



## **FY 2019 CDFI Program and NACA Program Base-Financial Assistance Application Evaluation Process**

### **Introduction**

This document details the evaluation process for all Base-Financial Assistance (Base-FA) applications received under the Fiscal Year (FY) 2019 CDFI Program and NACA Program funding rounds. Capitalized terms not defined herein shall have the meaning specified in the applicable FY 2019 Notice of Funds Availability (NOFA).

FA Awards include the Base-FA award and the following awards that are provided as a supplement to the Base-FA award: Persistent Poverty Counties Financial Assistance (PPC-FA), Healthy Food Financing Initiative-Financial Assistance (HFFI-FA), and Disability Funds-Financial Assistance (DF-FA). The PPC-FA, HFFI-FA, and DF-FA Applications will be evaluated independently from the Base-FA Application, and will not affect the Base-FA Application evaluation or Base-FA award amount.

The evaluation process described below is outlined in the FY 2019 NOFAs and is governed by the CDFI Program regulations (12 C.F.R. 1805 and 1815). Details regarding the FA Application content and requirements for Base-FA and supplemental awards can be found in the NOFA and related guidance materials and should be used in conjunction with this document. The evaluation process differs from previous years to reflect updates in the NOFA and Application for FY 2019.

The CDFI Fund reserves the right to modify these policies and procedures in future funding rounds, consistent with requirements specified in the applicable NOFA and related Application Materials.

### **Reviewers**

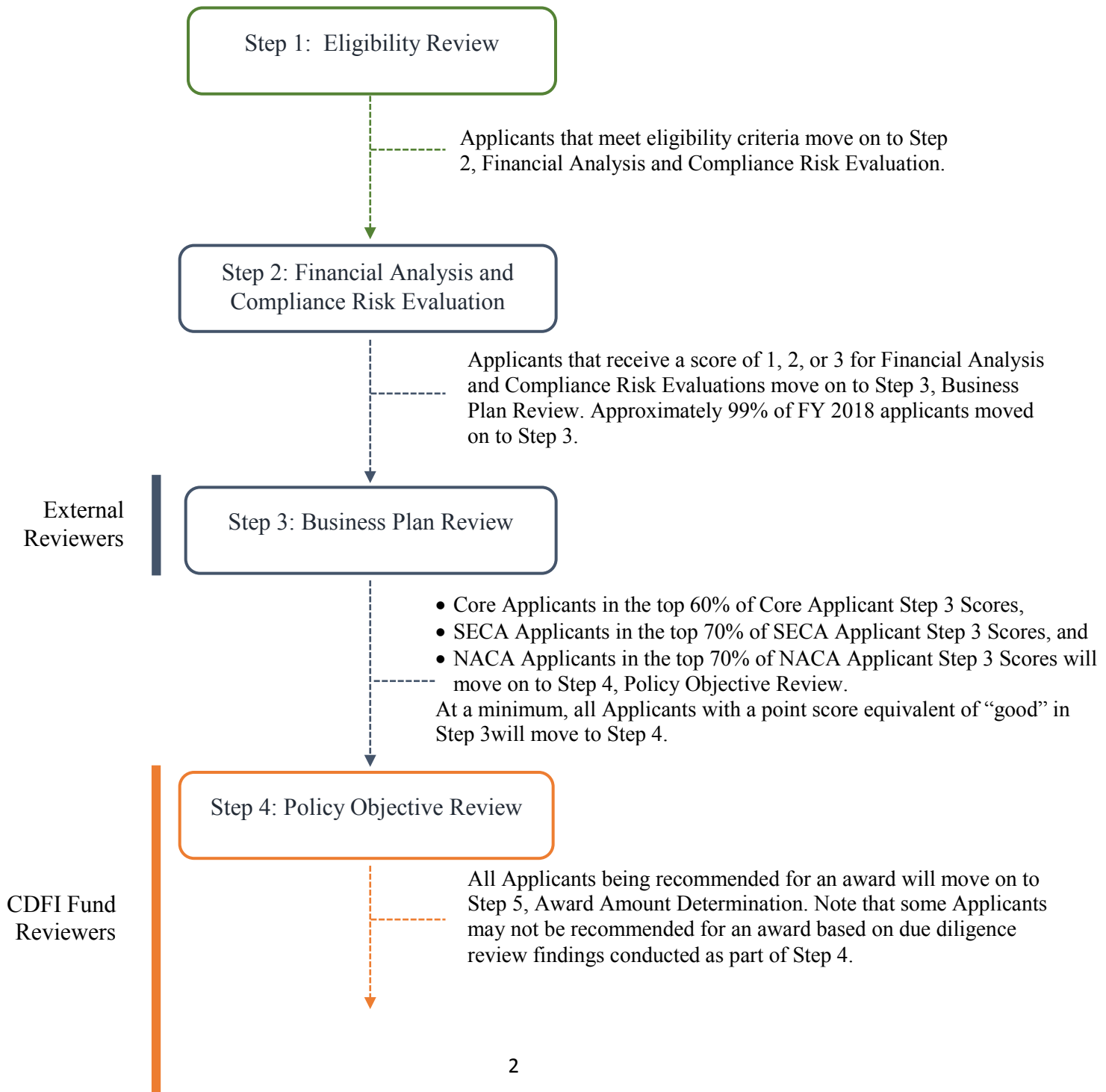
The CDFI Fund uses a combination of CDFI Fund staff and external reviewers for the evaluation of the Base-FA Application. External reviewers will independently review and evaluate each application. The external reviewers include private sector professionals with strong credentials in community development finance. They are selected based on factors such as their knowledge of community and economic development finance and experience in business or real estate finance, mortgage finance, business counseling, secondary market transactions, banks, credit unions, Native Communities, and financing of community-based organizations. All reviewers, including CDFI Fund staff, must complete the CDFI Fund's conflict of interest process and be approved by the CDFI Fund.

### **The Evaluation Process**

The application evaluation and award selection process includes five steps (discussed in detail below):

- Step 1: **Eligibility Review**, conducted by CDFI Fund staff.

- Step 2: **Financial Analysis and Compliance Risk Evaluation**, conducted by the Application Assessment Tool (AAT) and CDFI Fund staff.
- Step 3: **Business Plan Review**, conducted by external reviewers and overseen by CDFI Fund staff.
- Step 4: **Policy Objective Review**, conducted by CDFI Fund staff.
- Step 5: **Award Amount Determination**, conducted by CDFI Fund staff.



### Step 5: Award Amount Determination

An award amount is determined based on the Step 4 Score and additional variables including the Applicant's deployment capacity, track record, minimum available award size, and funding availability.

### **Step 1: Eligibility Review**

The CDFI Fund evaluates each Application to determine if it meets the eligibility requirements listed in the CDFI Program NOFA or NACA Program NOFA. Certain eligibility requirements are assessed automatically through the CDFI Fund's Awards Management Information System (AMIS). CDFI Fund staff conduct a follow-up eligibility review on all Applications to ensure that all eligibility requirements are met. Applicants are not scored during this review but are unable to proceed if deemed ineligible during this step. All Applicants deemed eligible proceed to Step 2.

### **Step 2: Financial Analysis and Compliance Risk Evaluation**

Step 2 contains two components: Financial Analysis and Compliance Risk Evaluation. For unregulated entities, the CDFI Fund evaluates these two components of each Application using financial and compliance information provided by the Applicant. The initial evaluation is done by an automated tool developed by the CDFI Fund, the Application Assessment Tool (AAT), and, in some cases, additional review is conducted by CDFI Fund staff to ensure accuracy.

For each Insured Depository Institution Applicant, financial information provided by Insured Depository Institution Applicants will not be used by the AAT. Instead, the CDFI Fund uses the CAMELS/CAMEL rating, or other feedback, from the Applicant's respective regulator as its Step 2 Financial Analysis score. However, the Compliance Risk Evaluation for Insured Depository Institution Applicants will be evaluated using the AAT.

The intent of the Financial Analysis is not to significantly limit the number of Applicants applying for FA, but rather to ensure that, at a minimum, Applicants applying for FA are capable of maintaining financial health and complying with the terms and conditions of the requested FA award throughout the performance period.

The AAT produces a Total Financial Composite Score using twenty-three (23) financial indicators and a Total Compliance Composite Score using responses to the compliance questions in the Application. The CDFI Fund chose the financial and compliance metrics to measure financial and compliance performance reliably, comprehensively, and with limited reporting burden for Applicants. Both the Total Financial Composite Score and Total Compliance

Composite Score are on a scale of one (1) to five (5) rating, with 1 being the highest score possible. Applicants must receive a score of one (1), two (2), or three (3) in both the financial and compliance components of the AAT to progress to Step 3: Business Plan Review.

If an Applicant receives an AAT Total Financial Composite Score or Total Compliance Composite Score of four (4) or five (5), the CDFI Fund staff will conduct a manual review to confirm or adjust the score based on standard evaluation guidance. If the score remains four (4) or five (5) after CDFI Fund staff review, the Applicant will not advance to the next step.

**Financial Analysis Evaluation**

The AAT uses twenty-eight (28) financial inputs from each Applicant to calculate twenty-three (23) financial indicators, which collectively assess an Applicant’s assets, liability, net asset composition, revenue, expense, cash flow, and trends in performance over time. Each financial indicator belongs in one or more of the following financial risk categories:

- Capital Adequacy
- Asset Quality
- Earnings
- Capital Liquidity
- Operating Liquidity

The categories above generally conform to the CAMELS rating system, with the exception of the management evaluation, which is conducted in Step 3.

Applications will be grouped based on the Total Financial Composite Score. Applicants must receive a Total Financial Composite Score of one (1), two (2), or three (3) to advance to Step 3. Applicants that receive an initial Total Financial Composite Score of four (4) or five (5) will be re-evaluated and re-scored by CDFI Fund staff. If the Total Financial Composite Score remains four (4) or five (5) after CDFI Fund staff review, the Applicant will not advance to Step 3.

**A Note about Regulated Applicants**

To advance to Step 3, each Insured Depository Institution Applicant must have a CAMELS/CAMEL rating (rating for banks and credit unions, respectively), by its Federal regulator of at least “3”. Organizations with CAMELS/CAMEL ratings of “4 or 5” are not eligible for awards. The CDFI Fund will also evaluate materials concerns identified by the Appropriate Federal Banking Agency in determining eligibility of Insured Depository Institution Applicants.

<b>Table 1. Step 2: Financial Analysis Scoring Criteria</b>		
<b>Application Assessment Tool (AAT)</b>		
<b>AAT Ratio Name</b>	<b>AAT Ratio Formula</b>	<b>Possible Scores</b>

<b>Table 1. Step 2: Financial Analysis Scoring Criteria</b>		
<b>Application Assessment Tool (AAT)</b>		
		<b>(High Score =1)</b>
Annual Net Loan Loss Ratio	$(\text{Charge-offs } (\$) - \text{Recoveries } (\$)) / (\text{Total Equity Investments Portfolio } (\$) + \text{Total OnBalance Sheet Loan Portfolio } (\$))$	1, 2, 3, 4, or 5
Delinquency Ratio	$(\text{Loans Delinquent 61 to 90 days } (\$) + \text{Loans 90 Days (or more) Past Due } (\$)) / (\text{Total Equity Investments Portfolio } (\$) + \text{Total OnBalance Sheet Loan Portfolio } (\$))$	1, 2, 3, 4, or 5
Loan Loss Reserve Ratio	$\text{Allowance for Loan and Lease Losses } (\$) / (\text{Total Equity Investments Portfolio } (\$) + \text{Total OnBalance Sheet Loan Portfolio } (\$))$	1, 2, 3, 4, or 5
Portfolio at Risk Ratio (PAR)	$(\text{Loans 90 Days (or more) Past Due } (\$) + \text{Other Real Estate Owned (OREO) } (\$) + \text{Troubled Debt Restructuring } (\$)) / (\text{Total Equity Investments Portfolio } (\$) + \text{Total OnBalance Sheet Loan Portfolio } (\$))$	1, 2, 3, 4, or 5
Change in Portfolio at Risk Ratio	$(\text{PAR} - \text{PAR (Prior)}) / \text{PAR (Prior)}$	1, 2, 3, 4, or 5
Net Asset Ratio	$\text{Total Net Assets or Equity } (\$) / \text{Total Assets } (\$)$	1, 2, 3, 4, or 5
Change in Net Asset Ratio	$(\text{Net Asset Ratio} - \text{Net Asset Ratio (Prior)}) / \text{Net Asset Ratio (Prior)}$	1, 2, 3, 4, or 5
Total Assets	$\text{Total Assets } (\$)$	1, 2, 3, 4, or 5
Change in Total Assets	$(\text{Total Assets} - \text{Total Assets (Prior)}) / \text{Total Assets (Prior)}$	1, 2, 3, 4, or 5
Unrestricted Net Asset Ratio	$\text{Unrestricted Net Assets } (\$) / \text{Total Assets } (\$)$	1, 2, 3, 4, or 5
Income Ratio	$\text{Total Revenue } (\$) / \text{Total Expenses } (\$)$	1, 2, 3, 4, or 5
Interest Coverage Ratio	$\text{Interest Revenue } (\$) / \text{Interest Expense } (\$)$	1, 2, 3, 4, or 5
Interest Coverage Ratio II	$(\text{Operating Revenue } (\$) - (\text{Operating Expenses } (\$) - \text{Interest Expense } (\$))) / \text{Interest Expense } (\$)$	1, 2, 3, 4, or 5
Change in Net Income	$(\text{Net Income} - \text{Net Income (Prior)}) / \text{Net Income (Prior)}$	1, 2, 3, 4, or 5
Reliance on Government Funding Ratio	$\text{Government Grants } (\$) / \text{Total Revenue } (\$)$	1, 2, 3, 4, or 5
Self-Sufficiency Ratio	$\text{Earned Revenue } (\$) / \text{Operating Expenses } (\$)$	1, 2, 3, 4, or 5
Change in Self-Sufficiency Ratio	$(\text{Self-Sufficiency Ratio} - \text{Self-Sufficiency Ratio (Prior)}) / \text{Self-Sufficiency Ratio (Prior)}$	1, 2, 3, 4, or 5

<b>Table 1. Step 2: Financial Analysis Scoring Criteria</b>		
<b>Application Assessment Tool (AAT)</b>		
Financing Capital Liquidity Ratio	Available Financing Capital (\$) / Commitments (\$)	1, 2, 3, 4, or 5
Current Ratio	Current Assets (\$) / Total Current Liabilities (\$)	1, 2, 3, 4, or 5
Deployment Ratio	(Total Equity Investments Portfolio (\$) + Total OnBalance Sheet Loan Portfolio (\$)) / Total Financing Capital (\$)	1, 2, 3, 4, or 5
Change in Deployment Ratio	(Deployment Ratio - Deployment Ratio (Prior))/ Deployment Ratio (Prior)	1, 2, 3, 4, or 5
Operating Cash Ratio	(Unrestricted Cash & Cash Equivalents (\$) + Cash Restricted for Operations (\$)) / (Total Expenses (\$) - Non-cash Expenses (\$))	1, 2, 3, 4, or 5
Operating Cash Ratio II	(Unrestricted Cash & Cash Equivalents (\$) + Cash Restricted for Operations (\$)) / Operating Expenses (\$)	1, 2, 3, 4, or 5
<b>Total Financial Composite Score</b>	Automatically calculated based on the score for each ratio above.	1, 2, 3, 4, or 5
<b>Total Financial Composite Score Needed to Advance</b>		1, 2, or 3

**Compliance Risk Evaluation**

To produce a Total Compliance Composite Score, the AAT uses responses provided by each Applicant in the compliance questions, as well as an Applicant’s reporting history, reporting capacity, and performance risk with respect to the CDFI Fund’s Performance Goals and Measures (PG&Ms). The purpose of this evaluation is to ensure Applicants do not have major internal management or compliance concerns.

Each Application will receive a Total Compliance Composite Score on a scale of one (1) to five (5), with one (1) being the highest rating. Applicants must receive a Total Compliance Composite Score of one (1), two (2), or three (3) to advance to Step 3. Applicants that receive an initial Total Compliance Composite Score of four (4) or five (5) will be re-evaluated by CDFI Fund Staff. If the Applicant is deemed a high compliance risk after CDFI Fund Staff review, the Applicant will not advance to Step 3.

**Step 3: Business Plan Review**

The intent of Step 3 is to ensure that each Applicant’s comprehensive business plan is sound and achievable. Step 3 is conducted by two external, non-CDFI Fund reviewers who are experts in community development finance.

Reviewers use application information to assess and score each component of the Business Plan using the general guidance in Table 2 below. Reviewers are provided with the application questions (and data inputs) where relevant information may be found. A total score is calculated based on the reviewer’s analysis of the sections listed in Table 3 below. Each reviewer analyzes

the applications independently. The two reviewer total scores will be used to calculate a Total Business Plan Review Score. In the instance where the two scores differ significantly, a CDFI Fund staff member will review the variance and request reviewers to provide further justification, address any errors or omissions, and/or revisit their evaluation in any relevant areas.

Base-FA Applications will be grouped first by category (SECA, Core, or NACA), then ranked based on Total Business Plan Scores, in descending order. The CDFI Fund then determines which Applicants advance to Step 4 within each category, as described below:

- **Core Applicants:** In order to advance to Step 4, Core Applicants must receive a Total Business Plan Score that is either (i) equal to receiving a point score equivalent to “Good” on a ranking scale of Excellent, Good, Fair, Limited or Poor, in each section listed in Table 2 below or (ii) receive a score within the top 60 percent of the Core applicant pool. The CDFI Fund will use whichever score is greater of (i) or (ii).
- **SECA Applicants:** In order to advance to Step 4, SECA Applicants must receive a Total Business Plan Score that is either (i) equal to receiving a point score equivalent to “Good” on a ranking scale of Excellent, Good, Fair, Limited or Poor, in each section listed in Table 2 below or (ii) within the top 70 percent of the SECA applicant pool. The CDFI Fund will use whichever score is greater of (i) or (ii).
- **NACA Applicants:** In order to advance to Step 4, NACA Applicants must receive a Total Business Plan Score that is either (i) equal to receiving a point score equivalent to “Good” on a ranking scale of Excellent, Good, Fair, Limited or Poor, in each section listed in Table 2 below or (ii) within the top 70 percent of the NACA FA applicant pool. The CDFI Fund will use whichever score is greater of (i) or (ii).

In the case of tied Total Business Plan Scores that would prevent an Applicant from moving to Step 4, all Applicants with the same score will progress to Step 4.

Per the FY 2019 NOFA, the CDFI Fund may consider the geographic diversity of Applicants when making its funding decisions. For the FY 2019 funding round, the CDFI Fund will perform a geographic proportionality check after Step 3, and will add Applications to the Step 4 pool to ensure proportionality between the applicant pool and award finalist pool. No Applications that qualify for Step 4 are removed during this process.

<b>Table 2: Step 3 Business Plan Reviewer Criteria</b>	
<b>Base-FA Application Section</b>	<b>Reviewer Question</b>
Business Strategy	1. Do the Applicant's strategic goals support its overall mission and its FA objective(s)?
	2. Does the Applicant identify risks and weaknesses that would prevent it from implementing its strategic goals and FA Objective(s)? Does the Applicant demonstrate an understanding of these risks and propose feasible contingencies to mitigate the risks and improve the areas of weakness?
Market and Competitive Analysis	3. How well does the Applicant understand its competitive environment? Does the Applicant demonstrate that it understands the market demand for its products and services?
Products and Services	4. Do the Applicant's current and/or proposed products and services meet the identified needs of the communities and populations it serves or is proposing to serve?
	5. Does the Applicant's FA Objective(s) address the identified needs of the communities and populations it serves or is proposing to serve?
Management and Track Record	6. Does the Applicant demonstrate that its management and key staff have the expertise and track record to achieve its strategic goals?
	7. Does the Applicant have the necessary financial policies, procedures, and controls in place to achieve its strategic goals and FA Objective(s)?
Growth and Projections	8. To what extent does the Applicant demonstrate, through its strategic plan and historic activity, that it can achieve its proposed growth goals and its FA Objective(s)?

<b>Table 3. Step 3: Business Plan Review Scoring Criteria</b>		
<b>Base-FA Application Section</b>	<b>Points Possible</b>	<b>Score Needed to Advance</b>
Executive Summary	Not Scored	N/A
Business Strategy	12	N/A
Products and Services	12	N/A
Management and Track Record	12	N/A
Market and Competitive Analysis	7	N/A
Growth and Projections	7	N/A



<b>Table 3. Step 3: Business Plan Review Scoring Criteria</b>		
<b>Total Business Plan Review Score</b>	<b>50</b>	<p><b>The higher of (1) or (2):</b></p> <p><b>(1) Total Business Plan Score equal to receiving a point score equivalent to a “Good” out of a ranking scale in descending order of Excellent, Good, Fair, Limited or Poor</b></p> <p><b>OR</b></p> <p><b>(2) CORE Applicants: Within Top 60 percent of all CORE Applicant Step 3 Scores</b></p> <p><b>(2) SECA Applicants: Within Top 70 percent of all SECA Applicant Step 3 Scores</b></p> <p><b>(2) NACA FA Applicants: Within Top 70 percent of all NACA FA Applicant Step 3 Scores</b></p>

**Step 4: Policy Objective Review**

The Step 4 Policy Objective Review is conducted by CDFI Fund staff to evaluate the ability of the Applicant to meet the policy objectives of the CDFI Fund’s authorizing statute listed in Table 4. In addition to the Policy Objective analysis, the CDFI Fund also conducts a due diligence review on all Applications that includes but is not limited to, an analysis of: the FA Objective(s); history of performance in managing Federal awards (including timeliness of reporting and compliance); reports and findings from audits; and the Applicant’s ability to effectively implement Federal requirements, each of which could impact the Total Policy Objective Composite Review Score (described below) and award recommendation. Each Applicant is scored according to the section scores listed in Table 5 and receives a Total Policy Objective Review Composite Score on a scale of one (1) to five (5), with one (1) being the highest score. Applicants are then grouped according to Total Policy Objective Review Composite Scores. The general intent of Step 4 is to measure the extent of each Applicant’s impact within the communities it serves and to conduct a due diligence review.

All Step 4 Applicants that are being recommended for an award will advance to Step 5 of the

review process. Note that some Step 4 Applicants may not be recommended for an award based on the due diligence review conducted in Step 4 and will therefore not advance to Step 5.

**Table 4. Step 4: Policy Objective Review Criteria**

<b>Policy Objective</b>	<b>General Reviewer Guidance</b>
<p><b>Economic Distress</b>  <i>12 USC § 4706 (a)(4): the extent of economic distress within the investment areas or the extent of need within the targeted populations, as those factors are measured by objective criteria</i></p>	<ol style="list-style-type: none"> <li>1. To what extent are the communities and populations being served economically distressed based on beneficiary income data provided in the application?</li> <li>2. To what extent does the Applicant demonstrate that it serves communities and populations experiencing economic distress?</li> </ol>
<p><b>Economic Opportunities</b>  <i>12 USC § 4706 (a)(8): the extent to which the proposed activities will expand economic opportunities within the investment areas or the targeted populations</i></p>	<ol style="list-style-type: none"> <li>1. Does the Applicant demonstrate that the activities related to its FA Objective(s), strategic goals, and other products or services will result in the meaningful and quantifiable expansion of economic opportunities for communities and populations it serves?</li> </ol>
<p><b>Community Collaboration</b>  <i>12 USC § 4706 (a)(12): the extent to which the Applicant will increase its resources through coordination with other institutions or participation in a secondary market</i>            (Note: This is not an assessment of whether or not an Applicant has formal Community Partnerships, but an assessment of how the Applicant works with other organizations generally to achieve outcomes.)</p>	<ol style="list-style-type: none"> <li>1. To what extent does the Applicant collaborate and partner with other entities to achieve impacts in the communities it serves?</li> <li>2. On the basis of data provided in the application financial data records and narrative response, to what extent is the Applicant intentionally operating and/or investing in designated Qualified Opportunity Zones?</li> </ol>

<b>Table 5. Step 4: Policy Objective Review Scoring Criteria</b>			
<b>Policy Objective</b>	<b>Possible Scores</b>	<b>Highest Score</b>	<b>Score Need to Advance</b>
Economic Distress	1, 2, 3,4, 5	1	N/A
Economic Opportunities	1, 2, 3,4, 5	1	N/A
Community Collaboration	1, 2, 3,4, 5	1	N/A
<b>Total Policy Objective Review Composite Score</b>	1, 2, 3, 4, 5	1	<b>All scores advance to Step 5</b>

**Step 5: Award Amount Determination**

In Step 5, the CDFI Fund determines an award amount for each Application based on a number of variables including, but not limited to, the Step 4 Total Policy Objective Review Composite Score, the Applicant’s requested amount, the Applicant’s deployment track record, minimum award size, and funding availability. Award amounts may be reduced from the requested award amount as a result of this analysis. Lastly, the CDFI Fund may consider the geographic diversity of Applicants when making its funding decisions.