



FY 2018 CDFI Program and NACA Program Financial Assistance Application Evaluation Process

Introduction

This document details the evaluation process for all Financial Assistance (FA) applications received under the Fiscal Year (FY) 2018 CDFI Program and NACA Program funding rounds. The evaluation process described below is outlined in the FY 2018 Notice of Funding Availability (NOFA) published on January 31, 2018, and is governed by the CDFI Program regulations (12 C.F.R. 1805 and 1815). Details regarding the FA application content and requirements can be found in the NOFA and related guidance materials and should be used in conjunction with this document. The evaluation process differs from previous years to reflect updates in the NOFA and Application for FY 2018.

The CDFI Fund reserves the right to modify these policies and procedures in future funding rounds, consistent with requirements specified in the applicable NOFA and related application materials.

Applicable Updates

The AMIS field names that appear in Table 1: “Step 2: Financial Analysis Scoring Criteria, Application Assessment Tool (AAT)” were updated on **February 26, 2018** to ensure consistency between FY 2018 Application Guidance Documents and the financial input field names as they appear online in AMIS.

Reviewers

The CDFI Fund uses a combination of CDFI Fund staff and external reviewers for the evaluation of the FA Application. External reviewers will independently review and evaluate each application. The external reviewers include private sector professionals with strong credentials in community development finance. They are selected based on factors such as their knowledge of community and economic development finance and experience in business or real estate finance, mortgage finance, business counseling, secondary market transactions, banks, credit unions, Native Communities, and financing of community-based organizations. All reviewers, including CDFI Fund staff, must complete the CDFI Fund’s conflict of interest process and be approved by the CDFI Fund.

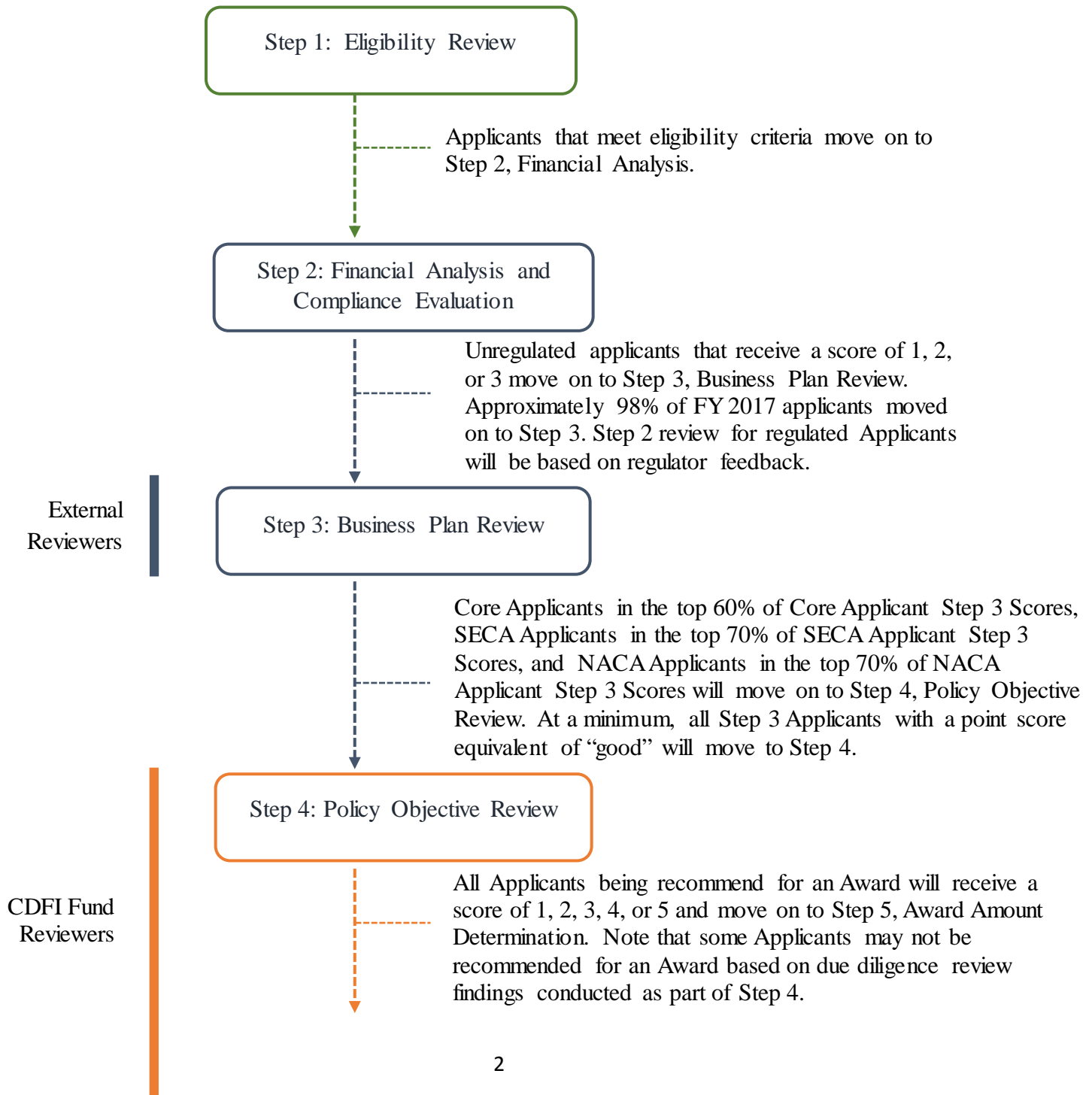
The Evaluation Process

The application evaluation and award selection process includes five steps (discussed in detail below):

- Step 1: **Eligibility Review**, conducted by CDFI Fund staff.
- Step 2: **Financial Analysis and Compliance Evaluation**, conducted by the Application Assessment Tool (AAT) and CDFI Fund staff.
- Step 3: **Business Plan Review**, conducted by external reviewers and overseen by CDFI Fund staff.



- Step 4: **Policy Objective Review**, conducted by CDFI Fund staff.
- Step 5: **Award Amount Determination**, conducted by CDFI Fund staff.





Step 5: Award Amount Determination

An award amount is determined based on the Step 4 Policy Objective Review Composite Score and additional variables including the Applicant's deployment capacity, track record, minimum available award size, and funding availability.

Step 1: Eligibility Review

The CDFI Fund evaluates each Application to determine if it meets the eligibility requirements listed in the CDFI Program NOFA or NACA Program NOFA. Certain eligibility requirements are assessed automatically through the CDFI Fund's Awards Management Information System (AMIS). CDFI Fund staff conduct a follow-up eligibility review on all Applications to ensure that all eligibility requirements are met. Applicants are not scored during this review but are unable to proceed if deemed ineligible during this step. All Applicants deemed eligible proceed to Step 2.

Step 2: Financial Analysis and Compliance Evaluation

Step 2 contains two components: financial health analysis and compliance risk evaluation. For unregulated entities, the CDFI Fund evaluates these two components of each Application using financial and compliance information provided by the Applicant and a tool developed by the CDFI Fund, the Application Assessment Tool (AAT). For each Insured Depository Institution Applicant, financial information provided by Insured Depository Institution Applicants will not be used by the AAT. Instead, the CDFI Fund uses the CAMELS/CAMEL rating, or other feedback, from the Applicant's respective Federal regulator as its Step 2 Financial Analysis score, however, the compliance risk evaluation will be evaluated using the AAT.

The intent of the financial health analysis is not to significantly limit the number of Applicants applying for FA, but rather to ensure that at a minimum, Applicants applying for FA are capable of maintaining financial health and will remain in compliance with its requested FA Award throughout the performance period.

The AAT produces a financial score using twenty-four (24) financial indicators and a compliance score using responses to the financial dropdown questions in the Application. The CDFI Fund chose the financial and compliance metrics based on their ability to measure financial and compliance performance reliably, comprehensively, and with limited reporting burden for Applicants. Both the financial score and compliance score equate to a one (1) to five (5) rating (with 1 being the highest score possible). Applicants must receive a score of one (1), two (2), or three (3) in both the financial and compliance components of the AAT to progress to Step 3: Business Plan Review.



If an Applicant receives an AAT financial score or compliance risk score of a four (4) or five (5), the CDFI Fund staff will conduct a manual review to confirm or adjust the score based on standard evaluation guidance. If the score remains four (4) or five (5) after CDFI Fund staff review, the Applicant will not advance to the next step.

Financial Analysis

The AAT uses twenty-eight (28) financial inputs from each Applicant to calculate twenty-four (24) financial indicators, which collectively assess an Applicant’s asset, liability, net asset composition, revenue, expense, cash flow, and trends in performance over time. Each financial indicator belongs in one or more of the following financial risk categories:

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

The categories above generally conform to the CAMELS rating system, with the exception of the management evaluation, which will be conducted in Step 3. In addition, capital liquidity and operating liquidity are differentiated as key components for evaluating the financial viability of Applicants. See Table 1 below for a list of the financial indicators.

Applications will be grouped based on the Total Financial Composite Score. Applicants must receive a Total Financial Composite Score of one (1), two (2), or three (3) to advance to Step 3. Applicants that receive an initial Total Financial Composite Score of four (4) or five (5) will be re-evaluated and re-scored by CDFI Fund staff. If the Total Financial Composite Score remains four (4) or five (5) after CDFI Fund staff review, the Applicant will not advance to Step 3.

A Note about Regulated Applicants

To advance to Step 3, each Insured Depository Institution Applicant must have a CAMELS/CAMEL rating (rating for banks and credit unions, respectively), by its Federal regulator of at least “3”. Organizations with CAMELS/CAMEL ratings of “4 or 5” will not be eligible for awards. The CDFI Fund will also evaluate materials concerns identified by the Appropriate Federal Banking Agency in determining eligibility of Insured Depository Institution Applicants.

Table 1. Step 2: Financial Analysis Scoring Criteria			
Application Assessment Tool (AAT)			
AAT Ratio Name	AAT Ratio Formula	Possible Scores	High Score



Table 1. Step 2: Financial Analysis Scoring Criteria

Application Assessment Tool (AAT)			
Annual Net Loan Loss Ratio	$(\text{Charge-offs } (\$) - \text{Recoveries } (\$)) / (\text{Total Equity Investments Portfolio } (\$) + \text{Total OnBalance Sheet Loan Portfolio } (\$))$	1, 2, 3, 4, or 5	1
Delinquency Ratio	$(\text{Loans Delinquent 61 to 90 days } (\$) + \text{Loans 90 Days (or more) Past Due } (\$)) / (\text{Total Equity Investments Portfolio } (\$) + \text{Total OnBalance Sheet Loan Portfolio } (\$))$	1, 2, 3, 4, or 5	1
Loan Loss Reserve Ratio	$\text{Allowance for Loan and Lease Losses } (\$) / (\text{Total Equity Investments Portfolio } (\$) + \text{Total OnBalance Sheet Loan Portfolio } (\$))$	1, 2, 3, 4, or 5	1
Portfolio at Risk Ratio (PAR)	$(\text{Loans 90 Days (or more) Past Due } (\$) + \text{Other Real Estate Owned (OREO) } (\$) + \text{Troubled Debt Restructuring } (\$)) / (\text{Total Equity Investments Portfolio } (\$) + \text{Total OnBalance Sheet Loan Portfolio } (\$))$	1, 2, 3, 4, or 5	1
Change in Portfolio at Risk Ratio	$(\text{PAR} - \text{PAR (Prior)}) / \text{PAR (Prior)}$	1, 2, 3, 4, or 5	1
Net Asset Ratio	$\text{Total Net Assets or Equity } (\$) / \text{Total Assets } (\$)$	1, 2, 3, 4, or 5	1
Change in Net Asset Ratio	$(\text{Net Asset Ratio} - \text{Net Asset Ratio (Prior)}) / \text{Net Asset Ratio (Prior)}$	1, 2, 3, 4, or 5	1
Total Assets	$\text{Total Assets } (\$)$	1, 2, 3, 4, or 5	1
Change in Total Assets	$(\text{Total Assets} - \text{Total Assets (Prior)}) / \text{Total Assets (Prior)}$	1, 2, 3, 4, or 5	1
Unrestricted Net Asset Ratio	$\text{Unrestricted Net Assets } (\$) / \text{Total Assets } (\$)$	1, 2, 3, 4, or 5	1
Income Ratio	$\text{Total Revenue } (\$) / \text{Total Expenses } (\$)$	1, 2, 3, 4, or 5	1
Interest Coverage Ratio I	$\text{Interest Revenue } (\$) / \text{Interest Expense } (\$)$	1, 2, 3, 4, or 5	1
Interest Coverage Ratio II	$(\text{Operating Revenue } (\$) - (\text{Operating Expenses } (\$) - \text{Interest Expense } (\$))) / \text{Interest Expense } (\$)$	1, 2, 3, 4, or 5	1
Net Income	$\text{Total Revenue } (\$) - \text{Total Expenses } (\$)$	1, 2, 3, 4, or 5	1
Change in Net Income Ratio	$(\text{Net Income} - \text{Net Income (Prior)}) / \text{Net Income (Prior)}$	1, 2, 3, 4, or 5	1
Reliance on Government Funding Ratio	$\text{Government Grants } (\$) / \text{Total Revenue } (\$)$	1, 2, 3, 4, or 5	1
Self-Sufficiency Ratio	$\text{Earned Revenue } (\$) / \text{Operating Expenses } (\$)$	1, 2, 3, 4, or 5	1
Change in Self-Sufficiency Ratio	$(\text{Self-Sufficiency Ratio} - \text{Self-Sufficiency Ratio (Prior)}) / \text{Self-Sufficiency Ratio (Prior)}$	1, 2, 3, 4, or 5	1
Financing Capital Liquidity Ratio	$\text{Available Financing Capital } (\$) / \text{Commitments } (\$)$	1, 2, 3, 4, or 5	1
Current Ratio	$\text{Current Assets } (\$) / \text{Total Current Liabilities } (\$)$	1, 2, 3, 4, or 5	1



Table 1. Step 2: Financial Analysis Scoring Criteria			
Application Assessment Tool (AAT)			
Deployment Ratio	(Total Equity Investments Portfolio (\$) + Total OnBalance Sheet Loan Portfolio (\$)) / Total Financing Capital (\$)	1, 2, 3, 4, or 5	1
Change in Deployment Ratio	(Deployment Ratio - Deployment Ratio (Prior))/Deployment Ratio (Prior)	1, 2, 3, 4, or 5	1
Operating Cash Ratio I	(Unrestricted Cash & Cash Equivalents (\$) + Cash Restricted for Operations (\$)) / (Total Expenses (\$) - Non-cash Expenses (\$))	1, 2, 3, 4, or 5	1
Operating Cash Ratio II	(Unrestricted Cash & Cash Equivalents (\$) + Cash Restricted for Operations (\$)) / Operating Expenses (\$)	1, 2, 3, 4, or 5	1
Total Financial Composite Score	Automatically calculated based on the score for each ratio above.	1, 2, 3, 4, or 5	1
Total Financial Composite Score Needed to Advance		1, 2, or 3	

Compliance Evaluation

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

Each Application will receive a Total Compliance Composite Score on a scale of one (1) to five (5), with one (1) being the highest rating. Applicants must receive a Total Compliance Composite Score of one (1), two (2), or three (3) to advance to Step 3. Applicants that receive an initial Total Compliance Composite Score of four (4) or five (5) will be re-evaluated and re-scored by CDFI Fund Staff. If the Total Compliance Composite Score remains four (4) or five (5) after CDFI Staff review, the Applicant will not advance to Step 3.

Step 3: Business Plan Review

The intent of Step 3 is to ensure that each Applicant's comprehensive business plan is sound and achievable. Step 3 is conducted by two external, non-CDFI Fund reviewers who are experts in community development finance.

Reviewers use application information to assess and score each component of the Business Plan using the general guidance in Table 2 below. Reviewers are provided with a list of application questions (and data inputs) where relevant information may be found. Each reviewer provides a total score independently based on his or her analysis according to the possible section scores listed in Table 3 below. The two reviewer total scores will be used to calculate a Total Business Plan Review Score. In the instance where the two scores differ significantly, a CDFI Fund staff person will review all areas of discrepancy and request reviewers provide further justification, address any errors or omissions, and/or revisit their evaluation in any relevant areas.



FA Applications will be grouped first by category (SECA, Core, or NACA), then ranked based on Total Business Plan Scores, in descending order. In order to advance to Step 4, Applicants must receive a Total Business Plan Score that is either (1) equal to receiving a point score equivalent to “Good” out of a ranking scale in descending order of Excellent, Good, Fair, Limited or Poor, in each section listed in Table 2 below or (2) within the top 60 percent of the CORE applicant pool for CORE applicants or within the top 70 percent of the SECA applicant pool for SECA Applicants or within the top 70 percent of the NACA FA applicant pool for NACA FA applications, whichever is greater of (1) or (2). In the case of tied Total Business Plan Scores that would prevent an Applicant from moving to Step 4, all Applicants with the same score will progress to Step 4.

Table 2. Step 3: Business Plan Review Criteria

Application Section	General Reviewer Guidance
Business Strategy (Including FA Objectives)	Does the Applicant have clear strategic goals that are aligned with its overall mission and its FA objectives?
	Does the Applicant identify risks and needed areas of improvement, and discuss contingencies to mitigate risks and address areas of needed improvement?
Market and Competitive Analysis	How well does the Applicant understand the demand of the communities it serves for its products and services and its competitive environment?
Products and Services	Does the Applicant’s current and proposed products and services address and meet the needs of the communities it serves?
	Does the Applicant’s FA Objectives address the need of the communities it serves?
Management and Track Record	Does the Applicant have strong management with a demonstrated ability and track record to execute on its strategic goals?
	Does the Applicant have strong financial policies and procedures to ensure that there are appropriate financial controls in place?
Growth and Projections	Do the Applicant’s proposed growth goals and FA objectives seem feasible and achievable?



Table 3. Step 3: Business Plan Review Scoring Criteria

FA Application Section	Points Possible	Score Needed to Advance
Executive Summary	Not Scored	N/A
Business Strategy	12	N/A
Products and Services	12	N/A
Management and Track Record	12	N/A
Market and Competitive Analysis	7	N/A
Growth and Projections	7	N/A
Total Business Plan Review Score	50	<p>The higher of (1) or (2):</p> <p>(1) Total Business Plan Score equal to receiving a point score equivalent to a “Good” out of a ranking scale in descending order of Excellent, Good, Fair, Limited or Poor</p> <p>OR</p> <p>(2) CORE Applicants: Within Top 60 percent of all CORE Applicant Step 3 Scores</p> <p>(2) SECA Applicants: Within Top 70 percent of all SECA Applicant Step 3 Scores</p> <p>(2) NACA FA Applicants: Within Top 70 percent of all NACA FA Applicant Step 3 Scores</p>

Step 4: Policy Objective Review

The intent of Step 4 is to measure the extent of each Applicant’s impact within the communities



it serves and conduct a due diligence review. Step 4 is conducted by CDFI Fund staff who evaluate the ability of each Applicant to meet policy objectives of the CDFI Fund’s authorizing statute listed in Table 4. CDFI Fund staff use application information to evaluate each policy objective being considered using the general guidance in Table 4. In addition to the Policy Objective analysis, the CDFI Fund also conducts a due diligence review on all Applications that includes programmatic risk factors including, but not limited to: an analysis of the FA Objective(s); history of performance in managing Federal awards (including timeliness of reporting and compliance); reports and findings from audits; and the Applicant’s ability to effectively implement Federal requirements, which could impact the Total Policy Objective Composite Review Score and award recommendation. Each Applicant is scored according to the section scores listed in Table 5 and receives a Total Policy Objective Review Composite Score on a scale of one (1) to five (5), with one (1) being the highest score. Applicants are then grouped according to Total Policy Objective Review Composite Scores.

All Step 4 Applicants that are being recommended for an Award will advance to Step 5 of the review process. Note that some Step 4 Applicants may not be recommended for an Award based on due diligence review conducted in Step 4 and will therefore not advance to Step 5.

Table 4. Step 4: Policy Objective Review Criteria

Policy Objective	General Reviewer Guidance
<p>Economic Distress <i>12 USC § 4706 (a)(4): the extent of economic distress within the investment areas or the extent of need within the targeted populations, as those factors are measured by objective criteria</i></p>	<ol style="list-style-type: none"> 1. To what extent are the communities being served economically distressed based on application data provided? 2. To what extent does the Applicant’s FA objective(s) alleviate the distress in the communities it serves? 3. To what extent does the Applicant’s strategic goals alleviate the distress in the communities it serves?
<p>Economic Opportunities <i>12 USC § 4706 (a)(8): the extent to which the proposed activities will expand economic opportunities within the investment areas or the targeted populations</i></p>	<ol style="list-style-type: none"> 1. Does the Applicant quantify expansion of economic opportunities and provide adequate justification for its calculations (examples of economic opportunity can be jobs and providing goods and services and access to capital to low-income and underserved communities/persons)? 2. Does the Applicant demonstrate that it will increase economic opportunities with activities funded by its FA award?
<p>Community Collaboration <i>12 USC § 4706 (a)(12): the extent to which the Applicant will increase its resources through coordination with other institutions or participation in a secondary market</i></p>	<ol style="list-style-type: none"> 1. To what extent does the Applicant participate in any formal or informal partnerships with other organizations for the purposes of accessing customers, developing products or services, or providing products or services?



Table 4. Step 4: Policy Objective Review Criteria

<p>(Note: This is not an assessment of whether or not an Applicant has formal Community Partnerships, but an assessment of how the Applicant works with other organizations generally to achieve outcomes.)</p>	<p>2. To what extent does the Applicant coordinate its resources with other public or private financial resources for the purposes of achieving its strategic goals and providing long- and short-term impacts in the communities it serves?</p> <p>3. To what extent does the Applicant’s Financial Products and Services support other initiatives or priorities in the communities it serves?</p>
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Table 5. Step 4: Policy Objective Review Scoring Criteria

Policy Objective	Possible Scores	Highest Score	Score Need to Advance
Economic Distress	1, 2, 3,4, 5	1	N/A
Economic Opportunities	1, 2, 3,4, 5	1	N/A
Community Collaboration	1, 2, 3,4, 5	1	N/A
Total Policy Objective Review Composite Score	1, 2, 3, 4, 5	1	All scores advance to Step 5

Step 5: Award Amount Determination

In Step 5, the CDFI Fund determines an award amount for each Application based on a number of variables including, but not limited to: the Step 4 Total Policy Objective Review Composite Score, the Applicant’s request amount, the Applicant’s deployment track record, minimum award size, and funding availability. Award amounts may be reduced from the requested award amount as a result of this analysis. Lastly, the CDFI Fund may consider the geographic diversity of Applicants when making its funding decisions.