



# The New CDFI Certification Application

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# Agenda

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- How We Got Here and Major Themes
- Application Timeline
- Application High Points
- Target Market Assessment Methodologies
- Our Certification Process
- Q&A

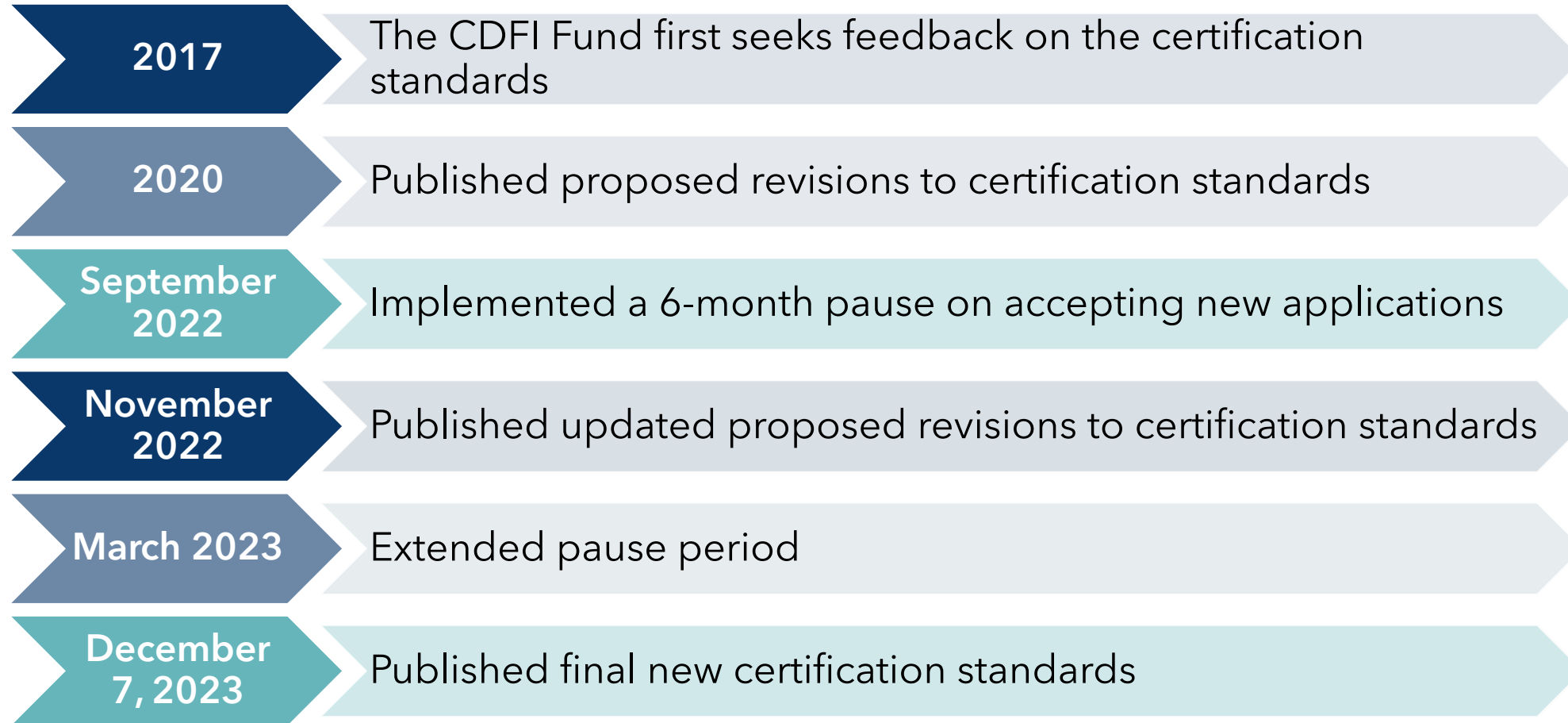
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# How We Got Here & Major Themes



# How We Got Here

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# 500-Foot Themes

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## General elimination of flexibility

- Examples:
  - Use of the TLR, eliminating sampling
  - Designation of Responsible (and presumably irresponsible or potentially irresponsible) Products

## Focus on protecting the brand

- Why?
- Examples:
  - Affiliate loans included in analysis
  - Products are now assessed to ensure that they are responsible

**The result: certification is more difficult and rigid.**



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# Timeline



# Certification Deadlines

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All currently certified CDFIs must submit a new certification application.

## Currently Certified CDFIs

- Deadline to submit recertification: 12/20/2024
- Can apply as early as 5/31/2024

## Emerging CDFIs

- No deadline to submit
- Application opens: 12/20/23

## Emerging CDFIs Applying for a FY23/24 FA Grant:

- Deadline to submit certification: March 5, 2024

# Deadlines

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	<b>Dec. 20, 2023</b>	<b>March 5, 2024</b>	<b>May 31, 2024</b>	<b>July 31, 2024</b>	<b>August 1, 2024</b>	<b>Dec. 20, 2024</b>
<b>Uncertified Entities</b>	AMIS application opens (Phase One)	Last day to submit CDFI Certification Application for Uncertified FA applicants				
<b>Certified CDFIs</b>			Early re-application opens	Early re-application deadline	AMIS application opens (Phase Two)	Deadline to submit reapplication



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# Certification Application High Points



# Accountability and Advisory Boards


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## Context

- As a CDFI, you serve a **“Target Market”**, which you can think of as the low income and underserved people and communities you serve.
  - The CDFI Fund requires that a **certain portion of your board be “accountable” to your Target Market.**
  - Bad news: the new certification rules make it harder for your board to meet the **accountability standard.**
  - Good news: the CDFI Fund has given you another path to help with accountability: the **advisory board.**
  - Our preliminary analysis leads us to believe that most credit unions are going to need an advisory board.
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# Advisory Board Basic Requirements

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- **Advise the governing board** on strategic and policy matters regarding the Target Market.
  - Be informed about the **needs** of the Target Market.
  - 60% of the members need **to reflect your Target Market** (i.e. be low-income, live in a low-income area, be part of an underserved population, etc.).
  - Must have at least **five** members.
  - Must include a member of your **governing board**.
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# Accountability: Credit Union Provision

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- Does any of your board of directors need to be accountable if you have an Advisory Board?
  - Prior rule: no, if 50% of your members were in the Target Market.
  - **New rule:** no, if **33% of your members** are in the Target Market.
  - If that's the case, you can satisfy the accountability standard with just an **Advisory Board**.
  - Otherwise, you'd be required to have an Advisory Board AND at **least 20% of your Board of Directors would need to be accountable** to the Target Market.
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# Disqualifying and Potentially Disqualifying Products/Practices

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## Overdraft and NSF Fees

- Proposed application said that excessive fees and unfair practices related to overdraft/NSF fees could disqualify you from certification.
- Final application indicates that these three practices are what the Fund has in mind:
  - Charging a fee that's **more than the amount** of the item cleared/returned unpaid
  - Charging more than **six overdraft fees** in a rolling 12-month period
  - Charging more than one NSF fee on a **single** transaction
- These practices are not automatically disqualifying.



# Military Annual Percentage Rate Issue

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- Generally prohibits consumer loans with a Military APR over **36%**.
- Applies to **all consumer loans**, not just consumer loans to military personnel.
- You are **not** required to calculate the MAPR on every loan you make.
- You can satisfy the requirement by:
  - Updating your lending policy to say that you **do not "allow for"** consumer loans that have a MAPR exceeding 36%
  - Determine what lending scenario **would** give you an MAPR above 36%
  - **Prohibit** those scenarios in your lending policy



# Requirements for Single-Family, First-Lien, Residential Mortgages

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- Must verify applicant **income**.
- **Avoid** negative amortization and interest-only payments.
- **Avoid** upfront points and fees exceeding 3% or exceeding the Qualified Mortgage limits for smaller loans.
- For ARMs, underwrite at the maximum rate in the **first five years**.
- Allowable but **require an explanation**:
  - Balloon mortgages
  - Terms longer than 30 years (if not government supported)



# Mission Statement

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- You must have a **qualified, board-approved** community development mission statement in place for **six months** before applying/reapplying for certification.
- That means currently certified credit unions should have that mission statement in place **no later than 6/20/2024** to meet the 12/20/2024 deadline.





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# Target Market Assessment Methodology



# Context

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- The CDFI Fund requires that you **determine which loans count** towards your Target Market.
- A Target Market Assessment Methodology is the process you go through **to determine if a loan is to someone in your Target Market**.
- Last week the CDFI Fund published, for the first time, a set of approved methodologies.
- You are **required to use an approved methodology** to prove you meet the Target Market lending benchmarks (generally 60%).
- There are approved Methodologies for **each TM type**: Investment Area; Low Income Targeted Populations; "Other Targeted Population" (OTP) - Approved Racial/Ethnic Minorities; OTP - Persons with Disabilities.

# Investment Area

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- The Investment Area Target Market is **geographically based**. Certain census tracts are determined to be qualified. **Any loans made to a person living in one of those tracts** counts towards your Target Market, regardless of that person's income.
- Methodology: verify residence address using standard identification docs.

# Low Income Targeted Population

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- The LITP Target Market is **income based**. Income cannot exceed 80% of the Area Median Family Income.
- The CDFI Fund allows for multiple ways to assess this.
- We believe **this option will be best for most clients**: If documented full family income and family size data is not available, the lender can assess low-income status via a comparison of:
  - the **documented underwriting income data** for the borrower(s) and
  - the **Area Median Family Income for a family size of three**.

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# Our Process With Our Clients



# 1: Questionnaire to Identify Gaps


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- We send you a list of questions to **determine if you already meet the standards to be certified.**
- We also **analyze your lending** to determine if you meet the TM lending benchmark.




# 2: Consulting to Close Gaps

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- If we identify any gaps that would prevent you from being certified, **we provide you with recommendations on how to address the gaps.** This might include such things as adopting a policy, modifying a product, or tweaking a procedure.
  - This consulting is **included in our standard certification service.**
  - If your TM lending does not meet benchmark, we offer a **separate consulting service** through our CU Results group that can guide you to increasing your TM lending.
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# 3: Application Development & Submission

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- This starts with **data collection**.
  - We use that data, and **our own research**, to complete the application.
  - We provide you a recommendation regarding **when to submit**.
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# Submission Timing: Currently Uncertified


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- Can apply for certification as early as 12/20/2023.
- Our recommendation: apply **as soon as you are confident you qualify** for certification (we can help make that determination).



# Submission Timing: Currently Certified

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- Can apply as early as 5/1/2024.
  - Our recommendation: start the process now but **wait until Q4 2024 to submit.**
  - Waiting will give you **time to address any gaps** that might make you ineligible.
  - The CDFI Fund will likely release guidance over the next several months that we can use to **strengthen your application** before submitting. You can't benefit from that guidance if you've submitted earlier.
  - If you do want to apply **early**, you must submit a request by 2/1/2024.
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# Next Steps

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We will be sending you a proposal on how CU Strategic Planning will take care of your CDFI certification or re-certification needs.

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# Questions?



# Thank You!

For more information on how we can help you retain or gain your CDFI certification, contact:

- [mikeb@custrategicplanning.com](mailto:mikeb@custrategicplanning.com)
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