COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTIONS FUND

2001 CDFI Program

Core &Intermediary Components

Closing Workbook

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Note that any terms that are capitalized and italicized are defined in the CDFI Fund Glossary.

THE CLOSING PROCESS

The purpose of the closing process is to finalize the terms and conditions underlying the assistance provided by the CDFI Fund (the Fund) to the organization selected to receive assistance (the Awardee). These terms and conditions, financial and managerial soundness covenants, performance goals and measures, and approved uses of awarded funds and matching funds are set forth in an *Assistance Agreement* negotiated with each Awardee. The *Assistance Agreement* contains both standard terms and conditions for all Awardees, and terms and conditions that are specific to each Awardee, based on its award type, its organization type, and the *Comprehensive Business Plan* funded by the Fund. The *Assistance Agreement* must be executed by both the Fund and the Awardee in order for the Fund to disburse any funds to the Awardee. Thus, it is in the interest of both the Fund and the Awardee to work toward agreement on the terms and conditions of the *Assistance Agreement* as quickly as possible.

In negotiating the *Assistance Agreement*, the Awardee will primarily work with an assigned <u>Program</u> staff member who is familiar with the organization's *Comprehensive Business Plan* and purpose of the award. This person serves as your primary contact at the Fund, and works to develop the performance goals and measures, financial soundness covenants and uses of funds. You will also work with a member of the Fund's <u>Legal</u> staff, who is responsible for the terms and conditions of the *Assistance Agreement*, the legal opinion, and determining the eligibility of matching funds. The Agreement is executed on the Fund's part by the Deputy Director for Policy & Programs (or designee), and by the Awardee's Authorized Representative. Once the *Assistance Agreement* is executed, you may work with <u>Awards Management</u> staff members, who ensure that all required documents have been received by the Fund, both relating to the *Assistance Agreement* and required reporting. You may also work with members of the <u>Finance</u> staff, who are responsible for disbursements after execution. Finally, you may work with members of the <u>Compliance Monitoring</u> staff, who review the required reports to ensure that your organization is in compliance with the Financial Soundness Covenants, performance goals and measures, and other terms of the agreement.

Additionally, if the Awardee is a regulated financial institution (bank, thrift, bank holding company or credit union), the Fund provides the *Assistance Agreement* to your Federal regulatory agency for comment, prior to executing the Agreement and disbursing on the award. Receipt of comments from the regulatory agencies generally takes between 4 and 6 weeks.

The Closing process will generally include the following steps:

1. Program staff confirms Awardee is in compliance with all prior *Assistance Agreements* and its certification has not lapsed. If the Awardee is in compliance with its prior *Assistance Agreement*(s), the Program Staff will schedule the Awardee's closing. <u>If the Awardee is not in compliance, the Fund will work toward addressing compliance issues prior to moving on to the next steps in the closings process.</u>
2. Legal staff sends a draft of the *Assistance Agreement* (without schedules) to Awardee.

3. The Program Staff will call the Awardee with a closing date and a timeline for completing the performance goals and measures and financial soundness covenants. Program staff prepares the initial draft of performance goals and financial soundness covenants (if applicable) based on the *Comprehensive Business Plan* (including information/ documentation submitted during the due diligence process). After an initial draft is completed, the Program staff will send the draft to the Awardee, via electronic mail, for review and comments. At this time, the Awardee should notify the Fund of any material changes in its staffing, schedule for carrying out the business plan, matching funds, or other factors that vary from the *Comprehensive Business Plan* funded. Such notification should be in writing, as well as in a phone call or email. The Program staff member may also request updated information such as year to date activity levels and more recent financial statements.

4. The Awardee's attorney prepares the initial draft of the legal opinion (if the Awardee is <u>not</u> a regulated institution) and the Awardee submits the legal opinion to the Fund's Legal staff. Contact information for the Awardee's attorney must also be provided for any subsequent follow-up. If not already received by the Fund, complete matching funds documentation must be provided to Legal staff at this time. Legal staff will work with the Awardee (and its attorney) on finalizing the legal opinion and matching funds documentation.

5. The Program staff and Legal staff will submit the *Assistance Agreement* with schedules to the Deputy Director for Policy & Programs for review and approval. Changes may be made by the Deputy Director for Policy & Programs, which will be proposed to the Awardee for approval, prior to the execution of the *Assistance Agreement.*

6. Legal staff sends to the Awardee the three copies of the *Assistance Agreement* executed by the Fund, for the Awardee's signature. The two copies of the signed *Assistance Agreement* must be returned to the Fund per enclosed instructions. The third copy is for the Awardee to keep.

   If the Awardee is a <u>regulated institution</u>, the Fund mails the unsigned *Assistance Agreement* to the Awardee's Federal regulator for review and comment. If the comments received by the regulator recommend changes to the Agreement, the Fund may contact the Awardee with proposed changes. If the regulator does not recommend changes, generally the agreement is executed by the Fund and sent to the Awardee for execution.

7. After the Fund receives the signed *Assistance Agreement*, Awards management staff will determine that the Awardee has provided all needed documentation and is certified and in compliance with any past *Assistance Agreement*s. If all of these factors are in order, Financial management staff initiates the disbursement process. The Awardee can expect to receive funds to its account (via ACH) within 10 days of this time.

CONFIRMING AWARDEE CERFIFICATION AND COMPLIANCE

Prior to closing an award the Awardee must meet the following conditions:

1. The Awardee must be certified as a CDFI.
2. The Awardee must have closed and received full disbursement of all prior awards;
3. The Awardee must be in compliance with all prior Performance Goals, Financial Soundness Covenants (if applicable), and other *Assistance Agreement* obligations;
4. The Awardee must be in compliance with all applicable reporting requirements of prior *Assistance Agreement*s, including semi-annual reports, annual reports, audited financial statements and A-133 audit reports.

PERFORMANCE GOALS AND MEASURES
Schedule 5.6 of the *Assistance Agreement*

As indicated above, the *Assistance Agreement*, among other things, includes Performance Goals and their associated Measures and Benchmarks, which you will negotiate with the Program staff. This document provides general guidance on how the Fund develops the Performance Goals, Measures, and Benchmarks.

Performance Goals

Performance Period

Your Performance Goals are fiscal year goals that you report on annually for a minimum of five years – the Performance Period. Generally, the Performance Period begins on the first day of the fiscal year in which you sign the *Assistance Agreement*. For example, if your fiscal year runs from October 1 to September 30 and you sign your *Assistance Agreement* on January 15, 2002, your first Performance Period will begin on October 1, 2001. However, if you close your *Assistance Agreement* in the last 6 months of your fiscal year, you may choose to begin the first Performance Period on either (1) the first day of the fiscal year in which you sign your *Assistance Agreement* or (2) the first day of the next fiscal year. For example, if your fiscal year runs from October 1 to September 30, and you sign your *Assistance Agreement* on August 20, 2002, you could begin your first Performance Period on October 1, 2001 or October 1, 2002.

Step 1: Establishing Performance Goals

A Performance Goal is a brief qualitative statement that elaborates on your organization's community development activities. Performance measures seek to capture your organization's activities and capacity. These will be based on your *Comprehensive Business Plan*, specifically, on the Impact and Institutional Performance Chart indicators, as well as other information gathered about your organization's primary activities. An Index of Performance Goals and Measures used by the Fund may be found in **Appendix A**. This list is not exhaustive nor is it prescriptive, therefore, you and the Program staff can use Performance Goals and Measures that are not listed herein.

In general, Performance Goals and Measures should have 2-3 goals (plus a TA goal if TA grant is included). The Performance Goals and Measures must focus on key elements of your *Comprehensive Business Plan* and relate to activities directed toward or within your Target Market.

Step 2: Selecting and Defining Performance Measures

Once the Performance Goals are identified, one or more measurable indicators will be identified to assess your organization's progress in meeting the Performance Goals. Performance Measures may be numeric or action based. A numeric measure is a count of a discrete activity or the volume of certain products or services delivered. Note that Measures must relate to activities directed toward or within your Target Market. The Program staff will prepare a draft of Performance

Measures, based on the *Comprehensive Business Plan* and any subsequent information submitted during the due diligence process.

Once the activity to be measured is identified, the next step is to define what will be measured. For example, total number of housing loans may include *Loans Committed* or *Loans Closed*. It may also include new loans or refinancing of housing loans made at an earlier date. Defining exactly what will be measured ensures that you and the Fund share a common understanding of what is being measured and eliminates the possibility of confusion later when you are reporting on your progress. These definitions tend to be very precise. The Program staff will work closely with you to define any terms that may be subject to different interpretations. The Fund has standard definitions for many phrases (such as *Loan Closed*) that may be used in their entirety or as the basis for more tailored definitions. The measures listed in the index contain definitions of some terms, as does the Glossary.

The Performance Goals and Measures should have Output Measures and at least one Impact or Outcome Measure. An Output Measure is a tabulation, calculation, or recording of activity that is expressed in a quantitative manner – the number of loans or the date by which an activity occurs. Impact measures relate to provision of services to those that would otherwise be underserved. For example, the number of new members of a credit union that have not previously had an account with an insured depository institution. Outcome Measures reflect the direct or indirect effects or consequences resulting from your activities. For example, if you provide loans to small businesses, one way to measure the impact of loans to your borrowers would be to the increase in pre-tax net income that occurred during the annual evaluation period for businesses owned by your borrowers. The attached Index of Performance Goals and Measures contains additional examples of Impact or Outcome Measures.

Step 3: Set Performance Benchmarks

Once a year during the Performance Period, your organization will report on each of the Performance Measures. In order to assess your progress in meeting your Goals, the Fund will develop specific annual performance “benchmarks.” A Performance Benchmark is a numeric grading scale that classifies your actual performance on each Measure into one of five ranges: (1) Outstanding; (2) Good; (3) Satisfactory; (4) Below Expectations; and (5) Unacceptable. To meet the Performance Goals and measures, you must accomplish at least the Satisfactory level of performance. In determining appropriate Satisfactory Benchmarks, the Fund will consider your organization’s:

1. Historic performance;
2. Projections in the *Comprehensive Business Plan* (Impact and Institutional Performance Chart);
3. Amount of investment provided by the Fund and matching fund sources.

In general, the Fund expects the Satisfactory Benchmark for the first year of the Performance Period to be no less than the average annual performance for the last three years (or for the number of years in operation if less than three years.), and the benchmarks for the five year Performance Period should exceed past performance, in most cases. The Fund recognizes that this general pattern may not be applicable to all measures. The Fund will request an explanation if you do not agree to benchmarks consistent with your business plan projections.

Evaluating Performance

In evaluating an Awardee's performance, the Fund will determine whether a Performance Goal has been met by assessing, as of the annual Evaluation Date, if Awardee's performance for each measure relating to such Performance Goal is at or above the "Satisfactory" range. If the Awardee does not meet the minimum value of the Satisfactory range, for any Performance Measure, as of the annual Evaluation Date, the Fund will find that the Awardee has failed to meet such Performance Goal. However, the Fund may find that an Awardee meets a goal if it achieves Below Expectations performance for one measure in the goal, but Good or better performance for another measure in the same goal. See section … for further information on Compliance.

TA under the Core Component

If you have been selected to receive a Technical Assistance (TA) grant as part of your award, you must also have a goal related to the use of your TA grant. The language for the Use of TA goal is standard, and reads as follows:

> "*Address the Awardee's internal capacity needs by obtaining technical assistance in the form of the acquisition of consulting services, technology, and training*."

"Technology," "consulting services," or "training" will be used as applicable for your TA grant (i.e., if your TA grant is only for the purchase of technology, then the goal should not say "consulting services" or "training"). There is one measure for this goal (also standard) that reads as follows:

> "*Date by which the Awardee obtains the technical assistance detailed in Schedule __ Authorized Uses of Technical Assistance.*"

The benchmark for achieving this measure will generally be 24 months from the date of the Awardee's executed *Assistance Agreement*. Under this goal and this goal only, performance is either Satisfactory, Below Expectation or Unacceptable.

TECHNICAL ASSISTANCE AWARDS USE OF FUNDS

Authorized Uses of Technical Assistance

The Authorized Uses of Technical Assistance lists the specific uses of the TA grant by category - consultants, technology, training, or other. A sample of this schedule is provided in Appendix B. This Schedule will be developed by the Fund based on your approved request for Technical Assistance, and provided to you for comment. If there has been any change(s) in your uses of Technical Assistance since the time of the award, you should notify the Fund. The Fund may request a written justification with documentation of material changes. If providers of technical assistance have already been identified and/or expenses incurred, the Schedule will cite specific providers and costs. If not, the Schedule will have a general description of the approved use of Technical Assistance. It should be noted that, in general, modifications in the amounts allowed for each use of funds are permitted if the modifications are less than 20% of the amounts. The Fund reserves the right not to cover or to disallow costs in excess of 20% of above amounts if prior approval is not obtained from the Fund.

The Fund will disburse TA grant award funds for reimbursement of eligible expenses or will advance funds for documented eligible uses. The Fund will reimburse TA costs incurred by the Awardee for purposes of procuring technical assistance as described on the Authorized Uses of TA schedule, provided such costs were incurred on or after the date of the Fund's Notice of Award. The Awardee should retain records evidencing the incurring of such costs.
In addition to disbursing the award on a reimbursable basis, the Fund will also consider advancing those TA funds that an Awardee demonstrates will be spent within 24 months following execution of an *Assistance Agreement*. The Fund may request the Awardee provide evidence that such funds will be expended, such as a contract with a consultant.

FINANCIAL SOUNDNESS COVENANTS AND INTERNAL CONTROL REQUIREMENTS
Schedule 6.13 of the *Assistance Agreement*

Financial Soundness Covenants

The Fund is required by statute to ensure that all Awardees, other than regulated institutions (banks, thrifts, holding companies and credit unions[1]): remain financially and managerially sound and maintain appropriate internal controls. Thus, to receive your award, you must agree to and report on (semi-annually and annually) Financial Soundness Covenants. Generally, there are four such covenants, which are incorporated into your *Assistance Agreement*. The Fund reserves the right, if it deems necessary, to include additional covenants or to substitute covenants. The following chart defines and explains the purpose of each Covenant. If your financial position requires modifications of these covenants, the Fund will work with you to provide alternate covenants that will address similar purposes. Covenants may also be structured so that the "floor" required changes over time. For example, a microloan fund that has only 7% net assets at the time of closing may structure a covenant that has increases each year until it reaches a level of 15%.

Covenant	Official Definition	Formula	Purpose
Net Assets Ratio	The Awardee shall at all times maintain net assets in an amount equal to or exceeding __% of the Awardee's total assets.	Net Assets divided by Total Assets. The percentage is negotiated with the Fund and the appropriate level is based on the Awardee's level of risk, performance history, portfolio, and loan loss reserve policies. Generally, it ranges from 10% to 25%.	Measures the underlying financial strength of an Awardee and whether it has sufficient equity to cover unexpected losses.
Net Revenue	The Awardee shall at the end of each of its fiscal years, beginning with its fiscal year ending [DATE], have positive net revenue for that fiscal year, defined as gross revenues less total expenses.	Gross Revenues (including grants or other contributions) less Total Expenses. For-profit Awardees should deduct total pre-tax expenses from Total Revenue.	Measures whether an Awardee is growing its Net Assets and has the resources to pay its annual expenses.
Operating Liquidity	The Awardee shall at all times maintain cash and cash equivalents and marketable securities available for operations in an amount equal to or exceeding 25% of its total operating expenses for the four most recently completed quarters. Funds restricted in such a manner so as to prevent their being used to satisfy obligations represented by operating expenses may not be used to satisfy the requirements of this paragraph.	Cash, Cash Equivalents, and Marketable Securities that are not restricted in a manner that prevents their use in satisfying obligations represented by operating expenses DIVIDED BY 25% of its total operating expenses for the four most recently completed quarters. Ratio must be at least 1.0.	Measures whether an organization has sufficient operating reserves on hand to pay its expenses. A ratio of 1.0 or more means an organization has enough liquid assets on hand to cover 3 months of operating expenses. A ratio of less than 1.0 means an organization has operating liquidity problems and insufficient operating reserves.

[1] The Fund is not required to enter into Financial Soundness Covenants with Awardees that are regulated because they are regulated by another Federal agency and must comply with their safety and soundness regulations.

Capital Liquidity	The Awardee shall at all times maintain cash and cash equivalents, and marketable securities, plus 25% of current loans receivable, available for purposes of meeting the Awardee's current liabilities in an amount at least equal to current liabilities. Funds restricted in such a manner so as to prevent their being used to satisfy obligations represented by current liabilities may not be used to satisfy the requirements of this paragraph.	Cash, Cash Equivalents, and Marketable Securities that are not restricted in a manner that prevents their use in satisfying obligations represented by Current Liabilities, plus 25% of current loans receivable DIVIDED BY Current Liabilities. Ratio must be at least 1.0.	Indicates asset-liability matching and whether an organization has sufficient resources to pay its current obligations to its sources of borrowed capital.
or			
Current Ratio	The Awardee shall at all times maintain a ratio of current assets to current liabilities of at least 1.25.	Current assets divided by current liabilities. Generally, this ratio should exceed 1.25.	Indicates asset-liability matching and whether an organization has sufficient resources to pay its current obligations to its sources of borrowed capital.

Internal Control Requirements

The Fund ensures that each non-regulated Awardee is managerially sound and maintains appropriate internal controls by requiring, among other things, each Awardee to: (1) produce for its internal review monthly unaudited financial statements including at least a balance sheet and an income and expense statement; and (2) conduct at least quarterly a portfolio review evaluating the status of each loan in its portfolio.

MATCHING FUNDS DOCUMENTS

Matching Funds are required for all applicants requesting financial assistance from the Fund. Matching Funds are not required for technical assistance grants. Matching Funds must be obtained (in-hand) or legally committed[2] on or after January 1, 1999, and before August 31, 2002. If an awardee is unable to raise the full amount of Matching Funds prior to August 31, 2002, the Fund may reduce the amount awarded.

Awardees must generally raise Matching Funds on a one-to-one basis. In other words, Awardees must raise one dollar of Matching Funds for every dollar of financial assistance requested from the Fund.

Matching Funds must be at least comparable in form and value to the financial assistance provided by the Fund. This requirement is relatively straightforward. A grant requested from the Fund must be matched by a grant (or grants) of the same value. For equity investments, secondary capital investments, loans (including equity-like loans or equity-equivalent investments), deposits and shares, the terms will be matched as closely as possible by the Fund. Thus, if a 10-year loan at 2%, with interest only payments is requested from the Fund, the applicant must match that request with a loan with the same terms. However, funder restrictions on the use of the match are generally not matched with similar restrictions on the Fund's financial assistance. For example, in the case of a grant that is restricted for use to make loans in State X, the Fund generally will not impose the same restrictions on the use of the Fund's grant.

Matching Funds must come from sources other than the Federal government. Matching Funds also must consist of non-Federal funds. The Fund generally considers Federal dollars passed through other entities, such as state and local governments, to constitute Federal funds. This scenario usually arises in the context of Community Development Block Grant dollars.

Awardees should be cautious about using Matching Funds obtained from previous Fund awardees. Monies received from an organization that was a previous awardee under the CDFI Program (including CDFI Intermediaries), will be considered Federal funds, and thus ineligible, unless the funding entity is able to demonstrate to the Fund that such funds do not consist, in whole or in part, of CDFI Program funds or other Federal funds.

Funds used by an applicant as Matching Funds for a previous award under the CDFI Program or under another Federal grant or award program cannot be used to satisfy the Matching Funds requirement.

Expended Matching Funds

Matching Funds can be expended prior to the execution of the *Assistance Agreement*, as long as the use of the funds was consistent with the activities described in the *Comprehensive Business*

[2] The Fund considers *legally-committed* Matching Funds to be Matching Funds for which there is a binding written agreement between an applicant and the source of the Matching Funds that is conditioned only upon the availability of the Fund's financial assistance and such other conditions as the Fund may consider appropriate. Such agreement must specify, at a minimum, the level of funding that the funder will provide the Awardee, the date by which the funds will be disbursed to the Awardee, and any terms or conditions thereof, including in the case of a loan, the interest rate and maturity date.

Plan. In this situation, the Awardee will be asked to provide a narrative describing the purposes for which such funds were expended.

Using Refinanced Loans as Match

Refinanced loans may be used as Matching Funds, only for the portion that represents new capital, as indicated by appropriate disbursement documentation (a copy of the new and old note and a copy of the checks or wire transfers).

Calculating Available Match

Multiple sources of match may be used to match a single form of financial assistance from the Fund. For example, 5 $100,000 grants may be used to match a single $500,000 financial assistance grant from the Fund. In the case of loans, deposits, and shares with different terms, the Fund will generally use a weighted average of the terms to determine the terms of the Fund's match.

The table below provides an example of how the Fund uses the weighted average to calculate match rate and term when an applicant has obtained loans with different terms. A spreadsheet program will aid in this calculation.

	Loan Amount (a)	Loan Term (t)	Loan Rate (r)
Loan 1	$10,000	5 years	2 %
Loan 2	$50,000	10 years	1%
Loan 3	$100,000	7 years	3%
Total (T)	**$160,000**	**N/A**	**N/A**
Weighted Average	**NA**	**7.8 years**	**2.31%**

Use the following formulas to calculate the weighted rate and term:

Weighted Average Rate = (Loan 1 r x(Loan 1 a/T))+(Loan 2 r x (Loan 2 a/T)) + (Loan 3 r x (Loan 3 a/T))
Weighted Average Rate = (2% x (10,000/160,000)) + (1% x (50,000/160,000) + (3% x (100,000/160,000)
= **2.31%**

Weighted Average Term = (Loan 1 t x(Loan 1 a/T))+(Loan 2 t x (Loan 2 a/T)) + (Loan 3 t x (Loan 3 a/T))
Weighted Average Term = (5 x (10,000/160,000)) + (10 x (50,000/160,000)) + (7 x (100,000/160,000))
= **7.8 years**

- Using the figures provided in the example, the applicant has adequate match funds to request a $160,000 loan with a 7.8 year term and 2.31% interest rate. *The Fund may decide to round such terms to 8 years at 2.3%.*

Retained Earnings Used as Matching Funds

An Awardee can satisfy all or a portion of the Matching Funds requirement (for a grant or equity investment) by committing available earnings retained from its operations, as shown in its financial statements. Retained earnings accumulated after the end of the Awardee's most recent fiscal year ending prior to December 21, 2000 may not be used as Matching Funds. Thus, for applicants with a fiscal year ending 12/31, retained earnings for Fiscal Year Ending 12/31/1999 must be used for 2001 awards. See Appendix J for sample calculations of retained earnings.

For-profit awardees may use retained earnings for matching an equity investment if such retained earnings consist of:

- the increase in retained earnings (excluding the after-tax value to an applicant of any grants and other donated assets) that has occurred over the applicant's most recent fiscal year; or

- the annual average of such increases that have occurred over the applicant's three most recent fiscal years.

Non-profit awardees (other than a credit union), may use retained earnings for matching a grant if such retained earnings consist of:

- the increase in an applicant's Net Assets (excluding the amount of any grants and value of other donated assets) that has occurred over the applicant's most recent fiscal year; or

- the annual average of such increases that has occurred over the applicant's three most recent fiscal years.

Credit union awardees, may use retained earnings for Matching Funds purposes for a grant if such retained earnings consist of:

- the increase in Net Capital that has occurred over the applicant's most recent fiscal year. Net Capital shall be comprised of "Regular Reserves", "Other Reserves" (excluding reserves specifically dedicated for losses), and "Undivided Earnings" as such terms are used in the National Credit Union Administration's accounting manual or

- the annual average of such increases that have occurred over the applicant's three most recent fiscal years: or

- the entire Net Capital that has been accumulated since the inception of the applicant. If the applicant chooses this option, it must increase its Total Member and/or Non-Member Shares by an amount that is at least equal to four times the amount of Net Capital that is committed as Matching Funds. For example, if the applicant matches a $100,000 grant with $100,000 in retained earnings under this option, it must raise Total Member/Non-Member Shares by $400,000 in order to receive a disbursement for the award. This increase must be achieved by September 30, 2002. The baseline level of Total Member/Non-Member shares will be measured as of September 30, 2000.

<u>In-Hand Matching Funds Documentation</u>
If you have not already submitted all of the matching funds documentation, you must provide the following:

- For all Matching Funds, provide copies of checks or wire transfers to verify that funds have been received.
- For grants, provide copies of transmittal letters and grant agreements. A dated letter from the funder to the applicant indicating the grant amount and the purpose of the grant satisfies this requirement.
- For loans, provide copies of promissory notes and loan agreements.

- For equity investments, provide copies of stock certificates, subscription agreements, and private placement memoranda.
- For deposits or shares, provide copies of certificates of deposit or share certificates.
- For secondary capital, provide copies of the secondary capital account agreement and the Disclosure and Acknowledgement Statement.

Please note, the Fund will only disburse its funding in the amount equal to matching funds that it determines are in hand at the time of closing. If all of the matching funds are not in hand, the Fund will make a partial disbursement. When additional matching funds are received, the Awardee will need to submit to its Program staff contact, all of the above described matching funds documents for undisbursed funds prior to the termination of the matching funds period. The Program staff will initiate the subsequent disbursement of award funds.

PAYMENT OF AWARD

Funds are transferred via electronic fund transfer (EFT) to Awardee's designated bank account. Funds will be disbursed in whole or in part depending on the amount of matching funds that are in-hand. In order for the Fund to disburse funds, we must have a complete, correct and up-to-date ACH form, indicating to what account the monies should be sent. A copy of an ACH form may be found in Appendix G.

REPORTING, MONITORING AND PAYMENTS

Awardee reports enable the Fund to assess the CDFI Industry's performance and trends, report to Congress and other federal agencies about the Fund's and Awardees' accomplishments; inform the public about the CDFI industry; and improve delivery and the monitoring of Fund's programs. Monitoring of reports ensures the timely submission of reports as well as compliance with the terms of the *Assistance Agreement* and related regulatory and statutory requirements. Compliance includes the timely submission of Audited Financial Statements, the Annual Survey, Annual Reports and Semi-Annual Reports that are detailed in Schedule 6.6 and 6.7, respectively in the *Assistance Agreement*. Compliance will also include timely payments if the form of assistance is a loan, deposit, or secondary capital investment.

Semi-Annual reports evaluate the Awardees compliance with financial soundness covenants and are due 60 days after the end of each half of the fiscal year, unless the Fund and the Awardee agree on some other date. This report includes:

- Internally prepared financial statements covering the first six months of the fiscal year (first semi-annual report) and the entire fiscal year (second semi-annual report).
- Awardee's calculation of financial soundness covenants.
- A5300 for Credit Unions only
- If applicable, Awardee's explanation of factors contributing to any failure to meet a financial soundness covenant, an explanation of what is being done to remedy the situation, and when the Awardee expects to be in compliance.

Annual Reports evaluate the Awardee's compliance with performance goals and measures and are due 60 days after fiscal year end, unless the Fund and the Awardee agree on some other date. This report includes:

- A narrative description of the Awardee's activities in support of its Comprehensive Business Plan; Qualitative and quantitative report on the Awardee's progress in meeting the measures of each performance goal;
- An analysis of factors contributing to any failure to maintain compliance on any performance goal, an explanation of what is being done to remedy the situation, and when the Awardee expects to be in compliance;
- A description of how the Awardee's use of the Fund award and corresponding matching funds was consistent with the Authorized Uses in the Awardee's *Assistance Agreement*;
- Certification that the Awardee continues to meet the Awardee eligibility requirements and other *Assistance Agreement* requirements; and
- Form 269A if the award includes Technical Assistance. (This form may be found at http://www.whitehouse.gov/omb/grants/sf269a.pdf)

Fiscal Year End Financial Statements are due 120 days after fiscal year end, unless the Fund and the Awardee agree on some other date. These include fiscal year end statements of financial condition audited by an independent certified public accountant. If the Awardee is a non-profit organization that expended at least $300,000 in Federal awards in any one fiscal year, the Awardee will be required to arrange for and submit a single audit reporting package pursuant to OMB Circular A-133.[3] The Fund considers an Awardee to have expended the Fund's financial assistance upon receipt of such funds. Thus, if the Awardee receives $300,000 or more of financial assistance in a given fiscal year, the awardee will be required to arrange for and submit a single audit reporting package to the Fund, covering that particular year.

Each Awardee is required to report certain **material events** to the Fund. This information must be reported promptly. The *Assistance Agreement* lists these material events, including:

- Adverse change in Awardee's condition, operations, etc.
- Proceedings against Awardee
- Merger or acquisition
- Event of default

The **Annual Survey** is used to evaluate the community development benefits of the CDFI program, evaluate the performance of Awardees as a whole, and assess CDFI industry performance and trends. This information is **not** used to evaluate Awardee's compliance with its performance goals and financial soundness covenants. The Annual Survey is generally due 120 days after fiscal year end, unless the Fund and the Awardee agree on some other date. The survey includes:

[3] For additional information see http://www.whitehouse.gov/omb/circulars/a133/a133.html.

- Information on the Awardee's target market
- Volume of financing and development services activities
- Community development impact
- Portfolio quality
- Financial condition
- Leveraging

Events of Non-Compliance
Non-Compliance is the failure to submit the required reports by the applicable due dates, failure to meet all of the financial soundness covenants; remain in compliance with each performance measure; submit all required reports by their due dates; and maintain status as a certified CDFI. The process for resolving non-compliance on performance goals or financial soundness covenants includes the Fund's review of the Awardee's explanation or analysis of factors contributing to any failure to meet or maintain compliance on any performance goal or financial soundness covenants, an explanation of what is being done to address the situation, and when the Awardee expects to be in compliance. After a review of these factors is completed, the Fund will determine the appropriate course of action.

Possible consequences of non-compliance (in cases in which the Awardee has not provided an explanation for the basis of non-compliance or the Fund has not accepted the Awardee's explanation) include the following remedies:

- Delay disbursement of the assistance
- Reduce or terminate the assistance
- Require repayment of the assistance
- Bar the Awardee from applying for any Assistance from the Fund in the future.

In addition, if an Awardee is in non-compliance with the terms of its *Assistance Agreement*(s), the Fund will withhold any further disbursements until such time as the non-compliance is resolved to the satisfaction of the Fund.

Payments to the Fund

Awards consisting of loans, investments, secondary capital, shares and deposits require payments by the awardee. Payments may include principal, interest, or both. Currently, most such awardees make their payments via check, regardless of the payment mechanism defined in the promissory note (many now require payments by either Automated Clearinghouse (ACH) or by use of the Pre-Authorized Debit process). During FY 2002 we will be converting all loan payments to an electronic funds transfer (EFT) process so that paper checks will no longer be accepted. Thus all Awardees with awards in the form of a loan must provide a Standard Form 5510 (SF-5510) Authorization Agreement for Preauthorized Payments (Appendix G). Note that there is a form for payment of loans and a different form for payment of investments. This form relieves the

Awardee of having to originate periodic payments via the ACH system. Instead, it allows the Fund to se the Pre Authorized Debit (PAD) system. Other transactions requiring payments will also transferred to this system in the future. In the meantime, Financial Management staff will work with you to determine an appropriate payment system.