



FY 2024 Small Dollar Loan Program Application Evaluation Process Document

Introduction

This document details the evaluation process for Applications received under the Fiscal Year (FY) 2024 Small Dollar Loan Program (SDL Program) funding round. Capitalized terms not defined herein shall have the meaning specified in the FY 2024 SDL Program Notice of Funding Availability (NOFA). The evaluation process described below is outlined in the FY 2024 SDL Program NOFA. Also, details regarding the Application content and requirements are in the NOFA and related guidance materials, which should be reviewed in conjunction with this document.

Application Reviewers

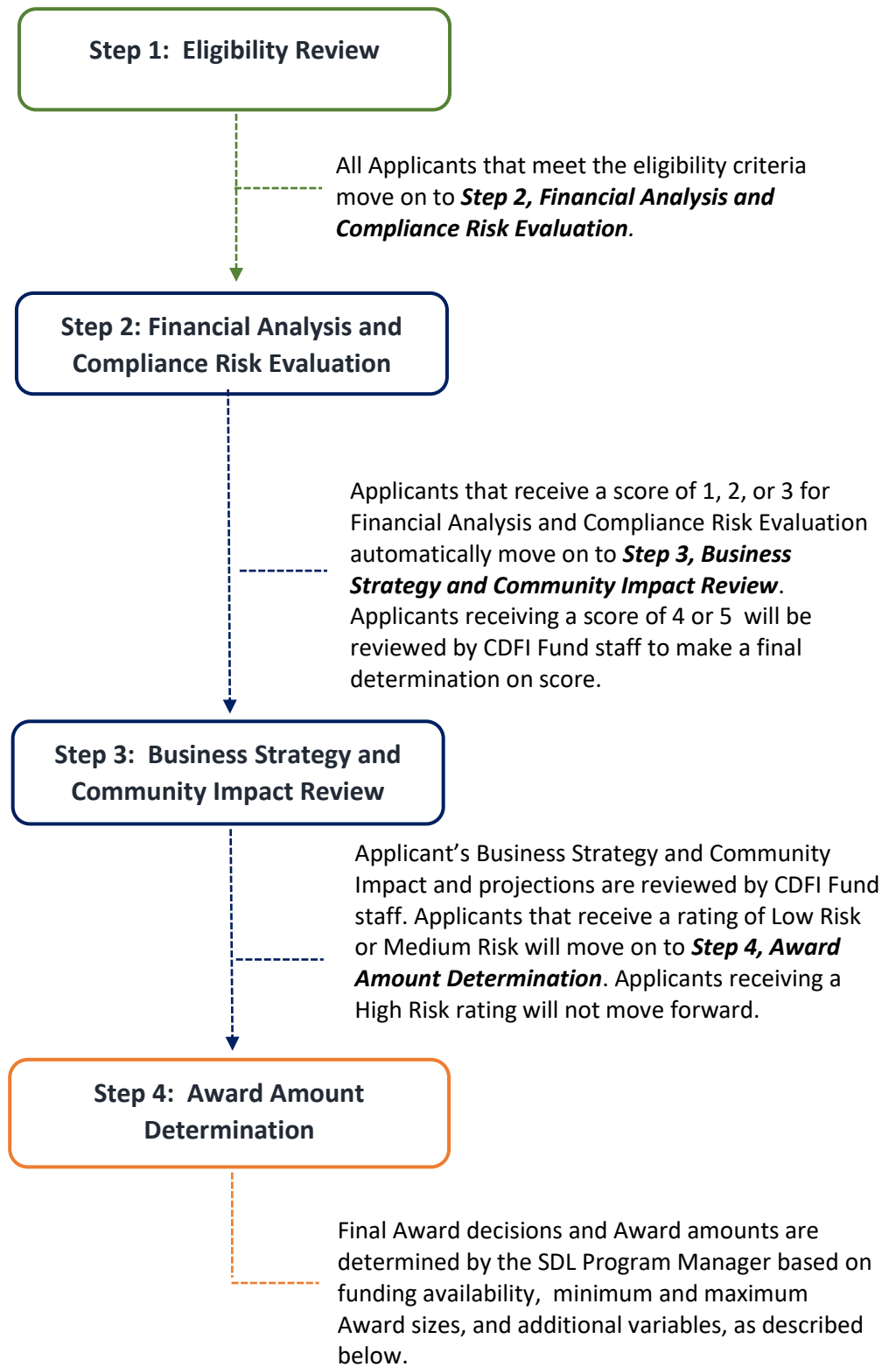
CDFI Fund staff evaluate all SDL Program Applications in accordance with the SDL Program's policies and procedures. CDFI Fund staff complete the CDFI Fund's Conflict of Interest screening to ensure there are no conflicts of interest with the Applicant.

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 CDFI Fund staff using the Application Assessment Tool (AAT).
- Step 3: **Business Strategy and Community Impact Review**, conducted by CDFI Fund staff.
- Step 4: **Award Amount Decision**, made by the SDL Program Manager.

Chart 1. How Applicants Advance through the Review Steps



Step 1: Eligibility Review

The CDFI Fund evaluates each Application to determine if it meets the eligibility requirements identified in the FY 2024 SDL Program NOFA. Applications that did not meet one or more of the eligibility criteria are deemed ineligible and removed from Award consideration. Applications deemed ineligible are notified of this determination prior to award announcement. Applicants are not scored during this review step but do not proceed further if deemed ineligible. All Applicants deemed eligible proceed to Step 2: Financial Analysis and Compliance Risk.

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 CAMELS rating, or other feedback from the Applicant's respective regulator, for financial analysis assessment. Each Regulated Institution Applicant must have a CAMELS rating provided by its Federal regulator of a "1", "2", or "3". Applicants with CAMELS ratings of "4" or "5", or materials concerns from the Applicant's respective regulator, are not eligible for an Award. Regulator feedback and CAMELS rating are assessed as part of Step 1. However, the Compliance Risk Evaluation for Insured Depository Institution Applicants will be evaluated using the AAT.

The intent of the Financial Analysis is to ensure Applicants applying for a FY 2024 SDL Program Award maintain adequate financial health and, if selected for Award, comply with the terms and conditions of the requested FY 2024 SDL Program Award throughout the Period of Performance.

The AAT produces a Total Financial Composite Score based on twenty-three (23) financial indicators and a Total Compliance Composite Score using responses to the compliance questions in the Application. The CDFI Fund identified the financial and compliance metrics to reliably and comprehensively assess Applicants' financial and compliance performance, with limited reporting burden for Applicants. See Appendix 1 for the financial analysis ratios and scoring criteria.

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 automatically progress to **Step 3: Business Strategy 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 Total Financial Composite Score remains four (4) or five (5) after CDFI Fund staff review, the Applicant will not advance to Step 3: Business Strategy and Community Impact Review. For Applicants with a Total Compliance Composite Score of four (4) or five (5) and the Applicant is deemed a high compliance risk after CDFI Fund staff review, the Applicant will not advance to Step 3: Business Strategy and Community Impact Review.

A Note about Depository Institution Holding Company Applicants

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.

Step 3: Business Strategy and Community Impact Review.

Each Application in Step 3 is reviewed by two CDFI Fund staff, a First Reviewer and a Selecting Official. Both Reviewers evaluate the Applicant’s demonstrated need for SDL Program funding to launch or grow the Applicant’s small dollar loan program. Applications with scores of “Low Risk” or “Medium Risk” advance to Step 4, Award Amount Determination. Reviewers use Application information to assess and score each component of the Business Strategy using the general guidance in Table 1 below.

Table 1: Business Strategy and Community Impact Review Evaluation Criteria	
Evaluation Areas	Assessment Criteria
Market Needs and Partnerships	<ul style="list-style-type: none">Does the Applicant demonstrate an understanding of the financing gaps and market needs in the communities the Applicant serves or proposes to serve?
Award Request and Lending Practices	<ul style="list-style-type: none">Does the Applicant present a strong and reasonable plan for the use of the award?How likely is the proposed Use of the Award as well as the intended community impacts address the identified financing gaps and market needs?
Track Record, Pipeline and Projections	<ul style="list-style-type: none">Are the Applicant’s projections reasonable considering the Applicant’s strategy and/or track record?
Organizational Capacity	<ul style="list-style-type: none">Does the Applicant have the organizational capacity to effectively manage and implement an SDL Program Award considering proposed staffing, financial position, and previous award management experience?

Step 4: Award Amount Determination

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

Appendix 1: Financial Analysis Evaluation

The AAT uses twenty-eight (28) financial inputs from each non-regulated Applicant to calculate twenty-three (23) financial indicators, which collectively assess an Applicant’s assets, liabilities, net asset composition, revenue, expense, cash flow, and trends in performance over time.

Appendix 1: Financial Analysis Scoring Criteria		
AAT Ratio Name	AAT Ratio Formula	Possible Scores (High Score =1)
Annual Net Loan Loss Ratio	$[\text{"Charge-offs (\$)" - "Recoveries (\$)"}] \div [\text{"Total Equity Investments Portfolio (\$)" + "Total On-Balance Sheet Loan Portfolio (\$)"}]$	1, 2, 3, 4, or 5
Delinquency Ratio	$[\text{"Loans Delinquent 61 to 90 days (\$)" + "Loans 90 Days (or more) Past Due (\$)"}] \div [\text{"Total Equity Investments Portfolio (\$)" + "Total On-Balance Sheet Loan Portfolio (\$)"}]$	1, 2, 3, 4, or 5
Loan Loss Reserve Ratio	$\text{"Allowance for Loan and Lease Losses (\$)" } \div [\text{"Total Equity Investments Portfolio (\$)" + "Total On-Balance Sheet Loan Portfolio (\$)"}]$	1, 2, 3, 4, or 5
Portfolio at Risk Ratio (PAR)	$[\text{"Loans 90 Days (or more) Past Due (\$)" + "Other Real Estate Owned (OREO) (\$)" + "Troubled Debt Restructuring (\$)"}] \div [\text{"Total Equity Investments Portfolio (\$)" + "Total On-Balance Sheet Loan Portfolio (\$)"}]$	1, 2, 3, 4, or 5
Change in Portfolio at Risk Ratio	$[\text{"PAR" - "PAR (Prior)"}] \div \text{"PAR (Prior)"}$	1, 2, 3, 4, or 5
Net Asset Ratio	$\text{"Total Net Assets or Equity (\$)" } \div \text{"Total Assets (\$)"}$	1, 2, 3, 4, or 5
Change in Net Asset Ratio	$[\text{"Net Asset Ratio" - "Net Asset Ratio (Prior)"}] \div \text{"Net Asset Ratio (Prior)"}$	1, 2, 3, 4, or 5
Total Assets	$\text{"Total Assets (\$)"}$	1, 2, 3, 4, or 5
Change in Total Assets	$[\text{"Total Assets" - "Total Assets (Prior)"}] \div \text{"Total Assets (Prior)"}$	1, 2, 3, 4, or 5
Unrestricted Net Asset Ratio	$\text{"Unrestricted Net Assets (\$)" } \div \text{"Total Assets (\$)"}$	1, 2, 3, 4, or 5
Income Ratio	$\text{"Total Revenue (\$)" } \div \text{"Total Expenses (\$)"}$	1, 2, 3, 4, or 5
Interest Coverage Ratio	$\text{"Interest Revenue (\$)" } \div \text{"Interest Expense (\$)"}$	1, 2, 3, 4, or 5
Interest Coverage Ratio II	$[\text{"Operating Revenue (\$)" - "Operating Expenses (\$)" - "Interest Expense (\$)"}] \div \text{"Interest Expense (\$)"}$	1, 2, 3, 4, or 5
Change in Net Income	$[\text{"Net Income" - "Net Income (Prior)"}] \div \text{"Net Income (Prior)"}$	1, 2, 3, 4, or 5
Reliance on Government Funding Ratio	$\text{"Government Grants (\$)" } \div \text{"Total Revenue (\$)"}$	1, 2, 3, 4, or 5
Self-Sufficiency Ratio	$\text{"Earned Revenue (\$)" } \div \text{"Operating Expenses (\$)"}$	1, 2, 3, 4, or 5
Change in Self-Sufficiency Ratio	$[\text{"Self-Sufficiency Ratio" - "Self-Sufficiency Ratio (Prior)"}] \div \text{"Self-Sufficiency Ratio (Prior)"}$	1, 2, 3, 4, or 5
Financing Capital Liquidity Ratio	$\text{"Available Financing Capital (\$)" } \div \text{"Commitments (\$)"}$	1, 2, 3, 4, or 5
Current Ratio	$\text{"Current Assets (\$)" } \div \text{"Total Current Liabilities (\$)"}$	1, 2, 3, 4, or 5
Deployment Ratio	$[\text{"Total Equity Investments Portfolio (\$)" + "Total On-Balance Sheet Loan Portfolio (\$)"}] \div \text{"Total Financing Capital (\$)"}$	1, 2, 3, 4, or 5
Change in Deployment Ratio	$[\text{"Deployment Ratio - Deployment Ratio (Prior)"}] \div \text{"Deployment Ratio (Prior)"}$	1, 2, 3, 4, or 5
Operating Cash Ratio	$[\text{"Unrestricted Cash \& Cash Equivalents (\$)" + "Cash Restricted for Operations (\$)"}] \div [\text{"Total Expenses (\$)" - "Non-cash Expenses (\$)"}]$	1, 2, 3, 4, or 5
Operating Cash Ratio II	$[\text{"Unrestricted Cash \& Cash Equivalents (\$)" + "Cash Restricted for Operations (\$)"}] \div \text{"Operating Expenses (\$)"}$	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