CDBA Community Development Bankers Association
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May 6, 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

Dear Mr. Nolan:

On behalf of the members of the Community Development Bankers Association (CDBA), we are writing in response to the Notice for Public Comment published on March 17, 2014 by the Community Development Financial Institutions (CDFI) Fund. The Notice seeks comments on the Financial Assistance Application for the Community Development Financial Institutions (CDFI) Program.

CDFI Bank Sector:

Today there are 84 CDFI certified banks and thrifts. These mission-focused financial institutions are a specialized niche within the banking industry, representing only 1.2% of the 6,940 banks in the nation. CDFI banks, however, are very important to the CDFI sector. While certified banks represent only 10% of all 831 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.

<u>Application</u>

We applaud the CDFI Fund for its efforts to continuously improve its programs and application materials and to actively engage the CDFI industry for feedback. We appreciate the agency's efforts to streamline and reduce the burden on applicants. We are concerned, however, that the new application introduced for the FY 2014 funding round has become too numerically focused and has moved too far away from the original Comprehensive Business Plan (CBP) contemplated in the authorizing statute. The Excel-based application forces applicants into a "one size fits all" framework that does a disservice to CDFIs of diverse organizational types and CDFIs serving distinctively different market niches. The significantly reduced character limits on the narrative portion of the application exacerbate this problem.
We disagree with the CDFI Fund's premise that a more numeric application means the evaluation process is "fairer." Numbers are meaningless without context. The Excel-

focused application coupled with insufficient room to discuss business strategy, market analysis, products and services, community impact, and projected activities is a sharp departure from the CDFI Fund's past approach of respecting each CDFI's unique focus and strategies. We strongly urge the CDFI Fund to return to a more balanced, narrative based application that allows each CDFI to tell its unique story. Given the long process involved in getting a new application approved, for the FY 2015 funding round we urge the CDFI Fund to simply expand the character limits on all or most of the questions in the application.

Technical Assistance Awards

We recommend that all CDFIs who are not applying for Financial Assistance be allowed to apply for Technical Assistance Awards of up to $200,000. The original authorizing statute recognized that CDFIs at all stages of organizational development have capacity building needs. Building the capacity of the entire CDFI sector is one of the most important roles the CDFI Fund has historically played. Technical Assistance should not be limited only to the smallest or most nascent, or to those CDFIs that have been unsuccessful in competing for monies under other CDFI Fund Programs.

Matching Funds

To reduce the paperwork burden for applicants and the CDFI Fund, CDBA recommends that only those applicants ranked as highly scored be requested to submit matching funds documentation.

Transparency in the Evaluation Process

We strongly urge the CDFI Fund to return to its past practice of providing individual debriefings to unsuccessful Financial Assistance applicants. While we acknowledge that the CDFI Fund has limited resources, this feedback was invaluable for enhancing the capacity of CDFIs and their success in subsequent funding rounds. We also urge the CDFI Fund to adopt the practice used in the NMTC Program of providing general feedback and guidance on what factors distinguished successful applicants from unsuccessful ones (e.g. publishing the minimum aggregate score and providing guidance on what it takes to achieve such a score). Debriefing and guidance is commonplace among many other Federal agencies.

Reader Expertise

We strongly recommend that the CDFI Fund heighten its efforts to secure external readers with appropriate CDFI sector expertise to assist in its review process. In the case of CDFI banks, securing readers with either CDFI banking or small, community banking expertise is critically important. This has been a longstanding deficiency of the review process. Lack of sector-specific qualified readers places some CDFI sectors at a greater disadvantage than others in the scoring process. A reader cannot fairly review or score an applicant if they do not understand its business model or regulatory and operating environment. While the CDFI Fund has made some attempt to address this issue in recent funding rounds, we recommend that it be proactive in working with CDFI industry trade groups, technical assistance providers, and others in the industry to identify sector-specific experts to serve as readers.

Minimum Prudent Standards

In the case of regulated CDFIs, the CDFI Fund should seek to maintain consistency with the standards and ratios defined by the Federal bank regulatory agencies.

To reiterate the comment made in our December 30, 2013 comment letter on the Bank Enterprise Award (BEA) Program, CDBA strongly objects to using the opinions of the regulatory agencies on financial health as a screen for eligibility if an applicant has otherwise been highly scored. The mission of the CDFI Fund is to build the CDFI sector and the communities they serve. Disqualifying an applicant experiencing financial stress hurts a CDFI bank at the exact time they need the CDFI Fund's support. It also hurts low income communities that will be at greater risk without the presence of a mission-focused financial institution.

We are also very concerned about the CDFI Fund ceding too much decision-making authority to regulatory agencies under the BEA and CDFI Programs in cases involving banks under financial stress. Under 12 USC 4715 of the CDFI Fund's authorizing statute, the agency is required to "consult with and consider the views of" an applicant's primary regulator prior to making an award under its programs. While the regulators' opinions are supposed to be advisory only, in recent years the CDFI Fund has given the opinions of the regulators far greater weight and has used this input as a rationale to disqualify some banks from receiving awards. As noted, the roles and missions of the CDFI Fund and regulatory agencies are not the same. The CDFI Fund needs to retain its strong commitment to the industry and the communities served by CDFI banks.

While CDBA is opposed to this newly-adopted policy, we appreciate the CDFI Fund's recent actions under the BEA Program to be more transparent about its intent in using regulators opinions as an eligibility screen and how the policy will be implemented. If the CDFI Fund intends to continue this practice under the CDFI Program, it should set clear standards in the application or provide guidance as to what conditions are grounds for disqualification.

Award Funding Request Limits

We do not recommend any new limits on Financial or Technical Assistance requests. The Financial Assistance awards are already governed by statute.

Activity Level Projections

CDFIs should not be held to the specific activity level projections included in their applications. Projections are simply a "guestimate" of the future. Actual activity levels can be influenced by many factors beyond the control of a CDFI. In the earliest years of the Financial Assistance Program, the CDFI Fund employed the practice of setting "performance goals" based on application projections. This practice was quickly abandoned by the CDFI Fund after a few funding rounds because the agency became overwhelmed by the volume of requests for amendments to awardees' Assistance Agreements. Since this time, the CDFI Fund, the Financial Assistance Program, and the number of active Assistance Agreements have grown exponentially. Thus, returning to a "performance goal" style metric will likely become unwieldy for the CDFI Fund and the industry.

<u>Workbooks</u>

CDFI banks do not anticipate using the FA and TA Excel Workbooks for other internal purposes, such as risk management or strategic planning. As regulated institutions, CDFI banks have in place sophisticated tools for risk management that are tailored to the needs of the industry and take into consideration regulatory requirements.

<u>Applicant Categories</u>

We do not recommend adopting any new applicant categories in addition to the Core/FA and Small and Emerging CDFI Assistance components. We do, however, applaud the CDFI Fund's effort in the FY 2013 funding round to give consideration to the proportion of applicants by sector in making award decisions. We believe this was a very positive development and marked the first time in many, many years that the CDFI bank sector has experienced real success in participating in the Financial Assistance program. We strongly encourage the Fund to continue this practice which strengthens the entire industry and encourages greater industry-wide participation in future funding rounds.

In closing, we thank the CDFI Fund for the opportunity to comment on the Financial Assistance application. This program is very important to the CDFI bank sector. We look forward to working with you.

If you have any questions, please contact Jeannine Jacokes at 202-689-8935 ext. 22 or jacokesj@pcgloanfund.org.

Sincerely,

The Membership of the Community Development Bankers Association

ABC Bank
Albina Community Bank
Bank of Anguilla
Bank of Kilmichael
Bank of Vernon
Bank2
BankPlus
Broadway Federal Bank
Carver Federal Savings Bank
Carver State Bank

Central Bank of Kansas City
City First Bank of DC
City National Bank of New Jersey
Community Bancshares of MS
Community Bank of the Bay
Community Capital Bank of Virginia
Finance and Thrift
First American International Bank
First Eagle Bank
First Security Bank
Gateway Bank FSB
Guaranty Bank & Trust
Illinois Service Federal Savings and Loan Association
International Bank of Chicago
Merchants and Planters Bank
Metro Bank
Mission Valley Bank
Neighborhood National Bank
Noah Bank
One PacificCoast Bank
OneUnited Bank
Pan American Bank
Southern Bancorp
START Community Bank
State Bank and Trust
Sunrise Banks
The First, a National Banking Association
United Bank
Urban Partnership Bank