



Proposed Changes to CDFI Certification & Proposed MLI Designation Criteria

Prepared by Native CDFI Network



- January 2017: The Fund asked for public comments on the certification policies and procedures
 - received 28 unique comment letters
- May 2020: Developed revised certification application and again solicited comments
 - received 55 unique comment letters
- October 2022: Again revised certification app and TM verification methods and is soliciting comments - certification app comments due Dec 5; TM verification comments due Dec 19
- CDFI Fund 5 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.

Proposed Changes to CDFI Certification - Primary Mission



- Submission of a **board-approved strategic plan** evidencing a community development strategy
- Engagement in Responsible Financing Practices:
 - Consumer and small business loans must demonstrate an **ability to repay**
 - If consumer or small business **interest rates exceed 36% APR or state interest limits** then additional consumer protections standards must be met
 - Small **business lenders must disclose total loan cost to borrowers** (can use Truth in Lending Act methodology to
 - Mortgage limitations 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 3%** of the loan amount. **Must verify borrower's income.**
- Affiliates
 - An **affiliate that controls the CDFI** or that provides Financial Products or Financial Services, must demonstrate a mission of community development
 - If NCDFI is controlled by Tribal Government, Tribal Gov't is not required to meet the Primary Mission test

Changes to CDFI Certification - Financing Entity



Pre Approved Financial Products:

- Existing Products: loans; lines of credit; equity investments; loan guarantees; and purchase of loans from CDFIs
- New Products:
 - ***forgivable loans*** if they require at least one payment within 12 months of the closing date;
 - purchase of loans that were made to members of the applicant's Target Market;
 - credit cards

An Applicant must demonstrate the following:

- Its **predominant business activity** is the provision of **Financial Products and/or Financial Services** and that it has been engaged in such activity for **at least one full fiscal year**
- Lending activity for new applicants is based on **most recently completed fiscal year** (YTD no longer considered)
- A **predominance** of **both its assets and its staff time** are dedicated to the provision of **Financial Products and/or Financial Services**.
 - Predominance does not require a majority, but is the greatest as compared to all other amounts
 - Development Services staff time is no longer included

Changes to CDFI Certification - Financing Entity



ASSETS

- **Eligible Assets**

- Existing: Direct financing assets (e.g., loans receivable, on balance sheet lending capital)
- New/Clarified: Assets that support operating or staffing costs related to the direct provision of Financial Products
- New/Clarified: The portion of real estate owned dedicated to provision of Financial Products and the portion of equipment dedicated to provision of Financial Products

- **Ineligible Assets**

- Existing: Those related to real estate development, property management, financing of affiliated entities or individuals; loan originating, servicing or packaging for third parties; grant making; other non-financing activities
- New: Financing products not included on the pre-approved Financial Products list (above); development services
- New: Certain other ineligible assets that skew data may be excluded from consideration (e.g., endowment, certain real estate assets)

Changes to CDFI Certification - Target Market



- New OTP – *Persons with Disabilities*
- Except for customized Investment Areas, *geographic requirements have been removed*
- At least 60% of *both # and \$ amount* of financing to one or more TMs, *based on 3-year average* through most recently completed fiscal year (measured through TLR report)
 - Existing LOC count *for full amount only at closing* (not subsequent disbursements)

Target Market Verification Assessment Methodologies Questions



Proposed TM Verification Methodology for OTP - Native American/Native Alaskan/Native Hawaiian

- OTP-Native American and Native Alaskan – The financing entity assesses clients' status as Native American with maintained Tribal affiliation or community attachment via collection of a government-issued or Tribal government-issued photo identification or documentation.
 - Documentation includes, but is not limited to: (A) A Tribal enrollment card; (B) A Certificate of Degree of Indian Blood; (C) A Tribal census document; (D) Documents on Tribal letterhead, issued under the signature of the appropriate Tribal official
- OTP-Native Hawaiian – The financing entity assesses an individual/owner/end-user's status as Native Hawaiian via collection of a Hawaiian Registry Card.
- Native Alaskans and Native Hawaiians must reside in Alaska or Hawaii
- Other OTPs can self-identify, or the CDFI can visually assess

(1) Are there other methods the CDFI Fund should deem entities can use to assess Native OTP status? What are those methods and describe them?

(2) Should a Financial Product delivered to a business, not owned by a member of a Targeted Population or located in an Investment Area, that is providing jobs, products, or services to a Targeted Population or Investment Area, be deemed delivered to a Target Market?

Changes to CDFI Certification - Development Services (DS)



CDFI Certification Applicants must:

- Offer at least one DS, directly tied to at least one Financial Product, that is ongoing at least 4x per year,
- Demonstrate that they maintain control over the content and delivery parameters of their DS

The CDFI Fund does not consider the following activities to be Development Services:

- Training, counseling, or TA not clearly linked to Financial Products offered by the Applicant.
- The process of making referrals
- Information presented in newsletters, flyers, or online.
- Workshops for children or conferences/workshops for broad audiences.
- Presentations made at one-off events (e.g. annual conferences, fairs), or at events held by other entities.
- Marketing events/activities.
- Services provided at the will and discretion of other entities (e.g., publically-available online training)
- Unstructured conversations with consumers on Development Services subject matter.

Changes to CDFI Certification - Accountability



- Governing Board must have at least 3 members
- At least one member accountable to each TM
- To be accountable, Board members must be Executive Staff (CFO, CEO, etc) of an org that provides over 50% of its services to an IA residents or low income people...**Board service is no longer acceptable**
- **Board members who are family members to staff of the CDFI are not accountable**
- **Board members who are staff members of the CDFI or an Affiliate are not accountable**
- CDFI Fund is asking for **race/ethnicity of all CDFI executive staff**
- Governing Board: at least 33% accountable to the overall TM
- Removed geographic restrictions for Board Members

Minority Lending Institution



Background:

Pursuant to section 523 of Division N of the Consolidated Appropriations Act, 2021, an MLI is a CDFI that (i) directs **a majority of its financial products** to minority populations or communities; and (ii) either (a) is a Minority Depository Institution (MDI) or (b) demonstrates accountability to Minority populations.

-no federal funding will be associated with an MLI designation at this time

-a list of designated MLIs will be made available to the public via the CDFI Fund website

QUESTION: An MLI must direct a majority of its financial products “at minorities or majority-minority census tracts or equivalents.” Should the CDFI Fund assess Financial Products delivered to legal entities **that are not owned or controlled by Minority individuals** to finance projects such as affordable housing, child care centers, charter schools, or health centers that are not located within a Majority-Minority Census Tract **but whose end-beneficiaries (customers, residents, or employees) are members of a Minority population?** If yes, how?

QUESTION: The CDFI Fund is also considering the relationship between the standards for designation as an MLI and those for designation as a Native CDFI. To what extent should the two align?



CDFI Fund Comment Deadlines

Minority Lending Institution - November 25th

PPR and Use of Awards - November 25th

Certification Comments - December 5th

Target Market Verification Comments - December 19th

<https://www.cdfifund.gov/requests-for-comments>