



FY 2017 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) 2017 CDFI Program and NACA Program funding rounds. The evaluation process is outlined in the FY 2017 Notice of Funding Availability (NOFA) published on February 27, 2017 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. The evaluation process differs from previous years to reflect updates in the NOFA and Application for FY 2017.

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.

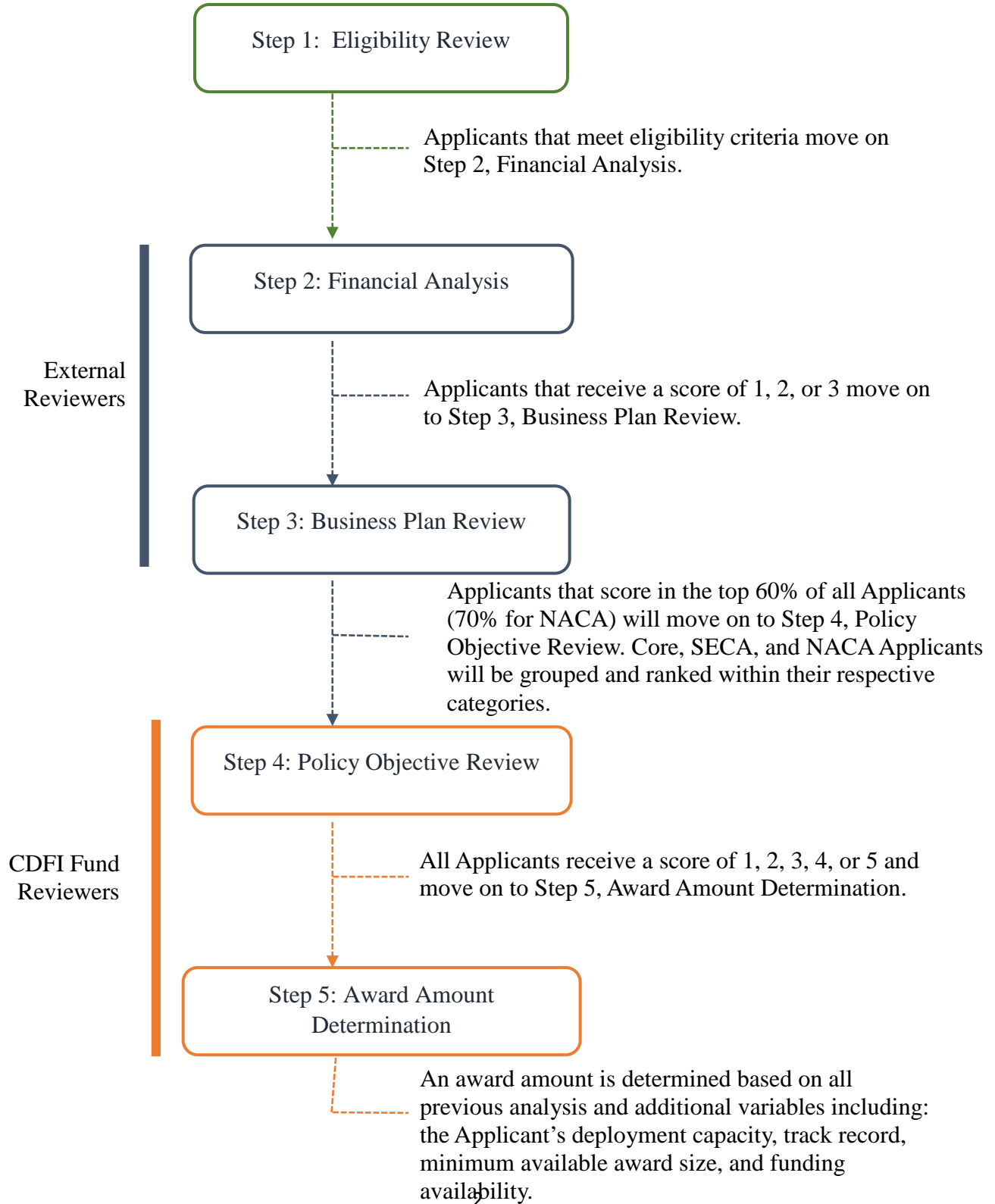
Reviewers

The CDFI Fund's review process requires a total of three external reviewers for FA applications, one for the Financial Analysis Review and two for the Business Plan Review. CDFI Fund staff reviewers will conduct the Policy Objective Review and Award Amount Determination. 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, business counseling, secondary market transactions, and financing of community-based organizations. All reviewers 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**, conducted by external reviewers.
- Step 3: **Business Plan Review**, conducted by external reviewers.
- Step 4: **Policy Objective Review**, conducted by CDFI Fund staff.
- Step 5: **Award Amount Determination**, conducted by CDFI Fund staff.





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

The Financial Analysis metrics have not been developed to significantly limit the number of Applicants applying for funding, but rather to ensure that at a minimum, Applicants applying for Financial Assistance will maintain financial health and viability for the foreseeable future and will be able to fully execute the purpose of their Financial Assistance Award throughout the performance period. The metrics are informed by those used across the financial industry to measure risk and financial health. The metrics were carefully developed and underwent several rounds of testing for each institution type eligible to apply to the CDFI and NACA Programs.

Step 2 is conducted by one external, non-CDFI Fund reviewer who is an expert in community development finance. The reviewer uses application information to evaluate the financial analysis metrics and assess the following Financial Analysis Components in a CAMEL-like rating system: capital adequacy, asset quality, earnings, and capital and operating liquidity (outlined in Table 1). There are multiple financial metrics under each Financial Analysis Component and each are scored individually on a scale of one (1) to five (5). The metric scores will be used to calculate a Total Financial Composite Score on a scale of one (1) to five (5), with one (1) being the highest rating.

Applications will be grouped based on their 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 a Total Financial Composite Score of four (4) or five (5) will be evaluated and scored by a second external, non-CDFI Fund reviewer. In instances where an Applicant receives an initial score of four (4) or five (5) and a second score of one (1), two (2), or three (3), a CDFI Fund staff member will moderate a forum for the two reviewers to discuss their evaluations and decide on one final Total Financial Composite Score. Applicants that receive a Total Financial Composite Score of four (4) or five (5) will not advance to Step 3.



Table 1. Step 2: Financial Analysis Scoring Criteria			
Financial Analysis Component	Possible Scores	High Score	Score Needed to Advance
Capital Adequacy Metrics	1, 2, 3, 4, or 5	1	N/A
Asset Quality Metrics	1, 2, 3, 4, or 5	1	N/A
Earnings Metrics	1, 2, 3, 4, or 5	1	N/A
Capital Liquidity Metrics	1, 2, 3, 4, or 5	1	N/A
Operating Liquidity Metrics	1, 2, 3, 4, or 5	1	N/A
Total Financial Composite Score	1, 2, 3, 4, or 5	1	1, 2, or 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 and CDFIs. Step 3 reviewers for a particular application will be different than the Step 2 reviewer for that application.

Reviewers use application information to assess and score the eight (8) questions listed in Table 2 below. Reviewers are provided with a list of application questions (and data points) 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 moderate a forum for the two reviewers to discuss their evaluations and decide on one final Total Business Plan Review Score.

Applications will be grouped first by category (SECA, Core, or NACA), then ranked based on Total Business Plan Scores, in descending order. SECA and Core Applicants must receive a Total Business Plan Score within the top 60 percent of the SECA or Core Applicant pool respectively to advance to Step 4. NACA Applicants must receive a Total Business Plan Score within in the top 70 percent of the NACA Applicant pool to advance to Step 4. In the case of a tied final score that might prevent an Applicant from advancing to Step 4, Applicants will be ranked according to their Step 2 Total Financial Composite Score.



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 Financial Projections	Does 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	N/A	N/A
Business Strategy	7	N/A
Products and Services	7	N/A
Management and Staffing	7	N/A
Market and Competitive Analysis	7	N/A
Financial Position	7	N/A
Financial Growth and Projections	7	N/A
Total Business Plan Review Score	42	Top 60% of Core Applicants Top 60% of SECA Applicants Top 70% of NACA Applicants



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. Step 4 is conducted by CDFI Fund staff who evaluate the ability of each Applicant to meet the policy objectives of the CDFI Fund’s authorizing statute listed in Table 4. CDFI Fund staff use application information to evaluate the eight questions listed in Table 4. Each Applicant is scored according to the section scores listed in Table 5 and receives a Total Policy Objective Review 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 Scores.

There will be two CDFI Fund staff reviewers for each application. The Follow-Up Reviewer (FR) will assign an initial score. The Selecting Official (SO) will review the FR’s recommendation and either confirm the FR’s score or assign another score. If the SO assigns a score that differs from the FR, a third internal reviewer, the Reviewing Official (RO), will conduct a review to determine the final score.

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: 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 Review Score. It is anticipated that all Applicants will advance to Step 5 of the review process.

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. In instances of expansion of investment area(s), does the Applicant cite specific data sources (public or private) to illustrate the extent of distress in the new area/population served? 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?



Table 4. Step 4: Policy Objective Review Criteria

<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> (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>	<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? 2. To what extent does the Applicant have a plan to leverage other public or private financial resources for the purposes of achieving its strategic goals? 3. To what extent does the Applicant’s Financial Products and Services support other initiatives or priorities in the communities it serves?
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Table 5. Step 4: Policy Objective Review Scoring Criteria

Policy Objective	Possible Scores	Score Need to Advance
Economic Distress	1, 2, 3,4, 5	N/A
Economic Opportunities	1, 2, 3,4, 5	N/A
Community Collaboration	1, 2, 3,4, 5	N/A
Total Policy Objective Review Score	1, 2, 3, 4, 5	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 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. The RO will confirm all final award amounts. Lastly, the CDFI Fund may consider the geographic diversity of Applicants when making its funding decisions.