DEPARTMENT OF THE TREASURY
COMMUNITY DEVELOPMENT
FINANCIAL INSTITUTIONS FUND

PERFORMANCE AND ACCOUNTABILITY REPORT FY 2004

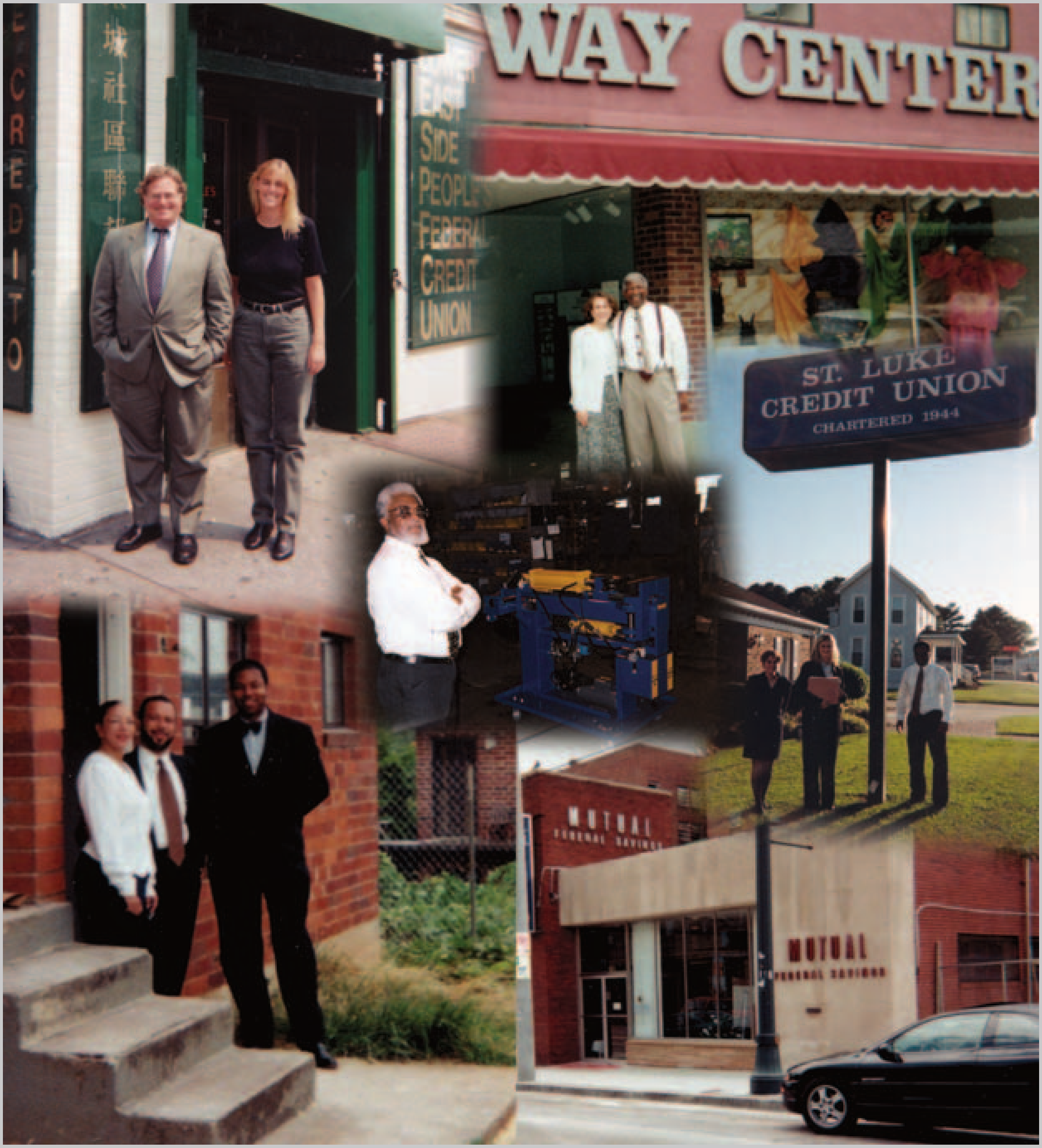


TABLE OF CONTENTS

Message from the Director's Office 3

Message from the Deputy Director for Management/Chief Financial Officer 5

Community Development Financial Institutions Fund Overview 7

Performance Highlights 12

Program Discussion and Analysis 14

- The Community Development Financial Institutions Industry 14
- Community Development Financial Institutions Program 18
- New Markets Tax Credit Program 22
- Bank Enterprise Award Program 24
- Native Initiatives 27
- Policy and Research Initiatives 30

Status of Financial Management 32

INDEPENDENT AUDITORS' REPORTS 39

FINANCIAL STATEMENTS AND NOTES 45

APPENDICES 59

Appendix A: FY 2004 CDFI Fund Award and Allocation Activities 60

Appendix B: Total Fund Awards From Inception 64

Appendix C: Glossary of Terms 66

MESSAGE FROM THE DIRECTOR

It is with great pleasure and honor that I present the United States Treasury, Community Development Financial Institutions Fund's Accountability Report for the 2004 fiscal year. Though the Fund's mission of expanding the availability of credit, investment capital, and financial services in distressed urban and rural communities, the Fund continues to deliver programs and funding that provides deliverable results to the communities that are in the greatest need.

During my tenure as Director of the Fund I have had the opportunity to see, first hand, the creation and expansion of diverse community development financial institutions (CDFIs) and the benefit of incentives to traditional banks and thrifts as the Fund's investments work toward building private markets, creating healthy local tax revenues, and empowerment of local residents.

My visits to the foothills of the Appalachians, the plateaus of New Mexico or the northland in Minnesota, have reiterated the benefit distressed communities and low-income individuals receive with the relatively small infusions of capital from the Fund's programs.

All of this would not be possible without the passion and dedication the Fund's staff demonstrates daily as they continue to enhance program efficiencies, expand the programs functionally and assist the Fund's constituents with achieving their strategies in their respective communities. Additionally, as a result of these efforts, fiscal year 2004 marks the seventh consecutive year in which the auditors rendered an unqualified opinion on the Fund's financial statements and in which no material weaknesses, reportable conditions or areas of non-compliance with laws and regulations were identified.

As the Fund celebrates a successful 2004 fiscal year, my ongoing vision for the Fund is to continue to enhance the channels for educational outreach to our constituencies while streamlining our internal processes. These opportunities will provide for improved satisfaction of program delivery and in turn will result in a quality organization both internally and externally.

Arthur A. Garcia
Director

MESSAGE FROM THE DEPUTY DIRECTOR FOR MANAGEMENT/ CHIEF FINANCIAL OFFICER

Fiscal Year 2004 marks the seventh consecutive year in which the Fund's auditors rendered an unqualified opinion on our financial statements and in which neither material weaknesses reportable conditions nor system non-conformances were identified. It also marks the third year in which the Fund was able to provide audited financial statements within 45 days after its fiscal year end.

The Fund had a productive year as it was able to make over $77 million in awards to 265 organizations under the Fund's major programs, and an allocation of tax credits to 63 organizations supporting $3.5 billion in investor equity under the New Markets Tax Credit Program. The volume and timing of these awards (all but a small amount were made prior to August, 2004) could not have been accomplished without use of the Fund's electronic award and tracking system, used for most of the Fund's award programs. As in the prior year, this completely paperless system improves customer service by allowing Fund management to ascertain the status of all applications submitted, awards made, and amounts disbursed. Development and implementation of this system helped the Fund obtain a "green" rating in the "E-government" initiative within the President's Management Agenda.

A second major accomplishment during the year was the implementation of a sophisticated web-based system that allows for the collection of data from Fund awardees – the Community Investment Impact System (CIIS). For the first time, data will provide the specific location and characteristics of each loan in an awardee's portfolio and allow the Fund to measure impact at the census tract level. Data collected compares awardees' lending behavior and community development impact to that of traditional financial institutions, and demonstrates that awardees are lending in areas where traditional banks have less of a presence. Going forward, CIIS will better enable the Fund to measure its performance against its targets and demonstrate how and where the Fund's dollars are used.

We will continue our commitment to support a critical Departmental performance measure of economic growth and job creation for the coming years. Our blueprint is in place and sustainable progress is being achieved that fully meets the Fund's goals and mission.

Owen M. Jones

Owen M. Jones
Deputy Director for Management/Chief Financial Officer

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND OVERVIEW

OVERVIEW

The Community Development Financial Institutions Fund (the Fund) was created for the purpose of promoting economic revitalization and community development through investment in and assistance to community development financial institutions (CDFIs). The Fund was established under the Riegle Community Development and Regulatory Improvement Act of 1994, as a bipartisan initiative.

The Fund achieves its purpose by promoting access to capital and local economic growth in the following ways: 1) through its CDFI Program by directly investing in, supporting and training community development financial institutions (CDFIs) that provide loans, investments, financial services and technical assistance to underserved populations and communities; 2) through its New Markets Tax Credit (NMTC) Program by providing an allocation of tax credits to Community Development Entities (CDEs) which enable them to attract investment from the private sector and reinvest these amounts in low-income communities; 3) through its Bank Enterprise Award (BEA) Program by providing an incentive to banks to invest in their communities and in other CDFIs; and 4) through its Native Initiatives, by taking action to provide financial assistance, technical assistance, and training to Native CDFIs and other Native entities proposing to become or create Native CDFIs.

Since its creation, the Fund has made $729 million in awards to community development organizations and financial institutions, and provided allocations of New Markets Tax Credits which will attract private sector investments totaling $6 billion.

FUND MISSION

The Fund's vision is an America in which all people have access to affordable credit, capital and financial services. Its mission is to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States. CDFIs are specialized financial institutions that work in market niches which are underserved by traditional financial institutions. Only financial institutions certified or certifiable as CDFIs can receive funding under the Fund's CDFI Program and Native Initiatives (certain other entities can also receive an award under Native Initiatives).

CDFIs provide a unique and wide range of financial products and services, such as mortgage financing for low-income and first-time homebuyers and not-for-profit developers, flexible underwriting and risk capital for needed community facilities, and commercial loans and investments to start or expand small businesses in low-income areas. In addition, these institutions provide services that help ensure that credit is used effectively, such as technical assistance to small businesses and credit counseling to consumers. CDFIs include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as loan funds, venture capital funds, and microenterprise loan funds, among others.

CDEs are legally established domestic partnerships or corporations that have a mission of serving or providing investment capital for low-income communities or low-income persons, and maintaining accountability to residents of low-income communities. CDEs operate as investment vehicles for the NMTC Program, and NMTC allocations can be made only to entities that have been certified by the Fund as a CDE.

SUMMARY OF FUND PROGRAMS

The Fund's programs are summarized below. More detailed information on each program can be found in the related section of the Program Discussion and Analysis section of this report.

Community Development Financial Institutions Fund Program — The Fund provides direct financial assistance to CDFIs and entities that plan to become CDFIs through two program components:

- The Financial Assistance Component provides financial and technical assistance awards to the more established CDFIs that have comprehensive business plans for creating community development impact and that demonstrate the ability to leverage private sector sources of capital.
- The Technical Assistance Component provides technical assistance grants to CDFIs and entities proposing to become CDFIs in order to build their capacity to advance community development and capital access needs in their target markets. The Technical Assistance Component can also be accessed by larger and more established CDFIs to support their continued development.

New Markets Tax Credit Program — On December 21, 2000, the Community Renewal Tax Relief Act of 2000 was signed into law. This legislation is intended to spur the investment of $15 billion in new private sector capital (raised over seven years) into a range of privately managed investment vehicles that make loans and equity investments in businesses. By making an equity investment in an eligible "community development entity" (CDE), individual and corporate investors can receive a New Markets Tax Credit worth approximately 39 percent of the amount invested over the life of the credit, in present value terms.

Calendar year 2002 was the first year in which applications for tax credits were submitted to the Fund, and as of the end of FY 2004, two allocation rounds had been completed providing allocations of tax credits which will, in the aggregate, support equity investments of $6 billion.

Bank Enterprise Award Program — The Bank Enterprise Award (BEA) Program recognizes the key role played by traditional financial institutions in community development lending and investing. It provides incentives for regulated banks and thrifts to invest in CDFIs and to increase their lending and provision of financial services in the nation's most economically distressed communities (those with high poverty and unemployment).

Native Initiatives — Native Initiatives is the term used to describe the three Fund programs designed to overcome barriers preventing access to credit, capital and financial services in Native American, Alaskan Native and Native Hawaiian communities. These programs are targeted to increasing the number and capacity of existing or new

CDFIs serving Native Communities and a complementary training initiative that seeks to foster the development of Native CDFIs. FY 2002 was the first year in which awards were made under this initiative.

FUND GOALS

During FY 2004, the Fund worked with a consulting firm to develop performance goals and measures which are more closely aligned with the Fund's programs. This effort was undertaken to lead to efficiencies in performance budgeting and measuring results. The revised performance goals are as follows:

CDFI Program Performance Goal: Build the capacity and coverage of CDFIs to provide credit, capital, and related services to otherwise underserved markets.

New Markets Tax Credit Program Performance Goal: Attract private sector capital into low-income communities through CDEs.

Bank Enterprise Award Program Performance Goal: Increase FDIC-insured institutions' investments in community development and economic revitalization in distressed communities.

Native Initiatives Performance Goal: Build the capacity and coverage of CDFIs and other institutions to provide credit, capital, and related services to Native Communities

ALLOCATION OF FUNDING

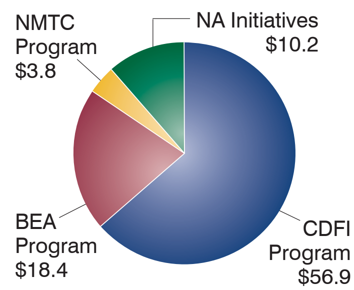
The Fund's appropriations are characterized as program funds and administrative funds. Program funds consist of amounts to be used for program awards (grants, loans, other investments, and training contracts); administrative funds are amounts used to administer all programs (including the NMTC Program).

Total amounts funded during FY 2004 totaled $89.3 million. Programs funded in the chart below include allocated amounts of administrative funds.

In addition, the Secretary has delegated authority for the Fund to allocate tax credits under the New Markets Tax Credit Program raising up to $15 billion in private capital equity through FY 2007. Allocation authority to issue tax credits is not a funding source and so is not reflected in the above chart. NMTC funding as shown represents the amounts needed to administer the program.

Sources of Funding — Funds are appropriated annually to the Fund for two fiscal years. Each year's available funding includes unobligated funds from the prior year ("carryover" funding, if any) plus the current budget authority. Sources of funding also include borrowing authority to fully fund loans awarded.

Programs Funded in FY 2004
(amounts in millions)



SOURCES OF FUNDING
(amounts in millions)

	FY 2004	FY 2003
Appropriations	$ 60.6	$74.5
Amounts Deobligated	.1	.3
Carryover from Prior Year	25.0	5.0
Borrowing Authority Used	3.6	1.8
Total Sources of Funds	**$ 89.3**	**$81.6**

Uses of Funding — During FY 2004, the Fund used funding of $89.3 million as follows:

USES OF FUNDING

(amounts in millions)

Awards Funded	**FY 2004**	**FY 2003**
Programs Funded		
CDFI Program	$56.9	$32.3*
Bank Enterprise Award	18.4	14.9
NMTC Program	3.8	3.6
Native Initiatives	10.2	5.8**
Total Programs Funded	$89.3	$56.6
Amounts Not Obligated	—	25.0
Total Funding Used	**$89.3**	**$81.6**

Note – administrative funds of $12.3 million and $10.9 million have been allocated to the above programs for FY 2004 and 2003, respectively.

**Includes $2.7 million for contacts to determine the effectiveness of the Fund's training and technical assistance programs.*

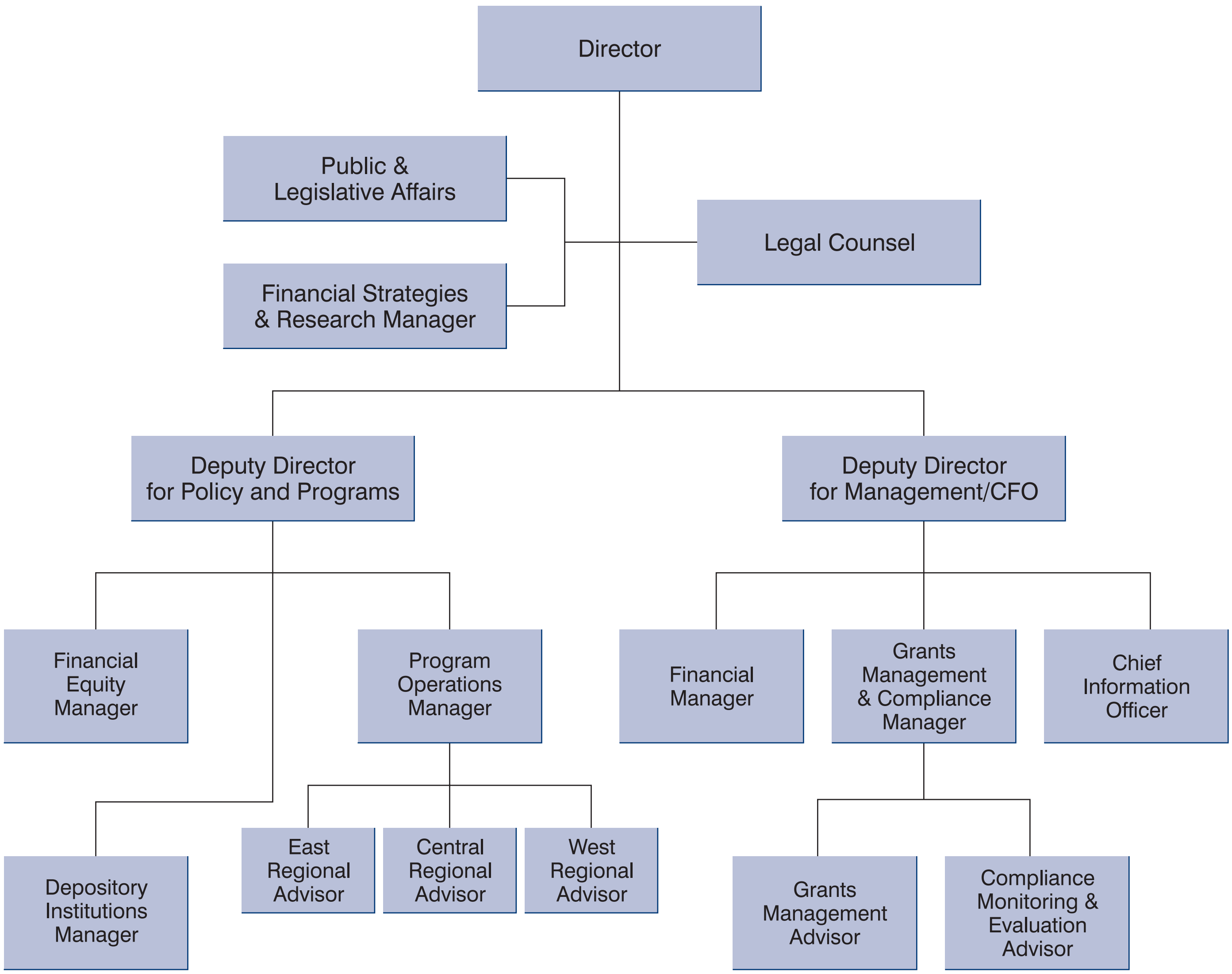
***Includes $5.3 million for contracts to help carry out the findings from the Native American Lending Study.*

ORGANIZATION OF THE FUND

The Fund's structure consists of a Director, a Deputy Director for Policy and Programs, a Deputy Director for Management/Chief Financial Officer, Legal Counsel, and various program and administrative support offices.

The organization chart of the Fund is shown below.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND
SEPTEMBER 2004



PERFORMANCE HIGHLIGHTS

Highlights of the Fund's program and financial performance for the past three fiscal years are summarized below.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS PROGRAM

(dollar amounts in millions)

	FY 2002	FY 2003	FY 2004
Number of certified CDFIs at year-end	625	652	733
Core/Financial Assistance[1] Component			
Total amount of awards	$41.6	$23.0	$46.7
Number of awards	51	34	68
Amount requested in applications	$198	$107	$125
Carryover of Unobligated Funds to Subsequent Year	$0	$9.8	$0
Technical Assistance Component			
Total amount of awards funded	N/A	$.3	$4.9
Number of awards	N/A	7	107
Amount requested in applications[2]	N/A	$11.5 million	
Carryover of Unobligated Funds to Subsequent Year	$0	$8.1	$0
Small and Emerging CDFI Technical Assistance Component[3]			
Total amount of awards funded	$6.9	N/A	$3.7
Number of awards	61	N/A	20
Amount requested in applications	$18	N/A	$12.7
(SECA amounts shown for FY 2004 are included in the Core/Financial Assistance Component amounts above)			
Native Initiatives			
Total amount of awards funded:			
Native American CDFI Development Program	N/A	$.3	$1.1
Native American Technical Assistance Program[4]	$2.7	$.2	$.69
Native American CDFI Assistance Program	N/A	N/A	$6.7
Native American Training Program	N/A	$5.3	$0
Carryover of Unobligated Funds to Subsequent Year	$4.8	$4.0	$0

[1]The Financial Assistance Component replaced the Core Component during FY 2003.

[2]The TA Component accepted applications on a two-year rolling basis.

[3]The SECA Program was terminated in FY 2003, but re-established in FY 2004 as part of the FA component of the CDFI Program.

[4]FY 2002 numbers are for the Native American CDFI Technical Assistance Program, which was replaced in FY 2003 by the Native American Technical Assistance Program and the Native American CDFI Development Program.

NEW MARKETS TAX CREDIT PROGRAM

(dollar amounts in millions)

	1st Allocation Round (awards made in FY 2002)	2nd Allocation Round (awards made in FY 2004)
Number of Community Development Entities	558 as of 9/30/2002	1,639 as of 9/30/2004
Number of Applications Received / Dollar Amount of Equity Supported	346 / $25.8 Billion	271 / $30.4 Billion
Number of Allocations Awarded / Dollar Amount of Equity Supported	66 / $2.5 billion	63 / $3.5 billion
Qualified Equity Investments	$608 million	$0
Amount of Qualified Investments in Low-Income Communities	$51.8 million	$0

BANK ENTERPRISE AWARD PROGRAM

(dollar amounts in millions)

	FY 2002	FY 2003	FY 2004
Total amount of awards funded	$23.0	$13.9	$17.0
Number of awards	81	75	49
Amount of financial and technical assistance BEA awardees provided to CDFIs	$142	$28	$38
Amount of loans, investments, and services BEA awardees made in distressed communities	$504	$163	$598

SUMMARIZED CDFI FUND FINANCIAL DATA

(dollar amounts in millions)

	FY 2002	FY 2003	FY 2004
Assets	$190.6	$178.2	$182.3
Liabilities	$64.8	$61.0	$57.1
Net Position	$125.8	$117.2	$125.2
Revenue and Financing Sources	$101.1	$83.0	$51.3
Expenses	$101.5	$83.6	$51.9
(Shortage) of Revenue and Financing Sources Over Expenses	($.4)	($.6)	($.6)

PROGRAM DISCUSSION AND ANALYSIS

THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION INDUSTRY

THE NEED FOR COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

The United States has one of the best banking and financial market systems in the world. The U.S.'s traditional financial institutions[1] address the needs of most people in the country by providing checking, savings and investment accounts, as well as a wide range of loan products including mortgage, home equity, business, and consumer loans. Yet, an estimated 12 million U.S. households do not have a relationship with a traditional financial institution or depend on "fringe" financial services such as pawnshops, check cashers and payday lenders[2]. Many of these individuals live in neighborhoods where no bank branches are found, or cannot buy a home or start a business because they lack the credit history needed to qualify for a mortgage or the collateral needed to obtain a business loan. Many turn to the only available alternatives: higher cost check cashing stores to cash checks and buy money orders to pay bills; and pawnshops, payday lenders, and title companies for short-term loans. The most vulnerable – the elderly and financially uneducated – may become victims of predatory mortgage lenders, whose excessive interest rates, fees and prepayment penalties regularly lead to foreclosure and loss of the home. The predatory lending issue is so critical that every federal banking regulator has publicly denounced predatory lending.

Not only do individuals and businesses suffer from the lack of financial services and financing, but community service infrastructure suffers as well. Non-profit developers have limited alternatives for financing new affordable housing units. Low-income communities in great need of childcare centers, hospitals, assisted living facilities and charter schools find these services in short supply. Capital needed to revitalize these areas is difficult to obtain from traditional financial institutions due to their lack of market knowledge, and legal and regulatory challenges. Without appropriate financing mechanisms, individuals and communities cannot sustain economic growth. If the conditions for prosperity and stability for all Americans are to be promoted, these gaps in financial service and credit availability need to be addressed.

---

[1]Defined as regulated, insured commercial banks, savings and loan associations, and credit unions.

[2]James H. Carr "Financial Services in Distressed Communities: Framing to Issue, Finding Solutions". Fannie Mae Foundation, 2001.

Community Development Financial Institutions (CDFIs) are specialized financial service providers whose primary mission is to fill service and credit gaps in underserved communities. They are essential components in the nation's delivery of financial services and financing capital to underserved communities, where they help stimulate economic growth, start or expand businesses, and promote homeownership among low-income populations. Furthermore, the counseling and technical assistance that CDFIs provide are critical for helping these underserved communities effectively use the nation's financial system and avoid predatory financial products. CDFIs have proven that their strategic lending and investment activities, tailored to the unique characteristics of underserved markets, are highly effective in improving the economic well being of these communities.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

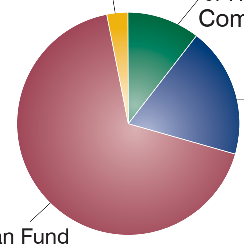
CDFIs include banks, credit unions, loan funds, and venture capital funds, with each providing a different mix of products geared to reach specific customers, as follows:

- Community development banks are for-profit corporations which provide capital to rebuild economically distressed communities through targeted lending and investment;
- Community development credit unions are non-profit cooperatives owned by members which promote ownership of assets and savings and provide affordable credit and retail financial services to low-income people;
- Community development loan funds (usually non-profits) provide financing and development services to businesses, organizations and individuals in low-income urban and rural areas and can be further categorized based on the type of client served: micro-enterprise, small business, housing and community service organizations; and
- Community development venture capital funds are both profit and non-profit organizations which provide equity and debt-with-equity features for businesses in distressed communities.

Certified CDFIs — A certified CDFI is one that has been certified by the Fund as meeting all of the following statutory criteria:

- Has a primary mission of promoting community development;
- Serves principally an investment area or targeted population;
- Is an insured depository institution, or makes loans or development investments as its predominant business activity;
- Provides development services (such as technical assistance or counseling) in conjunction with its financing activity;
- Maintains accountability to its target market; and
- Is a non-governmental entity and cannot be controlled by any governmental entities.

In addition to seeking certification to receive financial and technical assistance from the Fund, organizations pursue CDFI certification to leverage funds from non-federal sources such as banks, foundations, and state and local governments.



The certification of organizations as CDFIs has been a long-standing goal of the Fund. The majority of certified CDFIs as of the end of FY 2004 are loan funds and credit unions. Far smaller percentages are banks and thrifts, depository holding companies, and venture funds.

By the end of FY 2004, the Fund had certified 733 CDFIs serving both rural and urban areas in all states and the District of Columbia, Puerto Rico, and the Virgin Islands.

Types of Services and Products Provided — CDFIs generally use three types of financing products to serve their communities: loans, guarantees, and equity investments .

The Fund's annual survey of CDFIs' fiscal year 2003 activities shows that loans are by far the most used financing product by CDFIs, representing 97% of the dollar amount of financing outstanding and the number of CDFI financing transactions. They represent virtually all of the financing from loan funds, credit unions and banks, and comprise a significant portion of financing provided by venture funds.

Loans include term loans, lines of credit and debt with equity features. Loan amounts vary based largely on the type of CDFI and on the product provided. The average loan closed during FY 2003 by credit unions was generally the smallest in size ($9,900), followed by banks ($45,700), loan funds ($93,500), and venture funds ($128,000).

Eight percent of CDFIs provide loan guarantees, which include letters of credit or guarantees provided to enhance the creditworthiness of a borrower receiving a loan from a third-party lender. These guarantees enable other financial institutions to participate in community lending due to a portion of the loan being guaranteed by a CDFI. Guarantees represent two percent of the dollar amount of financing outstanding and less than one percent of the number of transactions outstanding.

Equity investments are concentrated mainly in the venture capital sector and comprise one percent of the amount of financing outstanding and two percent of the number of transactions outstanding. Credit unions and banks do not make equity investments.

CDFI Customers and Markets Served — CDFI customers consist of the following:

Small business owners who provide employment opportunities and needed services to disadvantaged communities;

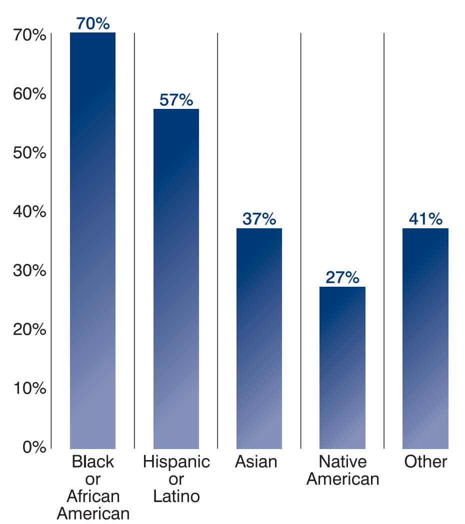
- Affordable housing developers that construct and rehabilitate homes in low-income communities;
- Community facilities that provide child care, health care, education and social services in underserved communities;
- Commercial real estate developers who finance the acquisition, construction or rehabilitation of retail, office, industrial and community facility space in low-income communities; and
- Individuals who are provided affordable banking services including checking and savings accounts, alternatives to predatory financial companies, and mortgages and other kinds of loans.

Not surprisingly, the most populous states have the most certified CDFIs: 28% of certified CDFIs are headquartered in the five most populous states (New York, Texas, North Carolina, Florida and California).

CDFIs serve a wide range of geographic markets across the country. Fifty-two percent of CDFIs that responded to the Fund's FY 2003 annual survey reported that they serve major urban areas, 56% serve minor urban areas, and 59% serve rural areas. These markets include some of the most difficult to serve areas in the country: Appalachia, Lower Mississippi Delta, Native American areas, and the Mexican border Colonias communities.

CDFIs serve diverse populations. 83% of CDFIs serve racial or ethnic minorities, with the breakdown as follows:

Percentage of CDFIs Serving Racial and Ethnic Minorities



COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS PROGRAM

OVERVIEW OF THE CDFI PROGRAM

The Community Development Financial Institutions Fund (the Fund) uses federal resources to invest in and build the capacity of private, for-profit and nonprofit financial institutions to provide capital and financial services to underserved people and communities. Through the CDFI Program, the Fund invests in CDFIs using flexible tools such as equity investments, loans, grants, and deposits, depending on institutional needs and available matching funds. It helps these institutions meet their capital needs to further goals such as:

- Economic development (job creation, business development, and commercial real estate development);
- Affordable housing (housing development and homeownership); and
- Community development financial services (provision of basic banking services to underserved communities and financial literacy training).

The CDFI program consists of two components: a Financial Assistance Component, which is by far the largest component of the program, and a Technical Assistance Component. Prior to FY 2003, the Financial Assistance component was referred to as the Core Component.

FINANCIAL ASSISTANCE COMPONENT

Financial assistance (FA) awards enable CDFIs to provide loans and investments, provide training and technical assistance to customers, leverage additional capital to needs in underserved markets, and provide basic financial services such as checking or savings accounts. These investments are provided in the form of grants, loans, and investments in the form of equity, deposits, and credit union shares, and support of comprehensive business plans.

Targeting to Hot Zones — In an effort to achieve increased economic growth in the nation's ***most*** economically distressed communities, the Fund gives priority to those applicants that will deploy their financial assistance in investment areas that are the most highly distressed by certain indicators – Economic Development Hot Zones and Housing Hot Zones. "Economic Development Hot Zones" are areas with a combination of high poverty, low median family incomes and high unemployment. "Housing Hot Zones" are areas that have high homeowner or rental cost burdens for low-income families.

FY 2004 Changes to the Financial Assistance Component — During FY 2004, the Fund made the following changes to the Financial Assistance Component:

Re-establishment of the Small and Emerging CDFI Assistance (SECA) Applicant Category: Permitting smaller and/or newer CDFIs to compete for Financial Assistance in the SECA category enables them to better compete with similarly sized entities for Fund grants. This helps grow the CDFI industry by focusing on the smaller and emerging CDFIs. Awards to applicants that meet the SECA criteria have been made since the first funding round of the CDFI Program; however, awards made to such entities as a unique category in a unique funding round were were originally made during FY 2001 and 2002.

Applications submitted by organizations meeting the SECA requirements were scored under separate guidelines and so were eligible for FA funding for FY 2004. Forty-six applicants requested $12.7 million of which twenty awards were made totaling $3,683,483.

Restoration of Out-Migration and Population Loss as Criteria for Investment Areas: In FY 2004, the Fund revised its definition of investment areas by restoring out-migration and population loss as indicators of distressed. By this action, the Fund added 256 non-metro counties in 37 states to its list of eligible Investment Areas.

Matching Funds Requirement: All applicants other than SECA applicants must have 100% of matching funds in hand or committed at time of application. This represents an increase from the prior year, when all applicants were required to have a minimum of 75% of their matching funds in hand or committed at the time of application. SECA applicants must have 30% of matching funds in hand or committed at time of application.

FY 2004 Awards — During FY 2004, the Fund received 138 applications requesting $125 million in financial assistance. FA awards totaling $46.7 million were made to 68 organizations, compared to $23 million made to 34 organizations in the prior year.

The significant decrease in the amount of FA awards made during FY 2003 (down 45% from 2002 levels) was due to program changes made in FY 2003, resulting in a smaller number of applications received. Amounts not awarded during FY 2003 were carried over to the current fiscal year. This carryover funding, plus the current year appropriation and borrowing authority, were fully awarded during FY 2004.

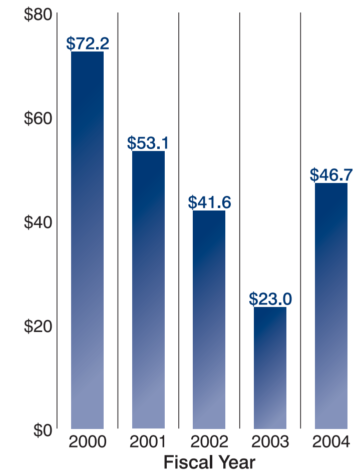
FY 2003 and FY 2004 amounts consist of FA applications and awards; Core applications and awards are prior to FY 2003.

TECHNICAL ASSISTANCE COMPONENT

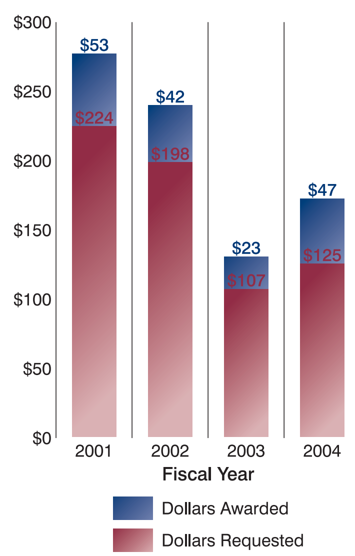
The Technical Assistance (TA) Component provides grants to acquire technical assistance services to enhance the capacity of the awardee to better serve its target market. TA services include the training of staff and management, the acquisition of technology to improve operations and create the necessary infrastructure, and the use of outside experts to build organizational capacity.

In general, TA awards may be used by CDFIs in formation and by new CDFIs to develop critical capacity to implement their products and services, such as training staff on underwriting, and developing loan monitoring procedures. The awards may also be obtained

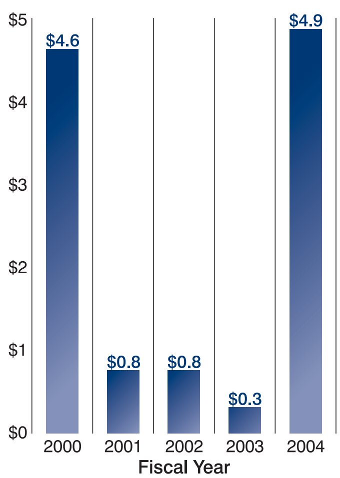
Total Amounts of Core/FA Awards (amounts in millions)



Relationship Between Amounts Requested and Awarded Core/FA Applications (amounts in millions)



Total Amounts of TA Awards
(amounts in millions)



by more established CDFIs to build their capacity to serve new products, serve current markets in new ways, or enhance the efficiency of their operations—such as through upgraded computer hardware and software.

The Fund's Notice of Funds Availability combined the FY 2003 and 2004 funding rounds, and also provided for the receipt of applications on a "rolling basis" whereby applications were submitted throughout the two fiscal years through June 1, 2004. Applications were received and reviewed, and award selections made, throughout the two-year period, although the substantial majority of applications were received at the end of the funding round.

TA awards have a "soft cap," generally limiting awards to no more than $50,000 and are restricted to applicants which have not received prior FA or TA Fund awards totaling over $250,000. The average award for this round was approximately $45,000.

FY 2004 Awards — Under this two-year rolling process, the Fund received 173 applications requesting $11.5 million in TA grants of which $288,000 was awarded to seven organizations during FY 2003 and $4.9 million was awarded to 107 organizations in FY 2004. The large disparity between these award amounts was due to the unexpectedly large number of applications received on, or shortly before, the application deadline.

CDFI PROGRAM PERFORMANCE

Starting with FY 2003, the Fund revised its performance measures to better target them towards measuring the impact of the Fund's awards. Due to the length of time from award through Fund award disbursement, deployment of the award by an awardee, and through receipt of impact information from the awardee, the effect of the Fund's awards made during any given year is not known until quite some time later. Accordingly, the Fund surveys prior awardees to gain an understanding of their use of the Fund's awards during the prior fiscal year and the results.

The following table shows results during FY 2003 based on a survey of CDFI Program awardees that had an active assistance agreement with the Fund as of the end of their FY 2003 (e.g., that were required to provide certain reports to the Fund). One hundred eighty three awardees receiving $53 million in CDFI Program disbursements during FY 2003 responded to the survey.

CDFIs leveraged these disbursements 53:1, consisting of required matching funds, new debt they were able to secure because of Fund grant and equity awards, and additional financing from other sources for other projects financed by CDFIs. It should be noted that this leverage ratio is significantly higher than that reported last year. This increase is due to improved data pertaining to project level leverage. Last year's estimate was based on data collected in 1999 from 30 of the Fund's first round CDFI Program awardees. This year's estimate is based on FY 2003 transaction figures from active CDFI Program awardees.

These CDFIs held $3.9 billion in loans and investments at the end of their 2003 fiscal year. They originated $1.5 billion in community development loans and investments during their 2003 fiscal year, which helped to create the following results:

PERFORMANCE OF 183 CORE AWARDEES DURING FY 2003

1. Number of full time jobs created or maintained (96)	7,179
2. Number of businesses financed (136)	7,325
3. Number of commercial real estate properties financed (39)	656
4. Number of affordable housing units financed (103)	40,639
5. Number of homebuyers who obtain financing (70)	4,222
6. Number of accounts opened at CDFIs (26)	27,460
7. Dollars leveraged with private investments	$2.6 billion
8. Number of individuals provided with financial literacy and other training (241)	93,868
9. Number of CDFIs that have accessed the Fund's institution-building technical assistance or training	251

Numbers in parentheses are the number of CDFIs surveyed reporting on this particular measure.

The numbers above are conservative estimates because not all CDFIs were able to report performance data. For example, 49 CDFIs that do business lending and 16 CDFIs that do housing development lending did not provide performance data because they do not yet collect it or track it electronically. In addition, approximately 19 CDFIs that do business lending did not report the number of business loans made because they could not separate out the purpose of each type of loan they made. The Fund is working with organizations to help them improve their performance data collection and tracking systems.

Carryover of Unused CDFI Program Funding — The Fund had $17.8 million of CDFI Program funding from FY 2003 available for FY 2004 awards (all funding received by the Fund must be obligated within a two-year period). The Fund considers this carryover at the end of FY 2003 a unique situation caused by the following:

- New policy priorities initiated during FY 2003;
- New eligibility requirements for awards,
- Use of a two-year rolling application process for Technical Assistance awards (most applicants waited until the FY 2004 deadline to submit their applications); and
- A limited amount of time for applicants to become familiar with and complete the new electronic application platform.

The carryover was fully utilized during FY 2004, and there was no carryover of unused program amounts at the end of the fiscal year.

NEW MARKETS TAX CREDIT PROGRAM

OVERVIEW

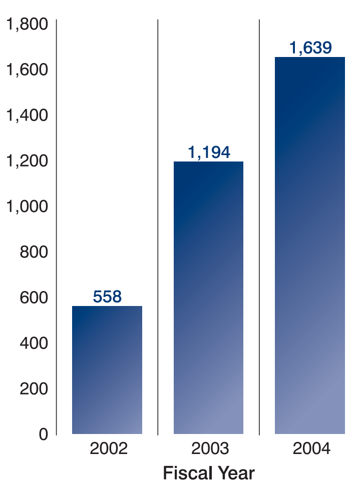
Created by the Community Renewal Tax Relief Act of 2000, the New Markets Tax Credit (NMTC) Program is designed to spur the investment of $15 billion in new private capital into Community Development Entities (CDEs). These investments will make it possible for CDEs to make loans to and equity investments in businesses located in and serving economically distressed places.

The NMTC Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments (QEIs) in Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDEs to invest in low-income communities.

CDEs apply to the Fund for an allocation of tax credits. Once an allocation is awarded, the CDE will provide the credits to investors in exchange for a capital investment. The credit provided to the investors totals 39 percent of the amount of the investment and is claimed by the investors over a seven-year period, with 5 percent of the initial investment claimed as a credit during each of the first 3 years of the investment, and 6 percent being claimed during each of the next four years. Investors who redeem all or part of their investments in CDEs prior to the conclusion of the seven-year period will be required to recapture some or all of the credit claimed.

In order to be certified as a CDE, an organization must be a domestic corporation or partnership that: 1) has a mission of serving, or providing investment capital, for low-income communities or low-income persons; 2) maintains accountability to residents of low-income communities through their representation on a governing board or advisory board to the entity; and 3) has been certified as a CDE by the CDFI Fund. As of September 30, 2004, 1,639 organizations have been certified as CDEs by the CDFI Fund, compared to 1,194 as of one year earlier.

Number of Certified Community Development Entities at Year End



RESULTS OF FIRST TWO NMTC ALLOCATION ROUNDS

Allocations of tax credits are provided to CDEs based on applications submitted pursuant to a Notice of Allocation Availability (NOAA). The process of issuing a NOAA, receiving and reviewing the related applications and making awards is referred to as an allocation round. As of the end of FY 2004 two allocation rounds have been completed with an additional three rounds remaining.

Awardees have five years from the date of receipt of an allocation of tax credits in which to raise investor capital, and an additional year in which to deploy amounts raised. Accordingly, the Fund does not anticipate being able to report any meaningful results pertaining to the deployment of investor equity for at least another year. Those results will be used as baseline information and also to project future performance.

Of the 66 organizations receiving $2.5 billion in tax credit authority during the first allocation round, 37 have issued $557 million in qualified equity investments of which six have made approximately $52 million in qualified investments into low-income communities.

These numbers are not large enough to project out to the entire first round allocation authority, however, there is available information concerning the nature of the allocatees and their intended use of investor capital.

Through the first two allocation rounds, the Fund has provided an allocation of tax credits supporting $6 billion in qualified equity investments to 129 organizations. Demand for the tax credits was high, as 616 applicants requested credits supporting $56.3 billion in equity investments. The average tax credit allocation through the first two rounds was $43 million.

Applicants for tax credits identify the markets in which they plan on investing investor equity. The chart below shows that the majority of investor proceeds are projected to be used in urban areas.

Applicants are also asked about the general nature of the activities that they will be engaging in. The majority of investor proceeds from the second round are to be invested in real estate, followed by non-real estate businesses, and to a much smaller extent, loans and investments in other CDEs.

Changes to the NMTC Application for the Second Round — For its second round of NMTC allocations, the Fund tightened the guidelines for allowing CDEs to apply for an allocation of tax credits and for approving requests for allocations by:

- ***Increasing emphasis on achieving measurable impacts.*** The Community Impact section of the application was enhanced to place more emphasis on measurable impacts (e.g., jobs, wages, goods and services) that will be provided in the low-income communities. This is in keeping with the Fund's goal to improve its ability to obtain meaningful program performance information;
- ***Increasing emphasis upon flexible or innovative products and services.*** Applicants were required to more fully document how their products and services will benefit customers that lack access to traditional capital and/or are working in areas of significant economic distress;
- ***Adding additional criteria if a prior Fund awardee / allocatee:*** CDEs that received a prior award or NMTC allocation from the Fund were not permitted to apply for NMTC allocations if: 1) they have not issued a significant portion of their NMTCs from previous allocation rounds; 2) they have not drawn down most of their award from previous CDFI funding rounds; or 3) they are not in compliance (or have a history of non-compliance) with prior Fund awards.

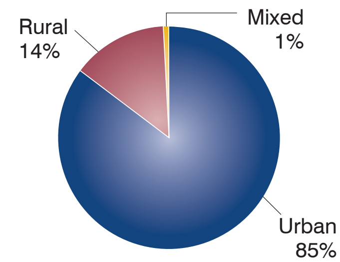
Third Round — The deadline for receipt of applications under the third round of the NMTC Program application is October 6, 2004. The Fund will be allocating tax credits supporting $2 billion in equity investments.

RESULTS OF COMPLETED FUNDING ROUNDS

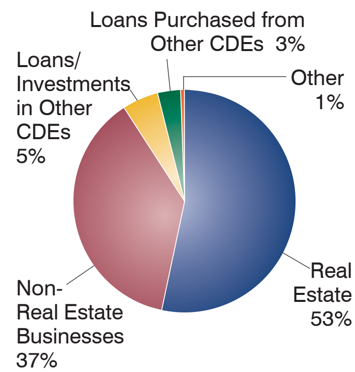
(amounts in billions)

	Applications		Allocations	
Round	Number	Amount	Number	Amount
1	345	$25.9	66	$2.5
2	271	$30.4	63	$3.5
	616	**$56.3**	**129**	**$6.0**

Rounds 1 and 2: Markets Served Projected Use of Investor Proceeds by Allocatees



Round 2: Projected Use of Proceeds by Activity (amounts in millions)



BANK ENTERPRISE AWARD PROGRAM

OVERVIEW

The Bank Enterprise Award (BEA) Program recognizes the key role played by traditional financial institutions in community development lending and investing. It provides incentives for regulated banks and thrifts to invest in CDFIs and to increase their lending and financial services in economically distressed communities. Providing monetary awards for community reinvestment leverages the Fund's dollars and puts more capital to work in distressed communities throughout the nation.

BEA awards are based on a percentage of the increase in the amount of "Qualifying Activities" from a Baseline Period to a later Assessment Period (the corresponding time the following year). Qualified Activities consist primarily of financial assistance provided to certified CDFIs as well as the various loans made by financial institutions (for example, affordable housing loans, small business loans, real estate development loans), and services (such as access to automated teller machines and opening of savings accounts).

Promoting CDFI Investments Through the BEA Program — The BEA Program has a dual purpose. The first priority is to increase banks' investment in CDFIs in order to build CDFI self-sufficiency and capacity (referred to as "CDFI Related" Activities). The second priority is to build the capacity of FDIC-insured depository institutions (banks) to expand their community development lending and investments within severely underserved areas (referred to as the "Financing and Service" priority).

By statute, the Fund must award applicants in the CDFI Related priority before making awards to applicants in the Financing and Service priorities. The prospect of a BEA Program award encourages banks to do this by providing low cost capital and operating support to CDFIs, which has helped to create and sustain a network of CDFIs. CDFIs serve as a delivery mechanism for banks to partner with to better serve highly distressed neighborhoods or very low-income persons.

Eligibility — All depository institutions insured by the Federal Deposit Insurance Corporation are eligible to apply for a BEA Program award. The BEA Program rewards actual increases in the dollar volume of Qualified Activities from a Baseline Period to a later Assessment Period. Qualified Activities for the BEA Program are divided into three priority areas:

1. **CDFI-Related Activities:** Equity investments (grants, stock purchases, purchases of partnership interests or limited liability company membership interests), equity-like loans, and CDFI support (loans, deposits or technical assistance) to certified CDFIs (referred to as CDFI Partners).
2. **Distressed Community Financing Activities:** Loans or investments for affordable home mortgages, affordable housing development, education, small businesses, and commercial real estate development in economically distressed communities.

3. **Service Activities:** Deposits, financial services (such as check-cashing, money orders, or certified checks), electronic transfer accounts (ETAs), individual development accounts (IDAs), First Accounts, or community services provided to low- to moderate-income individuals or the institutions serving them.

The amount of awards attributed to the Service priority in any given year is very small.

Changes to the BEA Program During FY 2004 — Starting with the FY 2004 funding round, the Baseline and Assessment periods were each increased from 6 months to 12 months (the Baseline Period covered January 1, 2002 to December 31, 2002 and the Assessment Period covered January 1, 2003 through December 31, 2003).

The Fund changed to the 12-month Baseline and Assessment periods to be more reflective of the natural business cycle of applicants. Although this modification did not result in larger awards overall, individual applicants benefited because they were able to include more Qualified Activities (especially banks that tend to have an increase in loan volume toward the end of the calendar year).

EXTERNAL REVIEW OF THE BEA PROGRAM

The Office of Management and Budget (OMB) conducted an evaluation of the BEA Program utilizing its Program Assessment Rating Tool (PART) for the FY 2004 budget cycle. The OMB concluded that the correlation between the BEA Program and performance reported by BEA awardees was unclear.

Accordingly, BEA Program funding requests starting with FY 2005 will be reduced until the Fund can determine the extent to which performance information reported by BEA awardees can be attributed to the BEA Program. OMB will assess the BEA Program again for the FY 2006 budget cycle.

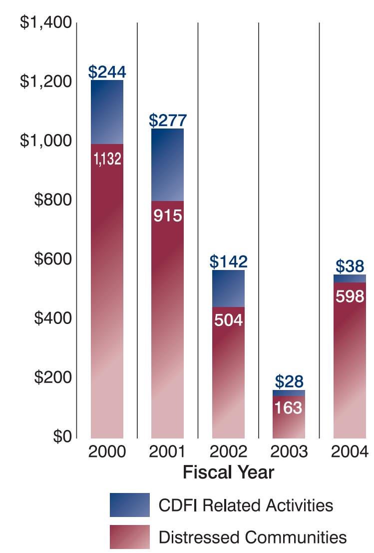
FY 2004 BEA PROGRAM AWARDS

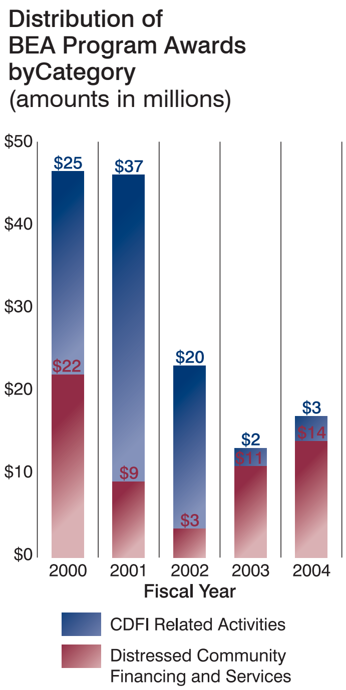
For FY 2004, the Fund received 66 applications requesting almost $25 million in awards, based on $34 million in increased financial assistance to CDFIs as well as $307 million in increased activities in distressed communities throughout the country. The Fund selected 49 FDIC-insured institutions to receive just over $17 million in awards. Awardees are headquartered in 20 states.

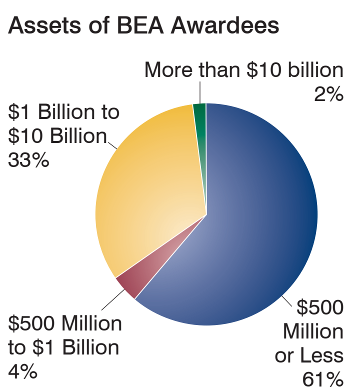
FY 2004 awardees provided $38 million in loans, deposits and technical assistance to CDFIs and $598 million in loans, investments, and services in distressed communities. These amounts are higher than the prior two years due to the transition to a 12-month Baseline and Assessment period (the longer assessment and baseline periods results in 12 months of increased qualified activities, compared to six months of activity prior to FY 2004).

The decrease in the dollar amount of awards for CDFI Related Activities relative to awards for Distressed Community Financing Activities and Service Activities is due to the program changes adopted by the Fund in FY 2003. Specifically, the Fund reduced the size and number of awards in the CDFI Related category and encouraged the provision of

Amount of Qualified Activities by BEA Applicants
(amounts in millions)







financial assistance to smaller CDFI Partners by (1) imposing asset limits on CDFI Partners, (2) lowering the award percentage for CDFI Support Activities, and (3) prohibiting an applicant that is also a certified CDFI from receiving credit for any financial assistance provided to a CDFI Partner that is also an FDIC-insured institution.

FY 2004 Community Impact — For FY 2004, applicants were required to report quantifiable impact data for Distressed Community Financing and Service Activities (the second and third priority areas mentioned above). Activities carried out by the 66 applicants for the FY 2004 round resulted in:

- 2,823 new homebuyers (2,338 of which are attributable to one applicant),
- 2,064 affordable housing units developed or rehabilitated,
- 368 commercial real estate properties financed that benefit distressed communities,
- 1,128 jobs created/maintained or businesses created,
- 1,300 individuals receiving technical assistance to combat predatory lending, and
- over 3,085 new bank accounts opened.

BEA Program Awardee Activities — To date, BEA awardees have provided just over $2 billion in financial support and technical assistance directly to CDFIs (the first priority above) and more than $3.5 billion to distressed communities in the form of direct loans, investments, and services (the second and third priorities above). The trend of investments in distressed communities and investments in CDFIs by BEA awardees is shown below:

The reason for the decrease in the FY 2003 and 2004 awards pertaining to CDFI Related Activities is discussed above.

Diversity of BEA Awardees — The Fund attempts to ensure that a variety of banks and financial institutions—in terms of asset size and charter type—participate in the BEA Program. Over the last several years, the number of awards provided to the smallest banks and thrifts (i.e., those with less than $500 million in assets) has increased from 27 percent of the FY 1998 awardees to 61 percent of the FY 2004 awardees, a significant increase.

In FY 2004, BEA applicants included a variety of charter types: 54 (82%) were state chartered banks; 7 (11%) were national banks; and 5 (8%) were federal savings banks or savings associations. In addition, 48 (74%) of the BEA Program applicants were Community Banks and 22 (22%) were certified CDFIs.

NATIVE INITIATIVES

OVERVIEW

Millions of American Indian, Alaska Native, and Native Hawaiian people live in poverty and economic hopelessness. Many American Indian, Alaska Native and Native Hawaiian Communities (collectively referred to as "Native Communities") have unemployment rates well over 50 percent and some are over 90 percent. Most have critical affordable housing shortages and stagnant economies. For some, the nearest ATM or bank is over 30 miles away; for others, the nearest ATM or bank can only be reached by airplane. In order to promote economic prosperity and stability for all Americans, these gaps in financial service availability and access to credit and capital must be addressed.

To gain a better understanding of the unique needs of Native Communities, the Fund conducted a study of access to capital in Native Communities. The Fund's "Report on the Native American Lending Study," which was delivered to Congress in November 2001, was conducted for the purpose of studying lending and investment practices on Indian reservations and other lands held in trust by the United States. Through the Lending Study, the Fund identified barriers to private financing on such lands, identified the impact of such barriers on access to capital and credit for Native Communities, and suggested remedies to address them. The Fund's Native Initiatives are in response to the barriers identified in the Lending Study.

The Fund's Native Initiatives are designed to encourage the creation of CDFIs primarily serving Native Communities and to build the capacity of existing Native CDFIs to improve their ability to serve their communities. In FY 2004 the Fund certified 8 additional such CDFIs, bringing the total number of Native CDFIs to 35.

The Native Initiatives are based on six strategies:

1. Expand training opportunities in community development finance for Native Communities;
2. Offer technical assistance to overcome barriers to the creation or sustainability of Native CDFIs;
3. Offer technical and financial assistance awards targeted to meet the needs of existing or proposed Native CDFIs;
4. Encourage traditional financial institutions to increase their provision of financial products and services in Native Communities;
5. Support the provision of financial education to Native Communities; and
6. Facilitate networking and in-depth training forums in community development finance.

In FY 2004, the Fund continued to implement several aspects of the Native Initiatives. Specifically, the Fund facilitated the provision of training through a contract with national service providers to Native organizations and Native Communities interested in becoming or creating CDFIs. The Fund also made financial assistance and technical assistance awards during the year. Due to the newness of the Native Initiatives, it is too soon to be able to evaluate their performance results.

TECHNICAL ASSISTANCE (TA) GRANTS

Awardees may use technical assistance grants to acquire prescribed types of products or services including technology (usually computer hardware and software), staff training, consulting services to acquire needed skills or services (such as a market analysis or lending policies and procedures), or staff time to conduct discrete, capacity-building activities (such as website development). TA-only funding programs in the Native Initiatives include the Native American Technical Assistance (NATA) Program and the Native American CDFI Development (NACD) Program.

The NATA program provides TA-only grants to existing and emerging Native CDFIs. The NACD Program provides technical assistance grants to Native organizations seeking to create a CDFI that will serve a Native Community.

TA (either alone or in conjunction with financial assistance) is also available through the Fund's newest program, the Native American CDFI Assistance (NACA) Program (described below).

In FY 2004, the Fund provided a combined $3.3 million in TA grants through these three programs. (In FY 2005, the NACA Program will replace the NATA and NACD Programs.

FINANCIAL ASSISTANCE (FA) GRANTS

In FY 2004, the Fund introduced the NACA Program, through which eligible Native CDFIs may receive FA awards (such as loans or grants) to support their financing activities as well as TA grants for existing Native CDFIs and Native organizations seeking to become or create a CDFI. TA under the NACA Program expanded traditional capacity building uses (described above) to include operating grants for start-up Native CDFIs and Native organizations seeking to create a CDFI to serve a Native Community. The Fund received 40 NACA applications during FY 2004 and made 15 awards totaling $6.7 million. All 15 awardees received TA awards totaling $1.5 million, and ten received financial assistance awards totaling $5.2 million.

FY 2004 award information under each component is summarized below.

FY 2004 NA INITIATIVES AWARD INFORMATION

	Technical Assistance	Financial Assistance	Total
NACD	$1,104,770	N/A	$1,104,770
NATA	$675,330	N/A	$675,330
NACA	$1,507,500	$5,206,483	$6,713,983
	$3,287,600	**$5,206,483**	**$8,494,083**

NATIVE TRAINING COMPONENT

The Fund has contracted with a vendor to provide two training courses for Native American lenders, financiers, and community development practitioners interested in developing a CDFI.

- Course 1: An eight hour course to help participants decide if starting a CDFI is the right decision given their community's needs and available resources and what type of CDFI (loan fund, venture capital fund, bank, or credit union) to develop if that is the direction the community pursues. In FY 2004, 114 participants from 90 organizations attended this training.
- Course 2: An intensive series of workshops over eight months to help participants begin developing a CDFI. Course participants are eligible to receive on-site, technical assistance. . In FY 2004, 113 participants from 59 organizations attended this training.

In late FY 2004, the CDFI Fund finalized a contract to provide national train-the-trainer workshops for Native CDFIs and other Native organizations on how to set up and operate asset-building programs (primarily through Individual Development Accounts).

Carryover of Unused Native Initiative Funding — The Fund had $4 million of Native Initiative funding from FY 2003 available for FY 2004 awards (all funding received by the Fund must be obligated within a two-year period). The Fund considers this carryover at the end of FY 2003 a unique situation caused by the following:

- New policy priorities initiated during FY 2003;
- New eligibility requirements for awards,
- Use of a two-year rolling application process for Native Initiative awards (most applicants waited until the FY 2004 deadline to submit their applications); and
- A limited amount of time for applicants to become familiar with and complete the new electronic application platform.

The carryover was fully utilized during FY 2004, and there was no carryover of unused program amounts at the end of the fiscal year.

POLICY AND RESEARCH INITIATIVES

In FY 2004, the Fund focused its resources on developing and implementing the Community Investment Impact System (CIIS), a web-based system that collects and stores institution-level and transaction-level data from CDFIs and CDEs.

COMMUNITY INVESTMENT IMPACT SYSTEM

CIIS was introduced in June 2004. To date, 240 CDFIs and 16 CDEs have used CIIS to report their annual performance data to the Fund. The CDFI performance data is presented in the CDFI Program section of this report. Because the NMTC Program is still relatively new and very few allocatees had activity that they were required to report through CIIS, the CDE data is not presented in this report. The second release of CIIS, expected to occur in November 2004, will include additional questions to enable awardees to complete a greater portion of their reporting requirements through CIIS.

In FY 2005, subject to privacy, confidentiality and taxpayer disclosure laws and regulations, the Fund will develop interactive reports that CDFIs, CDEs and others can access online to view and analyze the CIIS data.

INTERAGENCY COLLABORATIVE FOR COMMUNITY AND ECONOMIC DEVELOPMENT

The Interagency Collaborative for Community and Economic Development (ICCED) is a council comprised of representatives from eight Federal agencies whose mission relates, in whole or in part, to economic and community development. The purpose of the council is to coordinate policies, activities and initiatives in economically distressed communities and targeted populations among these agencies in a concerted manner. The Fund continues to play a key role in the council.

In FY 2004, the Office of Management and Budget (OMB) began working closely with ICCED on OMB's assessment of federal community and economic development programs. OMB's effort is known as the "Crosscut Program Assessment Rating Tool (PART)" analysis. Together, ICCED members and OMB are attempting to define common performance measures, increase coordination among programs, and improve public access to information about each of these programs, including which communities and entities are eligible for assistance under each.

SECONDARY MARKET STUDY

The Fund has contracted for the completion of a study to explore the possibility of expanding the secondary market for community development loans. Selling loans on the secondary market, while common among traditional lenders, is not a general practice among CDFIs. If CDFI loans can be made attractive to potential investors at a reasonable price, the CDFI industry may gain a major source of private sector capital that is likely to grow with the industry's needs and limit the CDFIs' need for ongoing recapitalization. The Fund's study will examine the current and future capital needs of CDFIs and whether the Fund might further the creation of a secondary market for CDFI loans.

The secondary market study has experienced several delays during the year is not yet complete. The Fund expects to complete the study in FY 2005.

PLUM RATING SYSTEM

During FY 2003, the Fund began development of a performance rating system to rank CDFIs according to their overall financial strength and their potential for creating community development impact. This proposed PLUM rating system was to assess a CDFI's quality relative to its peers in four components: Performance effectiveness/community development impact; Leverage, liquidity and solvency; Underwriting; and Management.

During FY 2004, the Fund made a decision to defer the development of PLUM until a sufficient volume of actual CDFI performance data is available, which is currently being collected through CIIS. The Fund anticipates that it will be several years before it has enough CIIS data to fully develop PLUM.

STATUS OF FINANCIAL MANAGEMENT

This section includes the assurance statement required under the Federal Managers' Financial Integrity Act, a summary of the results of the FY 2004 financial statement audit, a summary of the financial management initiatives of the Fund during FY 2004, and a discussion of the Fund's financial position and results of operations during the past fiscal year.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT ANNUAL ASSURANCE STATEMENT

DEPARTMENT OF THE TREASURY COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND ANNUAL ASSURANCE STATEMENT FOR FY 2004

As the Director of the Community Development Financial Institutions Fund, I have established internal controls that enable me to provide reasonable assurance that laws and regulations are followed; programs achieve their intended results free from waste and mismanagement; resources are used consistently with our overall mission; and controls are sufficient to minimize any improper or erroneous payments. Furthermore, continuity of operations planning in critical areas is sufficient to reduce risk to a reasonable level. With the exception of certain performance information that is provided by program awardees, performance data is reliable. I base my assurance on internal evaluations, management assessments and the results of our prior and current year financial statement audits. Also, I can provide reasonable assurance that the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act were achieved.

In addition, the fund substantially complies with the requirements of the Federal Financial Management Improvement Act. The Fund's financial management systems substantially comply with the federal financial management systems requirements, applicable accounting standards, and use the United States Standard General Ledger at the transaction level.

Arthur A. Garcia
Director

Description of the CDFI Fund Financial Management System — The Fund contracts for accounting services under a franchise agreement with the Bureau of the Public Debt's Administrative Resource Center (ARC) in Parkersburg, West Virginia. While the ARC maintains the accounting system relating to the Fund's transactions, the Fund is responsible for generation of all source documents and the accuracy of all accounting information.

The Fund's financial management system includes the transactions maintained by ARC in the accounting system as well as records maintained and procedures performed by the Fund's financial management staff in Washington, D.C. The Fund's financial management staff is directly responsible for the administrative control of its funds, financial planning, budget formulation and execution, and review and analysis of financial information.

RESULTS OF FY 2004 FINANCIAL STATEMENT AUDIT

FY 2004 marks the seventh consecutive year in which the auditors rendered an unqualified opinion on the Fund's financial statements and in which no material weaknesses, reportable conditions or areas of non-compliance with laws and regulations were identified.

FY 2004 FINANCIAL MANAGEMENT INITIATIVES

In FY 2004 the financial management focus was one of continuing to implement and enhance initiatives begun in prior years. Implementation of the Community Investment Impact System as discussed below was a priority of the Fund.

COMMUNITY INVESTMENT IMPACT SYSTEM (CIIS)

CIIS is a sophisticated web-based system that allows for the collection of institution and transaction-level data from Community Development Financial Institution (CDFI) and Community Development Entity (CDE) awardees. Transaction level data provides the specific location and characteristics of each loan in a CDFI/CDE's portfolio and will allow the CDFI Fund to measure impact at the census tract level. Transaction level data collected for the first time in FY 2004 compares CDFI/CDEs' lending behavior and community development impact to that of traditional financial institutions, and demonstrates that CDFI/CDEs are lending in areas where traditional banks have less of a presence.

Information provided by CIIS includes information on each loan and investment a CDFI and CDE awardee makes, including the purpose of the loan or investment, borrower or project location, borrower socio-economic characteristics, loan and investment terms, repayment status, and community development impacts.

CIIS was implemented in June 2004 and was being used by 240 Community Development Financial Institutions and 16 Community Development Entities as of the end of the fiscal year. Much of the performance information in *The Community Development Financial Institutions Program* section of the Discussion and Analysis section was provided by an analysis of CIIS information.

Revision of Performance Measures — Once CIIS is fully operational, information will be available to better enable the Fund to measure the impact of its programs and the extent to which the Fund's revised goals (as discussed on page 2) are achieved. In FY 2005, the Fund will collect baseline data for these new measures. In FY 2006, the Fund will be able to measure its performance against its targets and demonstrate the extent of the Fund's achievement of its goals. Accordingly, most of the current program performance measures will no longer be used once this information is available.

Paperless Processing of Applications for the Financial Assistance Component and the NMTC Program — For the second year in a row, applicants for Financial Assistance (FA) and New Markets Tax Credit (NMTC) awards were able to submit their applications electronically. The entire process from application to award for the FA and NMTC programs was completed in a paperless environment.

Customer Information Mapping System — During the year, the Fund upgraded its electronic mapping system with new and improved mapping features and capabilities. The electronic mapping system enables applicants to determine the eligibility of census tracts and counties under the CDFI Fund's various program distress criteria and also to determine which are considered hot zones. These new features and capabilities include the ability to:

- Create, save, store, edit, and submit program eligibility maps electronically,
- Visually display maps which show eligibility comparisons between programs for investment analysis purposes;
- Cut and paste hundreds of addresses into the mapping system for batch processing purposes; and
- Perform upfront contiguity checking (tracts that share a common border) for maps in order to determine the eligibility area.

MyCDFI/CDE — The CDFI Fund has continued to enhance its new electronic web based customer relationship tool called myCDFIFund. This tool provides Fund customers with a variety of services from a single Internet address. These services include the ability to: 1) create, save, and submit program electronic applications; 2) access their historical electronic applications; 3) update organization and contact information; and 4) access a message box for communication with Fund staff. Additional features will be added in the near future, including the ability to electronically submit reports required by the Fund as required under award agreements and the ability to provide banking information to facilitate disbursement of awards.

MANAGEMENT RESPONSIBILITIES

CDFI Fund management is responsible for the fair presentation of information contained in the principal financial statements in conformity with accounting principles generally accepted in the United States of America. Management is also responsible for the fair presentation of the Fund's performance measures in accordance with the Office of Management and Budget requirements. The quality of the Fund's internal control structure rests with management, as does the responsibility for identification of and compliance with applicable laws and regulations.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations of the Community Development Financial Institutions Fund for the years ended September 30, 2004 and 2003, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Fund in conformity with accounting principles generally accepted in the United States of America, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

SUMMARIZED FINANCIAL DATA

(amounts in millions)

	FY 2004	FY 2003	Increase (Decrease)
Assets	$182.3	$178.2	$4.1
Liabilities	$57.1	$61.0	($3.9)
Net Position	$125.2	$117.2	$8.0
Revenue and Financing Sources	$51.3	$83.0	($31.7)
Expenses	$51.9	$83.6	($31.7)
(Shortage) of Revenue and Financing Sources Over Expenses	($0.6)	($0.6)	$0.0

Assets — Assets increased slightly during the year, from $178.2 million at the beginning of the year to $182.3 million at year-end. This $4.1 million increase consisted of a $3.5 million increase in Fund Balance with Treasury and a $1.7 million increase in loans receivable, offset by a decrease in investments of $2.1 million. Other assets increased by $1 million.

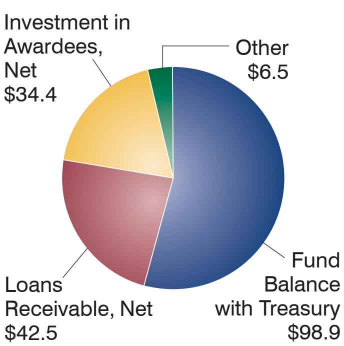
Any change in Fund Balance with Treasury during the year results from the difference between the amount of appropriated funds received during the year (including amounts borrowed) and the amount expended. The Fund Balance with Treasury increased gradually through FY 2001, and then decreased significantly in FY 2002 and 2003 before increasing by a small amount during FY 2004.

The slight increase in the current year occurred because the amount of appropriated funds received during the year (the lowest since FY 1995) was slightly higher than the amount of awards disbursed during the year.

The smaller amount of awards disbursed during the year compared to the prior two years is largely a function of the amount of undisbursed awards at the beginning of the year; the lower this amount, the smaller the amount subject to disbursement during the year. The reduction in the amount of undisbursed awards at the beginning of the year is the result of efforts undertaken during the prior two fiscal years to reduce the undisbursed awards. This is evidenced by the fact that during FY 2003 and 2002, the Fund disbursed $227 million in program awards, which significantly reduced the amount of undisbursed CDFI Program awards as of the beginning of FY 2004. During FY 2004 the Fund disbursed $50.7 million in program awards.

Loans receivable and investments are increased as CDFI Program loan and investment awards are disbursed by the Fund. The $1.7 million increase in loans represents the amount of loan awards disbursed during the year of $2.3 million, less the increase in the allowance for bad debts of $.6 million.

Allocation of Fund Assets
September 30, 2004
(amounts in millions)



Investments decreased during the year by $2.1 million, consisting of redemptions of $.8 million and an increase in the valuation allowance of $1.3 million. Unlike prior years, there were no investment awards disbursed during the year (e.g., no increases to investments).

Liabilities — The decrease in liabilities during the year of $3.9 million consisted of a decrease in awards payable of $7.2 million and in other liabilities by $.1 million, offset by an increase in debt of $3.4 million.

Awards payable consists of undisbursed BEA awards (recorded as a liability at the time of award) and CDFI Program award disbursements approved at year-end but not processed.

The $7.2 million reduction in awards payable consists of the disbursement of $10.5 million of BEA awards included in awards payable at the beginning of the year, and an increase of $3.3 million in CDFI Program awards payable.

The increase in debt of $3.4 million relates to additional borrowings (net of repayments) necessary to fund loans made during the year to awardees, and to fund the downward subsidy reestimate. Awards made in the form of loans are funded in part by borrowings from Treasury.

In addition, for Federal budget purposes the Fund is required to annually recompute the estimated amount of subsidy on prior loans made to awardees. This subsidy represents the difference between the present value of the projected future cash flows on loan awards and the face amount of the loans. It is based on historical payment information not available at the time of award, and on current interest rates. Accordingly, an upward or downward reestimate adjustment will be required every year. A downward adjustment means that prior subsidy estimates were overstated – amounts appropriated in prior years for loan subsidies were in excess of what was needed – and so the Fund borrows this amount to repay to the Treasury Department.

Net Position — Net position decreased during the year by $8.0 million. Net position will change during the year as a result of the following: 1) the difference between appropriations received (net of appropriations cancelled, rescinded and adjusted for credit subsidy re-estimates) and appropriations used; 2) any adjustment of the Fund's subsidy reestimate, and 3) the excess or shortage of revenue and financing sources over expenses. During FY 2004, appropriations received (net of amounts cancelled, rescinded and credit subsidy adjustments) were $60.6 million, and appropriated capital used was $49.3 million. This difference of $11.3 million increases net position.

During the year the Fund adjusted its subsidy reestimate downward by $2.7 million, which required an additional borrowing from Treasury. As stated above, the amount borrowed is used to pay back to the Treasury Department the excess subsidy amounts appropriated in prior years. This $2.7 million repayment reduces net position.

The shortage of net revenue and financial sources over expenses contributed an additional $.6 million of the decrease in net position.

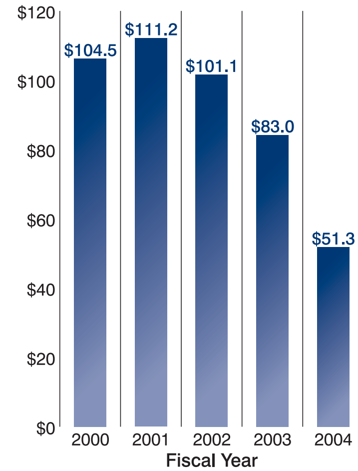
REVENUE AND FINANCING SOURCES, EXPENSES, AND SHORTAGE OF REVENUE AND FINANCING SOURCES OVER EXPENSES

Revenue and Financing Sources — Pursuant to grant accounting requirements, the amount of appropriated capital used (the largest component of the Fund's revenue) is, with certain adjustments, equal to the amount of operating expenses for the year. Accordingly, in any given year, the shortage of revenue and other financing sources over expenses (the Fund's "net loss") will consist of the amount that interest expense exceeds investment income, and certain other items of income and expense.

For FY 2004, interest expense on Treasury borrowings totaled $2.2 million compared to interest and dividend income of $1.6 million. This difference comprised virtually all of the Funds shortage of revenue and other financing sources over expenses of $.6 million.

Expenses — The change in the Fund's operating expenses during FY 2004 consisted of the following:

Revenue and Financing Sources
(amounts in millions)

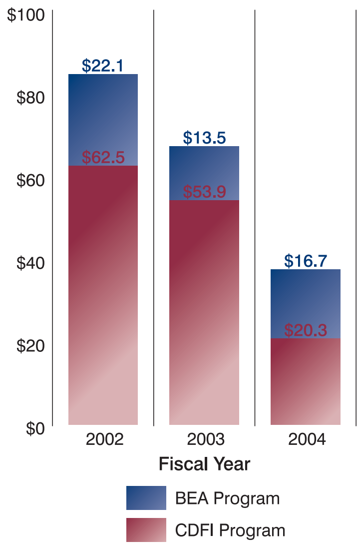


COMPARISON OF OPERATING EXPENSES FISCAL YEARS 2004 AND 2003

(amounts in millions)

	FY 2004	FY 2003	Difference
Award Expenses	$37.0	$67.4	($30.4)
Administrative Expenses	$10.6	$9.9	($0.7)
Bad Debt Expense	$0.6	$3.4	($2.8)
	$48.2	$80.7	($32.5)

Award Expenses
(amounts in millions)



The decrease in award expenses of $30.4 million during the year consisted of a decrease in CDFI Program grant expense of $33.6 million offset by an increase in BEA Program expense of $3.2 million.

This difference pertains in part to the accounting requirements for recognition of an expense between these two programs.

Under the CDFI Program, awards pertaining to grants are recognized as an expense at the time award disbursements are made. Awards pertaining to loans and equity are treated as increases to loans receivable and investments, respectively, at the time of disbursement.

Accordingly, the FY 2004 CDFI Program expense was smaller than the prior year amount due to a smaller amount of grant disbursements being made. As explained above, this reduction is a attributed to the significant amount of CDFI Program disbursements made during the prior two years, which significantly reduced the amount of undisbursed awards at the beginning of FY 2004. A smaller amount of undisbursed awards at the beginning of the year means that there is a smaller amount of awards to disburse during the year.

As can be seen in the accompanying chart, while there was a significant reduction in the amount of CDFI grants disbursed during FY 2004, the amount disbursed during the year as a percentage of the beginning undisbursed balance was in line with that of the prior two years.

Bad debt expense is a function of the amount of loans receivable at year-end. The Fund's allowance for bad debts is equal to 25% of loans receivable. The net increase in loans receivable during FY 2004 (the amount of CDFI Program loan awards disbursed in excess of loan repayments) was $2.3 million, resulting in an increase to the allowance for bad debs of $.6 million. The increase in the prior year allowance of $3.4 million was due to loans receivable increasing by $13.7 million during FY 2003.

RELATIONSHIP BETWEEN CDFI PROGRAMGRANT EXPENSE AND UNDISBURSED AWARDS

(amounts in millions)

	FY 2004	FY 2003	FY 2002
CDFI Program Grant Expense	$20.2	$53.9	$62.5
Beginning Balance of Undisbursed Awards	$34.8	$87.8	$126.1
Percentage of Beginning Balance Disbursed	58.0%	61.4%	49.6%

REPORTS FROM THE AUDITORS

KPMG LLP
2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Financial Statements

To Inspector General, U.S. Department of the Treasury, and
Director, Community Development Financial Institutions Fund:

We have audited the accompanying statements of financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (the Fund) as of September 30, 2004 and 2003, and the related statements of operations and changes in net position and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of the Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund, as of September 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management Discussion and Analysis and appendices is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America, or by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion of it.

In accordance with *Government Auditing Standards,* we have also issued reports dated October 29, 2004, on our consideration of the Fund's internal control over financial reporting and its compliance with certain provisions of laws and regulations, contracts, grant agreements, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards,* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

October 29, 2004

KPMG LLP
2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Internal Control over Financial Reporting

To Office of Inspector General, U.S. Department of the Treasury, and
Director, Community Development Financial Institutions Fund:

We have audited the statement of financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (the Fund) as of September 30, 2004 and 2003, and the related statements of cash flows and changes in net position, for the years then ended, and have issued our report thereon dated October 29, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of the Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our fiscal year 2004 audit, we considered the Fund internal control over financial reporting by obtaining an understanding of the Fund internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on the Fund internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

As required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis section of the Annual Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

We also noted one other matter involving internal control and its operation that we have reported to the management of the Fund in a separate letter dated October 29, 2004.

This report is intended solely for the information and use of the Fund's management, the U.S. Department of the Treasury's Office of the Inspector General, OMB, Government Accountability Office, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 29,2004

KPMG LLP
2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Compliance and Other Matters

To Office of Inspector General, U.S. Department of the Treasury, and
Director, Community Development Financial Institutions Fund:

We have audited the statement of financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (the Fund) as of September 30, 2004 and 2003, and the related statements of operations and changes in net position and cash flows for the years then ended, and have issued our report thereon dated October 29, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

The management of the Fund is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Fund. As part of obtaining reasonable assurance about whether the Fund's fiscal year 2004 financial statements are free of material misstatement, we performed tests of the Fund's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Fund. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests of compliance with certain provisions of other laws and regulations discussed in the second paragraph of this report, exclusive of FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin 01-02.

Under FFMIA, we are required to report whether the Fund's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The results of our tests disclosed no instances in which the Fund's financial management systems did not substantaily comply with the three requirements discussed in the preceding paragraph.

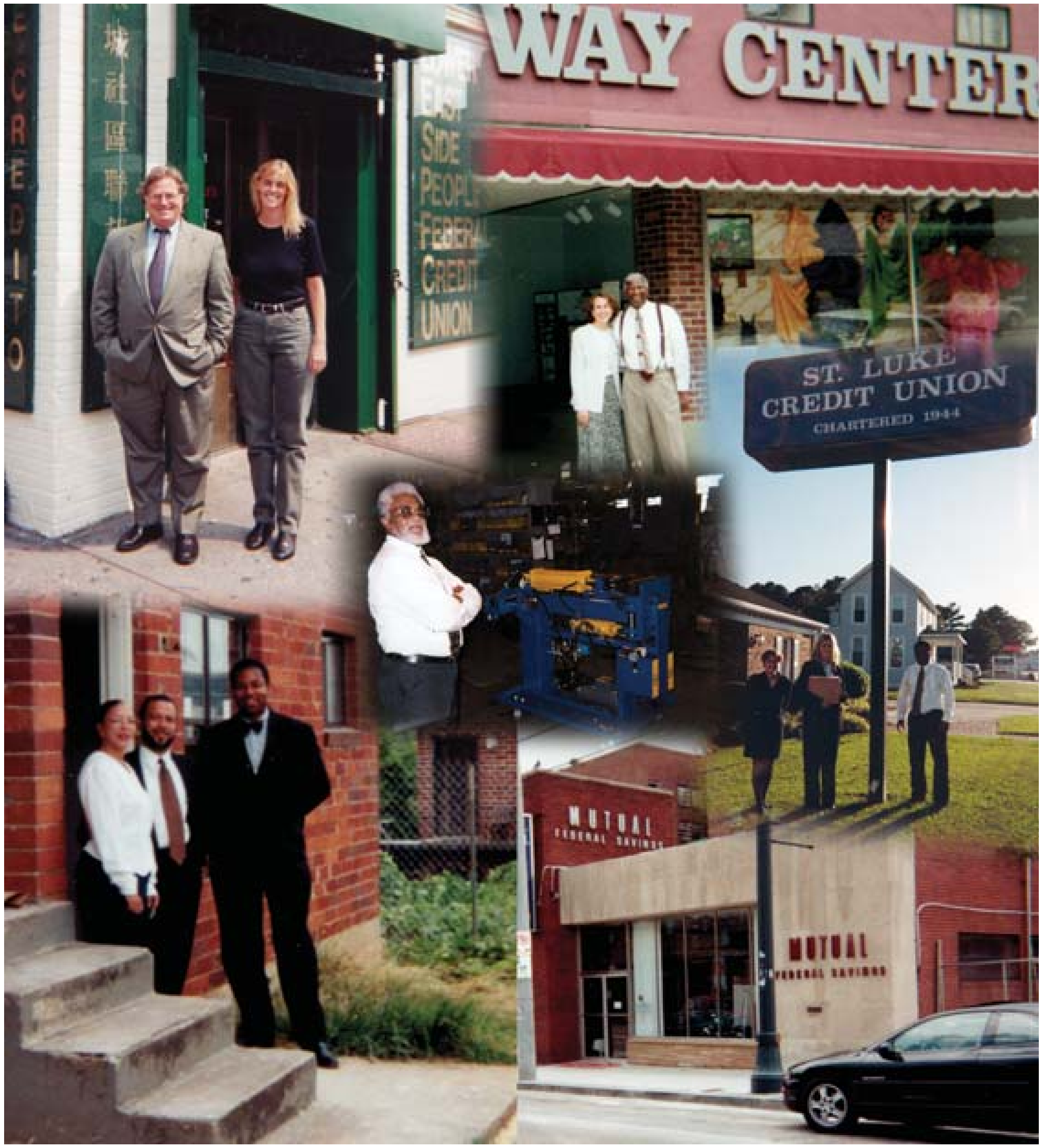
This report is intended solely for the information and use of the Fund's management, the Office of Inspector General, OMB, the Government Accountability Office, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 29, 2004

KPMG LLP, a U.S. limited liability parternship, is the U.S.
member firm of KPMG International, a Swiss cooperative

FINANCIAL STATEMENTS AND NOTES



STATEMENTS OF FINANCIAL POSITION

As of September 30, 2004 and 2003

Assets	2004	2003
Current assets:		
Fund balance with Treasury (Note 2)	$98,869,244	$95,393,698
Advances and prepayments	1,361,767	2,067,920
Loans receivable, net of allowance for bad debts of $910,338 in 2004 and $128,103 in 2003	2,731,015	384,309
Investments (Note 3)	490,000	590,000
Interest receivable	168,243	150,428
Other receivables	239	2,239
Total current assets	103,620,508	98,588,594
Long-term assets:		
Loans receivable, net of allowance for bad debts of $13,256,469 in 2004 and $13,471,286 in 2003	39,769,408	40,413,858
Investments, net of fair value adjustments of $2,750,000 in 2004 and $1,500,000 in 2003 (Note 3)	33,913,083	35,914,361
Internal-use software, net of accumulated amortization of $468,693 in 2004 and $198,394 in 2003 (Note 4)	2,720,290	1,285,908
Internal-use software in development	2,284,375	1,976,505
Other receivables	—	37,117
Total long-term assets	78,687,156	79,627,749
Total assets	**$182,307,664**	**$178,216,343**

Liabilities and net position	2004	2003
Current liabilities:		
Accounts payable	$496,741	$665,348
Awards payable	9,664,009	14,243,874
Accrued payroll	176,700	119,076
Accrued annual leave	270,346	250,112
Total current liabilities	10,607,796	15,278,410
Long-term liabilities:		
Debt (Note 5)	37,222,530	33,800,952
Awards payable	9,320,313	11,899,939
Total long-term liabilities	46,542,843	45,700,891
Total liabilities	57,150,639	60,979,301
Commitments (Note 6)		
Net position (Note 7)	125,157,025	117,237,042
Total liabilities and net position	**$182,307,664**	**$178,216,343**

The accompanying notes are an integral part of these statements.

STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

Years Ended September 30, 2004 and 2003

	2004	2003
Revenue and financing sources:		
Appropriated capital used	$49,293,451	$81,095,907
Imputed financing sources –		
expenses paid by others (Note 8)	361,317	426,249
Interest, non-federal	1,022,746	897,854
Interest, federal	352,812	485,982
Dividends	239,279	157,341
Total revenue and financing sources	51,269,605	83,063,333
Expenses:		
CDFI grants	20,293,708	53,893,301
BEA grants	16,681,027	13,517,428
Administrative	10,311,653	9,476,431
Bad debt expense	567,419	3,432,074
Administrative expenses paid by others (Note 8)	361,317	426,249
Total operating expenses	48,215,124	80,745,483
Treasury borrowing interest	2,237,342	2,123,762
Unrealized loss on investments	1,250,000	750,000
Net realized losses on disposition of investments	205,728	—
Total expenses	51,908,194	83,619,245
Shortage of revenue and financing		
sources under expenses	$(638,589)	$(555,912)
Changes in net position:		
Net position, beginning of year	$117,237,042	$125,779,930
Shortage of revenue and financing		
sources under expenses	(638,589)	(555,912)
Other changes (Note 9)	8,558,572	(7,986,976)
Net position, end of year	$125,157,025	$117,237,042

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Shortage of revenue and financing sources under expenses	$(638,589)	$(555,912)
Adjustments affecting cash flow:		
Appropriated capital used	(49,293,451)	(81,095,907)
Interest on upward adjustment of prior year subsidy	(122,505)	(112,548)
Refund of a prior year expense	—	50,000
Amortization expense	270,299	182,416
Unrealized loss on investments	1,250,000	750,000
Decrease in advances and prepayments	706,152	848,922
Increase in interest receivable	(17,815)	(4,853)
Decrease in other receivable	39,117	661
Increase in allowance for bad debts	567,419	3,432,074
Decrease in accounts payable and accrued payroll	(110,983)	(136,793)
Decrease in awards payable	(7,159,491)	(12,394,622)
Increase (decrease) in accrued annual leave	20,234	(36,406)
Net cash used by operating activities	(54,489,613)	(89,072,968)
Cash flows from investing activities:		
Investments in awardees	851,278	(5,050,000)
Acquisition of internal-use software	(2,012,551)	(2,400,198)
Loans disbursed	(2,779,883)	(14,832,064)
Collection of loan principal	510,20	1,103,770
Net cash used by investing activities	(3,430,948)	(21,178,492)
Cash flows from financing activities:		
Appropriations received	62,526,803	75,731,254
Appropriations cancelled	(1,438,999)	(1,429,147)
Appropriations rescinded	(359,900)	(487,500)
Borrowings from Treasury	5,276,187	10,384,204
Subsidy repayments to Treasury	(2,753,376)	(643,128)
Loan payments to Treasury	(1,854,608)	(1,637,113)
Net cash provided by financing activities	61,396,107	81,918,570
Net change in Fund balance with Treasury	3,475,546	(28,332,890)
Fund balance with Treasury, beginning of year	95,393,698	123,726,588
Fund balance with Treasury, end of year	**$98,869,244**	**$95,393,698**

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004 and 2003

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Community Development Financial Institutions Fund (the Fund) was created as a bipartisan initiative in the Riegle Community Development and Regulatory Improvement Act of 1994 (Public Law No. 103-325). The Fund was placed in the Department of the Treasury and began operations in July 1995.

The Fund operates various programs aimed at expanding the availability of credit, investment capital, and financial and other services in distressed urban, rural, and Native American communities. The Fund is intended to help create a national network of financial institutions dedicated to community development that leverages private resources (financial and human) to address community development needs.

The major programs operated by the Fund are the Community Development Financial Institutions Program (consisting of a Financial Assistance and Technical Assistance Component), the New Markets Tax Credit Program, the Bank Enterprise Awards Program, and Native American Initiatives.

The Community Development Financial Institutions (CDFI) Program provides financial and technical assistance awards to certified community development financial institutions (CDFI's) which in turn provide services to create community development impact in underserved markets. Financial assistance awards take the form of grants, direct loans, and equity investments. Technical Assistance grants provide assistance to start-up and early-stage CDFIs and entities planning to become CDFIs.

The Fund implemented the New Markets Tax Credit (NMTC) Program during FY 2002. Under this program, the Fund provides an allocation of tax credits to Community Development Entities (CDEs), which use these credits to attract private sector investment. Proceeds from these investments are used for community development purposes. Unlike the Fund's grant programs, the allocation of tax credits to CDEs has no effect on the financial statements of the Fund.

The Bank Enterprise Awards (BEA) Program provides incentives to insured depository institutions (banks and thrifts) to invest in CDFIs and to increase their lending and financial services in distressed communities. Program participants are selected based on projected achievements. The awards are disbursed only after the activities have been implemented successfully, to ensure that only completed activities are recognized and that the Fund's limited dollars are effectively leveraged with private capital.

Through Native American Initiatives, the CDFI Fund provides grants to help create CDFI's that serve primarily Native American, Alaska Native, and Native Hawaiian communities.

(b) Basis of Presentation

The Fund has historically prepared its financial statements in accordance with generally accepted accounting principles, based on accounting standards issued by the Financial Accounting Standards Board (FASB), the privatesector standardssetting body. In October 1999, the American Institute of Certified Public Accountants (AICPA) designated the Federal Accounting Standards Advisory Board (FASAB) as the standardssetting body for financial statements of federal government entities, with respect to the establishment of generally accepted accounting principles. FASAB has indicated, however, that financial statements prepared based upon accounting standards published by the FASB may also be regarded as in accordance with generally accepted accounting principles for those federal entities, such as the Fund, that have issued financial statements based upon FASB accounting standards in the past. Accordingly, consistent with historical reporting, the Fund financial statements are presented in accordance with accounting standards published by the FASB.

(c) Fund Balance with Treasury

The Fund does not maintain cash in commercial bank accounts. The U.S. Department of the Treasury (Treasury Department) processes cash receipts and disbursements. Fund Balance with Treasury is composed primarily of appropriated and borrowed funds (financing and program accounts) that are available to pay liabilities and finance authorized award and purchase commitments.

(d) Fair Value of Financial Instruments

The fair value of the Fund's financial instruments was determined as discussed below:

1) Fund Balance with Treasury

The carrying amount approximates fair value for Fund balance with Treasury because of the liquid nature of the funds with Treasury.

2) Loans Receivable and Debt

The carrying amount of loans receivable and debt approximates fair value because the related interest rates approximate current rates for similar loans and debt.

3) Investments

None of Fund's investments are in publicly traded entities for which a share price can be readily obtained, accordingly, the Fund estimated the fair value of investments as follows:

- Non-voting equity securities and limited partnership interest – Several factors were considered in estimating fair value for these investments, including, the cost of the investment, developments since the acquisition of the investment, the financial condition and operating results of the investee per their financial statements, the long-term potential of the business, recent share or unit prices paid, and other factors generally pertinent to the valuation of investments. The Fund, in making its evaluation, has relied on financial data of awardees and, in many instances, on estimates by the management of the awardees as to the potential effect of future developments.

- Convertible debt securities – Fair values were estimated using the same methodology as used for non-voting equity securities described above, based on the assumption that the securities were converted into stock.
- Secondary capital securities – These investments have terms similar to loans, and accordingly fair values were estimated by discounting future projected cash flows at the Treasury rate of securities with similar maturities.
- Certificates of deposit – The carrying amount approximates fair value because of the liquid nature of the investments.

4) Advances and Prepayments, Interest Receivable, Other Receivables, and Other Liabilities

The carrying amount of advances and prepayments, interest receivable, other receivables, and other liabilities approximate fair value as they represent the amounts expected to be realized or paid.

(e) Loans Receivable

The Fund provides assistance by making direct loans to certain CDFI Program awardees. Loans are reported as receivables when disbursed, reduced by a 25% default allowance. The Office of Management and Budget negotiated a 25% default allowance with the Fund to estimate future losses if adequate historical information is not available. Historical information is not available, and will not be available for some time due to the following: 1) the short length of time the loans have been outstanding; and 2) the majority of loans made by the Fund require either balloon payments at maturity, or principal payments commencing shortly before the maturity date. The borrowers, in accordance with the repayment schedules, have made timely interest and principal payments and there have not been any write-offs to date.

(f) Interest Receivable

Interest is accrued on the outstanding loan receivable principal balances and investments based on stated rates of interest.

(g) Investments

The Fund provides assistance to certain for-profit CDFI program awardees by purchasing non-voting equity and convertible debt securities and to Federal credit union awardees by purchasing certificates of deposit and by providing secondary deposits. Investments in CDFI program and Federal credit union awardees are stated at fair value. In the event the Fund's evaluation results in an adjustment to fair value, an unrealized gain or loss is recorded and the investment balance is adjusted accordingly.

The Fund is restricted from owning more than 50% of the equity of awardees and from controlling their operations. The Fund considers convertible subordinated debentures to be equity investments because they exhibit sufficient characteristics of equity securities. For example, convertible subordinated debentures entitle the Fund to any dividends in the non-voting common stock into which it is convertible as if the Fund had converted the debentures into such stock prior to the declaration of the dividend.

(h) Internal-Use Software

Internal-use software represents the completed phases of the New Markets Tax Credit (NMTC) processing software, Financial Assistance Program processing software, the Customer Information Mapping System and the Community Investment Impact System (CIIS) (net of accumulated amortization) placed in service during the year. The NMTC and Financial Assistance processing software automates the award application submission process. CIIS is a web-based data collection system for CDFI's and Community Development Entities. The Customer Information Mapping System provides applicants with web- based software to geocode addresses, map census tracts and counties and determine the funding eligibility of census tracts and counties under CDFI's various programs.

The software is amortized using the straight-line method over the estimated useful life of seven years.

Internal-use software in development represents costs incurred for various software development projects not yet placed in service.

(i) Awards Payable

CDFI Program grant expense is recognized and awards payable are recorded when the fund is made aware, in writing, that the awardee has met the conditions required for payment and the Fund approves a grant disbursement to be made. BEA Program grant expense is recognized and awards payable are recorded when the Fund approves the BEA award to be made (i.e. at the time the funds are obligated).

The current and long-term portions of awards payable represent amounts estimated to be paid within the next twelve months (current portion) and thereafter (long-term portion) based on prior award payment experience.

(j) Retirement Plans

CDFI Fund employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). The FERS was established by the enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984, were provided an opportunity to join either FERS and Social Security or remain in CSRS.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established, and the Fund makes a mandatory 1% contribution to this account. In addition, the Fund makes matching contributions ranging from 1% to 4% for FERS eligible employees who contribute to their TSP account. Matching contributions are not made to the TSP accounts established by CSRS employees.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program for retirement. In these instances, the Fund remits the employer's share of the required contribution. For CDFI Fund employees participating in CSRS, the Fund makes matching contributions to CSRS equal to 8.51% of base pay.

(k) Annual, Sick and Other Leave

Annual leave and compensatory leave is accrued as a liability when earned by the employee, and the accrual is reduced as leave is taken. The balance in this accrued liability account is computed using current pay rates. Sick leave and other types of non-vested leave are expensed as the leave is taken.

(l) Debt

Debt represents borrowings payable to the Treasury Department that were made to fund direct loans made by the CDFI Program. Principal repayments to the Treasury Department are required to be made based on the collections of loans receivable.

(m) Contingencies

The Fund may be a party in various administrative proceedings, legal actions, and claims brought by or against it. The Fund's management and legal counsel are unaware of any contingencies that would materially affect the Fund's financial position or results of operations.

(n) Revenue and Financing Sources

The Fund receives the majority of its funding through appropriations from the U.S. Congress. The Fund receives two-year appropriations that may be used, within statutory limits, for operating expenses. Appropriations are recognized as revenues at the time the Fund's grants are recorded as liabilities, and when administrative expenses and provision for bad debts covered by budgetary resources are incurred.

Occasionally, the Fund receives dividends on its equity investments and may use those funds for operating expenses. Additional revenue is obtained from interest received on direct loans to the public and on uninvested funds in the direct loan financing account held by the Treasury Department.

(o) Tax Status

The Fund, as a government entity, is not subject to federal, state, or local income taxes and, accordingly, no provision for income tax is recorded.

(p) Use of Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates

(2) FUND BALANCE WITH TREASURY

Fund balance with Treasury as of September 30, 2004 and 2003 consisted of the following components:

	2004	2003
Available	$3,063,094	$26,761,853
Obligated	92,558,505	64,463,631
Expired	3,247,645	4,168,214
	$98,869,244	$95,393,698

Fund balance with Treasury includes appropriated and borrowed funds available to pay liabilities and to finance authorized award and purchase commitments.

(3) INVESTMENTS

Investments relate to capital provided to CDFI Program awardees. The Fund is prohibited from owning more than a 50 percent interest in any awardee, and controlling the operations of any awardee.

Investments consist of the following as of September 30, 2004 and 2003:

	2004	2003
Investments at cost		
Non-voting equity securities	$27,005,479	$27,690,479
Convertible debt securities	2,573,882	2,573,882
Secondary capital securities	4,200,000	4,200,000
Limited partnership interest	2,683,722	2,750,000
Certificates of deposit	690,000	790,000
Investments at cost	37,153,083	38,004,361
Unrealized losses, net		
Non-voting equity securities	(2,350,000)	(1,037,544)
Debt securities	(400,000)	(207,286)
Secondary capital securities	—	(255,170)
Total unrealized losses, net	(2,750,000)	(1,500,000)
Investments at fair value	34,403,083	36,504,361

Non-voting equity securities consist of non-voting common stock held in for-profit CDFI Program awardees (preferred non-voting stock is held in two awardees).

Debt securities consist of non-interest bearing convertible subordinated debentures. As of September 30, 2004 and 2003, one debenture of $2 million matures January 2048 with the option to convert into 200,000 shares of non-voting class B common stock at a $10 per share conversion price. The other debenture of $573,882 as of September 30, 2004 and 2003, matures December 2013 with an option to convert to 1,434,706 shares of non-voting class E common stock.

The Limited Partnership interest consists of a Class B limited partnership interest in Sustainable Jobs Fund, LP and three units of preferred interest in Shorebridge Capital LLC.

Secondary capital securities consist of investments that cannot be redeemed prior to scheduled redemption dates.

Certificates of deposits are investments in federal credit union awardees, and have interest rates ranging from 0 percent to 2 percent.

Investments included as current assets represent certificates of deposit that mature within the next twelve months.

(4) INTERNAL-USE SOFTWARE

The components of internal-use software as of September 30, 2004 and 2003 are as follows:

	2004	2003
Internal-use software	$3,188,983	$1,484,302
Accumulated amortization	(468,693)	(198,394)
Internal-use software – net	$2,720,290	$1,285,908

Internal-use software in development represents the cost of software being developed not yet placed in service.

(5) DEBT

Debt consists of amounts borrowed from the U.S. Treasury Department and included the following activity for the years ended September 30, 2004 and 2003:

	2004	2003
Beginning balance	$33,800,951	$25,053,861
New borrowings	5,276,187	10,384,203
Repayments	(1,854,608)	(1,637,113)
Ending balance	$37,222,530	$33,800,951

The earliest principal repayment due date to Treasury is September 30, 2007.

During fiscal year 2004, the Fund borrowed $4,715,377 to finance current year direct loan commitments and $560,810 to meet annual interest payments due to the Treasury Department, at interest rates ranging from 3.93% to 5.47%, depending on maturity dates or risk categories. The Fund repaid principal to the U.S. Treasury in the amount of $1,854,608. The $1,854,608 was composed of collections of direct loans receivable and a deobligation of a previous loan obligation.

During fiscal year 2003, the Fund borrowed $9,865,143 to finance current year direct loan commitments and $519,060 to meet annual interest payments due to the Treasury Department, at interest rates ranging from 3.54% to 6.16%, depending on maturity dates or risk categories. The Fund repaid principal to the U.S. Treasury in the amount of $1,637,113. The $1,637,113 was composed of collections of direct loans receivable and a deobligation of a previous loan obligation.

Interest paid for the years ended September 30, 2004 and 2003 was $2,237,342 and $2,123,762, respectively.

(6) COMMITMENTS

(a) Operating Leases

The Fund leases office space from the General Services Administration in the Homer Building located in Washington, D.C. under the terms of an operating lease, which expires in January 2007. The Fund also leased equipment under the terms of an operating lease. The total operating lease expense was $1,160,071 and $1,136,997 for the years ended September 30, 2004 and 2003, respectively.

Future minimum payments due under these operating leases as of September 30, 2004 were as follows:

Fiscal year	Minimum lease payments
2005	$1,172,454
2006	1,166,523
2007	337,904
2008	29,654
2009	29,654
	$2,736,189

(b) Award and Purchase Commitments

As of September 30, 2004 and 2003, award commitments amounted to $69,946,853 and $39,320,555, respectively. Award commitments relate to awards which were approved by Fund management but not disbursed as of the end of the year. Award commitments relating to the CDFI Program are not considered liabilities at yearend because the awardees have not met the conditions required for payment. Purchase commitments were $10,167,955 and $3,711,583 as of September 30, 2004 and 2003, respectively. These commitments relate to the unexpired portion of contracts, and purchase orders relating to goods and services not yet received.

(7) NET POSITION

Net position as of September 30, 2004 and 2003 consisted of the following:

	2004	2003
Unexpended appropriations:		
Unobligated available	$15,438,871	$38,025,522
Unobligated expired	3,247,645	4,168,214
Undelivered orders	70,716,649	36,798,888
Total unexpended appropriations	89,403,165	78,992,624
Cumulative results of operations	35,753,860	38,244,418
	$125,157,025	$117,237,042

(8) IMPUTED FINANCING

Imputed financing represents specific expenses relating to the Fund paid for by another Federal organization. The components of imputed financing as of September 30, 2004 and 2003 are as follows:

	2004	2003
Pension cost (CSRS retirement plan)	$35,702	$42,488
Pension cost (FERS retirement plan)	17,315	17,321
Health insurance (health benefits program)	191,165	176,061
Life insurance (group life insuranceprogram)	583	572
Audit fees	116,552	189,807
Ending balance	$361,317	$426,249

(9) OTHER CHANGES IN NET POSITION

Other changes in net position for the years ended September 30, 2004 and 2003 were as follows:

	2004	2003
Increase:		
Appropriations received	$61,000,000	$75,000,000
Appropriation for subsidy reestimate	1,404,298	618,706
Refund of a prior year expense	—	50,000
Decrease:		
Appropriation cancelled	(1,438,999)	(1,429,147)
Appropriation rescinded	(359,900)	(487,500)
Appropriation used	(49,293,451)	(81,095,907)
Downward reestimate adjustment	(2,753,376)	(643,128)
Total other changes in net position	$8,558,572	$(7,986,976)

APPENDICES

WAY CENTER
ST. LUKE CREDIT UNION
CHARTERED 1944
EAST SIDE PEOPLE FEDERAL CREDIT UNION
CREDITO
MUTUAL FEDERAL SAVINGS
MUTUAL FEDERAL SAVINGS

Appendix A

FY 2004 CDFI FUND AWARD AND ALLOCATION ACTIVITIES

	FA Awards		TA Awards		NI Awards[1]	
STATE	Number	Amount	Number	Amount	Number	Amount
Alabama			2	$64,000		
Alaska					2	$96,000
Arizona	1	$199,500			4	$831,500
Arkansas	1	$1,800,000	2	$58,514		
California	6	$5,780,000	8	$598,555	2	$211,340
Colorado	3	$978,300	2	$78,875	1	$50,000
Connecticut			5	$215,289		
Delaware			2	$94,000		
District of Columbia	2	$2,758,660	1	$50,000		
Florida	2	$1,020,000	4	$175,668		
Georgia	2	$2,012,900	1	$52,500		
Hawaii			1	$35,000	3	$224,930
Idaho	1	$290,000				
Illinois	2	$1,410,000	5	$270,383		
Indiana			2	$100,000		
Iowa						
Kansas			1	$40,504		
Kentucky			3	$103,100		
Louisiana	1	$280,000	2	$61,050		
Maine	3	$1,283,856	2	$88,996	1	$855,000
Maryland	1	$50,000	1	$78,000		
Massachusetts	2	$636,850	3	$137,405		
Michigan	1	$750,000	2	$94,933	1	$115,000
Minnesota	2	$964,500	2	$126,400	5	$2,578,083
Mississippi	1	$950,000				
Missouri	1	$650,109				
Montana	1	$28,300			5	$264,300
Nebraska			3	$121,343	1	$89,000
Nevada			1	$41,500		
New Hampshire			1	$41,425		
New Jersey	1	$1,000,000	5	$202,234		
New Mexico			1	$50,000		
New York	11	$10,813,281	12	$524,341	1	$64,500
North Carolina	2	$2,500,000	4	$175,946		
North Dakota			2	$69,520	1	$131,700

[1]Native Initiative (NI) awards. Consists of awards made under the Native American CDFI Assistance Program, Native American Technical Assistance Program, and the Native American CDFI Development Program.

[2]Consists of New Markets Tax Credit (NMTC) allocatees headquarted in these states. Amounts shown represents amount of equity to be raised.

BEA Awards		Total Awards		Allocation of New Market Tax Credits[2]	
Number	Amount	Number	Amount	Number	Amount
		2	**$64,000**		
		2	**$96,000**	1	**$35,000,000**
		5	**$1,031,000**	2	**$65,000,000**
		3	**$1,858,514**	1	**$15,000,000**
9	$2,404,117	25	**$8,994,012**	1	**$26,000,000**
1	$703,415	7	**$1,810,590**		
1	$317,080	6	**$532,369**		
		2	**$94,000**	1	**$35,000,000**
		3	**$2,808,660**	3	**$335,000,000**
		6	**$1,195,668**	1	**$15,000,000**
1	$187,980	4	**$2,253,380**	1	**$17,000,000**
		4	**$259,930**		
		1	**$290,000**		
6	$3,097,526	13	**$4,777,909**	6	**$196,050,000**
2	$19,500	4	**$119,500**	2	**$75,000,000**
				1	**$44,700,000**
1	$885,438	2	**$925,942**		
10	$388,739	13	**$491,839**	1	**$62,500,000**
		3	**$341,050**	1	**$127,500,000**
1	$120,375	7	**$2,348,227**	1	**$64,000,000**
		2	**$128,000**	4	**$345,000,000**
2	$1,560,000	7	**$2,334,255**	5	**$272,000,000**
		4	**$959,933**	1	**$27,000,000**
		9	**$3,668,983**	2	**$185,000,000**
		1	**$950,000**		
2	$108,000	3	**$758,109**	1	**$52,000,000**
		6	**$292,600**		
		4	**$210,343**	2	**$23,000,000**
		1	**$41,500**		
		1	**$41,425**		
		6	**$1,202,234**	1	**$125,000,000**
		1	**$50,000**		
5	$4,806,158	29	**$16,208,280**	6	**$623,000,000**
1	$439,249	7	**$3,115,195**		
		3	**$201,220**		

Appendix A *(Continued)*

FY 2004 CDFI FUND AWARD AND ALLOCATION ACTIVITIES

	FA Awards		TA Awards		NI Awards[1]	
STATE	Number	Amount	Number	Amount	Number	Amount
Ohio	3	$1,356,693	3	$126,430		
Oklahoma					4	$185,000
Oregon	2	$299,000	3	$156,250		
Pennsylvania	2	$2,218,572	3	$112,440		
Puerto Rico						
Rhode Island						
South Carolina			3	$124,100		
South Dakota					5	$1,570,300
Tennessee	1	$450,000	1	$25,100		
Texas	4	$2,656,170	5	$230,620		
Utah			1	$50,000		
U.S. Virgin Islands						
Vermont	1	$783,000				
Virginia	2	$960,000	4	$136,850		
Washington	2	$728,250	3	$135,845	2	$926,000
West Virginia	2	$469,000	1	$12,000		
Wisconsin	2	$582,700			2	$188,330
Wyoming					1	$113,100
Amounts Awarded to FY 2004 Funding Round Applicants	**68**	**$46,659,641**	**107**	**$4,859,116**	**41**	**$8,494,083**

[1]*Native Initiative (NI) awards. Consists of awards made under the Native American CDFI Assistance Program, Native American Technical Assistance Program, and the Native American CDFI Development Program.*

[2]*Consists of New Markets Tax Credit (NMTC) allocatees headquarted in these states. Amounts shown represents amount of equity to be raised.*

BEA Awards		Total Awards		Allocation of New Market Tax Credits[2]	
Number	Amount	Number	Amount	Number	Amount
2	$555,903	8	**$2,039,026**	4	**$132,000,000**
		4	**$185,000**		
		5	**$455,250**	3	**$196,500,000**
		5	**$2,331,012**	1	**$38,500,000**
		3	**$124,100**		
		5	**$1,570,300**		
3	$1,350,332	5	**$1,825,432**	1	**$8,250,000**
2	$63,750	11	**$2,950,540**	2	**$37,000,000**
		1	**$50,000**	1	**$100,000,000**
		1	**$783,000**	2	**$2,000,000**
		6	**$1,096,850**	1	**$21,000,000**
		7	**$1,790,095**	2	**$48,000,000**
		3	**$481,000**		
		4	**$771,030**	2	**$152,000,000**
		1	**$113,100**		
49	**$17,007,562**	**265**	**$77,020,402**	**64**	**$3,500,000,000**

Appendix B

TOTAL FUND AWARDS FROM INCEPTION – FY 2002 REVISED

STATE	FA/Core Awards	TA/SECA Awards	NACTA Awards	BEA Awards	Total Awards from Inception
Alabama	$145,000	$411,500		$615,075	$1,171,575
Alaska	$7,912,500	$306,000	$185,250	$0	$8,403,750
Arizona	$5,400,000	$147,458	$196,000	$454,780	$6,198,238
Arkansas	$7,200,000	$100,000		$3,914,277	$11,214,277
California	$33,752,500	$1,159,112	$68,566	$31,288,862	$66,269,040
Colorado	$5,497,000	$2,478,483	$70,000	$1,413,500	$9,458,983
Connecticut	$1,758,500	$285,100		$56,125	$2,099,725
Delaware	$645,000	$28,000		$2,459,236	$3,132,236
District of Columbia	$5,835,000	$612,700		$5,208,954	$11,656,654
Florida	$13,730,000	$1,035,950		$6,349,773	$21,115,723
Georgia	$1,771,000	$122,000		$5,155,241	$7,048,241
Hawaii	$1,000,000	$455,800		$913,949	$2,369,749
Idaho	$2,000,000	$200,000		$0	$2,200,000
Illinois	$26,604,066	$1,056,700		$24,358,467	$52,019,233
Indiana	$2,308,000	$262,500		$1,383,651	$3,954,151
Iowa	$3,990,000	$265,050		$497,250	$4,752,300
Kansas	$1,903,000	$200,000	$25,000	$1,336,994	$3,464,994
Kentucky	$12,341,500	$405,000		$2,999,414	$15,745,914
Louisiana	$930,000	$275,000		$1,934,109	$3,139,109
Maine	$9,060,000	$473,365		$1,141,852	$10,675,217
Maryland	$13,065,610	$539,246	$95,040	$1,633,404	$15,333,300
Massachusetts	$15,603,600	$2,381,940		$1,982,130	$19,967,670
Michigan	$4,415,000	$94,000	$50,000	$1,226,686	$5,785,686
Minnesota	$13,058,000	$455,000	$50,000	$563,632	$14,126,632
Mississippi	$8,877,500	$126,500		$1,610,336	$10,614,336
Missouri	$660,000	$99,000		$2,412,642	$3,171,642
Montana	$745,000	$350,500	$281,900	$315,962	$1,693,362

STATE	FA/Core Awards	TA/SECA Awards	NACTA Awards	BEA Awards	Total Awards from Inception
Nebraska	$350,000	$245,000	$76,000	$97,832	$768,832
Nevada	$0	$225,000		$11,000	$236,000
New Hampshire	$7,500,000	$52,000		$1,132,000	$8,684,000
New Jersey	$8,265,000	$454,975		$3,333,630	$12,053,605
New Mexico	$5,590,500	$47,000		$185,705	$5,823,205
New York	$49,310,950	$5,538,491	$96,000	$40,296,959	$95,242,400
North Carolina	$18,940,000	$1,132,799	$157,450	$26,764,049	$46,994,298
North Dakota	$635,000	$0		$0	$635,000
Ohio	$5,335,000	$722,850		$3,164,050	$9,221,900
Oklahoma	$1,668,500	$0	$345,000	$2,353,680	$4,367,180
Oregon	$3,077,000	$273,000		$3,696,997	$7,046,997
Pennsylvania	$27,350,000	$3,135,546		$1,735,477	$32,221,023
Puerto Rico	$300,000	$115,000		$0	$415,000
Rhode Island	$750,000	$389,900		$0	$1,139,900
South Carolina	$500,000	$68,500		$170,197	$738,697
South Dakota	$3,892,000	$541,500	$330,100	$472,500	$5,236,100
Tennessee	$6,415,000	$125,000	$95,000	$2,019,629	$8,654,629
Texas	$10,678,300	$2,978,441		$14,489,242	$28,145,983
Utah	$2,000,000	$342,500		$120,000	$2,462,500
U.S. Virgin Islands	$770,000	$0		$0	$770,000
Vermont	$6,799,500	$378,000		$0	$7,177,500
Virginia	$2,450,000	$886,240		$11,000	$3,347,240
Washington	$5,123,000	$629,500	$262,000	$2,295,626	$8,310,126
West Virginia	$270,000	$269,965		$0	$539,965
Wisconsin	$5,848,000	$293,500	$188,800	$1,677,377	$8,007,677
Wyoming	$0	$0	$139,753	$0	$139,753
TOTALS	**$374,025,526**	**$33,170,611**	**$2,711,859**	**$205,253,251**	**$615,161,247**

Appendix C
GLOSSARY OF TERMS

ALLOCATION (OF TAX CREDITS)

Under the New Markets Tax Credit Program, providing a Community Development Entity with the authority to give tax credits to investors in exchange for an investment in the CDE.

BANK

Any organization engaged in any or all of the various functions of banking, i.e., receiving, collecting, transferring, paying, lending, investing, dealing, exchanging, and servicing (safe deposit, custodianship, agency, trusteeship) money and claims to money both domestically and internationally. In its more specific sense, the term bank refers to institutions providing deposit facilities for the general public, including insured depository institutions. Banking institutions may be classified into two broad groups: (1) commercial banks and their central banks; and (2) noncommercial bank institutions. Included in the latter group are such institutions as savings and loan associations, mutual savings banks, and credit unions. These institutions are often referred to as thrift institutions, although commercial banks also provide savings and time deposit accounts.

BANK ENTERPRISE AWARD (BEA) PROGRAM

The Bank Enterprise Award (BEA) Program provides awards to insured depository institutions that increase their level of activities in the form of loans, investments, services, and technical assistance within distressed communities. The program also provides financial assistance to CDFIs through grants, stock purchases, loans, deposits, and other forms of financial and technical assistance. In general, an award is made based on the lender's success in certain BEA Program-qualified activities that were projected in the application for BEA funds. The BEA Program regulations are found at 12 CFR Part 1806.

COMMUNITY DEVELOPMENT ENTITY (CDE)

Community Development Entity – a duly organized entity treated as a domestic corporation or partnership for federal income tax purposes that (a) has a primary mission of serving, or providing investment capital for, Low-Income Communities or Low-Income Persons; (b) maintains accountability to residents of Low-Income Communities through their representation on any governing board of the entity; and (c) has been certified by the Community Development Financial Institutions Fund (the Fund) of the United States Department of the Treasury.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION (CDFI)

Community Development Financial Institution – a non-governmental entity that meets the following eligibility criteria and is certified by the CDFI Fund as such: (i) it must have a primary mission of promoting community development; (ii) it must serve an eligible investment area or targeted population; (iii) its predominant business activity must be the provision of loans or certain equity investments; (iv) in conjunction with its loans or development investments, it must provide activities and services that promote community development (financial management technical assistance, financial or credit counseling, for example); and (v) it must maintain accountability to residents of the investment area or targeted population through representation on its governing board. Certain additional eligibility criteria apply if the entity is a depository institution holding company or an insured depository institution. The CDFI Fund's requirements for CDFI certification and eligibility are found at 12 CFR 1805.200.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDI) FUND

A wholly owned government corporation in the Department of the Treasury, created to promote economic revitalization and community development through investment in and assistance to CDFIs, including enhancing their liquidity. It was created by, and has the specific legal duties and responsibilities specified in, the Riegle Community Development and Regulatory Improvement Act of 1994.

COMMUNITY INVESTMENT IMPACT SYSTEM (CIIS)

CIIS is a web-based system that collects and stores institution-level and transaction-level data from CDFIs and CDEs.

DISTRESSED COMMUNITY

For the CDFI Program, a group of people living within a geographic area (or areas), including an Indian reservation, that meet certain criteria of economic distress. Determining factors include the percentage of the population living in poverty, median family income levels, unemployment rates, the percentage of occupied substandard housing, and/or the level of an area's population loss.

For the BEA Program, a group of people living within a geographic area (or areas), including an Indian reservation, that meet certain criteria of economic distress. Determining factors include the percentage of the population living in poverty and rates of unemployment.

EQUITY

The raising of capital by a corporation issuing or selling its stock (in contrast with "debt," which is the raising of capital by issuing bonds or borrowing money).

FUNDING ROUND

Each application and award is identified with a funding round that corresponds to the year a Notice of Awards Availability (NOFA) is issued. For example, the Fund issued three NOFAs that are identified as the 1996 Round, the 1997 Round, and the 1998 Round. A round is not tied to one fiscal year or one calendar year. In other words, the Fund may make awards and obligations for a round in the fiscal year after the issuance of the NOFA, and obligations may be incurred in more than one appropriation and operating level for a given round.

HOT ZONES

Hot Zones are areas with high levels of distress (i.e., Poverty Rate of at least 20% and the Median Family Income at or below 80% of the Area Median Income, with an Unemployment Rate that is at least 1.5 times the national average. The term identifies areas of the greatest community development need, least banking services availability, and least Awardee coverage. Business Hot Zones are counties and census tracts in Metropolitan Statistical Areas (MSAs) ranked by level of unemployment, median family income, and poverty. Housing Hot Zones are counties and census tracts in MSAs ranked by median family income, poverty, and housing cost burden. Hot Zone counties and census tracts in MSAs are grouped by state. CDFI Program awards target those applicants serving Hot Zones. The request for additional funding relating to the strategic targeting of Hot Zones will take place primarily within the Small Capitalization (SECA) Component of the CDFI Program. This is due to the greater number of awards (both technical and financial assistance) that can be made to the smaller CDFIs, enabling a greater amount of CDFI presence in, and services to, Hot Zones, and the potential to grow these CDFIs into larger organizations to better serve these distressed areas.

THE NATIVE AMERICAN CDFI ASSISTANCE (NACA) PROGRAM

The Native American CDFI Assistance (NACA) Program provides financial assistance awards to eligible Native CDFIs to support their financing activities, as well as technical assistance awards to for existing Native CDFIs and Native organizations seeking to become or create a CDFI.

THE NATIVE AMERICAN CDFI DEVELOPMENT (NACD) PROGRAM

The Native American CDFI Development (NACD) Program provides technical assistance grants to "sponsoring organizations," such as Tribes or entities primarily serving Native American Communities, to help create Native American CDFIs. A Native American CDFI is defined as a CDFI with greater than 50 percent of its activities directed to Native American Communities. The NACD Program is new for FY 2003 and the amount of technical assistance grants under this program are limited to $100,000.

NATIVE AMERICAN TECHNICAL ASSISTANCE (NATA) COMPONENT

The Native American Technical Assistance Component is similar to the NACD Program, the difference being that the NATA Component is limited to CDFIs and entities proposing to become CDFIs. NATA grants are provided as part of the Technical Assistance Component of the CDFI Program.

NEW MARKETS TAX CREDIT (NMTC) PROGRAM

The New Markets Tax Credit (NMTC) Program provides an allocation of tax credits to Community Development Entities (CDEs). The CDEs will in turn provide tax credits to private sector investors in exchange for their investment dollars; investments received by the CDEs will be used to make loans and equity investments in low-income communities.

QUALIFIED EQUITY INVESTMENT (QEI)

An investment in a CDE under the NMTC Program meeting the following criteria: the investment proceeds are used by the CDE to make Qualified Low-Income Community Investments (QLICIs), the CDE designates the investment as a QEI, and the investment is made by the CDE within 5 years from the date of their NMTC allocation.

QUALIFIED LOW-INCOME COMMUNITY INVESTMENT (QLICI)

1) An investment made by a CDE in, or loan to, any qualified active low-income community business; 2) the purchase from a CDE of any such loan; 3) financial counseling and other services to businesses in, and residents of, low-income communities; and 4) any equity investment in, or loan to, any CDE.

TECHNICAL ASSISTANCE

Activities that enhance the capacity of an organization to carry out its business and purpose, such as training of management and other personnel; developing programs and loan or investment loan products; improving financial management and internal operations; and enhancing an organization's community impact.

UNDERSERVED COMMUNITY

These communities include the following:

1) A specific geographic area called an Investment Area;
2) A specific community of people with demonstrated lack of access to credit, equity or financial services called a Targeted Population);
3) Hot Zones, the most economically distressed subset of Investment Areas;
4) Low-Income Communities under the NMTC Program; and
5) Distressed Communities under the BEA Program.

Many Native American Communities also qualify as underserved communities. "Native American Communities" are defined as any Native American, Alaska Native or Native Hawaiian populations, lands or Census-equivalent entities, with the exception of State or Tribal Designated Statistical Areas.

UNDERSERVED MARKETS

A distressed community or a group of people or entities, not necessarily in one geographic area, that meets the CDFI Fund's criteria of economic distress (see Distressed Community above).

VISIT THE FUND AT:

www.cdfifund.gov

THE DEPARTMENT OF THE TREASURY 1789

UNITED STATES
DEPARTMENT OF THE TREASURY