NATIVE CDFI NETWORK

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May 12, 2023

Pooja P. Patel, CDFI Program and NACA Program Manager
CDFI Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

**Re: Public Comment on the Native American CDFI Assistance Program (NACA Program) Financial Assistance (FA) and Technical Assistance (TA) Applications for the Fiscal Year (FY) 2023 – FY 2025 Funding Rounds (FR Doc. 2023–04348)**

Dear Manager Patel and CDFI Fund colleagues:

The Native CDFI Network (NCN), the only national membership organization solely dedicated to serving and supporting Native community development financial institutions (CDFIs), welcomes this opportunity to provide comment on the **NACA FA and TA Applications for FY 2023-2025** (FR Doc. 2023–04348). NCN's comments were developed through extensive consultation with and input from NCN's member Native CDFIs and other key Indian Country stakeholders. Our comments are formally supported by the 32 co-signatory organizations listed at the end of this document.

NCN applauds the CDFI Fund's efforts to invite industry input regarding proposed changes to the CDFI Fund's Financial Assistance and Technical Assistance programs, which are so important to supporting the work Native CDFIs do. We appreciate the CDFI Fund's stated goal "to reduce paperwork and respondent burden" for the Native CDFIs who currently participate or wish to participate in the NACA FA and TA award programs. We also were heartened to hear Treasury and the CDFI Fund's desire to support growth in the number and capacity of certified Native CDFIs (shared by Treasury during a recent NCN webinar on the NACA FA and TA Applications), and that the staff of Treasury's Office of Tribal and Native Affairs is expanding in part to support that growth.

**The Vital Role Native CDFIs Play**

As the CDFI Fund explains on its website, Native CDFIs' origins can be traced to the 1994 Congressional legislation authorizing the Fund's creation, which contained among its provisions the mandating of a study examining lending and investment practices in Native communities.[1] Titled the Native American Lending Study, the study identified 17 major barriers to investment in Indian Country, and "affirmed the importance of developing Native CDFIs to play a key role in the broader effort to lead Native Communities into the nation's economic mainstream."[2]

In the two decades since the study's release, Native CDFIs have proven themselves vital engines for fueling the growth of healthy, vibrant Native economies and communities. In the CDFI Fund's own words, Native CDFIs are "an important part of the CDFI Fund's mission to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States," and they are making a "considerable

[1] https://www.cdfifund.gov/programs-training/programs/native-initiatives
[2] https://www.cdfifund.gov/sites/cdfi/files/documents/cdfi7205_fs_ni_updatedfeb20.pdf

impact" by "helping to transform their communities. They are creating businesses and jobs in places that desperately need them. They are providing personal financial education and business training to persons who have been excluded from our nation's economic mainstream. They are helping to change the lives of the people they serve."[3] In short, Native CDFIs epitomize what the CDFI Fund sees as the hallmark for CDFI certification: "those working at the margins and beyond to consciously and deliberately make impact."[4]

Currently, a total of 64 Treasury-certified Native CDFIs (down from its recent peak of 72 certified Native CDFIs) – serving rural reservation communities as well as urban Native populations – can be found in 27 states across the country, and there are about two dozen "emerging" Native CDFIs following closely in their footsteps.

**NCN's Comments on the CDFI Fund's Proposed NACA FA and TA Applications for FY 2023-2025**

The NACA FA and TA awards provide critical support for the ongoing work of Native CDFIs to build their capacity and deliver transformative services to Native communities, as evidenced by the fact that Native CDFI applications for the two award programs typically and significantly exceed in total requested dollars the funding Congress allocates for the NACA program. For FY 2022, for example, funding requests made by applicant Native CDFIs for NACA FA funding exceeded the amount awarded by the CDFI Fund by 49%. Meanwhile, funding requests made by applicant Native CDFIs for NACA TA funding exceeded the amount awarded by the CDFI Fund by 15%.[5]

With the above context in mind, and after soliciting feedback from our members through a combination of consultative webinars, surveys, and in-depth conversations, we provide the following comments on the proposed NACA FA and TA Applications for FY 2023-2025. We present these comments in two parts: (1) four overarching issues, followed by (2) responses to key specific questions the CDFI Fund posed in its request for public comment.

**Overarching Issues**

Below are four overarching issues we feel are most important for the CDFI Fund to consider in evaluating the likely effects of the proposed NACA FA and TA Applications on Native CDFIs:

**1. Flexibility Supports Innovation and (in Turn) Increases Impact:** Simply put, the more flexibility the CDFI Fund provides through the new NACA FA and TA Applications, the greater the ability Native CDFIs will have to deploy their FA and TA award dollars in the ways they deem most beneficial to serving Native communities based on their intimate understanding of their particular needs. Native CDFIs are working in markets that have systemic barriers preventing access to capital. We need to have flexibility in our use of CDFI Fund dollars to develop innovative financing products that are flexible and affordable and can meet the needs of our often different and diverse markets. Native CDFIs operate under a variety of different business models to meet the unique needs of the Target Markets they serve. For example, a national CDFI lending to tribal economic development projects has a very different business strategy and funding needs than a local microenterprise or consumer lender serving a remote rural Native community. Each leverages FA dollars for different purposes, operates with different Net Asset Ratios, and has different capital needs. For that reason, we believe that a highly prescriptive approach to underwriting Native CDFIs will inevitably impede meaningful impact in segments of our industry, thereby reducing transformative positive outcomes in the most deeply underserved communities.

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[3] https://www.cdfifund.gov/sites/cdfi/files/documents/native-american-strategic-plan.pdf, PDF p. 3.
[4] https://www.cdfifund.gov/node/1017926
[5] For the FY 2022 funding round of the NACA Program, the CDFI Fund received Base-FA applications from 29 organizations that requested $25.5 million in Base-FA awards. It awarded $17.1 million to 19 of those 29 organizations (https://www.cdfifund.gov/sites/cdfi/files/2023-02/2022_NACA_Award_Book.pdf). The CDFI Fund also received TA applications from 19 organizations requesting $2.7 million in TA awards, and it awarded $2.35 million (https://www.cdfifund.gov/news/481).

**2. Reducing Complexity:** The Native CDFI industry is already reaching some of the most marginalized and economically distressed people and communities in the country. Many of them are located in smaller, rural markets and are continually challenged to build the capacity needed to best serve their remote and often isolated Native communities. We understand and support the need to properly evaluate the strength of CDFIs through the application process and to measure the work award recipients are performing. However, we implore the CDFI Fund to *reduce* the complexity of both the Application and ensuing compliance, *not* to increase it by adding increased data collection, new application projections, and compliance requirements. For example, tying Performance Goals & Measures ("PG&M") requirements to lending projections and estimated future loan volumes has created a level of complexity in both the Application and on the compliance end that have created confusion and uncertainty, significantly increasing staff time and resources. For Native CDFIs, who are often reaching the most marginalized people in smaller markets, this has increased the administration burden and diverted significant resources away from the deployment of direct services that actually create impact. This complexity has caused a number of Native CDFIs to misunderstand reporting requirements and even reporting deadlines. Simplifying the Application and reducing complexity in compliance and reporting will ensure that CDFI Fund resources are being used to drive impact, not support increased and unnecessary administrative functions. As we talk with our members and others throughout the Native CDFI industry, there is consensus around this issue as a top priority in terms of CDFI Certification, award applications, and ongoing reporting and compliance.

**3. Targeting Self-Sufficiency/Viability:** In the proposed FA and TA Applications' input questions around viability, the CDFI Fund appears to suggest that *self-sufficiency is achievable and desirable for all CDFIs*. We believe this notion is false and counterproductive. The foundational mission of most Native CDFIs is to deliver *affordable* financing to small businesses and consumers that are underserved (and often <u>un</u>served) by traditional financial providers. The bottom line is that if subsidy was not needed to do the work we do, the traditional financial market would serve Native communities (which it never has). This is true for the industry as a whole, but particularly for Native CDFIs who are often serving the most underserved people and communities. Most loan funds, particularly non-profit loan funds, will need subsidy to support the work they do on an ongoing basis. Many funders are only interested in funding growth – a new loan product or development service. But so many Native CDFIs (and CDFIs across the entire industry) are making a significant impact in their everyday work. The pressure from funders to "grow" forces many CDFIs to grow for the sake of growth alone, not because their market needs something new. Many Native CDFI Target Markets need what their Native CDFIs are doing now, every day. In addition, Development Services are critical to the work and level of impact Native CDFIs create. We strongly encourage the CDFI Fund to recognize and support that ongoing subsidy will be required for the work performed by Native CDFIs – and the majority of those in the larger CDFI industry. FA and TA awards are essential in supporting both ongoing work and future growth in the industry. We ask that the CDFI Fund continue to support this ongoing need, which helps Native CDFIs build the net asset strength they need to leverage additional funds and continue to grow the critical work they are doing in their local communities.

**4. Recognizing/Considering the Entirety of Native CDFIs' Target Markets (Service Areas/Counties):** As NCN previously stressed in its <u>August 2022 comments on the CDFI Equitable Recovery Program</u> (ERP) and its <u>December 2022 comments on the CDFI Certification Target Market Assessment Methodologies</u>, it is critical the CDFI Fund recognize and accommodate in the NACA FA and TA Applications for FY 2023-2025 the federally designated service counties/service areas that encompass a significant portion of the service population of many Native CDFIs across the country. For example, one Native CDFI's service area covers the entire state of Oklahoma. Meanwhile, the service area of another Native CDFI consists of 15 federally designated counties in Nebraska, South Dakota, and Iowa.[6] The ERP application initially did not recognize these areas, which would have prevented several Native CDFIs from applying for the program. For this reason, CDFI Fund applications and awards should recognize and include federally designated service counties/service areas any time there is a reference or geographic requirement that includes reservations or tribal lands.

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[6] Native 360's service area aligns with the Ponca Tribe of Nebraska's Service Delivery Area, which encompasses "members of the Tribe residing in Sarpy, Burt, Platte, Stanton, Holt, Hall, Wayne, Knox, Boyd, Madison, Douglas, or Lancaster Counties of Nebraska, Woodbury or Pottawattamie Counties of Iowa, or Charles Mix County of South Dakota [who] shall be deemed to be residing on or near a reservation" (see Ponca Restoration Act, Pub. L. No. 101-484, § 5, 104 Stat. 1167 (1990); Amendment Pub. L. No. 104-109, §12, 110 Stat. 763 (1996)).

**<u>Responses to Key Specific Questions Posed by the CDFI Fund</u>**

**<u>A. Financial Assistance (FA) Application</u>:** *CDFI Fund: Commenters should clearly distinguish their comments related to this section when providing their responses and ensure comments are clearly labeled corresponding to each section and question number.*

*2. Are certain data fields, questions, or tables redundant or unnecessary? If yes, which ones and why?*

**NCN Response:** We agree with eliminating 8a. It is not meaningful or relevant for most Native CDFIs.

New Question 11 – We do not support the inclusion of this question. The compliance questions already address key issues that should be addressed in policies and procedures.

*3. Should any data fields, questions or tables be added to ensure the collection of relevant information?*

**NCN Response:** Yes, we need an optional narrative, perhaps at the end, that allows an applicant to provide the reader with additional details about and/or unique nuances or special features about its organization, or other information about its organization that doesn't fit anywhere else in the application but may be important for the reader to know – for example, a unique relationship with its sponsoring entity, or a special aspect of its market or management. This narrative will help Native CDFIs better tell their stories.

*7. Are the character limitations for narrative responses appropriate? Should certain questions allow additional or fewer characters? If yes, please specify.*

**NCN Response:** We would like the character count on questions 2 and 3 increased, not decreased. This is an important section where Native CDFIs can tell the story of the markets they serve, which will better help the reader understand the unique challenges in Native communities and among Native people.

We also support increasing the character count for current question 8b Community Coordination. Describing partnerships is a critical component to explaining a Native CDFI's business model and success in providing TM impact.

*8. What additional guidance can the CDFI Fund provide in order to assist Applicants with completing an FA Application?*

**NCN Response:** We would like the CDFI Fund to provide a more detailed breakout of the scoring evaluation for the application. This would help bring clarity to what the Fund is seeking in a successful applicant.

*10. Business Plan. Is the data and information requested in the Application to assess the business plan adequate to assess the different CDFI activities?*

**NCN Response:** For the reasons mentioned above on page 3, we strongly recommend that federally recognized tribal service counties/service areas be included as part of the TM data and included in the definition of Native Communities.

*12. Beneficiary Data. The CDFI Fund currently collects beneficiary data by income level in the Beneficiary Snapshot table to assess how well an organization is serving communities in economic distress. Reported data in this table combines those receiving Development Services and those receiving Financial Products/Financial Services and is only requested for the Applicant's most recent historic fiscal year.*

*a. The CDFI Fund is proposing to request beneficiary data separately for*
*(1) Financial Products/Financial Services and*
*(2) Development Services to provide a more accurate depiction of beneficiaries served.*

*Is the proposal for separating out the beneficiary data points between beneficiaries receiving Financial Products/Financial Services versus those receiving Development Services appropriate? If not, why not?*

**NCN Response:** It is fine to separate these out. However, it is important to note that most Native CDFIs do not gather income and other data on their Development Services clients, so these are usually estimates.

*Will this proposed change be difficult or overly burdensome to report?*

**NCN Response:** It would not be overly burdensome so long as the CDFI Fund allows for estimates, particularly on the Development Services side.

b. *The CDFI Fund is considering requesting beneficiary data projections for the three-year Period of Performance to help assess the impact an Applicant's proposed activity with the FA award. Is the proposal to collect projected beneficiary data appropriate for use in assessing the impacts of an Applicant's proposed activity with the FA award? If not, why not? Will this proposed data collection be difficult or overly burdensome to report?*

**NCN Response:** Asking Native CDFIs to expand their estimates to three years for beneficiaries is both burdensome and would not provide meaningful data to the Fund. It would be very difficult to accurately estimate this information based on income and other data gathered in the current beneficiary table; therefore, the information provided would not be meaningful or useful. For example, few if any Native CDFIs collects/analyzes AMI/LI/VLI/ELI in the way the CDFI Fund sets forth in the proposed FA Application.

*13. FA Objectives. Currently, FA Applicants can select from the following list of seven FA Objectives (FAO): 1–1: Increase Volume of Financial Products, 1–2: Increase Volume of Financial Services, 1–3: New Geographic Area(s), 1–4: New Financial Product(s), 1–5: New Financial Service(s), 1–6: New Development Service(s), and 1–7: New Targeted Population(s). The CDFI Fund proposes to eliminate certain FAOs that are difficult to measure, evaluate and administer. Further, these FAOs are rarely selected by Applicants.*

*a. The CDFI Fund proposes to eliminate FAO 1–1: Increase Volume of Financial Services from the list of FAOs to select in the FA Application. However, Financial Services is still an eligible use of the FA award. Would all types of regulated CDFIs still be interested in applying if they could no longer select this FA Objective and required to select another one instead? If no, why not?*

*b. The CDFI Fund proposes to eliminate FAO 1–5: New Financial Services from the list of FAOs to select in the FA Application. However, Financial Services is still an eligible use of the FA award. Would all types of regulated CDFIs still be interested in applying if they could no longer select this FA Objective and required to select another one instead? If no, why not?*

*c. The CDFI Fund proposes to eliminate FAO 1–6: New Development Services from the list of FAOs to select in the FA Application. However, Development Services is still an eligible use of the FA award. Would all types of CDFIs still be interested in applying if they could no longer select this FA Objective and required to select another one instead? If no, why not?*

**NCN Response:** NCN members feel it is important to keep both Financial Services and Development Services as FA Objective options, particularly if the Fund is going to continue to hold CDFIs to future loan volumes as part of PG&Ms (which we strongly recommend the Fund consider eliminating). These provide increased flexibility and viable options to having to project growth for the sake of growth. These services are often used to build the financial capacity of Native CDFI clients and build a pipeline of loans in the future. Often, providing these services is the first step to growth, which will not happen until well after services are first offered. Therefore, maintaining these options give Native CDFIs more flexibility in their applications and the following PG&M commitments to which they are held.

*14. FA Objectives. Currently, to select FAO 1–1: Increase Volume of Financial Products, an Applicant's three years of projected lending activity must exceed its historic three years of lending activity plus the FA award amount (''Increase in Volume''). The Increase in Volume becomes a Performance Goal & Measure (PG&M) in the Assistance Agreement. The CDFI Fund proposes to change the Increase in Volume formula for FAO 1–1: Increase Volume of Financial Products to be more consistent with other FAO PG&Ms and to more directly align with the amount of the FA award. One option is for the formula to be a multiplier of the award amount plus the Applicant's historic three years of lending activity. For example, for a $1 million award, if the multiplier were 2 and the Applicant's three most recent years of historic of lending were $10 million, the FAO 1:1: Increase Volume of Financial Products PG&M would be $12 million ($1 million FA award times multiplier of 2 plus $10 million historic lending equals $12 million). For more detailed explanation of the proposed formula, please see Question 4d in the FA Application Template, found on the CDFI Fund's website at https://www.cdfifund.gov/ requests-for-comments. The CDFI Fund is seeking input on the proposed change to FAO 1–1: Increase Volume of Financial Products.*

*Is a multiplier of the FA award plus three years of historic lending an appropriate formula for FAO 1–1: Increase Volume of Financial Products PG&M? If a multiplier of the award plus three years of historic lending is not appropriate, why is it not an appropriate formula and what should the formula be?*

*If yes, should the CDFI Fund require a standard multiplier or allow Applicants to propose their own multiplier as part of the Application?*

**NCN Response:** The CDFI Fund should eliminate tying PG&Ms to any expected future loan volumes. Instead, it should tie PG&Ms to the award amount, similar to the Rapid Response Program (RRP). Tying PG&Ms to projected future loan volumes creates application projections that are not meaningful in terms of really understanding an applicant's true estimate of expected future lending. Instead, loan projections get distorted to meet expected PG&Ms. While it is reasonable to require loan projections as part of the Application, and most Native CDFIs develop these as part of their business plans, it is difficult to accurately predict what actual future loan volumes will be. Serving many small, rural, and remote markets make projecting the size and number of loans an exercise of rough estimation at best. Therefore, holding Native CDFIs to these future loan volumes has created challenges for many to meet their PG&M requirements, particularly given the current (and past) economic uncertainty being driven by changes in the global economy and environment that are impacting them and the work they do.

Basing PG&Ms on growth that is based on historical lending also creates a problem for CDFIs that had anomalous years of higher-than-normal lending such as during the COVID-19 pandemic (i.e., providing PPP loans or other loan/grant combinations that increased loan volume in ways that will not continue in the future). Anomalous years seem like they are becoming the "new normal" and so this issue most likely will continue into the future.

Furthermore, tying PG&Ms to projections creates *significant* complexity when it comes to compliance and allocating loans for CDFI PG&M requirements. This is confusing and overly burdensome for many CDFIs, particularly smaller, rural CDFIs who are often serving the most vulnerable and underserved populations and who are already strapped for resources. Tying PG&Ms directly to the award amount will help ensure that CDFI Fund dollars are being used to support activities leading to impact in our Native communities, instead of supporting increased administrative costs.

*If a standard multiplier, what should the multiplier be?*

**NCN Response:** As explained above, the CDFI Fund should eliminate tying PG&Ms to an expected future loan volume, regardless of whether it is based on pure projections (as it has been the last several years) or historical lending plus a multiplier of the award (as is being proposed). NCN recommends the CDFI Fund use a multiplier of 1x the award for Native CDFIs, *not* the award plus historic lending. In addition to FAO 1-1, this same approach should be used for all FA Objectives that involve lending (i.e., new geographic area, new loan product, new targeted population).

**<u>B. Technical Assistance (TA) Application</u>:** *The following questions are related to the burden and information requested in the TA Application, and responses may be used to make modifications to the information being requested in the TA Application. Commenters should clearly distinguish their comments related to this section when providing their responses and ensure comments are clearly labeled corresponding to each section and question number.*

7. *Are the character limitations for narrative responses appropriate? Should certain questions allow additional or fewer characters? If so, please specify.*

**NCN Response:** We need more space in Section 2 for Certified CDFIs to address the needs and challenges of their market. 1,500 characters to cover this and strategic goals is inadequate. We recommend increasing the character count to at least 3,000 characters.

*12. Ability to Serve Native Communities. Should the CDFI Fund adjust its TA Application in order to better collect information and evaluate an Applicant's ability to serve the unique needs of Native Communities? If yes, what questions should the CDFI Fund include in the TA Application and what evaluation factors should the CDFI Fund consider when evaluating an Applicant's ability to serve the unique needs of Native Communities?*

**NCN Response:** No. We feel the current questions and data are adequate.

*13. Sponsoring Entities. The NACA Program allows organizations that serve Native Communities, Sponsoring Entities, to apply for TA awards in order to create a new legal entity that will become a Certified CDFI. In recent history, Sponsoring Entities have largely struggled to find success in establishing a Certified CDFI. Between 2013 and 2020, only two Sponsoring Entities have created new legal entities that ultimately achieved CDFI Certification.*

*a. What questions should the Application include in order to better assess a Sponsoring Entity's ability to successfully create an emerging CDFI within one year and ensure that the emerging CDFI achieves CDFI Certification within four years?*

**NCN Response:** See below.

*b. Should the CDFI Fund require Sponsoring Entities to create the new legal entity that will become the Certified CDFI before being eligible to receive a NACA TA award?*

**NCN Response:** NCN supports this proposed change. This would help increase the chances the entity will get certified. We would support the Sponsoring Entity being allowed to receive only one TA award. This could then be used to help the CDFI entity get established and commence operations. Then the CDFI entity could apply for future awards, also helping to ensure certification.

**<u>F. Other CDFI Program and NACA Program-Related Topics and Considerations</u>:** *The following questions are related to CDFI Program and NACA Program policy topics and will not impact the burden or information requested in the Applications. Responses to these questions may inform future areas of focus for program design and information requested in future Applications. Commentators should clearly distinguish their comments related to this section when providing their responses.*

1. *Measuring Economic Distress. The CDFI Fund is considering developing place-based indicators to measure economic distress in the communities where CDFIs invest their dollars at the census tract level.*

**NCN Response:** Tracking this proposed data by census tract would create an undue burden on Native CDFIs, most who currently do not track their loans by census tract. We feel the Fund already collects sufficient data in the Application and TLR to be able to measure economic impacts.

2. *Deep Impact Lending. In addition to assessing an Applicant's track record serving economically distressed communities/populations and creating economic opportunities, the CDFI Fund is interested in incorporating an Applicant's commitment to ''deep impact'' lending/investment in its projected activity as part of the evaluation and/or compliance process. ''Deep impact'' lending/investment is financing activities that reach the hardest to serve borrowers and most underserved communities/populations.*

**NCN Response:** While we appreciate and agree with the Fund's desire to focus CDFI Fund dollars on the hardest-to-serve borrowers and communities, Native CDFIs by definition and mission inherently achieve "deep impact" by lending to the most marginalized people and communities (i.e., Native people and/or in Native communities). We do not need to satisfy the undue burden of an additional PG&M, which is redundant and unnecessary.

   a. *Please provide input on the proposed definitions/metrics to qualify as ''deep impact'' lending, as defined by the U.S. Department of Treasury's Emergency Capital Investment Program (ECIP) Rate Reduction Incentive Guidelines. Are the following definitions appropriate to measure ''deep impact'' lending/investment for CDFIs? If not, why not? What, if any, other definitions/metrics should be used to qualify as ''deep impact'' lending/investment?*

   b. *The CDFI Fund is contemplating adding a CDFI's commitment to engage in ''deep impact'' lending going forward as part of the evaluation process and/or compliance process. As such, the CDFI Fund is considering adding a new PG&M based on an Applicant's projected activity for ''deep impact'' lending and investment. The new PG&M would be an additional performance goal and would not replace existing PG&Ms. Is it appropriate to consider ''deep impact'' lending/investment as part of the evaluation process? How should such a PG&M be structured—as a percentage of overall projected activity, a percentage of the FA award amount, a dollar volume commitment to deep impact lending/investment, or something else (please describe)?*

**NCN Response:** This is not necessary for Native CDFIs and would cause an additional undue burden for the reasons mentioned above.

3. *Net Asset Ratio. The CDFI Fund is interested in prioritizing FA awards to CDFIs that are most effectively leveraging their balance sheet and the resources they already have available to them, and for which an FA award is the most essential for the CDFI's growth and ability to leverage additional funds to serve communities in need. A CDFI's Net Asset Ratio represents a CDFI's net assets compared to its total assets and can be a measure of the overall capital structure of an organization. Is a CDFI's Net Asset Ratio the appropriate measure to assess if a CDFI is effectively utilizing its balance to leverage resources? If yes, what should the target Net Asset Ratio be? If not, what is the appropriate measure(s) and target benchmark(s)?*

**NCN Response:** The CDFI Fund should not prescribe a targeted Net Asset Ratio for CDFIs. A CDFI's capital structure will vary depending on the market it serves, the loan products it offers, and the amount of Development Services it provides. The capital structure for a microenterprise lender will most likely be very different from a first mortgage lender, which will be quite different from a CDFI offering primarily loans to housing developers. Effective use of a balance sheet should be evaluated not just based on the amount of debt a CDFI can raise, but its ability to raise the *appropriate* type of capital for its business model. For example, if a CDFI is able to utilize an FA award to attract a large grant from a foundation to support affordable first mortgages to very low-income people living on a remote reservation, this should be considered an effective "leveraging" of their balance sheet.

Furthermore, with the rising interest rate environment, paying down high-cost debt with grant capital will allow CDFIs to protect against interest rate risk, particularly on longer-term loan products, and continue to offer affordable capital to its borrowers. Again, this may be considered an effective use of a CDFI's balance sheet.

7. *Funding Levels for CDFIs. The CDFI Fund is prohibited by statute from obligating more than $5 million in CDFI and NACA Program awards, in the aggregate, to any one organization and its Subsidiaries and Affiliates during any three-year period. Should the $5 million funding cap be reduced? If yes, what should the funding cap be?*

**NCN Response:** No, the cap should not be reduced. Continued support from the CDFI Fund is vital to the ongoing success of Native CDFIs, as described in our overarching point at the beginning of this document. Rather than limiting or reducing award amounts, the CDFI Fund should continue to request larger appropriations to grow the critical impacts Native CDFIs and CDFIs throughout the industry are making.

10. *Continued Viability for CDFIs. The Riegle Act requires that Applicants for FA provide a comprehensive strategic plan for the organization that contains a business plan of not less than five years in duration. The plan should demonstrate that the Applicant will be properly managed and will have the capacity to operate as a CDFI that will not be dependent upon assistance from the CDFI Fund for continued viability.*

    a. *To what extent are CDFIs reliant on FA funding from the CDFI Fund for their continued viability?*

    b. *What do CDFIs need in order to be independent from the CDFI Fund's assistance for continued viability? Would a program model in which CDFIs receive significantly larger award sizes for a three- to five-year period support viability independent from the CDFI Fund? If not, what would support a CDFI's growth towards such independence?*

**NCN Response:** If we are doing our work, it requires subsidy, otherwise the traditional market would be doing it. If we are to effectively serve the most underserved markets, subsidy is critical. Offering affordable and flexible capital, such as low-interest rate mortgages, longer-term business loans to make payments affordable for nascent Native entrepreneurs and providing critical development services to build the financial and business capacity of borrowers, to the most economically underserved communities and people require subsidy. If it didn't, banks would be offering these loans. NACA FA and TA awards help Native CDFIs to offer these products and services and build their balance sheets and financial strength which ensure they are able to attract non-CDFI Fund dollars and continue this important work on an ongoing basis. The CDFI Fund evaluates the viability of an applicant as part of CDFI application process, as it should. Only those that demonstrate they have a viable business plan receive awards. Subsidy will always be important to address the systemic inequities and injustice present in the US economy. If CDFIs could achieve self-sufficiency without grant support (from the CDFI Fund or other sources) and still serve low-wealth communities, wouldn't mainstream financial institutions be doing this work?" Furthermore, it is difficult to find large grant sources of lending capital. NACA FA awards from the CDFI Fund are essential for Native CDFIs to continue to offer affordable and flexible capital to our critically underserved markets.

11. *Sponsoring Entities. As noted earlier, the NACA Program allows organizations that primarily serve Native Communities, Sponsoring Entities, to apply for TA awards in order to create a new legal entity that will become a Certified CDFI. In recent history, Sponsoring Entities have largely struggled to find success in establishing a Certified CDFI. Between 2013 and 2020, only two Sponsoring Entities have created new legal entities that ultimately achieved CDFI Certification.*

    *Should the CDFI Fund consider eliminating the Sponsoring Entity model and focus resources on building the capacity of emerging Native CDFIs in other ways? If yes, please specify other ways in which the CDFI Fund can support the creation of new Native CDFIs. If no, please specify why this model is needed and what enhancements would be beneficial to increasing the success of Sponsoring Entities creating a legal entity that achieves CDFI Certification.*

**NCN Response:** No, the CDFI Fund should not eliminate this. See our comments above.

**Closing**

NCN shares the CDFI Fund's unerring commitment to creating ample and fair access to capital and resources for Native people, primarily those in low-income communities. We applaud the Fund's desire to streamline and reduce the administrative burdens associated with Native CDFIs applying for and administering NACA FA and TA awards. We ask the Fund to seriously consider the points NCN has raised above and discuss them further with us before the NACA FA and TA applications for FY 2023-2025 are finalized. We appreciate your support of the difference-making work Native CDFIs do and look forward to working with you to ensure the NACA FA and TA Applications for the next three years to foster our continued growth individually and collectively.

Sincerely,

Pete Upton
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**ORGANIZATIONAL CO-SIGNATORIES:**

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**Four Bands Community Fund**

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Executive Director
**Hawaii Community Lending**

Cristy Labanon
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**Hawaiian Lending & Investments**

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CEO and President
**Indian Land Capital Company**

Yancey Red Corn
CEO
**Indigenous Nations Tribal Reserve**

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Interim Executive Director
**Lummi CDFI**

Kit Fordham
Executive Director
**Mni Sota Fund**

Angie Main
Executive Director
**NACDC Financial Services, Inc.**

Pete Upton
Executive Director
**Native360 Loan Fund**

Leonard Smith
CEO
**Native American Development Corporation**

Cindy Mittlestadt
Fund Manager
**Native Edge Finance**

Rollin Wood
CEO
**Native Partnership for Housing**

Kim Pate
Managing Director
**NDN Fund**

Jonelle Yearout
Executive Director
**Nimiipuu Community Development Fund**

Dave Tovey
Executive Director
**Nixyáawii Community Financial Services**

Ted Piccolo
Executive Director
**Northwest Native Development Fund**

Christopher Coburn
CEO-Executive Director
**Osage Nation CDFI**

Chrystel Cornelius
President & CEO
**Oweesta Corporation**

Suzanne Anarde-Devenport
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**Rural Community Assistance Corporation**

Robert Christopher Landers
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**Seed of Inundation**

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**Seneca Nation of Indians Economic Development Company**

Michael Ching
CDFI Director
**Spruce Root, Inc.**

Britney Hiseley
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**Tatanka Funds Incorporated**

Russell Seagle
Executive Director
**The Sequoyah Fund, Inc.**

Alicia Burns
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**Westwater Financial, Inc.**

Julia Nelmark
CEO
**White Earth Investment Initiative**

Cheryl Cloud
CEO
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