

# CARS™

Comprehensive ratings for CDFI investments.

## CARS™ On the Road



CARS™, the CDFI Assessment and Rating System, is a comprehensive, third-party analysis of community development financial institutions that aids investors and donors in their investment decision making. This document provides a detailed overview of the CARS™ methodology and process to date. CARS™ On the Road—Edition 6 is an updated version of the original CARS™ On the Road, which was distributed in October 2004.

# CARS™

Comprehensive Ratings for CDFI Investments.

## Ben Bernanke says:

“CARS™ gathers data to evaluate a CDFI’s overall creditworthiness and effectiveness in using its financial resources to achieve its development objectives. A CDFI is rated for its financial strength and performance in the areas of capital, assets, management, earnings, and liquidity, in a manner **broadly analogous to the way a supervisory agency would rate a commercial bank**. The financial analysis is supplemented by an evaluation of how well the CDFI is fulfilling its mission, including an assessment of its procedures for tracking the outcomes of its work...Although still in its early stages, this initiative, if successful, will have the double benefit of attracting more funds into community development and helping to ensure that those funds are effectively used.”

*Ben Bernanke*

Federal Reserve Board Chairman

## And here’s what investors are saying about CARS™:

“JPMorgan Chase is committed to providing financing in low-income communities through CDFIs. Our partnerships with CDFIs allow the Bank to reach markets and borrowers it could not otherwise serve. CARS™ is an indispensable tool in our decision making. It reduces the time and costs of our underwriting and helps us make more informed decisions. We also see CARS™ as an important tool in increasing the CDFI industry’s access to the capital markets. We actively encourage all our CDFI partners to become CARS™ rated.”

*Dudley Benoit*

**JPMorganChase** 

“We use CARS™ to help us evaluate opportunities and monitor our lending to CDFIs. We appreciate that CARS™ emphasizes performance as the primary criterion for making investments in CDFIs and has introduced standardization in reporting and analysis. We also find that CARS™ reports increase our underwriting efficiency and reduce the volume of new reporting that CDFIs must prepare for us.”

*Daniel Letendre*

**Bank of America** 

“CARS™ reports are an indispensable part of the due diligence process for our program related investments to CDFIs. We get a level of analytic depth and detail that allows the Foundation to reduce costs associated with our due diligence process. We always encourage the CDFIs in which we invest to be rated through CARS™ and in some cases have required it as a capacity building tool.”

*Christa Velasquez*

**The Annie E. Casey Foundation**

“Trillium strongly encourages any domestic CDFI we are looking at to get CARS™ rated. When we look at CDFI loan funds, we look to CARS™ ratings reports to augment our own risk assessment and due diligence process. A CDFI that goes through the rigorous CARS™ ratings process makes a commitment to transparency. That is important to us and to our clients.”

*Randy Rice*

 **TRILLIUM**  
ASSET MANAGEMENT™

## **CARS™ On the Road: Edition 6**

"The CARS™ analyses are very professional and remind me of standard corporate ratings."  
*Anonymous CARS™ subscriber*

### **What Rated CDFIs Are Saying About CARS™**

"The analysts were great, very professional, and did a fantastic job. They focused on the Community First Fund and analyzed us on our own merits, without comparing us against other CDFIs. It was a very intense process and, overall, a good experience."

*Dan Betancourt*  
**Community First Fund**

"The CARS™ analysis was the most intensive and in-depth external analysis ever done of The Reinvestment Fund. The analysts really dug deep to understand our complex financial structure and theory of business. It was a helpful process for us and our investors are already using our CARS™ rating and analysis as they structure new deals with us."

*Mike Crist*  
**The Reinvestment Fund**

"To everyone involved in the CARS™ rating process, we would like to say thanks. This is a daunting process but a valuable one. As we see it, the real advantage of obtaining a CARS™ rating is that it pushes our agency to a higher level of discipline and internal analysis. It also allows us the opportunity to undergo a rigorous review by a highly qualified third party that understands the intricacies of a successful CDFI. This is very meaningful to the THF staff and Board."

*Loretta Owens*  
**The Housing Fund**

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### FOREWARD

*CARS™ on the Road—Edition 6* is a detailed overview of the CDFI Assessment and Rating System (CARS™) as it is being applied to community development financial institutions (CDFIs). This edition reflects the most current CARS™ practices.

For a complete list of rated CDFIs and CARS™ subscribers please visit [www.CARSratingsystem.net](http://www.CARSratingsystem.net).

We regularly seek feedback from the investors receiving our Ratings Reports, the CDFIs being rated, the CARS™ Advisory Board (see attachment 1), and the analysts conducting the ratings analyses to strengthen the ratings process and enhance the benefits of CARS™. Their suggestions have been invaluable, contributing to improvements in the CARS™ process and methodology. The overall response to CARS™ has been resoundingly positive. Subscribers use CARS™ to identify new investment opportunities and augment their due diligence, reducing the time they spend on the due diligence process, thereby reducing transaction costs. Both CDFIs and investors have repeatedly praised the high quality of the final documents and the professionalism of the analysts. We will maintain our high standards as we continue to rate CDFIs.

CARS™ encourages you to send comments and suggestions about the content of this document to us at [info@CARSratingsystem.net](mailto:info@CARSratingsystem.net). Thanks in advance for your input.

We would also like to thank our funders and subscribers, as well as all of the CDFIs that have participated in the ratings process.

Paige Chapel, CARS™

## PURPOSE OF CARS™

The purpose of CARS™ is **to increase the amount of capital available to community development financial institutions (CDFIs) for community development purposes and to promote CDFI performance as a primary criterion determining the flow of capital through these institutions to economically disadvantaged people.**

Community investors use CARS™ analyses to augment their due-diligence process and to identify new investment opportunities. Some have inserted covenants in loan agreements with rated CDFIs that refer to maintaining their CARS™ rating. Others are using CARS™ to make their underwriting process more efficient.

The CARS™ ratings methodology is designed for nondepository CDFIs that have a significant majority of their assets invested in loans (as opposed to real estate, equity, or equity-like investments) and have at least five years of financing history. When we refer to CDFIs in the remainder of this manual, we are referring specifically to nondepository CDFIs with a significant majority of their assets invested in debt instruments.

We believe that over time, CARS™ can increase and facilitate the flow of capital to CDFIs, provide the industry with greater credibility and transparency, and help CDFIs improve their performance to have an even greater impact on disadvantaged communities and help investors save time and make smarter investment decisions. We believe that increased CDFI transparency through widespread implementation of CARS™ will benefit the CDFI industry in the following ways:

- **Facilitate investments and grants by existing CDFI investors and donors.** Investors already use the ratings analyses to focus and augment their underwriting, thereby increasing the efficiency of their due diligence process. Some investors also specifically seek new investment opportunities among CARS™-rated CDFIs.
- **Attract new investors and funders to the CDFI industry.** Prior to CARS™, no source of up-to-date analytical information on CDFIs existed to allow potential investors to easily assess and compare the anticipated risk and social return of their CDFI investments. Investors that may be unwilling or unable to underwrite individual CDFIs themselves (such as individual socially responsible investors, some religious pension funds, etc.) can use the CARS™ analyses to help make their investment decisions.
- **Promote alignment of capital with financial and program performance.** To increase the impact of CDFIs in disadvantaged communities, capital should flow to those CDFIs that most efficiently and effectively use resources to achieve their mission.
- **Help CDFIs improve their performance by providing a third-party assessment of their operations and performance.** Rated CDFIs have indicated that the process has been very helpful to them, enabling them to see their own CDFI from a different perspective. Rated CDFIs learn about their own strengths and weakness and are motivated to address their weaknesses to achieve a higher rating.

## CARS™ On the Road: Edition 6

- **Promote standardization of information and industrywide performance standards.** Unregulated CDFIs are difficult to analyze because they present their financial and other information in many different ways. The ratings process is helping move CDFIs toward more standard presentations of information. Furthermore, the assignment of ratings will promote the establishment of performance benchmarks for the industry.
- **Help prepare CDFIs for the capital markets.** Some CDFIs are actively trying to access the capital markets and have explored the possibility of obtaining a rating from a Wall Street firm. While a CARS™ rating is not a Wall Street rating, the CARS™ process, over the long run, can help the rating agencies understand CDFIs and help CDFIs prepare for an eventual Wall Street rating or other transactions with the financial markets.

## THE CARS™ RATINGS AND SCALE

A CARS™ analysis includes two ratings, approximately 50 pages of analysis, financial spreads, key ratios, and a peer comparison. (See attachment 7 for an outline of a full CARS™ analysis.) CDFIs are rated on impact performance and on financial strength and performance. As described in this section, the impact performance analysis also recognizes commitment to and leadership in the area of policy change by awarding some CDFIs the “Policy Plus.” The analysis behind the ratings is explained in more detail later in this document.

### Impact Performance

The impact performance rating is an assessment of how well the CDFI does what it says it is trying to do. This rating is based on an assessment of the CDFI’s effective use of its financial resources to achieve its stated mission and the CDFI’s own evidence of how its activities contribute to its mission. The impact performance rating does *not* rate the amount of impact the CDFI is having. The assessment is based on four key criteria:

- **Alignment of strategy and operations:** how well the CDFI’s mission, strategies, products and services, output data, and impact data are tied together.
- **Effective use of financing resources:** how well the CDFI uses its financing resources in support of its mission and target population.
- **Tracking of outputs that show effectiveness:** how well the CDFI tracks its own relevant outputs (activities such as loans disbursed, participants trained, etc.), whether those data indicate that the CDFI is accomplishing its goals, and how the CDFI uses those data to improve its effectiveness.
- **Tracking of outcomes or impacts that indicate effectiveness:** how well the CDFI tracks the actual outcomes of its work for disadvantaged people and communities (such as jobs actually created, housing units occupied by low-income families, improved community conditions), whether those data indicate that the CDFI is benefiting disadvantaged people and communities, and how the CDFI uses those data to improve its effectiveness.

The Ratings Committee scores each of these areas on a scale of 1 to 3, with 1 being best. Using those scores and the full analysis as a guide, the Committee assigns the impact performance rating based on which of the following descriptions best fits the CDFI:

**AAA.** A CDFI in this group has clear alignment of mission, strategies, activities, and data that guides its programs and planning. The CDFI presents data that clearly indicate that it is using its resources effectively to achieve positive impacts related to its mission. It has processes and systems that track output and outcome data on an ongoing basis, and it can provide data showing positive changes in the communities or populations being served. This CDFI uses its data on an ongoing basis to adjust strategies and activities in line with its desired impact.

**AA.** A CDFI in this group has clear alignment of mission, strategies, activities, and data that guides its programs and planning. It accurately tracks appropriate output data that indicate that it is using its resources effectively to benefit its target populations or communities in line with its mission. The CDFI uses its data on an ongoing basis to adjust strategies and activities in accordance with its desired impact. It may track a limited number of impact indicators as well, but impact data tracking may not be rigorous or consistent.

**A.** A CDFI in this group has reasonable strategies and activities given its mission. It tracks basic output data that indicate fairly effective use of its resources to benefit its target populations or communities in line with its mission.

**B.** A CDFI in this group may lack alignment of its mission, strategies, activities, and data. Either the CDFI lacks data to form an opinion of its outputs and impacts or the data show that the outputs and impacts are unsatisfactory. This CDFI may also have a history of not

using its financial resources fully to serve its target populations or communities.

**Policy Plus (indicated by a “+”)**

Policy change is an integral part of this CDFI’s strategies. The CDFI leads initiatives to change government policy to benefit the community development finance industry or disadvantaged people and communities. The CDFI can provide evidence of its leadership role in recent policy changes that produced benefits beyond additional resources for the CDFI itself, and management can clearly articulate the CDFI’s leadership role in current policy activities.

**Financial Strength and Performance**

The rating for financial strength and performance (FSP) is an assessment of the CDFI’s overall creditworthiness. This rating is based on an analysis of past financial performance, current financial strength, and apparent risk factors. The methodology is based on the CAMEL analysis used by regulators to rate banks. CAMEL stands for capital (or capitalization); asset quality; management (including strategy, governance, management and staff, and infrastructure and management information systems); earnings; and liquidity.

The Ratings Committee scores the CDFI in each one of these areas on a scale of 1 to 5, with 1 being best. Using those scores and the full analysis as a guide, the Ratings Committee then assigns the CDFI its FSP rating based on which of the following descriptions best fits the CDFI:

- |            |  |
|------------|--|
| SOUND      | 1. A CDFI in this group is sound in every respect. It exhibits exceptional financial strength, performance, and risk management practices. Any weaknesses are minor and can be handled in a routine manner by the board of directors and management. This CDFI is resilient to significant changes in its operating environment. It generally has a score of 1 or 2 in all five of the FSP areas.  |
|            | 2. A CDFI in this group is fundamentally sound. It exhibits solid financial strength, performance, and risk management practices relative to its size, complexity, and risk profile. Challenges are well within the board of directors’ and management’s capabilities and willingness to strengthen. The CDFI is stable and is capable of withstanding fluctuations in its operating environment. Generally, most FSP scores for this CDFI are 2 or better, although it may have received a 3. |
|            | 3. The current financial strength and recent performance of this CDFI is satisfactory. It exhibits satisfactory financial strength, performance, and risk management practices relative to its current situation. It is stable but less capable of withstanding fluctuations in its operating environment than a CDFI rated 1 or 2. Generally, most FSP scores for this CDFI are 2s and 3s, although the CDFI may have received a 4.   |
| VULNERABLE | 4. A CDFI in this group is facing challenges that compromise its financial strength and performance. It exhibits weaknesses in one or more areas that could compromise its financial situation in the short term, even in a stable operating environment. The CDFI exhibits somewhat weak financial strength, performance, or risk management practices relative to its current situation. Generally, most FSP scores for this CDFI are 4 or better, although it may have received a 5.        |
|            | 5. A CDFI in this group exhibits significant weaknesses in several areas that compromise its current and long-term financial viability. Although the CDFI may be able to sustain operations for a period of time, its financial stability is extremely sensitive to any fluctuation in its operating environment. Generally, this CDFI received FSP scores of 4 and 5, although it may have received higher scores in one or more categories.  |

Based on this approach, the best possible rating that a CDFI could receive is **AAA+1**. Other possibilities include **A2**, **AA+3**, and so on.

## RULES OF THE ROAD

The following principles guide CARS™:

- The focus is on the institution rather than the risks associated with a specific debt instrument. We are evaluating an identified CDFI corporate entity that may be a consolidation of several entities or a single subsidiary. We are analyzing and making judgments about the CDFI's consolidated financial strength, performance, and impact.
- The analysis focuses on the CDFI and its operations. The CARS™ process does not include an extensive analysis of external conditions (interest rate environment, national or local economy, etc.) but does attempt to highlight those external factors that are most likely to have a significant impact on the CDFI's performance in the near future. Common external factors that influence CDFI performance include interest rates, Community Reinvestment Act regulations, major changes in the foundation or donor community, and changes in the local economy and market.
- Emphasis is on both qualitative and quantitative factors. CARS™ evaluates financial performance and examines key ratios in the context of the CDFI's mission and operating environment. Although the financial evaluation is primarily quantitative, important qualitative indicators, such as management quality, enter into it. Likewise, while the impact evaluation is more qualitative, we do examine important quantitative indicators such as deployment rates, outputs, and impact indicators tracked by the CDFI.
- Past performance (financial and impact) and current financial strength are the basis of the analysis. By examining these factors, the ratings analysis identifies key risk factors, as well as opportunities, that are likely to affect the CDFI's future performance.
- CDFIs receive two ratings through CARS™, one for impact performance and one for financial strength and performance. CARS™ lets the investor determine the appropriate balance between impact performance and financial strength and performance by providing a separate and distinct rating and analysis for each one of these areas.
- The impact performance rating reflects how well the CDFI does what it says it is trying to do. This rating is based on an assessment of the CDFI's effective use of its financial resources to achieve its stated mission and the CDFI's own evidence of how its activities contribute to its mission. It is not an assessment of the impact that the CDFI is having.
- The financial strength and performance rating is based on the CAMEL methodology regulators use to rate banks. Evaluation of each component of CAMEL (capital, asset quality, management, earnings, liquidity) takes into consideration the CDFI's size, complexity, and risk profile. All CDFIs are expected to manage their risks effectively. For smaller, less complex CDFIs with less sophisticated or risky activities, highly sophisticated or formalized management systems and controls are not required to receive a good financial strength and performance rating.
- CARS™ analysts follow an internal CARS™ manual to guide their analysis and help ensure consistency across the analyses of different CDFIs by different analysts. The internal manual is a more detailed version of this document.
- CARS™ analysts use an internal scoring system to guide their analyses and help ensure consistency in the application of the methodology across different CDFIs. The internal score is not definitive, as the rating is ultimately determined by how well the CDFI meets the specific rating descriptions. Instead, the scoring system is an internal analytic tool that helps ensure consistency in the analysis of different CDFIs by different analysts. Internal scores will not be shared with investors or CDFIs.

- Each CDFI is rated based on how it compares with the rating descriptions. Ratings are not based on a bell curve methodology, and CDFIs are not rated in comparison to other CDFIs. The analysis does include a peer comparison, which compares specific data points for the CDFI being rated with those of a group of peer organizations. The peer comparison is one analytical tool but is not a determining factor for ratings.
- The ratings scale and related descriptions are rigorous and challenging. It is difficult for a CDFI to achieve the highest rating in either impact performance or financial strength and performance. It should be clear from reading the rating descriptions in the previous section that even the middle ratings in both categories require competent performance. For a copy of the distribution of all current ratings, please contact [info@CARSRatingsystem.net](mailto:info@CARSRatingsystem.net).
- The rating process is cooperative, not adversarial, and involves interviews with CDFI management during which we encourage and expect candor. We rely on management to provide the documents and information we need to inform our analysis and, as a rule, do not seek to verify the accuracy of information received by consulting third parties. In addition, we expect the rating relationship to continue over the long term so it is important that CARS™ analysts maintain a cooperative working relationship with the CDFIs they rate.
- CDFIs provide input throughout the rating process. Analysts speak in depth to CDFI staff during phone interviews and the site visit to gain a thorough understanding of the institution. CDFI management receives a draft analysis and has an opportunity to suggest revisions. Once the analysis is complete, CDFI management can add a one-page written response to it that will be included for the Ratings Committee and when the analysis is distributed.
- Rating CDFIs with complex corporate structures requires clarity as to which entity or entities are being rated. Because of cost considerations, at this point CARS™ does not provide separate ratings for different entities within a family of related entities. Prior to beginning an analysis, with input from the CDFI, OFN will determine the most appropriate entity or entities to be rated. This decision will be made considering the priorities and needs of investors. We may choose to rate one entity, several entities together, or an entire family of entities. Whenever possible, the same entity or combination of entities will be rated for both impact performance and financial strength and performance.

**THE CARS™ STRUCTURE**

CARS™ is an independent project of Opportunity Finance Network (OFN). OFN is a CDFI investor, consultant, and technical assistance provider. We recognize that performing the role of industry ratings agency as well represents a conflict of interest. We plan to form a separate entity with staff specialized in rating CDFIs to carry out this function once CARS™ becomes more self-sufficient. During the start-up period, however, a separate entity is not feasible. Instead, we have developed a structure that minimizes conflicts of interest, takes advantage of the best knowledge and experience of the industry, is credible to CDFIs and CDFI investors, and is manageable and efficient.

OFN formed an Advisory Board comprising investors, CDFIs, and industry experts (see attachment 1). This board provides general oversight to the ratings process and helps ensure that CARS™ meets the needs of both CDFIs and investors. Advisory Board members provide input on key decisions (such as how to price the ratings, how to rate complex corporate entities, etc.) and help ensure that CDFIs and investors feel ownership for CARS™ and its success.

We have assembled a group of highly sought-after development finance experts and underwriters who have decades of hands-on experience in community development lending, banking, and related fields. Located in offices throughout the United States, they are experts in underwriting CDFIs and community investments. CARS™ analysts sign agreements indicating that they have not worked with or provided direct consulting services to the CDFI they are analyzing over the past 12 months and will not provide such services for the next 18 months.

The analysts, with the director of CARS™, function as the Ratings Committee, in accordance with the Ratings Committee Guidelines (attachment 2).

### COSTS AND ACCESS TO RATINGS

CARS™ is committed to developing a sustainable rating system that supports itself through fees paid by investors and CDFIs. Although many Wall Street ratings are paid for by the entity being rated, full payment by the entity being rated creates a significant conflict of interest. Furthermore, the full cost of a CARS™ rating would be prohibitive to many smaller CDFIs, thereby limiting ratings to only those CDFIs that could afford the full cost. Because both investors and CDFIs reap significant benefits and cost savings through CARS™, both pay the costs of the ratings process.

One consequence of having investors pay for access to ratings and the accompanying analyses is that these analyses cannot be shared freely. Both CDFIs and investors agree to not share any ratings analyses in their respective signed agreements with CARS™ (attachments 3 and 4). While CDFIs can choose to publicize or share their own ratings, the full analysis must be purchased from CARS™.

Many CDFIs have small local investors and funders that will want to know how the CDFI was rated but will not want to purchase the full analysis. CARS™ provides each rated CDFI with a handout (attachment 5) that indicates the ratings received by the CDFI and includes an explanation of what those ratings mean. The CDFI can distribute this handout at its discretion.

#### **CDFI Price**

CARS™ has a three-tiered pricing structure for CDFIs. During 2010, CDFIs will pay \$5,000 (less than \$15 million in assets), \$7,000 (\$15 million to \$50 million in assets), or \$8,000 (more than \$50 million in assets). For more complex CDFIs, the cost may be higher. The fee covers the entire three-year rating period including the full analysis and two subsequent annual reviews. A template of the agreement that CDFIs sign to participate in CARS™ is included as attachment 3.

### Investor Price

Investors have three options for purchasing CARS™ ratings and analyses. A template of the agreement that CARS™ purchasers sign is included as attachment 4.

- Annual subscribers pay \$15,000 and have access to all CARS™ ratings and reports over a 12-month period. An annual subscription allows investors to use a database search function on the CARS™ website to identify new investment opportunities and review information on multiple CDFIs.
- Three-pack subscribers pay \$7,000 and receive ratings reports (the full analysis, two annual reviews and fiscal year end updates) for three CDFIs of their choosing over a 24-month period.
- Single purchasers pay \$2,500 for reports on one CDFI. The purchase includes the full analysis, two annual reviews and a fiscal year end update over the three-year reporting period.

### THE CARS™ PROCESS

The CARS™ rating process relies on interviews with the CDFI's management, a review of relevant documents describing the CDFI's operations and impact, a thorough financial analysis, and a comparison of key data and ratios with those of peer organizations (when possible). (Attachment 6 provides an outline of a CARS™ analysis.) A two-to-three-day site visit is a critical part of the rating process.

As detailed in this section, the analysis process includes document collection on the part of the CDFI, the spreading of financial statements, a site visit by analysts, drafting, reviews and revisions of the analysis by the CDFI, and preparation of a one-page written response by the CDFI. Once the analysis is complete, the Ratings Committee meets to determine the ratings. Once the ratings have been determined the document is immediately produced and distributed. Depending on the schedules of participants and the availability of requested information, the entire process takes approximately five to six months.

The ratings process includes the following steps and activities:

- A CDFI or investor contacts CARS™ to request that a CDFI be scheduled for a rating.
- The CDFI signs the CARS™ agreement that describes the process, payment, mutual responsibilities, parameters of confidentiality, and permissible uses of the ratings analysis (see attachment 3). A critical piece of this agreement is that the CDFI may not distribute its CARS™ ratings report. Instead, CARS™ owns the reports and will distribute them to investors. CDFIs will receive their ratings and a description of what those ratings mean in a format that they can distribute.
- CARS™ (through OFN) invoices the CDFI for the appropriate amount.
- CARS™ selects a team of one to three analysts to conduct the ratings analysis.
- CARS™ staff requests the required information from the CDFI (see attachment 7) and provides the CDFI with an estimated timetable for the rating process.
- CARS™ provides the CDFI with brief background information on the analysts, and the analysts and the CDFI hold a brief introductory call.
- Upon receipt of financial information from the CDFI, CARS™ staff does an initial spread of financial information in the CARS™ format (see attachment 6).
- CARS™ staff forwards all materials and financial spreads to the appropriate analyst team.
- The CARS™ team reviews relevant documents to understand the CDFI's strategy, plans, and performance. They conduct an initial financial and organizational analysis to determine issues, questions, and so forth.
- The CARS™ team requests additional information from the CDFI as needed. They conduct phone interviews with CDFI management and staff and coordinate with the CDFI to schedule appropriate meetings and activities during the site visit.
- One or more CARS™ analysts visit the CDFI for two to three days. The site visit includes, at a minimum,
  - a meeting (or meetings) with the management team;
  - interviews with the CEO, the executive management team, other senior managers or key staff, and one or two board members;
  - a tour of the CDFI's facilities;
  - a detailed review of the financial statements and data collected;
  - a review of a limited number of loan and investor files; and

- a closing meeting with the CEO and/or management team.
- The director of CARS™ conducts a debrief phone call with the CDFI after the site visit. This call is an opportunity for the CDFI to provide input on the CARS™ process and the analysts. These calls are a valuable source of information as we strengthen the CARS™ process.
- The CARS™ team prepares a draft analysis following the CARS™ format (attachment 6). This draft includes neither the opinion paragraphs of the analysts nor any rating. The draft is reviewed internally and revised by CARS™ staff to ensure consistency and quality control.
- CARS™ submits the draft analysis, along with a cover memo and corrections form (attachment 8), to the CDFI's management for review.
- The CDFI's management uses the corrections form provided to identify any factual errors in the draft and propose revisions. It returns the corrections form to CARS™ within 10 business days.
- CARS™ works with the analyst team to revise the draft analysis as appropriate based on the proposed revisions from the CDFI's management. CARS™ sends the final analysis, including the opinion paragraphs of the analysts, to the CDFI for final review.
- The CDFI's management has the option to develop a brief (one-page) written response to be included in the final analysis. Management has five business days to provide CARS™ with its written response.
- CARS™ submits the analysis (with any CDFI response) to the Ratings Committee. The Ratings Committee meets and determines the ratings in accordance with the Ratings Committee Guidelines (attachment 2).
- CARS™ informs the CDFI of its ratings (attachment 10) and sends a ratings release form (attachment 9). The CDFI has five business days to prohibit dissemination of the ratings report. CARS™ produces and distributes the analysis (and rating) to the CDFI and the investor subscribers.
- CARS™ sends the CDFI a feedback letter (attachment 11) about changes the CDFI could make that might contribute to a stronger rating in the future.

### **Keeping the Rating Current**

Recognizing the importance of audited information and the need for investors to have timely information about CDFIs to inform their investment decisions, CARS™ has a Fiscal Year-End Update (FYE Update) process and an Annual Review process. Investors receive both the FYE Update and Annual Reviews as part of their original purchase price. The rating of a CDFI that decides not to participate in the Annual Review process expires 18 months after the most recent fiscal year-end evaluated by CARS™; at that time, the CDFI no longer has a current rating. CARS™ will no longer distribute its ratings reports to investors, and investors who have already received the analysis will be informed that the CDFI's rating has expired.

### **Fiscal Year-End Update**

CARS™ prepares a FYE Update for all CDFIs with a CARS™ analysis completed based on nine months of interim financial statements. The FYE Update is developed as soon as the audit is available and consists of an updated version of the financial spreads (with audited information) and the summary data page (as in attachment 6), with no additional text or analysis. Any subscriber or purchaser that received such a CDFI's CARS™ analysis will receive the FYE Update automatically.

CARS™ requests the audit and fiscal year data from the CDFI as soon as the audit is available. CARS™ staff incorporates the new audited information into the existing financial spreads. The CARS™ analyst reviews the audit and spreads carefully to ensure accuracy. In general, the analyst should not need to call the CDFI, unless something needs to be clarified from the audit. Once the analyst approves the spreads and data, CARS™ produces the revised spreads and summary page and sends the update to the subscribers, with a copy to the CDFI.

### Annual Review

One year after the FYE Update, (or if the analysis was done with three months or six months of interims), when the next audit is available, CDFIs that want to keep their rating current must go through an Annual Review.

The Annual Review focuses entirely on changes since the most recent full analysis. It consists of updated financial information and data based on the most recent audit and approximately eight to 10 pages of text that include the following:

- An assessment of "Improvement," "Stable with Improving Trends," "Stable," "Stable with Declining Trends," or "Decline" for impact performance and financial strength and performance. The initial ratings for impact performance (AAA, AA, A, B, and Policy Plus) and financial strength and performance (1 to 5) will not be changed as part of the Annual Review process.
- A summary opinion.
- An analysis of significant changes in each of the four impact performance criteria (alignment, effective use of resources, output tracking/use of data, impact tracking/use of data).
- An analysis of significant changes in each of the five CAMEL areas (capital, asset quality, management, earnings, liquidity).
- A response from the CDFI.

For the review process, CARS™ sends a short document request list (attachment 12) and the CDFI fills out the Annual Review questionnaire (attachment 13 and 14). Senior staff (i.e., CEO, CFO, lead lender) participates in phone interviews with the analyst. The CDFI does not review the analysis for accuracy but can submit a one-page response to the analysis.

On the second anniversary of the initial rating, the preceding process is repeated to keep the rating current. On the third anniversary, the CDFI will go through the full ratings process once again.

***A CDFI that has improved its performance may want to undergo a full ratings analysis without waiting three years after its initial analysis. CARS™ provides this option but charges the CDFI for the additional full analysis. The price to get re-rated early is \$20,000.***

## IMPACT PERFORMANCE ANALYSIS

This section provides more detail about the impact performance analysis and the tools that the analysts use to assess the CDFI's impact performance. Please keep in mind that even though this section refers to the internal scoring process that analysts use, the internal scores are not definitive but serve as an analytic tool to help guide the analysts in forming their recommended rating. Internal scores will not be revealed to either CDFIs or CARS™ subscribers at any time.

The impact performance rating is an assessment of how well the CDFI does what it says it is trying to do. This rating is based on an assessment of the CDFI's effective use of its financial resources to achieve its stated mission and of the CDFI's own evidence of how its activities contribute to its mission.

To understand the CARS™ approach to impact performance one should understand how CARS™ uses the terms **output**, **outcome**, and **impact**. Output refers to activities or services provided by the CDFI. Any data that can be collected at the time of the CDFI's intervention (loan disbursement or training activity, for example) is considered output data. Output data include things such as characteristics of borrowers, loan amounts, number of existing jobs in the business, estimated number of jobs to be created, number of housing units in the financed project, estimated number of child-care slots to be created, number of participants trained, ethnicity or income level of participants, and so forth.

Outcome (or impact) data refers to information gathered at some point **after** the CDFI's intervention. It is information related to what has happened since the CDFI provided capital or training (or any other output). Outcomes include such things as number of jobs actually created in financed businesses, number of training participants who started a business (or became employed), number of housing units occupied by low-income families, changes in the affordability of housing in a certain neighborhood, information about how access to affordable housing has changed the lives of low-income families, changes in access to affordable child care in a community, and so forth.

The impact performance assessment is based on the four key criteria described in the following paragraphs. The Ratings Committee scores each of these areas on a scale of 1 to 3, with 1 being best. Using those scores and the full analysis as a guide, the Committee assigns the impact performance rating.

### **Alignment of Strategy and Operations**

This criteria measures how well the CDFI's mission, strategies, products and services, output data, and impact data are tied together. CDFIs earning the highest score (1) in this area fully meet the following description:

*CDFI management articulates a clear alignment of mission, strategies, activities, products, services, tracked outputs, and desired outcomes and impact that benefits disadvantaged people or communities. There is a functioning feedback loop that ensures that if desired outcomes are not being obtained, the CDFI reassesses its products, services, or strategies.*

This description contains two key elements: clear alignment and a functioning feedback loop. Management can articulate clearly how all of the CDFI's activities fit into its strategies, why its strategies are effective at producing the desired outcomes, and how those outcomes contribute to its mission. A CDFI with a functioning feedback loop is continually gathering and analyzing data and information to assess whether it is achieving its desired results and how it might be able to improve its products and strategies in order to contribute more effectively to its mission.

CDFIs that do not fully meet this description will receive a score of 2 or 3 in the area of alignment of strategies and operations. The description of those scores are as follows (respectively):

*The CDFI has sound strategies that are reasonable given its stated mission. Its products, services, and tracked outputs are aligned with its mission and strategies and with benefiting disadvantaged people or communities. (2)*

*The CDFI's strategies are not clearly articulated or may not seem appropriate given the CDFI's stated mission. The CDFI's products, services, and tracked outputs may not be closely aligned with its strategies and mission. (3)*

### **Effective Use of Financing Resources**

This criteria measures how well the CDFI uses its financing resources in support of its mission and target population. CDFIs earning the highest score (1) in this area fully meet the following description:

*The CDFI uses its financial resources effectively in pursuit of its mission and to benefit disadvantaged people or communities. The CDFI has a history of appropriate deployment ratios based on its growth rate and financing activities. Portfolio growth keeps up with growth in the availability of financing resources. The CDFI leverages its net assets effectively to deploy more resources in the communities it serves. When appropriate, the CDFI pursues opportunities for leveraging funds from other sources into projects or deals, possibly using loan subordinations, participations, or other mechanisms. The CDFI may use off-balance-sheet resources effectively to keep up with demand for its capital.*

The following areas of analysis make up this description:

- The CDFI's history of deployment. Deployment is the amount of funds the CDFI has outstanding in loans and investments related to its total amount of financing capital. Analysts look at this ratio both with and without loan commitments and in the context of growth in financing resources available and loans outstanding.
- The CDFI's leverage of its own net assets. There is no optimum amount of leverage, as it depends on the CDFI's risk characteristics, growth strategies, and other factors.
- The CDFI's use of leverage to bring additional capital into the projects or deals that it finances. Depending on the type of financing the CDFI does, it may or may not be appropriate (or possible) for the CDFI to leverage additional resources into its deals.
- The CDFI's use of off-balance-sheet transactions to increase its financing and impact. The appropriate use of off-balance-sheet transactions also depends on the type of financing in which the CDFI engages.

CDFIs that do not fully meet this description will receive a score of 2 or 3 in the area of effective use of financing resources, as follows:

*The CDFI has a history of satisfactory deployment ratios based on its growth rate and financing activities, and portfolio growth generally keeps up with growth in the availability of financing resources, although there may be a lag time. (2)*

*The CDFI has a history of excess liquidity, indicating that it does not deploy its financing resources into the communities it serves effectively. (3)*

### **Tracking of Outputs That Show Success**

This criteria assesses what output data the CDFI tracks, how output data is defined, whether the data is appropriate given their mission and strategy, the collection methodology used, how the data is used (management, board, etc.), and whether that data indicates that the CDFI is effective in pursuit of its mission and in benefiting disadvantaged people or communities.

*The CDFI effectively tracks, on an ongoing basis, clearly defined output indicators that are appropriate given its mission and goals. The collection methodology is sound, and the CDFI uses these data to adjust and improve its activities to increase its effectiveness. This data indicates that the CDFI's financing resources and other activities are benefiting disadvantaged people or communities.*

The areas of analysis that make up this description include the following:

- The definition and appropriateness of output data that are being tracked, relative to the CDFI's mission, strategies, products and services, and so forth
- The collection methodology
- Use of the data by the CDFI to increase its effectiveness
- Whether the data indicate that the CDFI is reaching its target population with its products or services

CDFIs that do not fully meet the foregoing description will receive a score of 2 or 3 in the area of tracking outputs that indicate success, as follows:

*The CDFI tracks, on an ongoing basis, basic output indicators that help it determine the degree to which it is reaching its target population. The data indicate that the CDFI is reaching the population that it intends to serve. (2)*

*The CDFI does not track relevant output indicators on an ongoing basis, or data indicate that the CDFI is not effectively reaching the population indicated by its mission and strategies. (3)*

### **Tracking of Outcomes/Impact That Show Success**

This criteria assesses what impact data the CDFI tracks, how impact data is defined, whether the data is appropriate given their mission and strategy, the collection methodology used (including customer/client feedback), how the data is used, and whether the data indicates that the CDFI is effective in pursuit of its mission, and whether the data indicates that the CDFI is benefiting disadvantaged people or communities. Assess what kinds of analysis (beyond data tracking, such as periodic impact evaluations) the CDFI conducts to determine its impact and how that information is used.

*The CDFI has developed appropriate end outcome or impact indicators, relative to its mission and goals, that it tracks or analyzes effectively on an ongoing basis. Such indicators may be related to specific outcomes (e.g., jobs actually created and maintained by financed businesses over time, housing units occupied by low-income families) or broader community indicators (e.g., changes in income levels or job data in targeted communities, increased disposable income of occupants of housing units). The CDFI may also use available external data (e.g., indicators of property values, vacancy rates, income levels) to understand its role in community change. The data indicate that the CDFI's activities are having a positive impact on the individuals and/or communities being served. The CDFI uses these data to adjust and improve its activities to increase its effectiveness.*

The areas of analysis that make up this description include the following:

- The CDFI has developed outcome or impact indicators related to its mission and goals.
- The CDFI tracks this outcome information effectively on an ongoing basis.
- Data gathered by the CDFI indicate that the CDFI is having a positive impact on the individuals and/or communities being served. (Please note that this description does not require the CDFI to prove causality.)
- The CDFI uses the data to improve its own activities and effectiveness.

CDFIs that do not fully meet the foregoing description will receive a score of 2 or 3 in the area of tracking outcomes or impacts that indicate success, as follows:

*The CDFI may not track end outcome or impact data on an ongoing or rigorous basis, but it tracks and analyzes intermediate outcome information or conducts regular evaluations or studies (3rd party evaluations, customer surveys, etc.) to try to understand its impact. Impact information is analyzed to increase the effectiveness of products and services. Information gathered generally indicates that the CDFI is having a positive impact on disadvantaged people or communities.*

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*The CDFI does not track outcome or impact data or conduct impact analysis in any systematic way, or related data do not indicate a positive impact. (3)*

Please note that CARS™ does not specify which specific output or outcome data or measures a CDFI should use. Instead, CARS™ assesses the degree to which the CDFI has defined output or outcome measures that are appropriate given the CDFI's activities, strategies, and mission.

### **The Policy Plus**

The Policy Plus ("+") may be received with any of the impact ratings (AAA, AA, A, B). Many CDFIs participate in policy initiatives or work to change local policies to facilitate their access to resources. The Policy Plus, however, is intended to identify those CDFIs that incorporate policy change as an integral part of their strategies and play a leadership role in policies beyond those that might increase their own access to resources. CDFIs receive the Policy Plus if they fit the following description:

*Policy change is an integral part of the CDFI's strategies. The CDFI leads initiatives to change government policy to benefit the community development finance industry or disadvantaged people and communities. The CDFI can provide evidence of its leadership role in recent policy changes that produced benefits beyond additional resources for the CDFI itself, and management can clearly articulate the CDFI's role in current policy activities.*

## FINANCIAL STRENGTH AND PERFORMANCE ANALYSIS

This section provides more detail about the financial strength and performance analysis and the tools that the analysts use to assess the CDFI's financial strength and performance. Please keep in mind that even though this section refers to the internal scoring process that analysts use, the internal scores are not definitive but serve as an analytic tool to help guide the analysts in forming their recommended rating. Internal scores will not be revealed to either CDFIs or CARS™ subscribers at any time.

The financial strength and performance rating is an assessment of the CDFI's overall creditworthiness. This rating is based on an analysis of past financial performance, current financial strength, and apparent risk factors. The methodology is based on the CAMEL analysis used by regulatory agencies to rate banks. CAMEL stands for capital (or capitalization), asset quality, management (including strategy, governance, management and staff, and infrastructure and management information systems), earnings, and liquidity. The Ratings Committee scores the CDFI in each one of these areas on a scale of 1 to 5, with 1 being best. Using those scores and the full analysis as a guide, the Ratings Committee then assigns the CDFI its financial strength and performance rating.

The financial strength and performance rating is:

- an assessment of overall creditworthiness;
- relative to the CDFI's size, complexity, and risk profile;
- based on an analysis of past financial performance, current financial strength, and apparent risk factors; and
- not influenced by mission, target population, impact, or many other factors that determine the CDFI's effectiveness as a community development entity.

The internal scoring system for the financial strength and performance rating is weighted as follows:

- 20%: capital structure
- 20%: asset quality
- 25%: management (strategy, governance, management and staffing, infrastructure and management information systems)
- 20%: earnings
- 15%: liquidity

Each section of the CAMEL analysis includes both quantitative and qualitative factors that the analysts consider in order to arrive at the internal score, ranging from 1 (best) to 5 for each section.

The sections that follow provide the descriptions for the internal scores from 1 to 5 for each criteria and list the areas that the analysts examine to determine the appropriate score.

### Capital Structure

*Capital structure is exceptionally strong relative to the institution's risk profile. Capital structure will help the CDFI weather significant changes in the operating environment. (1)*

*Capital structure is more than adequate relative to the CDFI's risk profile. Capital structure will allow the CDFI to weather moderate changes in its operating environment. (2)*

*Capital structure is satisfactory relative to the CDFI's risk profile and existing operating environment. (3)*

*Capital structure is deficient relative to the CDFI's risk profile. (4)*

*Capital structure is critically deficient and threatens the CDFI's viability. (5)*

The key areas the analysts examine to determine the capital structure score include these:

- The composition of and trends with respect to the CDFI's capital
- Ratios from the statement of financial position, such as net asset ratios, leverage ratios, and so on
- The characteristics of net assets, including the nature of restrictions
- The diversity, predictability, and sources of capital
- Characteristics of debt, such as cost, terms, subordination, and so on
- Capitalization strategies
- Legal and financial strategies for mitigating risks
- Risk management strategies with regard to subsidiaries, contingent liabilities, off-balance-sheet activities, or any other potential risks in this area

### **Asset Quality**

*The CDFI has exceptionally strong asset quality, lending practices, and portfolio management practices. Any identified weaknesses are minor and risk exposure is modest in relation to capital protection and management's abilities. (1)*

*The CDFI has strong asset quality, lending practices, and portfolio management practices. Any identified weaknesses are manageable and risk exposure is acceptable in relation to capital protection and management's abilities. (2)*

*The CDFI has satisfactory asset quality, lending practices, and portfolio management practices. Any identified weaknesses are being addressed by management. (3)*

*The CDFI's asset quality, lending practices, and/or portfolio management practices are inadequate and may subject the CDFI to losses beyond historic levels. (4)*

*The CDFI has deficient asset quality, lending practices, and/or portfolio management practices present an imminent threat to the institution's viability. (5)*

The key areas the analysts examine to determine the asset quality score include the following:

- Portfolio performance and composition
- Delinquency and write-off levels and trends
- Loan process, credit analysis, and underwriting practices
- Loan policy and approval policies and practices
- Credit and collateral file management and documentation
- Portfolio management policies and practices
- Loan monitoring and servicing and problem-loan management
- Risk management procedures
- Security (collateral) documentation and management
- Loan loss reserve management and relation to portfolio risk

### **Management**

To arrive at an overall management score, the analysts look at four distinct subareas, each of which is weighted equally: strategy; governance; management and staffing; and infrastructure and management information systems (MIS).

*Management, board, and staff are exceptionally strong relative to the CDFI's size, complexity, and risk profile. They position the CDFI well to implement plans and respond effectively to significant disruptions in its operating environment. A strategic and effective planning process exists. The board fulfills its fiduciary, supervisory, and strategic leadership roles. Infrastructure and MIS are strong. (1)*

*The CDFI's management, board, and staff are strong relative to the institution's size, complexity, and risk profile. They position the CDFI well to implement plans and respond to fluctuations in its operating environment. An effective planning process exists. The board fulfills its fiduciary, supervisory, and leadership roles. Infrastructure and MIS are strong. (2)*

*The CDFI's management, board, and staff are satisfactory relative to the institution's size, complexity, and risk profile. They position the CDFI well for its current activities and operating environment. An adequate planning process exists. The board fulfills its fiduciary, supervisory, and leadership roles. Infrastructure and MIS are satisfactory. (3)*

*The CDFI's management, board, and/or staff are somewhat weak relative to the institution's size, complexity, and risk profile. They are inadequate for the CDFI's current activities and operating environment. The planning process may be weak. The board may not fulfill all of its roles effectively. Infrastructure and/or MIS may not be satisfactory. (4)*

*The CDFI's management and board are inadequate relative to the institution's size, complexity, and risk profile. There are significant weaknesses in management, the board, the planning processes, the staff, the infrastructure, or MIS that should be addressed immediately to ensure the CDFI's viability. (5)*

Key areas the analysts examine to determine the management score include the following:

**Strategy**

- Management's clarity around mission, strategies, market, and so forth
- The quality of the business or strategic plan, and how management uses it
- To what degree the legal and organizational structure of the institution supports its strategy
- The CDFI's track record in terms of accomplishing its goals as defined in business plans and other documents
- The CDFI's strategies regarding sustainability, efficiency, and self-sufficiency

**Governance**

- Existence of a feasible succession plan for an executive director or key management transition
- Board expertise relative to the CDFI's activities
- Board effectiveness with regard to its fiduciary, supervisory, and strategic functions
- Board policies and structure

**Management and Staffing**

- Management depth, experience, and tenure in relation to the CDFI's current and planned activities
- Rationale for staffing structure
- Manageable and appropriate levels of staff turnover
- Staff recruitment and retention strategies
- Staffing plans in relation to planned activities

### Infrastructure and MIS

- Quality and timeliness of management information
- Accounting and internal controls (as reflected in audits and management letters)
- Existence of basic insurance coverage for major risks
- Adequacy of information systems, data backup, and disaster recovery plans

### Earnings

*The CDFI has an exceptionally strong earnings history and positioning for future earnings. The CDFI has a five-year history of annual unrestricted operating surpluses and a high level of self-sufficiency. The CDFI is strategic about its use of grant revenue and capable of eliminating grant-reliant programs while preserving core financing activities at or near current levels. The budget process and financial information lead to effective strategic and operational analysis and decisions based on different business lines and activities. (1)*

*The CDFI has a strong earnings history and positioning for future earnings. The CDFI has a three-year history of annual unrestricted operating surpluses. The CDFI has a history of raising sufficient grant support to cover its activities and/or reducing expenses to prevent losses. The budget process and financial information allow analysis of key programs and activities. (2)*

*The CDFI has a satisfactory earnings history. The CDFI has a cumulative net positive operating surplus over the past five- and three-year periods. The CDFI has a history of raising sufficient grant support to cover its activities and/or reducing expenses to prevent significant losses in any one year. The budget process and financial information lead to satisfactory decisions based on the CDFI's financial capacity. (3)*

*The CDFI has an unsatisfactory earnings history. The CDFI has experienced a cumulative net operating loss over the past three years, or losses in three of the past five years. The CDFI is reliant on grant support but may not consistently raise sufficient grant support or reduce expenses to ensure annual operating surpluses. The budget process and/or financial information may not be sufficient to allow for effective management decisions. (4)*

*The CDFI has a poor earnings history. The CDFI may have experienced significant cumulative losses over the past three years or has a history of irregular operating results. The CDFI's operating results represent a threat to its viability. (5)*

The following are among the key areas the analysts examine to determine the earnings score:

- The CDFI's history and trends of operating results and self-sufficiency
- The predictability and stability (or growth) of earned revenue
- The diversity and sustainability of grant revenue
- The CDFI's capacity to reduce expenses when revenues lag
- Strategies pertaining to sustainability, self-sufficiency, and use of subsidy
- The CDFI's focus on efficiency, use of efficiency goals, and tracking of efficiency indicators
- Pricing strategy and net interest margins
- Financial management strategies for different business lines

### Liquidity

*The CDFI has strong operating and financing liquidity levels and excellent funds management practices, including effective long-term asset-liability matching strategies. It has reliable access to sufficient funds on favorable terms to meet present and anticipated liquidity needs, even should significant disruptions occur in its operating environment (interest rate changes, economic downturn that hurts loan repayments, etc.) or revenue streams (grants or earned). (1)*

*The CDFI has good operating and financing liquidity levels and good funds management practices, including appropriate long-term asset-liability matching strategies. It has access to sufficient funds on reasonable terms to meet present and anticipated liquidity needs, even in the event of disruptions in its operating environment or revenue streams. (2)*

*The CDFI has sufficient operating and financing liquidity levels and adequate funds management practices. It has access to sufficient funds to meet its present and anticipated liquidity needs. The CDFI has a history of adequate liquidity to meet its obligations. (3)*

*The CDFI's current liquidity levels or funds management practices may not be adequate. Changes in the current environment may compromise the CDFI's ability to meet its financial obligations. (4)*

*The CDFI has insufficient liquidity or such poor funds management practices that its ability to meet its current obligations is uncertain. (5)*

Key areas the analysts examine to determine the liquidity score include the following:

- Current liquidity levels (for operations and for financing) and history of meeting obligations and borrower demand
- Financing-fund management, including asset-liability matching, the balance between effective deployment and liquidity risk management
- Use of off-balance-sheet liquidity management tools
- Interest rate risk management
- Strategies and management of operating liquidity

**ATTACHMENT 1**

**CARS™ Advisory Board**

Dudley Benoit  
Vice President  
**JPMorgan Chase Bank**

Mike Crist  
Executive Vice President  
& Chief Financial Officer  
**The Reinvestment Fund**

Frank Coleman  
Executive Vice President  
**Christian Brothers Investment Services**

Deborah Drake  
Vice President, Policy and Analysis  
**Center for Financial Inclusion at  
ACCION International**

Ignacio Esteban  
Executive Director  
**Florida Community Loan Fund**

Cheryl Fitzgerald  
Managing Director, National Initiatives  
**Fannie Mae Corporation**

Lisa Hall  
Interim President and CEO  
**Calvert Foundation**

Jeannine Jacokes  
Executive Director  
**Partners for the Common Good**

Daniel Letendre  
CDFI Lending and Investment Executive  
**Bank of America**

Linnie McLean

Mark Pinsky  
President & CEO  
**Opportunity Finance Network**

Doug Raymond  
Partner  
**Drinker, Biddle and Reath**

Ruth Salzman  
Executive Director and CEO  
**The Russell Berrie Foundation**

Eileen Stenerson  
Senior Vice President,  
Community Lending and Investing  
**Wachovia (a Wells Fargo Company)**

Guest Participant

Christine Looney  
Senior Financial Analyst  
**Ford Foundation**

## ATTACHMENT 2

### CARS™ Ratings Committee Guidelines

1. A Ratings Committee meeting may take place in person or by teleconference.
2. The Ratings Committee for each ratings cycle will consist of a minimum of four CARS™ analysts (exclusive of the analysts who worked on the specific CDFI's analysis) and the director of CARS™.
3. The director of CARS™ will chair the committee.
4. The analysts who worked on a specific CDFI's analysis may not participate as voting members in the rating of that CDFI. While they will present to the Ratings Committee and participate in the discussion, they will not be considered a member of that committee for that particular rating.
5. All participants in the Ratings Committee must have carefully read the analysis, identified their questions, scored the analysis, and developed their own ratings recommendations in advance of the meeting.
6. Any Ratings Committee member who has a potential conflict of interest with regard to the CDFI being rated must disclose that conflict prior to the beginning of the meeting. The chair will determine whether the conflict disallows participation of the analyst in the discussion and/or vote on the specific rating.
7. At least one (preferably all) of the analysts who worked on the specific CDFI's analysis will be present at the meeting. The Committee may ask the analyst(s) to make a brief presentation of the analysis prior to beginning deliberation.
8. To arrive at the ratings of a full analysis (Impact Performance and Financial Strength and Performance), the Ratings Committee will follow this process:
  - Committee members will ask questions of the analysts and discuss the overall analysis.
  - The committee will focus on the first criteria, and each member and the analysts will disclose his or her score for that criteria. The committee will discuss the scores and the analysis. The committee will work to come to a consensus (within 1/2 point on a scale of 1 to 5) on the score for each criteria before moving on to the next criteria.
  - Once consensus has been reached on all the criteria within a category (such as impact performance), the scores will be tallied to determine which rating the scores indicate.
  - While the scores will help guide the committee, the ultimate rating decision will be based on which rating category best describes the CDFI in terms of impact performance and financial strength and performance.
  - Committee members and the analysts will then disclose their recommended rating for that category (impact performance or financial strength and performance).
  - If the rating determined by the score and the ratings recommended by the committee members are all the same, that rating description will be read aloud. If all committee members agree that that is the appropriate rating for that CDFI, then that rating becomes the CDFI's rating.
  - If there is not consensus on the rating among the committee members, the descriptions of the ratings under consideration will be reviewed and the committee will work to come to a consensus.

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**9.** If no consensus can be reached on a rating, the chair will call for a vote of Ratings Committee members (not the analysts) and the rating that receives the most votes will be the final rating assigned to the CDFI.

**10.** In the case of a tie between two possible ratings, the chair's vote will be the determining factor.

**11. All deliberations, discussions, comments, and votes that take place within the Ratings Committee are confidential and must not be disclosed to or discussed with any person who was not in attendance.**

## ATTACHMENT 3

### Template Agreement between Opportunity Finance Network and CDFIs

[Insert Date]

[Insert Name and Address]

**Re: The CDFI Assessment and Rating System**

Dear [Name]:

Thank you for your interest in the CDFI Assessment and Rating System ("CARS™"). This letter, including the attachment (the "Agreement") sets forth the agreement between [Insert Name of CDFI] ("CDFI"), and Opportunity Finance Corporation (dba Opportunity Finance Network, "Opportunity Finance") concerning the CARS™ analysis process and the resulting reports and ratings.

With the intent of being bound, by signing below, CDFI and Opportunity Finance mutually agree as follows:

1. CDFI shall pay Opportunity Finance a one-time fee of \$xx.xx. Upon receipt of this fee, Opportunity Finance agrees to provide to CDFI the initial CARS™ analysis process and rating, a fiscal year-end update (if necessary), and two consecutive annual reviews. Payment of fees is not conditioned on a particular result in any report or rating.
2. Opportunity Finance will conduct the CARS™ analysis itself or through independent contractors. If during the 12 month period before the date of this Agreement CDFI has engaged, employed or otherwise contracted with any of the contractors assigned to CDFI's CARS™ rating process, CDFI will promptly notify Opportunity Finance of such fact.
3. When the analysis has been completed, Opportunity Finance shall provide a draft report to CDFI so that CDFI can check the report for accuracy and completeness. CDFI will submit to Opportunity Finance any suggested revisions using the template provided by Opportunity Finance, together with appropriate supporting materials, within 10 business days of receipt.
4. CDFI shall have the right to submit to Opportunity Finance within five business days after receipt of the final report, a written response to the report (up to one page in length) which Opportunity Finance will include in the report for the ratings committee and for final distribution.
5. Opportunity Finance will inform CDFI in writing of its rating, upon which CDFI will have the right to prohibit distribution of the rating and report. In order to exercise this right of prohibition, CDFI must sign and return to Opportunity Finance the appropriate form (as supplied by Opportunity Finance) together with payment of any amounts due to Opportunity Finance, including a Withdrawal Fee of \$5,000, within five business days after receipt of its rating. If such payment and fully completed and executed form have not been received from CDFI within such five business day period, Opportunity Finance shall have the sole and exclusive right to use, publish, disseminate and license others to use, publish or disseminate the report and the ratings (including portions, extracts and summaries thereof) and the rationale for either in any format, including, but not limited to, selling them to subscribers. Unless CDFI prohibits distribution in writing as provided above, CDFI hereby grants to Opportunity Finance an irrevocable, perpetual and transferable license to use, publish, disseminate and license any information contained in the final report and ratings to which CDFI

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may have any rights, including, but not limited to, CDFI's name, trade names and trademarks.

6. Whether or not CDFI prohibits distribution of the final report, Opportunity Finance may disclose that CDFI is a participant in the CARS™ analysis process.
7. If CDFI prohibits distribution of the report as provided above, Opportunity Finance and CDFI will keep the rating and report confidential [except that, if the funding for the CARS™ analysis had been provided by a third party funding source, Opportunity Finance shall provide a complete copy of the final report to such funder]. [CDFI acknowledges that the funding for the CARS™ analysis has been provided by a third party funding source, but this source shall not have any rights to receive the rating or report if its publication is prohibited by CDFI. CDFI has advised the funder of such limitation on its access to such report and rating.]
8. Either party may terminate this agreement at any time by written notice to the other party. If Opportunity Finance terminates, it will reimburse fees paid unless such termination relates to CDFI's failure to fully cooperate with Opportunity Finance and its contractors or to any other breach by CDFI of this Agreement. In the event that CDFI terminates this agreement or if Opportunity Finance terminates by reason of CDFI's failure to fully cooperate, CDFI will forfeit all fees paid, and shall pay Opportunity Finance a Withdrawal Fee of \$5,000 together with the written notice of termination, or as stipulated in Paragraph 5 above.
9. CDFI will provide to Opportunity Finance and its contractors the following in a timely fashion: (i) copies of all requested documents, including business plans, marketing information, impact studies and policies, (ii) access to CDFI's financial information, including all financial statements, audits and portfolio reports; (iii) reasonable access to CDFI's facilities during normal business hours; (iv) for the purposes of interviews and questions, reasonable access to CDFI's board members, executives, employees and auditors; and (v) any other information that Opportunity Finance or its contractors may request.
10. The terms of the Attachment are incorporated into this letter agreement as if fully set forth. This letter may be executed by counterpart.

Please indicate your agreement with the terms and conditions set forth in the Agreement by signing below and returning a copy to Opportunity Finance, upon which both you and Opportunity Finance shall be bound.

Sincerely,

Opportunity Finance Network

By:   
Paige Chapel, Executive Vice President, CARS™

ACKNOWLEDGED AND AGREED:

By: \_\_\_\_\_  
Name:  
Title:

Date: \_\_\_\_\_

**ATTACHMENT**

1. CDFI shall cooperate with the CARS™ analysis process in good faith and provide Opportunity Finance and its contractors with the items listed in the Agreement. Opportunity Finance is relying on CDFI for the accuracy and completeness of all information, and Opportunity Finance is not obliged to conduct any due diligence or independent verification of any information. Therefore, CDFI represents and warrants that all information provided to Opportunity Finance will be, to the best of CDFI's knowledge, true, correct, complete and current, and does not infringe on the intellectual property rights of others.
2. Opportunity Finance shall not release the names of, or any financial information regarding, CDFI's borrowers unless such information otherwise is or becomes public or Opportunity Finance receives CDFI's prior permission.
3. CDFI is hereby granted a non-exclusive, non-transferable, revocable license to use the draft and final reports only for its internal purposes. All information relating to CARS™, including, but not limited to, any report regarding CDFI, is copyrighted in the name of Opportunity Finance Network, and such information may not be copied or otherwise reproduced, repackaged, further transmitted, transferred, disseminated, redistributed or resold, or stored for subsequent use for any such purpose, in whole or in part, in any form or matter or by any means whatsoever, by any person, including CDFI, without Opportunity Finance's prior written consent.
4. CDFI may use its rating and rating description for external purposes provided it has not withdrawn and has kept its rating current through the annual review process. In all instances, CDFI shall present the entire CARS™ rating and rating description as provided by Opportunity Finance without amendments, additions, or deletions, including the rating for Impact Performance and for Financial Strength and Performance.
5. Subject to CDFI's prior written approval, which will not be unreasonably withheld, Opportunity Finance may transfer ownership of CDFI's analysis and rating and updates thereto, as well as all of Opportunity Finance's rights under the Agreement.
6. All information relating to CARS™, including, but not limited to, any reports, analysis or ratings regarding CDFI, is provided "as is" without warranty of any kind. **NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, IS GIVEN OR MADE BY OPPORTUNITY FINANCE OR ANY CONTRACTOR OR AGENT ACTING ON OPPORTUNITY FINANCE'S BEHALF IN ANY FORM OR MANNER WHATSOEVER, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY INFORMATION USED, PREPARED OR PROVIDED BY OPPORTUNITY FINANCE UNDER CARS™, IN ANY REPORT, RATINGS OR UPDATES, OR OTHERWISE.** Under no circumstances will Opportunity Finance have any liability to any person or entity for any loss or damage (either direct or indirect, including, without limitation, lost profits, opportunity costs, or consequential, special, incidental or punitive damages) in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstances involved in procuring, collecting, compiling, interpreting, analyzing, editing, transcribing, transmitting, communicating or delivering any such information, even if Opportunity Finance is advised or aware of the possibility of such damages. In addition to the above, and not as a limitation, Opportunity Finance will not be liable for any decisions made by CDFI or any other person as a result of the issuance of (or failure to issue) any report or ratings or other information. This paragraph will survive any termination of the Agreement and will continue indefinitely.
7. The report and ratings may be based in part on information received from sources other than CDFI. Opportunity Finance gives no warranty or representation regarding how any analysis, report or rating will be conducted or prepared.
8. Neither Opportunity Finance, nor its directors, officers, employees, contractors or agents, are acting as an investment, financial or other advisor to CDFI. CDFI should

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not and cannot rely on any report or ratings or other information provided by Opportunity Finance as investment or financial advice. Nothing in the Agreement is intended to or should be construed as creating a fiduciary relationship between Opportunity Finance and CDFI.

9. From the date of this agreement, and for a period of 18 months after the final report is delivered to CDFI for approval, CDFI shall not, directly or indirectly, engage, employ or otherwise contract with any of the contractors directly involved in CDFI's CARS™ analysis process.
10. CDFI hereby releases and agrees to indemnify Opportunity Finance, and its directors, officers, employees, contractors and agents against all losses, costs (including reasonable attorney costs), expenses, demands and liabilities, whether direct or indirect, arising out of a breach of this agreement by CDFI, any unlawful or negligent act by CDFI, or the publication by Opportunity Finance of any of CDFI's information in connection with the CARS™ analysis process unless such publication is prohibited as provided in Section 5 of the accompanying letter. CDFI agrees that all demands of whatever kind assessed against Opportunity Finance, its directors, officers, employees, contractors or agents, arising out of the Agreement shall not cumulatively exceed the fees CDFI has paid Opportunity Finance for the CARS™ analysis procedure. This paragraph will survive any termination of the Agreement and will continue indefinitely.
11. The Agreement shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania (without giving effect to any conflicts or choice of law provisions).
12. Nothing in the Agreement, any report or ratings or any other information provided by Opportunity Finance is intended or should be construed as creating any rights or a fiduciary relationship on behalf of any third parties, including, without limitation, any funder of CDFI or any recipients of any report or rating. No person is intended as a third party beneficiary to the Agreement, any report or rating.
13. The Agreement constitutes the parties' full and entire understanding and agreement regarding the subject matter listed above and supersedes all prior understandings and agreements regarding such matters, whether oral or written.
14. No person shall have any right to make any representation or warranty on behalf of Opportunity Finance related to the CARS™ analysis unless in writing and signed by an officer of Opportunity Finance.

## ATTACHMENT 4

**Sample CARS™ Subscriber Agreement**

This agreement applies to annual subscribers; the agreements for 3-pak subscribers and single purchasers are similar.

[NAME & ADDRESS]

**Re: The CDFI Assessment and Rating System ("CARS™") – Annual Subscription**

Dear [NAME]:

Thank you for your interest in CARS™. This letter sets forth the agreement between SUBSCRIBER ("Subscriber") and Opportunity Finance Network ("Opportunity Finance") concerning CARS™ reports.

With the intent of being bound, by signing below you and we mutually agree as follows:

Once Opportunity Finance receives this signed letter of agreement along with \$15,000, Subscriber will receive access to any CARS™ reports and ratings of Community Development Financial Institutions (CDFIs) to be chosen within a one-year period (the "Subscription Period"). The CARS™ reports and ratings will be chosen by the Subscriber from the available reports and ratings or from the reports and ratings released during the Subscription Period. Fiscal year-end updates, annual reviews, and ratings reports (the "Subscription Materials") issued by Opportunity Finance after the Subscription Period has expired may only be accessed by renewing the subscription. "Subscription Materials" will be available to the Subscriber to download in the CARS™ Subscriber Garage on the CARS™ website during the Subscription Period.

Opportunity Finance grants Subscriber a non-exclusive, non-transferable, revocable license to use the Subscription Materials for internal purposes only. The Subscription Materials are copyrighted in the name of Opportunity Finance Network, and such information may not be copied or otherwise reproduced, repackaged, further transmitted, transferred, disseminated, redistributed or resold, or stored for subsequent use for any such purpose, in whole or in part, in any form or matter or by any means whatsoever, by Subscriber, without Opportunity Finance's express written permission.

Opportunity Finance may terminate this letter of agreement immediately by providing Subscriber with written notice if Subscriber does not comply with any of the terms or conditions provided in this letter of agreement.

Subscriber acknowledges that Opportunity Finance relies on the CDFIs being rated and other information sources for the accuracy and completeness of all information contained in the Subscription Materials. Opportunity Finance is not obligated to conduct any independent verification of any information. All Subscription Materials reflect Opportunity Finance's opinions, based on information provided by the CDFI being rated or third party sources. They do not constitute an audit and should not be relied on as such.

Opportunity Finance cannot guarantee that Subscription Materials will be available for any given entity, nor can Opportunity Finance guarantee that it will be able to provide updates or annual reviews for CDFIs it has previously rated. Subscriber will not be entitled to price reductions or reimbursements for unavailable reports or updates.

**The Subscription Materials are provided "as is" without warranty of any kind. No warranty, express or implied, is given or made by us or any contractor or agent acting on our behalf in any form or manner whatsoever, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any information used, prepared or provided by us under CARS™ or in the Subscription Materials.** As a result, Opportunity Finance will have no liability to Subscriber for any loss or damage (either direct or indirect, including, but not limited to, consequential or punitive damages), re-

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sulting from any decisions made by Subscriber based in whole or in part on Subscription Materials received by it or by Opportunity Finance's failure to issue updates to those Subscription Materials. Neither Opportunity Finance, nor its directors, officers, employees or agents, are acting as an investment, financial or other advisor to Subscriber, and thus Subscriber cannot rely on the Subscription Materials or other information provided by Opportunity Finance as investment or financial advice. Nothing in this letter of agreement is intended to or should be construed as creating a fiduciary relationship between Subscriber and Opportunity Finance or any other person. This paragraph will survive any termination of this letter of agreement and will continue indefinitely. This letter of agreement shall be construed in accordance with and governed by the domestic laws of the Commonwealth of Pennsylvania (without giving effect to any conflicts of law provisions).

Nothing in this letter of agreement or the Subscription Materials is intended or should be construed as creating any rights on behalf of any third parties. No person is intended as a third party beneficiary to this letter of agreement.

We may transfer all of our rights under this letter of agreement.

This letter of agreement constitutes the full and entire understanding and agreement among the parties hereto regarding the CARS™ and the Subscription Materials and supersedes all prior understandings and agreements regarding such matters, whether oral or written.

Please indicate your agreement with the terms and conditions set forth in this letter of agreement by signing below and returning a copy to us. If you have any questions, please feel free to contact Paige Chapel at 206-328-6110. We appreciate your business and look forward to working with you.

Sincerely,

Opportunity Finance Network

By:  \_\_\_\_\_  
Paige Chapel, Executive Vice President, CARS™

ACKNOWLEDGED AND AGREED:

By: \_\_\_\_\_ Date: \_\_\_\_\_  
Name:  
Title:

ATTACHMENT 5

CDFI Handout with Rating

# CARS™

Comprehensive Ratings for CDFI Investments.

Organization Name CARS™ Rating		
Release Date	Impact Performance Rating	Financial Strength and Performance Rating
03/09	AA	3

**IMPACT PERFORMANCE RATING**

**AA.** A CDFI in this group has clear alignment of mission, strategies, activities and data that guides its programs and planning. It accurately tracks appropriate output data that indicate that it is using its resources effectively to benefit its target populations or communities in line with its mission. The CDFI uses its data on an ongoing basis to adjust strategies and activities in accordance with its desired impact. It may track a limited number of impact indicators as well, but impact data tracking may not be rigorous or consistent.

**FINANCIAL STRENGTH AND PERFORMANCE RATING**

**3.** The current financial strength and recent performance of this CDFI is satisfactory. It exhibits satisfactory financial strength, performance, and risk management practices relative to its current situation. It is stable but less capable of withstanding fluctuations in its operating environment than a CDFI rated 1 or 2. Generally, most FSP scores for this CDFI are 2 and 3, although the CDFI may have received a 4.

**FOR MORE INFORMATION**

To receive a complementary ratings analysis or additional information about CARS™, the CDFI Assessment and Rating System, e-mail [jschwartz@CARSRatingsystem.net](mailto:jschwartz@CARSRatingsystem.net).

[www.CARSratingsystem.net](http://www.CARSratingsystem.net)

An independent project of  
**OPPORTUNITY FINANCE NETWORK** 

**ATTACHMENT 6**

**Full Analysis Template**

**Analyst names:**

**Date of analysis:**

**CDFI name:**

**Parent or affiliated organizations:**

**CDFI contact name:**

**Phone number:**

**E-mail:**

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**Corporate Structure**

**Loan Products**

**Geographic Area Served**

**History**

**Organizational Highlights**

**Impact Performance**

**Financial Strength and Performance**

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CDFI Name	AUDIT		AUDIT		AUDIT		INTERIM
	6/30/2002	% CH	6/30/2003	% CH	6/30/2004	% CH	9/30/2004
<b>Summary Data</b>							
<b>Fin Position</b>							
Total Assets	\$ -	#DIV/0!	\$ -	#DIV/0!	\$ -	#DIV/0!	\$ -
Unrestricted Net Assets	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
TR Net Assets	-	#DIV/0!	-	#DIV/0!	-	#DIV/0!	-
PR Net Assets	-	#DIV/0!	-	#DIV/0!	-	#DIV/0!	-
Total Net Assets	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
Net Assets for Financing Activities	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
Senior Debt for Financing Activities	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
Sub Debt and EQ2 for Financing Activities	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
<b>Net Worth Ratio</b>							
Net Assets/Total Assets	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Unrestricted Net Assets/Total Assets	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Net Assets & EQ2/Total Assets	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Leverage</b>							
Total Liabilities/Net Assets	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Quick Ratio</b>							
Cash and Equiv/Current Liabilities	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Current Ratio</b>							
Current Assets/Current Liabilities	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Stmnt Activities</b>							
Earned Revenue	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
Grant Revenue (Unrestricted or Released)	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
Total Operating Expenses (Net Unrealized)	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
Surplus (Deficit) from Operations	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
<b>Net Margin</b>							
(Surplus/Deficit) from Operations/Unr Revenue	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Self-Sufficiency</b>							
Earned Rev/Operating Expenses (Net Pass-through Grant Exp)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Asset Quality</b>							
Delinquency (> 90 Days)/Outstandings	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Loan Loss Reserve/Outstandings	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Gross Amount Charged Off	-	#DIV/0!	-	#DIV/0!	-	#DIV/0!	-
Recoveries	-	#DIV/0!	-	#DIV/0!	-	#DIV/0!	-
<b>Financing</b>							
Total Loans Outstanding	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
Equity Investments Outstanding	-	#DIV/0!	-	#DIV/0!	-	#DIV/0!	-
Loans and Investments Disbursed	-	#DIV/0!	-	#DIV/0!	-	#DIV/0!	-
Grants Disbursed	-	#DIV/0!	-	#DIV/0!	-	#DIV/0!	-
<b>Deployment</b>							
Loans & Inv Outstanding/(Debt, EQ2, NA for Financing)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Output Data</b>							
"Off-balance Sheet" Loans&Inv Underwritten	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
"Off-balance Sheet" Loans&Inv Managed	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
Input Several Key indicators CDFI Uses	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
Input Several Key indicators CDFI Uses	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
Input Several Key indicators CDFI Uses	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
Input Several Key indicators CDFI Uses	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
<b>Impact Data</b>							
Input Several Key indicators CDFI Uses	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
Input Several Key indicators CDFI Uses	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
Input Several Key indicators CDFI Uses	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
Input Several Key indicators CDFI Uses	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
Input Several Key indicators CDFI Uses	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0
Input Several Key indicators CDFI Uses	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0

**ANALYST OPINIONS**

[OFN will insert in final draft]

**DETAILED ANALYSIS**

**Impact Performance<sup>1</sup>**

**Alignment of Strategies and Operations**

**Table 1. Alignment of Key Programs or Funds with Mission**

Program or Fund Description	Indicators of Organizational Weight	Connection to Vision/Mission

**Effective Use of Financing Resources**

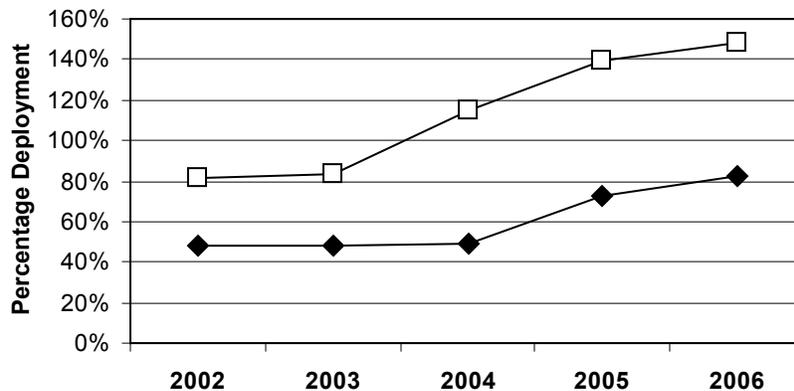
■ **Trends in Use of Financing Resources**

**Table 2. Use of Financing Resources, FYE 200x through FYE 200y**

(\$000)	6/30/2002	6/30/2003	6/30/2004	6/30/2005	6/30/2006
Funds Available for Financing (Debt + Net Assets Available for Financing)	\$ -	\$ -	\$ -	\$ -	\$ -
Total Loans Outstanding (Net)	\$ -	\$ -	\$ -	\$ -	\$ -
# of Loans Closed/Disbursed	0	0	0	0	0
% Change from Prior Year	NA	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Loans Disbursed	\$ -	\$ -	\$ -	\$ -	\$ -
% Change from Prior Year	NA	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Loans Committed but Not Disbursed	\$ -	\$ -	\$ -	\$ -	\$ -
% Change from Prior Year	NA	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

■ **Deployment**

**Figure 1. SAMPLE Deployment Rates, FYE 200x through FYE 200y**



◆ Loans Outstanding    □ Loans Outstanding and Commitments Outstanding

<sup>1</sup> See the "CARS™ Ratings and Descriptions" attachment for an explanation of the impact performance criteria, including the differences between outputs, outcomes, and impact.

■ Leveraging Resources

**Table 3. SAMPLE On- and Off-Balance-Sheet Loans Closed, FYEs 2003 through 2007**

	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007
On-Balance-Sheet Loans Closed (000s)	\$24,047	\$32,348	\$42,675	\$40,920	\$56,012
Off-Balance-Sheet Loans Closed (000s)	\$1,765	\$7,434	\$51,324	\$51,191	\$26,270
Total Loans Closed (000s)	\$25,812	\$39,782	\$93,999	\$92,111	\$82,282
% Off Balance Sheet	6.8%	18.7%	54.6%	55.6%	31.9%

**Tracks Outputs<sup>2</sup> That Indicate Success**

**Table 4. Key Output Data, FYs 200x through 200y [note if data includes off-balance sheet]**

Output Measure	6/30/2002	6/30/2003	6/30/2004	6/30/2005	6/30/2006
Output Data CDFI Uses	0	0	0	0	0
Output Data CDFI Uses	0	0	0	0	0
Output Data CDFI Uses	0	0	0	0	0
Output Data CDFI Uses	0	0	0	0	0
Output Data CDFI Uses	0	0	0	0	0

**Tracks Impacts or Outcomes<sup>3</sup> That Indicate Success**

**Table 5. Summary of Sample Outcome Measures, FYs 200x through 200y**

Outcome Measure	6/30/2002	6/30/2003	6/30/2004	6/30/2005	6/30/2006
Outcome Data CDFI Uses	0	0	0	0	0
Outcome Data CDFI Uses	0	0	0	0	0
Outcome Data CDFI Uses	0	0	0	0	0
Outcome Data CDFI Uses	0	0	0	0	0

**Policy Plus**

**Financial Strength and Performance**

Please note: CDFI’s fiscal year-end is XXXX. Financial information is based on unaudited internal statements for XXXX, and audits from prior fiscal years. CDFI has received unqualified audit opinions in each year reviewed. Audit firm has audited CDFI for the past number years. Audit firm was CDFI’s prior auditor.

**Capitalization and Capital Structure**

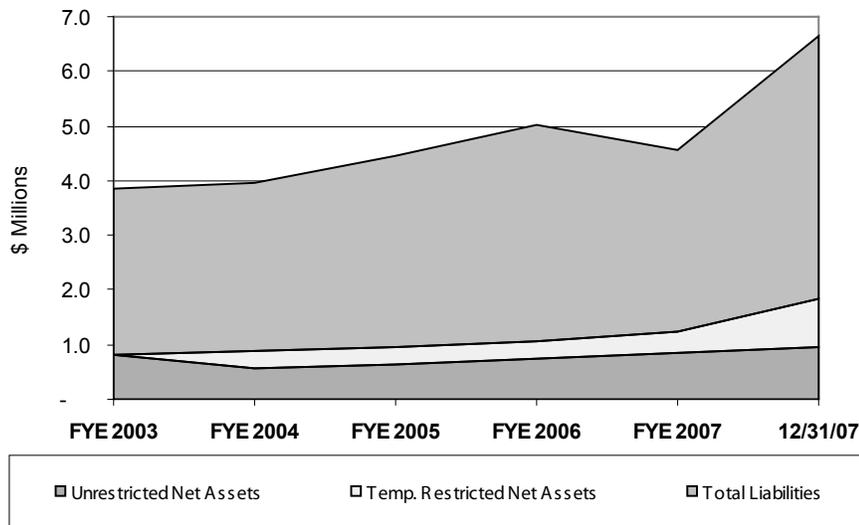
■ Capital Structure

**Figure 2. SAMPLE Capital Composition from FYE 200x to FYE 200y**

<sup>2</sup> See the explanation of outputs, outcomes, and impact on the last page of this report.

<sup>3</sup> See the explanation of outputs, outcomes, and impact on the last page of this report.

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**Table 6. Leverage**

	6/30/2002	6/30/2003	6/30/2004	6/30/2005	6/30/2006	9/30/2006
Net Asset Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Unrestricted Net Asset Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Leverage Ratio*	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
(Unrestricted Net Assets + Temporarily Restricted Net Assets for Loans)/Total Debt	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
(Unrestricted NA + Loan Loss Reserves)/Net Loans Receivable	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Total Debt/Total Funds Available for Financing	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

\* Measured as total liabilities/total net assets

### ■ Composition of Net Assets

**Table 7. Primary Categories of Temporarily Restricted Net Assets, FYE 200X**

Purpose	Portion of TRNA	Restriction(s) and Possible Uses
Financing	XX%	
Operations	XX%	
Operations	XX%	

### ■ Debt Composition and Sources

Figure 3. *SAMPLE* Senior Debt Composition by Source, FYE 200X

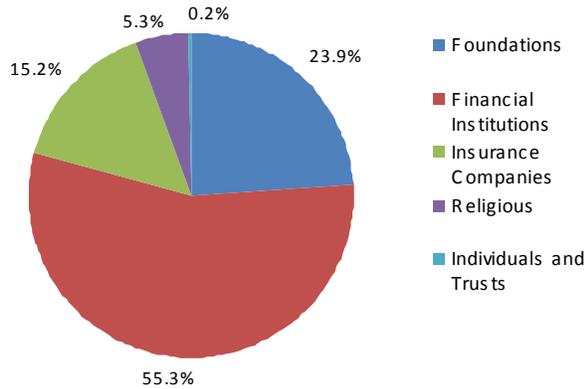


Table 8. Sources of Debt at [DATE]

Type of Investor	Number of Investors	Total Loans Payable	% of Total Loans Payable	Average per Investor (\$000)	Average Rate
Banks, Foundations, and Others	0	\$ -	#DIV/0!	#DIV/0!	#DIV/0!
Government	0	\$ -	#DIV/0!	#DIV/0!	#DIV/0!
Individuals	0	\$ -	#DIV/0!	#DIV/0!	#DIV/0!
Faith-Based Organizations	0	\$ -	#DIV/0!	#DIV/0!	#DIV/0!
<b>Total</b>	<b>0</b>	<b>\$ -</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>

Table 9. *SAMPLE* Largest Investors at [DATE]

Investor	Amount	% of Total Debt	Rate/Maturity	Characteristics
XYX Insurance Company	\$xx million	X%	X%/20XX with payments beginning in 20XX.	For XYZ program. No recourse to CDFI
ABC Bank	\$XX million	X%	X%/20XX with balloon payment at maturity.	Subordinate.....
DEF Foundation	\$XX million	X%	X%/20XX with balloon payment at maturity	Program related investment for XYZ program.

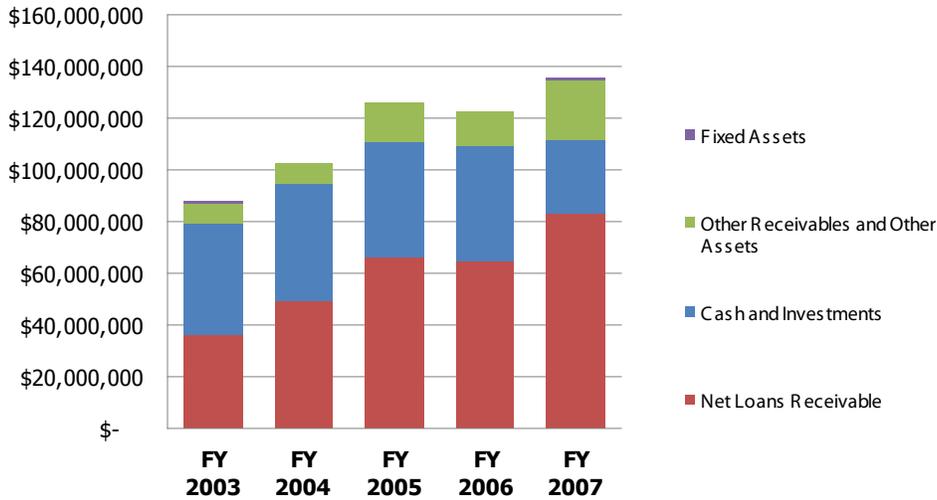
- Capital Strategy
- Contingent Liabilities

**Asset Quality**

- Asset Composition

Figure 4. *SAMPLE* Asset Composition, FYE 200x to FYE 200y

# CARS™ On the Road: Edition 6

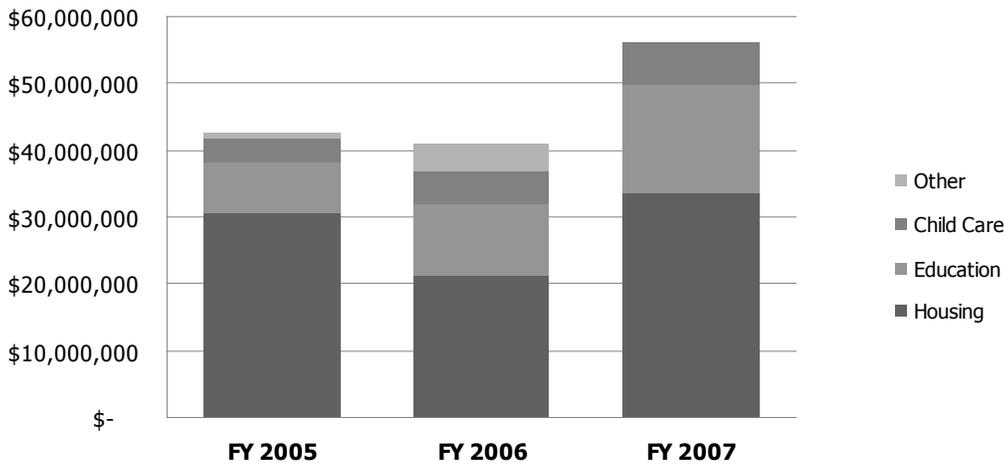


## ■ Loan Activity and Portfolio Composition

**Table 10. Loan Terms**

Loan Use	Max. Amount	Term	Rate	Security	Max. LTV

**Figure 5. *SAMPLE* Lending Trends by Sector, FYE 200x to FYE 200y**



**Table 11. Portfolio Composition by Loan Type, FYE 200X**

Loan Type	Number of Loans Outstanding	Loan Receivables (\$ Amount)	% of Outstanding Portfolio	Average Balance Outstanding
Enter Type of Loan	-	-	#DIV/0!	#DIV/0!
Enter Type of Loan	-	-	#DIV/0!	#DIV/0!
Enter Type of Loan	-	-	#DIV/0!	#DIV/0!
Enter Type of Loan	-	-	#DIV/0!	#DIV/0!
Enter Type of Loan	-	-	#DIV/0!	#DIV/0!
<b>Total</b>	-	-	<b>#DIV/0!</b>	

■ Collateral and Security Positions

Table 12. *SAMPLE* Portfolio LTV Ratios and Lien Position Analysis, at FYE 200x

Lien Position	Loan-to-Value				% of Total Portfolio
	< 75%	76%-90%	91%-100%	>100%	
First Position	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
First Position, Subordinated Payment	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Subordinated	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Unsecured	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Total</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>

■ Portfolio Performance and Management

Table 13. Delinquencies, Reserves, and Write-Offs

Delinquencies	6/30/2002	6/30/2003	6/30/2004	6/30/2005	6/30/2006	9/30/2006
31-60 Days	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
61-90 Days	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
> 90 Days	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
% of Portfolio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Total Delinquencies</b>	<b>\$ -</b>					
<b>% of Portfolio</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>
Write-Offs	\$0	\$0	\$0	\$0	\$0	\$0
% of Portfolio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Recoveries	\$0	\$0	\$0	\$0	\$0	\$0
<b>Net Write-Off</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>% of Portfolio</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>
Restructured Loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
% of Portfolio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>Loan Loss Reserve/Outstndings</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>

■ Loan Loss Allocation and Reserves

Table 14. *SAMPLE* Risk Ratings and Reserves as of [DATE]

Risk Rating	Number of Loans	Loans Outstanding (Gross \$000)	% of Loans Outstanding	Loan Loss Allocation	Required Reserve Amount
1 – Low Risk					
2 – Moderate Risk					
3 – Average Risk					
4 – Substantial Risk					
5 – High Risk					
6 – Workout					
<b>Total</b>					
<b>Total Loan Loss Reserve at December 31, 2007</b>					<b>\$xxx,xxx</b>

## CARS™ On the Road: Edition 6

### ■ Loan Approval and Documentation

**Table 15. *SAMPLE* Approval Limits**

	<b>Community Facilities (Child Care and Charter Schools)</b>	<b>Housing and Commercial Real Estate</b>
Loan Office Directors	\$XXX or less	\$XXXXX or less
President or Chief Credit Officer	\$XXXX to \$XXXXX	\$XXXXXX to \$XXXXXX
Loan Committees	In excess of \$XXXXXX	In excess of \$XXXXXX

### ■ Other Assets

#### Earnings

### ■ Operating Results

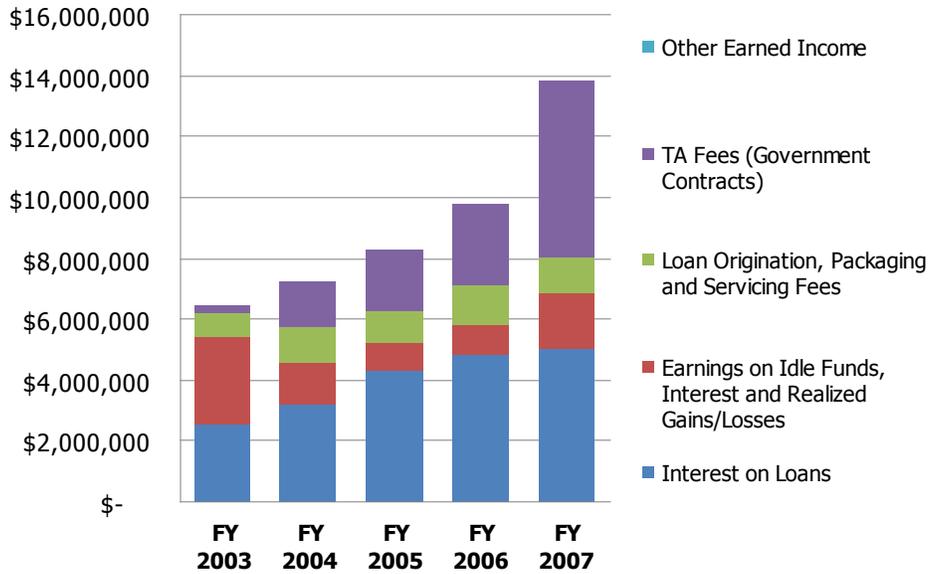
**Table 16. Earnings History, FY 200x through [DATE]**

<b>(\$ thousands)</b>	<b>6/30/2002</b>	<b>6/30/2003</b>	<b>6/30/2004</b>	<b>6/30/2005</b>	<b>6/30/2006</b>
Unrestricted Grants & Contributions	\$ -	\$ -	\$ -	\$ -	\$ -
Earned Revenue	-	-	-	-	-
Net Assets Released from Restrictions	-	-	-	-	-
Total Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	-	-	-	-	-
Surplus/Deficit from Operations	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Key Ratios:</b>					
Net Margin (Surplus (Deficit) from Operations/Unr Revenue	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
% Change in Earned Revenue from Prior Year	NA	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Self-Sufficiency (Earned Revenue/Total Expenses)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

### ■ Revenues

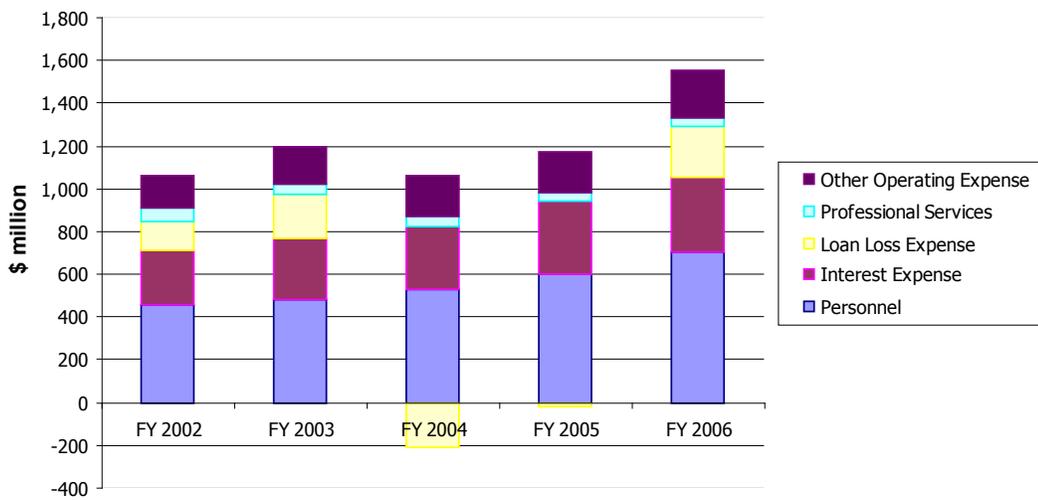
- *Interest on loans, (XX% of total unrestricted revenues in FY 200X)...*
- *Earnings on idle funds (YY%)...*
- *Loan origination, packaging, and servicing fees (ZZ%)...*
- *Technical assistance fees (QQ%) ...*

**Figure 6. *SAMPLE* Earned Income Analysis**



■ Expenses

Figure 7. *SAMPLE* Expenses



Liquidity and Liquidity Management

Table 17. Key Liquidity Indicators

	6/30/2002	6/30/2003	6/30/2004	6/30/2005	6/30/2006	9/30/2006
Current Assets/Current Liabilities	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Cash and Equivalent/Current Liabilities	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Deployment Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Months of Operating Cash	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

# CARS™ On the Road: Edition 6

## Management Quality

### ■ Strategy

Planning Process

Strategic Priorities

Performance Against Goals

Future Plans

### ■ Governance

Board Composition and Structure

Governance Role and Practices

Board Performance

### ■ Staffing and Human Resources

Staffing Structure

Senior Management

- **[NAME]}**, [title], [responsibility]. [Experience]

Staff Stability

### ■ Infrastructure and Management Information Systems

Information Technology

Policies and Procedures

Disaster Recovery Plan

Insurance Coverage

Physical Facilities

**CARS™  
CDFI Response to Ratings Analysis**

[OFN will insert CDFI response here]

ATTACHMENTS

CDFI Name

Statement of Financial Position	AUDIT		INTERIM								
	6/30/2000	% CH	6/30/2001	% CH	6/30/2002	% CH	6/30/2003	% CH	6/30/2004	% CH	9/30/2004
<b>Current Assets</b>											
Cash and Investments	\$ -		\$ -		\$ -		\$ -		\$ -		\$ -
Accounts Receivable	-		-		-		-		-		-
Grants Receivable	-		-		-		-		-		-
Interest Receivable	-		-		-		-		-		-
Current Loans Receivable	-		-		-		-		-		-
less Loan Loss Reserve	-		-		-		-		-		-
Loans Receivable (Net)	-		-		-		-		-		-
Prepaid Expenses	-		-		-		-		-		-
Other Current	-		-		-		-		-		-
<b>Total Current Assets</b>	-		-		-		-		-		-
<b>Noncurrent Assets</b>											
Investments in Idle Funds	-		-		-		-		-		-
LT Loans Receivable	-		-		-		-		-		-
less Loan Loss Reserve	-		-		-		-		-		-
Loans Receivable (Net)	-		-		-		-		-		-
LT Grants Receivable	-		-		-		-		-		-
Equity Investments in CD Projects	-		-		-		-		-		-
Real Estate	-		-		-		-		-		-
Fixed Assets (Net)	-		-		-		-		-		-
Other Assets	-		-		-		-		-		-
<b>Total Noncurrent Assets</b>	-		-		-		-		-		-
<b>TOTAL ASSETS</b>	<u>\$ -</u>		<u>\$ -</u>								
<b>LIABILITIES AND NET ASSETS</b>											
<b>Current Liabilities</b>											
Accounts Payable	\$ -		\$ -		\$ -		\$ -		\$ -		\$ -
Grants Payable	-		-		-		-		-		-
Loans Payable	-		-		-		-		-		-
Other Current Liabilities	-		-		-		-		-		-
<b>Total Current Liabilities</b>	-		-		-		-		-		-
<b>Noncurrent Liabilities</b>											
Loans Payable	-		-		-		-		-		-
Subordinated Debt	-		-		-		-		-		-
Equity Equivalent Investments	-		-		-		-		-		-
Other LT Liabilities	-		-		-		-		-		-
<b>Total Noncurrent Liabilities</b>	-		-		-		-		-		-
<b>Total Liabilities</b>	-		-		-		-		-		-
<b>Net Assets</b>											
Unrestricted	-		-		-		-		-		-
Unrestricted - Designated for Financing	-		-		-		-		-		-
Temporarily Restricted - Operations	-		-		-		-		-		-
Temporarily Restricted - Financing Capital	-		-		-		-		-		-
Permanently Restricted	-		-		-		-		-		-
<b>Total Net Assets</b>	-		-		-		-		-		-
<b>Total Liabilities and Net Assets</b>	<u>\$ -</u>		<u>\$ -</u>								
check	-		-		-		-		-		-

NOTE: Standard format is adapted as needed for particular CDFIs.

CDFI Name

Statement of Activities	AUDIT		INTERIM								
	6/30/2000	% CH	6/30/2001	% CH	6/30/2002	% CH	6/30/2003	% CH	6/30/2004	% CH	9/30/2004
<b>UNRESTRICTED REVENUE</b>											
<b>Financing Revenue</b>	\$ -		\$ -		\$ -		\$ -		\$ -		\$ -
Interest on Loans	-		-		-		-		-		-
Interest Investments	-		-		-		-		-		-
Total Financing Income	-		-		-		-		-		-
Less Interest Expense	-		-		-		-		-		-
Net Interest Income before Loss Allocation	-		-		-		-		-		-
less Loss Allocation	-		-		-		-		-		-
Subtotal Net Financing Income	-		-		-		-		-		-
Realized Gains (Losses) on Investments	-		-		-		-		-		-
<b>Net Financing Income</b>	-		-		-		-		-		-
<b>Fee Revenue</b>											
Program Service Fees	-		-		-		-		-		-
Gov't and Other Contract Revenue	-		-		-		-		-		-
Rental Fees	-		-		-		-		-		-
Other Fees/Other Income	-		-		-		-		-		-
<b>Total Fee Income</b>	-		-		-		-		-		-
<b>Contributed Revenue</b>											
Unrestricted Grants and Contributions	-		-		-		-		-		-
In-Kind Donations	-		-		-		-		-		-
Net Assets Released from Restrictions	-		-		-		-		-		-
<b>Total Contributed Revenues</b>	-		-		-		-		-		-
<b>Net Revenue</b>											
<b>Operating Expenses</b>											
Personnel	\$ -		\$ -		\$ -		\$ -		\$ -		\$ -
Professional Services	-		-		-		-		-		-
Depreciation	-		-		-		-		-		-
Other Operating Expense	-		-		-		-		-		-
Grants Made	-		-		-		-		-		-
<b>Total Expenses</b>	-		-		-		-		-		-
<b>Surplus (Deficit) from Operations</b>	-		-		-		-		-		-
<b>Other Change in Unrestricted Net Assets</b>											
Unrealized Gains/Losses	-		-		-		-		-		-
<b>Change in Unrestricted Net Assets</b>	-		-		-		-		-		-
<b>Changes in Temporarily Restricted Net Assets</b>											
Grants and Contributions	-		-		-		-		-		-
TR Interest and Fees	-		-		-		-		-		-
TRNA Released from Restriction	-		-		-		-		-		-
<b>Change in Temporarily Restricted Net Assets</b>	-		-		-		-		-		-
<b>Change in Permanently Restricted Net Assets</b>											
Grants and Contributions	-		-		-		-		-		-
<b>Change in Permanently Restricted Net Assets</b>	-		-		-		-		-		-
<b>Change in Net Assets</b>	-		-		-		-		-		-
<b>Change in Net Assets from Statement of Position</b>											
Beginning Net Asset Balance (Year End Audit)	-		-		-		-		-		-
Current Net Asset Balance	-		-		-		-		-		-
Check:											

NOTE: Standard format is adapted as needed for particular CDFIs.

# CARS™ On the Road: Edition 6

Additional Data and Ratios		AUDIT		AUDIT		AUDIT		INTERIM
		6/30/2002	% CH	6/30/2003	% CH	6/30/2004	% CH	9/30/2004
<b>Capital</b>	Net Fixed Assets/Net Assets	#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
	Real Estate/Total Assets	#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
	Loans Outstanding/Total Assets	#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
	Equity Investments/Total Assets							
<b>Asset Quality</b>								
\$ Past Due/ % Past Due of Loans Outstanding								
	31-60 Days	#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
	61-90 Days	#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
	> 90 Days	#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
	Total > 30 Days	#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
	Restructured Loans/Loans Outstanding	#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
\$ Past Due	31-60 Days	\$0		\$0		\$0		\$0
	61-90 Days	\$0		\$0		\$0		\$0
	> 90 Days	\$0		\$0		\$0		\$0
	Total > 30 Days	\$0		\$0		\$0		\$0
	Gross Amount Charged-Off	0		0		0		0
<b>Earnings</b>								
	Interest Earned/(Loans Outstanding + Cash + Investments)	#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
	Interest Expense/Total Debt	#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
<b>Liquidity</b>								
Months of Op Cash	(Op Cash & Equiv)/(Op Expenses/12)	#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!
Debt Coverage	(Op Rev - Op Exp)/Interest Expense	#DIV/0!		#DIV/0!		#DIV/0!		#DIV/0!

**FY 2005 Ratio Analysis for CDFI Name**

<b>Organization</b>	<b>CDFI NAME</b>	<b>Peer Group</b>	<b>B3</b>
		<b># of CDFIs:</b>	12

Note: Peer group B3 consists of business loan funds with total capital greater than \$10 million

**Size and Type**

Total Capital per CDFI	\$45,170,000	\$45,000,001
Average Year since First Loan/Investment	1982	1986
# of FTEs	#### #####	27.8
Total Operating Expenses	\$3,036,546	\$3,419,710
% of Group's 2004 Direct Financing		
Microenterprise (M)	100.0%	14.2%
Business (B)	Not Applicable	79.7%
Housing to Organizations (HO)	Not Applicable	2.3%
Housing to Individuals (HI)	Not Applicable	0.5%
Community Service (S)	Not Applicable	2.5%
Consumer (C)	Not Applicable	0.1%

**Staff and Board**

# of FTEs	#### #####	27.8
% FTEs for Financing	76.3%	42.5%
% FTEs for Training and TA	7.9%	18.1%
% Group's FTEs Minority	57.9%	23.8%
% Group's FTEs Female	73.7%	63.9%
# of Board Members	#### #####	#### #####
% of Group's Board Minority	25.0%	26.9%
% of Group's Board Female	50.0%	33.6%

**Financing Activities and Performance**

Total Financing Outstanding per CDFI	\$10,675,444	\$15,710,573
% of Financing in Loans Outstanding	100.0%	93.0%
% of Financing in Debt with Equity-Like Features	Not Applicable	2.8%
% of Financing in Equity Investments	Not Applicable	2.3%
% of Financing in Guarantees	Not Applicable	1.9%
Average Size of Financing Outstanding	\$9,550	\$110,188
Average Size of Loans Outstanding	\$9,550	\$108,369
Average Debt with Equity-Like Features Investment	Not Applicable	\$126,895
Average Equity Investment	Not Applicable	\$231,314
\$ of Direct Financing Closed	\$10,272,071	\$8,004,259
# of Direct Financing Closed	#### #####	### #####
Deployment Ratio with Commitments	82%	71%
Deployment Ratio without Commitments	82%	64%
Interest Rate	12.3%	7.4%
Term of Loan in Months	## #####	### #####
Loan Loss Reserve Ratio	7.9%	9.9%
Delinquencies > 90 Days	2.6%	8.0%
Net Loan Loss Ratio	4.5%	5.5%
Cumulative Loss Ratio	6.8%	6.5%

**Capitalization**

Equity/Total Capital	27.5%	49.7%
Borrowed Capital/Total Capital	55.1%	44.5%
Equity Equivalents (EQ2)/Total Capital	17.5%	3.8%
Cost of Borrowed Funds	2.9%	2.7%

# CARS™ On the Road: Edition 6

## CARS™ RATINGS AND DESCRIPTIONS

### Impact Performance<sup>4</sup>

The Impact Performance rating is an assessment of how well the CDFI does what it says it is trying to do. This rating is based on an assessment of the CDFI's effective use of its financial resources to achieve its stated mission and the CDFI's own evidence of how its activities contribute to its mission and benefit disadvantaged people and communities. The assessment is based on four key criteria:

- Alignment of strategy and operations: how well the CDFI's mission, strategies, products and services, output data, and impact data are tied together.
- Effective use of financing resources: how well the CDFI uses its financing resources in support of its mission and target population.
- Tracking of outputs that indicate effectiveness: how well the CDFI tracks its own relevant outputs (activities such as loans disbursed, participants trained, etc.), whether those data indicate that the CDFI is accomplishing its goals, and how the CDFI uses those data to improve its effectiveness.
- Tracking of outcomes or impacts that indicate effectiveness: how well the CDFI tracks the actual outcomes of its work for disadvantaged people and communities (such as jobs actually created, housing units occupied by low-income families, improved community conditions), whether those data indicate that the CDFI is benefiting disadvantaged people and communities, and how the CDFI uses those data to improve its effectiveness.

The analysts score each of these areas on a scale of 1 to 3, with 1 being best. Using those scores and the full analysis as a guide, the ratings committee assigns the Impact Performance rating based on which of the following descriptions best fits the CDFI.

### Rating

**AAA.** A CDFI in this group has clear alignment of mission, strategies, activities, and data that guides its programs and planning. The CDFI presents data that clearly indicate that it is using its resources effectively to benefit disadvantaged people and communities and achieve positive impacts related to its mission. It has processes and systems that track output and outcome data on an ongoing basis, and it can provide data showing positive changes in the communities or populations being served. This CDFI uses its data on an ongoing basis to adjust strategies and activities in line with its desired impact.

**AA.** A CDFI in this group has clear alignment of mission, strategies, activities and data that guides its programs and planning. It accurately tracks appropriate output data that indicate that it is using its resources effectively to benefit its target populations or communities in line with its mission. The CDFI uses its data on an ongoing basis to adjust strategies and activities in accordance with its desired impact. It may track a limited number of impact indicators as well, but impact data tracking may not be rigorous or consistent.

**A.** A CDFI in this group has reasonable strategies and activities given its mission. It tracks basic output data that indicate fairly effective use of its resources to benefit its target populations or communities in line with its mission.

**B.** A CDFI in this group may lack alignment of its mission, strategies, activities and data. The CDFI either lacks data to form an opinion of its outputs and impact, or the data show that the outputs and impact are unsatisfactory. This CDFI may also have a history of not using its financial resources fully to serve its target populations or communities.

### Policy Plus

Policy change is an integral part of this CDFI's strategies. The CDFI leads initiatives to change government policy to benefit the community development finance industry or disadvantaged people and communities. The CDFI can provide evidence of its leadership role in recent policy changes that produced benefits beyond additional resources for the CDFI itself, and management can clearly articulate the CDFI's leadership role in current policy activities.

### Financial Strength and Performance

The rating for Financial Strength and Performance (FSP) is an assessment of the CDFI's overall creditworthiness. This rating is based on an analysis of past financial performance, current financial strength, and apparent risk factors.

<sup>4</sup> See attached "Explanation of Outputs, Outcomes, and Impact" for a more complete explanation of the terminology and methodology behind the impact performance assessment.

The methodology is based on the CAMEL analysis used by regulators to rate banks. CAMEL stands for Capital (or capitalization), Asset quality, Management (including strategy, governance, management and staff, and infrastructure and management information systems), Earnings, and Liquidity.

The analysts score the CDFI in each one of these areas on a scale of 1 to 5, with 1 being best. Using those scores and the full analysis as a guide, the ratings committee then assigns the CDFI its Financial Strength and Performance rating based on which of the following descriptions best fits the CDFI.

**Rating**

SOUND

- 1.** A CDFI in this group is sound in every respect. It exhibits exceptional financial strength, performance and risk management practices. Any weaknesses are minor and can be handled in a routine manner by the board of directors and management. This CDFI is resilient to significant changes in its operating environment. It generally has a score of 1 or 2 in all five of the FSP areas.
- 2.** A CDFI in this group is fundamentally sound. It exhibits solid financial strength, performance, and risk management practices relative to its size, complexity, and risk profile. Challenges are well within the board of directors' and management's capabilities and willingness to strengthen. The CDFI is stable and is capable of withstanding fluctuations in its operating environment. Generally, most FSP scores for this CDFI are 2 or above, although it may have received a 3.
- 3.** The current financial strength and recent performance of this CDFI is satisfactory. It exhibits satisfactory financial strength, performance, and risk management practices relative to its current situation. It is stable but less capable of withstanding fluctuations in its operating environment than a CDFI rated 1 or 2. Generally, most FSP scores for this CDFI are 3 or better, although the CDFI may have received a 4.

VULNERABLE

- 4.** A CDFI in this group is facing challenges that compromise its financial strength and performance. It exhibits weaknesses in one or more areas that could compromise its financial situation in the short term, even in a stable operating environment. The CDFI exhibits somewhat weak financial strength, performance, or risk management practices relative to its current situation. Generally, this CDFI received FSP scores of 4 and above, although it may have received a 5.
- 5.** A CDFI in this group exhibits significant weaknesses in several areas that compromise its current and long-term financial viability. Although the CDFI may be able to sustain operations for a period of time, its financial stability is extremely sensitive to any fluctuation in its operating environment. Generally, this CDFI received FSP scores of 4 and 5, although it may have received higher scores in one or more categories.

**EXPLANATION OF OUTPUTS, OUTCOMES, AND IMPACT**

To understand the CARS™ approach to Impact Performance it is important to understand how CARS™ uses the terms output, outcome, and impact. **Output** refers to activities or services provided by the CDFI. Any data that can be collected at the time of the CDFI’s intervention is considered output data. Output data include things such as: characteristics of borrowers, loan amounts, number of existing jobs in the business, estimated number of jobs to be created, number of housing units in the financed project, estimated number of child care slots to be created, number of participants trained, ethnicity or income level of participants, and so on.

**Outcome data** refers to information that is gathered at some point *after* the CDFI’s intervention. Outcomes describe the value of the CDFI’s work for disadvantaged people or communities. It is information related to what has happened since the CDFI provided capital or training or any other output. Outcomes include things such as the number of jobs actually created in financed businesses, the number of training participants who started a business (or became employed), the number of housing units occupied by low-income families, changes in the affordability of housing in a certain neighborhood, information about how access to affordable housing has changed the lives of low-income families, changes in access to affordable childcare in a community, and so on.

According to academics, **impact** implies causality between the outputs and the observed change, which requires control groups and a level of rigor beyond most, if not all, CDFIs. For the fourth impact performance criterion, “tracking of outcomes or impacts that indicate effectiveness,” CARS™ examines both intermediate outcomes and end outcomes (as opposed to true impact), with the highest score for CDFIs that are tracking some kind of “end outcomes.” Table A shows the difference between outputs, intermediate outcomes, and end outcomes.

**Table A. Outputs, Intermediate Outcomes, and End Outcomes**

Type of Lender	Outputs	Intermediate Outcomes	End Outcomes
Affordable Housing	<ul style="list-style-type: none"> <li>• Number of loans</li> <li>• Number of units in funded projects</li> <li>• Number of community development corporations assisted</li> </ul>	<ul style="list-style-type: none"> <li>• Number of houses rehabbed</li> <li>• Number of units developed</li> <li>• Number of units occupied by low-income people</li> </ul>	<ul style="list-style-type: none"> <li>• Stable, revitalized neighborhoods</li> <li>• Low-income families spending less on affordable housing</li> <li>• Increased availability of affordable housing</li> </ul>
Small Business	<ul style="list-style-type: none"> <li>• Number of loans</li> <li>• Characteristics of borrowers (income level, gender, ethnicity, etc.)</li> <li>• Number of entrepreneurs trained</li> </ul>	<ul style="list-style-type: none"> <li>• Number of businesses with improved access to financing</li> <li>• Number of participants that start businesses</li> </ul>	<ul style="list-style-type: none"> <li>• Number of jobs actually created by borrowers</li> <li>• Increased income of borrowers/participants</li> <li>• Increased employment opportunities and economic activities in the community</li> </ul>

**FULL ANALYSIS TEMPLATE NOTES:**

**FULL ANALYSIS TEMPLATE NOTES:**

## ATTACHMENT 7

### CARS™ DOCUMENT REQUEST LIST FOR CDFIs

Attached please find the CARS™ document request list for \_\_\_\_\_

**As you can see, the document request list is organized by the sections of the CARS™ report. To make it easier for the analysts to understand your organization, please organize the documents you send in the order shown.** A couple of things to remember as you go through the list:

- The list looks long but most CDFIs are likely to have many of the documents on hand.
- Some of the documents you may have to pull together from existing sources of information. Doing this in advance should decrease the questions from the analysts as they begin their analysis and prepare for the site visit.
- Some of the information for the sections you will need to fill into a separate attachment.
- Some of the documents we are requesting may not apply to your CDFI. If you don't have a document, just indicate that you do not have it.

**Please send the documents to Jon Schwartz at Opportunity Finance Network (contact information below).** We have indicated what documents Opportunity Finance Network already has in its files (including the date, and whether the document is in electronic or hard copy), but it would be much easier for the analysts if the files are all categorized by section of the document request list on a CD.

**We will be forwarding these documents to the CARS™ analysts working on your rating, so electronic versions (on CD Rom) of documents are preferred. For spreadsheets, please send them in Excel (instead of pdf files). If the document is only available in hard copy, please send three copies (one for each analyst and one for our files).**

If you do not have the exact document requested, please send whatever information you have that might include the same or similar information. Indicate if certain information is included in other documents (for example, the organizational chart may be in the business plan).

Requested information that may not be documented (such as asset liability matching strategies, for example) may be explained to the analyst by phone or during the site visit.

The list includes a request for contact information for board members and a limited number of investors and donors. The analysts will inform you in advance if they plan to contact any of these individuals.

Thanks for your cooperation. The more complete your materials are, the easier it will be for the analysts to do a thorough analysis. They should have fewer questions or additional information requests for you, and will be more prepared for the site visit, taking up as little of your time as possible.

Date of Request: \_\_\_\_\_

Date Materials Requested By: \_\_\_\_\_

Requested Document		Opportunity Finance Network Files	CDFI Comments
<b>General Financial Information</b>			
1	Audited financial statements (five years), including cash flows.		
2	Auditor's most recent management letter and management's response		
3	Interim financial statements as of most recent quarter-end.		
<b>Impact Performance</b>			
<b>If applicable, please include data from both your on-balance sheet and off-balance sheet lending activities. Please segregate and identify the data that pertains to each.</b>			
4	Mission statement		
5	Most recent annual report		
6	Recent reports/memos to investors, donors, mgmt, or board that provide good information on strategies, activities.		
7	Description of programs, financial products, non-financial products, and services.		
8	Any available documentation of off-balance sheet financing activities for the last five years.		
9	Reports that track annual <b>for the last 5 years and the last interim period:</b> loan closed (\$ and # by loan product), loans committed but not disbursed and other key financial outputs. <b>PLEASE FILL OUT ATTACHMENT #1, WORKSHEET #2 AS WELL</b>		
10	Reports that track annual <b>for the last 5 years and the last interim period:</b> volume of non-financing activities, other key outputs and outcome data (i.e. characteristics of borrowers, clients trained, affordable housing units completed, jobs created or retained, changes in the communities or populations served, etc.). <b>PLEASE FILL OUT ATTACHMENT #1, WORKSHEET #2 AS WELL</b>		
11	Impact studies done by the CDFI or contracted out.		
<b>Policy</b>			
12	Public policy agenda and priorities.		
13	Reports on public policy activities, successes, etc.		
<b>Capitalization &amp; Capital Structure</b>			

	Requested Document	Opportunity Finance Network Files	CDFI Comments
14	List of 5 largest investors and 5 largest donors and amount of their support, interest-rate, maturity and allowable uses of capital. <b>PLEASE INCLUDE THIS INFORMATION ON ATTACHMENT #1 AS WELL</b>		
15	Break-out by category debt capital and EQ2 sources as of most recent FYE. <b>PLEASE INCLUDE THIS INFORMATION ON ATTACHMENT #1</b>		
16	Break-outs on most recent quarterly financial statements AND last five years: <ul style="list-style-type: none"> <li>- Cash for Operations versus for Financing</li> <li>- Major categories of temporarily restricted net assets and related restrictions.</li> <li>- Major categories of permanently restricted net assets and related restrictions.</li> </ul>		
17	Current capitalization plan		
18	List of significant covenants with significant investors and brief description of how you ensure compliance.		
19	Financial statements of unconsolidated affiliates in which you have exposure or investments.		
20	List of any contingent liabilities, including indemnities provided to NMTC investors.		
<b>Asset Quality</b>			
<b>Asset Quality data should reflect ONLY your on-balance sheet lending activity. Off-balance sheet lending, if any, should not be included in the various portfolio reports and lending data provided to CARS™. If provided it should be provided separately.</b>			
21	List of Loans Outstanding for most recent quarter-end. Data should include disbursement date, maturity date, amount outstanding, interest rate, risk rating. If possible, by product line and in excel format. <b>PLEASE ALSO FILL OUT ATTACHMENT #1</b>		
22	Reports/analysis to management on portfolio quality or status, indicating risk rating, delinquency (with aging of loans receivable), reserves, etc. as of end of last 5 audited periods, and most recent quarter-end.		
23	Underwriting and portfolio management policies and guidelines.		

Requested Document		Opportunity Finance Network Files	CDFI Comments
24	Risk rating policies and guidelines		
25	Recent Exceptions Report: list of approved loans outside of policy parameters, and reasons for approval.		
26	Package of materials sent for most recent loan or investment committee including due-diligence memos considered by the committee.		
27	If due diligence memos provided for #26 do not represent all of the CDFI's loan products, please include a memo for each of those loan products, and one for a delinquent loan and a restructured loan.		
28	Minutes from Investment or Loan Committee for last 2 meetings.		
29	List of loans (with amount) on non-accrual and/or > 90 days past due as of end of most recent quarter, preferably by sector or product. <b>PLEASE SUMMARIZE THIS INFORMATION IN ATTACHMENT #1 AS WELL</b>		
30	List of and amounts of loans restructured during each of the last five fiscal year-ends and during your current FY through the most recent quarter. Please include definition used for "restructured loans".		
31	Amount of loans/investments charged off and recoveries each year for past 5 years and the most recent quarter.		
32	Recent internal or external loan review or loan file audits.		
33	Idle funds investment guidelines/policies		
<b>Earnings</b>			
34	Budget versus Actual reports (last completed year and most recent quarter-end).		
35	Policies and procedures for internal financial management		
<b>Liquidity</b>			
36	Strategies, practices, tools for managing operating and loan fund liquidity.		
37	Strategies for managing credit risk, interest rate risk, and liquidity risk		
38	Asset liability matching policy and/or spreads used to ensure appropriate matching. (Spreads or other tools may need to be reviewed with staff during site visit.)		
<b>Management – Strategy</b>			

Requested Document		Opportunity Finance Network Files	CDFI Comments
39	Current strategic and/or business plan and any recent updates to these documents. If current plan is one year old or less please provide old plan.		
40	Current financial projections		
<b>Management – Governance</b>			
41	Bylaws		
42	Board roster with affiliations noted, Board terms, and email or phone numbers		
43	List of board committees and members		
44	Minutes of board meetings for past year		
45	Most recent board packet		
46	Succession plans for key staff and board leadership		
<b>Management – Staffing &amp; HR</b>			
47	Organizational chart and job descriptions for key positions		
48	List of management staff departures over past 3 years, including start and departure dates and position.		
49	Resumes/bios for key staff members. Please note date each person started with CDFI.		
<b>Management – Infrastructure &amp; MIS</b>			
50	MIS description and plan		
51	Disaster recovery plan or procedures		
52	Recent internal or external operations audit.		

Please email or send materials to:

Jon Schwartz  
 Senior Associate, CARS™  
 215.320.4308  
 Jschwartz@carsratingsystem.net

Public Ledger Building, Suite 572  
 620 Chestnut Street  
 Philadelphia, PA 19106

**ATTACHMENT 8****Cover Memo for CDFI Corrections to First Draft****To:****From:** Paige Chapel**Date:****Re:** First draft CARSTM analysis

Thanks for participating in the CARSTM process. We recognize that this is a time-consuming process and hope that you and your CDFI benefit from your participation. Your participation is helping create an effective rating system for the entire CDFI industry.

Attached please find the draft CARSTM analysis for {NAME} for your review. Please keep in mind that this analysis is confidential and, per the CARSTM Agreement, may not be shared or distributed. It is for your internal review only.

The purpose of this review is for you to check the report for accuracy and suggest revisions to correct any mistakes. As such, it does not include the summary opinions of the analysts, which will be included following the "Introduction" in the final draft. Per the CARSTM agreement, you have 10 business days from today's date to provide us with your suggested corrections. **Please submit any proposed corrections to me on the attached form by {DATE}.** The final document will be copy-edited so you do not need to worry about spelling, punctuation, or formatting.

As you review the document, please keep in mind that the CARSTM analysis is designed to meet the underwriting needs of potential investors by presenting information from a credit perspective which, by its very nature, means that the analysts try to identify any potential risks. The credit perspective clearly requires a different language and tone than you normally use when you write about your CDFI in funding proposals or marketing materials. For example, while you may talk about your staffing as "efficient" when communicating with a funder or investor, the CARSTM analysis may refer to it as "lean." As a third-party analyst, our job is to make sure that the document is as transparent as possible about potential risks. As you review the document, consider the language and tone that your credit officers use to underwrite a potential borrower.

I will share your suggested corrections with the analysts, who will make final decisions about revisions to the analysis. We will then send you a final analysis, complete with the opinions of the analysts (but no rating), for review. At that time, you will have 5 business days to review the final analysis and, if you so choose, to submit a written response of up to one page in length. Thereafter, the final analysis will include your written response.

The final analysis will be presented to the ratings committee who will establish the rating. Once the rating is established, you will have an opportunity to either approve or deny the distribution of the rating and analysis.

Please let me know if you have any questions regarding this process. Thanks again for your participation.



**ATTACHMENT 9**

**To: Jon Schwartz (fax: 215-923-4755)**

**From:**

**Date:**

**Re: Prohibit Dissemination of CARS™ Rating for {INSERT CDFI NAME}**

---

Per my signature below, I hereby prohibit Opportunity Finance Network from disclosing the rating or sharing or distributing any portion of the CARS™ analysis indicated below.

Furthermore, I agree that {INSERT CDFI NAME} will neither disclose the CARS™ rating to any parties nor distribute any portion of the CARS™ analysis to any parties.

CDFI name: {INSERT CDFI NAME}

Date of CARS™ Analysis: {INSERT DATE ON ANALYSIS}

Signed: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_



**ATTACHMENT 10**

**Letter to CDFIs with Rating**

Date  
 Name  
 CDFI  
 Address

Dear First Name,

I want to thank you and your staff for participating in the CARS™ process. We appreciate your willingness to open your CDFI up to this new analysis system and, by so doing, help us expand CARS™. We continue to learn as we gain experience and hope that you will continue to provide us with honest feedback and input so that we can improve the process.

As you know, the CARS™ Ratings Committee met today by teleconference and discussed the rating for CDFI based on the analysis that you have already reviewed. Attached please find the Ratings Committee Guidelines. The CARS™ Ratings Committee awarded the following ratings to CDFI:

<p><b>Impact Performance: RATING</b>                  Description</p> <p>Financial Strength and Performance: <b>RATING</b>                  Description</p>
---

If you decide to prohibit distribution of your CARS™ rating and analysis, you must signify your decision by filling out, signing, and returning the attached form to me within five business days. Otherwise, we will contact all CARS™ subscribers (listed in the attached document) to let them know CDFI’s rating and analysis are available. We will notify you whenever your rating and analysis are provided to a purchaser. The ratings and analyses are being copy-edited and formatted and we plan to distribute them to you and the subscribers within a few weeks.

We will also provide you with a brief document with your CDFI’s rating and rating descriptions that you can distribute, as well as a CARS™ certificate. These documents will also be ready within a few weeks.

Based on the analysis and the Ratings Committee discussions, within the next week or so, I will provide you with a letter that identifies the types of changes that would lead to higher ratings for your CDFI in the Impact Performance and Financial Strength and Performance areas.

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In 20XX, we plan to rate [number] CDFIs, including [number] for the second or third time, which will bring the number of rated CDFIs to almost [number]. We are also marketing to additional investor subscribers. We will continue to adjust the methodology and process as we learn from our experience. As you may recall, our ultimate goal is to establish an independent and sustainable ratings system that will maintain current ratings on hundreds of CDFIs to facilitate an increased flow of capital to the industry. I will keep you informed as the ratings process evolves and look forward to your continued input.

We greatly appreciate your cooperation and input throughout this process, and hope that your CDFI and the CDFI industry benefit from your participation. Please give me a call at any time to discuss any questions or suggestions you might have.

Sincerely,



Paige Chapel  
Executive Vice President CARS™

Enclosures:

Ratings Committee Guidelines  
CARS™ Subscribers  
Agreement to Prohibit Dissemination

## ATTACHMENT 11

### Feedback Letter to CDFIs

Date  
Name  
CDFI

Dear First Name,

Thanks once again for participating in CARS™. We continue to learn a lot about how to rate CDFIs, most of it through feedback from CDFIs, and continue to revise our process to improve it. We appreciate your willingness to participate.

As you know, the Ratings Committee met recently and rated CDFI as **RATING**. As the Ratings Committee Guidelines (attached in prior email) point out, the Ratings Committee makes every effort to come to a consensus on each rating and its discussions are confidential.

The purpose of this letter is to provide you with feedback from the CARS™ analysis process. I have tried to identify issues about CDFI that could contribute to a higher rating in each category.

Please keep in mind the following important factors as you review the issues below:

**(1) A CDFI may choose NOT to address the issues highlighted in this letter.**

Neither CARS™ nor Opportunity Finance is recommending that you necessarily address these issues, as some of them may be deliberate decisions on your part that enable you to best fulfill your mission. Some typical CDFI activities are inherently risky, thereby affecting the creditworthiness (and Financial Strength and Performance rating) of the CDFI. For example, some factors that might contribute to a CDFI receiving a "3" in Financial Strength and Performance might include: a high percentage of loans to start-up businesses and a very high reliance on volatile grant revenue to cover operating expenses (including an extensive training program for borrowers). While these factors, when considered together with other factors, might decrease the creditworthiness of the CDFI, they may be critical to the CDFI's mission and strategies. The CDFI might reasonably conclude that they would rather continue with these practices and maintain their "3" than change these practices in pursuit of a higher rating.

Likewise, strengthening Impact Performance could potentially lead to a weakening of the Financial Strength and Performance rating (and vice-versa). For example, a CDFI that brings on more debt and increases its deployment could be strengthening its Impact Performance rating but potentially weakening its Financial Strength and Performance rating.

**(2) The rating is a composite of many factors within a changing context; directly addressing some issues (while others are also shifting) will not necessarily lead to a different rating.**

Using the same example as above, let's assume that the CDFI decides to dramatically decrease the percentage of loans to start-up businesses. At the same time, however, they decrease their loan loss reserve and change their loan loss reserve policy. Just because they addressed one issue does not mean that other factors will not lead to the same final rating.

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- (3) **There are no firm benchmarks that, in isolation of other factors, determine a rating.** For example, there is no percentage of deployment that leads to a certain Impact Performance rating, no percentage of net assets that leads to a precise Financial Strength and Performance rating, etc. Because the rating is a composite of so many factors, and different kinds of CDFIs are assuming different kinds of risks, we have no single benchmarks that determine a rating. As described in the Rating Guidelines, the process is guided by an internal scoring system but, ultimately, the final determination of each rating is made by selecting the rating description that best describes the CDFI, considering the breadth and depth of information about the CDFI that has been analyzed.
- (4) **Please keep in mind what, exactly, is being rated by CARS™ as described in the rating descriptions (included at the end of your CARS™ analysis).** The Impact Performance rating is based on an assessment of the CDFI's effective use of its financial resources to achieve its stated mission, and the CDFI's own evidence of how its activities contribute to its mission. The Policy Plus is based on determining whether changing government policy is an integral part of the CDFI's strategies. The Financial Strength and Performance rating is an assessment of the CDFI's overall creditworthiness.

With the above issues in mind, I hope that the comments below are helpful as you continue to work towards making CDFI the most effective CDFI possible. The changes listed below, should you choose to make them, could contribute to stronger ratings for CDFI.

Impact

- 

FSP

- 

I hope these observations are helpful to you. As always, please feel free to give me a call to discuss any aspects of the CARS™ process.

Thanks again for your participation.

Sincerely,



Paige Chapel  
Executive Vice President, CARS™  
Opportunity Finance Network



**ATTACHMENT 12**

**CARS™ ANNUAL REVIEW DOCUMENT REQUEST LIST FOR CDFIs**

**Please send the documents to Jon Schwartz at Opportunity Finance Network (contact information below). We will be forwarding these documents to the CARS analyst working on your rating.**

If you do not have the exact document requested, please send whatever information that you have that might include the same or similar information. Indicate if certain information is included in other documents (for example, the organizational chart may be in the business plan).

Thanks for your cooperation. The more complete your materials are, the easier it will be for the analysts to do a thorough analysis. They should have fewer questions or additional information requests for you, and be more prepared for the site visit, taking up as little of your time as possible.

**Date of Request:**

**Date Materials Requested By:**

		<b>Opportunity Finance Network Files</b>	<b>CDFI Comments</b>
<b>Documents you are likely to have on hand:</b>			
1	Audit of most recent fiscal year end		
2	Auditor’s most recent management letter and management’s response		
3	Attached spreadsheet with information filled in all yellow areas (TWO SHEETS)		
4	Answers to Annual Review Questionnaire (Attachment A below).		
5	Detailed portfolio report as of the end of the most recent fiscal year, showing the status of all outstanding loans		
6	Budget versus actuals report for most recent fiscal year.		
7	Current list of board members with titles and affiliation.		
8	List of changes in senior management and resumes of any new senior management.		
9	Any business plan or strategic plan completed since the last review.		
10	Minutes of last three board meetings.		
11	The signed “material events” form (Attachment B below).		

Please email or send materials to:

Jon Schwartz  
 Senior Associate, CARS™  
 215-320-4308  
[jschwartz@carsratingsystem.net](mailto:jschwartz@carsratingsystem.net)



## ATTACHMENT 13

### CARS™ Annual Review Questionnaire for CDFIs

#### INSTRUCTIONS:

- **Please review your CARS™ Analysis (or most recent Annual Review) prior to answering these questions, as these questions focus on CHANGES during the last fiscal year since that analysis.**
  - **Keep in mind that the purpose of this questionnaire is to highlight significant changes over the last year for the analyst, who will then discuss these changes with you and your staff over the phone.**
  - **Please keep your responses to a MAXIMUM of five pages (plus the requested attachments). Feel free to answer briefly or in bullets and remember that you only need to focus on changes during the last fiscal year! If something has not changed (such as your mission or strategies in question (1), you can just say there has been no change.**
- 1) Describe any significant changes in your CDFI's mission or strategies during the past year, and any significant new or discontinued programs or products.
  - 2) Describe any significant changes in how your CDFI collects, analyzes, and uses output data to assess the effectiveness of your work. List specific changes that have been made in the output data collected and why.
  - 3) Describe any significant changes in the way your CDFI assesses the outcomes of its work. Describe significant changes in how you collect, analyze or use outcome data or information. Identify any outcome or impact studies of your CDFI that have been done in the past year (by you or others).
  - 4) If your CDFI is engaged in any significant new financing activities (including off-balance sheet activities), please quantify and describe. Describe how your CDFI is managing any potential additional risk of these activities.
  - 5) Describe any significant changes in your governance structure. If your CDFI has formed any new corporate entities, please describe their purpose and relationship to your CDFI.
  - 6) Please discuss any additional significant changes that have occurred in the past year that are not addressed in the above questions but might help the analyst(s) understand how your current situation or practices differ from your situation at the time of your most recent CARS™ analysis.
  - 7) Please attach all materials requested in the document request list!

**ATTACHMENT 14**

**Annual Review Materials Events Form**

I hereby certify that, to the best of my knowledge, the audit and additional materials provided by \_\_\_\_\_  
\_\_\_\_\_ to Opportunity Finance Network for the CARS™ Annual Review accurately  
reflect all material changes that have taken place at \_\_\_\_\_ during fiscal year \_\_\_\_\_.

Furthermore, I certify that, to the best of my knowledge, any material adverse changes that have taken  
place at \_\_\_\_\_ since the most recent fiscal year end are described in the attached memo, or that no  
material adverse change has occurred.

Please check one of the below.

\_\_\_\_\_ No material adverse changes have occurred since the most recent fiscal year end.

\_\_\_\_\_ Attached memo described material adverse changes that have occurred since the most recent  
fiscal year end.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name and Title

\_\_\_\_\_  
Date

**Please complete, sign, and either scan and email or fax this  
form back to Jon Schwartz at: 215-923-4755.**

**CARS™ On the Road: Edition 6**

# CARS™

Comprehensive ratings for CDFI investments.



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