June 26, 2017

The Honorable Shelly Moore Capito
Chairman
Subcommittee on Financial Services &
General Government Appropriations
United States Senate
172 Russell Senate Office Building
Washington, DC 20510

The Honorable Tom Graves
Chairman
Subcommittee on Financial Services &
General Government Appropriations
United States House of Representatives
2000 Rayburn House Office Building
Washington DC 20515

The Honorable Christopher Coons
Ranking Member
Subcommittee on Financial Services &
General Government Appropriations
United States Senate
127A Russell Senate Office Building
Washington, DC 20510

The Honorable Mike Quigley
Ranking Member
Subcommittee on Financial Services &
General Government Appropriations
United States House of Representatives
2459 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Moore Capito, Chairman Graves, Ranking Member Coons and Ranking Member Quigley:

On behalf of banks and credit unions across the United States that are certified by the U.S. Department of the Treasury as Community Development Financial Institutions (CDFIs), we strongly urge you to support $250 million in FY 2018 funding for the Community Development Financial Institution's (CDFI) Fund. We applaud you for reconfirming a strong commitment to the CDFI Fund by approving $248 million in FY 2017.

CDFI banks and credit unions are regulated mission-oriented financial institutions committed to promoting economic opportunity and providing responsible financial services in low-income communities.

Request: As part of the FY 2018 Financial Services and General Government appropriations bill, we urge you to include legislative and report language that explicitly reaffirms Congressional intent that the US Treasury Department's Community Development Financial Institutions (CDFI) Program support the entire diverse CDFI sector.

Background: Authorized by the Riegle Community Development Banking and Financial Institutions Act of 1994 (Pub. L. 103-325, 12 U.S.C. 4701 et seq.), the CDFI Program is unique because it provides equity capital to financial institutions with a primary mission of community development. No other Federal program provides this type of critical enterprise-level support that enables CDFIs to build capacity, leverage private capital, and expand lending and services for the benefit of low-income communities.

Over the past 20 years, these resources have enabled CDFIs serving distressed urban and rural communities across the nation to create jobs, promote small businesses and homeownership, support affordable rental housing, provide community services, and promote fair and responsible consumer loans and financial services.

Problem: When the CDFI Fund was authorized in 1994, the legislative record clearly indicated that Congress intended for the CDFI Program to serve all sectors of the highly diverse CDFI industry, including regulated banks, bank holding companies, credit unions, unregulated nonprofit loan funds and venture capital funds. Yet, the CDFI Program's evaluation process combines this highly diverse group of institutions into a single applicant pool that has produced highly uneven outcomes across the industry.

The industry includes strong, impactful CDFIs across all sectors. Yet, over two decades, the "one-size-fits-all" single-pool evaluation process resulted in an imbalanced distribution of resources as illustrated in Chart 1. As of May 31, 2017 2016, there were 139 CDFI banks with 87 CDFI bank holding companies, and 309 CDFI credit unions certified by the CDFI Fund. Collectively, these institutions represent nearly 50% by number of all CDFIs and 90% of the total assets of the entire CDFI sector. Yet, over 1996-2016, CDFI banks and credit unions have only received 6% and 11%, respectively, of the total CDFI Program awards. By contrast, nonregulated loan funds received 81% of all funds (but represent only half of all CDFIs and an estimated 9% of the total assets of the industry).

The single pool evaluation process creates unintended – but real – bias that plays to the strengths of the unregulated CDFI sectors while ignoring the strengths of the regulated CDFIs. Placing the highly diverse organizations with different operating environments into a single applicant pool elevates the bias. Treasury officials acknowledge this challenge, yet report they cannot change the evaluation process to accommodate the CDFI subsector differences without a clearer legislative directive from Congress. To fulfill Congressional intent, it is important for the CDFI Fund to serve the entire CDFI industry – not just one subsector.

CDFI Program Awards By CDFI Sector						
Chart 1	**CDFI Industry by Number**		**CDFI Industry by Sector Share**		**CDFI Program Awards**	
CDFI by Type	**Number @5/31/2017**	**% of CDFIs**	**Total Assets (note 1)**	**% of CDFI Assets**	**Total awards 1996-2016 (note 2)**	**% of CDFI Program Awards**
Bank & Bank Holding Company	226 (139 banks, 87 bank holding companies)	20%	$50.1 billion	32%	$122.8 million	6%
Credit Union	309	28%	$90.2 billion	58%	$250 million	11%
Loan Fund	563	50%	$14.1 billion	9%	$1.8 billion	81%
Venture Fund	17	2%	$208 million	<1%	$38 million	2%
Total	1,115	100%	$154.8 billion	100%	$2.44 billion	100%

Note 1: Data for banks and credit unions based on 3/31/2017 actual data as reported by FDIC and NCUA. Loan fund and venture fund data estimated in January 2016 the CDFI Fund. No standardized or publicly available reporting system currently available for nonregulated CDFIs.

Note 2: Source is CDFI Fund. Chart above reflects funding for only CDFI Program because only CDFIs are eligible to apply. Congress intended for this program to build the capacity of the entire CDFI sector, including CDFI banks and credit unions. The chart does not include the New Market Tax Credit (NMTC) Program, Bank Enterprise Awards (BEA) Program and Capital Magnet Programs because these initiatives are designed to achieve different program goals and eligibility includes CDFIs and non-CDFIs.

Many distressed communities across the United States do not have CDFIs. Organizing a de novo CDFI is challenging and requires resources that many low-income communities do not have. Most of these communities, however, do have community banks and/or credit unions that are deeply committed to their communities and may be able to qualify and/or become a CDFI. The CDFI Program's evaluation process discourages these regulated institutions from seeking certification or participating in its programs because the prospects for successfully competing for resources is low.

Proposed Legislative Language Amendment

1. Recommended Statutory Change:

12 USC 4706(b) is amended by striking the period after "areas" and adding *"and diverse applicants by institution type, which shall include all types of Insured Community Development Financial Institutions as defined by 12 USC 4702(c((13) and non-insured Community Development Financial Institutions in proportion to their representation by number in each application pool."*

2. Recommended Accompanying Report Language:

Congress directs the CDFI Fund to ensure that its CDFI Program evaluation process results in a diverse group of awardees by institutional type, including Insured Community Development Financial Institutions that are banks, bank holding companies, and credit unions and non-insured CDFIs that are loan funds and venture that is proportional by number to the applicant pool for each funding round.

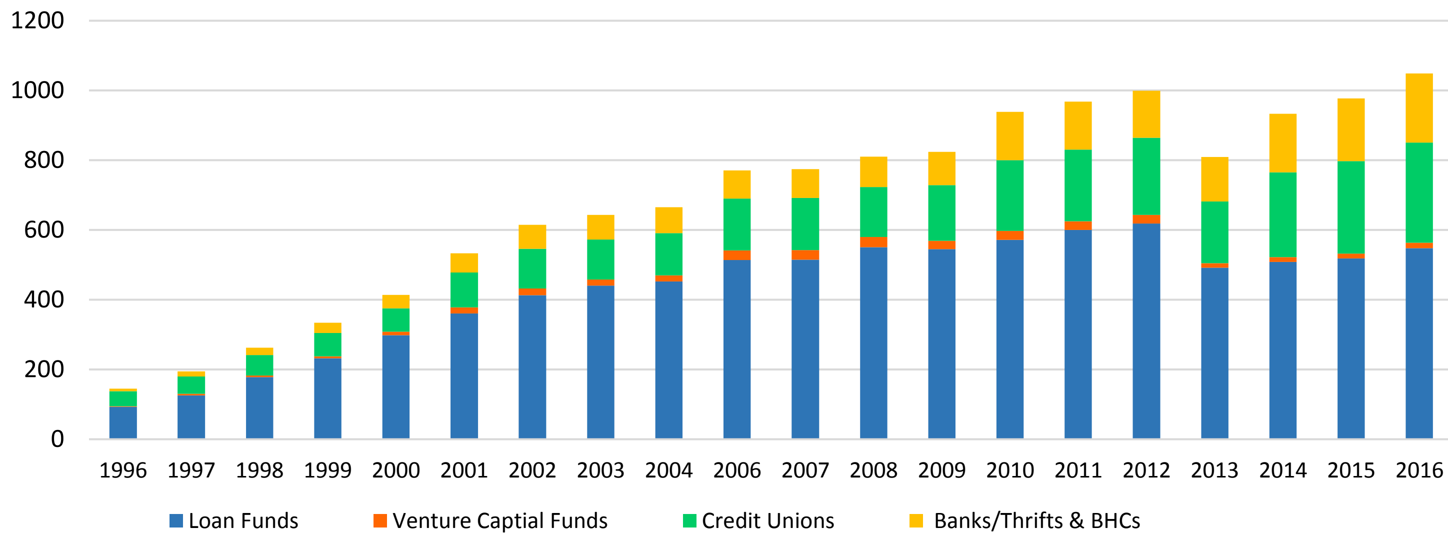
We strongly support the CDFI Fund as one of the Federal government's best market-based strategies for leveraging private dollars to restore economic vitality. We urge you to continue to provide strong funding levels in FY 2018 and beyond, as well as ensure that it fulfills Congressional intent to build the entire sector for the benefit of low-income communities nationwide.

We thank you for the opportunity to comment on this important matter.

Sincerely,
American Bankers Association
Community Development Bankers Association
Credit Union National Association
National Federation for Community Development Credit Unions
Independent Community Bankers of America
National Association of Federally-Insured Credit Unions
National Bankers Association

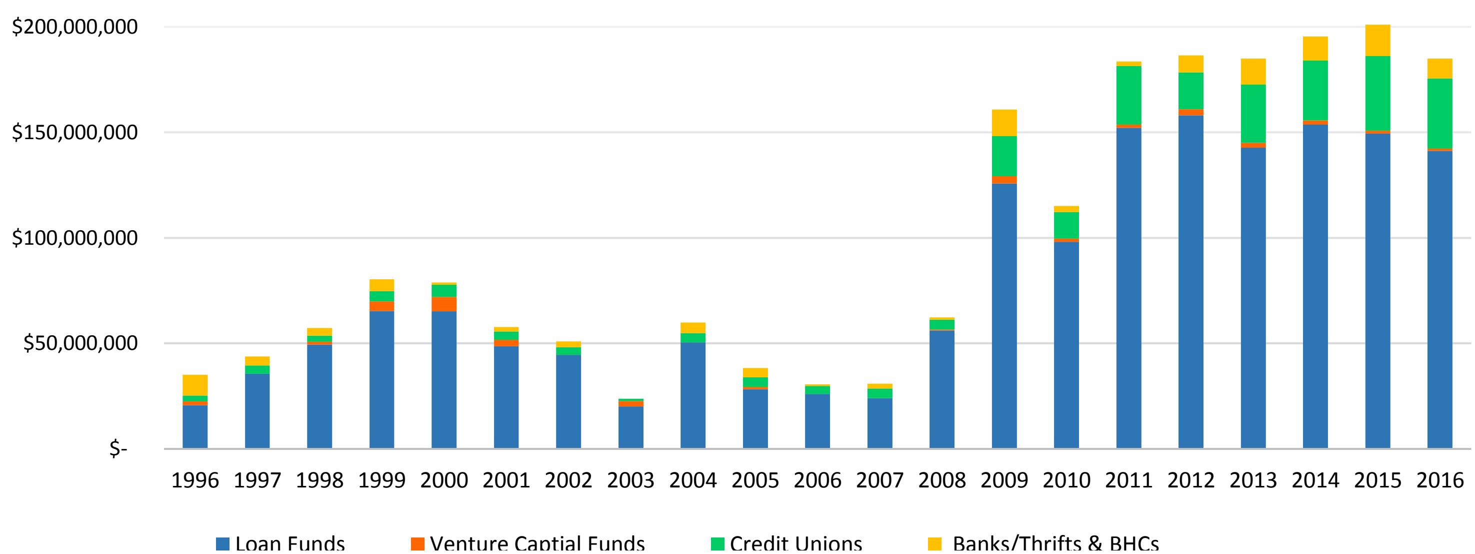
CDFI Certification History by Industry 1996-2006

See Note 1, next page

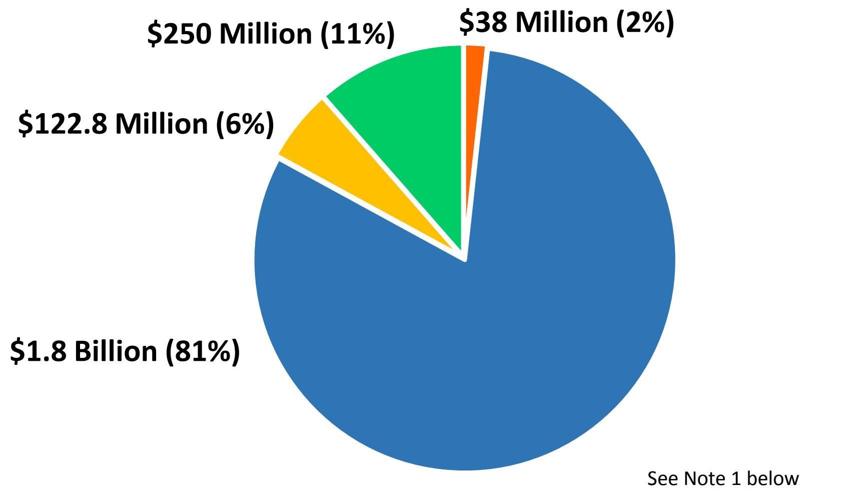


CDFI Program Allocation by Industry 1996-2006

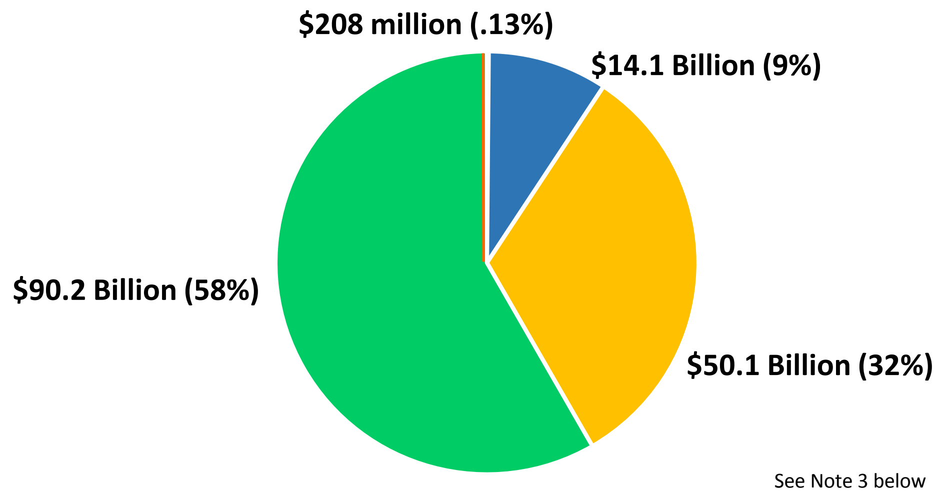
See Note 2, next page



CDFI Program Awards by Type 1996-2016

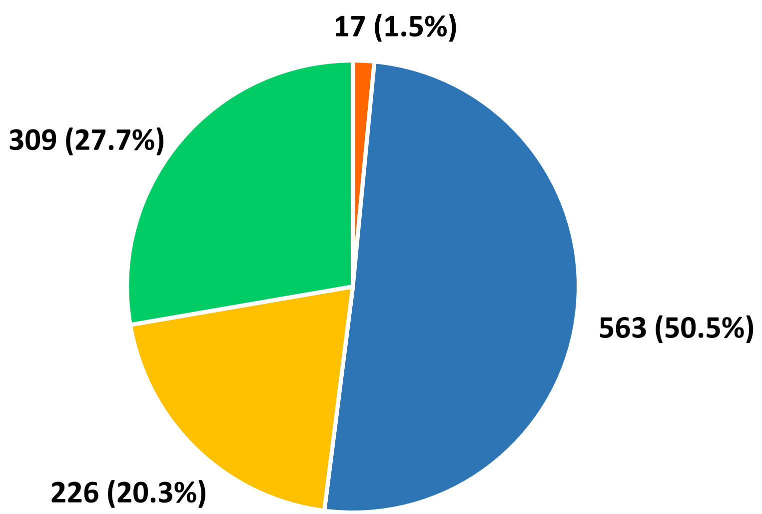


CDFIS By Total Industry Size as of Q1 2017

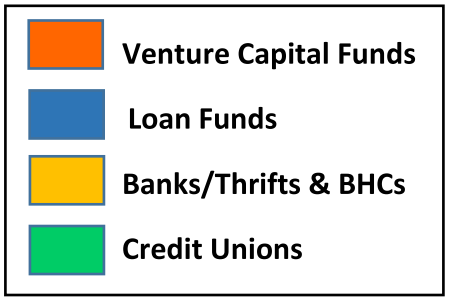


Total Industry: $154.8 Billion

Number of CDFIs by Type as of 5/31/17



Total Certified CDFIs: 1115



*1. The CDFI Program Awards include the CORE, FA, TA, SECA, HFFI-FA, NACA-FA & NACA-TA programs. All data unless otherwise noted is sourced from the CDFI Fund. Analysis focuses on the CDFI Program only. The CDFI Program was designed by Congress to build the capacity of all CDFIs including regulated and non-regulated CDFIs. This analysis does not include the Bank Enterprise Award Program, the New Market Tax Credit Award Program, and CMF because such programs are designed to achieve different program goals and both CDFIs and non-CDFIs are eligible to apply.

*2. In 2013, the CDFI Fund instituted new procedures for reclassification of CDFIs.

*3. Source: Federal Deposit Insurance Corporation (3/31/2017 Call Report), National Credit Union Administration (3/31/2017 Form 5300 data), January 2016 estimate for Loan Funds and Venture Capital Funds provided by the CDFI Fund (Snap Stat published June 2016).