

May 17, 2012

Ms. Ruth Jaure
Program Manager
Community Development Financial Institutions Fund
U. S. Department of Treasury
1500 Pennsylvania Avenue NW
Washington DC 20220

Dear Ms. Jaure:

On behalf of the members of the Community Development Bankers Association (CDBA), we respectfully submit the enclosed comments to the CDFI Financial Assistance (FA) Program Application (OMB 1559-0021) as requested in the Federal Register published on March 19, 2012.

Prohibitions of the Activities of CDFI Bank Holding Companies:

The most significant concern about the new CDFI FA Program application is the provision first implemented in the 2011 Notice of Funding Availability (NOFA) prohibiting CDFI Depository Institution Holding Companies from applying for assistance that will ultimately support the delivery of lending and financial services carried out by a CDFI bank that is a subsidiary. The provision states:

“FA awards must be used to support the applicants activities; FA awards cannot be used to support the activities of, or otherwise be passed through, transferred, or co-awarded to, third party entities, whether Affiliates, Subsidiaries, or others, This includes certified CDFI bank holding companies that intend to transfer FA awards to their banks. Such transfers are not permitted. The entity that is to carry out the responsibilities of the award and deploy the award funds must be the entity that applies for the award.”

This provision has effectively eliminated a CDFI bank’s ability to leverage an FA award to originate 8 – 10 times its amount in loans to LMI communities. A bank holding company is specifically designed and regulated to support its subsidiary depository institution. An FA Award granted to a bank holding company that invested into its subsidiary CDFI bank receives regulatory Tier I capital treatment. Tier I is the most impactful form of regulatory capital. FA awards granted to directly to CDFI banks are not receive Tier I capital treatment and cannot be leveraged. CDFI banks are only able to use FA monies as Tier 1 equity capital when they are received by the holding company and invested into the CDFI bank. The authorizing statute and legislative history (and CDFI Fund precedence from 1996 to 2010) clearly contemplated such an arrangement as an eligible use of funds and manner for applying for and receiving assistance.

The core of the activities of a CDFI bank and its affiliated parent holding company are carried out by the bank itself. Legally (and practically) the primary purpose of the holding company is to coordinate the activities of the bank and any other subsidiaries or affiliates. Thus, requiring (as the current NOFA suggests) that a Depository Institution Holding company use FA monies to directly carry out eligible lending and financial service does not reflect how the business model operates. Given the unique business model and legal structure of the CDFI bank with its parent holding company, the CDFI Fund should resume its past practice and permit parent holding companies to apply for assistance to support the work of its affiliated CDFI banks. Recognizing the unique relationship, the CDFI Program should permit and encourage the applicant holding company to discuss its business plan in the context of the activities that will be carried out by both entities. Without this policy reversal, the CDFI Fund will effectively eliminate the CDFI banking sector participation in the CDFI FA Program. Having CDFI banks engaged in the program is needed to create jobs and other benefits for low income people and families in the communities they serve. As regulated financial institutions, CDFIs have the ability to significant leverage private sector resources to these communities.

CDFI Fund Questions:

1. Is targeting CDFI Program award funds into highly distressed communities an appropriate use of CDFI Program funds?

All CDFIs work in distressed, underserved markets. Use of geographic units (e.g. census tracts, counties) only to prioritize applications is too narrow. The approach ignores the needs of target markets that are distressed and/or underserved due to income, race, ethnicity or other factors. The current application and evaluation process prioritizes CDFIs that are able to commit to target funds to pre-identified geographic units. We find this system impractical and counter to the market-orientation of the CDFI business model. By requiring applicants to pre-select the geographic area they will serve, it removes their ability to respond to real market demand. We encourage the CDFI Fund discontinue prioritization based on geographic unit distress criteria. If this approach is not discontinued, the CDFI Fund should also given additional consideration to the degree to which an applicant will focus its resources of Low Income or other underserved target markets.

2. Are there ways that the fillable PDF application form can be improved that would ease applicant paperwork burden?

The fillable PDF application proved challenging for applicants. Numerous technical issues made the application inefficient, frustrating, and subject to errors. The PDF also significantly limit the quality and type of data that can be submitted. For example, the format does not allow charts, tables or other

graphic presentations of data that may be more effective in responding to questions or telling a CDFI's story.

Table E (Customer Profile) is highly problematic. In particular, the columns requesting data on race and gender create a bias against regulated financial institutions that are not legally permitted to collect such information in their core systems. While applicants are not required to complete all columns, a failure to provide such data puts an applicant at a competitive disadvantage relative to non-regulated CDFIs that can collect it. Second, the practical difficulties of collecting demographic information on the low income beneficiaries of projects financed by a CDFI that are for a commercial or community facility or jobs created on a business loan further bias the evaluation process toward CDFIs offering products loan products directly to individuals (e.g. micro loans, single family home owner).

All CDFIs serve unique market niches and craft loan products and services to address those needs. For Charts H and J, the pre-selected types of loans were too narrow to describe the products of many applicants. We recommend that the application allow CDFIs to name their own products and amend the chart labels to reflect their own naming conventions. Furthermore, the static nature of the fillable PDF makes it impossible to change chart headers or column widths to ensure the information reported is accurately labeled. Table I for Financial Services is similarly rigid and provides insufficient characters to adequately describe an applicants products.

3. Should detailed Matching Funds documentation be collected later in the application review process and, if so, what would be a reasonable amount of time to expect an applicant to provide such documentation?

The CDFI FA application is very challenging. Allowing applicants to submit matching funds documentation at a later date would significantly reduce the paperwork burden at the time of application. We recommend that documentation only be requested after an applicant has received notice of an award or after they have been deemed competitive enough to receive an award.

Consistent with industry recommendations submitted to the CDFI Fund in response to the Notice for Public Comment published in March 8, 2010 on needed amendments to the CDFI Program, we urge the CDFI Fund to exercise greater flexibility in its interpretation of the requirement that matching funds be "comparable in form and value" to assistance requested. Current capital and philanthropic markets are challenging for all CDFIs and will continue to be weak for the foreseeable future. Furthermore, the current system creates unintended biases against all but the largest CDFIs that can consistently count on receiving at least \$1 million or more in non-Federal philanthropic support. We believe that, even without a statutory amendment, the CDFI Fund has flexibility in establishing alternative standards as to what constitutes "comparability in form and value"

and we encourage you to engage the CDFI industry in discussions that will enable a broader group of CDFIs to fully participate in the program.

4. Does the application ask the appropriate questions to determine applicants' financial health and viability?

The application asks appropriate questions on financial health and viability, but provides insufficient writing space to fully respond to the questions asked. The application no longer requests information on the sustainability of an applicant nor gives consideration in the evaluation process to a CDFI's ability to operate viably without dependence on grant funding or the capacity to leverage higher levels of capital from external sources. We recommend these changes be incorporated into a revised application. Management is the most critical factor in the financial health, viability and success of a CDFI. Tables K and L in the application allow applicants insufficient space to discuss the qualifications of management, staff, board members or other advisors. We recommend that applicants be permitted to submit supplemental resumes or other biographical information. We further recommend that Table M3 be amended to better align with the definitions and categories of the standard Federal Call Report.

Thank you for the opportunity to submit comments on the CDFI FA Program application. Please do not hesitate to contact Jeannine Jacokes, Senior Policy Advisor, at (202) 689-8935 ext 22 or jacokesj@pcgloanfund.org.

Sincerely,



David Reiling
Board Chairperson

The Membership of the Community Development Bankers Association

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