



## Fiscal Year 2021 CDFI Rapid Response Program Application Evaluation Process

### Introduction

This document details the evaluation process for all CDFI Rapid Response Program (CDFI RRP) Applications received. Capitalized terms not defined herein shall have the meaning specified in the Notice of Funds Availability (NOFA).

The evaluation process described below is outlined in the NOFA and is governed by the CDFI Program regulations (12 C.F.R. 1805 and 1815). Details regarding the CDFI RRP Application content and requirements can be found in the NOFA and related guidance materials, and those resources should be used in conjunction with this document.

### Reviewers

Applications will be evaluated by CDFI Fund staff. Staff reviewers must complete the CDFI Fund's conflict of interest screening. Staff reviewers must evaluate all CDFI RRP Applications in accordance with the CDFI Fund policies and procedures.

### The Evaluation Process

The Application evaluation and award selection process includes four steps (outlined in this flow chart and discussed in detail in subsequent sections below):

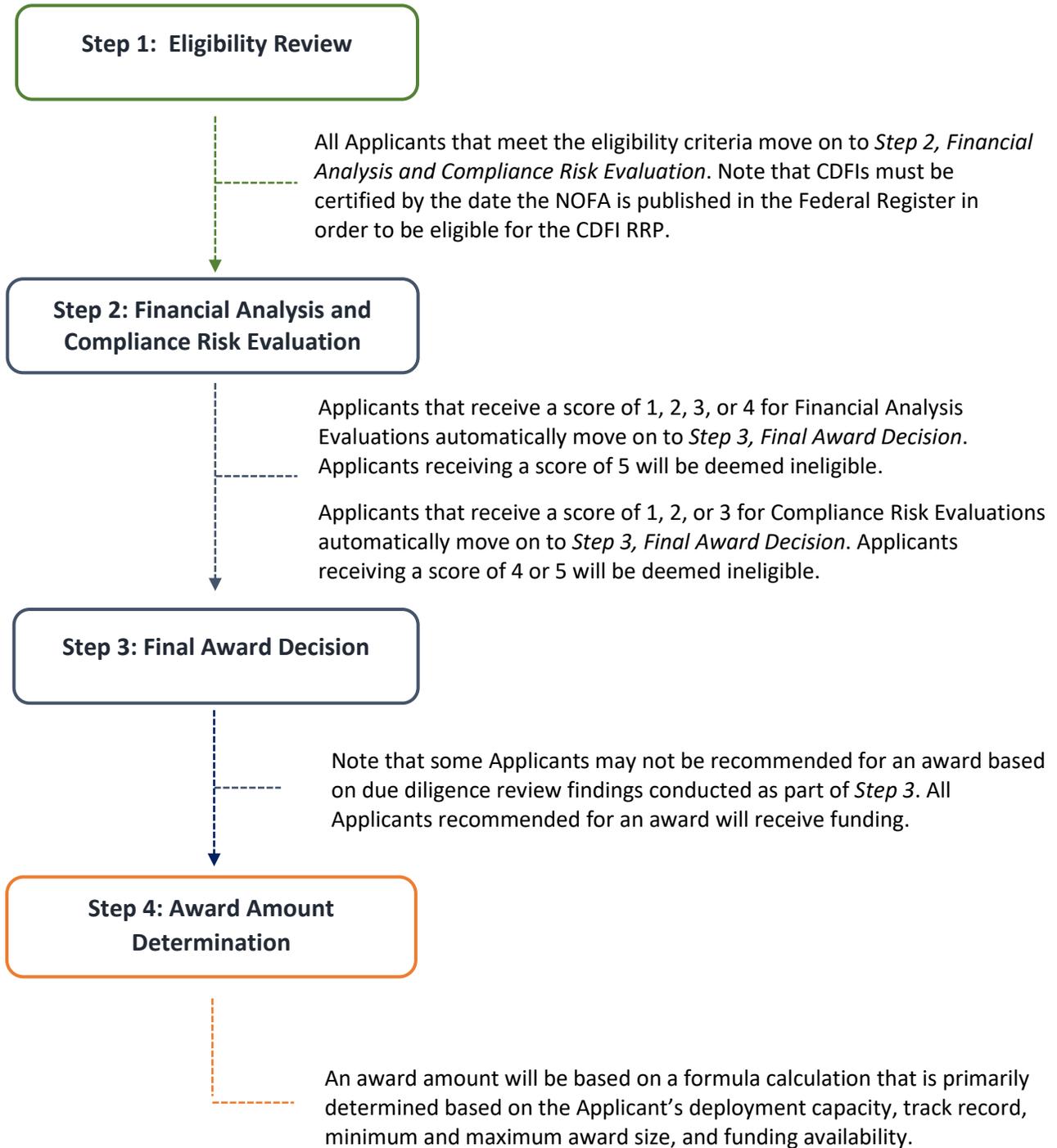
**Step 1: Eligibility Review**, conducted by CDFI Fund staff.

**Step 2: Financial Analysis and Compliance Risk Evaluation**, conducted by the Application Assessment Tool (AAT) and CDFI Fund staff.

**Step 3: Final Award Decision**, conducted by CDFI Fund staff.

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

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



## **Step 1: Eligibility Review**

The CDFI Fund evaluates each Application to determine if it meets the eligibility requirements listed in the CDFI RRP NOFA. Certain eligibility requirements are assessed automatically through the CDFI Fund's Awards Management Information System (AMIS). Applications are not scored during this review, but will not proceed if deemed ineligible during this step. All Applicants deemed eligible proceed to **Step 2**. Applicants should pay particular attention to NOFA requirements regarding the use of their correct DUNS/EIN numbers in Grants.gov, their SF-424, and their AMIS profile, as errors here will result in an Applicant being deemed ineligible. Applicants must be Certified CDFIs at the time of the NOFA publication in the Federal Register, and maintain Certification throughout the review period, to be eligible for a CDFI RRP Award.

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

Step 2 contains two components: Financial Analysis and Compliance Risk Evaluation.

For unregulated entities, the CDFI Fund evaluates these two components for each Application using financial and compliance information provided by the Applicant. The initial evaluation is done by an automated tool developed by the CDFI Fund, the Application Assessment Tool (AAT), and, in some cases, additional review is conducted by CDFI Fund staff to ensure accuracy.

For each Regulated Institution Applicant, the CDFI Fund uses the CAMELS/CAMEL rating, or other feedback from the Applicant's respective regulator, as its Step 2 Financial Analysis score. The Compliance Risk Evaluation for Insured Depository Institution Applicants will be evaluated using the AAT.

### **Financial Analysis Evaluation**

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

The AAT produces a Total Financial Composite Score using twenty-three (23) financial indicators and a Total Compliance Composite Score using responses to the compliance questions in the Application. The CDFI Fund chose the financial and compliance metrics to measure financial and compliance performance reliably, comprehensively, and with limited reporting burden for Applicants.

The AAT uses twenty-eight (28) financial inputs from each Applicant to calculate twenty-three (23) financial indicators, which collectively assess an Applicant's assets, liability, net asset composition, revenue, expense, cash flow, and trends in performance over time. See Appendix A for more information on the AAT model. Each financial indicator belongs in one or more of the following financial risk categories:

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

The categories above generally conform to the CAMELS rating system, with the exception of the management evaluation.

Applications will be grouped based on the Total Financial Composite Score. Applicants must receive a Total Financial Composite Score of one (1), two (2), three (3), or four (4) to advance to Step 3. Applicants that receive a Total Financial Composite Score of five (5) will not advance to Step 3.

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

To advance to Step 3, each Regulated Institution Applicant must have a CAMELS/CAMEL rating (rating for banks and credit unions, respectively), by its Federal regulator of at least “4”, or equivalent feedback from the Applicant’s respective regulator. Organizations with CAMELS/CAMEL rating “5” or equivalent are not eligible for Awards. The CDFI Fund will also evaluate material concerns identified by the Appropriate Federal Banking Agency in determining the eligibility of Regulated Institution Applicants.

### **Compliance Risk Evaluation**

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

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 confirmed by CDFI Fund Staff. If the Applicant is deemed a high compliance risk (score of a 4 or 5) after the CDFI Fund reviews, the Applicant will not advance to Step 3.

### **Step 3: Final Award Decision**

During this step, the CDFI Fund will conduct a due diligence review of compliance, eligibility, programmatic, regulatory matters, and financial risk factors.

This due diligence includes an analysis of programmatic and financial risk factors including, but not limited to, financial stability, history of performance in managing Federal awards (including timeliness of reporting and compliance), audit or regulator findings, and the Applicant’s ability to effectively implement Federal requirements. Note some Applicants may not be recommended for an Award based on this review, or their Award sizes may be decreased in Step 4.

All CDFI RRP Applications that are approved in this step will be funded.

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

The Award amounts will be determined by the CDFI Fund using a formula-based approach that considers the following factors: Applicant’s request amount, Applicant’s deployment track record, minimum Award size in the NOFA, funding availability, submission of audited financial statements, overall amount targeted to Native Communities<sup>1</sup>, and the due diligence review in Step 3.

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<sup>1</sup> For purposes of the CDFI Rapid Response Program NOFA, a Native Community is defined as Native American, Alaska Native, or Native Hawaiian populations or Native American areas defined as Federally-designated reservations, Hawaiian homelands, Alaska Native Villages and U.S. Census Bureau-designated Tribal Statistical Areas.

The funding available will be split among Applicants that reach Step 4 using a formula approach that ensures the following.

1. The final Award amount does not exceed:
  - an Applicant’s requested Award amount,
  - either 150% of the dollar volume of the Applicant’s Total On-Balance Sheet Financial Products Closed in Eligible Markets and/or Target Markets for its most recent historic fiscal year<sup>2</sup>, or the minimum Award size (\$200,000), whichever is greater, and
  - \$200,000 if the Applicant does not have audited financial statements;
2. An Applicant’s Award amount is adjusted based on the due diligence review; and
3. A minimum of \$25 million of the total CDFI RRP funds awarded are allocated to benefit Native Communities.

The CDFI Fund formula approach to CDFI RRP will result in three groups of Recipients.

- The first group is CDFIs receiving the minimum Award amount (\$200,000).
- The second group is CDFIs that will have their Award amounts limited by the provision that Awards not exceed 150% of the dollar volume of the Applicant’s Total On-Balance Sheet Financial Products Closed in Eligible Markets and/or Target Markets for its most recent historic fiscal year, or CDFIs that will have their Award amounts adjusted based on the due diligence review. The Award amounts to CDFIs in this second group will vary.
- The third group of CDFIs will all receive the same, largest Award amount, which will likely be smaller than the maximum Award request of \$5,000,000.

Using this formula approach, the largest Award amount will depend heavily on the total number of CDFI RRP Award Recipients. The CDFI Fund projects making 1,050 Awards for an overall average award size of \$1.2 million. The following table shows how Award sizes would vary for the three groups of Recipients. Data was projected using the financial information provided by Certified CDFIs that applied to the FY 2020 CDFI and NACA Programs.

<b>Group</b>	<b># CDFI Recipients</b>	<b>% of Recipients</b>	<b>Award Size</b>
<b>Minimum Award</b>	82	8%	\$200,000
<b>Between Minimum and Largest Award</b>	179	17%	Varies between min and largest Award, Average approximately \$1,000,000
<b>Largest Award</b>	789	75%	\$1,350,000
	1,050	100%	Total Awarded: \$1.25 billion

<sup>2</sup> See the CDFI Rapid Response Program Application Guidance, Table 13, to determine the Applicant’s most recent historic fiscal year.

In comparison, the following table shows projections for how Award sizes would vary for the three groups of Recipients if only 800 CDFI RRP Awards were made.

<b>Group</b>	<b># CDFI Recipients</b>	<b>% of Recipients</b>	<b>Award Size</b>
<b>Minimum Award</b>	62	8%	\$200,000
<b>Between Minimum and Largest Award</b>	157	20%	Varies between min and largest Award, Average approximately \$1,100,000
<b>Largest Award</b>	581	73%	\$1,830,000
	800	100%	Total Awarded: \$1.25 billion

## APPENDIX A

The Application Assessment Tool (AAT) delineated below for the CDFI Rapid Response Program is identical to AAT model used in Step 2 of the CDFI/NACA Base Financial Assistance (Base-FA) FY 2021 funding round.

Step 2: Financial Analysis Scoring Criteria Application Assessment Tool (AAT)		
AAT Ratio Name	AAT Ratio Formula	Possible Scores (High Score =1)
<b>Annual Net Loan Loss Ratio</b>	$\frac{[\text{"Charge-offs (\$)} - \text{"Recoveries (\$)}]}{\div [ \text{"Total Equity Investments Portfolio (\$)} + \text{"Total On-Balance Sheet Loan Portfolio (\$)}]}$	1, 2, 3, 4, or 5
<b>Delinquency Ratio</b>	$\frac{[\text{"Loans Delinquent 61 to 90 days (\$)} + \text{"Loans 90 Days (or more) Past Due (\$)}]}{\div [ \text{"Total Equity Investments Portfolio (\$)} + \text{"Total On-Balance Sheet Loan Portfolio (\$)}]}$	1, 2, 3, 4, or 5
<b>Loan Loss Reserve Ratio</b>	$\frac{\text{"Allowance for Loan and Lease Losses (\$)"}}{\div [ \text{"Total Equity Investments Portfolio (\$)} + \text{"Total On-Balance Sheet Loan Portfolio (\$)}]}$	1, 2, 3, 4, or 5
<b>Portfolio at Risk Ratio (PAR)</b>	$\frac{[\text{"Loans 90 Days (or more) Past Due (\$)} + \text{"Other Real Estate Owned (OREO) (\$)} + \text{"Troubled Debt Restructuring (\$)}]}{\div [ \text{"Total Equity Investments Portfolio (\$)} + \text{"Total On-Balance Sheet Loan Portfolio (\$)}]}$	1, 2, 3, 4, or 5
<b>Change in Portfolio at Risk Ratio</b>	$\frac{[\text{"PAR"} - \text{"PAR (Prior)}]}{\div \text{"PAR (Prior)"}}$	1, 2, 3, 4, or 5
<b>Net Asset Ratio</b>	$\frac{\text{"Total Net Assets or Equity (\$)"}}{\div \text{"Total Assets (\$)"}}$	1, 2, 3, 4, or 5
<b>Change in Net Asset Ratio</b>	$\frac{[\text{"Net Asset Ratio"} - \text{"Net Asset Ratio (Prior)}]}{\div \text{"Net Asset Ratio (Prior)"}}$	1, 2, 3, 4, or 5
<b>Total Assets</b>	$\text{"Total Assets (\$)"}$	1, 2, 3, 4, or 5

Step 2: Financial Analysis Scoring Criteria Application Assessment Tool (AAT)		
AAT Ratio Name	AAT Ratio Formula	Possible Scores (High Score =1)
Change in Total Assets	$\frac{["Total Assets" - "Total Assets (Prior)"]}{\div Total Assets (Prior)}$	1, 2, 3, 4, or 5
Unrestricted Net Asset Ratio	$\frac{"Unrestricted Net Assets (\$)"}{\div "Total Assets (\$)"}$	1, 2, 3, 4, or 5
Income Ratio	$\frac{"Total Revenue (\$)"}{\div "Total Expenses (\$)"}$	1, 2, 3, 4, or 5
Interest Coverage Ratio	$\frac{"Interest Revenue (\$)"}{\div "Interest Expense (\$)"}$	1, 2, 3, 4, or 5
Interest Coverage Ratio II	$\frac{["Operating Revenue (\$)" - "Operating Expenses (\$)" - "Interest Expense (\$)"]}{\div "Interest Expense (\$)"}$	1, 2, 3, 4, or 5
Change in Net Income	$\frac{["Net Income" - "Net Income (Prior)"]}{\div "Net Income (Prior)"}$	1, 2, 3, 4, or 5
Reliance on Government Funding Ratio	$\frac{"Government Grants (\$)"}{\div "Total Revenue (\$)"}$	1, 2, 3, 4, or 5
Self-Sufficiency Ratio	$\frac{"Earned Revenue (\$)"}{\div "Operating Expenses (\$)"}$	1, 2, 3, 4, or 5
Change in Self-Sufficiency Ratio	$\frac{["Self-Sufficiency Ratio" - "Self-Sufficiency Ratio (Prior)"]}{\div "Self-Sufficiency Ratio (Prior)"}$	1, 2, 3, 4, or 5
Financing Capital Liquidity Ratio	$\frac{"Available Financing Capital (\$)"}{\div "Commitments (\$)"}$	1, 2, 3, 4, or 5
Current Ratio	$\frac{"Current Assets (\$)"}{\div "Total Current Liabilities (\$)"}$	1, 2, 3, 4, or 5

Step 2: Financial Analysis Scoring Criteria Application Assessment Tool (AAT)		
AAT Ratio Name	AAT Ratio Formula	Possible Scores (High Score =1)
<b>Deployment Ratio</b>	$\frac{[\text{"Total Equity Investments Portfolio (\$)" + "Total On-Balance Sheet Loan Portfolio (\$)"}]}{\div \text{"Total Financing Capital (\$)"}}$	1, 2, 3, 4, or 5
<b>Change in Deployment Ratio</b>	$\frac{\text{"Deployment Ratio - Deployment Ratio (Prior)"}}{\div \text{"Deployment Ratio (Prior)"}}$	1, 2, 3, 4, or 5
<b>Operating Cash Ratio</b>	$\frac{[\text{"Unrestricted Cash \& Cash Equivalents (\$)" + "Cash Restricted for Operations (\$)"}]}{\div [\text{"Total Expenses (\$)" - "Non-cash Expenses (\$)"}]}$	1, 2, 3, 4, or 5
<b>Operating Cash Ratio II</b>	$\frac{[\text{"Unrestricted Cash \& Cash Equivalents (\$)" + "Cash Restricted for Operations (\$)"}]}{\div \text{"Operating Expenses (\$)"}}$	1, 2, 3, 4, or 5
<b>Total Financial Composite Score</b>	Automatically calculated based on the score for each ratio above.	1, 2, 3, 4, or 5
<b>Total Financial Composite Score Needed to Advance</b>		<b>1, 2, 3, or 4</b>