

## Fiscal Year 2022 CDFI Equitable Recovery Program Application Evaluation Process

### Introduction

This document details the evaluation process for all CDFI Equitable Recovery Program (CDFI ERP) Applications. The CDFI ERP was funded by a one-time appropriation from the Consolidated Appropriations Act of 2021 (Pub. L. 116– 260). The CDFI Fund does not anticipate another funding round of CDFI ERP.

The evaluation process described below is outlined in the CDFI ERP Notice of Funds Availability (NOFA) published on June 24, 2022, and amended on July 19, 2022. Further details can be found in the CDFI ERP Application Instructions and related guidance materials. All relevant CDFI ERP documents can be found at the CDFI ERP page on the CDFI Fund’s website: [www.cdfifund.gov/erp](http://www.cdfifund.gov/erp). Capitalized terms not defined herein shall have the meaning specified in the NOFA or the CDFI ERP Glossary.

### The Evaluation Process

The CDFI ERP Application review and Award determination process included four steps (outlined in the flow chart on the next page and described in detail in subsequent sections below). All Application reviewers completed the CDFI Fund’s conflict of interest screening. Reviewers were required to evaluate all CDFI ERP Applications in accordance with CDFI Fund policies and procedures.

**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: Application Evaluation and Initial Funding Recommendation**, conducted by external non-federal reviewers and internal reviewers made up of CDFI Fund staff and other federal agency staff as needed.

**Step 4: Award Amount Determination**, conducted by CDFI Fund staff.

**Chart 1. How Applicants Moved through the Review Steps**

**Step 1: Eligibility Review**

All Applications that met the eligibility criteria outlined in Section III of the CDFI ERP NOFA were advanced to Step 2 for further evaluation. Ineligible Applications received notification about which eligibility requirement was not met prior to Award announcement.

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

Applications receiving a score of 1, 2, 3, or 4 for Financial Analysis Evaluations were advanced to Step 3 for further evaluation. Applications receiving a score of 5 for this step were reviewed by CDFI Fund staff. If this review confirmed the score of 5, the Application was deemed ineligible.

Applications receiving a score of 1, 2, or 3 for Compliance Risk Evaluations were advanced to Step 3 for further evaluation. Applications receiving a score of 4 or 5 for this step were reviewed by CDFI Fund staff. If this review confirmed the score of 5, the Application was deemed ineligible.

**Step 3: Application Evaluation and Initial Funding Recommendation**

In Step 3, Applications were reviewed by external non-federal reviewers and internal federal reviewers. The external reviewers evaluated Applications based on the criteria outlined in Section V of the CDFI ERP NOFA. Based on this review, the Application received a score out of 100 points.

The internal federal reviewer ensured the external reviewer's evaluation and scoring conformed with CDFI Fund guidance, and also conducted a review of Applications.

External and internal reviewers each provided a recommendation to fund or not fund the Application. Any recommendation not to fund an Application was sent to a reviewing official to confirm or overturn the recommendation. Applications that were recommended for funding in Step 3 advanced to Step 4 for a final Award Amount determination.

**Step 4: Award Amount Determination**

A preliminary award determination was made by a selecting official upon review of the Step 3 Award recommendation and evaluation. Once all preliminary award determinations were made, award amounts were proportionally reduced based on funding availability. The CDFI Fund did not make awards below any Applicant's minimum Award request, if one was provided in the Application.

## **Step 1: Eligibility Review**

The CDFI Fund evaluated each Application to determine if it met the eligibility requirements listed in Section III of the CDFI ERP NOFA. Applications that did not meet one or more of the eligibility criteria were deemed ineligible and removed from Award consideration. Applications deemed ineligible were notified of this determination prior to award announcement.

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

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

For each Regulated Institution Applicant, the CDFI Fund used the CAMELS/CAMEL rating, or other feedback from the Applicant's respective regulator, in place of the Step 2 Financial Analysis score. However, the AAT was used to conduct the Compliance Risk Evaluation for Regulated Institution Applicants. For Depository Institution Holding Company Applicants that intend to carry out the Award through a Subsidiary Depository Institution, the CDFI Fund considered CAMELS/CAMEL ratings for both the Depository Institution Holding Company Applicant, as well as the Subsidiary Depository Institution that will carry out the Award.

### **Financial Analysis Evaluation**

The intent of the Financial Analysis was to ensure that, at a minimum, Applicants applying for CDFI ERP are capable of maintaining financial health and will comply with the terms and conditions of the requested CDFI ERP Award throughout the Period of Performance.

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.

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

### **A Note about Regulated Applicants**

To be eligible for a CDFI ERP Award, each Regulated Institution Applicant must have a CAMELS/CAMEL rating (rating for banks and credit unions, respectively), by its Federal regulator of at least "4," or equivalent feedback

from the Applicant’s respective regulator. Organizations with CAMELS/CAMEL ratings of “5” or equivalent were not eligible for Awards. The CDFI Fund also evaluated material concerns identified by the Appropriate Federal Banking Agency to determine the eligibility of Regulated Institution Applicants. Note that, for Depository Institution Holding Company Applicants that intend to carry out the Award through a Subsidiary Insured Depository Institution, the CAMELS/CAMEL requirements noted above applied both to the Depository Institution Holding Company Applicant, as well as the Subsidiary Insured Depository Institution.

**Table 1. Step 2: Financial Analysis Scoring Criteria**

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

### Compliance Risk Evaluation

To produce a Total Compliance Composite Score, the AAT used responses provided by each Applicant to the compliance evaluation questions in Appendix 7 of the Application, as well as an Applicant’s reporting history, reporting capacity, and performance risk with respect to the CDFI Fund’s Performance Goals and Measures (PG&Ms). The purpose of this evaluation was to ensure Applicants do not have major internal management or compliance concerns.

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

### Step 3: Application Evaluation and Initial Funding Recommendation

In Step 3, each Application was reviewed by one external reviewer and one federal reviewer. The purpose of the Step 3 evaluation was to determine whether an Applicant met the minimal criteria for receiving a CDFI ERP Award and to determine a preliminary Award amount recommendation.

#### Role of the External Reviewer

The external reviewer’s evaluation of the Application had two components. First, the external reviewer evaluated and scored the Application based on the criteria outlined in Table 2 below. Each Application received a Step 3 score of up to 100 points based on this evaluation.

Table 2. Step 3: External Reviewer Evaluation Criteria		
Application Section	Points	Criteria
Applicant Information	0	<ul style="list-style-type: none"> <li>This section is not scored.</li> </ul>
Business Strategy	40	<ul style="list-style-type: none"> <li>Application demonstrates a strong understanding of the economic impact of the COVID-19 pandemic on the geographies and populations the Applicant proposes to serve.</li> <li>The planned use of a CDFI ERP Award is clearly described in the Application and the Applicant’s business strategy directs Financial Products, Financial Services, Development Services and/or Grants to Low- to Moderate-Income populations that have been disproportionately impacted by the COVID-19 pandemic.</li> <li>Applicant describes a clear link between the identified economic impacts of the COVID-19 pandemic on the geographies and populations it proposes to serve and the achievement of the identified outcomes.</li> <li>Application demonstrates that the Applicant has engaged with and obtained input on its business strategy from geographies and populations that it proposes to serve with a CDFI ERP Award and that the Applicant proposes culturally and linguistically relevant marketing and/or outreach efforts that will support the deployment of CDFI ERP Award consistent with its business strategy.</li> <li>A CDFI ERP Award amount requested for operational support to help build organizational capacity is clearly presented in the Application and aligns with the Applicant’s business strategy.</li> </ul>
Community Impact - Track Record	15	<ul style="list-style-type: none"> <li>Applicant’s track record demonstrates that it has a history of reaching underserved communities, as measured by the level of activities for various CDFI ERP policy priorities identified in the Application.</li> </ul>
Community Impact - Policy Priorities, Projected Performance, and Outcomes	30	<ul style="list-style-type: none"> <li>Applicant commits to devote a portion of the Award requested (up to 100%) towards its selected CDFI ERP policy priority as indicated in the Application, or commits to increase its lending to ERP-Eligible Geographies by a multiplier of its Award amount.</li> <li>Applicant’s projected level of proposed activities is well-supported in the Application.</li> <li>Applicant provides a feasible plan for data collection, activity tracking, and reporting in the Application.</li> </ul>

**Table 2. Step 3: External Reviewer Evaluation Criteria**

Organizational Capacity	15	<ul style="list-style-type: none"> <li>• Applicant’s current staff and proposed staffing plan support its ability to execute the business strategy proposed in its Application.</li> <li>• Applicant’s track record shows a strong ability to use available resources to assist communities and provide Financial Products, Financial Services, Development Services and/or Grants in ERP-Eligible Geographies proposed in its business strategy.</li> </ul>
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Second, the external reviewer also provided a recommendation as to whether the Application should receive an Award. This recommendation was independent from the Step 3 evaluation score and was based on whether: (1) an Application achieved minimal standards for clarity and consistency of business strategy; (2) its business strategy addressed the economic impacts of COVID-19; (3) the main activities proposed in the Application strategy were eligible uses of a CDFI ERP Award; and (4) the Application demonstrated an organizational capacity to deploy at least a minimum Award of \$500,000 during the five (5) year Period of Performance.

**Role of the Federal Reviewer**

The federal reviewer had four (4) main responsibilities:

- First, the federal reviewer conducted quality control for the external reviewer’s evaluation and scoring of the Application to ensure the external reviewer followed the review evaluation criteria outlined in Table 2.
- Second, the federal reviewer conducted a due diligence review of compliance, eligibility, programmatic, regulatory matters, and financial risk factors. This due diligence review included, but was not limited to, financial stability, history of performance in managing Federal awards (including timeliness of reporting and compliance), audit or regulator finding (as applicable), and the Applicant’s ability to effectively implement Federal requirements.
- Third, the federal reviewer also provided a recommendation as to whether an Application should receive an Award. This recommendation was independent from the Step 3 evaluation score and was based on whether: (1) an Application achieved minimal standards for clarity and consistency of business strategy; (2) the Application business strategy addressed the economic impacts of COVID-19; (3) the activities proposed in the Application strategy were eligible uses of a CDFI ERP Award; (4) the Application demonstrated an organizational capacity to deploy at least a minimum Award of \$500,000 during the Period of Performance; and (5) the Application review identified any significant due diligence concerns.
- Fourth, the federal reviewer recommended an initial Award amount. The initial Award amount recommendation was calculated based on the Step 3 score. Applications with a higher Step 3 score received higher initial Award recommendations; Applications with a lower Step 3 score received lower initial Award recommendations or were only recommended for the minimum award amount. In some circumstances, the federal reviewer made an initial Award amount recommendation below the amount indicated by the Step 3 score, as a result of due diligence concerns related to the Applicant’s financial health or its ability to deploy and/or manage the compliance of a CDFI ERP Award effectively.

## **Advancing to Step 4 and Reviewing Official**

Applications that were recommended for an Award by both the external and federal reviewers advanced to Step 4 with the initial Award amount recommended by the federal reviewer.

If either of the external reviewer or the federal reviewer (or both) recommended that an Applicant should not receive an Award, the Application was forwarded to a reviewing official, who made a final determination on whether the Application would be recommended for an Award. If the reviewing official concurred with the recommendation not to fund the Application, the Application did not advance to Step 4 and did not receive an award. If the reviewing official determined that the Application should be recommended for Award, the Application was forwarded to Step 4 with an initial award amount recommendation, based on the Step 3 score and any due diligence concerns.

## **Step 4: Award Amount Determination**

### **Preliminary Award Determination**

Each Application that advanced to Step 4 had an initial Award amount recommendation based on the Step 3 review. In Step 4, the Application was reviewed by a selecting official for quality control to ensure that the evaluation conducted in Step 3 was in accordance with the evaluation criteria. The selecting official then determined a preliminary Award amount for each Application based on the following:

- In cases where the initial Award amount recommended in Step 3 aligned with the amount indicated by the Step 3 score, the selecting official approved the initial Award recommendation.
- In cases where the Step 3 initial Award amount recommendation differed from the amount indicated by the Step 3 score because of due diligence concerns identified by the federal reviewer, the selecting official either:
  - Accepted the Step 3 initial Award amount recommendation, OR
  - Rejected it in favor of the amount indicated in the Step 3 score, because the selecting official did not concur with the due diligence concerns cited by the federal reviewer.

Per the NOFA, the selecting official also had the ability to select another Award amount within 20% of the Step 3 initial Award amount recommendation if there were concerns about the Applicant's ability to deploy the full, recommended Award amount within the Period of Performance. However, no such adjustments were made by selecting officials during Step 4.

### **Making Final Award Determinations**

Once a preliminary final Award determination was made for every Application in the Award pool, the CDFI ERP Program Manager (or designee) compared the total amount awarded in the preliminary final Award pool to the amount of available funding. Based on the preliminary final Award determinations, the total amount awarded in the preliminary Award pool exceeded the amount available for Awards. As such, the CDFI Fund proportionally reduced all preliminary Award amounts so that only the amount available for funding was awarded. The final Award amounts were approximately 41.3% of the preliminary final Award amounts. For example, if an Applicant's preliminary final Award amount was \$9,000,000, then the final award amount was \$3,718,258 after the proportional reduction.

However, this proportional reduction did not apply to those Applications that received a preliminary final Award amount equal to the \$500,000 minimum Award amount during Step 4, and did not result in reducing an Applicant's Award below the \$500,000 minimum amount. For example, if an Application preliminary final award



amount was \$1,000,000, the proportional reduction would have resulted in an Award of \$413,139, which is below the minimum. This Application would have instead received a minimum Award of \$500,000.

After this proportional reduction was complete, the CDFI Fund compared the Applications’ final Award amount to their requested minimum Award amount in Question 2(c) of the Application. If the final Award amount was less than the minimum award amount requested in the Application, such Application did not receive an Award and the unused Award funds were redistributed to other Award Recipients.

**Range of Final Awards**

The maximum Award amount provided under CDFI ERP was \$6,197,097, and the minimum Award amount was \$500,000. Due to the volume of applications received, the CDFI Fund was generally only able to fund a portion of each Award request. Table 3 below provides summary information on the number of Applications received and the size of Award requests. Table 4 shows the number of Awards made in different award size categories.

<b>Table 3. Application Award Requests Compared with Final Award Amounts</b>		
<b>Requested Amount</b>	<b># of Applicants</b>	<b>% of Applicants</b>
\$15,000,000	417	60%
\$10MM - \$14.99MM	52	7.4%
\$5MM - \$9.9MM	76	10.9%
\$2MM - \$4.99MM	71	10.2%
\$500,000 - \$1.99MM	80	11.5%
<b>Total</b>	<b>696</b>	<b>100%</b>

<b>Table 4. CDFI ERP Award Amounts in Size Categories</b>		
<b>Awarded Amount</b>	<b># of Recipients</b>	<b>% of Recipients</b>
\$6,197,097	32	5.3%
\$4MM - \$6.196MM	106	17.5%
\$2MM - \$3.99MM	272	45%
\$501,000 - \$1.99MM	111	18.4%
\$500,000	83	13.7%
<b>Total</b>	<b>604</b>	<b>100%</b>