Community Development Bankers Association
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September 8, 2014

Mr. Dennis Nolan
Deputy Director
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Ms. Brette Fishman
Management Analyst
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
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Dear Mr. Nolan and Ms. Fishman:

The members of the Community Development Bankers Association (CDBA) are writing in response to the Notice for Public Comment published on July 8, 2014 by the Community Development Financial Institutions (CDFI) Fund seeking comments on the proposed Annual CDFI Reporting Form.

CDFI Bank Sector:

Today there are 99 CDFI certified banks and thrifts, and 56 certified bank holding companies. These mission-focused financial institutions are a specialized niche within the banking industry. CDFI banks represent only 1.5% of the 6,656 banks in the nation. CDFI banks, however, are very important to the CDFI sector. While certified banks represent only 17.5% of all 884 certified CDFIs, by asset size they account for more than 50% of the total assets of the entire industry.

CDBA is the national trade association of the community development banking sector, the voice and champion of CDFI banks and thrifts. CDBA represents Federal and State chartered banks, thrifts, and their holding companies that are certified by the CDFI Fund. CDBA members serve our nation's most distressed and credit-starved communities and are engines of economic inclusion throughout the United States.

General Comments

We applaud the CDFI Fund for its efforts to continuously improve its programs. We fully appreciate the agency's efforts to collect financial and service data on a regular basis to provide the CDFI Fund, the industry, policymakers, and other stakeholders with greater insight into the state and accomplishments of CDFIs.

We wish, however, to: (1) express concern about certain elements of the proposed form; (2) suggest some alternatives data collection strategies that will improve the efficiency and consistency of data collection for the CDFI Fund and the industry; and (3) make recommendations on steps the CDFI Fund could take to build the capacity of the sector to collect social impact data.

Based on the Notice for Public Comment, it is our understanding that the proposed Annual Data Collection (ADC) Form will serve as a substitute for the current three-year recertification process. This data collection effort will also provide the CDFI Fund with information on the performance and activity of the entire sector regardless of whether or not a CDFI participates in the CDFI Fund's programs. We fully appreciate the CDFI Fund's intent to reduce the reporting and administrative burden of the three-year recertification cycle.

We are concerned, however, about the volume and frequency of certain proposed data points. We appreciate the CDFI Fund's desire to enhance the field of knowledge of the sector. But, given the great costs and burdens associated with collecting data from customers, we urge the CDFI Fund to focus on collecting only those data points that are most strategic and can be used to maximum effect.

While much of the proposed reporting may be manageable for small unregulated CDFIs, for regulated CDFIs that operate at a significantly larger scale, collection of data creates a far greater burden and cost. Such burden and cost, in some cases, may outweigh the benefits of certification – particularly when regulated CDFIs have historically received a disproportionately small portion of CDFI Program and New Market Tax Credit (NMTC) resources. While regulated entities would <u>not</u> change their missions or their commitment to their communities, they may elect to forego certification status if the compliance costs may outweigh the benefits. This would be a loss to the CDFI industry.

<u>Target Market Qualification Period</u>: We urge the CDFI to retain using a "3-year rolling" approach for the purpose of determining whether a CDFI meets the Target Market test. Annual (versus 3-year) reporting and recertification may create unanticipated problems with changes in market cycles or shifts in eligible areas when new U.S. Census or other government economic data is released. A change in policy may have the unintended consequence of inadvertently jeopardize some impactful organizations' certification status.

Clarifications

The instructions of the ADC Form state that certified CDFIs that "currently report on active awards are only required to complete Part I." We seek clarification that this exemption is applicable to CDFI banks participating in the Bank Enterprise Award (BEA) Program's one year post-award reporting period – not just the CDFI Program or NMTC Program.

We further urge the CDFI Fund to clarify the consequences of the following scenarios: (1) if a CDFI, cannot report all of the requested data because it has not collected the data in the past or cannot get it from a customer;

(2) if a CDFI does not have the ability to verify borrower reported information; and 3) in the event a CDFI cannot fulfill all of the data collection and reporting requirements, will they lose their certification? If so, will there be a cure period under which a CDFI can maintain certification status and/or not be disqualified for an award under any of the CDFI Fund's Programs?

Part 1 Certification

General: We appreciate the CDFI Fund's efforts to use a uniform form to collect standardized information. One of the positive attributes of the current certification process is that it is relatively flexible. The process allows applicants to submit information tailored to the unique circumstances of their institution. We urge you to retain this flexibility. It is unclear how the proposed form would accommodate significant changes in a CDFI's focus or structure (e.g. merger/acquisition of two CDFIs, a change to a mission statement).

Clarification is need on Part 1 of the ADC Form on the Target Market Accountability Table. It is not clear what type of information the table is requesting; and thus, difficult to provide comment. Otherwise, Part 1 of the ADC Form generally appears very straightforward and no specific comments are recommended.

Bank Holding Companies: We urge the CDFI Fund to enable bank holding companies to submit joint recertification application with their bank subsidiaries. The current system requires resubmitting the same information for holding companies as is provided for their corresponding banks. This process is duplicative and creates excess paperwork when the same documentation and identical information is submitted twice and/or on different recertification schedules. A combined application will reduce paperwork and streamline the process for both the applicants and the CDFI Fund staff to review.

Part 2 Financial and Operational Data

Use Established Definitions: In the case of CDFI banks, we strongly recommend that the CDFI Fund: (1) use the same Call Report/Thrift Financial Report (TFR) financial, operational and loan reporting categories and definition as used by the Federal banking regulatory agencies; and (2) waive the requirement that CDFI banks resubmit this data since it is already widely available and accessible to the general public through the FDIC's website. Using data already submitted to the regulatory agencies will enhance the efficiency of data collection by the CDFI Fund, and using the Call Report/TRF definitions will enhance consistency. This approach will minimize burden and costs for CDFIs banks since all regulated CDFIs have accounting and core systems that are aligned with the regulatory definitions.

Part 2 lines 1-27 request balance sheet, income statement, loan origination, and loan portfolio data. Several of the terms (e.g. Net Assets) and categories (e.g. grants, program related investments, equity equivalent investments) are common to nonprofits, but not applicable to insured banks and thrifts or their holding companies. Part 2, as proposed, would greatly exacerbate the costs and regulatory burden for regulated CDFI banks because the financial, operational, and lending data points do not correspond to the definitions mandated by the Federal banking regulatory agencies.

Compliance with proposed definitions would require reclassification of hundreds-to-thousands for loans for each bank, as well as building and maintaining parallel data systems.

Loan and Investment Data

Implementation: We strongly urge the CDFI Fund to implement new reporting requirements on lending and investment activity on a "going forward" basis only – rather than requiring CDFIs to manually review, reclassify, and/or geocode data for transactions originated in past years. Furthermore, the CDFI Fund should phase-in any new reporting requirements over a period of time to allow CDFIs to build the internal capacity to manage compliance.

Outstandings v. Originations: Line 21 of the ADC Form requests data on the number and dollar amount of loans originated. While data on outstanding loans is typically reported on the Call Reports/TFR on an outstanding basis (Schedule RC-C1), the banks have the capacity to report on annual originations provided they are reported using current regulatory definitions. We recommend that the CDFI Fund clarify whether the new certification requirements will be based on annual loan originations or outstanding loan portfolio. Greater clarity is requested on how to report loans originated and sold to secondary markets.

Business/Commercial Lending: Of important note is reporting on small business loans. While loans to small businesses and small farms are reported on Schedule RC-C2, the regulatory agencies require any loan (regardless of purpose) that is secured by real estate to be reported as a real estate loan. So, a loan made by a CDFI bank to a small business owner that pledges his/her home as collateral must be categorized as a real estate loan. Some banks have the capacity and data infrastructure to track these loans as business loans using NAICS industry codes, others do not. CDFI banks should have the option to report supplementary business lending data if they wish to highlight their business lending.

Community Facilities: The ADC Form requires reporting of loan and social impact data using the Community Facilities definition from 12 CFR § 1805.104(k). While CDFI Banks are active lenders to borrowers for real estate used for health care, childcare, educational, cultural or social services, the regulatory agencies' loan classifications and definitions do not correspond to the CDFI Fund's definitions. Such lending falls under the general category of Non-Farm Non-Residential (NFNR), which includes all commercial real estate regardless of loan purpose. To separately break out loans meeting the Community Facility definition from other NFNR loans would be manually intensive and expensive.

Full Time Equivalents: Regulated CDFIs already report Full Time Equivalents (FTEs) on the Call Report/TFR using a methodology outlined by the regulatory agencies. The categories of staff and consultants outlined on Line 28-29 are inconsistent with regulatory practices and unnecessary since regulated CDFIs automatically meet the Financing Entity test without reporting on staffing.

Part III Target Market

We strongly recommend that the CDFI Fund streamline its process for allowing CDFIs to modify their Target Markets. Markets change and new opportunities for meeting community needs can arise quickly. Currently, it can take more than a year for a CDFI to get approval to modify a Target Market. CDFIs should be permitted to request a Target Market change at any time. But, if the CDFI Fund does not act of the request within 90 days, it should automatically be approved provided a new geographic area meets the Investment Area and/or a qualified Low Income or Other Target Market is being served. A CDFI should be permitted to report lending or other activities in such eligible Target Markets when submitting an annual report.

Loan & Investment Information:

Small Loans: We recommend that the CDFI Fund place minimum dollar thresholds on transactions that must be geocoded and reported in Part III. For example, small consumer loans are important in many low income markets, but costly to deliver. Imposing geocoding requirements on very small loans increases expenses; and thus making it more difficult for CDFIs to cost-effectively offer. CDFIs should have the option to geo-code and report very small loans, but should not be required to do so if they already meet the Target Market test without these transactions.

Rural Communities & Business Borrowers: We are concerned that mandatory geocoding may create problems for remote rural communities and small business borrowers whereby customers often use Post Office Box addresses instead of a physical address. Post Office Boxes cannot be accurately geocoded. Thus, a CDFI may be serving a needy community, but the inability to report transactions using census tract data could result in their eligible activities being under-represented. If geocoding becomes mandatory, we recommend that some accommodation be made not to penalize CDFIs whose customers use Post Office boxes as an address. We also note that geocoding may create additional problems for CDFIs serving rural areas comprised of counties. County level geocoded data meeting the Investment Area requirements is not as easily accessible as census tract data through online or other electronic means. This circumstance could create greater barriers to program participation by rural CDFIs.

Category Clarification: Lines 1-2 of Part III require reporting on total number and dollar amount of "loans and investments" in Target Markets. Furthermore, Lines 7-8 require reporting on total number and dollar amount of "loans/investments" in Target Markets. We recommend providing greater clarity on the definitional differences between these required sets of items.

Financial Product Information:

We have significant questions -- and potential concerns -- about requiring CDFIs to report on the extent to which they provide financial services for the purposes of certification. Regulated CDFIs (e.g. banks, credit unions) are the only types of CDFIs that can take customer deposits and provide transaction services (e.g. savings and checking accounts). Required reporting places a significantly higher and very costly burden on depository CDFIs that other CDFIs would not be subject to. To the extent that a regulated CDFI wishes to voluntarily provide information on such activity to supplement information on lending or other services, that option should be permitted.

Greater clarity is needed on the type information the CDFI Fund seeks to be reported under "number" and "dollar amount" of financial services. For example, should a financial service be reported by:

- Number of customers that have bank accounts?
- Number of total accounts (e.g. savings, checking, etc.)?
- Number of individual transactions? If so, what constitutes a transaction (e.g. making a deposit, withdrawing money from an ATM, cashing a check, automatic bill pay deduction)?
- How should a regulated CDFI measure "dollar amount" of a financial service (e.g. amount of money deposited, amount withdrawn from an ATM, amount of cash checks, etc.)?
- Does it make sense add all of these different transactions into a single number? (i.e. Will it tell the CDFI Fund anything meaningful from a Target Market perspective?)

Technology and product innovation further complicate this set of questions. For example, prepaid debit cards have proven effective in reaching of un- and under banked consumers -- specifically low to moderate income consumers. More regulated CDFIs have begun offering prepaid debit cards as part of a strategy to bring these populations into the banking system. For cost efficiency purposes, small financial institutions must work with third-party processors to offer prepaid debit cards. If a regulated CDFI offers more than one type of prepaid card product, often they must work with multiple processors across different card programs that each have their own requirements for reporting or collecting information. Within this operating context, the data reporting and geocoding requirements outlined in the ADC Form will be infeasible for regulated CDFIs to implement. Geocoding and data collection of prepaid debit card products is difficult because many of these card account holders are transient and the processing systems of third parties cannot easily changed by small financial institutions.

Geocoding: Geocoding financial services presents some difficult questions. Should a financial service be geocoded based on the location where the account was opened? Where a specific transaction occurred? Where the customer resides? What location should a business account be classified by (i.e. business location, owner residence)? How should an account be classified if a customer has more than one address? Mobile and internet-based banking -- among the fastest growing trend in the financial services -- significantly complicates the question. The Board of Governors of the Federal Reserve has documented[1] over multiple years that low income households have higher usage of mobile banking for financial services that the population as a whole.

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[1] http://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report-201403.pdf

Most regulated financial institutions principally track customer accounts by the branch office in which an account was opened. Such location may -- or may not -- have relevance from a Target Market service perspective since a customer may open an account near their home, work, or another place that is convenient. Requiring geocoding of financial service accounts or transactions by customer residence will be very expensive for regulated CDFIs to implement and inconsistent with current industry practice. Furthermore, as technology rapidly changes how banking services are delivered, a physical address may become increasingly irrelevant from the perspective of understanding services delivered to Target Markets.

Development Services Information:

We are concerned about the extent of new data collection that would be required to complete the Development Services portion of the ADC Form. Greater clarity is needed about the type of information the CDFI Fund seeks to be reported under "number" and "dollar amount" of Development Services. The vast majority -- and most valuable form -- of Development Services delivered by all CDFIs is one-on-one counseling to customers or potential customers. This form of Development Services is integral to provision of credit and tailored to the specific needs of each borrower. While some CDFIs offer classes on financial literacy, home ownership, or related topics, others do not have formal programs. The ADC Form under Part VI (as well as the CDFI Financial & Technical Assistance Application) places too heavy an emphasis and priority on formal programs.

Most technical assistance is delivered to borrowers through the lending process. While some CDFIs track or estimate the number of hours spent providing Development Services (e.g. technical assistance), these figures are generally based on "rule of thumb" assumptions versus actual data collected. Separating out the cost of technical assistance from the daily tasks that a loan officers performs assumes a far more sophisticated level of cost accounting systems than most CDFIs will possess. Implementing such systems would be very costly and time consuming.

Geocoding: As discussed above, geocoding also presents numerous challenges. For simplicity purposes, we recommend: (1) the ADC Form have a "check list" menu of Development Service offerings that CDFIs can use to indicate whether or not they provide a particular service; or (2) CDFIs provide a narrative description of the type of Development Services offered. If a CDFI offers a formal class or a counseling service, they should be able to voluntarily report numbers of customers that participate. We recommend eliminating the requirement that CDFIs report on the costs of providing Development Services since they are so integral to delivery of credit and other services. If the CDFI Fund needs to report data to the Office of Management and Budget or Congress on the amount of Development Services provided by CDFIs, we recommend that it conduct field studies of a sample of CDFIs and use this to develop proxies for the industry. This method will be more cost effective than requiring every CDFI to collect the data. This methodology could also be used to develop proxies for the portion of Target Market clients that typically receive Development Services. Imposing additional geocoding requirements on Development Services only increases costs for the CDFIs when scarce resources are best used to serve customers.

Part IV. Social Impact Data

We fully appreciate the CDFI Fund's desire to collect information on the scope, scale and impact of CDFIs in order to demonstrate the importance of our work. We recognize this data is important to policy makers and key stakeholders who hold the CDFI Fund accountable for effective use of Federal resources. We would like to be supportive of these efforts. Part IV of the ADC Form, however, presents great challenges for regulated CDFIs.

The CDFI Fund needs to recognize that collection of social impact data is very expensive for all CDFIs – particularly those operating at a large scale. Regulated CDFIs further operate in an environment where there is negative regulatory pressure to keep operating costs in line with industry peers that are not CDFIs (that do not have the higher costs associated with serving economically challenged markets).

If the CDFI Fund wants all CDFIs to report social impact data, the agency should provide financial support to build industry capacity. Building capacity will require a dedicated and sustained effort by the CDFI Fund to provide financial and technical assistance resources over a period of years. The CDFI Fund will also need to tailor their data collection requirements to different sectors. For example, regulated CDFIs are prohibited from collecting certain types of demographic data from customers as part of the credit process.

Requiring reporting on many of the indicators listed in Part IV is not feasible for most regulated CDFIs since they simply do not have the internal systems today to collect the data. Building systems requires time and money. For simplicity purposes -- and in recognition of the current capacity limitations of the whole CDFI industry – we recommend that the CDFI Fund begin by having CDFIs report a limited set of simple output measures for <u>at least</u> the next three years corresponding to the Paperwork Reduction Act (PRA) authorization associated with collection of data under the proposed ADC Form. Required measures should be limited to: (1) the number and dollar amount of loans originated by loan asset category; and (2) total number of customers that receive Development Services (including one-on-one technical assistance or training through formal programs). In the case of CDFI banks, we recommend that the loan asset categories correspond to those required for Call Report/TRF data (discussed above). Gradually, over time, additional output or outcome measures can be added as the sector gains capacity. CDFIs that already collect a more robust set of output and outcome indicators should have the option to <u>voluntarily</u> report their data to the CDFI Fund.

In the meantime, we urge the CDFI Fund to proactively engage all segments of the CDFI industry in discussion about: (1) what type of impact data it can and should be collected; (2) cost-effective means of collecting and verifying data; and (3) how to build the data collection capacity of all sectors of the CDFI industry. We also urge the CDFI Fund to explore the development of proxies that can be used in lieu of data collection to estimate impact. This method will be more cost effective than requiring every CDFI to collect the data.

The proposed reporting form raises significant questions about how to define various impact measures (i.e. when is a "job created"? How to report or account for the differences between permanent, construction, full time, and part time jobs?) and inevitable verification problems of using borrower reported data or projections. It should further be noted that while "outputs" (e.g. number or dollar amount of loans) can be reported on an annual basis, most outcome can only be measured or observed over a longer period of time. Annual reporting is unlikely to show outcomes and it would be very expensive and paperwork burden intensive to track borrowers over many years.

Populations Served:

Part IV includes a set of questions about "populations served." The requested information asks for data on customer race and asks CDFIs quantity of services provided. Regulated CDFIs should be exempt from this portion of the ADC Form due to prohibitions under the Fair Credit Act on collecting certain types of demographic data, including race.

Additional CDFI Fund Questions:

The Notice for Public Comment published in the Federal Register asked respondents to answer the following questions:

Is the CDFI Fund's estimate of the burden of the collection of information accurate? What are the estimated operational or maintenance costs to provide the requested information?

The estimate of 3 hours per CDFI to complete the reporting requirements is not accurate. Depending on the size of the bank and number of loan transactions, the minimum time estimate per year ranges from 60 to 160 hours annually to complete per CDFI bank. This estimate does NOT include the staff time and expenses associated with (1) reformatting core processing systems; (2) manually geocoding or verifying the geocoding of every current loan and customer account; (3) training loan officers, compliance personnel, branch tellers, and other retail level staff to collect the requested information; and (4) reclassifying loans that do not match the CDFI Fund's new definitions.

Are there ways to enhance the quality, utility, and clarity of the information to be collected?

As recommended above, in the case of CDFI banks, we strongly recommend that the CDFI Fund: (1) use the same Call Report/Thrift Financial Report (TFR) financial, operational and loan reporting categories and definitions used by the Federal banking regulatory agencies; and (2) waive the requirement that CDFI banks resubmit financial and operation data since it is already widely available and accessible to the general public through the FDIC's website. This approach will minimize burden and costs for CDFIs banks since all regulated CDFIs, as well enhance the quality, consistently and utility of the data.

Are there ways to minimize the burden of the collection of information on respondents, including through the use of technology?

As recommended above, we urge the CDFI Fund to explore alternative methods to estimating impact in lieu of requiring all CDFIs to collect primary data from every customer. We urge you to explore creation of proxies based on research. For example, Opportunity Finance Network recently published a report of CDFIs that participated in its Create Jobs for USA program. Using data collected from CDFIs, they estimated that every $21,000 in small business lending created one job. Collection and verification of primary data from customers is time consuming and expensive. It takes energy and resources away from serving communities. Impact data is, of course, important for demonstrating impact and the effectiveness of the CDFI industry. Thus, we strongly urge the CDFI Fund to explore alternative research methodologies that can strike a balance between demonstrating the effectiveness of CDFIs and imposing costly reporting burdens.

In conclusion, we wish to highlight the following four issues that are the most important with respect to the proposed ADC Form and certification process:

- In the case of CDFI banks and their holding companies, we strongly recommend that the CDFI Fund:
  - Use the same Call Report/Thrift Financial Report (TFR) financial, operational and loan reporting categories and definition as used by the Federal banking regulatory agencies; and waive the requirement that CDFI banks resubmit financial data since it is already widely available and accessible to the general public through the FDIC's website.
  - Applicants be allowed to submit one joint application that eliminates duplicative reporting.

- The CDFI Fund needs to revisit and give thoughtful consideration about the variety of financial services available through regulated CDFIs and whether or the reporting burden that will be created outweighs the benefits of collecting it.

- The CDFI Fund's reporting and ADC Form places too much emphasis on reporting participation formal training programs at the expense of one-on-one technical assistance provided as an integral part of the lending process. We urge you not to require CDFIs to track staff expenses associated with Development Services.

- Social Impact:
  - At this time, the CDFI Fund should keep the social impact reporting requirements simple (number and dollar amount of loans originated by loan type) – reflecting the capacity of the sector. The CDFI should not require all CDFIs to report social impact data if they do not currently collect it.
  - If the CDFI Fund wants all CDFIs to report social impact data, the agency should provide financial and technical support to build industry capacity. The CDFI Fund should engage the sector in a dialogue about what types

of output and outcome metrics are realistic and truly meaningful to collect and only ask for data they will actually use.
  - CDFIs that already collect a more robust set of output and outcome indicators should have the option to <u>voluntarily</u> report their data to the CDFI Fund.

We thank you for the opportunity to comment on the proposed ADC Form. We fully appreciate the agency's efforts to improve all of its programs and enhance knowledge of the CDFI industry. We look forward to working with you on this important issue for the entire sector.

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

Sincerely,

The Membership of the Community Development Bankers Association

ABC Bank
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Bank of Anguilla
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