Pooja Patel, CDFI Program & NACA Program Manager
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW,
Washington, D.C. 20220
Re: CDFI and NACA Program Paperwork Reduction Act (PRA)
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Guided by a vision of a nation where persistent poverty no longer exists, six regional Community Development Financial Institutions (CDFIs) located in and serving regions with a high prevalence of rural persistent poverty came together. The CDFIs—Come Dream | Come Build (cdcb) of Brownsville, Communities Unlimited, Fahe, First Nations Oweesta Corporation, (HOPE) Hope Credit Union and Hope Enterprise Corporation, and Rural Community Assistance Corporation— formed a coalition, named Partners for Rural Transformation (PRT). Our Partners all live in and serve regions with higher concentrations of rural persistent poverty counties, including: the Rio Grande Valley, the Deep South, Appalachia, Native Communities, the Mississippi Delta, and the Rural West farming regions. With a shared ethos of investing in both people and places and informed by the voices of local people, we seek to unify around opportunities in diverse communities at a time of great division in our nation. Perhaps nowhere else in the United States is the structural exclusion by race and place more self-evident than in communities of persistent poverty. Of the 395 persistent poverty counties, eight out of ten are rural. The majority (60%) of people living in persistent poverty counties are people of color. In fact, 4 out of 10 (42%) persistent poverty counties are majority people of color.

A closer look at persistent poverty America reveals how structural exclusion by place and race continues to paint a picture that is steadfastly rural and marred by racial, capital and data inequity. Rural America faces systematic, avoidable, and unjust economic, health, and racial disparities. Legacies of forced geographic and cultural displacement, enslavement, financial discrimination, residential segregation, and transitioning economies have left an indelible mark. PRT Partners are dedicated to providing critical financial services to areas that otherwise have none in order to reach communities where the racial wealth gap is at its widest.

PRT appreciates the CDFI Fund and Treasury requesting public comment on the proposed changes to the NACA Program applications. The CDFI Fund is such a fundamental source of funding for many CDFIs. The proposed changes to the Financial Assistance (FA) and Technical Assistance (TA) applications are the documents that allow many CDFIs to continue and grow their work.

In 2020, Rural serving financial institutions received a decreased percentage of capital investment from banks (31%) than their urban counterparts (51%). This makes the CDFI Fund FA and TA awards much more critical to rural-serving CDFIs dedicated to moving capital through persistently poor regions that have faced decades of disinvestment. To translate these percentages into numbers, CDFIs serving persistently poor and rural communities acquired $213m in bank-borrowed funds. In contrast, urban and metropolitan-serving CDFIs received $4.6b in bank-borrowed funds in 2020. This is why CDFI Fund FA/TA awards are that much more crucial to rural-serving CDFIs and communities.

This heightened importance is easily seen in PRT Partner, Fahe. Fahe is a Network of 50+ nonprofit organizations building the American Dream in Appalachia, and a Community Development Financial Institution. Since 1980 Fahe has invested over $1.32B generating $1.69B in finance. Channeled through their Members and community partners, this investment directly changes the lives of 778,114 people in some of the hardest-to-reach places in Appalachia.

The CDFI Fund and its programs, including the Financial Assistance and Technical Assistance programs under review here, have been the lifeblood of Fahe's work and the work of PRT Partners across the country. The Financial Assistance (FA) program is the most flexible, performance-directed resource that our Partners have access to. We find the framework of the program, namely that FA is awarded at the enterprise level and evaluated on performance objectives at that level (rather than, for example, a per-transaction basis), to be critical and an example of how to design federal funding streams.

In geographies, such as the regions PRT Partners serve, where other potential sources of capital are limited[1], the FA program is particularly important. For example, many urban-based groups – though faced with many other challenges – enjoy comparatively easy access to Community Reinvestment Act (CRA)- driven investments from banks, which are unlikely and difficult to secure in rural areas that are often underbanked. Appalachia is one such region; not only is it an under-banked place, but it is also one of the greatest concentrations of persistent poverty in the nation. CRA investments, among others, simply follow the paths of least resistance, and pass by Appalachia and other similar regions. The CDFI Fund's FA program is not one such investment, and as such has an outsized importance in these difficult-to-serve regions. PRT thanks the Fund and the Department for their continued efforts to ensure this resource remains available.

A Fourth Financial Assistance Objective (A.13)

All FA Objectives are based around an expansion of the awardee into "new" activities, products, or territory. This is true of the newly-proposed list of three, and the previous list of Objectives. But, for mid-sized CDFIs like Fahe, the FA represents an opportunity to leverage additional funding from other sources to complement the important and impactful work that is already being accomplished. Nearly nine-tenths of Fahe's activity is already in their target market; and this does not include work done with USDA mortgage products, the entirety of which is in the target market.

More financial capital is simply needed to go deeper into the market, not identify new areas for expansion that ultimately add burden. To that end, we propose that the Fund add a fourth Objective, which would allow for the deepening of services to an already well-targeted market. This is especially important for CDFIs of small-to-medium size, in difficult-to-serve markets, which are unable to become self-sufficient through earned income.

FAO 1-1: Projected Lending Model (A.14)

As for the proposed changes to the way that projected lending activity is calculated for FAO 1-1, PRT supports the status quo without change. For PRT the proposed changes are not worrisome – we believe our Partners are capable of the larger increases in lending volume. However, it is especially important for smaller CDFIs, for whom an aggressive growth strategy might not be possible. They may be limited in their ability to unlock demand, as they could be restricted in their ability to offer a more diverse range of products or expand geographically.

If the status quo is not acceptable to the Fund, a more nuanced approach than what is proposed in the Notice would be best. A nuanced approach would be to allow the awardee to choose between a set percentage of their three-year average, or the size of their FA award, whichever was greater. This has the benefit of scaling directly with the size of the CDFI in question, protecting smaller CDFIs from negative consequences, while still encouraging larger CDFIs to strive for big growth targets.

PRT also supports the recommendation of OFN for greater clarity and transparency in the formula for measuring an increase in volume of Financial Products. Using 2020, 2021 and 2022 as a historic baseline is problematic given pandemic related anomalies. CDFI lenders in the Paycheck Protection Program (PPP) experienced significant expansion in their lending in 2020 and 2021 which will drop with the expiration of PPP. The economic disruption associated with the pandemic itself is also a factor.

Finally, PRT is a strong supporter that the ability to serve Native Communities is an appropriate criterion for the CDFI Fund to consider in evaluating a CDFI FA program applicant.

Award-Driven Commitments (A.13 & A.14)

When applicants make commitments, such as projected lending activity, they are making those commitments based on the assumptions that the application will be awarded. However, if the FA award is made – but not in its full amount as applied for – those commitments are still expected to be kept in full. This is asking awardees to do more than they project is possible with less than they were asking for and should be avoided.

PPC-FA (D.1)

The Persistent Poverty Counties – Financial Assistance program is a welcome resource in the work of making investments in these historically disinvested communities. PRT believes that the application is currently sufficient and should not be made any more difficult or restrictive in a way that would cause the awards to be more concentrated.

On the contrary, we encourage the Fund to examine their ability to make awards useable in a broader geography than explicitly "persistent poverty counties." While we recognize the utility of this geographic designation, we also acknowledge that there are persistent poverty *regions*, such as the regions the PRT Partners serve (all regions of higher concentrations of rural persistent poverty counties) where investments - like PPC-FA funding – have similar impact regardless of their location within county borders. There are examples of counites which are surrounded by persistent poverty counties, which themselves struggle with poverty and lack of investment, and yet which are not themselves designated as persistent poverty counties[2]. A loan adjacent to a persistent poverty county or census tract can still benefit a persistently poor area or region.

Measuring economic distress (F.1)

Economic distress is a crucial metric to measure, monitor, and target. It is equally crucial, however, to recognize that places are not all the same, and that measurements and metrics which work in some places do not work in all. PRT Partner Fahe has become increasingly familiar with the issues inherent with metrics which compare individuals against their neighbors, rather than against a separate, constant figure.[3]

For example, the Department of Housing and Urban Development's median family income-based (MFI) income limits system punishes persistent poverty counties. To qualify as low-income, an individual's income must not exceed 80% of the area's median income. In such a county, the median income will be quite low. This makes it difficult to qualify as low-income, because in effect, all of your neighbors are also low-income. Whereas, with a separate, constant figure to compare to – as with the Federal Poverty Limit – individuals are not disadvantaged because of where they live and the financial makeup of their neighborhood.

In this exact instance, a proposed solution to the MFI system is the implementation of a national non-metropolitan floor, similar to the existing statutory state floor. As the Notice already explicitly cites the inclusion of a national nonmetropolitan floor for the calculations used in the proposed measurement, PRT supports use of the MFI system. However, it is absolutely critical that if the MFI system is used, it always uses the national nonmetropolitan floor – without it, severe consequences of place-based discrimination enter the system. PRT sincerely thanks the Fund for including this national floor language; this is another example of the Department's leadership on solving this important, but mostly overlooked, inequality.

As for the proposal to use census tract level data to measure distress: PRT wants to uplift Fahe's point to strongly warn the Fund that evaluating communities solely on the census tract level, rather than at the county level, especially for rural and persistent poverty counties, will provide an incomplete picture. Census tracts within persistent poverty counties may not themselves be persistent poverty census tracts – and there are even instances of PPC without a single persistent poverty census tract within its borders at all.[4] The fact of the matter is that these places are intertwined at a level that census tracts within cities are not – the county is the real community-level data. Furthermore, there is the issue of data fidelity at the census tract level – much of it is inaccurate, based on very small sample sizes with statistical multipliers that result in huge swings in indicators year-over-year. The population, and government investment in counting these places, are both too low for good data. We do not oppose the inclusion of census tract level data, but it should always be used in conjunction with the county level data.

As the quality and granularity of poverty data improves, it allows for greater targeting of resources to persistent poverty areas. Individuals residing in a persistent poverty census tract contained in a county with wealthier areas would not be eligible to benefit from Fund resources targeted to persistent poverty counties. This combined approach with different levels of granularity will generate a clearer and more accurate data analysis in regions and communities that are too sparsely populated, or whose data is not collected and updated often. The more flexibility and options these smaller communities have to analyze their data, the better informed decision makers are. This leads to more evidence-based program design and implementation.

Deep impact lending (F.2)

PRT is supportive of the deep impact lending definition. However, as outlined in the section above ("Measuring economic distress") there are problems inherent in systems which govern income limits. These problems impact the measurements proposed at F.2.a.i. and F.2.a.vii.

At F.2.a.i., the definition of low-income uses an unmodified MFI system. This means that, in persistent poverty counties, and nearly 600 more low-income rural counties, there are thousands of families who should qualify but will not.

At F.2.a.vii., the issue is more complex. In Fahe's target areas, the financing of affordable housing with a significant portion of the units set aside for very-low and extremely-low income families is difficult to impossible. The incomes of extremely-low income families (30% AMI) are oftentimes pegged to the federal poverty level, in the same floor-based arraignment. This means that the Fair Market Rents (FMRs) that can be charged to those families are also extremely low. The low FMRs, coupled with the paucity of funding streams available in these communities, make it nearly impossible for projects to have reliable and consistent cash flow. In the absence of cash flow, these desperately needed units do not get built.

PRT echoes and advocates for Fahe's recommendations:

- the MFI issue be reflected in the definitions and metrics for deep impact lending,
- the Underserved Communities header in the Qualified Lending category be included from ECIP guidelines, and
- lending in low-income census tracts be included.

Net Asset Ratio (F.3)

The Fund asks if the Net Asset Ratio is the appropriate measure to assess if a CDFI is effectively utilizing its balance to leverage resources. Fahe believes that by using Net Asset Ratios to target FA awards, the Fund will inadvertently create a system in which CDFIs will be incentivized to work only in areas where it is easy to move capital, and this will in turn lead to only those CDFIs being awardees. This will stifle investment in the hardest-to-serve communities and reduce the Net Asset Ratios of CDFIs in those places. Though it is certainly not the intention of the Fund, this would in effect be inherently biased against rural-serving CDFIs.

SECA Maximum Asset Size (F.5.c)

PRT echoes our national partner, OFN, that the SECA Award category is valuable. Given its value, there should not be a limit on the number of SECA awards a CDFI can obtain.

Business strategy and the lending sector impact decisions about leverage. Prudent practice for a housing lender will be different from a small business lender. Some CDFIs choose to use some of their grant capital for lending to make their products more affordable to their borrower. Others may choose to be more conservatively leveraged based on portfolio risk.

The availability and pricing of debt capital in a particular market is also a factor. Some sources of debt capital restrict its use by geography or other factors, limiting the ability of a CDFI to deploy this capital which can lead to a higher than desired net asset ratio. Rural serving CDFIs identify this as a concern.

The current maximum asset size for an unregulated institution to qualify for Small an Emerging CDFI Assistance (SECA) is $5 million and has not been updated since 2006. PRT would prefer that there were no asset size limits on SECA assistance. However, if that is not acceptable to the Fund, we support raising the asset limit to $25 million and then chaining it to CPI-W. We propose this in recognition that organizations wishing to enter the CDFI world may already be established nonprofits of varying sizes and have a variety of assets including real property.

Especially among housing nonprofits, real property ownership may cause large asset size, but have very little impact on revenue flow and therefore little impact on capacity.

The goal of the SECA application tract is to grow small and emerging CDFIs by limiting application and evaluation burden; a nonprofit with a newly created CDFI with one dedicated staff member and a tiny loan fund, does not stop being small and emerging just because the nonprofit which created it also has a portfolio of income-restricted rental properties.

Defining "Larger CDFI" (F.8)

PRT strongly objects to the characterization of an unregulated institution with assets of more than $25 million as a "Larger CDFI". There are two primary issues with using $25 million as a threshold for designating CDFI size classes: 1) it is far too low to serve as a break point for "large" and for the proposed use of designating cut off points for FA, and 2) it ignores all other information about the CDFI. The idea that a $25 million in assets a CDFI ceases to require assistance with growing its services, products, and geographies is simply untrue.

The picture of this need is not one of asset size alone, either. Also important is the context of the CDFI and the communities in which it works. As mentioned earlier, CDFIs in rural areas have a much harder time attracting investment – especially through the CRA – because of the dynamics of their communities. The same asset size, in two different geographies, will not have the same impact, the same capacity, or the same ability to attract and distribute investments.

Hard to serve places have low incomes across the board, limited access to private investment, low levels of federal investment, structural issues with the way that target populations are identified and served (see above: "Measuring Economic Distress" and "Deep Impact Lending"), and less density. All of these issues make it extremely difficult for a CDFI in such a place to hit self-sufficiency off of earned income at the same asset size as the more urban-based members of their cohort.

PRT opposes the definition outlined in the Notice for "Larger CDFI's" as it relates to unregulated institutions. Instead, we propose the Fund adopt the lower end of the definition found in the Community Reinvestment Act for the subcategory of "intermediate small bank"[5]. Under this proposal, a "larger CDFI" would be an unregulated institution with more than $346 million in assets. This provides an ongoing, regularly updated, indicator of the success of CDFIs with a somewhat similar market.

Continued Viability (F.10)

The statute requires that a CDFI applying for FA not be dependent on receiving an award to assure its viability. An FA award should not be used to "prop up" an institution that would otherwise fail without it. Any public or private source of subsidy, including an FA award, enables a CDFI to expand its work in its target markets and increase its community development impact. Subsidy will always be important to address the systemic inequities and injustice present in the US economy. This can be seen with PRT Partner Fahe.

Fahe does not rely on CDFI FA for continued viability. They use the FA on their balance sheet to leverage more funding for their communities and neighbors. The need far outstrips their ability to serve with their current resources, and every dollar of FA received allows them to do more. As we duplicate a quote from the Opportunity Finance Network comment for this Notice: “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?”

Conclusion

The Partners for Rural Transformation commends the Fund for its continued partnership and leadership in the effort to provide investments in the communities which need them most. The CDFI Fund’s programs, inclusive of the Financial Assistance and Technical Assistance programs discussed here, are irreplaceable tools in the arsenal of CDFIs like PRT Partners. PRT fully endorses and supports the individual comments made by the Opportunity Finance Network and Fahe.

In partnership,

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PARTNERS FOR RURAL TRANSFORMATION

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[1]https://www.urban.org/sites/default/files/publication/99704/tracking_the_unequal_distribution_of_community_development_funding_in_the_us_2.pdf
[2] E.g. Pike & Pulaski Co.’s, KY: https://www.ers.usda.gov/webdocs/charts/62752/persistentpoverty.png?v=5098.8
[3] https://www.ruraltransformation.org/wp-content/uploads/2021/07/Equity-in-Federal-Housing-and-Community-Development-Funding_A-Proposal-for-a-National-Floor-3.pdf
[4] E.g. Braxton Co., WV: https://www.ers.usda.gov/webdocs/charts/105111/persistentcountytracts.png?v=1053.4
[5] https://www.ecfr.gov/current/title-12/chapter-III/subchapter-B/part-345#p-345.12(u)(1)