AltCap

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Dear CDFI Fund,

AltCap is grateful for the opportunity to comment on the potential updates being made to the CDFI Financial Assistance and Technical Assistance applications. We commend the CDFI Fund for their efforts in revising the application to enable CDFIs to better serve the communities they represent.

As a small business CDFI loan fund, AltCap has experienced exponential growth over the last five years and continues to provide high-impact revolving capital into our service areas. Our team appreciates the CDFI Fund's recognition that the needs of CDFIs and of our communities are constantly changing and that small and midsize CDFIs have an outsized impact on their communities. We also commend the CDFI Fund's efforts to expedite the FA Award application process and address the disproportionate administrative burden on smaller CDFIs.

We look forward to continuing our work with the support of the CDFI Fund and we look forward to the adapted application process.

In no particular order, below are our comments by section on CDFI Program and NACA Program Applications:

14. FA Objectives. FAO 1-1: Increase Volume of Financial Products (2x multiplier proposal)

In general, we recommend against having the Fund set a multiplier. CDFIs need the flexibility to adjust their growth plans, otherwise a CDFI can be penalized for not achieving growth while still creating meaningful impacts in their community. Additionally, we ask that the multiplier to be tied to their FA awards, rather than general lending. This is particularly important right now as many CDFIs are being evaluated using data from during the pandemic, in which many CDFIs saw dramatic but unsustainable increases in their lending.

2. Are certain data fields, questions or tables redundant (sic) or unnecessary? If yes, which ones and why?

Question 13 inquiries about how receiving an award would enhance the applicant's capacity to accomplish its strategic objectives. However, it appears to overlap with

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Question 4, which pertains to the utilization of funds, as well as Question 5, which focuses on strategic goals. One possible improvement could involve merging Question 4 and Question 13, effectively eliminating redundancy between these two inquiries while still gathering relevant information for reviewers.

12. *Beneficiary Data.*

Separating benefits between financial products/services and development services will increase the burden of data collection and reporting for CDFIs. While this is reasonable information to request from an applicant, tracking beneficiary data is incredibly difficult and time consuming. We propose using borrower data for FA applications as it would be more efficient and reliable data.

As noted by the depository trade groups, except in limited circumstances, regulated financial institutions cannot collect information on the race, ethnicity, disability status or (generally) marital status of their members or customers. It would be helpful if the CDFI Fund provided a system for using geographic proxies.

13. FA Objectives.

We support the elimination of rarely selected objectives. However, several CDFIs select “New Development Services” (often in combination with “Increase the Volume of Financial Products”.) Absent this FA objective, we encourage the CDFI Fund to clarify how CDFIs can use their FA award to provide new development services.

15. Ability to Serve Native Communities.

We support this addition. The CDFI Fund should prioritize financial assistance to CDFIs with a track record promoting economic empowerment, strengthening social services, addressing historical injustices, preserving cultural heritage, strengthening sovereignty, and supporting environmental stewardship in Native Communities. The Fund should seek information on the extent to which Native Communities are represented as end beneficiaries, contractors, staff, board members, and partners. Applicants should demonstrate significant buy-in from tribal governments and Native Communities.

3. Net Asset Ratio.

While a CDFI’s net asset ratio may provide a sense of the CDFI’s financial stability and

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efficiency, this ratio varies widely based on a CDFI's strategy. CDFIs that concentrate on housing and real estate financing take on different levels of risk than microlenders. CDFIs that focus on equity investing – persistent need in low-income communities – will operate differently than CDFIs that provide debt products exclusively. The cost of capital also varies across different markets (example: rural CRA deserts vs. metropolitan areas). CDFIs already provide lengthy narrative justifications for their business strategy in the application. While it may be tempting to boil down these narratives into several simple metrics, it will be easier said than done.

7. Funding Levels for CDFIs.

We do not support a reduction in the funding cap and – absent a significant increase in CDFI Fund appropriations – we do not support an increase in the cap. While inflation has diminished the value of $5 million since the cap was first set in 1994, the need for CDFI investment has increased and the number of certified CDFIs has greatly increased, effectively expanding the industry's capacity to serve our communities.

We greatly support the CDFI Fund's proposal to provide multi-year awards as it would decrease the administrative paperwork required of CDFI staff. We also suggest that applicants would be eligible for additional awards during the award period of any multi-year award.

8. Funding Levels for CDFIs

The current proposal to limit access for FA awards for CDFIs that exceed $25 million in assets far too low. Even loan fund CDFIs that surpass $25 million in assets rely on FA awards as they are an important asset to their capital structure, and leverage FA awards when expanding their service area, rolling out new products, or use it for growth capital.

We propose limiting access to FA awards to CDFI loan funds that exceed $250M in assets but see no reason why they should have a different threshold from credit unions.

4. Small and Emerging CDFI Assistance.

There should be zero limits on the number of SECA awards a CDFI can receive. As long as award sizes are smaller than CORE FA awards, this program should continue to provide financial assistance to smaller CDFIs. It is worth noting that the CDFI Application

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overhaul will significantly increase the burden on smaller CDFIs. An arbitrary cap on SECA awards will deny them a critical source of funding.

10. Continued Viability for CDFIs.

Conventional financial institutions achieve financial independence thanks to large deposits, access to secondary capital markets, and the provision of financial products to affluent markets.

CDFIs primarily focus on serving low-income, economically disadvantaged, and underserved communities. These communities often lack access to affordable financial services and face barriers to traditional financing options. Subsidies help CDFIs bridge the gap between the cost of delivering these services and the revenue generated, enabling them to offer affordable loans, grants, and other financial products to their target populations.

Subsidies provide CDFIs with the flexibility to experiment with new approaches, pilot innovative programs, and develop customized financial products tailored to the unique needs of their communities. This experimentation fosters learning, enables adaptation to changing market conditions, and promotes the development of sustainable solutions to address complex social and economic challenges.

Many CDFIs lack access to secondary capital markets and long-term debt. They must compete for a variety of funding streams, public and private. While most CDFIs would probably still exist (in some form) in five years without a single penny of financial assistance from the federal government, there would be an accompanying decrease in the number of families supported, affordable housing units financed, and people lifted out of poverty. Predatory lenders would almost certainly fill the void in distressed communities.

Respectfully submitted,

Ruben Alonso III
CEO