

December 3, 2021

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

Ms. Tanya McInnis
Program Manager
Depository Institutions Initiatives
Community Development Financial Institutions Fund
US Department of Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

RE: Notice and request for public comment, Small Dollar Loan Program Application; Federal Register /Vol. 86, No. 189 /Monday, October 4, 2021

Dear Director Harris and Ms. McInnis:

The members of the Community Development Bankers Association (CDBA) respectfully submit the enclosed comments on the Notice and request for public comment, Small Dollar Loan Program (SDLP) Application published by the Community Development Financial Institutions Fund (CDFI Fund or the Fund) in the Federal Register on October 4, 2021. As stated, the CDFI Fund is seeking input on the content of the Application.

CDBA is the national trade association of banks and thrifts with a primary mission of promoting community development. As of November, 2021, there are 168 banks and 134 bank holding companies with the Treasury's Community Development Financial Institutions (CDFIs) designation. CDBA membership comprises 63% of the total assets of the certified CDFI bank sector, and 52% of all CDFI banks by number.

CDFI banks strongly support the efforts of the CDFI Fund to promote investments in low income and underserved communities by providing grants for Loan Loss Reserves (LLR) and Technical Assistance (TA) to enable Certified CDFIs to establish and maintain SDLPs. We appreciate the opportunity to provide feedback to maximize the effectiveness of this program for the benefit of the most underserved communities in the nation.

We appreciate the hard work of CDFI Fund staff to support the CDFI industry and the communities we serve. We are especially grateful for the efforts leading to a successful 2021 launch of the SDLP. Our members were enthusiastic applicants and are pleased with the program's implementation.

We are proud of the CDFI banks that demonstrated leadership by successfully competing in this inaugural SDLP round. Of the 81 applicants, 12 were banks. Among the 12, fully 11 were successful in competing for funding. CDFI banks comprise 15% of the applicants and 21% of the awardees. We are also proud that two of the top five awards went to CDBA members (BankPlus and Optus Bank). These awards demonstrate the strong commitment of CDBA member banks to contribute to the long-term financial health of low- and moderate-income communities.

COMMENTS ON APPLICATION

General Comments

CDBA members that participated in the application process believe the program was generally well-designed and appropriate to its purposes. They felt the majority of questions are very clear, and did not identify any areas where requesting additional information would be additive. Given the modest size of awards, some recommended a more streamlined application. Below are suggestions to make the application more efficient.

Responses to Questions from the Request for Public Comment

Question (1)

What, if any, Application questions and tables are redundant or unnecessary?

As noted, some participants recommended a more streamlined application given the modest size of SDLP awards. For example, one CDFI bank noted their combined LLR and TA application was 50+ pages long and took nearly 160 hours to fill out. A streamlined application will encourage greater industry participation – particularly among small institutions. In the case of CDFI banks, grant funds received are taxed as regular income; thus, the amount of funds actually available to operate an SDLP initiative is less than the amount of the award.

To streamline, we suggest that bank financial tables already submitted via AMIS for other CDFI Fund programs and/or reporting and compliance purposes be reused for SDLP. This action would reduce duplication.

Another opportunity for streamlining is in the "Track Record" tables (Question 10: Table 1b and Question 11: 2b) for existing SDL products. CDFI banks commented that the details required to answer these questions are not clearly tied to the design of the proposed program or the projections for its performance. As the level of detail required to answer these is considerable,

the CDFI Fund should consider whether these questions are additive. In future years, this could be an opportunity to streamline the application when the program is developed and more mature.

Question (2)

What, if any, questions or tables should be added to ensure collection of relevant information?

Bankers believe the number of tables is adequate to demonstrate relevant information and should not be expanded.

Question (3)

Does the data and information requested in the Application allow an Applicant to adequately explain its business strategy, community impact and ability to meet the program objectives?

Generally, CDFI bankers felt the information requested was sufficient to allow an applicant to explain its strategy. One participant noted that if an applicant did not have an existing SDLP initiative, then the projections may be difficult. Here, we believe it is appropriate to reiterate a recommendation from our September 2020 letter, that the CDFI Fund provide resources to encourage banks without existing programs to consult with those that do, in order to better understand how to set reasonable objectives.

Question (4)

In the FY 2021 SDL Program Application, the CDFI Fund stated that LLR Awards may be made in amounts up to 20% of the Applicant's three-year projected total of Small Dollar Loans closed, not to exceed \$350,000. - Is the 20% cap too high or too low? If so, please describe and justify.

CDFI bank participants felt the 20% and \$350,000 cap for LLR is *currently* appropriate. However, for established SDL programs to grow and scale for wider distribution, the CDFI Fund may eventually find the dollar cap may be too low. CDBA urges the CDFI Fund to review this cap periodically to account for successful implementation at growing institutions.

Question (5)

The FY 2021 SDL Program Application states that the Awards will not be made to organizations that engage in the Prohibited Practices listed in the NOFA. Are the Prohibited Practices reasonable? Should any of the listed Prohibited Practices be modified or removed? Are there Prohibited Practices that should be added to the list?

CDBA members found the prohibited practices to be reasonable and appropriate.

Question (6)

The CDFI Fund will prioritize funding for Applications that propose to offer small dollar loan programs that include any of the following prioritized lending practices and characteristics: i) Offer small dollar loan terms that are at least ninety (90) days; (ii) use ability to repay

underwriting that considers the borrower's ability to repay a loan based on both the borrower's income and expenses; (iii) make loan decisions within one business day (or twenty-four (24) hours) after receipt of required documents; (iv) offer a reduction in the borrower's loan rate if the borrower elects to use automatic debit payments; (v) offer automatic savings features that are built into the regularly-scheduled payments on a loan—provided that the resulting payment is still affordable—or, at a minimum, loans that can be structured so that, subject to the borrower's consent, payments continue for a period of time after the loan is repaid with all of the payments going into a savings vehicle; and (vi) offer access to financial education, including credit counseling. Are the prioritized lending practices and characteristics reasonable? Should any of the listed prioritized lending practices and characteristics be modified or removed? Are there prioritized lending practices and characteristics that should be added to the list? Please describe and justify your responses to these sub-questions.

CDBA members found the list of program attributes that will receive prioritized consideration to be broadly appropriate. One banker found the list helpful, because reviewing the practices helped their institution overhaul existing programs. Some bankers also suggested the CDFI Fund consider new priorities: 1) A priority for programs that specifically serve individuals without a credit history, and 2) a priority for programs that explicitly offer credit score improvement tracking.

As useful as these priorities are, we urge the CDFI Fund to continue to view these priorities individually, and not to allow them to mutate into requirements. It is important to allow programs to be responsive to both community need and institutional capacity. While each listed priority can be a valuable element of a SDLP, each adds an incremental cost to managing a program and should be considered on its individual merits.

Question (7)

Are any of the questions particularly burdensome or difficult to answer? - If so, please be specific as to the type of CDFI (e.g., regulated, non-profit) that finds it difficult.

Some bankers report that Question 10: Table 1b and Question 11: 2b are particularly time consuming. Bankers cited the burden researching the track record for similar products, which required terms, historical financials and related products in their local markets. As we state in our answer to Question 1, this could be an opportunity to streamline the application in future years when the program is developed and more mature.

Also, as stated in our response to Question 1, we suggest that bank financial tables – or other data -- already submitted via AMIS for other CDFI Fund programs and/or reporting and compliance purposes should be reused for SDLP to reduce duplication.

Question (8)

Are the character limitations for narrative responses appropriate?

CDBA members found the character limits to be appropriate. No questions were flagged for requiring more or fewer characters

Question (9)

Are there questions that lack clarity as to intent or purpose? If so, which questions, and what needs to be clarified in order for Applicants to provide a comprehensive response?

CDBA members found questions to be understandable.

Question (10)

The Application includes questions about the intended impact of an Applicant's small dollar lending strategy. How should the CDFI Fund assess the impact of SDL Program Awards on Low-Income Families and communities? The CDFI Fund has identified a set of impacts for Applicants to choose in the Application (see FY 2021 SDL Program Application Question 7.) Are the current impact choices sufficiently comprehensive? Are there impacts that should be added or modified?

CDBA members found the questions regarding an Applicant's program impact to be generally appropriate. In CDBA's September 10, 2020 comment letter, in response to Section VII., Question 1, CDBA recommended the CDFI Fund consider a list of eight outcomes for measuring success. We are grateful to the CDFI Fund for incorporating these recommendations into the eventual list of impacts.

Question (11)

The statute governing the SDL Program states that there are three eligible Applicant types. Per the Statute, Applicants can be either: (a) a Certified CDFI that applies individually for an LLR Award or for a TA Award or for a combination of an LLR Award and TA Award; or (b) a Certified CDFI that applies as a partnership with a federally insured depository institution that has a primary mission to serve targeted Investment Areas (FIDI) for an LLR Award or (c) a Certified CDFI that applies as a partnership with two or more Certified CDFIs for a TA Award. The CDFI Fund has two questions related to these different Applicant types: Are additional questions or revisions to existing questions needed in the Application to further clarify and differentiate the three eligible Applicant VerDate Sep< types? If so, please describe and justify. The Application currently asks Applicants that apply as a partnership with a FIDI for an LLR Award to submit an attestation form that is signed by the FIDI that the FIDI has a mission to serve targeted Investment Areas. Should the CDFI Fund make revisions to the attestation form that the FIDI must sign? If yes, what are the revisions? Should the CDFI Fund request any other documentation that the FIDI must submit in order to demonstrate its primary mission to serve targeted Investment Areas? If so, please describe and justify.

No additional questions or revisions to these questions are needed here.

Question (12)

In future funding rounds, new priorities may emerge, such as disaster response, an economic downturn, or new initiatives. How should the CDFI Fund address changing priorities on a round-by-round basis? What approaches would be preferred?

The needs of small dollar loan customers can change quickly. The SDLP should be responsive and flexible. It is appropriate for the SDLP to consider emerging needs as priorities, especially in connection with natural disasters, economic downturns, or health crises.

Of course, emergencies are not synchronized with the CDFI Fund's program cycle. The CDFI Fund can demonstrate flexibility by allowing participating lenders with operations inside FEMA-declared disaster areas to amend approved programs to incorporate features appropriate to the moment. Also, as the economic effects of disasters often extend beyond the precipitating events themselves, the Fund can add a standing priority to the annual funding round for applications that address needs in disaster areas.

CONCLUSION

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 its programs. 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 202-207-8728 or jacokesj@pcqloanfund.org or Brian Blake, Public Policy Director at (646) 283-7929 or blakeb@pcqloanfund.org.

Thank you for considering our recommendations.

Sincerely,



Jeannine Jacokes
Chief Executive Officer
Community Development Bankers Association