Northeast South Dakota Economic Corporation (NESDEC)

dba GROW South Dakota

Section 0 Application
White Paper
December 2024

HOUSING, COMMUNITY, AND ECONOMIC DEVELOPMENT

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Introduction

The Northeast South Dakota Economic Corporation (NESDEC) was founded in 1978 with the goal of stimulating small business ownership, business development, and job creation in low-income and rural communities in the northeast region of South Dakota. In 1996, NESDEC was among the first group of organizations in the nation and the first organization in the state to become certified under the new CDFI program, whose mission was to provide financial services and capital to low-income and underserved communities. NESDEC has served this mission well. Over the past 28 years, NESDEC has deployed more than $11 million from the CDFI Fund to low-income and low-equity borrowers across its 22-county customized investment area (CIA), stimulating economic growth for rural communities.

On December 7, 2023, the CDFI Fund released a revised CDFI certification application that contained significant changes to the existing CDFI program. The Fund also announced that it would require all CDFIs to reapply for certification under the new standards. One of the largest changes to the CDFI program was the modification of its target market components. Under the new standards, a majority of NESDEC's 22-county service area is no longer eligible for CDFI funding, despite the continued need for affordable financial products and services in this area. With a majority of NESDEC's service area no longer eligible for funding, NESDEC is at risk of losing its certification. NESDEC has been working with the CDFI Fund, local policymakers, and partnering CDFIs to retain its certification and to allow CDFI funding for rural communities to continue.

One of the options provided by the CDFI Fund to amend the standards is the Section 0 application. The Section 0 application provides organizations the opportunity to propose an amendment to the new CDFI standards before submitting their full application for recertification. There are four types of amendments organizations can propose, including an additional targeted population. Organizations that propose an additional targeted population must also propose a new target market assessment methodology to verify eligibility for the proposed targeted population. NESDEC recently submitted a Section 0 application requesting an additional targeted population of "Non-Metro Designated Areas." This document provides an explanation of NESDEC's approach to the Section 0 application and includes several components of NESDEC's submission as appendices with the goal of helping other organizations who are pursuing a similar request.

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[1] **How to cite this paper:** Fischer, M., Honl, R., Erickson, M., Finnesand, L., & Rasmus, K. (2024). *NESDEC Section 0 Application* [White paper]. GROW South Dakota. https://www.growsd.org/about-us.

Section 0 Application

The Section 0 application begins with five screening questions to determine the type of amendment the applicant is proposing. Once these questions are completed, the applicant is asked to provide additional information to support the proposed request. The next section of this paper details the information NESDEC provided for its proposed targeted population.

Proposing An Additional Targeted Population

Name, Location, and Description of Targeted Population

Applicants are first asked to provide a name and description of the proposed targeted population and identify where the population is geographically located. NESDEC named our proposed targeted population "Non-Metro Designated Areas" and defined this population as all individuals who live in non-metro counties. The Office of Management and Budget defines these counties as being outside metropolitan statistical areas, meaning they do not contain an Urban Area with a population of at least 50,000 nor are they socially or economically integrated with an Urban Area with a population of at least 50,000 (2020 Standards for Delineating Core Based Statistical Areas, 2021). This definition is consistent with how non-metro is defined in the CDFI certification application materials (Office of Certification Policy and Evaluation, 2023).

NESDEC chose this population because it captures a significant portion of our service area and is consistent with our focus of serving rural communities. Additionally, we chose this population because non-metro counties are defined in the CDFI certification application, so the term is already familiar to the CDFI Fund. Finally, we chose this population because we were able to propose an assessment methodology that was simple to use and maintain. As previously mentioned, all applicants proposing an additional targeted population must also propose a corresponding assessment methodology. The CDFI Information Mapping System (CIMS) includes Metro Designation as one of the indicators provided in the details tab of the CIMS tool. Because metro/non-metro is included in CIMS, we were able to propose a verification methodology using the CDFI Fund's existing mapping system rather than creating our own. This approach provided a proposed methodology that is familiar to the Fund and avoids additional administrative burden on our organization.

Demonstrated Evidence for Unmet Financial Service Needs

Applicants are then asked to provide information that evidences the significant unmet capital and/or financial services needs of the targeted population and provide evidence for why the population cannot be served through an eligible investment area.

To demonstrate that residents in non-metro counties have significant unmet capital needs, we first referenced Executive Order 13985, which identifies persons in rural areas as an underserved community who has been denied consistent, systematic, fair, just, and impartial treatment (Exec. Order No. 13985, 2021). We paired that with data from the Consumer Financial Protection Bureau that listed 33 of 59 non-metro counties in South Dakota as financially underserved in 2023 (CFPB, 2024).

To provide evidence for why this population cannot be served through an eligible investment area, we presented our findings from a place-level analysis of economic distress in non-metro areas of South Dakota. Place is an official geographic unit recognized by the U.S. Census Bureau and includes locations like cities, towns, and villages. It is a combination of incorporated and unincorporated communities that are either legally recognized or locally recognized and are identifiable by name (see Figure 2; Jacobson & Mather, 2020). Places can be very large like Chicago, Illinois or very small like Rosyln, South Dakota. In non-metro areas, places are often smaller than census tracts, since census tracts are based on population density. Our theory was that non-metro census tracts capture areas that are too large to accurately identify financial need among individual communities. By examining economic distress at the place level, we hypothesized that we would be able to more accurately assess the financial need of our service area by separating economically and socially integrated places into individual units for analysis.

Using the same economic distress criteria the CDFI Fund uses to evaluate census tracts (Office of Certification Policy and Evaluation, 2023), we evaluated each place to determine if it met one or more of these criteria. Of the places that met one or more of these criteria, we then identified how many of these places were in non-metro counties. Finally, we calculated the population of residents in these places that were outside eligible investment areas. We found that 59% of the population in these areas is outside eligible census tracts, meaning 59% of this population is living in a non-metro community that meets at least one economic distress criteria but is no longer eligible for CDFI Funding. Thus, we concluded that residents of non-metro areas have significant unmet capital needs and cannot be served through existing target markets. See Appendix A for a full description of our Place methodology.

Demonstrated Evidence for Disparities in Access to Financial Products and Services

Applicants are also asked to provide specific evidence showing the proposed targeted population has disparities, controlling for poverty and income effects, in their access to financial products and services for the geographic service area.

For this item, we cited research indicating that access to full-service financial institutions is limited for residents in non-metro areas. Many bank branches in rural counties are closing, forcing borrowers to either transition to online banking, travel further distances to access physical bank locations, or pursue predatory lenders (Dumont & Roberts, 2019). Because rural areas lack technology and broadband infrastructure and reliable public transportation, these options all pose significant challenges or risk. Non-metro areas also face a lack of quality and affordable housing, diminishing access to health care and medical facilities, and a low number of job opportunities (Rural LISC).

To bolster our argument that residents in non-metro areas experience disparities in their access to financial products and services, we asked several of our partner banks to provide a letter of support for our application. We received twelve letters, which we included as attachments in our submission. See Appendix B for the template letter we provided to bank representatives to sign.

Provide Any Additional Information Necessary for the CDFI Fund to Consider the Request

We chose to add an additional paragraph explaining why we were no longer able to create a customized investment area (CIA) using non-metro counties following the revised CDFI standards. Although CDFIs can still create a CIA using non-metro counties as their unit, 85% of the population in the CIA must be in a qualified investment area (Office of Certification Policy and Evaluation, 2023). For South Dakota, non-metro counties do not contain enough qualified investment areas for this option to be viable. We include in our answer that we think this is the result of the large income distribution within non-metro census tracts and not because these areas no longer need affordable financial products and services.

Proposing an Other Target Market Assessment Methodology

The next section of this paper details the information NESDEC provided for its proposed other target market assessment methodology.

Description of Assessment Methodology

Applicants are asked to describe the assessment methodology, including the step-by-step process used to collect the data, review any documents, and/or run the model and process its results.

When selecting an assessment methodology, it was important to us to select a methodology that was easy to implement and maintain for our team. For that reason, we chose to modify the CDFI Fund's existing Target Market assessment methodology for investment areas by replacing "qualified census tract or an eligible customized Investment Area (CIA)" with "non-metro designated area." To determine whether the addresses are in a non-metro designated area, we proposed entering addresses into the CIMS mapping tool, which reports the metro designation in the details tab of the search results. If the addresses are designated as non-metro, we proposed generating and including a CIMS print-out with the applicant file for recordkeeping, which is a process we are already doing under the current CDFI standards. See Appendix C for our proposed verification policy and Appendix D for an example illustrating how this policy would be applied.

Confidence in Proposed Assessment Methodology

Applicants are asked to fully describe how the proposed assessment methodology provides sufficient confidence that a financial product consumer, board member, or credit union member can be assigned to a specific target market component. Because we modeled our proposed assessment methodology after the CDFI Fund's existing policy and proposed to use their mapping tool to verify eligibility, we expressed a high level of confidence in our ability to assign consumers and board members correctly.

Recordkeeping and Modifications to Existing Practices

Applicants are also asked to describe the process for recordkeeping and how they will update any methodology that is dependent on changes to underlying data. We indicated that our process for recordkeeping will not deviate from the existing CDFI Target Market policy. The result of the CDFI CIMS Metro Designation analysis will be recorded in the applicant file and tracking database for ease of tracking and reporting and shall be maintained according to CDFI retention requirements for a minimum of 5 years.

Conclusion

NESDEC was a charter member of the CDFI program and has deployed over $11 million in affordable financial products and services to local borrowers across the northeast region of South Dakota. NESDEC is now at risk of losing its certification following changes to the CDFI program's target market policies. As a result, NESDEC has been pursuing several options for retaining its certification, including the submission of a Section 0 application. The purpose of this document is to provide an explanation of NESDEC's approach to the Section 0 application with the goal of helping other organizations who are pursuing a similar request. NESDEC will continue to work with the CDFI Fund, local policymakers, and partnering CDFIs to identify solutions that ensure rural communities are able to access affordable capital moving forward.

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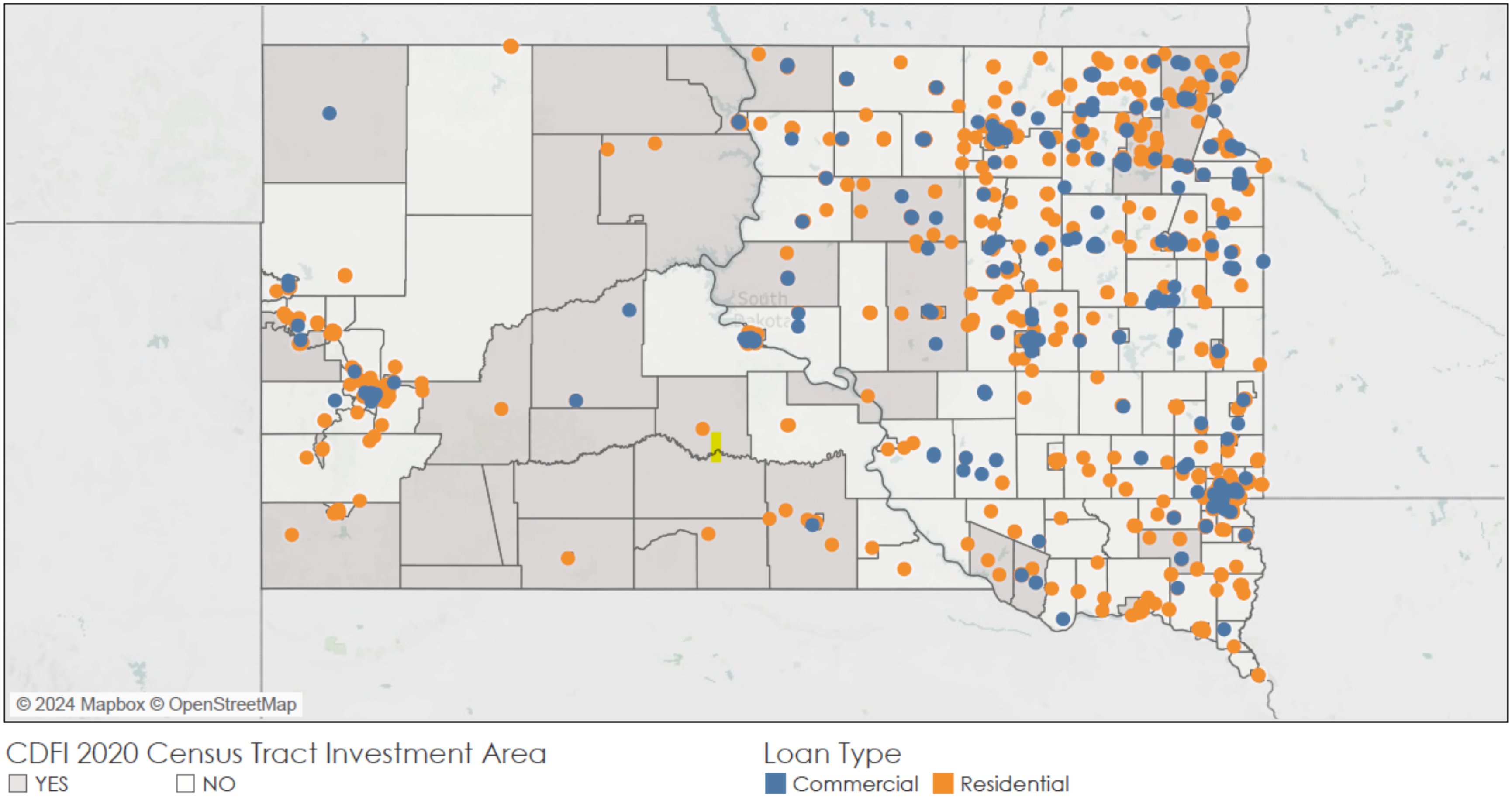
Figure 1

*GROW South Dakota Residential and Commercial Lending by CDFI Investment Area: 2013 – 2024**

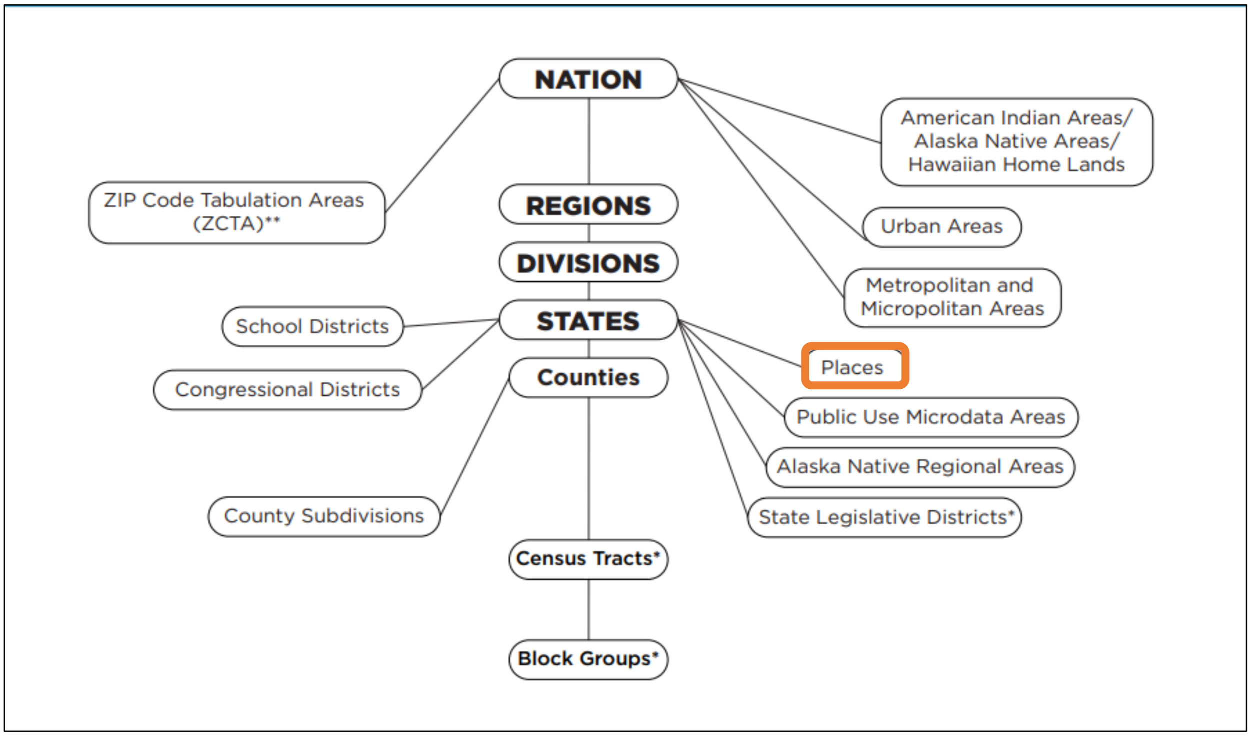


Note. This figure shows a map of the residential and commercial lending for GROW South Dakota (SD) from 2013-2024 and how this lending activity overlaps with the new CDFI Investment Areas. As illustrated in the map, a majority of GROW SD's historical lending is outside eligible areas. NESDEC is one of three entities that do business as GROW SD.

* Address data is available back to 2013 for residential lending and back to 2019 for commercial lending.

Figure 2

Hierarchy of Select Geographic Entities in the American Community Survey (ACS)



Note. This figure illustrates the relationship between Place and other geographic entities in the American Community Survey (ACS) (Jacobson & Mather, 2020). Places can be incorporated or unincorporated. Incorporated places are legally incorporated under state law, have a legally defined boundary, and have an active functioning government. They include places like cities, towns, and villages. Census designated places represent unincorporated communities that do not have a legally defined boundary or an active functioning government but are locally recognized and identified by name (U.S. Census Bureau, 2023).

Appendix A

Place Methodology

Sample

Place Data via IPUMS NHGIS

Place data were obtained from IPUMS NHGIS, which provides tabular Census and American Community Survey data at all levels of U.S. Census geography, including Place and Census Tract (Manson et al., 2024). Place-level datasets were extracted from the 2022 American Community Survey (ACS) 5-year data file. This data file combines 2018-2022 single year ACS data files and reports the average values across the five-year period. Most summary level data for small area geography are only available at the 5-year level to protect confidentiality of participants. These data were used to assess the economic distress of places in South Dakota. The economic distress criteria include poverty rate, unemployment rate, and annual household median income.

Census Tract Eligibility via CDFI Fund

Census tract data were obtained from the CDFI Fund's geographic-based reports database (CDFI Fund, 2023). The dataset used was the "CDFI Program Updated Investment Area Eligibility 2016-2020 ACS Data." It is a tract-level dataset based on the 2020 ACS 5-year data file that reports census tract eligibility and non-metro county status.

Measures

Place

Place is a geographic unit comprised of incorporated and census designated places. Incorporated places are legally incorporated under state law, have a legally defined boundary, and have an active functioning government. They include places like cities, towns, and villages. Census designated places represent unincorporated communities that do not have a legally defined boundary or an active functioning government but are locally recognized and identified by name (U.S. Census Bureau, 2023). For this analysis, a place-level dataset was drawn from the 2022 ACS 5-year data file to examine places in South Dakota. There were 486 places total, but 53 places did not have available economic distress data and were excluded from the analysis. The final total for this analysis was 433 places.

Economic Distress Indicator

The CDFI Fund lists three economic distress criteria used to determine eligibility of investment areas in the new CDFI certification application. The three economic distress criteria are a poverty rate greater than 20%, a median family income at 80% or below specific benchmarks, and an unemployment rate 1.5 times the national average. An investment area needs to meet at least one of these criteria and have significant unmet needs for financial products and services to qualify as an eligible investment area. An economic distress indicator was created using data from the 2022 ACS 5-year data file to assess how many places in South Dakota meet at least one of these economic distress criteria.

Poverty Rate

Poverty rate is the first economic distress criterion. To apply this criterion, the percentage of residents in each place that fell below the federal poverty line was calculated. If the percentage of residents below the federal poverty line was above 20%, the place was marked as meeting this economic distress criterion.

Unemployment Rate

Unemployment rate is the second criterion. To apply this criterion, the August 2024 national unemployment rate of 4.2% (Bureau of Labor Statistics, 2024) was multiplied by 1.5 to get 6.3%. Then, the unemployment rate of each place was assessed to determine whether it was above or below the 6.3% threshold. Places that were at or above the threshold were marked as meeting this economic distress criterion.

Annual Household Median Income

Annual median family income is the third economic distress criterion. In this analysis, the annual median *household* income was used as a proxy due to data availability. To apply this criterion, the 2023 state median household income of $81,470 (FRED, 2024) was multiplied by 0.80 to get a threshold of $65,176. Then, each place was assessed to determine whether the median household income was above or below $65,176. Places that were at or below the threshold were marked as meeting this economic distress criterion.

Non-Metro Counties

Non-metro counties were identified using the dataset obtained from the CDFI Fund. This dataset contained a column that indicated whether a county was metro or non-metro. Places were matched to their corresponding counties to determine whether the place was in a metro or non-metro county.

Investment Area Eligibility Status

Investment area eligibility was identified using the dataset obtained from the CDFI Fund. This dataset contained a column that indicated whether each census tract was or was not eligible for CDFI funding.

Procedure

Economically Distressed Places

To identify the number of places in South Dakota that are economically distressed, three place-level tables reporting poverty rate, unemployment rate, and median household income were downloaded from IPUMS NHGIS. Using the poverty rate table, the percentage of people below the federal poverty level was calculated for each place and a flag was created to indicate which places have a poverty rate greater than 20%. Using the unemployment rate table, a second flag was created to indicate which places have an unemployment rate of 1.5 times the national average. Using the median household income table, a third flag was created to indicate which places have a median household income at or below 80% of the state median household income.

Once the poverty, unemployment, and median household income flags were created, the tables were merged to create one table that contained each place and its corresponding economic distress criteria flags. In the final step, an economic distress flag was created to identify places that meet one or more of the economic distress criteria and these places were summed up to get a total count of economically distressed places in South Dakota.

Economically Distressed Places in Non-Metro Counties

To identify the number of economically distressed places that are in non-metro counties, an additional table was downloaded via IPUMS NHGIS that reported county, place, census tract, and population of places by census tract. Next, the investment area eligibility table was downloaded via the CDFI Fund, which included non-metro status for counties and investment area eligibility for census tracts. These two tables were merged using census tract as the linking key to create a place by census tract population table (see Table 1).

Table 1

Place by Census Tract Population Table

County	Place	Census Tract	Population	Non-Metro	IA Eligibility
Day	Andover town	952700	66	Non-Metro	No
Day	Roslyn town	952700	177	Non-Metro	No
Day	Roslyn town	952900	4	Non-Metro	Yes
Day	Waubay city	952900	473	Non-Metro	Yes
Lincoln	Sioux Falls city	010109	6028	Metro	No
Minnehaha	Sioux Falls city	000100	6299	Metro	Yes
Minnehaha	Sherman town	010101	81	Metro	No

Note. This table provides a few example entries from the place by census tract population table. As illustrated by Sioux Falls city and Roslyn town, some places are listed more than once because they span multiple census tracts, which also means, in some cases, part of the place is in an eligible investment area while the other part(s) is not. As illustrated by Andover town and Waubay city, other places are located within a single census tract. Because census tracts are based on population density, it is typically the case that metro places span multiple census tracts while several non-metro places are combined into a single tract, but this is not always the case as illustrated by Roslyn town. As a result, the geographic unit in this table is place by census tract rather than just place or just census tract.

Once non-metro status was matched with place, non-metro status was added to the economic distress table using place as the linking key. Note, this was a many-to-one merge and some places span multiple counties (e.g., Sioux Falls city; see Table 1; Torrieri et al., 1994). Because non-metro status is based on county, it is possible for a place to be partially in a metro county and partially in a non-metro county (Jacobson & Mather, 2020). For this reason, all places spanning multiple counties were checked to confirm they had the same metro designation before merging. After non-metro status was added to the economic distress table, the number of economically distressed places that are in a non-metro county was calculated.

Population in Economically Distressed, Non-Metro, Investment Area Ineligible Places

Next, the percentage of the population in economically distressed, non-metro places that are outside eligible investment areas was calculated. To do so, the economic distress flag was merged with the place by census tract population table using place as the linking key. Using the economic distress flag, another flag was created to indicate place by census tract units that were economically distressed and in a non-metro county. Then, the population of these place by census tract units was summed to get a total. Next, a flag to mark place by census tract units that were economically distressed, in a non-metro county, and not in an eligible investment area was created and the population of these place by census tract units was also summed. Finally, the population total of the second calculation was divided by the population total of the first calculation to get the percentage of the population in an economically distressed, non-metro area that does not qualify as an eligible investment area.

Results

Of the 433 places in South Dakota with available data, 62% meet one or more of the economic distress criteria. Of the places that meet these criteria, 90% are in non-metro counties, and 59% of the population in these areas is outside eligible investment areas.

Appendix B

Bank Draft Letter

Dear Director Raghavan,

[NAME OF BANK] would like to signify our strong support for the Northeast South Dakota Economic Corporation's (NESDEC) application for a new targeted population of non-metro areas. Our bank has witnessed NESDEC's longstanding commitment to rural borrowers, and we support their effort to continue serving this population.

As a certified CDFI, NESDEC provides a flexible, non-predatory financing alternative for borrowers in our service area who may struggle to obtain financing at a traditional lending institution. These individuals are first-time homebuyers, small business entrepreneurs, and people who simply need a second chance. We are able to refer these borrowers to NESDEC for direct financing or partner with NESDEC on shared financing agreements to ensure the needs of all borrowers are met.

Partnering with NESDEC through referrals and shared financing agreements ensures individuals in our non-metro, small towns are able to access the capital they need. Access to capital in these areas is limited. If NESDEC is no longer able to lend in these areas, borrowers who are unable to obtain financing at a traditional lending institution will likely be forced to pursue riskier alternatives. For this reason, it is vital that NESDEC is able to continue service in these areas.

NESDEC plays a central role in the continued economic vitality of non-metro areas. We urge you to accept their application for a new targeted population of non-metro areas, so they can continue to provide financial products and services to the individuals who most need their support.

Thank you,

[SIGNATURE]

Appendix C

Proposed Other Target Market Assessment Methodology

The following policy is based on the CDFI Fund's Pre-Approved Target Market Assessment Methodologies documentation.

Per CDFI guidance, an investment is considered Non-Metro TM-directed if it meets the following criteria:

1) **Individual:** At least 50% of the individuals named as recipients in the Financial Product and/or Financial Services transaction agreement are assessed as having a primary place of residence in a Non-Metro designated area.

2) **For-Profit Entity[2]:** If all parties named as recipients in the Financial Product and/or Financial Services transaction agreement are for-profit entities that are wholly owned by one or more individuals (i.e., are not owned in whole or in part by another entity) and are not tax-exempt:
   a) At least 50% of the owners' business locations are located in qualified Non-Metro designated area.
   b) At least 50% of the Financial Product and/or Financial Services are used for a business location of the owner(s) in a Non-Metro designated area; or
   c) At least 50% of the employees of the business as a whole or of the business to which the Financial Product and/or Financial Services are directed reside in a Non-Metro designated area. Northeast South Dakota Economic Corporation (NESDEC) will follow the Ia.1 Residence TM methodology.

3) **Non-Profit Entity:** If all parties named as recipients in the Financial Product and/or Financial Services transaction agreement are tax-exempt:
   a) At least 50% of locations for the project or service must be located in a Non-Metro designated area; or
   b) At least 50% of end-users of a project or service must reside in a Non-Metro designated area. NESDEC will follow the Ia.1 Residence TM methodology.

For individual borrowers, NESDEC has implemented the following procedures to determine if a loan is a Non-Metro TM directed, in line with the Fund's pre-approved **IA.1: Residence** TM verification methodology.

Using CDFI Fund's CIMS mapping system, NESDEC will determine if the primary place of residence for individual borrower(s), as assessed via a government-issued (including Tribal

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[2] Financial Products provided to businesses offering restricted services are not allowed to be counted as Target Market directed. This includes companies involved in activities such as alcohol, tobacco, cannabis, gambling, adult entertainment, or weapons.

government) photo identification or an allowable document showing proof of primary residence, is in a Non-Metro designated area.

1) The loan application form will request the primary residential address for each individual named as a recipient in the loan agreement.
    a) All individuals named as recipients of the Financial Product will be counted as separate individuals when determining the overall percentage of those who qualify, even if they are part of the same family, household, or entity.
    b) If the Financial Product is for a home purchase, and the new home will be the Financial Product consumer's primary place of residence, the new home address will be used to determine if the homebuyer resides in a Non-Metro designated area.

2) The loan package will require acceptable residence documentation to confirm the primary residence that was reported on the loan application form for each recipient named in the loan agreement. Acceptable residence documentation includes a driver's license, utility bill, or other documentation on a case-by-case basis.

3) Once the primary residence address is confirmed, NESDEC will use the CDFI CIMS mapping system to determine if the primary place of residence is in a Non-Metro designated area. If at least 50% of the individuals named in the loan agreement reside in Non-Metro designated areas, the loan will be determined to be Non-Metro-Target Market directed.

4) The result of this analysis, including the FIPS code of the primary residence(s), will be recorded in the applicant file and tracking database for ease of tracking and reporting and shall be maintained for a minimum of 5 years.

For for-profit entities, NESDEC has implemented the following procedures to determine if a loan is a Non-Metro TM directed, in line with the Fund's pre-approved **IA.2: Project/Service** TM verification methodology.

Using the CDFI Fund's CIMS mapping system, NESDEC will determine if the geocoded address(es) of all business locations or of the location(s) where the financing is actually or specifically intended to be used is in a Non-Metro designated area.

1) The loan application form will request the address of all business locations for the business or for which the financing proceeds are intended to be used in the loan agreement. (Addresses used for collateral should not be counted as business locations unless those addresses are actual locations for the relevant entity.)

2) The loan package will require acceptable business location documentation to confirm the business location(s) that were reported on the loan application form. Acceptable business location documentation includes a business license, utility bill, or other documentation on a case-by-case basis.
    a) If the Financial Product is provided for pre-development, the financing entity should geocode the known location of where the facility is to be built. If the location has not yet been determined, the transaction cannot be assessed as in a Non-Metro TM.

3) Once business location addresses are confirmed, NESDEC will use the CDFI CIMS mapping system to determine if each business location is in a Non-Metro designated area. If at least 50% of the business's locations are in Non-Metro designated areas, the loan will be determined to be Non-Metro-Target Market directed.

4) The result of this analysis, including FIPS codes of the business location(s), will be recorded in the applicant file and tracking database for ease of tracking and reporting and shall be maintained for a minimum of 5 years.

For loans to nonprofits, to verify that at least 50% of a non-profit's locations for the project or service funded with the loan are located in a Non-Metro designated area, NESDEC has implemented the following procedures to determine if a loan is Non-Metro TM-directed, in line with the Fund's pre-approved **IA.2: Project/Service** TM verification methodologies.

Using the CDFI Fund's CIMS mapping system, NESDEC will determine if the geocoded address(es) of the nonprofit's locations (i.e. where the financing is actually or specifically intended to be used) is in a Non-Metro designated area.

1) The loan application form will request the address of locations for the non-profit for which the financing proceeds are intended to be used in the loan agreement.

2) The loan package will require acceptable project location documentation to confirm the location(s) that were reported on the loan application form. Acceptable project location documentation includes utility bills, financials, mortgage documents, and other documentation on a case-by-case basis depending on the type of project.
    a) If the loan is intended for working capital for the nonprofit, the locations would include all nonprofit office/facility locations.
    b) If the loan is a real estate acquisition or development loan, the locations would include where the project is located.

3) If the Financial Product is provided for pre-development, the financing entity should geocode the known location of where the facility is to be built. If the location has not yet been determined, the transaction cannot be assessed as in a Non-Metro TM.

4) Once the location addresses are confirmed, NESDEC will use the CDFI CIMS mapping system to determine if each business location is in a Non-Metro designated area. If at least 50% of the business's locations are in Non-Metro designated area, the loan will be determined to be Non-Metro TM-directed.

5) The result of this analysis, including FIPS codes of the business location(s), will be recorded in the applicant file and tracking database for ease of tracking and reporting and shall be maintained for a minimum of 5 years.

Appendix D

Proposed Methodology Application Example

This example provides a step-by-step walkthrough of the proposed assessment methodology for non-metro designated areas using the example of Ages and Stages daycare in Clear Lake, South Dakota.

Clear Lake is home to 1,224 people and several businesses, including the Deuel School District, the Sanford Clear Lake Medical Center, Maynard's Food Center, and a U.S. Post Office. Recently, Ages and Stages daycare, the only certified daycare in the county, was put up for sale. The new buyer for the daycare was unable to obtain financing through a traditional lending institution, so they applied for financing through NESDEC, who was able to provide them a loan and keep the daycare open. This business is one of nine small businesses that NESDEC has provided financing for in Clear Lake. Clear Lake will no longer be eligible under the pre-approved Target Market criteria but would be eligible under the proposed other targeted population of non-metro designated areas.

Proposed Assessment Methodology Steps:

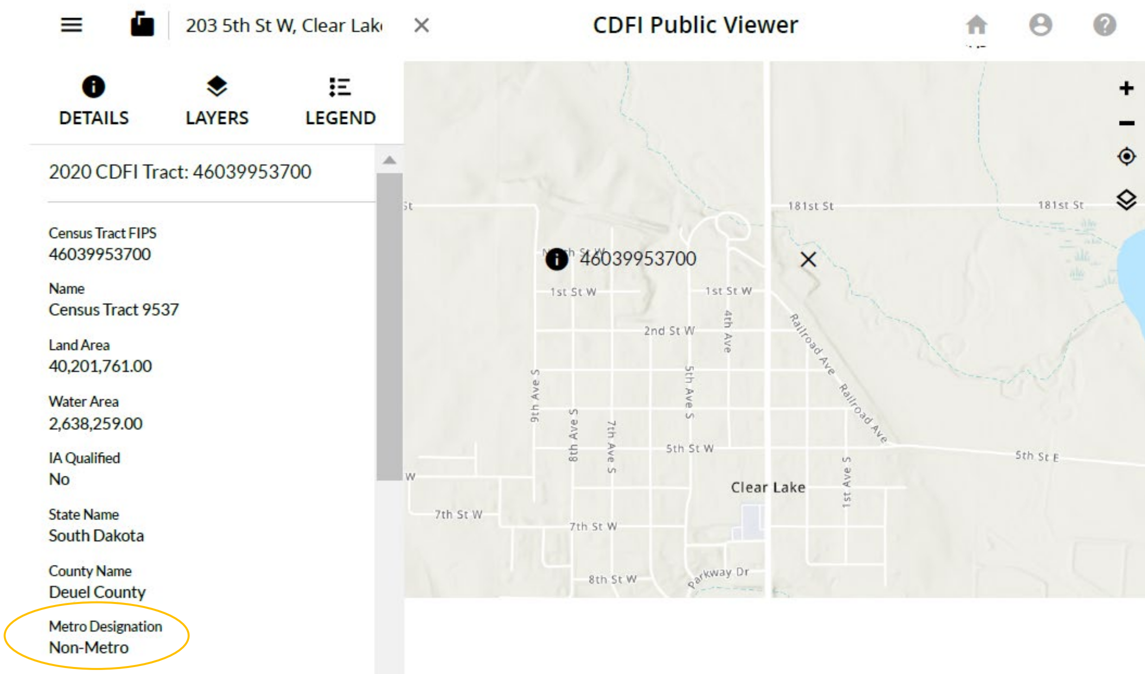
1. **Step One: Identify the primary place of residence for all recipients and all business locations.**
   a. Primary place of residence of borrower: [*leaving blank in this example to protect borrower's privacy*]
   b. Business location: 203 5th St W, Clear Lake, South Dakota, 57226

2. **Step Two: Enter each address into the CIMS mapping tool to determine its metro designation.**

   Both addresses would be entered into the CIMS mapping tool.

3. **Step Three: Assess the eligibility of the transaction using the proposed target market assessment methodology.**

   Using the business location for this example, the image below illustrates that this address has a non-metro designation. This meets the eligibility criteria for a nonprofit entity, such that at least 50% of locations for the project or service are located in a non-metro designated area. Therefore, we would conclude that this transaction meets the eligibility criteria for the other targeted population of non-metro designated area.



4. **Step Four: Print the page with the address and details tab displayed to store in the applicant file for recordkeeping.**