. Board Member Williams stated that almost any amount of interest charged for such a short period of time could quickly exceed a blanket of 36% prohibition but would be far less costly and more responsible that rates currently charged by payday lenders in Southern's markets.

Board Member Williams stated that while the goal is not to make loans in excess of high rates, the loans are needed in the markets it serves. In a three-week period, Southern Bancorp had 63,000 people that downloaded this mobile app, even though it was clear that the borrower could only borrow small amounts of money.

Board Member Williams stated that the demand is there, and Southern Bancorp encourages the CDFI Fund to ensure that the rules allow for flexibility, for innovation where we can compete with, and provide more responsive access to capital and credit in through means of mobile technology which is prevalent today.

Board Member Williams stated that he applauds the work of the CDFI Fund for trying to strike the balance between protecting the brand and allowing for greater diversity and innovation in CDFIs and appreciate the hard work and fully support the recommendations being made today by the subcommittee.

Board Chair Bilonick thanked Board Member Williams and invited Mr. Bynum to speak.

Mr. Bynum thanked Board Chair Bilonick and Board Member Glaser for inviting him to represent credit unions on the subcommittee. Mr. Bynum also thanked Board Member Swack for an exceptional job in incorporating an incredibly wide and complex range of input into the recommendations and for capturing the importance of context and flexibility.

Mr. Bynum stated that he wants to briefly underscore what he thinks is the importance of certification to protecting the brand and the mission. Mr. Bynum stated that from what he saw after the 2007-2008 financial crisis, an opportunity to meet with President Obama and worked with Treasury officials to help advocate to allow CDFIs to participate in the TARP program, not to bail them out, but to position them as the financial first responders they are to fill gaps in underbanked, under-resourced communities.

Mr. Bynum stated that recently, other than the New Market Tax Credit Program, the TARP program was the largest inflow of federal funds into CDFIs. That was when many community banks in Mississippi became CDFIs because they happened to be located in low-income CDFI-eligible areas, not necessarily because they were providing financial services to under-resourced people.

Mr. Bynum stated that as a consequence today, Mississippi has the second-most CDFIs in the nation, which are mostly community banks or affiliates. Mr. Bynum stated that this could and should be a great thing if the accountability is held at a high level.

Mr. Bynum stated that Mississippi is a state where nearly 40% of the population is Black, and only 13% of mortgages made by CDFIs went to Black borrowers, compared to 17% of all HMDA-reported mortgages in the state. This means that these CDFIs that receive these limited federal funds, the close gaps are actually widening racial disparity in wealth.

Mr. Bynum stated that funds and credit unions have work to do and should be held in account, but the bank data tell a clear, compelling, and egregious story. Mr. Bynum stated that he only makes this point because in response to an economic crisis, billions in federal funds are flowing into CDFI-to-field gaps. There is an opportunity with CDFI certification to make sure that those who receive these precious resources that flow through the fund are held accountable.

Mr. Bynum stated that the brand should matter, and CDFI Certification must be structured in a way that allows for the flexibility and innovation. Mr. Bynum stated that as someone who also works in a persistent poverty, high persistent poverty region, a third of all the persistent poverty counties in the country are in Mississippi, Louisiana, Alabama which are part of his service area, and every majority black county is persistent poverty.

Mr. Bynum stated that it is critical that the CDFI Funds put safeguards in place that ensure that the primary beneficiary of these resources are not the CDFIs, but rather the people who these CDFIs are supposed to serve.

Mr. Bynum stated that he thinks that the work that the subcommittee is doing on the CDFI Fund Certification is on point. He thinks that the default should be to make sure the resources go to those who need it, and to allow those who need flexibility to do some of the innovative things that we've heard talked about and that reflect in the letters are allowed for.

Mr. Bynum stated that the default should be making sure the resources go to where they align with the mission. Board Member Bynum thanked the subcommittee for allowing him to participate.

Board Chair Bilonick thanked Mr. Bynum. Board Chair Bilonick stated that if others do not have questions or comments, she would like to move for a vote on presenting the memo formally to the CDFI Fund.

Board Member Glaser moved the vote. Board Member Pettigrew seconded the motion.

Board Chair Bilonick asked to hear from the remainder of the Advisory Board asking for an affirmation of this vote.

All stated Aye.

Marla Bilonick: Thank you. Okay, we will accept this vote having heard no abstention or refusal.

Board Member Graham Steele thanked the Advisory Board for their work and noted that he abstained from the vote because of his role in the Treasury and decision-making process, so he does not create the impression he prejudices any of these issues.

Board Chair Bilonick thanked everyone for their participation and turned it over to Acting Director, Marcia Sigal, to provide some comments.

Acting Director Marcia Sigal thanked Board Chair Bilonick for the welcome. Acting Director Sigal stated that this is her first advisory board meeting as acting director of the CDFI Fund. Acting Director Sigal stated that she has been at the CDFI Fund for eight years, the last five of which she has been the deputy director for policy and programs, implementing the CDFI's strategic vision to the programs, to the design of the programs and implementation of them.

Acting Director Sigal stated that prior to her work at the CDFI Fund, she also directed the policy division in the Office of Affordable Housing at HUD and worked for several years prior to that in the private and nonprofit sector, working with CDFI's nonprofit organizations and working for two national community development associations.

Acting Director Sigal stated that she is excited to be taking on the role as the acting director at this very important time. Acting Director Sigal stated that in her capacity as deputy director, she has worked with the other deputy director, Dennis Nolan, who was on the line listening, who has been in charge of the CDFI Fund Certification process and has been at the CDFI Fund for over ten years, so she and Dennis Nolan have a depth of experience here and they are applying it as they move forward. Acting Director Sigal stated that the whole team is excited to be working on the CDFI revisions to the application. Acting Director Sigal stated that she also wants to thank the subcommittee for their input, and she wants to encourage the subcommittee to continue to provide them with input as the CDFI Fund begins to implement the new application. Acting

Director Sigal stated that she looks forward to the subcommittee's continued input and thanked them for their input.

Board Chair Bilonick thanked Acting Director Sigal for her introduction. Board Chair Bilonick asked if any of the board members have any closing business. There is none.

Board Chair Bilonick stated that the advisory board members will be convening the next meeting in person. It will be the first in-person meeting in Washington, DC, in either late November or early December. There will be an email with possible dates.

Board Chair Bilonick stated that she would like to say a few words. I'll take no more than two minutes that we've got here.

Board Chair Bilonick stated that Community Development Advisory Board and the Subcommittee on CDFI Certification acted quickly over the last two weeks to ensure the subcommittee's feedback would be captured, shared, and documented. Throughout this time, the CDFI Fund counterparts have been receptive and have worked to ensure that the feedback would be included and, on the record, as they arrive at the precipice of final changes to the certification process.

Board Chair Bilonick stated that as mentioned prior, the industry has never been more needed, and it is important to get the CDFI Fund certification process right. Board Chair Bilonick stated that she encouraged by the CDFI Fund's willingness to include an unprecedented amount of input into their updated certification process, and she is also encouraged by their willingness to revisit any elements that, once ground tested, present a challenge to CDFIs or the communities everyone serves.

Board Chair Bilonick asked if there is no further business, for someone to move that the Advisory Board meeting has been adjourn.

Board Member Glaser moved to adjourn the meeting. Board Member Pettigrew seconded.

Board Chair Bilonick thanked those who joined the Advisory Board meeting and thanked the Advisory Board for their willingness over the last few months to undertake the work of this subcommittee, and for their service to the CDFI Fund.

The meeting of the Community Development Advisory Board was adjourned at 2:59 p.m. ET.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Marla Bilonick". The signature is fluid and cursive, with a large initial "M" and a stylized "B".

Marla Bilonick, Chair  
Community Development Advisory Board