COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

DEPARTMENT OF THE TREASURY

CDFI *fund* Fiscal Year 2003

ACCOUNTABILITY REPORT

THE DEPARTMENT OF THE TREASURY 1789

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MESSAGE FROM THE DIRECTOR

This Accountability Report provides an overview of the accomplishments of the Community Development Financial Institutions Fund (the Fund) for fiscal year 2003. On these pages is evidenced three important elements that, when combined, result in what I believe is a highly effective federal program.

First, I am grateful to my staff who continually impress me with their dedication and tireless work supporting the Fund's mission. Second, the Fund's staff is continually focused on fine-tuning the internal operations of the Fund. This focus on improvement has resulted in many accomplishments. For example, the Fund's desire to streamline the steps taken from the submitting of an application through monitoring the compliance of an awardee has resulted in a dynamic electronic system where staff can access an application at any point in the process from a desktop computer. As a result of such efforts, fiscal year 2003 marks the sixth consecutive year in which the auditors rendered an unqualified opinion on the Fund's financial statements and in which no material weaknesses, reportable conditions or areas of non-compliance with laws and regulations were identified.

The third element is the Fund's programs. Our vision at the Fund is an America in which all people have access to affordable credit, capital and financial services. Though the United States has one of the best banking and financial market systems in the world, an estimated 12 million U.S. households do not have a relationship with a traditional financial institution. As an alternative, many rely on pawnshops, check cashers, and payday lenders. This is a problem that not only affects individuals, but businesses and needed community services as well.

The Fund's programs are intended to build the capacity of those institutions that work toward filling this gap in the availability and delivery of financial services—a nation-wide network of over 1,800 certified community development financial institutions (CDFIs) and community development entities (CDEs); as well as numerous traditional banks and thrifts already working in these underserved communities.

Fiscal year 2003 brought many changes in Fund's programs with the aim of using taxpayer dollars as effectively and efficiently as possible. Each year, the Fund's staff reviews its programs to see where improvements can be made. An important part of this process is our efforts to understand the current state of the community development industry through ongoing dialog with our constituents.

I am resolved to have the Fund be known as the best federal community economic development program and I look forward to sharing the positive impact I know the Fund has and will continue to have on the lives of those in our nation's most distressed rural and urban communities.

Tony T. Brown

Tony T. Brown
Director

MESSAGE FROM THE DEPUTY DIRECTOR FOR MANAGEMENT/ CHIEF FINANCIAL OFFICER

Fiscal Year 2003 marks the sixth consecutive year in which the auditors rendered an unqualified opinion on our financial statements and in which neither material weaknesses nor reportable conditions were identified. It also marks the second year in which the Fund was able to provide audited financial statements within 45 days after its fiscal year end. Significant cooperation, teamwork, and dedication among our staff and that of the Bureau of Public Debt, our auditors, and Treasury's Office of the Inspector General, made this accomplishment possible.

The Fund also completed two major information technology initiatives during the year. First, applicants under the Fund's Financial Assistance Component (of the CDFI Program) and the New Markets Tax Credit Program were provided the opportunity to submit their applications electronically. Most applicants availed themselves of this opportunity, which in turn enabled the Fund to track the status of each application prior to submission. Other benefits included the ability for applicants to save application information and complete it at their convenience, their ability to use an electronic help tool to complete the application, and for the electronic time stamping of all submitted applications which allowed for improved application monitoring. Using web-based technology to facilitate the submission of applications also demonstrates progress in meeting the E-government initiative within the President's Management Agenda.

The second initiative was the completion of the Fund's internal electronic award and tracking system, available for use for all FY 2003 CDFI Program awards. Under this system, the entire award process—from the time an application is received by the Fund, through disbursement of the related award—is completely paperless. All steps in this process are completed and documented electronically. This paperless process improves customer service by allowing Fund management to ascertain the status of all CDFI Program applications submitted, awards made, and amounts disbursed.

The Fund also refined its award process by targeting its awards to those areas with the greatest need. It did this by introducing the concept of "Hot Zones" into its decision-making award process. Applications focusing on Hot Zones—counties and census tracts with the greatest economic distress—received preference when making financial assistance awards. The Fund's website reflects all Hot Zones throughout the country and enables applicants to identify these areas when preparing their applications

The above indicates the progress made towards the significant transformation started by the Fund several years ago to re-engineer our business processes. The implementation is well under way but much remains to be accomplished. With our strong internal control environment and commitment, we will be able to make significant strides in meeting our agency's goals and mission.

Owen M. Jones

Owen M. Jones
Deputy Director for Management/Chief Financial Officer

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND OVERVIEW

OVERVIEW

The Community Development Financial Institutions (CDFI) Fund was created to expand the availability of credit, investment capital, and financial services in distressed urban and rural communities. The Fund was authorized by the Riegle Community Development and Regulatory Improvement Act of 1994, as a bipartisan initiative.

The Fund promotes access to capital and local economic growth in the following ways: 1) through its CDFI Program by directly investing in and supporting community development financial institutions (CDFIs) that provide loans, investments, financial services and technical assistance to underserved people in economically distressed communities; 2) through its New Markets Tax Credit (NMTC) Program by providing an allocation of tax credits to Community Development Entities (CDEs) which enable them to attract investment from the private sector and reinvest these amounts in low-income communities; 3) through its Bank Enterprise Award (BEA) Program by providing an incentive to banks to invest in their communities and in other CDFIs; and 4) through its Native American Initiative, by taking action to increase capital investment in Native American communities.

Since its creation, the Fund has made more than $652 million in awards to community development organizations and financial institutions.

FUND MISSION

The Fund's vision is an America in which all people have access to affordable credit, capital and financial services. Its mission is to expand the capacity of financial institutions to provide credit, capital, and financial services in economically distressed urban and rural communities. CDFIs are specialized financial institutions that work in market niches that are underserved by traditional financial institutions. CDEs are legally established entities that have a mission of serving or providing investment capital for low-income communities or low-income persons, and maintaining accountability to residents of low-income communities.

These CDFIs and CDEs provide a unique and wide range of financial products and services, such as mortgage financing for low-income and first-time homebuyers and not-for-profit developers, flexible underwriting and risk capital for needed community facilities, commercial loans and investments to start or expand small businesses in low-income areas. In addition, these institutions provide services that help ensure that credit is used effectively, such as technical assistance to small businesses and credit counseling to consumers. CDFIs and CDEs include regulated institutions such as community development banks and credit unions, non-regulated loan funds, venture capital funds, microenterprise loan funds, and real estate developers, among others.

FUND GOALS

To accomplish its mission, the Fund has identified five goals:

1. Increase economic development in underserved communities by increasing the availability of business and real estate financing;
2. Expand the supply and quality of housing units in underserved communities and increase homeownership in these markets by increasing the availability of housing financing;
3. Expand access to financial and development services for residents of underserved communities (including the "unbanked", low- income people and immigrants), and for businesses located in or serving underserved communities;
4. Attract private sector capital into CDFIs and into low-income communities through Community Development Entities; and
5. Build the capacity of CDFI Program awardees to serve the U.S. markets.

FUND PROGRAMS

The Fund administers several programs that directly address the above goals. Fund programs put capital to work by providing financial assistance to both established and emerging CDFIs and Community Development Entities (CDEs). The programs also strengthen relationships between CDFIs/ CDEs and mainstream financial institutions and help build the CDFI industry as a whole.

The Fund's programs are as follows:

Community Development Financial Institutions Fund Program — Starting with the FY 2003 funding round, the Fund implemented a new concept called Growth Continuum, whereby the Fund's awards are based on the particular stage of an organization's development:

- The Technical Assistance Component provides technical assistance grants to CDFIs and entities proposing to become CDFIs in order to build their capacity to advance community development and capital access needs in their target markets, and can also be accessed by larger and more established CDFIs to support their continued development;
- The Native American Technical Assistance Component provides technical assistance grants to aid CDFIs and organizations that plan to create CDFIs which serve Native American, Alaska Native and Native Hawaiian communities; and
- The Financial Assistance Component provides financial and technical assistance awards to the more established CDFIs that have comprehensive business plans for creating community development impact and that demonstrate the ability to leverage private sector sources of capital.

New Markets Tax Credit Program — On December 21, 2000, the Community Renewal Tax Relief Act of 2000 was signed into law. This legislation is intended to spur the investment of $15 billion in new private sector capital (raised over seven years) into a range of privately managed investment vehicles that make loans and equity investments in businesses. By making an equity investment in an eligible "community development entity" (CDE), individual and corporate investors can receive a New Markets Tax Credit worth approximately 39 percent of the amount invested over the life of the credit, in present value terms.

Calendar 2002 was the first year in which applications for tax credits were submitted to the Fund. This initial allocation of tax credits supports equity investments of $2.5 billion; allocations were announced during the first quarter of 2003.

Bank Enterprise Award Program — The Bank Enterprise Award (BEA) Program recognizes the key role played by traditional financial institutions in community development lending and investing. It provides incentives for regulated banks and thrifts to invest in CDFIs and to increase their lending and provision of financial services in the nation's most economically distressed communities (those with high poverty and unemployment).

Native American CDFI Development (NACD) Program — The NACD Program, new for FY 2003, provides technical assistance grants to organizations that plan to create CDFIs that serve Native American, Alaska Native and Native Hawaiian communities. For simplification purposes, all funding and award activity relating to this program and other Native American components are considered part of the "Native American Initiative".

Additional information on the Fund's programs is provided in the Program Discussion and Analysis section of this report.

ALLOCATION OF FUNDING

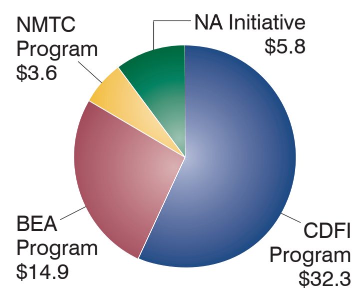
The Fund's appropriations are characterized as program funds and administrative funds. Program funds consist of amounts to be used for program awards (grants, loans, other investments, and some vendor contracts); administrative funds are amounts used to administer all programs (including the NMTC Program).

Total amounts funded during FY 2003 totaled $56.6 million. Program/ funded in the chart below include each programs allocated portion of administrative funds.

Additionally, the Secretary has delegated authority for the Fund to allocate tax credits under the New Markets Tax Credit Program for up to $15 billion in private capital equity invested in CDEs through FY 2007. This authority is not a funding source and so is not reflected in the above chart, even though this program requires a significant administrative commitment on the part of the Fund.

Sources of Funding — Funds are appropriated annually to the Fund for two fiscal years. Each year's available funding includes unobligated funds from the prior year ("carryover" funding, if any) plus the current budget authority. Sources of funding also include borrowing authority to fully fund loans awarded.

Programs Funded in FY 2003
(amounts in millions)



SOURCES OF FUNDING
(amounts in millions)

	FY 2003	FY 2002
Appropriations	$74.5	$80.0
Amounts Deobligated	.3	.4
Carryover from Prior Year	5.0	4.5
Borrowing Authority Used	1.8	5.1
Total Sources of Funds	**$81.6**	**$90.0**

Uses of Funding — During FY 2003, the Fund used funding of $56.6 million, as follows:

USES OF FUNDING
(amounts in millions)

Awards Funded	**FY 2003**	**FY 2002**
Programs Funded		
CDFI Program	$32.3*	$57.8
Bank Enterprise Award	14.9	23.9
NMTC Program	3.6	3.2
NA Initiative	5.8**	—
Total Programs	$56.6	$84.9
Amounts Not Obligated	25.0	5.1
Total Funding Used	**$81.6**	**$90.0**

Note—administrative funds of $10.9 million have been allocated to the programs listed above.

**Includes $2.7 million for contacts to determine the effectiveness of the Fund's training and technical assistance programs.*

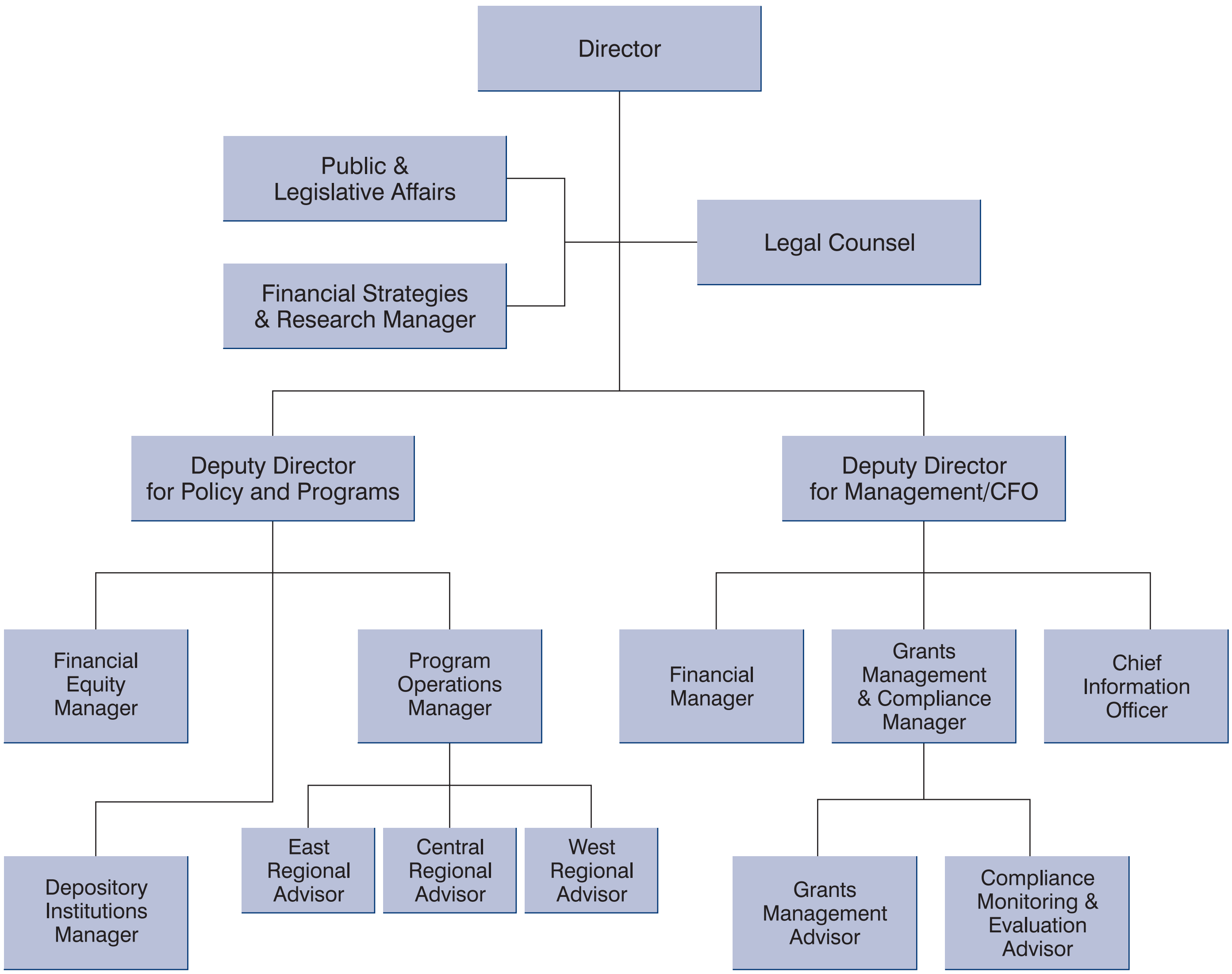
***Includes $5.3 million for contracts to help carry out the findings from the Native American Lending Study.*

ORGANIZATION OF THE FUND

The Fund's structure consists of a Director, a Deputy Director for Policy and Programs, a Deputy Director for Management/Chief Financial Officer, Legal Counsel, and various program and administrative support offices.

The organization chart of the Fund is shown below.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND
SEPTEMBER 2003



PERFORMANCE HIGHLIGHTS

During FY 2003, the Fund continued to support an ever-increasing number of CDFIs and Financial Service Organizations (FSOs) in distressed communities throughout the country. Its efforts created greater access to capital in these communities, resulting in increased employment, more affordable housing, revitalized neighborhoods, and strengthened local communities. FY 2003 also marked the first year in which allocations of tax credits under the New Markets Tax Credits were made.

Highlights of the Fund's program and financial performance during FY 2003 are summarized below.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS PROGRAM

(dollar amounts in millions)

	FY 2001	FY 2002	FY 2003
Number of certified CDFIs at year-end	468	625	652
Core/Financial Assistance[1] Component			
Total amount of awards	$53.1	$41.6	$23.0
Number of awards	59	51	34
Amount requested in applications	$224	$198	$107
Carryover of Unobligated Funds to Subsequent Year	—	—	$9.8
Small and Emerging CDFI Technical Assistance Component[2]			
Technical Assistance Component			
Total amount of awards funded	$8.6	$6.9	$.3
Number of awards	79	61	7
Amount requested in applications	$29	$18	$1.3
Carryover of Unobligated Funds to Subsequent Year	—	—	$8.1
Native American (NA) Initiative			
Total amount of awards funded:			
NA CDFI Development Program	N/A	N/A	$.3
NA Technical Assistance Component	N/A	N/A	$.2
NA CDFI Technical Assistance Component	N/A	$2.7	N/A
Carryover of Unobligated Funds to Subsequent Year		$4.8	$4.0

[1] *The Financial Assistance Component replaced the Core Component during FY 2003.*

[2] *The SECA Program was terminated during FY 2003.*

NEW MARKETS TAX CREDIT PROGRAM

(dollar amounts in millions)

	FY 2002	FY 2003
Number of applications received requesting an allocation of tax credits/ equity supported by requests	346 / $25.8 Billion	270 / $30 Billion
Number of allocations awarded/equity supported by allocations*	66 / $2.5 billion	Not Yet Awarded
Number of CDE applications approved to date	558	1,194

**Awarded during the following fiscal year.*

BANK ENTERPRISE AWARD PROGRAM

(dollar amounts in millions)

	FY 2001	FY 2002	FY 2003
Total amount of awards funded	$46.1	$23.0	$13.9
Number of awards	145	81	75
Amount of financial and technical assistance BEA awardees provided to CDFIs	$277	$142	$28
Amount of loans, investments, and services BEA awardees made in distressed communities	$915	$504	$163

SUMMARIZED CDFI FUND FINANCIAL DATA

(dollar amounts in millions)

	FY 2002	FY 2003
Assets	$190.6	$178.2
Liabilities	$64.8	$61.0
Net Position	$125.8	$117.2
Revenue and Financing Sources	$101.1	$83.0
Expenses	$101.5	$83.6
(Shortage) of Revenue and Financing Sources Over Expenses	($.4)	($.6)

PROGRAM DISCUSSION AND ANALYSIS

THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION INDUSTRY

THE NEED FOR COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

The United States has one of the best banking and financial market systems in the world. The U.S.'s traditional financial institutions[1] address the needs of most people in the country by providing checking, savings and investment accounts, as well as a wide range of loan products including mortgage, home equity, business, and consumer loans. Yet, an estimated 12 million U.S. households do not have a relationship with a traditional financial institution or depend on "fringe" financial services such as pawnshops, check cashers and payday lenders[2]. Many of these individuals live in neighborhoods where no bank branches are found, or cannot buy a home or start a business because they lack the credit history needed to qualify for a mortgage or the collateral needed to obtain a business loan. Many turn to the only available alternatives: higher cost check cashing stores to cash checks and buy money orders to pay bills; and pawnshops, payday lenders, and title companies for short-term loans. The most vulnerable – the elderly and financially uneducated – may become victims of predatory mortgage lenders, whose excessive interest rates, fees and prepayment penalties regularly lead to foreclosure and loss of the home. The predatory lending issue is so critical that every federal banking regulator has publicly denounced predatory lending.[3]

Not only do individuals and businesses suffer from the lack of financial services and financing, but community service infrastructure suffers as well. Non-profit developers have limited alternatives for financing new affordable housing units. Low-income communities in great need of childcare centers, hospitals, assisted living facilities and charter schools find these services in short supply. Capital needed to revitalize these areas is difficult to obtain from traditional financial institutions due to their lack of market knowledge, and legal and regulatory challenges. Without appropriate financing mechanisms, individuals and communities cannot sustain economic growth. If the conditions for prosperity and stability for all Americans are to be promoted, these gaps in financial service and credit availability need to be addressed.

[1] *Defined as regulated, insured commercial banks, savings and loan associations, and credit unions.*

[2] *James H. Carr "Financial Services in Distressed Communities: Framing the Issue, Finding Solutions," Fannie Mae Foundation 2001.*

[3] *James H. Carr and Lopa Kolluri. 2001. Predatory Lending: An Overview. Fannie Mae Foundation.*

Community Development Financial Institutions (CDFIs) are specialized financial service providers whose primary mission is to fill service and credit gaps in underserved communities. They are essential components in the nation's delivery of financial services and financing capital to underserved communities, where they help stimulate economic growth, start or expand businesses, and promote homeownership among low-income populations. Furthermore, the counseling and technical assistance that CDFIs provide are critical for helping these underserved communities effectively use the nation's financial system and avoid predatory financial products. CDFIs have proven that their strategic lending and investment activities, tailored to the unique characteristics of underserved markets, are highly effective in improving the economic well being of these communities.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

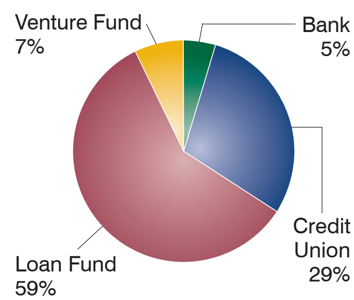
CDFIs include banks, credit unions, loan funds, and venture capital funds, with each providing a different mix of products geared to reach specific customers, as follows:

- Community development banks are for-profit corporations which provide capital to rebuild economically distressed communities through targeted lending and investment;
- Community development credit unions are non-profit cooperatives owned by members which promote ownership of assets and savings and provide affordable credit and retail financial services to low-income people;
- Community development loan funds (usually non-profits) provide financing and development services to businesses, organizations and individuals in low-income urban and rural areas and can be further categorized based on the type of client served: micro-enterprise, small business, housing and community service organizations; and
- Community development venture capital funds are both profit and non-profit organizations which provide equity and debt-with-equity features for businesses in distressed communities.

Community development banks and credit unions are the most mature organizations, with slow steady growth over the past several decades. Loan funds are new with 80% of them beginning in the 1980s and 1990s, and venture funds are the newest type of organization, which started in the 1990s.

Based on a survey conducted by the CDFI Fund of FY 2001 CDFI activity, loan funds and credit unions represented 90% of the respondents, with venture funds and banks comprising the balance. We believe this percentage to be indicative of the proportion these organizations comprise of the total number of CDFIs.

Breakdown of Types of CDFIs

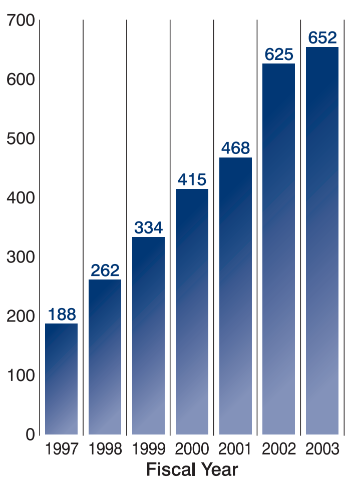


Certified CDFIs — A certified CDFI is one that has been certified by the Fund as meeting all of the following criteria:

- Has a primary mission of promoting community development;
- Serves principally an investment area; or targeted population;
- Makes loans or development investments as its predominant business activity;
- Provides development services (such as technical assistance or counseling);
- Maintains accountability to its target market; and
- Is a non-governmental entity.

In addition to seeking certification to receive financial and technical assistance from the Fund, organizations pursue CDFI certification to leverage funds from non-federal sources such as banks, foundations, and state and local governments.

Increase in CDFI Certifications



The certification of organizations as CDFIs has been a long-standing goal of the Fund. By the end of FY 2003, the Fund had certified a total of 652 CDFIs serving both rural and urban areas in all states and the District of Columbia, Puerto Rico, and the Virgin Islands. These CDFIs serve 98 percent of the nation's most distressed urban and rural communities. The reach of this financial network is unprecedented.

Types of Services and Products Provided — CDFIs generally use four types of financing products to serve their communities: loans, equity investments, debt-with-equity features, and guarantees.

Loans are by far the most used financing product by CDFIs, representing 98% of all CDFI financing outstanding. They represent virtually all of the financing from loan funds, credit unions and banks, and comprise a significant portion financing provided by venture funds.

Loan terms and amounts vary based largely on the type of CDFI and on the clients and sectors served. The average loan closed during FY 2001 based on a survey of CDFIs showed that loans closed by credit unions were generally the smallest in size ($10,500), followed by loan funds ($56,300), banks ($82,100), and venture funds ($208,900).

Equity investments are concentrated mainly in the venture capital sector. Of the 59 equity investments closed during FY 2001 as reported by the CDFI survey respondents, 46 of these were closed by venture funds. Credit unions and banks do not use equity financing.

Debt-with-equity features are loans that allow CDFIs to receive additional payments based on the performance of the borrowers organization. Debt-with-equity features closed by venture funds represented approximately 78% of all such closings during FY 2001 (as reported by CDFI survey respondents), with loan funds closing the remaining 22%.

Guarantees include letters of credit or guarantees provided to enhance the credit-worthiness of a borrower receiving a loan from a third-party lender. These guarantees enable other financial institutions to participate in community lending due to a portion of the loan being guaranteed by a CDFI. A small percentage of CDFIs use loan guarantees.

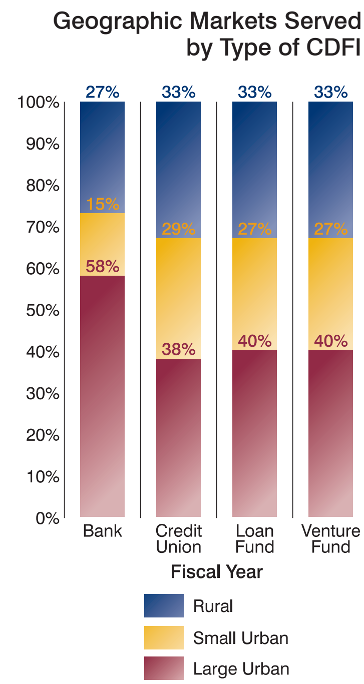
The chart below shows the percentage of financing used by the various types of CDFIs.

CDFI Customers and Markets Served — CDFI customers consist of the following:

- Small business owners who provide employment opportunities and needed services to disadvantaged communities;
- Affordable housing developers that construct and rehabilitate homes in low-income communities;
- Community facilities that provide child care, health care, education and social services in underserved communities; and
- Individuals who are provided affordable banking services including checking and savings accounts, alternatives to predatory financial companies, and mortgages and other kinds of loans.

Not surprisingly, the most populous states have the most CDFIs. According to the study conducted by the CDP data project, the six most populous states (New York, Texas, North Carolina, Florida and California) have 38% of all CDFIs included in the study.

CDFIs also serve a wide range of geographic markets across the country. Forty one percent of CDFI clients come from large urban areas, 32% come from rural areas, and the remaining 27% come from small urban areas. The percentage of clients served by credit unions, loan funds and venture funds are very similar, while clients served by banks are concentrated less in small urban areas and more in larger ones.



COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS PROGRAM

OVERVIEW OF THE CDFI PROGRAM

The Community Development Financial Institutions (CDFI) Fund uses federal resources to invest in and build the capacity of private, for-profit and nonprofit financial institutions to provide capital and financial services to underserved people and communities. The Fund invests in CDFIs using flexible tools such as equity investments, loans, grants, and deposits, depending on market and institutional needs. It helps these institutions meet their capital needs to further the following priority areas:

- Economic development (job creation, business development, and commercial real estate development);
- Affordable housing (housing development and homeownership); and
- Financial services (financial literacy training and the provision of basic banking services to underserved communities).

Targeting Awards Based on Need — During FY 2003, the Fund modified its programs to better recognize the needs of financial institutions. It is the Fund's view that the needs of financial institutions differ at each stage of development and is based on the concept that as CDFIs grow in size and scale, they are better able to attract private sector funding. Under this model, capacity-building technical assistance grants and training opportunities are needed for start-up and growing CDFIs; more established CDFIs require financial and technical assistance to expand their lending base; and the more sophisticated CDFIs can benefit from Federal tax credit incentives (under the New Markets Tax Credit Program—see separate section).

The Fund modified its programs by developing separate financial assistance and technical assistance components of the CDFI Program. These components replace the Core, Intermediary, and Small and Emerging CDFI Assistance (SECA) components utilized in prior years and can better target awards to CDFIs based on their size and need.

FINANCIAL ASSISTANCE COMPONENT

Financial assistance awards enable CDFIs to provide loans and investments, provide training and technical assistance to customers, leverage additional capital to needs in underserved markets, and provide basic financial services such as checking or savings accounts. These investments are provided in the form of grants, loans, and investments in the form of equity, deposits, and credit union shares, and technical assistance grants to certified CDFIs in support of comprehensive business plans.

During FY 2003, the Fund implemented three new strategies to help ensure that awards will have the most significant impact: targeting to Hot Zones, implementation of new eligibility requirements and implementation of financial and quality portfolio benchmarks.

Targeting to Hot Zones — In an effort to achieve increased economic growth in the nation's ***most*** economically distressed communities, starting with the FY 2003 funding round, the Fund focused its FA dollars on investment areas that are the most highly distressed by certain indicators—Economic Development Hot Zones and Housing Hot Zones. "Economic Development Hot Zones" are areas with a combination of high poverty, low median family incomes and high unemployment. "Housing Hot Zones" are areas that have high homeowner or rental cost burdens for low-income families.

To implement this concept in the FA Component, the Fund placed high priority on funding those applicants that had a viable plan to direct future activities in such Hot Zones. This better enables the Fund to target its awards to the areas with exceptionally high need.

New Award Eligibility Requirements — The Fund implemented new award eligibility requirements, which were effective with the FY 2003 funding, round and are discussed below.

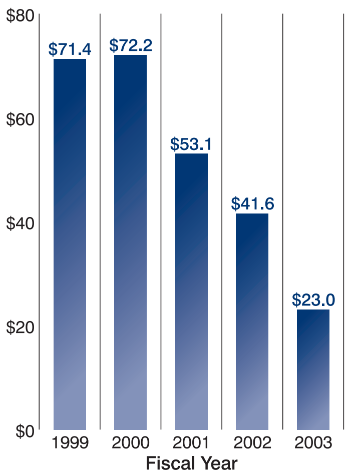
Certified CDFIs: Applicants needed to be certified CDFIs at the time of application (or had submitted an application for certification prior to the application deadline) to be eligible for award. Because organizations need to be certified CDFIs in order to receive Financial Assistance from the Fund, this eligibility requirement eliminated from consideration any applicant that was not able to meet this standard.

Matching Funds Requirement: All FA awardees must have received at least 25% of their matching funds at the time of application with firm commitments to match an additional 50% of FA amounts requested.

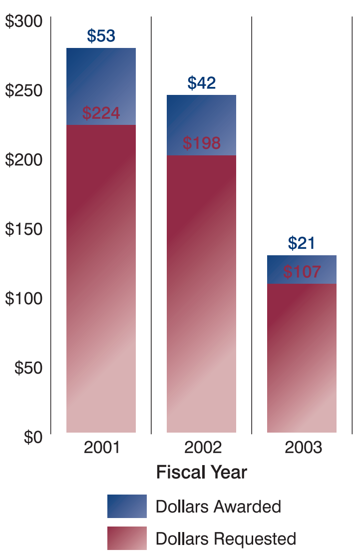
Compliance With Prior Assistance Awards: The Fund instituted an additional requirement relating to applicants that received a prior Fund award. For these applicants, prior compliance with the terms of assistance agreements was reviewed. Awardees that were not in compliance with prior assistance agreements or that had not drawn down most of their prior awards were precluded from receiving a FY 2003 award. The intent of this policy is to utilize prior performance as a benchmark for new awards.

Financial and Quality Portfolio Benchmarks — In order to ensure that CDFIs funded currently and will in the future maintain certain levels of financial health, and thus be viable financial institutions, the Fund implemented in its FY 2003 FA review process, certain Minimum Prudent Standards relating to key ratios. These standards were developed based on industry best practices, data reported by CDFIs for FY 2001 in the CDFI Data Project, and were developed in consultation with regulatory agencies. The financial standards were tailored to the institution type; portfolio quality standards were tailored to both the institution type and the product type.

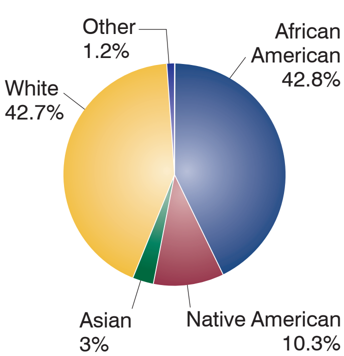
Total Amounts of Core/FA Awards (amounts in millions)



Relationship Between Amounts Requested and Awarded Core/FA Applications (amounts in millions)



FY 2001 CDFI Survey Average CDFI Customer by Race



Targeting FA Awards Based on Need and Asset Size — To better serve the wide variety of CDFIs within the FA component, the Fund has categorized applicants based on need and asset size.

- Category 1 applicants can be awarded up to $1 million, and are those with capitalization needs of up to $1 million and assets as of December 31, 2002 of up to: 1) $250 million for insured depository institutions and depository institution holding companies); 2) $25 million for other CDFIs; and
- Category 2 applicants can be awarded in excess of $1 million, and are those that have assets above the ranges of category 1 applicants, and that request funding in excess of $1 million.

FY 2003 Awards — During FY 2003, the Fund received 131 applications requesting $107 million in FA assistance. FA awards totaling $23.0 million were made to 34 organizations, compared to $41.6 million made to 51 organizations in the prior year.

The decrease was due to a number of factors, including a limited amount of time for applicants to become familiar with the electronic application platform and new policy priorities; stricter eligibility requirements; and the financial standards and policy priorities described above. These factors resulted in $9.8 million of FA funding which will be carried over to the next fiscal year.

FY 2003 consists if FA applications and awards; Core applications and awards are prior to FY 2003.

Performance — Starting with FY 2003, the Fund revised its performance measures to better target them towards measuring the results of the Funds awards. Due to elapsed length of time from the time of award through Fund award disbursement, deployment of the award by an awardee, and then measuring the effect of that deployment, the effect of the Funds awards made during any given year is not known until quite some time later.

Accordingly, the Fund surveys prior awardees to gain an understanding of their use of the Fund's awards during the prior fiscal year and the results.

The following table shows results during FY 2002 based on a survey of Core awardees that had an active assistance agreement with the Fund as of the end of FY 2002 (e.g., that were required to provide certain reports to the Fund). The numbers relate to 168 awardees:

PERFORMANCE OF 168 CORE AWARDEES DURING FY 2002

1.	Number of full time jobs created or maintained	6,063
2.	Number of businesses financed	12,527
3.	Number of commercial real estate properties financed	508
4.	Number of affordable housing units financed	32,672
5.	Number of homebuyers who obtain financing	4,427
6.	Number of accounts opened at CDFIs	36,678
7.	Dollars leveraged with private investments	$1.6 billion

TECHNICAL ASSISTANCE COMPONENT

The Technical Assistance (TA) Component provides grants to be acquire technical assistance services. TA awards are used for the training of staff and management, the acquisition of technology to improve operations and create the necessary infrastructure, and the use of outside experts to build organizational capacity.

This year the Fund focused its TA Program on the less established CDFIs and entities proposing to become CDFIs in order to build their capacity to better address the needs of their particular target markets. However, the TA program is available to any CDFI, particularly in upgrading systems and infrastructure that will lead to better financial sustainability and greater ability to provide new products or serve new markets.

TA awards are limited to $50,000 (the limitation is $100,000 for entities serving or proposing to serve Native American, Alaska Native and Native Hawaiian communities) and are restricted to applicants which have not received prior FA or TA Fund awards totaling over $250,000.

During FY 2003, the Fund received 18 applications requesting $1.3 million in TA grants, of which $288,000 was awarded to 7 organizations located in 7 states and the District of Columbia. An additional $1.7 million was obligated for contracts to, among other things, evaluate the effectiveness of the Fund's prior technical assistance awards.

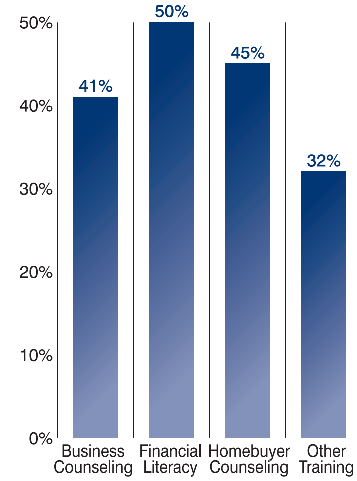
Carryover of Unused TA Funds — The Fund's Notice of Funds Availability combined the FY 2003 and 2004 funding round, and also provided for the receipt of applications on a "rolling basis" whereby applications can be submitted throughout the two fiscal years through May 31, 2004. As applications are received, reviewed and awarded TA funds earlier in each fiscal year, a diminishing amount remains available to fund subsequent applications. This will allow for applications to be reviewed in a more efficient manner and provide applicants with the ability to submit applications at their convenience rather than based on a pre-determined deadline.

The above changes had the effect of reducing the number of TA applications received during FY 2003, which resulted in a significant amount of unused TA funds ($8.1 million) being carried over into FY 2004.

Performance — The following table shows results during FY 2002 based on a survey of technical assistance awardees that had an active assistance agreement with the Fund as of the end of FY 2002 (e.g., that were required to provide certain reports back to the Fund).

CDFIs use Fund awards to provide a variety of training, as follows:

Percentage of CDFIs Providing Training and Technical Assistance



PERFORMANCE OF 87 TECHNICAL ASSISTANCE AND SECA AWARDEES DURING FY 2002

1. Number of individuals provided with financial literacy and other training	135,576
2. Number of CDFIs that have accessed the Fund's institution-building technical assistance or training	356

NEW MARKETS TAX CREDIT PROGRAM

OVERVIEW

Created by the Community Renewal Tax Relief Act of 2000, the New Markets Tax Credit (NMTC) Program is designed to spur the investment of $15 billion in new private capital into Community Development Entities (CDEs). These investments will make it possible for CDEs to make loans to and equity investments in businesses located in and serving economically distressed places.

The NMTC Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments (QEIs) in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide qualified investments in low-income communities (qualified low-income community investments, or QLICIs). The credit provided to the investor totals 39 percent of the cost of the investment and is claimed over a seven-year period, with 5 percent of the initial investment claimed as a credit during each of the first 3 years of the investment, and 6 percent being claimed during each of the next four years. Investors who redeem all or part of their investments in CDEs prior to the conclusion of the seven-year period will be required to recapture some or all of the credit claimed.

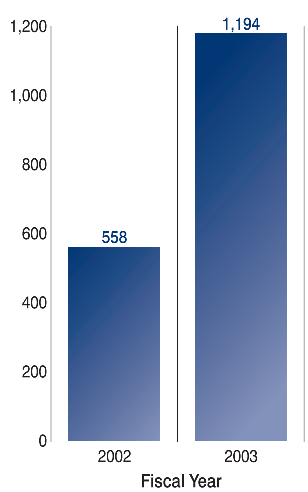
In order to be certified as a CDE, an organization must be a legally established entity that: 1) has a mission of serving, or providing investment capital for, low-income communities or low-income persons; 2) maintains accountability to residents of low-income communities through their representation on a governing board or advisory board to the entity; and 3) has been certified as a CDE by the CDFI Fund. As of September 30, 2003, 1,194 organizations have been certified as CDEs by the CDFI Fund, compared to 558 as of one year earlier.

Because CDEs are the only type of organizations eligible to receive an allocation of NMTCs, this significant increase in CDEs is an indication of the demand for the credits.

Low-income communities include census tracts with at least a 20 percent poverty rate or where the median family income is below 80 percent of the area median family income. About 40 percent of census tracts in the nation qualify for this status.

Throughout the life of the NMTC Program, the Fund is authorized to allocate to CDEs the authority to issue to their investors tax credits which will support equity investments up to an aggregate amount of $15 billion.

Number of Certified CDEs at Year End



AMOUNT OF ANNUAL EQUITY TO BE RAISED FROM TAX CREDIT ALLOCATION AUTHORITY

Year	Annual Equity To Be Raised
2002	$2,500,000,000 [1]
2003	$3,500,000,000 [2]
2004	$— [2]
2005	$2,000,000,000
2006	$3,500,000,000
2007	$ 3,500,000,000
	$15,000,000,000

[1] *2001 and 2002 tax credit allocation authority for these years was combined for the 2002 allocation round.*

[2] *2003 and 2004 tax credit allocation authority for these years was combined for the 2003 allocation round.*

TIMETABLE FOR RAISING AND DEPLOYING INVESTOR EQUITY

Awardees have five years from the date of notification of an allocation of tax credits to close on QEIs with investors. An investor in turn can then claim their first tax credit in the year in which they closed the investment.

Awardees also have 12 months from the time they close a QEI from an investor in which to place substantially all of the investor proceeds into a QLICI (in other words, 12 months to deploy the investment). Accordingly, an awardee has up to six years from the date of notification of an allocation of tax credits to deploy the equity investment. Because of this potentially substantial elapsed time between notification to awardees of their tax credit allocation, through receipt of investor equity and closing of QEIs, through investing the investor equity into QLICIs, and ending with the tracking of the use of investor dollars and their ultimate performance, we do not anticipate having results stemming from the deployment of investor equity until 2004. Those results will be used as baseline information and also to project future performance.

RESULTS OF NMTC ALLOCATION ROUNDS

Initial Round — The Fund published its first annual NMTC Program Notice of Allocation Availability (NOAA) in the *Federal Register* on June 11, 2002. The NOAA invited CDEs to compete for tax credit allocations in support of an aggregate amount of $2.5 billion in qualified equity investments in CDEs. Demand for the tax credits was high, as tax credits for $25.8 billion of private investment were requested from 345 applications. Sixty-six applicants from 46 states and the District of Columbia received tax allocations supporting $2.5 billion in equity investments, with the average award supporting $38 million. Allocation agreements have been provided to the 2003 awardees to sign and are due back to the Fund in November 2003.

Applicants for tax credits identify the areas in which they plan on investing investor equity. The chart below shows the distribution of these planned investments:

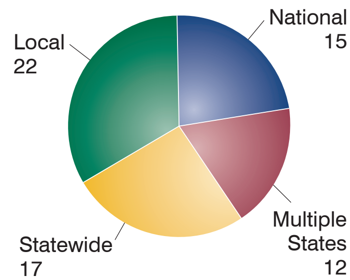
Of the total equity to be raised 80 percent is to be used in urban and suburban areas with the balance being used in rural areas:

Second Round — The application deadline for the second round of the NMTC Program was September 29, 2003. Two hundred and seventy applications requesting tax credits supporting $30 billion in equity investments were received. This represents an increase of $5 million over last year's request. Additionally, the average amount requested supports $111 million in equity investments, compared to $75 million in the initial year.

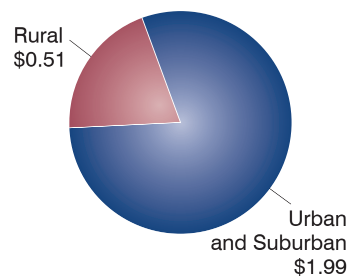
Second Round Applicant Type — An analysis of the second round of the NMTC Program reveals an interesting mix of applicants:

- 38% were submitted by non-profit organizations, or by subsidiaries of non-profit organizations.
- 19% were submitted by banks, thrifts or bank holding companies, or subsidiaries of such institutions.
- 15% were submitted by CDFIs, or by entities that are subsidiaries of CDFIs.
- 8% were submitted by publicly-traded companies, or by subsidiaries of publicly-traded companies.
- 6% were submitted by governmentally-controlled entities, or by subsidiaries of governmentally-controlled entities.
- Three applications were submitted by faith-based institutions or subsidiaries of faith institutions.

FY 2002 NMTC Awardees Areas Served



Projected Use of Allocated Tax Credits
(amounts in billions)



BANK ENTERPRISE AWARD PROGRAM

OVERVIEW

The Bank Enterprise Award (BEA) Program recognizes the key role played by traditional financial institutions in community development lending and investing. It provides incentives for these regulated banks and thrifts to invest in CDFIs and to increase their lending and financial services in distressed communities. Providing monetary awards for community reinvestment leverages the Fund's dollars and puts more capital to work in distressed communities throughout the nation.

Promoting CDFI Investments Through the BEA Program — The BEA Program has a dual purpose. The first is to build the capacity of FDIC-insured depository institutions (banks) to expand their community development lending and investments within severely underserved areas (referred to as Development and Services). The second is to increase banks' investment in CDFIs in order to build CDFI self-sufficiency and capacity (referred to as CDFI Related Activities).

The BEA Program statute calls for the Fund to "give priority" to this second objective. Banks do this by providing low cost capital and operating support to CDFIs, which has helped to create and sustain a network of CDFIs that now covers 98 percent of the nation's most distressed areas. CDFIs can serve as a delivery mechanism for banks to partner with in order to better serve highly distressed neighborhoods or very low-income persons.

Eligibility — All depository institutions insured by the Federal Deposit Insurance Corporation are eligible to apply for a BEA Program award. The BEA Program rewards actual increases in the dollar volume of Qualified Activities from a Baseline Period to a later Assessment Period.[1] Qualified Activities for the BEA Program are divided into three categories:

1. **CDFI-Related Activities:** Equity investments (grants, investments, or equity-like loans) or CDFI Support (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 in economically distressed communities.
3. **Service Activities:** Deposits, financial services (such as check-cashing, money orders, or certified checks), electronic transfer accounts (ETAs), individual development accounts (IDAs), First Accounts, or community services provided to low- to moderate-income individuals or the institutions serving them.

By statute, the Fund must award applicants in the CDFI Related category before making awards to applicants in the Financing and Service categories.

[1] *For FY 2003 the Baseline Period was from January 1 to June 30, 2002 and the Assessment Period was from January 1 to June 30, 2003. For the FY 2004 round, the Fund is moving to 12-month periods: the Baseline Period will be from January 1 to December 31, 2002 and the Assessment Period will be from January 1 to December 31, 2003.*

INTERNAL AND EXTERNAL REVIEWS OF THE BEA PROGRAM

During FY 2002, the Fund evaluated the BEA Program and determined that it could provide more applicants with an incentive to expand their development services activities while at the same time continue to support CDFIs and borrowers. To implement this strategy, in FY 2003 the CDFI Fund revised the BEA Program Regulations and associated Notice of Funds Availability (NOFA). Specifically, the revisions:

1. Reduce the size and number of awards in the CDFI Related category, thereby increasing the likelihood of more awards for carrying out financing activities in distressed communities;
2. Target awards to smaller financial institutions which have a greater need for the incentive provided by the BEA Program award, and
3. Encourage certain personal and community wealth building activities in distressed areas.

As can be seen from the two charts below, the above changes have had the effect of changing the mix of BEA awardees to a greater emphasis on community banks.

Additionally, the Office of Management and Budget (OMB) conducted an evaluation of the BEA program utilizing its Program Assessment Rating Tool (PART) for the FY 2004 budget cycle. The assessment indicated that the correlation between the BEA Program and performance reported by BEA awardees was not clear. Accordingly, subsequent BEA program funding requests will be reduced until the Fund can determine the extent to which performance information reported by BEA awardees can be attributed to the BEA Program. OMB will assess the BEA Program again for the FY 2006 budget cycle.

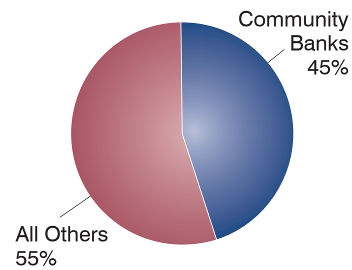
FY 2003 BEA PROGRAM AWARDS

For FY 2003 the Fund selected 75 FDIC-insured institutions to receive $13.9 million. Awardees are headquartered in 25 states and the District of Columbia.

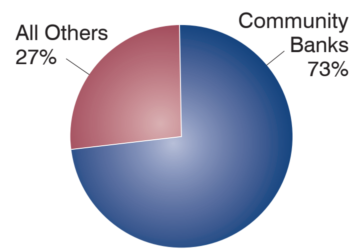
FY 2003 awardees provided $28 million in loans, deposits and technical assistance to CDFIs and $163 million in loans, investments, and services in distressed communities. These amounts are lower than in prior years, which is largely the result of a reduction in amounts available for award.

FY 2003 Community Impact — For FY 2003, applicants were required to report quantifiable impact data for Distressed Community Financing and Service Activities (the 2nd and 3rd priority areas mentioned above). Of the 75 awardees, 21 reported such activity, which equated to over $11.4 million in BEA awards. These awards resulted in 127 new homebuyers, 1,337 affordable housing units developed or rehabilitated, 111 commercial real estate properties financed that benefit distressed communities, 1,539 jobs created/maintained or business created, 3,234 individuals receiving technical assistance to combat predatory lending, and over 1,200 new accounts opened.

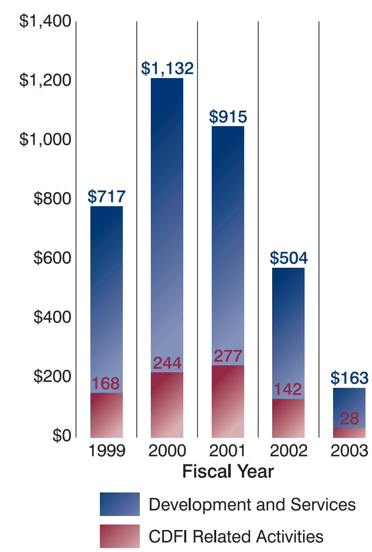
BEA Awardee Types Prior to FY 2003



BEA Awardee Types in FY 2003

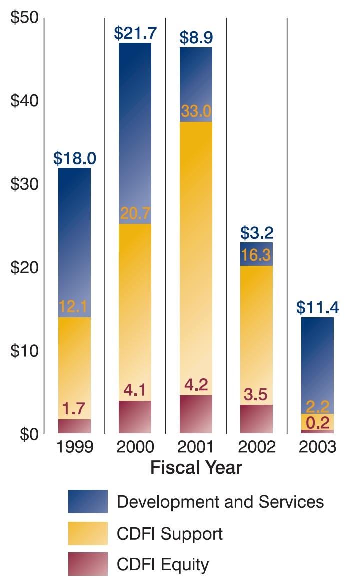


Amount of Qualified Activities by BEA Applicants (amounts in millions)



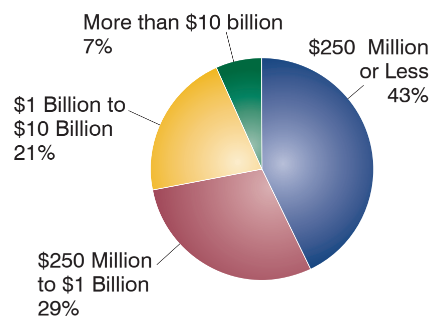
BEA Program Awardee Activities — To date, BEA awardees have provided more than $3 billion to distressed communities in the form of direct loans, investments, and services, and almost $2 billion in financial support and technical assistance directly to CDFIs. The trend of investments in distressed communities and investments in CDFIs by BEA awardees is shown below:

Distribution of BEA Program Awards byCategory
(amounts in millions)



Diversity of BEA Awardees — The Fund attempts to ensure that a variety of banks and financial institutions—in terms of asset size and type—participate in the BEA Program. Over the last several years, the number of awards provided to the smallest banks and thrifts (i.e., those with less than $250 million in assets) has increased from 27 percent of the FY 1998 awardees to 43 percent of the FY 2003 awardees, a significant increase. In addition, the percentage of banks in the $250 million to $1 billion in assets category has increased slightly during the past year, from 22 percent of the FY 2001 awardees to 29 percent of the FY 2003 awardees.

Assets of BEA Awardees



NATIVE AMERICAN INITIATIVE

OVERVIEW

The Native American Initiative arises out of the findings of the CDFI Fund's Native American Lending Study (the "Lending Study") released in November 2001. The Lending Study confirmed the inadequacy of capital investment in Native American Communities and identified 17 major barriers to debt and equity capital investment in Native American Communities, and discussed solutions to those barriers. The Fund concluded several of those solutions could be achieved through application of the Fund's programs to the Native American context and by increasing the coverage and the capacity of Native American CDFIs.

To implement these findings the Fund has developed a Native American (NA) Initiative which consists of three components: the Native American CDFI Development Program; the Native American Technical Assistance (NATA) Component which is a part of the Technical Assistance Component of the CDFI Program (but discussed here), and the Native American Training Program, which is administered through separate contracts. The NA Initiative is targeted to address the unique needs of Native American communities.

Due to the newness of the NA Initiative, it is to soon to be able to evaluate the results of the initiatives discussed below.

NATIVE AMERICAN CDFI DEVELOPMENT PROGRAM

Under the Native American CDFI Development (NACD) Program, the Fund provides technical assistance grants that are limited to $100,000. Unlike the NATA Component discussed below, the NACD Program makes grants to entities that are not, or will not become certified CDFIs but instead plan to create CDFIs to serve primarily Native American, Alaska Native and Native Hawaiian communities. This new program and the NATA Component (discussed below) replace the Native American CDFI Technical Assistance (NACTA) Component (under the CDFI Program) of last year.

The Fund's Notice of Funds Availability combined the FY 2003 and 2004 funding rounds, and also provided for the receipt of applications on a "rolling basis" whereby applications can be submitted throughout the two fiscal years, through May 30, 2004. As applications are received, reviewed and awarded NACD funds earlier in each fiscal year, a smaller amount will remain available to fund subsequent applications. This will allow for applications to be reviewed in a more efficient manner and provide applicants with the ability to submit applications at their convenience rather than based on a pre-determined deadline.

During FY 2003, NACD TA grants were provided to 3 organizations totaling $301,800.

NATIVE AMERICAN TECHNICAL ASSISTANCE COMPONENT

The Native American Technical Assistance (NATA) Component is similar to the NACD Program, the difference being that the NATA Component is designed to build capacity of CDFIs serving Native American, Alaska Native and Native Hawaiian communities. Accordingly, this component is limited to CDFIs and entities proposing to become CDFIs. As part of the Technical Assistance Component of the CDFI Program, the NATA Component limits awards to $100,000 and accepts applications on a rolling basis through May 31, 2004.

During FY 2003, the Fund made 4 NATA awards totaling $222,141.

NATIVE AMERICAN TRAINING PROGRAM

The Native American Training Program consists of several initiatives aimed at building new knowledge and skills among organizations serving Native American communities. Training is implemented by contracting with private sector vendors to develop the curricula and to provide the training to Tribal governments, Native American organizations and others that serve Native American people.

Currently the Fund is in the process of designing, and hopes to complete and solicit contacts for one or more of the following initiatives:

- **Financial Education:** Train individuals through workshops to become proficient in financial education programs, enabling these individuals to return to their organizations and establish a financial education program;
- **Development of a National Training Institute:** To develop a NA CDFI Training Institute hosted by the CDFI Fund with the goal of delivering training needed by Native CDFIs and NA communities;
- **On-site Technical Assistance For Legal Infrastructure Development:** To create a pro-business legal environment on trust lands; and
- **On-site Assistance To Develop Products Suited to the Unique Circumstances of NA Communities:** To assist Native CDFIs develop loan and investment products that are appropriately tailored to the their unique needs.

In addition to the above planned initiatives, the Fund is using a contractor to provide training courses to representatives serving NA communities, designed to determine if a Native CDFI is needed, and if so, how to develop and operate the Native CDFI.

CARRYOVER OF UNUSED FY 2003 NA FUNDING

The Fund's NA Initiative represents a multi-pronged approach to addressing the unique needs of Native American populations. Through a combination of technical assistance grants to Native CDFIs, and technical assistance and training provided directly to Native American stakeholders, many of the findings noted in the Native American Lending Study will be addressed.

This initiative is a fairly new one: the Native American Lending Study was completed less than two years ago, and it has taken significant time to develop an approach to address the findings and yet maximize the use of the Funds limited dollars. Accordingly, while the Fund has received $15 million in appropriations over the last three years earmarked for NA initiatives, almost $4 million remains unobligated and available for carryover to FY 2004.

POLICY AND RESEARCH INITIATIVES

In FY 2003, the Fund embarked on several key initiatives related to measuring CDFI/ CDE performance and increasing liquidity for the industry.

STRATEGIC PLANNING

The Fund worked closely with Treasury's Office of Performance Budgeting to develop the Fund's strategic plan and to ensure that it aligns with Treasury's strategic plan. The Fund's new FY 2003—FY 2008 Strategic Plan successfully shifts the Fund's performance indicators from measuring outputs such as the number of awards made, to measuring community development impact such as jobs created and affordable housing units financed by Fund awardees. The Fund's strategic plan can be viewed or downloaded at ***www.cdfifund.gov***.

DATA COLLECTION

In the spring of 2003, the Fund contracted with a technology consulting firm to design and develop the Community Investment Intelligence System (CIIS), a web-based system that will collect, store, and permit peer analysis of institution-level and transaction-level CDFI/CDE data. CIIS builds on the experience of the CDFI Data Project, a collaborative data collection effort that included five trade associations, the Corporation for Enterprise Development (CFED), the Ford and MacArthur Foundations, and the Fund.

CIIS is expected to take CDFI/CDE industry data collection to a level that has not been attempted by any other sector of the community development industry. The Fund plans to make CIIS data available to the public (subject to aggregation protocols to protect the privacy of borrowers and individual CDEs and CDFIs), thereby providing significant benefits to practitioners, researchers, other funders, and potential investors. The Fund expects to begin collecting transaction-level data in early 2004.

PLUM

To better manage its portfolio and to better target its resources, the Fund is developing a performance rating system that will rank CDFIs according to their overall financial strength and their potential for creating community development impact. The PLUM rating system will assess a CDFI's quality relative to its peers in four components: **P**erformance effectiveness/ community development impact; **L**everage, liquidity and solvency; **U**nderwriting; and **M**anagement. The Fund used peer data to create Minimum Prudent Standards against which FY 2003 Financial Assistance applicants were compared. The Fund plans to use PLUM to monitor its portfolio of awardees and to assist in its underwriting of future CDFI awards. Additionally, it will use PLUM to conduct targeted analyses on its portfolio and highlight best practices that can be shared with the CDFI field.

SECONDARY MARKET STUDY

The Fund has contracted for a study to explore the possibility of expanding the secondary market for community development loans. Selling loans on the secondary market, while common among traditional lenders, is not a general practice among CDFIs. If CDFI loans can be made attractive to potential investors at a reasonable price, the CDFI industry may gain a major source of private sector capital that is likely to grow with the industry's needs and limit the CDFIs' need for ongoing re-capitalization. The Fund's study will examine the current and future capital needs of CDFIs and whether the Fund might further the creation of a secondary market for CDFI loans. The Fund expects a final report in 2004.

STATUS OF FINANCIAL MANAGEMENT

This section includes the assurance statement required under the Federal Managers' Financial Integrity Act, a summary of the results of the FY 2003 financial statement audit, a summary of the financial management initiatives of the Fund during FY 2003, and a discussion of our financial position and results of operations during the past fiscal year.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT ANNUAL ASSURANCE STATEMENT

DEPARTMENT OF THE TREASURY
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND
ANNUAL ASSURANCE STATEMENT FOR FY 2003

As the Director of the Community Development Financial Institutions Fund, I have established internal controls that enable me to provide reasonable assurance that laws and regulations are followed; programs achieve their intended results free from waste and mismanagement and resources are used consistently with our overall mission. Furthermore, continuity of operations planning in critical areas is sufficient to reduce risk to a reasonable level. With the exception of certain performance information that is provided by program awardees, performance data is reliable. I base my assurance on internal evaluations, management assessments and the results of our prior and current year financial statement audits. Also, I can provide reasonable assurance that the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act were achieved.

In addition, the fund substantially complies with the requirements of the Federal Financial Management Improvement Act. The Fund's financial management systems substantially comply with the federal financial management systems requirements, applicable accounting standards, and use the United States Standard General Ledger at the transaction level.

Tony T. Brown

Tony T. Brown
Director

Description of the CDFI Fund Financial Management System — The Fund contracts for accounting services under a franchise agreement with the Bureau of the Public Debt's Administrative Resource Center (ARC) in Parkersburg, West Virginia. While the ARC maintains the accounting system relating to the Fund's transactions, the Fund is responsible for generation of all source documents and the accuracy of all accounting information.

The Fund's Financial Management System includes the records and transactions maintained by ARC in their Federal Financial System (FFS), as well as procedures performed by the Fund's financial management staff in Washington, D.C. The Fund's financial management staff is directly responsible for the administrative control of its funds; financial planning, budget formulation, and execution; and review and analysis of financial information.

RESULTS OF FY 2003 FINANCIAL STATEMENT AUDIT

FY 2003 marks the sixth consecutive year in which the auditors rendered an unqualified opinion on the Fund's financial statements and in which no material weaknesses, reportable conditions or areas of noncompliance with laws and regulations were identified.

FY 2003 FINANCIAL MANAGEMENT

FY 2003 was a significant year in terms of facilitating the electronic processing of applications and awards. Applicants for FA and NMTC awards were given the ability to submit their applications electronically; applicants could also use the Fund's web site to identify Hot Zones, and all FY 2003 CDFI Program awards were converted to a completely paperless process.

Electronic Applications for the FA Component and the NMTC Program: During FY 2003, the Fund successfully provided applicants for the Financial Assistance Component and the New Markets Tax Credit Program with the ability to submit their applications electronically. Benefits to applicant were as follows:

- Provided the ability to save information entered, return to it at their convenience, and to electronically use the help tool to complete their applications;
- Enabled the Fund to track the status of each application during the entire application preparation process;
- Filtered out invalid information, thus increasing the quality of the information collected;
- Electronically time-and date-stamped all applications submitted, enabling the Fund to ascertain the exact time each application was submitted; and
- Disabled the ability to submit an application once the deadline for submission had passed.

Electronic Mapping of "Hot Zones": Another one of the Funds major FY 03 Information Technology initiatives consisted of updating Fund's electronic mapping system to identify "Hot Zones". "Hot Zones" is the term used by the Fund to identify counties and census tracts with the greatest community development need, least banking services availability, and least Awardee coverage. The IT initiative in this area consisted of reflecting Hot Zone information on the Fund's web-site to enable applicants to correctly identify these areas in their applications.

Electronic Grants Processing: During FY 2003 the Fund implemented its internal electronic award and tracking system for the CDFI Program to process awards from intake through disbursement. The system allows for paperless processing of awards at all stages and automatically tracks and updates milestones. This enables Fund management to access the status and progress for any particular award or program, and improves customer service by providing more timely feedback and status information.

MANAGEMENT RESPONSIBILITIES

CDFI Fund management is responsible for the fair presentation of information contained in the principal financial statements in conformity with accounting principles generally accepted in the United States of America. Management is also responsible for the fair presentation of the Fund's performance measures in accordance with the Office of Management and Budget requirements. The quality of the Fund's internal control structure rests with management, as does the responsibility for identification of and compliance with applicable laws and regulations.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations of the Community Development Financial Institutions Fund for the years ended September 30, 2003, and 2002, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Fund in conformity with accounting principles generally accepted in the United States of America, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

SUMMARIZED FINANCIAL DATA
(amounts in millions)

	FY 2003	FY 2002
Assets	$178.2	$190.6
Liabilities	$61.0	$64.8
Net Position	$117.2	$125.8
Revenue and Financing Sources	$83.0	$101.1
Expenses	$83.6	$101.5
(Shortage) of Revenue and Financing Sources Over Expenses	($.6)	($.4)

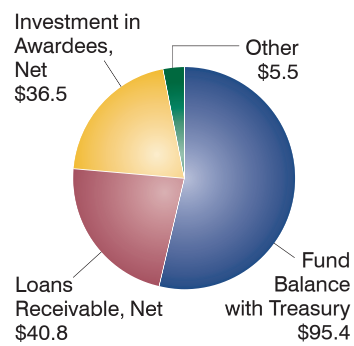
Assets — Assets decreased from $190.6 million at the beginning of the year to $178.2 million at year-end. This $12.4 million decrease consisted primarily of a $28.3 million decrease in Fund Balance with Treasury, offset by an increase in loans receivable of $10.3 million and an increase in investments of $4.3 million.

Any change in Fund Balance with Treasury during the year results from the difference between the amount of appropriated funds received during the year (including amounts borrowed) and the amount expended. FY 2003 marked the second year in the Fund's history that the amount of appropriated funds received was less than the amount expended (FY 2002 was the first year this occurred).

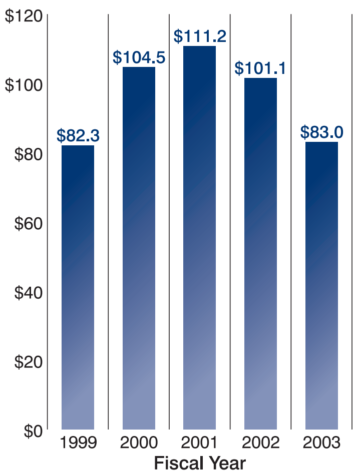
This $28.3 million decrease occurred primarily for two reasons: 1) the amount of appropriated funds received during the year was the lowest since FY 1998, and 2) Fund management continued its priority to reduce the amount of older undisbursed awards. This success was accomplished by contacting awardees with undisbursed award balances and encouraging them to obtain the necessary matching funds so that they could then draw down undisbursed amounts. Prior awardees had an added incentive, in that prior undisbursed awards can prevent an awardee from obtaining a new award from the Fund.

The allocation of CDFI program awards for loans, investments, and grants during any given year is based primarily on the type of matching funds an awardee is able to obtain. While it's expected that the amount of loans receivable and investments will increase annually, the specific amount of the increase is outside the control of the Fund. In addition, most of the loans made by the Fund do not require annual principal payments (most require payment of principal at loan maturity); accordingly, the amount of loan awards made by the Fund on an annual basis will exceed the amount of principal repayments required on existing loans. As a result, the Fund's loan and investment portfolios increased by $14.6 million this past year and should continue to increase in the future.

Allocation of Funds Assets
September 30, 2003
(amounts in millions)



Revenue and Financing Sources (amounts in millions)



Liabilities — The decrease in liabilities during the year of $3.8 million consisted primarily of a decrease in awards payable of $12.4 million offset by an increase in debt of $8.7 million.

The $12.4 million reduction in awards payable relates to undisbursed BEA awards, which are recorded as a liability at the time of award. The amount of FY 2003 funding used for the BEA program was significantly less than the amount in prior years, and this coupled with the Fund's initiative of reducing the amount of prior year undisbursed awards had the effect of significantly reducing awards payable.

The increase in debt of $8.7 million relates to additional borrowings (net of repayments) necessary to fund loans made during the year to awardees. Loans are funded by borrowings from Treasury and from an annual appropriation from Congress.

Net Position — Net position decreased during the year by $8.6 million. Net position will change during the year as a result of the following: 1) the difference between appropriations received (net of appropriations cancelled, rescinded and adjusted for credit subsidy re-estimates) and appropriations used; and 2) the excess or shortage of revenue and financing sources over expenses. During FY 2003, appropriations received (net of amounts cancelled, rescinded and credit subsidy adjustments) were $73.1 million, or $8.0 million less than the amount of appropriated capital used of $81.1 million. The shortage of net revenue and financial sources over expenses contributed an additional $.6 million of the decrease in net position.

REVENUE AND FINANCING SOURCES, EXPENSES, AND SHORTAGE OF REVENUE AND FINANCING SOURCES OVER EXPENSES

Revenue and Financing Sources — Pursuant to grant accounting requirements, the amount of appropriated capital used (the largest component of the Fund's revenue) is generally equal to the amount of operating expenses for the year. Accordingly, in any given year, the shortage of revenue and other financing sources over expenses will generally consist of the amount that interest expense exceeds investment income. It's for this reason that the shortage of revenue over expenses in any given year will be most affected by the difference between interest expense and interest and dividend income. These amounts are a function of the amount of the related asset and liability (loans receivable, investments, and borrowings from Treasury) and the related interest and dividend rates.

For FY 2003, interest expense on Treasury borrowings totaled $2.1 million compared to interest and dividend income of $1.5 million. This difference comprised virtually all of the Funds shortage of revenue and other financing sources over expenses of $.6 million.

Expenses — The change in the Fund's operating expenses during FY 2003 consisted of the following:

COMPARISON OF OPERATING EXPENSES

(amounts in millions)

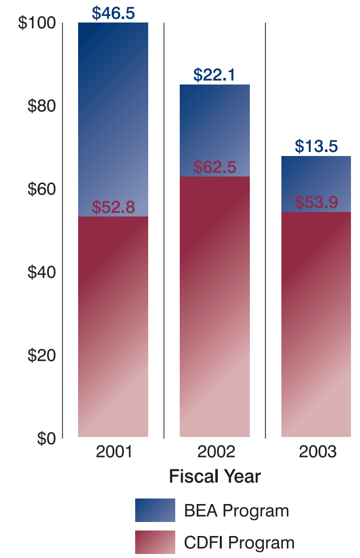
	FY 2003	FY 2002	Difference
Award Expenses	$67.4	$84.6	($17.2)
Administrative Expenses	$9.9	$10.3	($0.4)
Bad Debt Expense	$3.4	$4.4	($1.0)
	$80.7	$99.3	($18.6)

The decrease in award expenses of $17.2 million during the year consisted of a decrease in CDFI Program grant expense of $8.6 million, and a decrease in BEA Program expense of $8.6 million.

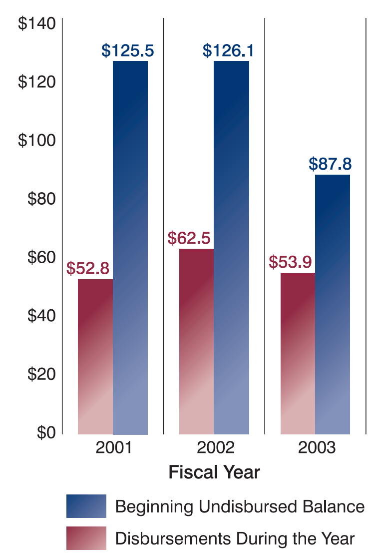
This difference relates to largely to the accounting requirements for recognition of an expense between these two programs. Under the CDFI Program, grant expenses are recognized at the time grants disbursements are approved. Accordingly, the FY 2003 CDFI Program expense was smaller than the prior year amount due to a smaller amount of disbursements being made. As can be seen in the chart below, while there was a reduction in the amount of CDFI grants disbursed during FY 2003 compared to the prior year, the amount disbursed during the year as a percentage of the beginning undisbursed balance was significantly higher than in prior years.

Under the BEA Program, expenses are recognized at the time the awards are made. Accordingly, in any given year the amount of the expense is primarily a function of the amount of funding provided for the program. For FY 2003, $16.9 million was provided for the BEA program of which $13.5 million was awarded, compared to the prior year when $23 million of funding was provided and awarded.

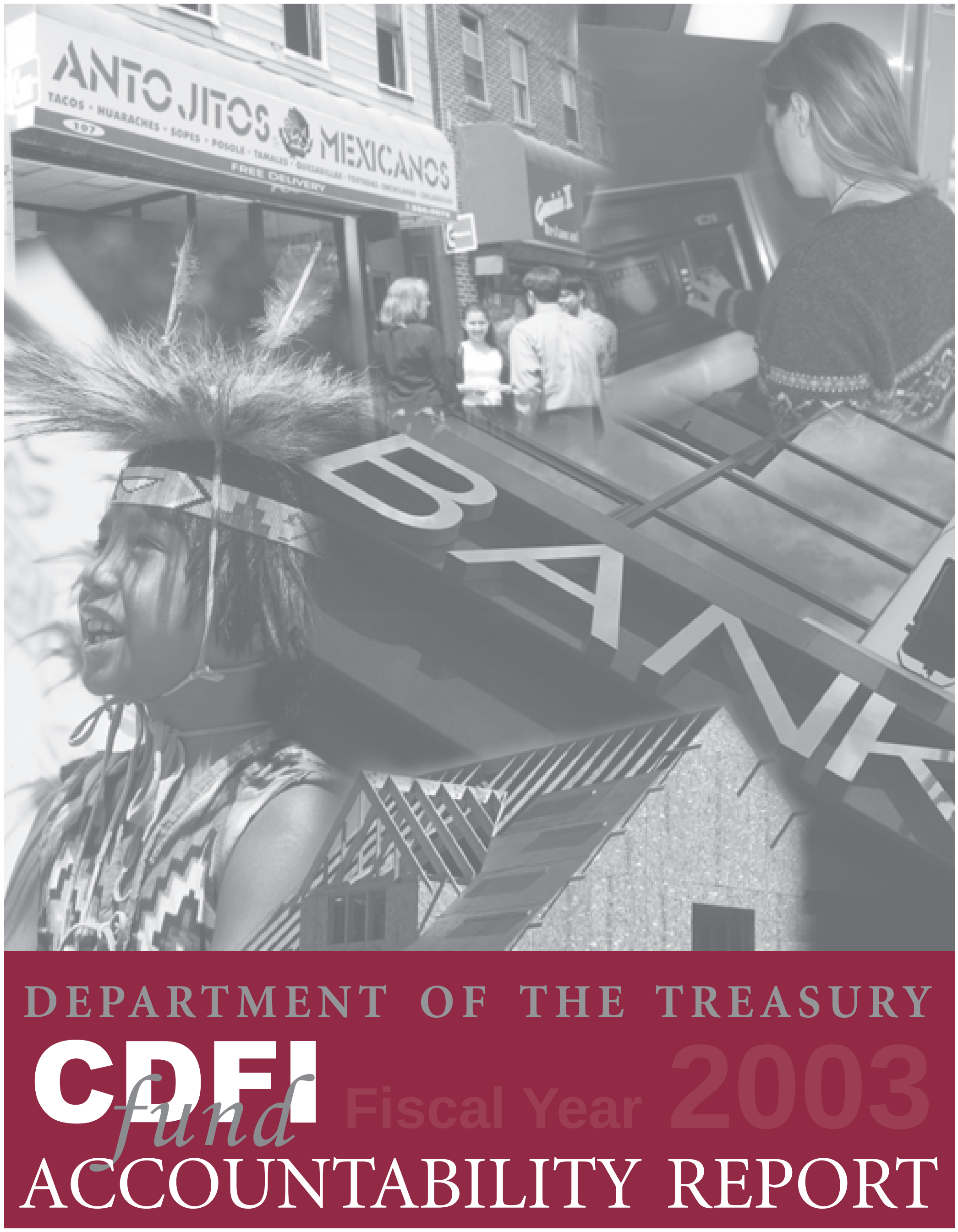
Award Expenses
(amounts in millions)



Relationship Between Beginning Balance of Undisbursed Awards to Amounts Disbursed During the Year
(amounts in millions)



Reports From the Auditors



KPMG

2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Financial Statements

The Inspector General, U.S. Department of the Treasury, and
Director, Community Development Financial Institutions Fund:

We have audited the accompanying statements of financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (the Fund) as of September 30, 2003 and 2002, and the related statements of operations and changes in net position, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund as of September 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis and appendices is presented for purposes of additional analysis and is not a required part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion of it.

In accordance with *Government Auditing Standards*, we have also issued reports dated October 31, 2003 on our consideration of the Fund's internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

October 31, 2003

KPMG

2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Internal Control over Financial Reporting

The Inspector General, U.S. Department of the Treasury, and
Director, Community Development Financial Institutions Fund:

We have audited the statement of financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (the Fund) as of September 30, 2003, and the related statements of operations and changes in net position, and cash flows for the year then ended, and have issued our report thereon dated October 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our fiscal year 2003 audit, we considered the Fund's internal control over financial reporting by obtaining an understanding of the Fund's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02, as applicable to the Fund, and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on the Fund's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses, under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. We noted no matters involving the internal control and its operation that we consider to be material weaknesses as defined above.

However, we noted one other matter involving internal control and its operation that we have reported to the management of the Fund in a separate letter dated October 31, 2003.

This report is intended solely for the information and use of the Fund's management, the U.S. Department of the Treasury Office of Inspector General, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 31, 2003

KPMG

2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Compliance with Laws and Regulations

The Inspector General, U.S. Department of the Treasury, and
Director, Community Development Financial Institutions Fund:

We have audited the statement of financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (the Fund) as of September 30, 2003, and the related statements of operations and changes in net position, and cash flows for the year then ended, and have issued our report thereon dated October 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the Fund is responsible for complying with laws and regulations applicable to the Fund. As part of obtaining reasonable assurance about whether the Fund's fiscal year 2003 financial statements are free of material misstatement, we performed tests of the Fund's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the Fund. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests of compliance with certain provisions of laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the Fund's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

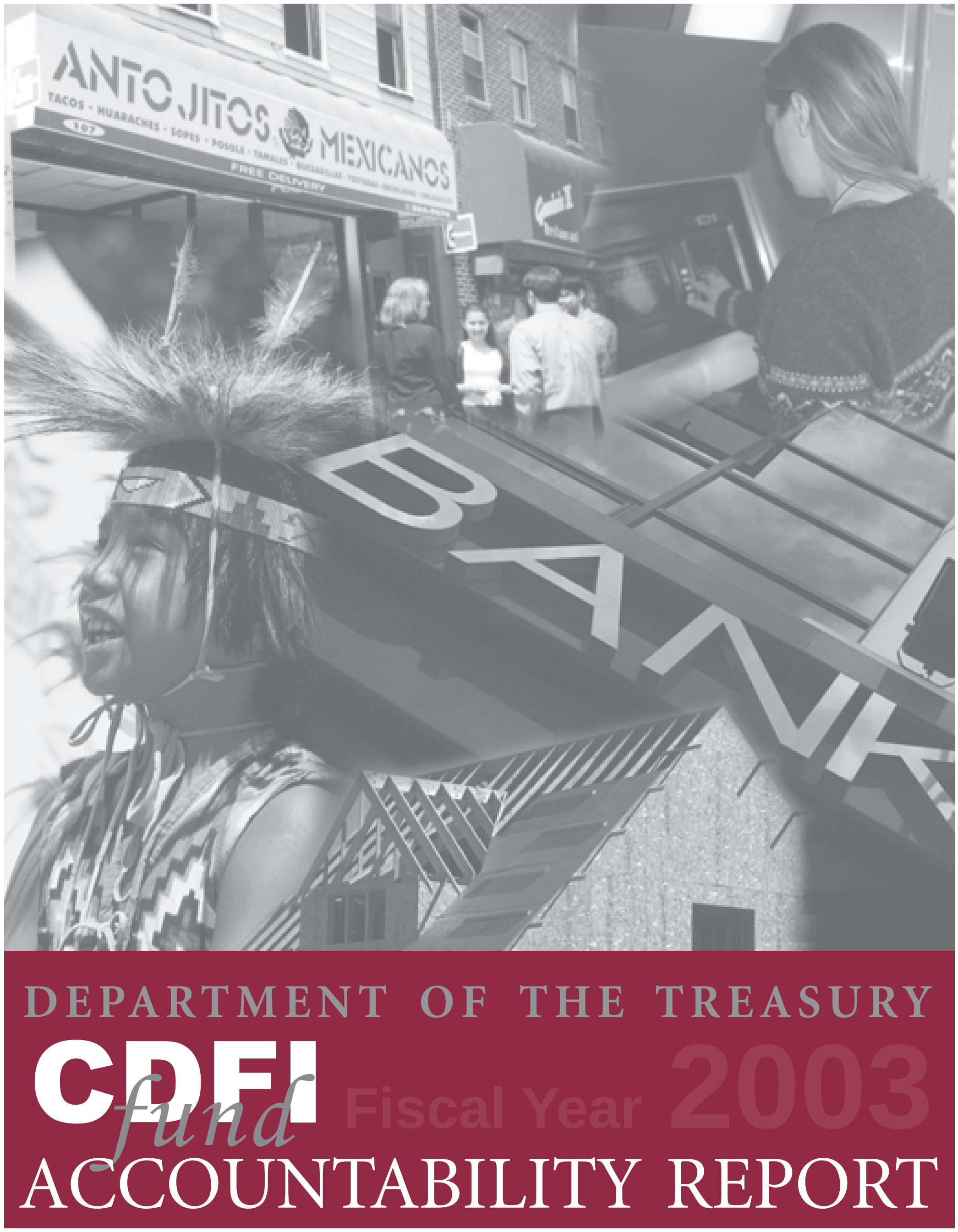
The results of our tests disclosed no instances in which the Fund's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

This report is intended solely for the information and use of the Fund's management, the U.S. Department of the Treasury Office of Inspector General, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 31, 2003

Financial Statements and Notes



STATEMENTS OF FINANCIAL POSITION

As of September 30, 2003 and 2002

Assets	**2003**	**2002**
Current assets:		
Fund balance with Treasury (note 2)	$95,393,698	$123,726,588
Advances and prepayments	2,067,920	2,916,842
Loans receivable, net of allowance for bad debts of $128,103 in 2003 and $37,645 in 2002	384,309	112,935
Investments (note 3)	590,000	490,000
Interest receivable	150,428	145,575
Other receivables	2,239	2,094
Total current assets	98,588,594	127,394,034
Long-term assets:		
Loans receivable, net of allowance for bad debts of $13,471,286 in 2003 and $10,129,671 in 2002	40,413,858	30,389,012
Investments, net of fair value adjustments of $1,500,000 in 2003 and $750,000 in 2002 (note 3)	35,914,361	31,714,361
Internal-use software, net of accumulated amortization of $198,394 in 2003 and $15,978 in 2002 (note 4)	1,285,908	814,127
Internal-use software in development	1,976,505	230,504
Other receivables	37,117	37,923
Total long-term assets	79,627,749	63,185,927
Total assets	**$178,216,343**	**$190,579,961**

Liabilities and Net Position		
Current liabilities:		
Accounts payable	$665,348	$797,007
Awards payable	14,243,874	20,865,948
Accrued payroll	119,076	124,210
Accrued annual leave	250,112	286,518
Total current liabilities	15,278,410	22,073,683
Long-term liabilities:		
Debt (note 5)	33,800,951	25,053,861
Awards payable	11,899,940	17,672,487
Total long-term liabilities	45,700,891	42,726,348
Total liabilities	60,979,301	64,800,031
Commitments (note 6)		
Net position (note 7)	117,237,042	125,779,930
Total liabilities and net position	**$178,216,343**	**$190,579,961**

The accompanying notes are an integral part of these statements.

STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

Years Ended September 30, 2003 and 2002

	2003	2002
Revenue and financing sources:		
Appropriated capital used	$81,095,907	$99,821,360
Imputed financing sources –		
expenses paid by others (Note 8)	426,249	222,576
Interest, non-federal	897,854	556,354
Interest, federal	485,982	379,022
Dividends	157,341	134,829
Total revenue and financing sources	83,063,333	101,114,141
Expenses:		
CDFI grants	53,893,301	62,459,483
BEA grants	13,517,428	22,108,559
Administrative	9,476,431	10,058,485
Bad debt expense	3,432,074	4,441,837
Administrative expenses paid by others (note 8)	426,249	222,576
Total operating expenses	80,745,483	99,290,940
Treasury borrowing interest	2,123,762	1,454,455
Unrealized loss on investments	750,000	750,000
Total expenses	83,619,245	101,495,395
Shortage of revenue and financing		
sources under expenses	$(555,912)	$(381,254)
Changes in Net Position:		
Net position, beginning of year	$125,779,930	$147,265,898
Excess/(shortage) of revenue and financing		
sources over/(under) expenses	(555,912)	(381,254)
Other changes (note 9)	(7,986,976)	(21,104,714)
Net position, end of year	$117,237,042	$125,779,930

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Shortage of revenue and financing sources under expenses	$(555,912)	$(381,254)
Adjustments affecting cash flow:		
Appropriated capital used	(81,095,907)	(99,821,360)
Interest on upward adjustment of prior year subsidy	(112,548)	—
Refund of a prior year expense	50,000	—
Amortization expense	182,416	15,978
Unrealized loss on investments	750,000	750,000
Decrease in advances and prepayments	848,922	319,805
(Increase) in interest receivable	(4,853)	(12,095)
(Increase) decrease in other receivable	661	(40,017)
Increase in allowance for bad debts	3,432,074	4,441,837
Decrease in accounts payable and accrued payroll	(136,793)	(133,307)
Decrease in awards payable	(12,394,622)	(26,175,703)
Increase (decrease) in accrued annual leave	(36,406)	37,022
Net cash used by operating activities	(89,072,968)	(120,999,094)
Cash flows from investing activities:		
Investments in awardees	(5,050,000)	(6,170,975)
Acquisition of internal-use software	(2,400,198)	(1,060,609)
Loans disbursed	(14,832,064)	(18,763,436)
Collection of loan principal	1,103,770	996,091
Net cash used by investing activities	(21,178,492)	(24,998,929)
Cash flows from financing activities:		
Appropriations received	75,731,254	80,000,000
Appropriations cancelled	(1,429,147)	(1,275,354)
Appropriations rescinded	(487,500)	(8,000)
Borrowings from Treasury	10,384,204	7,857,901
Subsidy repayments to Treasury	(643,128)	—
Loan repayments to Treasury	(1,637,113)	(972,608)
Net cash provided by financing activities	81,918,570	85,601,939
Net change in Fund balance with Treasury	(28,332,890)	(60,396,084)
Fund balance with Treasury, beginning of year	123,726,588	184,122,672
Fund balance with Treasury, end of year	**$95,393,698**	**$123,726,588**

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2003 and 2002

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Community Development Financial Institutions Fund (the Fund) was created as a bi-partisan initiative in the Riegle Community Development and Regulatory Improvement Act of 1994 (Public Law No. 103-325). The Fund was originally created to be a separate, independent wholly-owned government corporation subject to the audit and reporting requirements of the Government Corporation Control Act. The Fund was placed in the Department of the Treasury and began operations in July 1995.

The Fund operates various programs aimed at expanding the availability of credit, investment capital, and financial and other services in distressed urban, rural, and Native American communities. The Fund is intended to help create a national network of financial institutions dedicated to community development that leverages private resources (financial and human) to address community development needs.

The major programs operated by the Fund are the Community Development Financial Institutions (CDFI) Program, the Bank Enterprise Awards (BEA) Program and the New Markets Tax Credit (NMTC) Program. The CDFI Program uses limited public resources to invest in private, for-profit and non-profit financial institutions. This investment helps build the capacity of local CDFIs by leveraging large amounts of private capital and builds on private sector talent, creativity, and leadership. CDFI program awards take the form of grants, direct loans, equity investments, and technical assistance to eligible financial institutions.

The Bank Enterprise Awards (BEA) Program provides incentives to insured depository institutions (banks and thrifts) to invest in CDFIs and to increase their lending and financial services in distressed communities. Program participants are selected based on projected achievements. The awards are disbursed only after the activities have been implemented successfully, to ensure that only completed activities are recognized and that the Fund's limited dollars are effectively leveraged with private capital.

The Fund implemented the NTMC Program during FY 2002. Under this program, the Fund provides an allocation of tax credits to Community Development Entities (CDEs), which use these credits to attract private sector investment. Proceeds from these investments are used for community development purposes. Unlike the Fund's grant programs, the allocation of tax credits to CDEs has no effect on the financial statements of the Fund.

(b) Basis of Presentation

The Fund has historically prepared its financial statements in accordance with generally accepted accounting principles, based on accounting standards issued by the Financial Accounting Standards Board (FASB), the private sector standards setting body. In October 1999, the American Institute of Certified Public Accountants (AICPA) designated the Federal Accounting Standards

Advisory Board (FASAB) as the standards setting body for financial statements of federal government entities, with respect to the establishment of generally accepted accounting principles. FASAB has indicated, however, that financial statements prepared based upon accounting standards published by the FASB may also be regarded as in accordance with generally accepted accounting principles for those federal entities, such as the Fund, that have issued financial statements based upon FASB accounting standards in the past. Accordingly, consistent with historical reporting, the Fund financial statements are presented in accordance with accounting standards published by the FASB.

(c) Fund Balance with Treasury

The Fund does not maintain cash in commercial bank accounts. The U.S. Department of the Treasury (Treasury Department) processes cash receipts and disbursements. Fund Balance with Treasury is composed primarily of appropriated and borrowed funds (financing and program accounts) that are available to pay liabilities and finance authorized award and purchase commitments.

(d) Fair Value of Financial Instruments

The fair value of the Fund's financial instruments was determined as discussed below:

1) Fund Balance with Treasury

The carrying amount approximates fair value for Fund balance with Treasury because of the liquid nature of the funds with Treasury.

2) Loans Receivable and Debt

The carrying amount of loans receivable and debt approximates fair value because the related interest rates approximate current rates for similar loans and debt.

3) Investments

None of Fund's investments are in publicly traded entities for which a share price can be readily obtained, accordingly, the Fund estimated the fair value of investments as follows:

- Non-voting equity securities and limited partnership interest — Several factors were considered in estimating fair value for these investments, including, the cost of the investment, developments since the acquisition of the investment, the financial condition and operating results of the investee per their financial statements, the long-term potential of the business, recent share or unit prices paid, and other factors generally pertinent to the valuation of investments. The Fund, in making its evaluation, has relied on financial data of awardees and, in many instances, on estimates by the management of the awardees as to the potential effect of future developments.
- Convertible debt securities — Fair values were estimated using the same methodology as used for non-voting equity securities described above, based on the assumption that the securities were converted into stock.

- Secondary capital securities — These investments have terms similar to loans, and accordingly fair values were estimated by discounting future projected cash flows at the Treasury rate of securities with similar maturities.
- Certificates of deposit — The carrying amount approximates fair value because of the liquid nature of the investments.

4) Advances and Prepayments, Interest Receivable, Other Receivables, and Other Liabilities

The carrying amount of advances and prepayments, interest receivable, other receivables, and other liabilities approximate fair value as they represent the amounts expected to be realized or paid.

(e) Loans Receivable

The Fund provides assistance by making direct loans to certain CDFI Program awardees. Loans are reported as receivables when disbursed, reduced by a 25% default allowance. The Office of Management and Budget negotiated a 25% default allowance with the Fund to estimate future losses if adequate historical information is not available. Historical information is not available, and will not be available for some time due to the following: 1) the short length of time the loans have been outstanding; and 2) the majority of loans made by the Fund require either balloon payments at maturity, or principal payments commencing shortly before the maturity date. The borrowers, in accordance with the repayment schedules, have made timely interest and principal payments and there have not been any write-offs to date.

(f) Interest Receivable

Interest is accrued on the outstanding loan receivable principal balances and investments based on stated rates of interest.

(g) Investments

The Fund provides assistance to certain for-profit CDFI program awardees by purchasing non-voting equity and convertible debt securities and to Federal credit union awardees by purchasing certificates of deposit and by providing secondary deposits. Investments in CDFI program and Federal credit union awardees are stated at fair value. In the event the Fund's evaluation results in an adjustment to fair value, an unrealized gain or loss is recorded and the investment balance is adjusted accordingly.

The Fund is restricted from owning more than 50% of the equity of awardees and from controlling their operations. The Fund considers convertible subordinated debentures to be equity investments because they exhibit sufficient characteristics of equity securities. For example, convertible subordinated debentures entitle the Fund to any dividends in the non-voting common stock into which it is convertible as if the Fund had converted the debentures into such stock prior to the declaration of the dividend.

(h) Internal-Use Software

Internal-use software represents the completed phases of the New Markets Tax Credit (NMTC) electronic handbooks software (net of accumulated amortization) placed in service during the year. The NMTC electronic handbooks software provides the Fund with a web-based application that automates the administration of the NMTC Program.

The software is amortized using the straight-line method over the estimated useful life of seven years.

Internal-use software in development represents costs incurred for various software development projects not yet placed in service.

(i) Awards Payable

CDFI Program grant expense is recognized and awards payable are recorded when the fund is made aware, in writing, that the awardee has met the conditions required for payment and the Fund approves a grant disbursement to be made. BEA Program grant expense is recognized and awards payable are recorded when the Fund approves the BEA award to be made (i.e. at the time the funds are obligated).

The current and long-term portions of awards payable represent amounts estimated to be paid within the next twelve months (current portion) and thereafter (long-term portion) based on prior award payment experience.

(j) Retirement Plans

CDFI Fund employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). The FERS was established by the enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984, were provided an opportunity to join either FERS and Social Security or remain in CSRS.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established, and the Fund makes a mandatory 1% contribution to this account. In addition, the Fund makes matching contributions ranging from 1% to 4% for FERS eligible employees who contribute to their TSP account. Matching contributions are not made to the TSP accounts established by CSRS employees.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program for retirement. In these instances, the Fund remits the employer's share of the required contribution. For CDFI Fund employees participating in CSRS, the Fund makes matching contributions to CSRS equal to 8.51% of base pay.

(k) Annual, Sick and Other Leave

Annual leave and compensatory leave is accrued as a liability when earned by the employee, and the accrual is reduced as leave is taken. The balance in this accrued liability account is computed using current pay rates. Sick leave and other types of non-vested leave are expensed as the leave is taken.

(l) Debt

Debt represents borrowings payable to the Treasury Department that were made to fund direct loans made by the CDFI Program. Principal repayments to the Treasury Department are required to be made based on the collections of loans receivable.

(m) Contingencies

The Fund may be a party in various administrative proceedings, legal actions, and claims brought by or against it. The Fund's management and legal counsel are unaware of any contingencies that would materially affect the Fund's financial position or results of operations.

(n) Revenue and Financing Sources

The Fund receives the majority of its funding through appropriations from the U.S. Congress. The Fund receives two-year appropriations that may be used, within statutory limits, for operating expenses. Appropriations are recognized as revenues at the time the Fund's grants are recorded as liabilities, and when administrative expenses and provision for bad debts covered by budgetary resources are incurred.

Occasionally, the Fund receives dividends on its equity investments and may use those funds for operating expenses. Additional revenue is obtained from interest received on direct loans to the public and on uninvested funds in the direct loan financing account held by the Treasury Department.

(o) Tax Status

The Fund, as a government entity, is not subject to federal, state, or local income taxes and, accordingly, no provision for income tax is recorded.

(p) Use of Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates

(2) FUND BALANCE WITH TREASURY

Fund balance with Treasury as of September 30, 2003 and 2002 consisted of the following components:

	2003	2002
Available	$26,761,793	$6,133,006
Obligated	64,463,631	114,194,550
Expired	4,168,214	3,399,032
	$95,393,638	$123,726,588

Fund balance with Treasury includes appropriated and borrowed funds available to pay liabilities and to finance authorized award and purchase commitments.

(3) INVESTMENTS

Investments relate to capital provided to CDFI Program awardees. The Fund is prohibited from owning more than a 50 percent interest in any awardee, and controlling the operations of any awardee.

Investments consist of the following as of September 30, 2003 and 2002:

	2003	2002
Non-voting equity securities	$27,690,479	$23,590,479
Convertible debt securities	2,573,882	2,573,882
Secondary capital securities	4,200,000	3,150,000
Limited partnership interest	2,750,000	2,750,000
Certificates of deposit	790,000	890,000
Investments at cost	38,004,361	32,954,361
Unrealized losses, net		
Non-voting equity securities	(1,037,544)	(287,544)
Debt securities	(207,286)	(207,286)
Secondary capital securities	(255,170)	(255,170)
Total unrealized losses, net	(1,500,000)	(750,000)
Investments at fair value	$36,504,361	$32,204,361

Non-voting equity securities consist of non-voting common stock held in for-profit CDFI Program awardees (preferred non-voting stock is held in one awardee).

Debt securities consist of non-interest bearing convertible subordinated debentures. As of September 30, 2003 and 2002, one debenture of $2 million matures January 2048 with the option to convert into 200,000 shares of non-voting class B common stock at a $10 per share conversion price. The other debenture of $573,882 as of September 30, 2003 and 2002, matures December 2013 with an option to convert to 1,434,706 shares of non-voting class E common stock.

The Limited Partnership interest consists of a Class B limited partnership interest in Sustainable Jobs Fund, LP and three units of preferred interest in Shorebridge Capital LLC.

Secondary capital securities consist of investments that cannot be redeemed prior to scheduled redemption dates.

Certificates of deposits are investments in federal credit union awardees, and have interest rates ranging from 0 percent to 3 percent.

Investments included as current assets represent certificates of deposit that mature within the next twelve months.

(4) INTERNAL-USE SOFTWARE, NET

The components of internal-use software as of September 30, 2003 and 2002 are as follows:

	2003	2002
Internal-use software	$1,484,302	$830,105
Accumulated amortization	(198,394)	(15,978)
Internal-use software – net	$1,285,908	$814,127

Internal-use software in development represents the cost of software being developed not yet placed in service.

(5) DEBT

Debt consists of amounts borrowed from the U.S. Treasury Department and included the following activity for the years ended September 30, 2003 and 2002:

	2003	2002
Beginning balance	$25,053,861	$18,168,568
New borrowings	10,384,203	7,857,901
Repayments	(1,637,113)	(972,608)
Ending balance	$33,800,951	$ 25,053,861

The earliest principal repayment due date to Treasury is September 30, 2008.

During fiscal year 2003, the Fund borrowed $9,865,144 to finance current year direct loan commitments and $519,060 to meet annual interest payments due to the Treasury Department, at interest rates ranging from 3.54% to 6.16%, depending on maturity dates. The Fund repaid principal to the U.S. Treasury in the amount of $1,637,113. The $1,637,113 was composed of collections of direct loans receivable and a deobligation of a previous loan obligation

During fiscal year 2002, the Fund borrowed $7,448,532 to finance current year direct loan commitments and $409,369 to meet annual interest payments due to the Treasury Department, at interest rates ranging from 4.63% to 5.62%, depending on maturity dates. The Fund repaid principal to the U.S. Treasury in the amount of $972,608. The $972,608 was composed of collections of direct loans receivable and a deobligation of a previous loan obligation.

Interest expense and interest paid for the years ended September 30, 2003 and 2002 was $2,123,762 and $1,454,455, respectively.

(6) COMMITMENTS

(a) Operating Leases

The Fund leases office space from the General Services Administration in the Homer Building located in Washington, D.C. under the terms of an operating lease, which expires in January 2007. The Fund also leased equipment under the terms of an operating lease. The total operating lease expense was $1,136,997 and $810,936 for the years ended September 30, 2003 and 2002, respectively.

Future minimum payments due under these operating leases as of September 30, 2003 were as follows:

Fiscal year	Minimum lease payments
2004	$1,134,999
2005	1,137,289
2006	1,131,455
2007	307,051
	$3,710,794

(b) Award and Purchase Commitments

As of September 30, 2003 and 2002, award commitments amounted to $39,320,555 and $87,845,661, respectively. Award commitments relate to awards which were approved by Fund management but not disbursed as of the end of the year. Award commitments relating to the CDFI Program are not considered liabilities at year end because the awardees have not met the conditions required for payment. Purchase commitments were $3,711,583 and $885,829 as of September 30, 2003 and 2002, respectively. These commitments relate to the unexpired portion of contracts, and purchase orders relating to goods and services not yet received.

(7) NET POSITION

Net position as of September 30, 2003 and 2002 consisted of the following:

	2003	2002
Unexpended appropriations:		
Unobligated available	$38,025,521	$20,723,326
Unobligated expired	4,168,214	3,399,032
Undelivered orders	36,798,888	69,781,927
Total unexpended appropriations	78,992,623	93,904,285
Cumulative results of operations	38,194,419	31,875,645
	$117,187,042	$125,779,930

(8) IMPUTED FINANCING

Imputed financing represents specific expenses relating to the Fund paid for by another Federal organization. The components of imputed financing as of September 30, 2003 and 2002 are as follows:

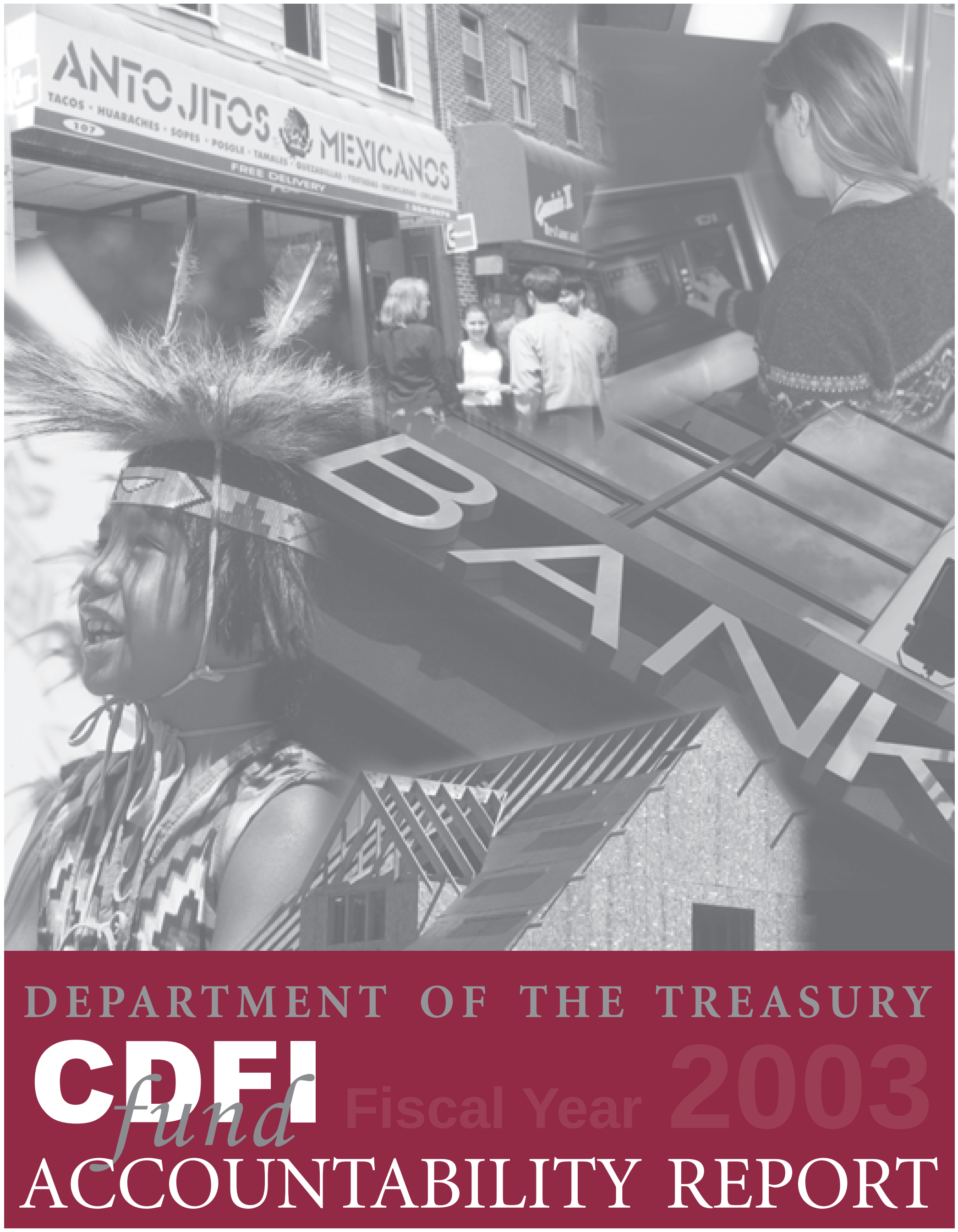
	2003	2002
Pension cost (CSRS retirement plan)	$42,488	$50,533
Pension cost (FERS retirement plan)	17,321	(477)
Health insurance (health benefits program)	176,061	171,914
Life insurance (group life insurance program)	572	606
FY 2003 audit fees	189,807	—
Ending balance	$426,249	$222,576

(9) OTHER CHANGES IN NET POSITION

Other changes in net position for the years ended September 30, 2003 and 2002 were as follows:

	2003	2002
Increase		
Appropriations received	$75,000,000	$80,000,000
Appropriation for subsidy reestimate	618,706	—
Refund of a prior year expense	50,000	—
Decrease		
Appropriation cancelled	(1,429,147)	(1,275,354)
Appropriation rescinded	(487,500)	(8,000)
Appropriation used	(81,095,907)	(99,821,360)
Downward reestimate adjustment	(643,128)	—
Total other changes in net position	$(7,986,976)	$(21,104,714)

Appendices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CDFI fund
Fiscal Year 2003
ACCOUNTABILITY REPORT

Appendix A
FY 2003 CDFI FUND AWARD AND ALLOCATION ACTIVITIES

	FA Awards		TA Awards		NA Awards[1]	
STATE	Number	Amount	Number	Amount	Number	Amount
Alabama						
Alaska						
Arizona						
Arkansas						
California	6	$4,769,500			1	$100,000
Colorado	1	$275,000	1	$50,000		
Connecticut	1	$175,000				
Delaware						
District of Columbia	2	$1,669,000	1	$50,000		
Florida	2	$1,187,000				
Georgia						
Hawaii					1	$38,191
Idaho						
Illinois	2	$2,065,000				
Indiana						
Iowa						
Kansas						
Kentucky	1	$500,000	1	$30,000		
Louisiana						
Maine						
Maryland					1	$81,000
Massachusetts	2	$735,000	1	$50,000		
Michigan						
Minnesota	1	$945,000			1	$79,450
Mississippi						
Missouri						
Montana	1	$73,500				
Nebraska					1	$100,000
Nevada						
New Hampshire						
New Jersey						
New Mexico	1	$500,000				
New York	2	$3,325,000			1	$23,500
North Carolina	3	$1,450,000				
North Dakota						

[1] *Includes amounts awarded under the Native American CDFI Development Program and the Technical Assistance Component of the CDFI Program.*

[2] *Amounts in millions. Supports this amount of equity investments.*

BEA Awards		Total Awards		Allocation of New Market Tax Credits	
Number	Amount	Number	Amount	Number	Amount[2]
		0	**$0**	1	**$40**
		0	**$0**	1	**$5**
1	$354,508	1	**$354,508**	1	**$170**
1	$660,946	1	**$660,946**		
4	$1,264,918	11	**$6,134,418**	10	**$435**
		2	**$325,000**		
		1	**$175,000**		
		0	**$0**	1	**$15**
2	$66,000	5	**$1,785,000**	3	**$213**
1	$2,141,230	3	**$3,328,230**		
1	$18,000	1	**$18,000**	1	**$22**
		1	**$38,191**		
		0	**$0**		
10	$545,903	12	**$2,610,903**	4	**$35**
8	$97,500	8	**$97,500**	2	**$6**
1	$11,250	1	**$11,250**		
		0	**$0**		
22	$424,142	24	**$954,142**	4	**$24**
		0	**$0**	2	**$160**
1	$73,500	1	**$73,500**	1	**$65**
5	$696,817	6	**$777,817**	4	**$161**
1	$322,275	4	**$1,107,275**	2	**$26**
		0	**$0**		
1	$795,969	3	**$1,820,419**	1	**$163**
1	$401,521	1	**$401,521**	1	**$15**
1	$1,077,223	1	**$1,077,223**		
		1	**$73,500**		
		1	**$100,000**		
		0	**$0**		
		0	**$0**		
1	$783,000	1	**$783,000**	1	**$15**
		1	**$500,000**		
1	$1,395,000	4	**$4,743,500**	5	**$202**
1	$91,200	4	**$1,541,200**	2	**$225**
1	$15,000	1	**$15,000**		

Appendix A *(Continued)*

FY 2003 CDFI FUND AWARD AND ALLOCATION ACTIVITIES

	FA Awards		TA Awards		NA Awards[1]	
STATE	Number	Amount	Number	Amount	Number	Amount
Ohio						
Oklahoma						
Oregon						
Pennsylvania	1	$700,000				
Puerto Rico						
Rhode Island						
South Carolina						
South Dakota			1	$40,500		
Tennessee	1	$100,000				
Texas	3	$1,150,000	1	$17,500		
Utah						
U.S. Virgin Islands						
Vermont	1	$247,050				
Virginia						
Washington	1	$500,000	1	$50,000	1	$101,800
West Virginia	1	$1,700,000				
Wisconsin	1	$900,000				
Wyoming						
Amounts Awarded to FY 2003 Funding Round Applicants	34	$22,966,050	7	$288,000	7	$523,941
Program Contracts Obligated[3]		$1,025,500[a]		$1,651,500[b]		$5,299,460[c]
Total FY 2003 Program Awards and Contracts		**$23,991,550**		**$1,939,500**		**$5,823,401**
Above Amounts Funded Using FY 2002 Funding[4]		($258,480)		($95,000)		($4,819,460)
Amounts Funded Using FY 2003 Funding		**$23,733,070**		**$1,844,500**		**$1,003,941**

[1]*Includes amounts awarded under the Native American CDFI Development Program and the Technical Assistance Component of the CDFI Program.*

[2]*Amounts in millions. Supports this amount of equity investments.*

[3]*Program contracts obligated consist of:*

[a]*training effectiveness contract;*

[b]*technical assistance effectiveness contract; and*

[c]*Native American contracts (see "Native American Initiatives" section for detail).*

[4]*Represents deobligations of FY 2002 awards used to Fund FY 2003 awards.*

BEA Awards		Total Awards		Allocation of New Market Tax Credits	
Number	Amount	Number	Amount	Number	Amount[2]
		0	**$0**	9	**$314**
		0	**$0**	2	**$130**
1	$747,351	1	**$747,351**		
		1	**$700,000**	2	**$9**
		0	**$0**		
		0	**$0**		
1	$498,774	1	**$498,774**		
3	$90,000	4	**$130,500**		
1	$30,000	2	**$130,000**	3	**$10**
1	$60,000	5	**$1,227,500**		
		0	**$0**		
		0	**$0**		
		1	**$247,050**		
1	$12,000	1	**$12,000**	1	**$15**
1	$110,365	4	**$762,165**		
		1	**$1,700,000**	1	**$4**
1	$1,097,537	2	**$1,997,537**	1	**$21**
		0	**$0**		
75	$13,881,929	123	**$37,659,920**	66	**$2,500**
	—		**$7,976,460**		
	$13,881,929		**$45,636,380**		
	—		**($5,172,940)**		
	$13,881,929		**$40,463,440**		

Appendix B

TOTAL FUND AWARDS FROM INCEPTION

STATE	FA/Core Awards	TA/SECA Awards	Native American Awards[1]	BEA Awards	Total Awards from Inception
Alabama	$145,000	$411,500	$0	$615,075	$1,171,575
Alaska	$7,912,500	$306,000	$185,250	$0	$8,403,750
Arizona	$5,400,000	$147,458	$196,000	$809,288	$6,552,746
Arkansas	$7,200,000	$100,000	$0	$4,575,223	$11,875,223
California	$39,748,114	$1,159,112	$168,566	$32,553,780	$73,629,572
Colorado	$5,772,000	$1,451,700	$70,000	$1,413,500	$8,707,200
Connecticut	$1,933,500	$285,100	$0	$56,125	$2,274,725
Delaware	$645,000	$28,000	$0	$2,459,236	$3,132,236
District of Columbia	$7,504,000	$662,700	$0	$5,274,954	$13,441,654
Florida	$14,917,000	$1,035,950	$0	$8,491,003	$24,443,953
Georgia	$1,771,000	$122,000	$0	$5,173,241	$7,066,241
Hawaii	$1,000,000	$455,800	$38,191	$913,949	$2,407,940
Idaho	$2,000,000	$200,000	$0	$0	$2,200,000
Illinois	$29,635,501	$1,056,700	$0	$24,904,370	$55,596,571
Indiana	$2,308,000	$262,500	$0	$1,481,151	$4,051,651
Iowa	$3,990,000	$265,050	$0	$508,500	$4,763,550
Kansas	$1,903,000	$200,000	$25,000	$1,336,994	$3,464,994
Kentucky	$12,841,500	$435,000	$0	$3,423,556	$16,700,056
Louisiana	$930,000	$275,000	$0	$1,934,109	$3,139,109
Maine	$9,060,000	$473,365	$0	$1,215,352	$10,748,717
Maryland	$13,065,610	$539,246	$176,040	$2,330,221	$16,111,117
Massachusetts	$16,338,600	$1,397,100	$0	$2,304,405	$20,040,105
Michigan	$4,415,000	$94,000	$50,000	$1,226,686	$5,785,686
Minnesota	$14,003,000	$455,000	$129,450	$1,359,601	$15,947,051
Mississippi	$8,877,500	$126,500	$0	$2,011,857	$11,015,857
Missouri	$660,000	$99,000	$0	$3,489,865	$4,248,865
Montana	$818,500	$350,500	$281,900	$315,962	$1,766,862

[1] *Includes amounts awarded under the Native American CDFI Development Program (FY 2003), the Technical Assistance Component of the CDFI Program (FY 2003), and the Native American CDFI Technical Assistance Component (pre-FY 1993).*

STATE	FA/Core Awards	TA/SECA Awards	NACTA Awards[1]	BEA Awards	Total Awards from Inception
Nebraska	$350,000	$245,000	$176,000	$97,832	$868,832
Nevada	$0	$225,000	$0	$11,000	$236,000
New Hampshire	$7,500,000	$52,000	$0	$1,132,000	$8,684,000
New Jersey	$8,265,000	$454,975	$0	$4,116,630	$12,836,605
New Mexico	$6,090,500	$47,000	$0	$185,705	$6,323,205
New York	$55,170,762	$3,132,280	$119,500	$41,674,230	$100,096,772
North Carolina	$20,390,000	$1,132,799	$157,450	$26,855,249	$48,535,498
North Dakota	$635,000	$0	$0	$15,000	$650,000
Ohio	$5,335,000	$722,850	$0	$3,164,050	$9,221,900
Oklahoma	$1,668,500	$0	$345,000	$2,353,680	$4,367,180
Oregon	$3,077,000	$273,000	$0	$4,444,348	$7,794,348
Pennsylvania	$29,043,533	$1,773,300	$0	$1,735,477	$32,552,310
Puerto Rico	$300,000	$115,000	$0	$0	$415,000
Rhode Island	$750,000	$389,900	$0	$0	$1,139,900
South Carolina	$500,000	$68,500	$0	$668,971	$1,237,471
South Dakota	$3,892,000	$582,000	$367,100	$562,500	$5,403,600
Tennessee	$6,515,000	$125,000	$95,000	$2,049,629	$8,784,629
Texas $11,828,300	$1,701,950	$0	$14,549,242	$28,079,492	
Utah $2,000,000	$342,500	$0	$120,000	$2,462,500	
U.S. Virgin Islands	$770,000	$0	$0	$0	$770,000
Vermont	$7,046,550	$378,000	$0	$0	$7,424,550
Virginia	$2,450,000	$886,240	$0	$23,000	$3,359,240
Washington	$5,623,000	$679,500	$363,800	$2,405,991	$9,072,291
West Virginia	$1,970,000	$269,965	$0	$0	$2,239,965
Wisconsin	$6,748,000	$293,500	$188,800	$2,774,914	$10,005,214
Wyoming	$0	$0	$139,753	$0	$139,753
TOTALS	$402,712,469	$26,284,540	$3,272,800	$219,117,451	$651,387,260

Appendix C
GLOSSARY OF TERMS

ALLOCATION (OF TAX CREDITS)

Under the New Markets Tax Credit Program, providing a Community Development Entity with the authority to give tax credits to investors in exchange for an investment in the CDE.

BANK

Any organization engaged in any or all of the various functions of banking, i.e., receiving, collecting, transferring, paying, lending, investing, dealing, exchanging, and servicing (safe deposit, custodianship, agency, trusteeship) money and claims to money both domestically and internationally. In its more specific sense, the term bank refers to institutions providing deposit facilities for the general public, including insured depository institutions. Banking institutions may be classified into two broad groups: (1) commercial banks and their central banks; and (2) noncommercial bank institutions. Included in the latter group are such institutions as savings and loan associations, mutual savings banks, and credit unions. These institutions are often referred to as thrift institutions, although commercial banks also provide savings and time deposit accounts.

BANK ENTERPRISE AWARD (BEA) PROGRAM

The Bank Enterprise Award (BEA) Program provides awards to insured depository institutions that increase their level of activities in the form of loans, investments, services, and technical assistance within distressed communities. The program also provides financial assistance to CDFIs through grants, stock purchases, loans, deposits, and other forms of financial and technical assistance. In general, an award is made based on the lender's success in certain BEA Program-qualified activities that were projected in the application for BEA funds. The BEA Program regulations are found at 12 CFR Part 1806.

COMMUNITY DEVELOPMENT ENTITY (CDE)

Community Development Entity — a duly organized entity treated as a domestic corporation or partnership for federal income tax purposes that (a) has a primary mission of serving, or providing investment capital for, Low-Income Communities or Low-Income Persons; (b) maintains accountability to residents of Low-Income

Communities through their representation on any governing board of the entity; and (c) has been certified by the Community Development Financial Institutions Fund (the Fund) of the United States Department of the Treasury.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION (CDFI)

Community Development Financial Institution — a non-governmental entity that meets the following eligibility criteria and is certified by the CDFI Fund as such: (i) it must have a primary mission of promoting community development; (ii) it must serve an eligible investment area or targeted population; (iii) its predominant business activity must be the provision of loans or certain equity investments; (iv) in conjunction with its loans or development investments, it must provide activities and services that promote community development (financial management technical assistance, financial or credit counseling, for example); and (v) it must maintain accountability to residents of the investment area or targeted population through representation on its governing board. Certain additional eligibility criteria apply if the entity is a depository institution holding company or an insured depository institution. The CDFI Fund's requirements for CDFI certification and eligibility are found at 12 CFR 1805.200.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDI) FUND

A wholly owned government corporation in the Department of the Treasury, created to promote economic revitalization and community development through investment in and assistance to CDFIs, including enhancing their liquidity. It was created by, and has the specific legal duties and responsibilities specified in, the Riegle Community Development and Regulatory Improvement Act of 1994.

DISTRESSED COMMUNITY

For the CDFI Program, a group of people living within a geographic area (or areas), including an Indian reservation, that meet certain criteria of economic distress. Determining factors include the percentage of the population living in poverty, median family income levels, unemployment rates, the percentage of occupied substandard housing, and/or the level of an area's population loss.

For the BEA Program, a group of people living within a geographic area (or areas), including an Indian reservation, that meet certain criteria of economic distress. Determining factors include the percentage of the population living in poverty and rates of unemployment.

EQUITY

The raising of capital by a corporation issuing or selling its stock (in contrast with "debt," which is the raising of capital by issuing bonds or borrowing money).

FINANCIAL SERVICES ORGANIZATION (FSO)

A financial institution that provides a variety of financial services to the public. Under the CDFI and BEA Programs, financial services are defined to include check-cashing, providing money orders and certified checks, automated teller machines, safe deposit boxes, and other comparable services to low- and moderate-income people in distressed communities or enterprises integrally involved with the distressed community.

FUNDING ROUND

Each application and award is identified with a funding round that corresponds to the year a Notice of Awards Availability (NOFA) is issued. For example, the Fund issued three NOFAs that are identified as the 1996 Round, the 1997 Round, and the 1998 Round. A round is not tied to one fiscal year or one calendar year. In other words, the Fund may make awards and obligations for a round in the fiscal year after the issuance of the NOFA, and obligations may be incurred in more than one appropriation and operating level for a given round.

HOT ZONES

Hot Zones are areas with high levels of distress (i.e., Poverty Rate of at least 20% and the Median Family Income at or below 80% of the Area Median Income, with an Unemployment Rate that is at least 1.5 times the national average. The term identifies areas of the greatest community development need, least banking services availability, and least Awardee coverage. Business Hot Zones are counties and census tracts in Metropolitan Statistical Areas (MSAs) ranked by level of unemployment, median family income, and poverty. Housing Hot Zones are counties and census tracts in MSAs ranked by median family income, poverty, and housing cost burden. Hot Zone counties and census tracts in MSAs are grouped by state. CDFI Program awards target those applicants serving Hot Zones. The request for additional funding relating to the strategic targeting of Hot Zones will take place primarily within the Small Capitalization (SECA) Component of the CDFI Program. This is due to the greater number of awards (both technical and financial assistance) that can be made to the smaller CDFIs, enabling a greater amount of CDFI presence in, and services to, Hot Zones, and the potential to grow these CDFIs into larger organizations to better serve these distressed areas.

THE NATIVE AMERICAN CDFI DEVELOPMENT (NACD) PROGRAM

The Native American CDFI Development (NACD) Program provides technical assistance grants to "sponsoring organizations," such as Tribes or entities primarily serving Native American Communities, to help create Native American CDFIs. A Native American CDFI is defined as a CDFI with greater than 50 percent of its activities directed to Native American Communities. The NACD Program is new for FY 2003 and the amount of technical assistance grants under this program are limited to $100,000.

NATIVE AMERICAN TECHNICAL ASSISTANCE (NATA) COMPONENT

The Native American Technical Assistance Component is similar to the NACD Program, the difference being that the NATA Component is limited to CDFIs and entities proposing to become CDFIs. NATA grants are provided as part of the Technical Assistance Component of the CDFI Program.

NEW MARKETS TAX CREDIT (NMTC) PROGRAM

The New Markets Tax Credit (NMTC) Program provides an allocation of tax credits to Community Development Entities (CDEs). The CDEs will in turn provide tax credits to private sector investors in exchange for their investment dollars; investments received by the CDEs will be used to make loans and equity investments in low-income communities.

QUALIFIED EQUITY INVESTMENT (QEI)

An investment in a CDE under the NMTC Program meeting the following criteria: the investment proceeds are used by the CDE to make Qualified Low-Income Community Investments (QLICIs), the CDE designates the investment as a QEI, and the investment is made by the CDE within 5 years from the date of their NMTC allocation.

QUALIFIED LOW-INCOME COMMUNITY INVESTMENT (QLICI)

1) An investment made by a CDE in, or loan to, any qualified active low-income community business; 2) the purchase from a CDE of any such loan; 3) financial counseling and other services to businesses in, and residents of, low-income communities; and 4) any equity investment in, or loan to, any CDE.

TECHNICAL ASSISTANCE

Activities that enhance the capacity of an organization to carry out its business and purpose, such as training of management and other personnel; developing programs and loan or investment loan products; improving financial management and internal operations; and enhancing an organization's community impact.

UNDERSERVED COMMUNITY

These communities include the following:

1) A specific geographic area called an Investment Area;
2) A specific community of people with demonstrated lack of access to credit, equity or financial services called a Targeted Population);
3) Hot Zones, the most economically distressed subset of Investment Areas;
4) Low-Income Communities under the NMTC Program; and
5) Distressed Communities under the BEA Program.

Many Native American Communities also qualify as underserved communities. "Native American Communities" are defined as any Native American, Alaska Native or Native Hawaiian populations, lands or Census-equivalent entities, with the exception of State or Tribal Designated Statistical Areas.

UNDERSERVED MARKETS

A distressed community or a group of people or entities, not necessarily in one geographic area, that meets the CDFI Fund's criteria of economic distress (see Distressed Community above).

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