



**NATIONAL DISABILITY**  
—FINANCE COALITION—

**CDFI (Re)Certification  
with Friedman Associates**

August 10, 2023

# today's agenda

**1** About NDFC

**2** Introduction to Friedman Associates

**3** Overview of Recertification

**4** Process Changes

**5** Policy changes +  
what each means  
for your CDFI

**6** Questions

<https://disability-finance.org>



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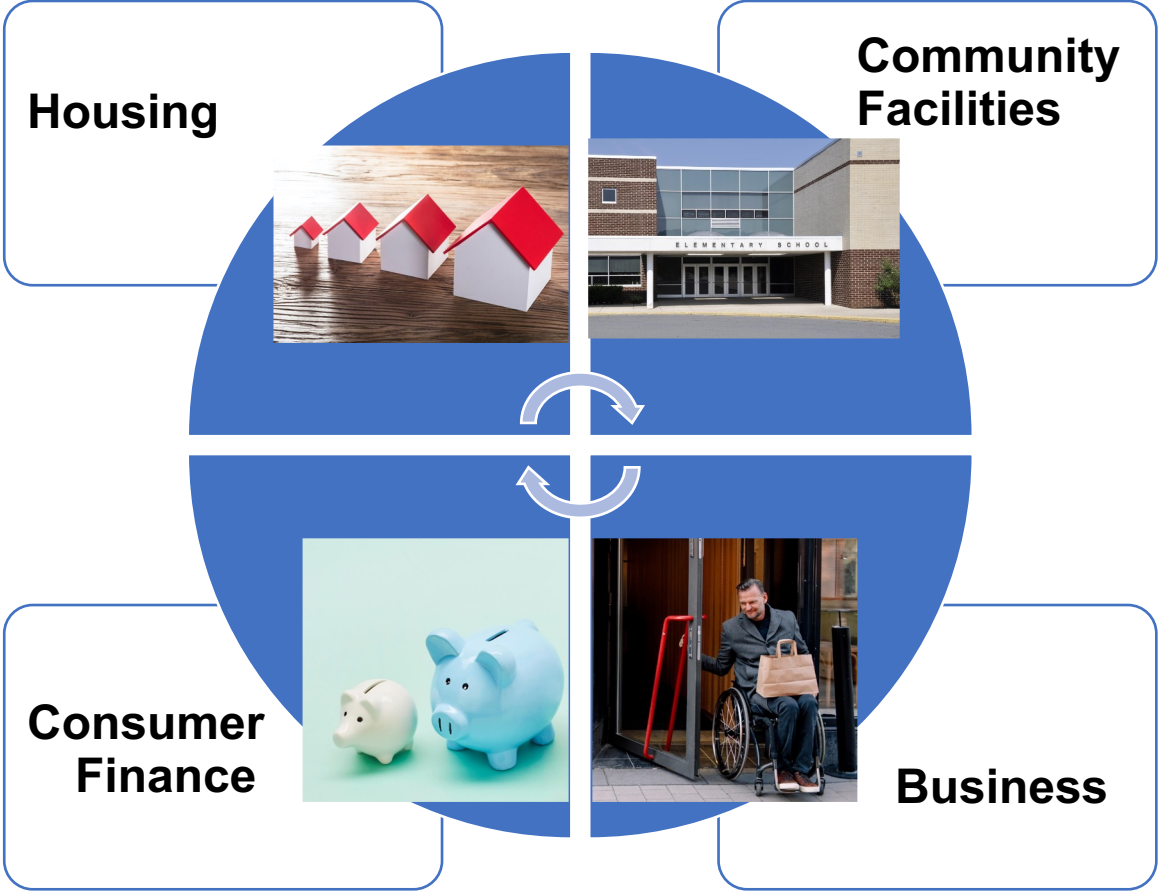
## Who We Are

### Our Mission

Our mission is to bridge the CDFI industry and the disability community, to ensure that CDFIs can respond effectively to address the needs of individuals with disabilities, and to offer technical assistance and support to CDFIs developing financing products and services.

Over the next year, NDFC will offer a wide range of topics on disability finance to our colleagues. All training events are accessible and free of charge.

**DISABILITY FINANCE INTERSECTS ALL FINANCIAL SERVICES**



# Disability Finance Training Topics plan for 2023-2024

## Housing

- Part 1: Accessible, Affordable Housing Development – COMING SEPTEMBER 14th
- Part 2: Home renovations and Smart Home features

## Consumer Finance

- Part 1: Assistive Technology and Other Consumer Loan f
- Part 2: Financial Education and ABLE

## Small Business

- Part 1: Lending and Equity
- Part 2: SBA and other Programs

## Community Facilities

- Part 1: Partnering with Disability Agencies and Schools
- Part 2: Accessibility Audits of Public Facilities

## Disability Finance –Financial Assistance Award

- Part 1: CDFIs – Introducing the DF-FA Award – Lessons Learned
- Part 2: Consultants – Should your client consider the DF-FA?



**NATIONAL DISABILITY**  
—FINANCE COALITION—



We help build and grow remarkably successful Community Development Financial Institutions.

# Intro + Overview

- This fall, the CDFI Fund will release a new certification application, which includes new processes and policies designed to protect the CDFI Certification brand and make the review process more efficient.
- A previous version was released last October. Based on industry feedback, a few changes will be made.
- The new application is complex and incorporates significant and substantive new requirements and criteria.
- Existing CDFIs will have to recertify using the new application within 12 months of release.

# Process Changes

The process for submitting the CDFI Certification application has some significant changes, detailed below.

## **The Burden of Proof is on the Applicant**

The application is longer, more complicated, and asks for more documentation than was previously required.

## **TLR Submission**

An agency-wide TLR will be submitted before the application is launched in AMIS and will be used to determine if you are meeting the Target Market criteria. All certified CDFIs will be required to submit a single TLR annually, which will also be used to confirm compliance with any active awards.

## **Board-Approved Strategic Plan**

In order to meet the Primary Mission test, you must have a strategic plan that supports a primary mission of community development.

## **Eligible Financial Products**

The application asks specific questions about your financial products to ensure they are “responsible.” Only approved products will be considered eligible financial products for your organization. If you add new products, you will have to get them pre-approved by the Fund.



# Process Changes (cont'd)

The process for submitting the CDFI Certification application has some significant changes, detailed below.

## Pre-Approval Required

To remove ambiguity from the process, the Fund has provided lists of eligible financial products, financing assets, etc. Anything that falls outside of that list will require pre-approval from the Fund to count it for certification purposes.

## Affiliates and Subsidiaries

Depending on entity type, certain affiliates or subsidiaries will also need to meet some certification criteria. More on that later.

## Timeframe Under Review

To get and stay certified, you must meet the Target Market test based on a three-year average through the last day of your most recently completed FY. Current YTD is not included in the timeframe under review.

## Board and Staff Demographics

The application collects demographic information about your Board and Staff. It is unclear what this info will be used for

# ELIGIBLE FINANCIAL PRODUCTS

## MAJOR CHANGES

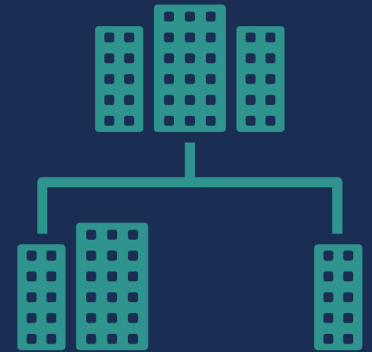
- Eligible Financial Products have been expanded to include:
  - ✓ Debt with equity-like features
  - ✓ Lines of credit
  - ✓ Credit cards
  - ✓ Loans directed to the Applicant's proposed TM purchased from entities **without** CDFI Certification.
- Applicant's financial products must be approved by the Fund to count toward financing entity, TM criteria, etc.

## IMPACTS

- You will be required to define your financial products in greater detail. Those approved by the Fund will be listed in your certification letter.
- When launching new financial products that fall after recertification, you will need to submit them to the Fund for approval. The process for doing this is TBD.

# Affiliates + Subsidiaries

- **Relevant affiliates and subsidiaries will be reviewed as part of the new certification application.**
- **Let's review the following definitions to understand which related orgs would be considered "relevant" to the review process.**



# Affiliates + Subsidiaries

- **Affiliate:** a company or entity that Controls, is Controlled by, or operates under common Control with another company.
- **Subsidiary:** a company that is owned or Controlled directly, or indirectly, by another company.
- **Control, Controlled or Controlling:**
  1. Ownership, control, or power to vote 25% or more of the outstanding shares of any class of voting securities of any company, directly or indirectly or acting through one or more other persons;
  2. Control in any manner over the election of a majority of the directors, trustees, general partners or individuals exercising similar functions of any company; or
  3. Power to exercise, directly or indirectly, a controlling influence over the management, credit, or investment decisions or policies of any company.

## For loan funds, an affiliate or subsidiary is relevant if it:

1. Controls you.
2. Engages in the direct provision of financial products or financial services.



**Relevant affiliates must also meet the PM tests on their own.**

CDFI Certification  
Criteria:

**PRIMARY  
MISSION**



**REQUIREMENT**

A CDFI – and all relevant affiliates – must have a primary mission of promoting community development.

# PRIMARY MISSION CRITERIA

## MAJOR CHANGES

- Addition of a board-approved strategic plan that supports community development is required. (Relevant affiliates require a narrative statement.)
- Your CDFI must prove that it engages in responsible financing practices. (See next slide)

## IMPACTS

- Have a current strategic plan in place or complete a plan prior to recertification.
- Review your financial products and policies to assure that they align with the Fund's responsible financing practices criteria.
- Undertake a review of relevant affiliates to assure they meet PM criteria.

# Responsible Financing Practices

1. Interest rates do not exceed limits for non-depository institutions in state where borrower resides.
2. Financing is affordable based on a borrower's ability to repay.
3. Transparency (TILA)
4. Fair collections – The CDFI doesn't sell debt to debt buyers
5. Mortgage products must meet several specific criteria including no interest-only or balloon payments, no original terms longer than 30 years, and more.



## CDFI Certification Criteria

### FINANCING ENTITY



## REQUIREMENT

A CDFI shall be an entity whose predominant business activity (in terms of both assets and staff time) is the provision of Financial Products and/or Financial Services.

# FINANCING ENTITY CRITERIA

## MAJOR CHANGES

- The Fund clarifies the definition and classification of assets and staff time to standardize how this criteria is measured, and allows you to “disregard” certain assets in this calc.
- Financing activity must be the “predominant” activity compared to all other activities, which doesn’t necessarily mean 50%.
- Development services staff time no longer counts toward financing activity.

## IMPACTS

- Review your balance sheet (most recent) and staff allocation (average allocation over the most recently completed 12 months) against the new classifications to ensure continued financing entity predominance in both categories.
- If you provide a lot of development services in relation to financial products, you may run into challenges meeting the FE test.

**CDFI Certification  
Criteria:**  
**TARGET MARKET**



## REQUIREMENT

At least 60% of a CDFI's activity must serve a certified Target Market (TM):

- Low-Income
- OTP:
  - African American
  - Hispanic
  - Native Americans
  - The Disabled
- Qualified Investment Area (QIA)

# TARGET MARKET CRITERIA

## MAJOR CHANGES

- Geography will no longer be part of the Target Market. **Yay!**
- The TLR will be used to confirm TM compliance.
- Existing CDFIs must meet the 60% criteria over the past 3 full fiscal years (not discretely each year).
- Persons with Disabilities is a new Other Targeted Population
- Certified CDFIs is formalized as an Other Targeted Population
- Investment Area (IA) TMs are divided into standard (all IA tracts) and Custom Investment Areas (CIAs), which include IA and non-IA tracts.
- CIMS maps will only be required for CIAs
- CIAs have additional, confusing criteria.
- Exceptions to meeting the 60% of both ## and \$\$ of financial products will not be considered.

# PEOPLE WITH DISABILITIES AS AN OTHER TARGETED POPULATION

- **NDFC has advocated for this change for years!**
- **General OTP definition:**
  - Individuals, or an identifiable group of individuals who are Low Income or lack adequate access to Financial Products or Financial Services.
  - The Applicant must use the CDFI Fund's approved assessment methodologies to demonstrate that it serves the Targeted Population.
- **Three categories of PWD as an OTP:**
  - Individuals
  - For-profit entities
  - Not-for-profit entities



# TARGET MARKET CRITERIA

## IMPACTS

- Overall, since it will be easier to meet TM criteria, we recommend that all existing CDFIs analyze their portfolio to determine if it would make sense to add new TMs in the recert app.
- All certified CDFIs, whether they have an active award or not, will be required to submit annual TLRs. **Since PWD is a new TM, existing CDFIs who are adding it will need to submit new TLRs to represent this TM in your historic lending.**
- If you have previously had a customized IA TM, you may change to a non-customized IA (i.e., all IA-qualified census tracts) to make compliance easier and more understandable.

# TARGET MARKET VERIFICATION

## MAJOR CHANGES

- CDFIs must use pre-defined, pre-approved methods to verify that their financial products and services are targeted to their certified TM(s), either directly, as recipients, or indirectly, as beneficiaries.
- Clear policies outlining the process by which the applicant verifies that products and services are directed to the TM(s) are required.

## IMPACTS

- Most CDFIs will need to review and update their verification processes and policies – or create new ones – to ensure they are in compliance with the Fund's requirements.

# PWD ASSESSMENT METHODOLOGY

**Individuals:** At least 50% of the individuals named as recipients in the Financial Product are assessed as a PWD

- Assessment method: self-identify, visual & id, technology/accessibility
- Hope to add: and their families and/or legal guardians

**For-Profit Entity:** At least 50% of the owners are assessed as a PWD

- Hope to add: Or entity that serves PWD, employs PWD, sells or finances assistive technology, builds or renovates facilities to incorporate accessibility and smart technology





# PWD ASSESSMENT METHODOLOGY (cont'd)

**Nonprofit Entity:** At least 50% of the end user recipients of the Financial Product are assessed as a PWD

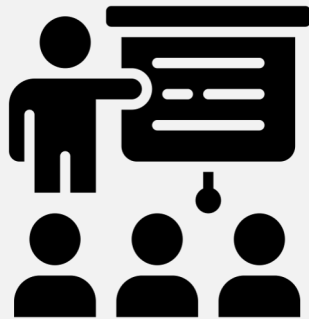
- Hope to modify: the non-profit entity offers services that benefit PWD, is developing a project that is accessible to and/or serves PWD, and/or it is expected that at least 50% of end user beneficiaries will be PWD

**Overall request:** Use assistive technology (instead of adaptive)

- Definition: “Devices and equipment that can help people with disabilities perform activities of daily living.”
- Includes mobility aids, hearing and visual aids, “smart home/office” aids, modifications to physical environment, and many others

## CDFI Certification Criteria:

### DEVELOPMENT SERVICES



## REQUIREMENT

A CDFI must provide Development Services in conjunction with its Financial Products – directly, through an Affiliate, or through a contract with another provider.

# DEVELOPMENT SVCS. CRITERIA

## MAJOR CHANGES

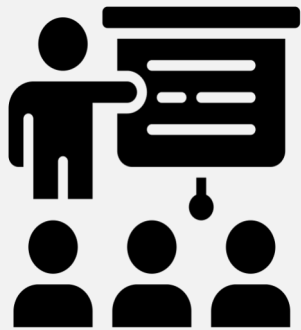
- Development services and requirements are more clearly defined.
- “Unstructured conversations with consumers on DS subject matter” is not considered an eligible development service.

## IMPACTS

- If you do not offer structured TA, you need to revisit how you provide TA to borrowers.
- DS offered through a contractual agreement with another person or entity, requires a current, executed contract in place that defines how you control the content of the development services provided.

## CDFI Certification Criteria:

### ACCOUNTABILITY



### REQUIREMENT

A CDFI must maintain Accountability to residents of its Target Market(s), through representation by individuals on its governing board and/or Advisory Board(s).

# ACCOUNTABILITY CRITERIA

## MAJOR CHANGES

- Accountability requirements are much more clearly defined.
- Board members or non-executive staff members of unaffiliated organizations are no longer able to be counted as “accountable” for LITP or IA TMs. Executive staff members are able to be counted as accountable.
- If using an advisory board, you must have an acceptable, written organizational accountability policy.

## IMPACTS

- You will need to closely analyze your Governing and/or Advisory Boards to ensure they meet the new accountability criteria.
- Organizations using an advisory board to meet accountability criteria will likely need to develop a board-approved accountability policy.
- We expect that most CDFIs will need to address this requirement.

# ACCOUNTABILITY TO PWD AS AN OTP

- Status as a member of the Targeted Population (Person with a Disability)
- Status as an executive staff member of a third party, mission-driven organization that primarily provides services to PWD
- Status as a family member of a PWD (Unique to OTP – PWD)



# ACCOUNTABILITY REQUIREMENTS

## GOVERNING BOARD

If your organization uses only its governing board for accountability:

- ❑ Governing board must consist of at least 3 members
- ❑ At least one governing board member must be accountable to each proposed Target Market
- ❑ At least 33% of the governing board must be accountable to the overall proposed Target Market(s)

## ADVISORY BOARD ONLY

If your organization does not have a formal governing board, you must meet the following criteria:

- ❑ Advisory board must consist of at least 5 members
- ❑ Advisory board must meet at least 3x per year
- ❑ At least one Advisory Board member must be accountable to each proposed Target Market
- ❑ At least 80% of the Advisory Board must be accountable to the overall proposed Target Market(s)
- ❑ At least one managing member or partner/owner of the Applicant entity must have a seat on the Advisory Board
- ❑ The Applicant must have adopted an acceptable

# ACCOUNTABILITY REQUIREMENTS

## ADVISORY BOARD + GOVERNING BOARD

If your organization has a governing board but also wants to use an advisory board for accountability, it must meet the following criteria:

- Governing board must consist of at least 3 members
- Advisory board must consist of at least 5 members
- Advisory board must meet at least 3x per year
- At least 20% of the governing board members must be accountable to at least one proposed Target Market
- At least one Advisory Board member must be accountable to each proposed Target Market
- At least 60% of the Advisory Board must be accountable to the overall proposed Target Market(s)
- At least one governing board member must have a seat on the Advisory Board
- The Applicant must have adopted an acceptable organizational accountability policy



## CDFI Certification Criteria:

### **NON- GOVERNMENTAL ENTITY**



### **REQUIREMENT**

A CDFI may not be an agency or instrumentality of the United States, or of any State or political subdivision therein.

# NON-GOVERNMENTAL ENTITY CRITERIA

## MAJOR CHANGES

- There are no major changes to the non-gov entity policies.
- “Control” is now clearly defined and does not require majority control.
- The application asks more detailed questions to ensure that you will meet non-gov entity criteria.

## IMPACTS

If you have relationships with governmental entities, you will want to review the criteria to confirm that there is no control (per the clear definitions provided).

# Next NDFC Webinar

## Accessible, Affordable Housing Development on September 14 from 1:00- 2:30pm ET.

- A primer on housing policy for PWD
- Case studies of housing development for PWD by NDFC members
- Presenters: Genesis Fund, PATF, Disability Opportunity Fund
- And our Government Affairs consultant Towner French