

U.S. Department of the Treasury



Community Development Advisory Board Meeting

October 23, 2003

CDFI
fund

Interagency Collaborative for Community and Economic Development (ICCED)

Met to discuss federal government coordination of economic development, housing and community improvement policies, activities and initiatives in distressed communities and targeted populations for maximum economic stimulus efficiency and impact.

ICCED Members

Commerce

HUD

Interior

SBA

Treasury

USDA

ICCED Status

- 3 ICCED meetings convened, May – September
- 90 Day Plan
 - Develop common definition of economic development
 - Inventory federal economic development programs
 - Identify structure to implement ICCED
- Longer-term goals include:
 - Adopt common definitions and terminology across federal programs
 - Define common measures of success
 - Identify distressed areas with real potential to succeed

ICCED

Accomplishments

- Drafted definition of economic development
- Identified inventories of 73 federal “economic development” programs and 39 community development financing programs

ICCED: Moving Forward

- Opportunities
 - Interagency dialogue
 - Improve coordination among federal programs, reduce redundancies
 - Pilot coordinated programs
 - OMB is interested in performance across agencies
- Challenges
 - Ambitious goals
 - Limited agency resources
 - Defining realistic action plan

Performance Measurement

- Publicly available, quality data important for:
 - Accountability / impact assessment
 - Underwriting
 - Performance improvement
- Quantitative data - necessary but insufficient for:
 - Conventional rating systems
 - Investment decisions
 - Industry advancement (CDFI Data Project)

Fund's Performance Measurement Initiatives

- Community Investment Intelligence System (CIIS)
- PLUM Performance Rating System

CIIS: Supporting the Fund's Mission

- Improve the economic and living conditions of underserved communities by providing an array of community development financing and financial services through a nationwide network of sustainable regulated and non-regulated CDFIs and CDEs.

Which Data Will the Fund Collect?

- Institution-level data
 - Organizational profile
 - Financial condition
 - Loan purchases and sales
 - Development Services and Financial Counseling & Other Services (FCOS)
- Transaction-level data
 - Socio-economic characteristics of borrowers/investees
 - Loan terms, status. Equity investment cost, value
 - Community development impact

How Will the Fund Use the Data?

- Measure compliance
- Document performance and outcomes
- Conduct NMTC impact evaluation
- Identify and disseminate best practices

How Will Others Use the Data?

- CDFIs and CDEs
 - Conduct self-assessments and peer analyses
 - Provide valuable data for investors and funders
 - Measure compliance
- Researchers, Investors and Others
 - Support research on community development finance
 - Increase liquidity for CDFIs and CDEs
 - Measure performance and compliance

CIIS Development Process

- Increase awareness of the benefits of data collection
- Inclusive development process with all stakeholders
 - Interviewed CDFIs and CDEs
 - Conducted User Centered Design Sessions
 - Received Public Comments
 - Met with Bank/Credit Union Regulators
 - Holding Foundation/Investor Meetings
 - Announced Software Developers Conference
 - Will Test with CDFIs/CDEs

Going Forward

- Train CDFIs/CDEs
- Develop mechanism for sharing data with CDFIs/CDEs and their funders/investors
- Develop vehicles for ongoing industry input

Performance Measurement

- Long-Term Sustainability
- Community Development Impact

PLUM

- P** – Performance effectiveness (i.e., community development impact)
- L** – Leverage, liquidity and solvency
- U** – Underwriting, portfolio quality and risk management
- M** – Management
 - Performance rating system for CDFIs.
 - Measures a CDFI's financial strength and potential for creating impact.
 - Assesses a CDFI's performance relative to its peers.

PLUM Status

March	Used peer data to establish Minimum Prudent Standards for FA '03 Round
November	Analyze public comments and revise indicators
December	Begin testing "L" and "U" indicators Update MPS using FY 2003 application data
January 2004	Quantify "M" indicators
July 2004	Test "P" with transaction-level data

U.S. Department of the Treasury



Review of CDFI Fund Programs

CDFI
fund

Native American Initiatives

As a result of the Native American Lending Study, the Fund is undertaking initiatives to:

- Improve economic conditions in Native American Communities by encouraging greater availability of capital and financial services;
- Increase homeownership opportunities for Native Americans and expand the supply and quality of housing units on Indian Lands; and
- Expand access to and utilization of financial services by Native Americans.

These initiatives form the basis of the Fund's Native American Strategic Plan

Objectives of the Native American Strategic Plan

1. Increase the *coverage* of Native American CDFIs (i.e., number and communities served);
2. Increase the *capacity* of Native American CDFIs (i.e., financial strength and sustainability);
3. Attract traditional, non-Native, financial resources to Native American communities.

Initiative	FY 2001 Set Aside	FY 2002 Set Aside	FY 2003 Set Aside	FY 2004 Set Aside (Est.)
SET ASIDE:	\$5,000,000	\$5,000,000	\$5,000,000	\$3,000,000
NA CDFI Training Program (NCCA/Oweesta)	\$1,500,000			
Funding Rounds	\$2,500,000	\$559,000	\$4,967,500	\$3,000,000
Anticipated Contracts for Services		\$4,441,000	\$634,000	
TOTAL:	\$4,000,000	\$5,000,000	\$5,000,000	\$3,000,000

Initiatives Underway

- Native American Training Program
- Native American Technical Assistance (NATA) Component
- Native American Community Development (NACD) Program
- Priority in the BEA Program
- Native American CDFI Assistance Program
- Anticipated Contracts for Services
- Greater coordination with the support network for Native communities
- A Demonstration Project to support innovative products and delivery mechanisms

Bank Enterprise Awards (BEA) Program

Bank Enterprise Awards Program

The BEA Program provides awards to insured depository institutions for engaging in lending, investment and service activities to CDFIs or to economically distressed communities.

The BEA Program rewards actual increases in the dollar volume of Qualified Activities from a Baseline Period to a later Assessment Period.

Bank Enterprise Awards Program

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Qualified Activities are divided into three categories, with a statutory funding priority for CDFI Related activities:

1. CDFI-Related Activities: Grants, investments, equity-like loans, loans, deposits or technical assistance to certified CDFIs.
2. Distressed Community Financing Activities: Loans or investments for affordable home mortgages, affordable housing development, education, small businesses, and commercial real estate development.
3. Service Activities: Deposits, financial services (e.g., money orders), electronic transfer accounts, individual development accounts, or community services provided to residents of Distressed Communities.

Impact of Key Changes to the BEA Program

- Increased the likelihood of awards for carrying out financing activities in distressed communities by reducing the size and number of awards in the CDFI Related category;
- Targeted awards to smaller CDFIs, which have a greater need for the incentive provided by the BEA Program award, and
- Encouraged certain personal and community wealth building activities in distressed areas. The Fund has concluded that the regulatory modifications achieved the desired results.

Results of the FY03 BEA Program

- The Fund made \$13,881,938 in BEA awards to 75 banks, including:
 - 60 awards for CDFI Related Activities totaling \$2.5 million.
 - 25 awards for Distressed Community Financing and Service Activities totaling just over \$11.4 million.
 - The largest Financing Activity category shifted from Commercial Real Estate financing to community wealth-building activities such as Affordable Housing Development (with almost \$5 million in awards).

Results of the FY03 BEA Program

The \$11.4 million in awards for Financing and Service Activities spurred \$163 million in activity in Distressed Communities and generated:

- 127 new homebuyers
- 1,337 affordable housing units developed or rehabilitated
- 111 commercial real estate properties
- 1,539 jobs created/maintained,
- 3,234 individuals received financial education, and
- 1,200 new accounts were opened.

FY 2004 PART RATING

- BEA uses a weak incentive structure to promote investments.
- Awardees are under no obligation to reinvest BEA program awards in community development initiatives.
- CRA provides many of the same incentives to banks.

New Market Tax Credit Allocations

2002 Allocatees: Organizational Characteristics

- 28 CDFIs or affiliates of CDFIs
- 15 depository institutions or affiliates of depository institutions, including 3 CDFI-banks
- 4 public entities or affiliates of public entities

2002 Allocatees: Geographic Areas Served

- Serve 40 states and the District of Columbia
- 20 allocatees will predominantly serve rural areas
- Service area analysis:
 - 15 are national
 - 12 cross multiple states
 - 17 are statewide
 - 22 are local

2003 Round Milestones

Milestone	Date
CDE Certification application deadline	Aug 29
NMTC Allocation Application due date	Sept 30
First phase review of applications (internal and external reviewers)	Oct 28
Second phase analysis of applications (internal Fund panel review)	Dec 15
Award Announcements	March/April

Applicant Pool Comparison

2003 Applicant Pool	2002 Applicant Pool
271 applications received	345 applications received
Total request: \$30 billion	Total request: \$26 billion
Average request: \$113 million	Average request: \$75 million
Largest request: \$1.5 billion	Largest request: \$1 billion
Smallest request: \$670,000	Smallest request: \$300,00

Community Development Financial Institutions (CDFI) Program



Technical Assistance Component CDFI Program

Purpose

Provide grants to CDFIs and CDFIs in formation to acquire technology, training and outside expertise to help it better serve their target markets.

Key changes in FY 2003

- 2 year rolling process (through May 2004)
- Simplified application
- More focus on first-time awardees
- Applicants need to be up to date on reports and drawing down prior awards
- Implement “developmental” financial and portfolio quality standards

2003 Technical Assistance Component- CDFI Program

To date: 8 awards totaling \$326,520

- Over \$9 million remaining
- Planned outreach for 03-04:
 - Distribute Q&A document
 - Website
 - Trade associations
 - Other agencies
 - Other outreach opportunities
- Amendments to NOFA under consideration
- Evaluation of TA Program planned FY 04-05
- New Training Contracts planned FY 04-05

2003 Financial Assistance Component -- CDFI Program

Purpose

Provide matching capital to CDFIs that show that they have the financial and managerial capacity to serve target markets, be viable financial institutions, and effectively use and leverage CDFI Fund dollars.

Priorities for FY 2003

- Activity in most distressed areas (Hot Zones)
- Promoting homeownership opportunities for low-income people and groups of people for which there is evidence of a lack of access to capital.

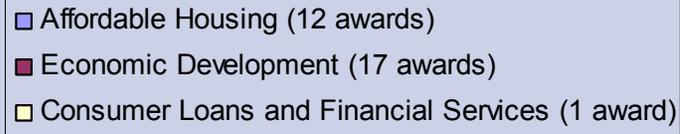
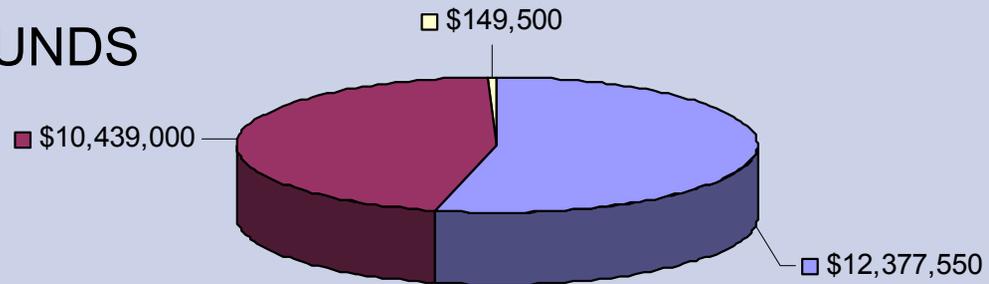
2003 Financial Assistance Component -- CDFI Program

Other key changes in FY 2003:

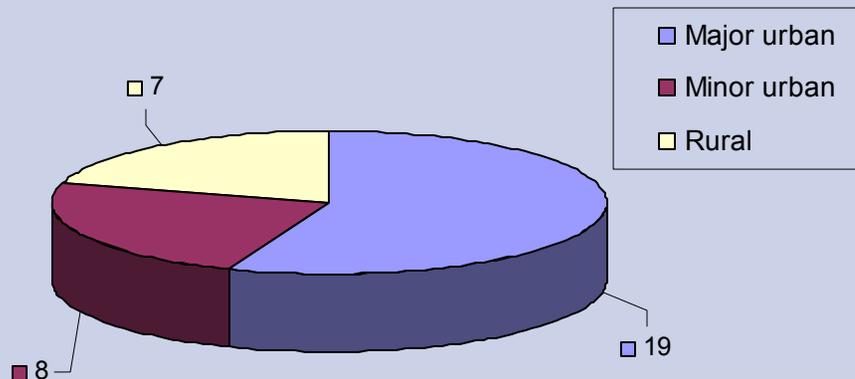
- Electronic application
- Application focused on particular products
- Use of 2000 Census data to define markets
- Need to demonstrate capital need
- Demonstrate high level of match in-hand or committed
- Must be certified CDFI at time of application
- Severe penalties for failure to submit timely reports
- Financial and portfolio quality benchmarks

2003 FA Awardees

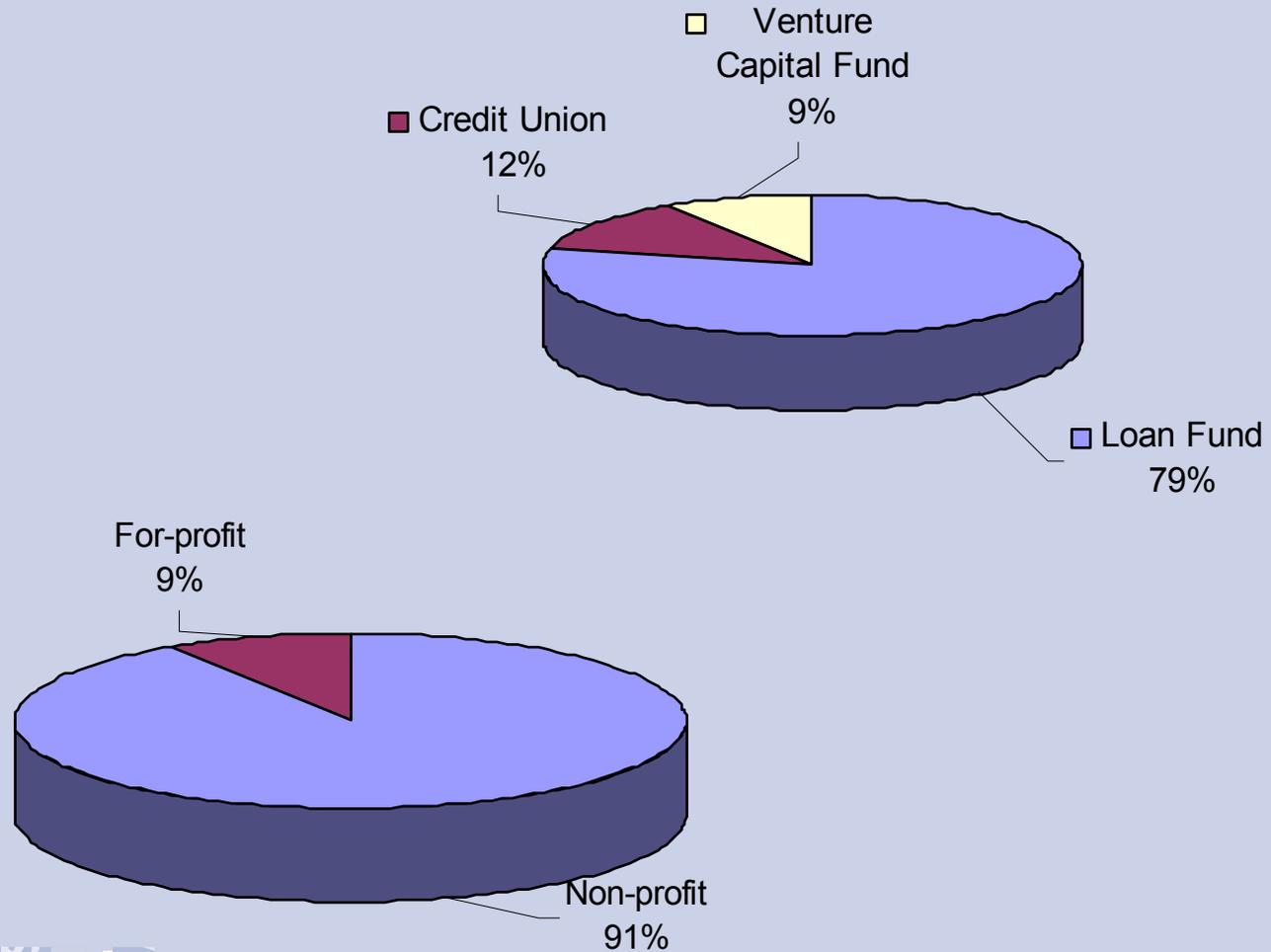
USE OF FUNDS



PRIMARY MARKETS SERVED



2003 FA Awardees



Awardee Projected Impacts

Awardees project the following impacts with the help of CDFI Fund dollars:

- 1,493 homebuyers
- 8,279 affordable housing rental units developed or rehabbed
- 7,437 affordable housing homeownership units developed or rehabbed
- 16,590 jobs created
- 1,094,861 square feet community facilities acquired/developed/rehabbed
- 6,393 day care or educational slots available
- 500 *First Accounts* or other "lifeline" accounts opened

Reasons for Funding Denial

- Written review criteria overview and customized feedback provided to all unsuccessful applicants

Criterion (Percent Failure)	Reason for Criterion	2004 Response
Ineligible (12%)	<ul style="list-style-type: none"> • Submission of reports is an indicator of compliance with Fund policies and enables evaluation of past performance. • Re-certification allows the Fund to determine that the applicant is a CDFI, and determine market based on 2000 Census data. 	<ul style="list-style-type: none"> • Fund will continue to enhance communication with awardees in order to encourage timely reporting. • Developing simplified re-certification application.
Capital Need (33%)	Verify applicant has need for and can quickly deploy capital in target market.	<ul style="list-style-type: none"> • Make chart more user-friendly • Customize charts for depository institutions and other CDFI types • Provide clearer definitions and instructions
Management & Underwriting (36%)	Determine that CDFI has sound management policies, appropriate staff, and good portfolio quality.	<ul style="list-style-type: none"> • Promulgate standards (MPS). • Improve communication on reports due.

Reasons for Funding Denial

(cont')

Criterion (Percent Failure)	Reason for Criterion	2004 Response
Financial Health (18%)	Determine health of CDFI from key ratios.	<ul style="list-style-type: none"> Promulgate standards (MPS). Improve clarity of charts and definitions.
Financial Sustainability & Matching Funds (16%)	<ul style="list-style-type: none"> Determine likely financial health. Ensure match is eligible so that funds may be quickly deployed. 	<ul style="list-style-type: none"> Tie financial projections to financial track record. Extend matching funds window back, but require funds be in hand by 5/1/05. Match shortfalls will not be grounds for ineligibility, but will not fund more than match in-hand or committed.
Market Need & Community Development Performance (47%)	<ul style="list-style-type: none"> Determine market need. Evaluate track record and projections toward meeting Fund's priorities. Evaluate quality of products and strategy to address market need. 	<ul style="list-style-type: none"> Rank rather than threshold score on priority activities. Funding of non-priority activities if funds are available. Provide for wider range of activity types and impacts.

Other Concerns & Proposed Solutions

- Not enough time to complete application/
application not user-friendly
 - Modify application to address user concerns
 - Allow at least 60 days for application
- Hot Zones under represented rural areas
 - Hot Zones will be designated at either the tract or county level for rural areas
- Elimination of out-migration and population loss eligibility criteria impacts rural areas
 - Reintroduce out-migration and population loss as eligible indicators of distress