



FY 2022 Small Dollar Loan Program Application Evaluation Process

Introduction

This document details the evaluation process for Applications received under the Fiscal Year (FY) 2022 Small Dollar Loan Program (SDL Program) funding round. Capitalized terms not defined herein shall have the meaning specified in the FY 2022 SDL Program Notice of Funds Availability (NOFA).

The evaluation process described below is outlined in the FY 2022 SDL Program NOFA. Also, details regarding the Application content and requirements are in the NOFA and related guidance materials, which should be read in conjunction with this document.

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

Reviewers

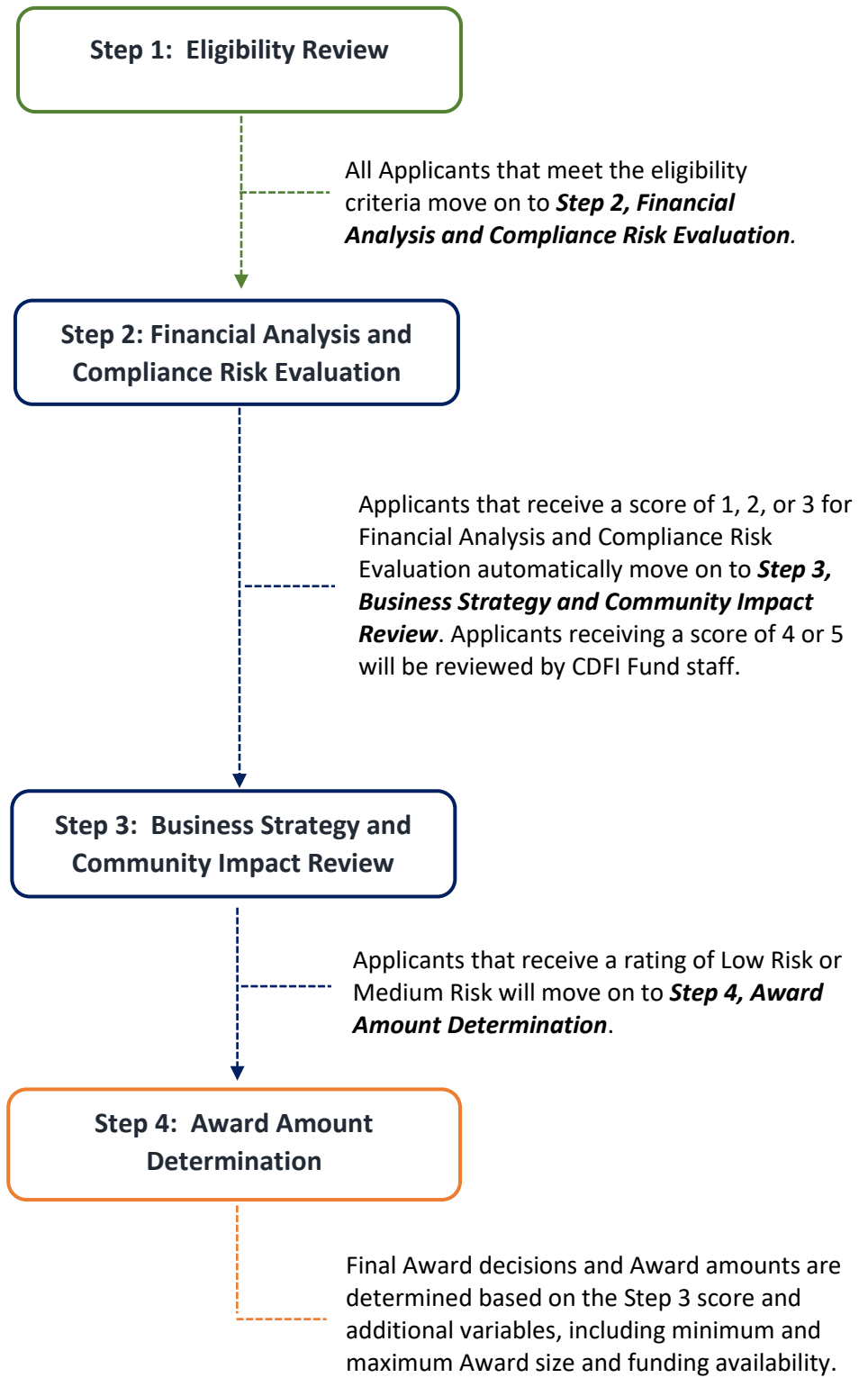
CDFI Fund staff will evaluate Applications. Staff reviewers must complete the CDFI Fund's Conflict of Interest screening. Staff reviewers must evaluate all Applications in accordance with the SDL Program's policies and procedures.

The Evaluation Process

The Application evaluation and Award selection process includes four steps:

- Step 1: **Eligibility Review**, conducted by CDFI Fund staff.
- Step 2: **Financial Analysis and Compliance Risk Evaluation**, conducted by the Application Assessment Tool (AAT) and CDFI Fund staff.
- Step 3: **Business Strategy and Community Impact Review**, conducted by CDFI Fund staff.
- Step 4: **Award Amount Decision**, conducted by CDFI Fund staff.

Chart 1. How Applicants Move through the Review Steps



Step 1: Eligibility Review

The CDFI Fund evaluates each Application to determine if it meets the eligibility requirements listed in the FY 2022 SDL Program NOFA. The CDFI Fund's Awards Management Information System (AMIS) automatically assesses certain eligibility requirements. Applicants are not scored during this review, but are unable to proceed if deemed ineligible during this step. All Applicants deemed eligible proceed to **Step 2**.

All Applicants should pay particular attention to NOFA requirements regarding the use of their correct Unique Entity Identifier numbers in Grants.gov, their SF-424, and their AMIS profile, as errors here can result in an Applicant being deemed ineligible. Additionally, each Regulated Institution Applicant must have a CAMEL(S) rating (rating for banks and credit unions) or equivalent type of rating by its regulator (collectively referred to as "CAMEL(S) rating") of a "1", "2", or "3". Applicants with CAMEL(S) ratings of "4" or "5", and/or that demonstrate significant concerns from their regulators, are not eligible for Awards. Depository Institution Holding Company Applicants that intend to carry out the Award through a Subsidiary Depository Institution should be aware that the CDFI Fund will consider CAMEL(S) ratings for both the Depository Institution Holding Company Applicant, as well as the Subsidiary Depository Institution who will carry out the Award.

Step 2: Financial Analysis and Compliance Risk Evaluation

For unregulated entities, the CDFI Fund evaluates these two components for each Application using financial and compliance information provided by the Applicant. The initial evaluation is done by an automated tool developed by the CDFI Fund, the Application Assessment Tool (AAT). In some cases, additional reviews are required by CDFI Fund staff to ensure accuracy.

For each Regulated Institution Applicant, the CDFI Fund uses the CAMEL(S) rating, or other feedback from the Applicant's respective regulator, as its Step 2 Financial Analysis score. However, the Compliance Risk Evaluation for Insured Depository Institution Applicants will be evaluated using the AAT. Depository Institution Holding Company Applicants that intend to carry out the Award through a Subsidiary Depository Institution should note that the CDFI Fund will consider CAMEL(S) ratings for both the Depository Institution Holding Company Applicant, as well as the Subsidiary Depository Institution that will carry out the Award.

The intent of the Financial Analysis is to ensure Applicants applying for a FY 2022 SDL Program Award maintain adequate financial health and comply with the terms and conditions of the requested FY 2022 SDL Program Award throughout the Period of Performance.

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

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

Both the Total Financial Composite Score and Total Compliance Composite Score are on a scale of one (1) to five (5) rating, with one (1) being the highest quality score possible. Applicants must receive one (1), two (2), or three (3) in the Total Financial Composite Score and Total Compliance Composite Score to progress to **Step 3: Business Plan and Community Impact Review**. Applicants that receive a Total Financial Composite Score or Total Compliance Composite Score of four (4) or five (5) will be reviewed by CDFI Fund Staff based upon standard evaluation guidance. If the Applicant is deemed high risk after CDFI Fund staff review, the Applicant will not advance to Step 3.

Financial Analysis Evaluation

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

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

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

Applications will be grouped based on the Total Financial Composite Score. Applicants must receive a Total Financial Composite Score of one (1), two (2), or three (3) to advance to Step 3. Applicants that receive an initial Total Financial Composite Score of four (4) or five (5) will be reviewed by CDFI Fund staff based on standard evaluation guidance. If the Applicant is deemed a high financial risk after CDFI Fund staff review, the Applicant will not advance to Step 3.

A Note about Regulated Applicants

To advance to Step 3, each Regulated Institution Applicant must have a CAMEL(S) rating (rating for banks and credit unions), by its Federal regulator of a "1", "2", or "3", or equivalent feedback from the Applicant's respective regulator. Applicants with CAMEL(S) ratings of "4" or "5", or equivalent, are not eligible for Awards. Note for Depository Institution Holding Company Applicants that intend to carry out the Award through a Subsidiary Insured Depository Institution, the CAMEL(S) requirements noted above apply both to the Depository Institution Holding Company Applicant, as well as the Subsidiary Insured Depository Institution. The CDFI Fund will also evaluate material concerns identified by the appropriate Federal Banking Agency to determine the eligibility of Regulated Institution Applicants.

Table 1. Step 2: Financial Analysis Scoring Criteria

Step 2: Financial Analysis Scoring Criteria Application Assessment Tool (AAT)		
AAT Ratio Name	AAT Ratio Formula	Possible Scores (High Score =1)
Annual Net Loan Loss Ratio	$\frac{["\text{Charge-offs } (\$) - \text{Recoveries } (\$)"]}{["\text{Total Equity Investments Portfolio } (\$) + \text{Total On-Balance Sheet Loan Portfolio } (\$)]}$	1, 2, 3, 4, or 5
Delinquency Ratio	$\frac{["\text{Loans Delinquent 61 to 90 days } (\$) + \text{Loans 90 Days (or more) Past Due } (\$)"]}{["\text{Total Equity Investments Portfolio } (\$) + \text{Total On-Balance Sheet Loan Portfolio } (\$)]}$	1, 2, 3, 4, or 5
Loan Loss Reserve Ratio	$\frac{["\text{Allowance for Loan and Lease Losses } (\$)"]}{["\text{Total Equity Investments Portfolio } (\$) + \text{Total On-Balance Sheet Loan Portfolio } (\$)]}$	1, 2, 3, 4, or 5
Portfolio at Risk Ratio (PAR)	$\frac{["\text{Loans 90 Days (or more) Past Due } (\$) + \text{Other Real Estate Owned (OREO) } (\$) + \text{Troubled Debt Restructuring } (\$)"]}{["\text{Total Equity Investments Portfolio } (\$) + \text{Total On-Balance Sheet Loan Portfolio } (\$)]}$	1, 2, 3, 4, or 5
Change in Portfolio at Risk Ratio	$\frac{["\text{PAR} - \text{PAR (Prior)}"]}{\text{PAR (Prior)}}$	1, 2, 3, 4, or 5
Net Asset Ratio	$\frac{["\text{Total Net Assets or Equity } (\$)"]}{\text{Total Assets } (\$)}$	1, 2, 3, 4, or 5
Change in Net Asset Ratio	$\frac{["\text{Net Asset Ratio} - \text{Net Asset Ratio (Prior)}"]}{\text{Net Asset Ratio (Prior)}}$	1, 2, 3, 4, or 5
Total Assets	$\text{Total Assets } (\$)$	1, 2, 3, 4, or 5

Step 2: Financial Analysis Scoring Criteria Application Assessment Tool (AAT)		
AAT Ratio Name	AAT Ratio Formula	Possible Scores (High Score =1)
Change in Total Assets	$\frac{["Total Assets" - "Total Assets (Prior)"]}{\div Total Assets (Prior)}$	1, 2, 3, 4, or 5
Unrestricted Net Asset Ratio	$\frac{"Unrestricted Net Assets (\$)"}{\div "Total Assets (\$)"}$	1, 2, 3, 4, or 5
Income Ratio	$\frac{"Total Revenue (\$)"}{\div "Total Expenses (\$)"}$	1, 2, 3, 4, or 5
Interest Coverage Ratio	$\frac{"Interest Revenue (\$)"}{\div "Interest Expense (\$)"}$	1, 2, 3, 4, or 5
Interest Coverage Ratio II	$\frac{["Operating Revenue (\$)" - "Operating Expenses (\$)" - "Interest Expense (\$)"]}{\div "Interest Expense (\$)"}$	1, 2, 3, 4, or 5
Change in Net Income	$\frac{["Net Income" - "Net Income (Prior)"]}{\div "Net Income (Prior)"}$	1, 2, 3, 4, or 5
Reliance on Government Funding Ratio	$\frac{"Government Grants (\$)"}{\div "Total Revenue (\$)"}$	1, 2, 3, 4, or 5
Self-Sufficiency Ratio	$\frac{"Earned Revenue (\$)"}{\div "Operating Expenses (\$)"}$	1, 2, 3, 4, or 5
Change in Self-Sufficiency Ratio	$\frac{["Self-Sufficiency Ratio" - "Self-Sufficiency Ratio (Prior)"]}{\div "Self-Sufficiency Ratio (Prior)"}$	1, 2, 3, 4, or 5

Step 2: Financial Analysis Scoring Criteria Application Assessment Tool (AAT)		
AAT Ratio Name	AAT Ratio Formula	Possible Scores (High Score =1)
Financing Capital Liquidity Ratio	“Available Financing Capital (\$)” ÷ “Commitments (\$)”	1, 2, 3, 4, or 5
Current Ratio	“Current Assets (\$)” ÷ “Total Current Liabilities (\$)”	1, 2, 3, 4, or 5
Deployment Ratio	[“Total Equity Investments Portfolio (\$)” + “Total On-Balance Sheet Loan Portfolio (\$)”] ÷ “Total Financing Capital (\$)”	1, 2, 3, 4, or 5
Change in Deployment Ratio	“Deployment Ratio - Deployment Ratio (Prior)” ÷ “Deployment Ratio (Prior)”	1, 2, 3, 4, or 5
Operating Cash Ratio	[“Unrestricted Cash & Cash Equivalents (\$)” + “Cash Restricted for Operations (\$)”] ÷ [“Total Expenses (\$)” – “Non-cash Expenses (\$)”]	1, 2, 3, 4, or 5
Operating Cash Ratio II	[“Unrestricted Cash & Cash Equivalents (\$)” + “Cash Restricted for Operations (\$)”] ÷ “Operating Expenses (\$)”	1, 2, 3, 4, or 5
Total Financial Composite Score	Automatically calculated based on the score for each ratio above.	1, 2, 3, 4, or 5
Total Financial Composite Score Needed to Advance		1, 2, or 3

Compliance Risk Evaluation

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

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

Step 3: Business Plan and Community Impact Review

CDFI Fund staff will evaluate the Applicant’s demonstrated need for SDL Program funding to launch or grow the Applicant’s small dollar loan program. Scores of “Low Risk” or “Medium Risk” are moved to Phase 4, Award Amount Determination.

CDFI Fund staff reviewers will use the evaluation criteria included in Table 1 to complete the review.

Table 1. Evaluation Criteria

Evaluation Criteria	
Evaluation Areas	Assessment Criteria
Market Needs and Partnerships	<ul style="list-style-type: none"> • The Applicant’s understanding of the small dollar financing gaps in the communities it serves. • Review of established relationships with other organizations (e.g. lenders, community organizations, foundations) that will enhance the Applicant’s strategy and impact for Low-Income Communities and help the Applicant to address community needs.
Award Request and Financing	<ul style="list-style-type: none"> • Review the plan for using the Award to launch a small dollar loan program or increase the volume of its existing small dollar program. • Identify how the proposed Use of Award will address the small dollar loan financing gaps.
Lending Characteristics	<ul style="list-style-type: none"> • How will the prioritized lending practices be incorporated into the Applicant’s small dollar loan program?
Track Record, Pipeline and Projections	<ul style="list-style-type: none"> • Are the projections reasonable and achievable? • Does the loan loss reserve request align with projections? • Will the pipeline enable the Applicant to meet the requirements during the Period of Performance?
Key Personnel	<ul style="list-style-type: none"> • Rate the Applicant’s key personnel with respect to its skills and experience managing and/or launching a portfolio of small dollar loans.

Step 4: Award Amount Determination

In Step 4, the CDFI Fund determines the Award amount for each successful Applicant based on a number of variables, including the Applicant’s requested amount, risk score, minimum Award size, and funding availability. Awards may be reduced from the requested Award amount as a result of the analysis.