Community Development Bankers Association
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December 31, 2019

Ms. Jodie Harris
Director
Community Development Financial Institutions Fund
U.S. Department of Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

Ms. Mia Sowell
BEA Program Associate Program Manager
Community Development Financial Institutions Fund
US Department of Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

RE: Response to Request for Information on BEA Program Application Requirements

Dear Director Harris and Ms. Sowell:

The members of the Community Development Bankers Association (CDBA) respectfully submit the enclosed comments regarding the Notice and Request for Information published by the CDFI Fund in the Federal Register on October 15, 2019. As stated, the CDFI Fund is seeking comment on the Bank Enterprise Award (BEA) Program application.

CDBA is the national trade association of banks and thrifts with a primary mission of promoting community development. 138 banks and 93 bank holding companies have received the Treasury's Community Development Financial Institution (CDFI) designation; CDBA membership comprises 65% of the total assets of the CDFI banking sector and a majority of all CDFI banks.

CDFI banks strongly support the efforts of the CDFI Fund to promote investments in low income and underserved communities. CDBA appreciates the opportunity to provide feedback to maximize the effectiveness of CDFI Fund programs for the benefit of the nation's underserved communities.

General Comments on the BEA Application

CDBA believes that the data and information collected in the current BEA application are appropriate and necessary to determine whether applicants have successfully carried out the reported activities. Our comments on the proposed new application data and information are below. With regard to the number of hours associated with completing the proposed new data collection requirements, we defer to the comments submitted by FUND Consulting and Sones and White as many CDBA members contract with the firms to prepare their BEA applications.

To increase efficiency and reduce the time it takes for applicants to submit, we strongly encourage the CDFI Fund to explore technology solutions that will allow applicants to report all transactions by uploading an electronic file, rather than manual field-by-field data entry for each transaction in AMIS. Many of our members submit hundreds or thousands of loans as part of each BEA application. The current AMIS system is not built for lenders that work at a large scale. It is time consuming and laborious to enter each data point for every loan. There are numerous vendors that could affordably build a system for the US Treasury that would allow for a more efficient submission of large quantities of data via AMIS.

Financial Health Information

Per the request for public comment, "the CDFI Fund is considering requiring applicants to report on their safety and soundness by requesting that they provide information on their most recent independent audit, most recent Community Reinvestment Act (CRA) rating, and any information on enforcement actions." Generally, CDBA believes this is an unnecessary and duplicative request for information because data on the financial performance, CRA ratings and enforcement actions are publicly available through the federal bank regulatory agencies. Each bank is required to report a significant amount of data to their regulators to create these reports. While requiring submission of the reports outlined would not substantially increase the reporting burden under the current application, it is duplicative and does not add value. In the interest of reducing paperwork, CDBA urges the CDFI Fund to use the data already collected and available to the public or which can be obtained through regulatory agencies.

BEA Program Categories

The CDFI Fund requests feedback as to whether to create certain new Qualified Activity categories. We provide the following suggestions:

1. New Qualified Activities – Loans for New Phases of a Project: Under current practice, the BEA Program does not give adequate consideration for loans made to a borrower when the bank first made a prior loan to a project for another purpose. For example, a borrower may have initially obtained a loan for acquisition of a property. At a subsequent time, the borrower may secure financing for construction while refinancing the acquisition loan into a new loan. In such a circumstance, only the net additional financing can be reported for BEA purposes. The rationale is that it is not a "new" loan– rather, it is considered a renewal. CDBA recommends that this policy is revisited and that at least partial credit is allowed. The risk profile of lending at different stages of a project varies. Each phase must be re-underwritten and due diligence must be

conducted based on the current circumstances of the borrower and project. For example, construction lending requires active and on-going monitoring of work prior to approval of new construction draws and there is greater risk of loss, whereas acquisition lending is comparatively more straightforward. Permanent financing is also re-underwritten because a project must be able to demonstrate a stable source of revenue to make payments over a longer period. In summary, we urge the CDFI Fund to consider loans made subsequent to the initial phase, as it is critically important to the borrower to have patient sources of capital ready to support projects in high poverty communities.

2. Working Capital & Equipment Loans: CDBA does not oppose adding a new category for working capital or equipment loans, but has not received any recommendations from its members suggesting that such a new category is necessary or on how it should be defined.

3. Reverse Mortgages: CDBA does not believe the BEA program needs to expand to include reserve mortgages, as this type of financing is not typically offered by CDFI banks or other financial institutions that are eligible applicants under the BEA Program.

Existing Qualified Activities:

1. Discontinuation of Existing Qualified Activities: CDBA does not have any recommendations for discontinuation of any current Qualified Activities.

2. Small Dollar Consumer Loans: CDBA recommends that the $500 minimum and $5,000 maximum limits on small dollar consumer loans be eliminated. The maximum threshold should be raised to $10,000 with no minimum standard. Loan products that provide a responsible alternative to pay day loans should be permitted. As such, the CDFI should define the features of loans that are BEA qualified (i.e. maximum APRs, no prepayment penalties).

3. Small Business Loans: CDBA recommends that current small business lending definitions are modified to eliminate the loan size by industry requirements. This would eliminate an extra set of data collection requirements. The focus should be on getting capital into distressed communities. Smaller loans, however, should receive extra credit in the award calculation process to incentivize applicants to engage in more small business lending.

4. Service Activities: CDBA recommends that the amount of credit afforded for opening a new bank branch be raised to $1,000,000. Powerful economic forces make it difficult for small banks to open new branches as the popularity of electronic and mobile banking among consumers increases. In fact, most banks are under significant financial pressure to close branches. Yet, we know from research that the presence of a retail

branch can have a catalytic impact on a low-income community. To this end, CDFI banks that create new brick-and-mortar branches should receive additional consideration under BEA.

Impact of Program Related Loans:

1. Business Description & Impact Description

Per the request for public comment, the CDFI Fund is considering adding text entry fields to each BEA transaction. Specifically, it is requesting feedback on whether a new business description and impact description should be added. CDBA urges the CDFI Fund <u>not</u> to include these proposed pick list or text entry fields. We believe such a new requirement will significantly increase the number of hours needed to complete each application.

As you are aware, applicants often report hundreds (and even thousands) of loans each cycle. The proposed addition will impose a barrier of significant additional hours to complete each application. Moreover, it will impose significant new costs to the banks, including modification to each banks' core system, internal data collection infrastructure, and staff training. None of the commercially available core systems on the market are set up to collect, store and report this type of data. The annual set up cost will be enormous, and the on-going data collection expense will likely exceed the $223,681 average annual BEA (2019 per CDFI Fund data).

The benefit of collecting the proposed business and impact descriptions is questionable from a public policy perspective, as the data cannot be aggregated or analyzed without common definitions. As discussed above, reporting this information is further complicated by the challenges in reporting large quantities of data under AMIS.

2. Affordability of Program Related Loans & Investments

Per the request for public comment, the CDFI Fund is considering adding data fields related to pricing of loans or investments (i.e. interest rates, terms, fees) to better understand the affordability of BEA transactions for consumers. Similar to the costs of business and impact descriptions, the cost for the banks to modify their existing systems to collect and report this information will be enormous and will likely exceed the set-up and on-going data collection expenses. CDBA members, however, are sympathetic to the concern of ensuring customers have been offered products that are affordable and consumer-friendly. In lieu of imposing new data reporting requirements, we would be happy to engage in a conversation about setting affordability standards for products to be BEA Qualified Activities. We believe this could achieve the same objective without creating new data collection requirements.

We respect the CDFI Fund's desire to understand the type, impact and pricing of transactions reported under BEA. However, we feel that the additional cost and time burden of the proposed new reporting requirements will greatly exceed any reasonable cost-benefit analysis given the modest size of the average BEA award. We also note that Congress' intent in creating the BEA Program was to incentivize banks to increase the dollar volume of their activities in distressed communities and other categories of Qualified Activities. To that end, we question whether the significant new data collection requirements would be so burdensome as to undermine congressional intent and discourage banks from engaging in certain beneficial activities.

Award Selection Process

CDBA strongly urges the CDFI Fund to refrain from amending the current award selection process. BEA has been a highly effective tool to help banks increase their lending, investment and services in the most severely distressed communities in the nation. We attribute the clear rules and formulaic nature of the award calculation as the basis for the program's success. This formulaic process enables banks to plan and develop strategies for business outreach and deployment because they know which census tracts and types of loans are BEA qualified and how activities are valued and prioritized. Many of the proposed changes will introduce subjectivity and unneeded chaos into each funding round. This will undermine the historic effectiveness and impact of the program.

1. Award Amount & Calculation:

   CDBA does not support amending the current award calculation to: (1) give priority or higher awards to applicants that increase their Qualified Activities in more than one category; (2) establish a maximum loan amount for CDFI Related Activities, Distressed Community Financing Activities; or (3) Service Activities. The needs of every Distressed Community are different and the strategy of each bank to meet those needs will vary based on the size of institution, breadth and mix of products and services they offer, types of non-bank CDFI partners in the market, and market conditions. The CDFI Fund should not assume that a bank with had increases in multiple categories is doing a better job of serving its community than a bank that increased in only one category.

   Every year, CDFI banks work to originate loans to every good borrower and creditor it can reach in BEA eligible census tracts. Yet, market demand is highly unpredictable and other factors outside of the control of a bank can influence in which categories they increase from year-to-year. The BEA Program should continue to encourage and reward banks for achievement across all or any single Qualified Activity category each and every year. In the 25 years since the creation of the CDFI Fund, one of the most important long-term outcomes achieved has been the creation of a national network of banks that are proactively focused on serving low-income communities. The BEA Program has played a central role in expanding the number of CDFI banks because it provides a clear, predictable, and transparent set of incentives that keeps bankers focused on the most distressed places over the long term – including "good" years when they have increases in multiple categories or modest years when they have increases in only one.

As noted above, the current BEA award calculation method is clear and transparent. This feature has been a large part of the program's success since the first funding round in 1996. CDBA strongly urges the CDFI Fund to retain the current award calculation process. Our members firmly oppose the introduction of subjective criteria. The use of subjective criteria may be a good fit for the purpose and program objectives of the CDFI Fund's other programs, which fund prospective activities proposed by an applicant. Such criteria, however, are a poor fit for the BEA Program, which is based on a retrospective review of past activities.

2. Persistent Poverty Counties

   CDBA opposes prioritizing awards to applicants who invest in Persistent Poverty Counties (PPCs) based on the transactions reported in their applications. All Distressed Community census tracts are among the most distressed in the United States, with at least 30% poverty and 1.5 times national unemployment. The residents of these census tracts face extreme barriers to economic opportunity regardless of whether located in a PPC or not. Yet, PPCs are unevenly spread across the nation. Congress intended for BEA to be a national program. Prioritizing PPCs over other parts of the nation would undermine congressional intent and support for the BEA Program and CDFI Fund overall. Finally, the proposed prioritization is unnecessary since there is already a statutory requirement that at least 10% of BEA awards be committed into PPCs and awardees have consistently exceeded the requirement.

3. Integrally Involvement

   We thank the CDFI Fund for its efforts to streamline the requirements for CDFI Partners to meet the Integrally Involved documentation requirements. We believe that these changes have helped CDFI banks form partnerships with new CDFI Partners across the nation and have helped advance the BEA Program purposes.

In conclusion, the membership of CDBA fully appreciates the thoughtful consideration of the CDFI Fund and its staff in continuously seeking to improve the effectiveness of the CDFI certification process. We sincerely appreciate the opportunity to comment and offer feedback. We look forward to future discussion on these important issues.

If you have any questions, please contact Jeannine Jacokes, CDBA Chief Executive Officer, at 202-689-8935 ext. 222 or *jacokesj@pcgloanfund.org*.

Thank you for considering our recommendations.

The Membership of the Community Development Bankers Association

Amalgamated Bank
Bank of Anguilla
Bank of Brookhaven
Bank of Cherokee County
Bank of Commerce
Bank of Franklin
Bank of Kilmichael
Bank of Lake Village
BOM Bank
Bank of St. Francisville
Bank of Vernon
Bank of Winona
BankFirst Financial Services
BankPlus
Bay Bank
Beneficial State Bank
BNA Bank
Broadway Federal Bank
Carver Federal Savings Bank
Carver State Bank
Central Bank of Kansas City
Century Bank of the Ozarks
Citizens Bank & Trust Company (Marks, MS)
Citizens National Bank (Meridian, MS)
City First Bank of DC
The Cleveland State Bank
The Commercial Bank
Commercial Capital Bank
Community Bancshares of Mississippi
Community Bank of the Bay
Farmers and Merchants Bank
FBT Bank & Mortgage
The First Bank
First Eagle Bank
First Independence Bank
First National Bank & Trust
First Security Bank
1st Southwest Bank
FNBC Bank
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GN Bank
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