



Desert Blooms: Nourishing Future Abundance Through Investment

NCDFI Recertification

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Notes

- I have used lots of words on these slides
- Usually I avoid this, but I want you to be able to refer to this PPT later
- Please ask me lots of questions!



Goals



- That unregulated loan funds leave with a much better understanding of what recertification will require of you as a Native CDFI

Agenda



- 75 minutes of content + group activity
- 15 minutes of Q&A



Timeline of applications

- Entities previously uncertified can apply at any time
- There is an early bird group of CDFIs (who submitted apps to be early birds) that will apply before July 31
- Otherwise, the “main” application period is from August 1 to December 20



Lay of the Land

- There are several important documents available to you:
 - [A 300-page CDFI Certification Application Guidance Manual](#) – this is your best friend!
 - [A 130-page companion to the app](#) (a pdf copy of the app) – this is helpful to understand the structure of the application during recertification window
 - [A 15-page overview of key updates to certification](#) – helpful to understand the big changes to the app
 - [A 33-page TM verification standards pdf](#) – only a few pages apply to NCDFIs
 - [A 71-page guide to the TLR](#) – the TLR is a part of the certification process now!



Outline of the Application

Step 0: The Transaction Level Report

Basic Information (BI)

Legal Entity (LE)

Primary Mission (PM)

Financing Entity (FE)

Target Market (TM)

Development Services (DS)

Accountability (AC)

Native CDFI Designation



Section Difficulty

- Harder Sections:
 - Primary Mission
 - Financing Entity
 - Target Market
 - Native CDFI Designation
 - TLR
- Easier Sections:
 - Legal entity
 - Basic information
 - Development services



Step 0: The TLR

- What is the TLR?
 - The Transaction Level Report...think of it as a big spreadsheet with special formatting
- Any entities with active awards with the CDFI Fund must already do this report
 - Emerging NCDFIs with no active FA awards will do an “abbreviated” TLR for the application



Step 0: The TLR

- Your TLR is now step 0 of the certification application, you must do it before you can even open the application!
- Most of your TLRs are due at 06/30 (six months after FYE) and you will use that data in the cert app
- If you will be changing your TM, you will need to adjust your TLR before uploading it!

1: Basic Information

- Ensure that everything on the applicant's organizational profile in AMIS is up to date
 - Particular attention should be paid to the EIN and the UEI
- The applicant's name in the organizational profile should match its name in SAM.gov, AMIS, and the bylaws to the character
- The applicant needs to upload a copy of its current binding governance document (most commonly bylaws) with clear evidence of board approval
 - **Timing:** This document needs to have been clearly board approved as of or anytime before the submission of the application



1: Basic Information

- The applicant must indicate what the earliest date it can show financial transactions (this is where they test that you have at least one full FY of lending)
- Attest to other basic questions:
 - Are you the lender or is an Affiliate?
 - Is your lending arms-length?
 - Are your products offered directly by the applicant?
 - Are your loans on-balance sheet?
 - Do you report all consumer transactions to a credit bureau?



2: Legal Entity

- All pre-filled from the organizational profile
- The CDFI Fund is again checking for EIN and UEI
- The applicant needs to have been incorporated for at least 12 months



5: Development Services Requirements

- Applicants must offer one development service at least either themselves, via an Affiliate, or via a non-Affiliated partner
 - In the case of an Affiliate, you have to follow all Affiliate guidelines in the application
 - If using a non-Affiliated provider, you need a contract or MOU with that entity
- Development services must be tied with your financial products and prepare clients for use of your FPs
- Applicants can still provide services that don't qualify as Development Services, but you must provide at least one qualifying Development Service
 - Youth development services would be an example of this
 - Or development services that do not prepare clients for an FP



5: Development Services Definition

- The CDFI Fund's definition of Development Service: "a structured training, counseling, or technical assistance that promotes access to and or/success with an entity's FPs, is offered regularly to clients, , has a defined curriculum or written set of objectives and goals. Success may be a specific step that gets your client ready for capital."
 - It can be in a classroom, one-on-one, online, with or without a live instructor
 - Those without live instructors must be well-developed with modules with a method to **measurably increase** the viewer's knowledge and **requiring their engagement**
- Development services are distinct from routine customer service!
- Workforce training, parenting support groups, services to prepare clients for capital from other sources do not count!
- If the services takes less than 30 minutes, it's probably not a development service



5: Development Services Tips



You only have to show one in your certification application



Pick the one that is easiest!

4: Financing Entity, Outline

- General attestations
- The applicant must demonstrate that it is “predominantly” a lending institution by assets
- The applicant must demonstrate this it is “predominantly” a lending institution by staff
- The applicant must show that it has lending liquidity to make one average-sized loan



What does predominance mean?

- **NOTE:** *Predominance does not require a majority but occurs when an amount is the greatest as compared to all other amounts. To be predominant, the eligible Financial Product and/or eligible Financial Services activity does not have to constitute the majority of an entity's overall activity, but it must be the type of activity that reflects the greatest use of its assets and staff time when compared separately and individually to each other separate and distinct activity type in which the entity engages. No other single activity type should claim more of an entity's assets or its staff time than its eligible Financial Product and/or eligible Financial Services activity.*



4: Financing Entity, Attestations

- The applicant must indicate that its financial statements are its own and not consolidated with other entities
- **Timing:** The applicant must have the previous year's financial statements and current YTD's that are less than 45 days old at time of submission
- Applicants with Affiliates or non-arms-length financial products have other attestations to make
- **Timing:** The applicant needs to have been lending for at least one full fiscal year
 - Note: this is not twelve months



4: Financing Entity, Balance Sheet Breakdown

- Using current YTD financials, the applicant breaks its Balance Sheet down into activities
 - Common activities are: financing, development services, grantmaking, loan packaging, etc.
- Financing assets include, but are not limited to, the following:
 - L/R + lending cash
 - Assets held to support the direct provision of FPs
 - Assets held to support staff and ops FP provision (marketing, occupancy, etc.)
- It is easier to think about what cannot be counted: assets for grantmaking, loan packaging, ineligible FPs, cultural programming, etc.
- If needed, development services can be excluded from the calculation entirely (the numerator and denominator)



4: Financing Entity: What doesn't count towards financing?

- Real estate development.
- Property management.
- Non-eligible financing activity, such as:
 - o the provision of financing products or services not accepted by the CDFI Fund as eligible Financial Product or eligible Financial Services types or that are provided in a way that prevents the activity from being accepted as eligible Financial Product or eligible Financial Services activity (see key terms for more information on eligible Financial Product and Financial Services types/activities);
 - o grant making;
 - o Financial Product packaging, origination, or servicing for financing provided by other entities;
 - o financing for Affiliated parties (unless the relevant entity is using a CDFI Certification provision for participants in the CDFI Fund's Bond Guarantee Program, in which case eligible Financial Product and/or eligible Financial Services activity directed to a Controlling Certified CDFI is acceptable)
- the provision of Development Services;
- Other non-financing activities such as social services, community planning and cultural programming.



Possible Exclusions from the Asset Predominance Test

- Endowment
- Portion of owned real estate used for the provision of financial products
- Donated real property to be sold within the next FY to provide funds for financial product provision
- Real estate to be sold or transferred to non-Affiliated third parties in order to support real estate development
- Other (this requires a Section 0 Request)



4: Financing Entity Breakdown Example

- This is an easy example of predominance
- Many NCDFIs will have their Balance Sheet breakdown like this as many of you have financing as your biggest activity by far

| | | |
|--------------------------------|-----------|------|
| Total Balance Sheet | 1,000,000 | 100% |
| Financing Related | 600,000 | 60% |
| Loan Packaging | 100,000 | 10% |
| Grantmaking | 100,000 | 10% |
| Qualified Development Services | 200,000 | 20% |



4: Financing Entity, Staff Breakdown

- Find an FTE total using all your staff, volunteers, and personnel provided by another entity (Native CDFIs sometimes use staffing from a parent company or partner) on average over the last 12 months
- Decompose your total FTE into activities: financing, development services, grantmaking, loan packaging, etc.
- Staff time towards financing include the following:
 - General entity administration that supports FP provision
 - Direct staffing in support of FP provision
 - Marketing and outreach for FP provision
 - Fundraising, capital acquisition for FP provision



4: Financing Entity, Staff Breakdown: Example

- XYZ Native CDFI has 8 FTE
 - 4 are for financing
 - 1 is for loan packaging
 - 1 is for grant making
 - 2 are for development services
- 4 of 8 FTE or 50% are for financing
- 1 of 8 or 12.5% is for loan packaging
- 1 of 8 or 12.5% is for grantmaking
- 2 of 8 or 25% are for development services
- **This NCDFI's staff are predominantly for financing**



4: Financing Entity, Staff Breakdown: Development Services Exclusion

- XYZ Native CDFI has 8 FTE
 - 2 are for financing
 - 1 is for loan packaging
 - 1 is for grant making
 - 4 are for development services
- 2 of 8 FTE or 25% are for financing
- 1 of 8 or 12.5% is for loan packaging
- 1 of 8 or 12.5% is for grantmaking
- 4 of 8 or 50% are for development services
- **This NCDFI's staff are predominantly for financing because we can exclude development services from the equation (new total # FTE = 4)**



4: Financing Entity, Liquid Assets

- The applicant must indicate the average size of loan from the last twelve months
- The applicant must indicate how much lending cash or cash equivalents is on hand
- Liquid assets for financing must exceed the average size of loan



Group Activity: All Financing Entity Tests

- Does this entity qualify for Native CDFI certification under the financing entity test?
- Native CDFI Staff Breakdown
 - The NCDFI has 7 FTE: 3 FTE are for financing, 2 are for qualifying development services, 2 are for development services that do not qualify for exclusion
- Native CDFI Assets Breakdown
 - 60% of its assets are for financing, 20% for development services, and 20% for grantmaking
- It has \$250K in lending cash and its average loan size is \$32K



Answer



Yes



It is predominantly a financing institutions by both staff and assets &



Has enough cash for financing to continue lending

3: Primary Mission Outline

- 1) The applicant has a primary mission approved on a specific timeline
- 2) The primary mission is one of community development as shown in a board-approved doc
- 3) The applicant can demonstrate a “community development strategy”
- 4) The applicant does not engage in any prohibited practices
- 5) The applicant provides an explanation for any practices in which it engages that the Fund says require an explanation



3: Primary Mission, Community Development

- The applicant's primary mission needs to be one of community development
 - Community Development is defined as your activities being purposefully directed toward improving the social and/or economic conditions of underserved people (Low-income people, Other Targeted Populations, or Investment Areas)
- Note, this is not necessarily the mission statement
- How do we demonstrate this? At the moment:
 - Articles of incorporation, bylaws, or a board resolution (this may change, see next slides)
 - The signature of the incorporator suffices for "governing leadership" approval of the articles of incorporation



3: Primary Mission, Timing

- **Timing:** your primary mission needs to have been approved at least six months ago
 - The Fund states: “For a mission’s effective date to be recognized by the Fund, there must be documentation of the recognizing/authorizing action from the date when that action was purportedly taken”
 - CDFIs without formal approval of their primary mission should make such approval (either in meeting minutes via an action or via a resolution) before June 20, 2024



3: Primary Mission, Changes?



These requirements might relax a little bit

What if you have a strategic plan that highlights a primary mission?



We expect a next set of FAQs in mid June



Early bird applicants are running into issues with the 6-month requirement if they have to use a resolution

3: Primary Mission, Community Development Strategy

- The applicant must demonstrate that it has a Community Development Strategy with Community Development Objectives
 - The applicant can do so either by uploading a strategic plan with such information OR
 - A board-approved narrative that outlines the applicant's community development objectives (2 to 3 pages)
- If the applicant's strategic plan doesn't show community development objectives, you can update it and have your board approve it OR do the 2 to 3-page narrative
 - **TIMING**: this can be done up to the day of application submission (no six-month requirement)



Community Development Strategy

The CDS should include references to:

- The “geographic/demographic market served” and “needs/opportunities” in that market
- One or more “community development goals/objectives”
- How your financial products addresses improves social/economic outcomes

Community Development Objectives:

- Promote housing opportunity
- Promote financial access
- Promote community revitalization
- Etc.
- See PM10 in the guidance materials



3: Primary Mission of Community Development Summary

- The applicant has a primary mission of community with documented approval at least six months old as shown in its articles of incorporation, bylaws, or a reso
- The applicant can show a Community Development Strategy with Community Development Objectives that has board approval up to the date of the app submission
 - In the strategic plan or in a brief board approved narrative



3: Primary Mission, Prohibited Practices



The applicant cannot engage in any prohibited practices

These are loan product-specific



There is a big list of practices that are not prohibited, but require an explanation as to how they promote community development

3: Primary Mission, Prohibited Practices for Mortgages

- Prohibited Practices for Mortgages:
 - Underwriting doesn't consider borrower's income or assets
 - Includes negative amortization
 - Includes interest-only payments, unless:
 - The term is less than 12 months (think construction loans) OR
 - The loan is being adjusted for seasonal income OR
 - The loan goes interest only to avoid foreclosure
 - Charges upfront fees more than 3%
 - Is underwritten at less than max rate if it is a variable rate mortgage



3: Primary Mission, Prohibited Practices for Consumer Loans

- Prohibited Practices for Consumer Loans:
 - Offering consumer loans more than 36% if those loans meet any one of a list of criteria (see certification documentation)
 - Selling charged-off consumer debt to debt buyers
 - Other considerations for equity investors and depository institutions



3: Primary Mission, Prohibited Practices for Small Business Loans



If you do not disclose the periodic payment, total amount to be repaid, total finance charges, and APR to SB borrowers, you have until Oct 1, 2026 to do so



Selling charged-off SB debt

3: Primary Mission, Practices that Require an Explanation

- Applicants need to explain why certain practices (not necessarily prohibited) still promote community development including:
 - Not using 'ability to repay' underwriting
 - SB loans exceeding 36% APR
 - Mortgage terms longer than 30 years
 - Those offered via a government program are allowed and do not require an explanation
 - ARMs underwritten at less than the max rate
 - Interest-only payments on mortgage loans longer than 12 months
 - Balloon payments on mortgage loans
 - Charging nonsufficient funds fees that exceed the amount of the item returned unpaid.



5: Target Market, Outline

- The applicant has to identify a TM
 - Most (if not all) NCDFIs will pre-defined TMs
- To verify that your borrowers are in your TM, you need a formal verification process
 - Self-report will be common
 - Tribal ID is next most common option
- In FY23, you need to have closed 60% by # and \$ in your identified TMs



5: Target Market Options

- TMs come in three flavors:
 - Other Targeted Population
 - Low Income Targeted Population
 - Investment Area
- OTPs: African American, Hispanic, Native American, Native Alaskan, Native Hawaiian, etc.
 - New OTPs: People with disabilities, Vietnamese, Filipino
- Investment Areas are census tracts that meet certain qualifications
- OTP have no geographic considerations while Investment Areas do have such considerations



5: NCDFI Target Market Examples

- “Most simple” option: Native OTP is your TM
 - Then any loan to a Native person counts
- Next most common will be: 1) Native OTP and 2) Investment Area
 - Any loan to a Native person is in TM
 - Any loan in an investment area (regardless of race) is in TM
 - For NCDFI designation purposes, you need at least 50% by # and \$ to be to Native Communities (either a Native person on a non-Native on Tribal land)



TM Verification Methods

The CDFI Fund has instituted formal verification methods to demonstrate that your borrower is in TM

Native OTP:

- For individuals: Self report or Tribal ID
- For businesses: at least 50% of ownership shares are owned by Native people OR at least 50% of end user recipients are Native



5: Target Market Hangups

- The most common issue I see for NCDFIs right now is if you expanded your work during the pandemic outside of Native communities
- If this continued into 2023, you will want to carefully analyze your lending and make sure:
 - For whatever TM you select, over 60% by # and \$ were in TM &
 - Over 50% by # and \$ were in Native Communities



6: Accountability Thresholds

- How many or what percentage of your board needs to be accountable?
 - It is case by case!
- If you only have a GB, then at least 33% of your board needs to be accountable
- The rules for Advisory Boards are different and more complex
 - See page 202 of the supplemental tips and guidance



6: Accountability



The methods for achieving accountability entirely depending on your TM selection



If you chose Native OTP only, then accountable board members simply need to be Native peoples



If you chose Native OTP + Pre Qualified Investment Area, then 33% of BOD needs to be accountable to your TMs + at least one accountable to each TM component



Don't forget the NCDFI designation thresholds too, which should be thought of separately!



6: Accountability Exclusions

- Board members who are not accountable to a Native CDFI:
 - Those who are close family members of employees of the Native CDFI
 - Those who are not representative of any of the selected TMs
- Board members who are borrowers of the Native CDFI can be accountable, but the NCDFI must have policies indicating they recuse themselves from decisions about their loan



7: NGO



The CDFI Fund does not permit CDFIs to be controlled by government agencies, BUT



Tribal governments are not arms of the federal government, so are excluded



There are still a few questions worth noting for Native CDFIs, though



7: NGO Questions

- Methods of control the CDFI Fund asks about:
 - Election of a majority or substantial minority of board members
 - Controlling interest in the applicant, or ability to vote more than 25% of voting shares
 - If a majority of your board is composed of government officials
 - Do your bylaws indicate that you must have a government official on the board?
 - Do gov officials have veto power over management staff or investments?
 - Does any gov't entity provide more than 50% of operating budget?
 - Does any gov't entity manage any part of applicant's operations?
 - Are any employees also gov't employees or employees of a gov't-controlled entity?



8: Native CDFI Designation

- Your BOD must be accountable to Native Communities
- If you only have a Governing Board, 33% of your GB needs to be accountable to a Native Community
 - This means they are Native OR are non-Native and live on Tribal Land
 - BUT at least 50% of those that are representative to a Native Community are Native people
- You must show that your lending (from your TLR) has been over 50% to Native people in the last FY or if that is not possible, over the last three years



6: Full List of Accountability Methods to Native Community(ies) for NCDFI Designation

- Being a Native individual (most common)
- Primary residence in a Native Community Geography
- Small business owner in a Native Community Geography
- Small business owner that mostly employs or provides goods/services to residents of a Native Community Geography
- Status as an elected Tribal government official serving a Native Community
- Status as a staff member of a non-Affiliated, third-party, community development, mission-driven org that primarily provides goods/services to populations or residents of a Native Community



6 to 12 Month Requirements



Your org needs to have been in existence for at least 12 months



Your org needs to have documented a full FY of lending (not 12 months)



Your org needs to show that its mission statement of community development was approved at least six months ago



Board Approval Required



Organizational documents (bylaws and articles of incorporation most commonly)



Strategic plan



Evidence of Primary Mission



Any resolutions that support the application



Conflict of interest policy



Accountability attestations



Most Common Hurdles

Financials not ready quickly enough for the 45 days or more recent requirement at time of submission

Board approval not achieved on important documents

Board approval not achieved on some of the more trivial items

Primary mission doesn't meet their specific definition of community development

A single responsible financing practice hasn't been changed

The TLR is tough to deal with, especially if you haven't done it before

Knowing where to find answers to everything





Report Out!

- Please answer the following questions:
 - What is one thing that you learned today &
 - What will be your first step in recertification after having seen this presentation?



Questions?



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9th Annual Native CDFI



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