The Fund's vision is an America in which all people have access to affordable credit, capital and financial services.

Performance and Accountability Report

FY 2005

United States Department of the Treasury

Community Development Financial Institutions Fund

THE DEPARTMENT OF THE TREASURY 1789

PICTURES ON THE COVER OF THE REPORT:

Left hand side: *CDFI Fund Director Art Garcia (right) spent one day in April 2005, visiting Chicago businesses that received financing from the North Side Community Federal Credit Union (NSCFCU), a certified CDFI. Kuku is an Ethiopian market on Chicago's North Side owned and operated by Mr. Assefa Retta (center). Ed Jacobs (left) manages the North Side Community Federal Credit Union.*

Center: *One of the basic requirements that distinguishes a quality community is how well it meets basic needs such as affordable housing and availability of food. CDFI Fund staff visited Dave's Market – the anchor store of a strip mall in Cleveland, Ohio that was financed by Key Bank, a New Markets allocatee.*

Upper Right: *CDFI Fund Director Art Garcia and Fund staff visited New Orleans to meet with the Fund's awardees and allocatees after the devastating flooding caused by Hurricane Katrina. During the visit Bill Bynum, President of the Enterprise Corporation of the Delta, a certified CDFI and CDE, introduced the Fund's staff to Rev. Warren Taylor who showed the damage caused by Hurricane Katrina to homes renovated and managed by First Evangelist Housing and CDC located in the Central City neighborhood of New Orleans, only a few short blocks from the Super Dome.*

Lower Right: *CDFI Fund Director Art Garcia (6th from left), Deputy Director of Management Owen Jones (5th from left) and Program Manager Margie Nilson (3rd from right) with the staff of the North Side Community Federal Credit Union (NSCFCU), a certified CDFI. NSCFCU is hailed for their Payday Alternative Loan program – known as PAL – a low-cost alternative to payday lenders. As of January 2004, NSCFCU made 1,523 PAL loans, with 866 of the loans being paid off and only fourteen write-offs.*

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MESSAGE FROM THE DIRECTOR

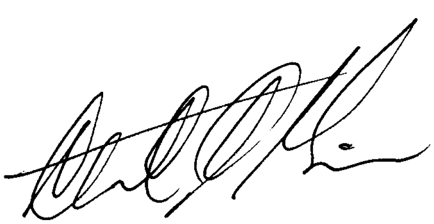
It is with great pleasure that I present the United States Treasury, Community Development Financial Institutions Fund's Performance and Accountability Report for the 2005 fiscal year. Through the Fund's mission of expanding the availability of credit, investment capital, and financial services in distressed 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.

The vision I set forth for the Fund at the beginning of the 2005 fiscal year was to continue enhancing the channels for educational outreach to our constituencies while streamlining our internal processes. It is a privilege for me to recognize the daily passion and dedication demonstrated by the Fund staff as they continue to enhance program efficiencies, expand the program functionally and assist the Fund's constituents in achieving their strategies in their respective communities.

In conjunction with the fiscal year 2006 budget proposal was the introduction of the President's proposed Strengthening America's Communities Initiative as an innovative economic and community development strategy to help strengthen America's transitioning and most needy communities. The President's initiative, proposed in his fiscal year 2006 budget, would consolidate 18 existing Federal programs, simplify access to the Federal system, set new eligibility criteria, and establish strong accountability standards — all in exchange for the flexible use of funds so that communities most in need would be assisted. The proposed $3.71 billion unified grant-making program would target assistance so as to achieve greater results for low-income people and economically distressed areas.

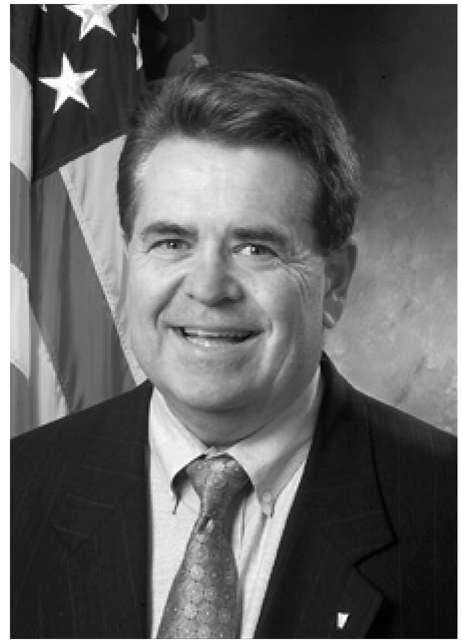
As an active participant with many of my colleagues across the Administration, we defined the details of the President's proposal while educating many agencies on the work that the Fund does and the impact its awardees and allocatees make in their respective communities. "Business as Usual" was the mode of operation with which I led CDFI Fund staff in 2005 and I am pleased to report that all program awards were delivered on schedule. The CDFI Fund's outlook for the 2006 fiscal year will be for the efficient delivery of all program awards as funding is appropriated.

The CDFI Fund's 2005 Performance and Accountability Report marks the eighth consecutive year in which the auditors rendered an unqualified opinion on the CDFI Fund's financial statements and in which no material weaknesses, reportable conditions or areas of non-compliance with laws and regulations were identified.



Arthur A. Garcia
Director

MESSAGE FROM THE DEPUTY DIRECTOR FOR MANAGEMENT/ CHIEF FINANCIAL OFFICER



Fiscal Year 2005 was a year of significant challenges which were successfully resolved due to the dedication of the Fund staff. The Administration's proposed "Strengthening America's Communities Initiatives", whereby no new program funding for the Fund was provided in the FY 2006 budget proposal, did not deter the Agency from meeting its mission to provide access to capital and financial services to underserved rural and urban areas within America during the past year.

The Fund made over $48 million in awards to 164 organizations and allocated $2 billion of tax credit allocations to 41 organizations. What is remarkable is that these awards and allocations were done in a seamless and timely manner using the Fund's electronic award and tracking system, despite numerous key staff vacancies throughout the Fund. Full implementation of this "paperless" system has contributed to the Fund maintaining a "green" rating in the "E-Government" initiative within the President's Management Agenda.

Fiscal Year 2005 also marked the eighth consecutive year in which the Fund's auditors rendered an unqualified opinion on our financial statements in which no material weaknesses, reportable conditions or system non-conformances were identified. Further, this was the fourth year that the Fund was able to provide audited financial statements within 45 days after its fiscal year end. These two accomplishments even with staffing shortages is testament to the Fund's strong internal control environment and the hard work by its many dedicated professionals.

Another accomplishment during the year was the full implementation of a web-based system that allows for the collection of data from Fund awardees – the Community Investment Impact System (CIIS). Data collected through FY 2005 provides the specific location and characteristics of each loan in an awardee's portfolio and allows the Fund to measure impact at the census tract level and compare awardees' lending behavior to that of traditional financial institutions. This management information system is important because CIIS enables the Fund to measure its performance against its targets and demonstrate how and where the Fund's dollars are used. This impact performance management system is unique within the community development industry.

The Fund will continue its commitment to support the Administration's efforts for economic growth and job creation in the coming year. We have a solid management infrastructure in place and have demonstrated the resolve to meet any new challenges.

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).

Over the course of FY 2005, the Administration and the Office of Management and Budget proposed to consolidate a number of community and economic development programs within the Department of Commerce in a proposal called the Strengthening America's Communities Initiative (SACI). Under this proposal the CDFI related programs, including certification of CDFIs, would have been consolidated within the Department of Commerce under a new program design. Accordingly, the Fund limited several initiatives in anticipation of the consolidation, most notably suspending its receipt of new applications for certification as a CDFI. In other respects, the Fund administered the appropriations received in FY 2005 with a "business as usual" approach for applications and awards within its respective funding rounds. This SACI initiative was not adopted in FY 2005.

AUTHORIZING LEGISLATION

The Fund was established as a bipartisan initiative under the Riegle Community Development and Regulatory Improvement Act of 1994. Under the Community Renewal Tax Relief Act of 2000, the NMTC Program was authorized and the Secretary of the Treasury has delegated certain administrative responsibilities in implementing that program to the Fund.

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.

The Fund achieves its purpose by promoting access to capital and local economic growth through its: 1) CDFI Program by making funding available to financial institutions which are certified or eligible for certification as CDFIs that provide loans, investments, financial services and technical assistance to underserved populations and low income communities; 2) New Markets Tax Credit (NMTC) Program which provides investment authority to certified community development entities (CDEs) which use federal tax credits to attract private capital investment in low-income communities; 3) Bank Enterprise Award (BEA) Program by providing an incentive to banks to invest in low income communities and in CDFIs; and 4) 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. In addition, the Fund has the authority to conduct studies, offer training and provide mechanisms to increase liquidity of CDFIs. In FY 2005, the Fund has initiated a contract that will result in evaluations of certain of its programs, described below.

Since its creation, the Fund has made $777 million in awards to CDFIs, banks, and other qualified organizations, and provided allocations of NMTCs which will attract private sector investments totaling $8 billion.

SERVING LOW INCOME COMMUNITIES THROUGH CDFI AND NMTC PROGRAMS

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 which help their customers build wealth and achieve the goal of participating in the homeownership society. While the types of products are similar to those provided by larger, mainstream financial institutions such as mortgage financing for low-income and first-time homebuyers, small business lending and lending for community facilities, it is the role of CDFIs in lending to customers and in markets not served by traditional financial institutions, to provide terms that are more flexible than those provided by traditional financial institutions. CDFIs must 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 and venture capital funds, among others.

A CDE is a domestic corporation or partnership that is an intermediary vehicle for the provision of loans, investments, or financial counseling in low-income communities through the NMTC Program. Benefits of being certified as a CDE include being able to: (1) apply to the Fund to receive a NMTC allocation to offer its investors in exchange for equity investments in the CDE and/or its subsidiaries; or (2) receive loans or investments from other CDEs who have received a NMTC Allocation.

CERTIFICATION OF COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS AND COMMUNITY DEVELOPMENT ENTITIES

Financial institutions meeting six statutory and regulatory criteria (as listed in the "Community Development Financial Institutions Program" section) may be certified by the Fund as a CDFI, thus enabling it to qualify for funding under the agency's CDFI related programs.

Community Development Entities (CDEs) must be certified to receive an allocation of tax credits. CDEs operate as investment vehicles for the NMTC Program. Many CDEs create multiple subsidiary CDEs to own specific assets or classes of assets, and thus the number of CDEs has grown very large even though the Fund has made only 170 awards to 156 different allocatees.

In FY 2005, the Fund did not accept new applications for certification as a CDFI in light of the planned consolidation of its CDFI related programs into the Department of Commerce under the Strengthening America's Communities Initiative (SACI).

GROWTH IN NUMBER OF CERTIFIED CDFIS AND CDES

End of FY	CDFIs	CDEs
1997	190	–
1998	262	–
1999	334	-
2000	415	-
2001	468	31
2002	625	541
2003	694	1,184
2004	728	1,585
2005	750	1,954

CDEs are located in 49 states, the District of Columbia and the U.S. Virgin Islands. CDFIs are located in every state, the District of Columbia, Puerto Rico and the Virgin Islands.

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

In FY 2005, the Fund provided direct financial assistance to CDFIs and entities that plan to become CDFIs through two CDFI Program components:

- The Financial Assistance Component provided 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 provided technical assistance grants to CDFIs and entities proposing to become CDFIs in order to build their capacity to advance community development and meet capital access needs in their target markets. The Technical Assistance Component could also be accessed by larger and more established CDFIs to support their continued development.

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

The NMTC Program 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 a CDE, individual and corporate investors can receive a NMTC 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 2005, three allocation rounds had been completed providing allocations of tax credits which will support, in the aggregate, equity investments of $8 billion. Two more allocation rounds remain which will allocate tax credits supporting $7 billion in investor capital.

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

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

Native Initiatives is the term used to describe the 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 include 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.

CDFI PROGRAM EVALUATION

During FY2005, the Fund awarded a competitive contract for an independent evaluation of the CDFI Program, and the CDFI certification process. The evaluation is the first since the inception of the Fund. Given the number of awards that the Fund has made since its inception, the Fund seeks to identify and measure the benefits these awards have had within the CDFI industry. The Fund expects that the independent assessment of these programs will facilitate better support of CDFIs through refined program design. Additionally, the assessment will comply with the Office of Management and Budget (OMB) requirement for all federal agencies to have an independent evaluation of its program performance (i.e., the Program Assessment Rating Tool – PART).

Detailed information on the programs administered by the Fund are can be found in the related section of the *Program Discussion and Analysis* section of this report.

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).

In addition, the Secretary has delegated authority for the Fund to allocate tax credits under the NMTC 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 below 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.

SOURCES OF FUNDING

(amounts in millions)

	FY 2005	FY 2004
Appropriations[1]	$55.6	$60.6
Use of No-Year Account[2]	4.0	–
Amounts Deobligated	1.2	.1
Carryover from Prior Year	.8	25.0
Borrowing Authority Used	3.6	3.6
Total Sources of Funds	**$65.2**	**$89.3**

[1] Includes $.5 million pertaining to upward subsidy adjustment.

[2] The No-Year account consist of investment income, and proceeds from the redemption of investments.

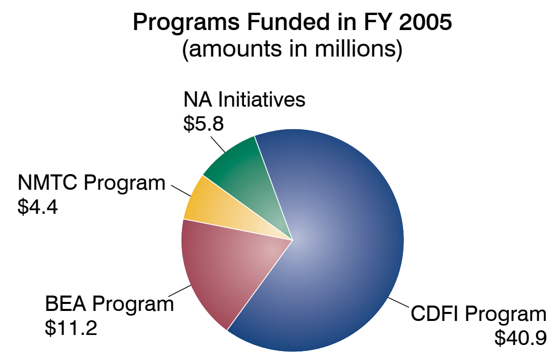
USES OF FUNDING

(amounts in millions)

	FY 2005	FY 2004
Programs Funded		
CDFI Program	$40.9	$56.9
BEA Program	11.2	18.4
NMTC Program	4.4	3.8
Native Initiatives	5.8	10.2
Total Programs Funded	$62.3	$89.3
	2.9	.8
Total Funding Used	**$65.2**	**$89.3**

Note – administrative funds of $13.5 million and $12.3 million have been allocated to the above programs for FY 2005 and 2004, respectively.

[1] FY 2005 amounts not obligated includes $2.1 million earmarked for an evaluation of the NMTC Program.



Dave's Market, the anchor store of a strip mall in Cleveland, Ohio was financed by Key Bank, a New Markets allocatee.

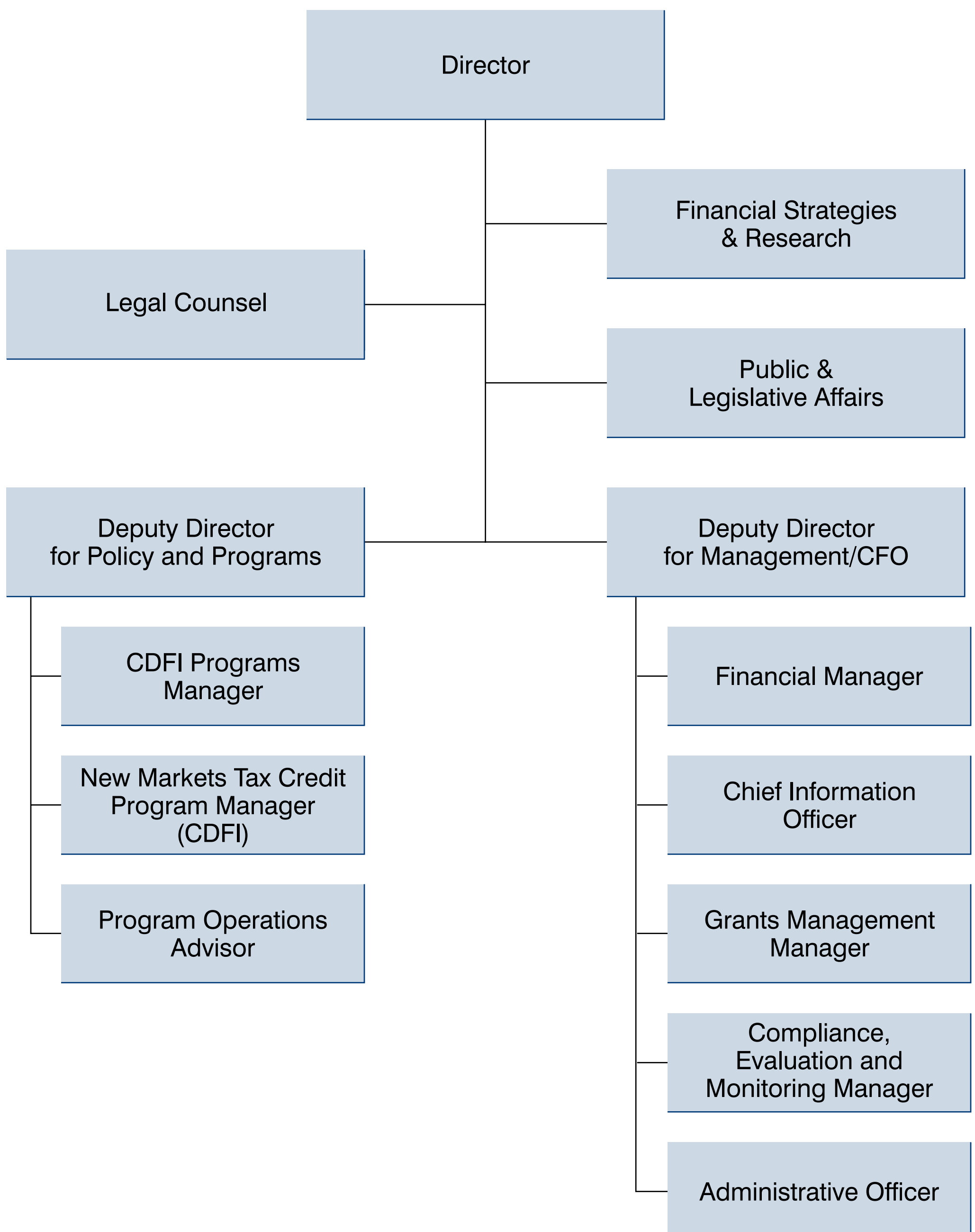
ORGANIZATION OF THE FUND

The Fund's organization 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 2005



PROGRAM DISCUSSION AND ANALYSIS

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS PROGRAM

OVERVIEW OF THE CDFI PROGRAM

Through the Community Development Financial Institutions (CDFI) Program, the Fund uses federal resources to invest in and build the capacity of CDFIs to serve low-income people and communities lacking adequate access to affordable financial products and services. The Fund provides monetary awards for financial assistance (FA) and technical assistance (TA) grants through its CDFI Program. CDFIs use FA awards 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).

CERTIFIED CDFIS

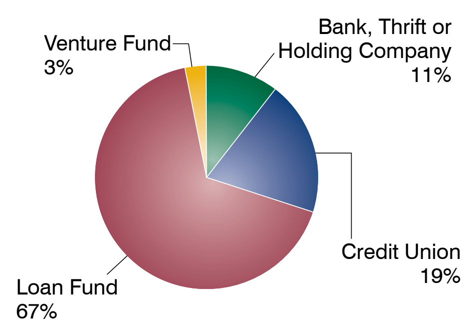
A certified CDFI is one that has been certified by the Fund as meeting all of the following statutory and regulatory criteria:

- 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 in order 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 2005 are loan funds and credit unions. Far smaller percentages are banks, thrifts and depository holding companies, and venture funds.

Breakdown of Types of Certified CDFIs



The above percentages are very similar to those as of the end of the prior year. By the end of FY 2005, the Fund had certified 750 CDFIs serving both rural and urban areas in all states and the District of Columbia, Puerto Rico, and the Virgin Islands.

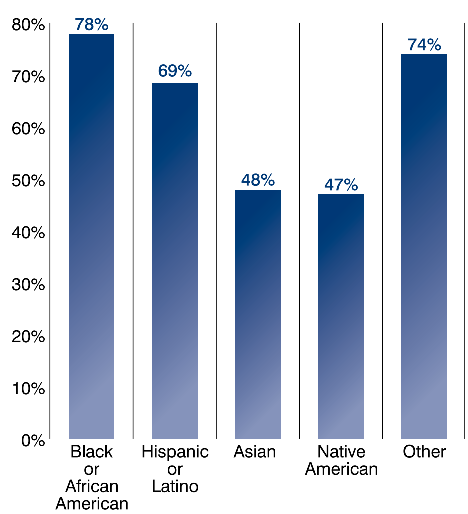
Not surprisingly, the most populous states have the most certified CDFIs: 28 percent of certified CDFIs are headquartered in the five most populous states (New York, Texas, North Carolina, Florida and California).

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.

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

Percentage of CDFIs Serving Racial and Ethnic Minorities



CDFI Customers

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 that 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.

FINANCIAL ASSISTANCE COMPONENT

The FA Component is by far the largest component of the program. Prior to FY 2003, the FA Component was referred to as the Core Component. Through the FA Component, the Fund invests in CDFIs that are able to demonstrate that they have the financial and managerial capacity to provide affordable and appropriate financial products and services that positively impact their communities, are viable financial institutions, and use and leverage Fund dollars effectively.

FA awards are made in the form of equity investments, loans, deposits, or grants, depending on applicant needs, and must be matched by the applicant with funds of the same type from non-federal sources. FA awards enable CDFIs to leverage private capital to respond to demand for affordable financial products and services in economically distressed markets and by low-income families. CDFIs respond to this demand through the provision of loans, investments, training, technical assistance and basic financial services such as checking or savings accounts. Based on data supplied by CDFIs required to report to the Fund, it is estimated that CDFIs leverage their FA awards with other dollars by an average of 27:1.

FY 2005 Changes to the Financial Assistance Component

There were two changes to the FA Component during FY 2005:

Revised Application Scoring for Hot Zones / Addition of Severely Distressed Non-Metropolitan Areas: In the FY 2002 through FY 2004 funding rounds, the Fund focused its funding on CDFIs projecting to serve Investment Areas that met higher levels of distress called "Hot Zones." Applicants were ranked first by whether or not they projected to serve Hot Zones and then by their score. The Hot Zone criteria, however, excluded 53 percent of otherwise eligible rural counties. As a result, the Fund was limited in its ability to support CDFIs serving distressed markets falling outside of Hot Zones – especially rural areas.

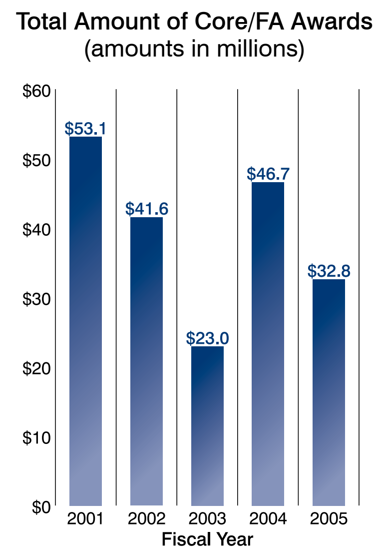
To address this concern, the FY 2005 NOFA stated that a pplicants would receive priority points (on a sliding scale) based on the projected level of financing activity in Hot Zones. Applications that proposed investments in Severely Distressed Non-Metropolitan Areas also received priority points. A Severely Distressed Non-Metropolitan Area is an area that meets the Fund's standard level of economic distress, but also exhibits characteristics of severe distress as identified by the applicant. This provides for greater flexibility for the applicant to define the unique challenges facing rural areas.

Soft Set Aside for SECA Category: In the FY 2005 round, the Fund created a"soft set aside" of $2 million for Small and Emerging CDFI applicants (SECA).

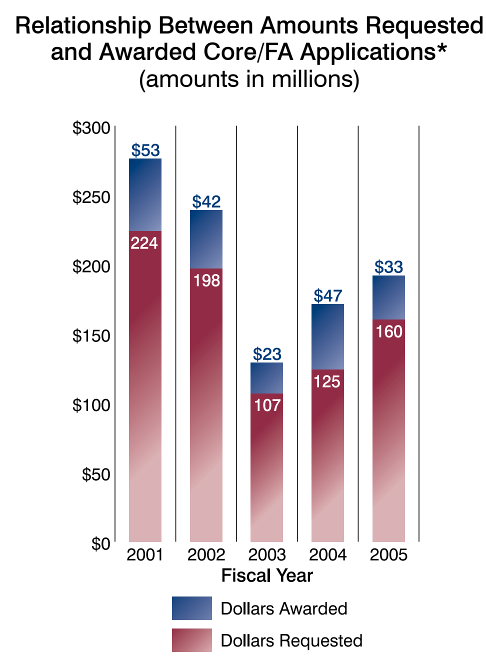
FY 2005 Awards

During FY 2005, the Fund received 140 applications requesting $134.3 million in financial assistance including 46 SECA applicants requesting $13.3 million.

FA awards totaling $32.8 million were made to 48 organizations, compared to $46.7 million made to 68 organizations in the prior year. The FY 2005 awards included 17 awards totaling $4.2 million to SECA applicants.



The significant difference between the FY 2003 and FY 2004 award amounts above was due to program changes made in FY 2003, resulting in a smaller number of applications received that year. Amounts not awarded during FY 2003 were carried over and awarded in FY 2004. The reduction in FA awards from FY 2004 to FY 2005 is attributable to these additional awards made in FY 2004 combined with a $5 million reduction in appropriated dollars for FY 2005.



* *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 build the capacity of start-up and existing CDFIs by acquiring prescribed types of products or services including technology (usually efficiency enhancing technology such as computers and loan management 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).

More established CDFIs also use TA grants to build their capacity to provide new products, serve current markets in new ways, or enhance the efficiency of their operations—such as through upgraded computer hardware and software.

TA awards have a "soft cap," generally limiting awards to no more than $50,000. The average award for this round was approximately $50,000 (several awards were higher than the soft cap).

FY 2005 CHANGES TO THE TECHNICAL ASSISTANCE COMPONENT

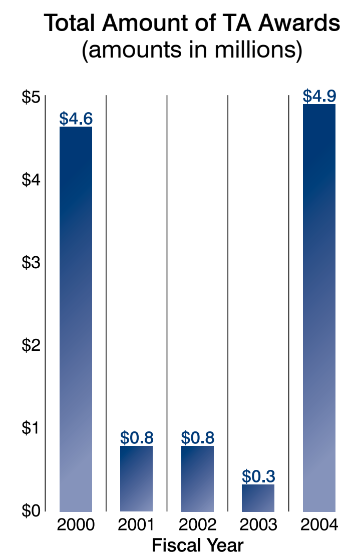
The Fund's prior NOFA for the TA Component covered two funding rounds on a rolling basis (FY 2003 and FY 2004). The FY 2005 NOFA covered a single funding round. The reason for this change was due to the fact that the substantial majority of applications in response to the prior "rolling" NOFA were not submitted until the end of the funding round.

The FY 2005 NOFA encouraged applicants to request TA to improve their ability to collect performance data effectively and monitor the community impact of their activities. The application included a new section designed to assist applicants to assess their current data collection capabilities and identify which, if any, categories of TA are needed to support this capacity development.

FY 2005 Awards

The Fund received 82 applications requesting $8.6 million in TA grants of which $2.1 was awarded to 41 organizations, compared to the $4.9 million awarded to 107 organizations during FY 2004. The large disparity between these award amounts was due to the combination of the FY 2003 and FY 2004 funding rounds into a single NOFA with a rolling application deadline. The majority of the FY 2003-2004 applications were received on, or shortly before, the application deadline.

Of the 41 organizations receiving TA awards, 23 (56 percent) were funded to increase the efficiency and capacity of their organizations through the addition or expansion of technology. Total award dollars to these 23 awardees was $1.1 million, which is 51 percent of the total TA awards.



CDFI PROGRAM PERFORMANCE

CDFI Program awardees report their annual performance to the Fund through the Fund's web-based reporting system, the Community Investment Impact System (CIIS). Each awardee has 180 days from its fiscal year end to report through CIIS. This time allows the awardee to complete its annual audit and enables the Fund to verify reported information against the audit.

The performance information provided herein pertains to each awardee's 2004 fiscal year. It should also be noted that, due to the length of time from notice of award through award disbursement, award deployment by an awardee, and receipt by the Fund of awardee impact information , the effect of the Fund's awards made during any given year is not known until quite some time later.

Results based on information entered into CIIS by 136 CDFI Program awardees are shown in the table below:

PERFORMANCE OF 136 CDFI PROGRAM AWARDEES DURING FY 2004

1.	# of full time jobs created or maintained (47)	12,335
2.	# of businesses financed(85)	5,330
3.	# of commercial real estate properties financed (21)	128
4.	# of affordable housing units financed (44)	21,511
5.	# of homebuyers who obtain financing (39)	2,066
6.	# of accounts opened to the unbanked (8)	10,722
7.	Dollars leveraged with private investments	$1.8 billion
8.	# of individuals provided with financial literacy and other training (114)	76,864
9.	Individual Development Accounts (IDAs) provided by CDFIs (26): Number	1,018
	Dollar amount	**$1.1 million**

Numbers in parentheses are the number of CDFI awardees reporting on this particular measure.

Leveraging of CDFI Program Award Dollars

In FY 2004, CDFI Program awardees leveraged each dollar of the Fund's FA awards: 27:1, 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 the projects financed by CDFIs. This amount is significantly less than the 53:1 leverage reported in FY 2003. The reason for this decrease is that the FY 2003 figure was based on preliminary analysis of the first year of CIIS data. Upon further analysis, the Fund determined that 53:1 was in fact too high and that the final figure for FY 2003 was 21:1.

CDFIs are Dynamic Institutions

Analysis of the information collected through CIIS suggests that CDFIs are dynamic institutions, building their assets and becoming financially stronger over time. The data suggests that the more mature CDFIs are, the more access they have to capital, the larger their staffs, the more they diversify and grow their portfolios, and the more self-sufficient they are.

A few examples illustrate these points. For this analysis, 223 CDFIs that provided performance information in FY 2003 were separated into four categories based on years of financing.

The table below summarizes these data by total assets and equity.

FY 2003: TOTAL ASSETS AND EQUITY OF CDFIS BY YEARS OF FINANCING

(dollars in thousands)

	4 Years or Less	5-9 Years	10-17 Years	18 Years or More
Total Assets	$205.8	$534.7	$909.0	$3,507.5
Equity	$59.8	$190.0	$366.2	$8.02.1

The findings are consistent: CDFIs with fewer years of financing activity had smaller total assets and lower levels of equity. Total assets is a good example: the youngest CDFIs together have just over $205 million in total assets while the next age group collectively has over double that amount. The CDFIs with the longest history of financing have over $3.5 billion in total assets.

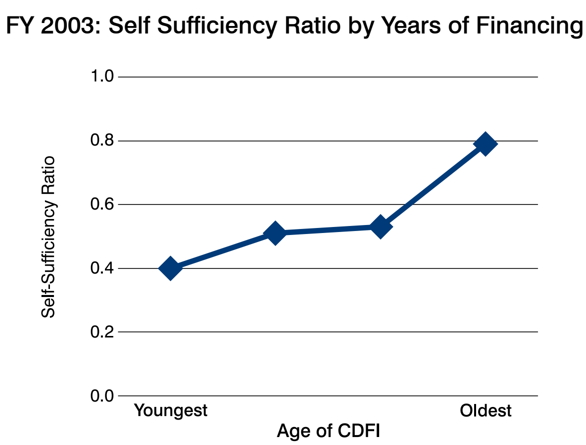
Likewise, CDFIs demonstrated more lending and investing capital as years of financing increase. The table below shows, for instance, that the least experienced CDFIs had on average just $2.5 million available for lending and investing in FY 2003 while the CDFIs with the longest financing histories on average had about $51.2 million in capital. Lending and investing capital per FTE also rises dramatically, from $540 thousand for the youngest CDFIs to $1.8 million for the oldest, indicating higher levels of staff productivity.

FY 2003: CAPITAL AVAILABLE FOR LENDING AND INVESTING BY YEARS OF FINANCING

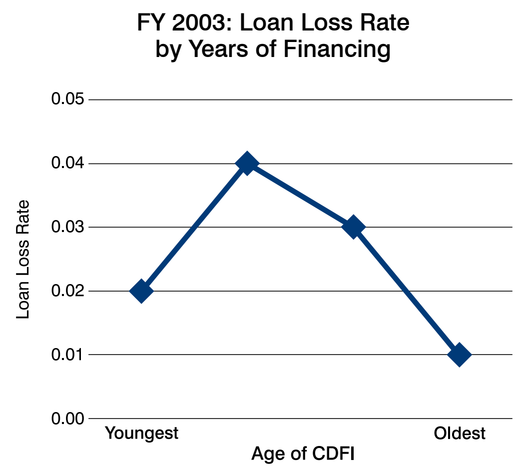
(dollars in thousands)

	4 Years or Less	5-9 Years	10-17 Years	18 Years or More
Total	$145.3	$404.3	$619.6	$3.0
Average	$2.5	$8.1	$11.3	$51.2
Per FTE	$0.5	$1.0	$0.7	$1.8

Measures of financial performance and portfolio quality also improve in relation to the length of financing operations. As the following graph shows, the self-sufficiency ratio increases with the CDFI's years of financing. Self-sufficiency is defined as the percentage of operating expenses that are covered by earned income. Higher self-sufficiency ratios mean an institution relies less on contributions and donations to cover its costs. Indeed, the self-sufficiency ratio is 40 percent for the least experienced CDFIs increasing to 79 percent for the CDFIs with the longest financing histories.



In contrast, as shown in the following graph, loan losses are lower for the most experienced CDFIs. Loan loss rates are very low for both the least and most experienced CDFIs (2 percent and 1 percent, respectively). The CDFIs that have been financing between 5 and 10 years had the highest loan loss rate (4 percent), but this rate, as can be seen on the graph, then steadily declines. This pattern may be explained by the fact that less experienced institutions tend not to charge off loans early on, either because they are not making risky loans, loans with long maturity periods have not had time to become delinquent, or they do not have a charge off policy in place. As an institution matures, it tends to make riskier loans, loans with longer maturity dates may experience payment problems, and the institution develops clear policies and procedures for charge-offs.



Treasury Secretary John Snow (seated, left) and CDFI Fund Director Art Garcia (seated, right) listen to remarks by North Carolina Senator Richard Burr at the New Markets Tax Credit Program award ceremony.

NEW MARKETS TAX CREDIT PROGRAM

OVERVIEW

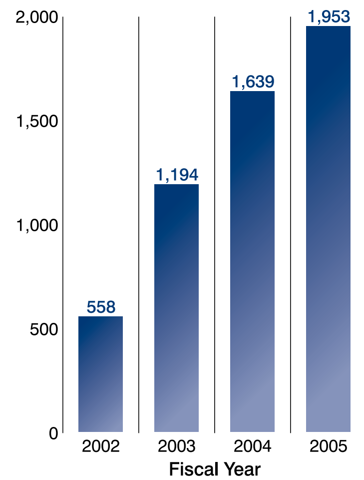
Created by the Community Renewal Tax Relief Act of 2000, the New Markets Tax Credit (NMTC) Program is designed to spur the investment of $15 billion in new private capital into community development entities (CDEs). These investments will make it possible for CDEs to make loans to and equity investments in businesses and real estate projects located in low-income communities.

The NMTC Program permits taxpayers to receive a credit against federal income taxes for making qualified equity investments (QEIs) in CDEs. Substantially all of the QEIs must in turn be used by the CDEs to make Qualified Low Income Community Investments (QLICIs).

CDEs apply to the Fund for allocations of tax credits. Once an allocation is awarded, the CDE will provide the credits to investors in the CDE in exchange for stock or capital ownership. The credit provided to the investor totals 39 percent of the cost of the investment and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.

To qualify as a CDE, an entity 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 of or advisory board to the entity; and 3) has been certified as a CDE by the CDFI Fund. As of September 30, 2005, 1,953 organizations have been certified as CDEs by the CDFI Fund, compared to 1,639 as of one year earlier.

Number of Certified Community Development Entities at Year End



Results of First Three NMTC Allocation Rounds

Throughout the life of the NMTC Program, the Fund is authorized to allocate to CDEs the authority to issue to their investors up to $15 billion in equity against which NMTCs can be claimed. Allocations are awarded annually through a competitive process. To date, the Fund has completed three allocation rounds and has made 170 awards totaling $8 billion in allocation authority. The remaining two allocation rounds to be held during FY 2006 and FY 2007 will each provide $3.5 billion in allocation authority.

Demand for the tax credits has been high, as 824 applicants have requested credits supporting $79.1 billion in equity investments. The average tax credit allocation through the first three rounds was $47 million.

RESULTS OF COMPLETED FUNDING ROUNDS

(dollars in billions)

	Applications		Allocations	
Round	**Number**	**Amount**	**Number**	**Amount**
1	345	$25.8	66	$2.5
2	271	$30.4	63	$3.5
3	208	$22.9	41	$2.0
	824	**$79.1**	**170**	**$8.0**

Allocation agreements have been executed with each of the 129 first and second round allocatees. As of September 30, 2005, ninety-five of these 129 allocatees (74 percent) had reported raising QEIs totaling $2.7 billion.

Allocatees that have made QLICIs are required to submit to the Fund annual transaction-level data reports along with the allocatee's audited financial statements within six months after the end of the allocatee's fiscal year. By the end of their respective FY 2004s, 61 allocatees had reported making $1.3 billion in QLICIs with the results as shown below.

The 61 allocatees reported that 100 percent of the loans and investments were provided with better rates and terms than could be offered in the prevailing market. Allocatees also reported making over $7 million of direct investments into other CDEs, purchasing $19 million of loans from other CDEs, and providing financial counseling and other services to 207 businesses in low-income communities.

PERFORMANCE OF 61 NMTC ALLOCATEES DURING FY 2004

Real Estate Development and Rehabilitation	
1. Number / dollar amount of loans and investments supporting real estate development and rehabilitation in low-income communities	165 / $907 million
2. Square footage of commercial real estate projected to be developed and rehabilitated	13 million
3. Number of full-time equivalent construction jobs projected to be created	33,096

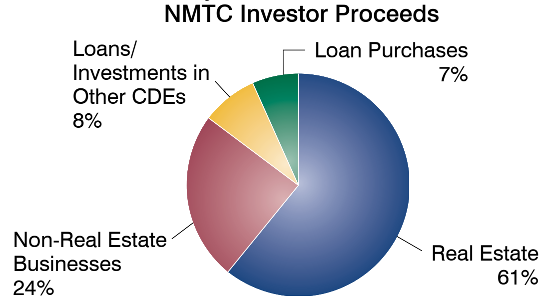
Business Support	
1. Number / dollar amount of loans and investments supporting businesses operating in low-income communities	126 / $353 million
2. Number of full-time equivalent jobs created or maintained	11,321

Summary of the Third NMTC Allocation Round

While there is not yet information pertaining to the deployment of investor capital with respect to the third round allocatees, there is available information concerning the nature of the allocatees and their intended use of NMTC proceeds.

Based upon data provided by the FY 2005 round allocatees, the majority of investor proceeds from the third round are likely to be invested in real estate, followed by non-real estate businesses, and to a much smaller extent, loans and investments in other CDEs and loan purchases.

Finance Activity: Estimated Use of Third Round NMTC Investor Proceeds



CDFI Fund Director Art Garcia (right) visiting an Ethiopian market on Chicago's North Side. Mr. Assefa Retta (center) received financing from the North Side Community Federal Credit Union which is managed by Ed Jacobs (left).

While all allocatees are required to invest substantially all (generally 85 percent) of the QEIs they receive in low-income communities, most of the FY 2005 allocatees committed to invest NMTC proceeds in areas characterized by severe economic distress (i.e., areas that have significantly higher poverty rates and lower median family incomes than those minimally required under the NMTC Program; areas that have unemployment rates at least 1.5 times the national average; and/or areas that have been designated for economic development through other governmental programs such as Brownfields, Empowerment Zones and Renewal Communities). Of the 41 allocatees, 37 indicated that at least 75 percent of their activities will be provided in these areas of severe economic distress, and 20 indicated that 100 percent of their activities will be provided in such areas. The Fund will require these allocatees, through their allocation agreements, to meet the benchmarks identified in their applications.

All 41 of the allocatees indicated that they would invest more than the minimally required 85 percent of QEI dollars into QLICIs, and 35 of the of the 41 allocatees indicated that at least 95 percent of their QEI dollars would be invested into qualified low-income community investments. In real dollars, this means at least $200 million above and beyond what is minimally required under the NMTC program will be invested into low-income communities. The Fund will require these allocatees, through their allocation agreements, to meet the benchmarks identified in their applications.

Fourth Round

The Fund published a Notice of Allocation Availability (NOAA) for the fourth round of allocations on July 15, 2005. This NOAA invited CDEs to compete for tax credit allocations in support of an aggregate amount of $3.5 billion in QEIs. The deadline for receipt of applications under this NOAA was September 21, 2005. As of the application deadline, the Fund received 241 applications requesting a total of $26 billion in allocation authority[1].

[1] *Extensions were granted to 13 additional organizations that were significantly affected by Hurricane Katrina or other natural disasters that occurred during the open application period.*

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. By statute, the BEA Program is highly targeted to areas with larger populations. In general, approximately 4000 Census Tracts qualify as "distressed communities" under the program.

BEA Program 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' financial support of 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 Federal Deposit Insurance Corporation (FDIC) insured depository institutions (banks) to expand their community development lending and investments within severely underserved areas (referred to as the Distressed Community Financing Activities and Service Activities).

By statute, the Fund must award applicants in the CDFI Related priority before making awards to applicants in the Financing Activities priority and Service Activities priority.

The prospect of a BEA Program award encourages banks to achieve this first priority 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.

Eligibility

All depository institutions insured by the FDIC 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.

Changes to the BEA Program During FY 2005

Changes to the BEA Program in FY 2005 consisted of the following:

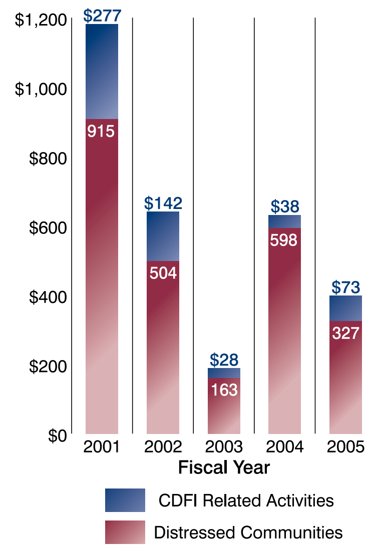
- Increased the maximum dollar limit for Qualified Commercial Real Estate Loans or any CDFI Related Activities, from the maximum amount of $1 million under the previous NOFA, to $10 million. This change was made based on applicants noting that the $1 million cap was unrealistically low and eliminated many worthwhile transactions from consideration;
- Reduced the maximum award amount from $1.5 million to $500,000 in order to maximize the number of awards; and
- Adjusted the eligibility requirements to match those of the CDFI Program and the NMTC Program. As a result, the Fund would only consider applications from organizations with prior awards or allocations if such applicants were in compliance with the terms of their assistance / allocation agreements, had no outstanding reports, and had no large undisbursed balances.

FY 2005 BEA PROGRAM AWARDS

For FY 2005, the Fund received 84 applications requesting almost $49 million, compared to 66 applications requesting almost $25 million in the prior year. The Fund selected 53 FDIC-insured institutions to receive just over $9.9 million in awards. The FY 2005 applicants were a geographically diverse group headquartered in 33 states, compared to the 20 states serving as headquarters for the prior year.

FY 2005 awardees provided $462 million in loans to or investments in CDFIs, $81 million in loans, deposits and technical assistance to CDFIs, and $14 million in equity investments and grants to CDFIs.

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



The decrease in the dollar amount of awards for CDFI Related Activities relative to awards for Distressed Community Financing Activities and Service Activities that has occurred subsequent to FY 2002 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 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. This trend, however, was reversed in FY 2005 with just under 60 percent of awards going to this category. This change is due to the increase in the maximum allowable amount for qualifying activities under the CDFI Related Support category from $1 million to $10 million.

FY 2005 Community Impact

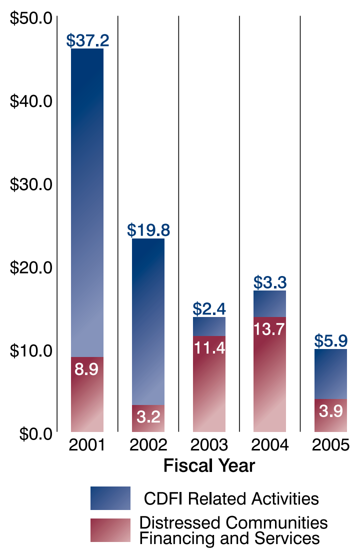
The 84 FY 2005 applicants increased their qualified community development activities by $103 million over the prior year. These applicants were required to report quantifiable impact data for Distressed Community Financing and Service Activities (the second and third priority areas mentioned above) in their award applications. Their reported results include:

- 348 new homebuyers;
- 4,163 affordable housing units developed or rehabilitated; and
- 2,143 jobs created/maintained or businesses created.

BEA Program Awardee Activities

The trend of investments in distressed communities and investments in CDFIs by BEA awardees is shown below:

Distribution of BEA Program Awards by Category
(amounts in millions)

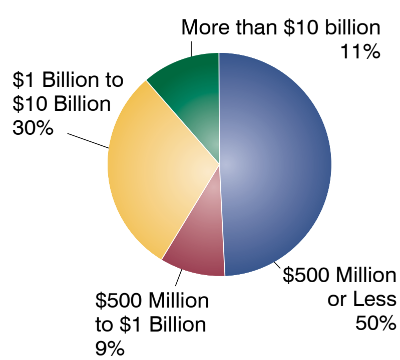


The total amount of awards made in FY 2005 ($9.9 million) decreased from the FY 2004 level ($17 million) for two reasons: 1) a smaller amount was appropriated for the BEA Program in FY 2005; and 2) $3 million of FY 2003 funding was carried over and awarded in FY 2004.

Diversity of BEA Awardees

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. This percentage decreased to 50 percent in FY 2005, with a corresponding increase (from 3 percent in FY 2004 to 13 percent) in the portion of awards provided to the largest organizations (those with assets in excess of $10 billion). This is most likely attributable to the increase in the maximum allowable amount for qualifying activities under the CDFI Related Support category from $1 million to $10 million. Larger banks have a greater capacity to make these relatively larger loans. Because the BEA ranking process takes asset size relative to award amount into consideration, larger banks have a strong incentive to make larger loans in order to increase their probability of receiving an award.

Assets of FY 2005 BEA Awardees



EXPANDING NATIVE OPPORTUNITY: NATIVE INITIATIVES

OVERVIEW

The Native Initiatives arise out of the findings of the CDFI Fund's study of access to capital in Native American, Alaska Native and Native Hawaiian communities (collectively referred to as Native Communities). The Fund's "Report on the Native American Lending Study" (the Lending Study), which was delivered to Congress in November 2001, 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 about expanding native opportunity by overcoming barriers that prevent access to credit, capital and financial services in Native Communities through the creation and expansion of CDFIs primarily serving Native Communities (referred to as Native CDFIs). Thus, the dual focus of the Native Initiatives is to assist Native Communities and Native organizations to create Native CDFIs as well as to strengthen the operational capacity of existing Native CDFIs.

The Native Initiatives are based on six objectives:

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.

COMPONENTS OF NATIVE INITIATIVES

The Native Initiatives work to achieve the above six objectives through two principle strategies: a funding program – the Native American CDFI Assistance (NACA) Program – targeted to increasing the number and capacity of existing or new Native CDFIs, and a complementary training initiative that seeks to foster the development of new Native CDFIs and to strengthen the operational capacity of existing Native CDFIs.

NACA Program

The NACA Program was introduced in FY 2004 and provides Financial Assistance (FA) and Technical Assistance (TA) grants to Native CDFIs; and TA grants to entities proposing to become or create Native CDFIs. In FY 2005, the NACA Program replaced two earlier funding programs in order to achieve greater operational efficiencies:

- The Native American Community Development Financial Institution Development (NACD) Program provided TA grants to organizations that planned to create Native CDFIs. This program applied to the FY 2003 and FY2004 funding rounds; and
- The Native American Technical Assistance (NATA) Program (a component of the TA Component of the CDFI Program) provided TA grants to Native CDFIs and entities proposing to become Native CDFIs, to help build their capacity to better address the community development and capital access needs of Native communities.

In FY 2005, the Fund received 31 NACA applications requesting just over $5 million including five requests for $1.8 million in FA. The Fund awarded a total of $3.5 million to 22 organizations, compared to 32 awards totaling $8.5 million during the prior year.

Financial Assistance (FA) Grants

Under the NACA Program, eligible Native CDFIs may receive FA awards (such as loans or grants depending on the source of matching funds) to support their financing activities. The Fund made four FA awards in the FY 2005 funding round totaling $1.3 million (all four also receive TA grants totaling $540,000), compared to nine FA awards totaling $4.3 million made in FY 2004 (these same nine awardees also received $856,000 in TA grants).

Technical Assistance (TA) Grants

The NACA Program provides TA grants for capacity building uses — including operating grants for start-up Native CDFIs and Native organizations seeking to create a Native CDFI. Awardees may use TA grants to acquire prescribed types of products or services including technology (usually computer hardware and software), staff and board training, consulting services to acquire needed skills or services (such as a market analysis or lending policies and procedures), staff time to conduct discrete, capacity-building activities (such as website development), and (for certain applicants) general, ongoing, operational activities (such as general staff salary, rent and utilities, etc.).

In FY 2005, the Fund awarded $2.1 million in TA grants to 22 organizations, compared to $1.6 million provided to 15 organizations during the prior year.

NATIVE TRAINING COMPONENT

The CDFI Fund contracts for the provision of training and technical assistance to Native lenders, financiers, and community development practitioners interested in developing Native CDFIs through the Native Communities Financing Initiative (NCFI). The NCFI is an intensive series of workshops in conjunction with on-going customized technical assistance conducted over 12 months to help Native communities develop and grow Native CDFIs. In 2005, over 100 participants from 55 Native communities participated in an NCFI workshop. Since 2003, nearly 200 Native communities and organizations have participated in an NCFI workshop.

In November 2004, the CDFI Fund awarded the Native Individual Development Account (IDA) Initiative contract. The contractor provides training and TA to help Native CDFIs and other Native groups establish, implement, and sustain IDAs as a strategy to increase demand for Native CDFI financial products and services. Through the Native IDA Initiative, the Fund will facilitate the offering of eight regional training institutes over the next three years, including institutes in Hawaii and Alaska. Each training is open to ten participants (e.g., a Native CDFI, a tribe, or a Native organization) and is paired with follow-on TA. The first Native IDA Institute, launched in Seattle, Washington in September 2005, brought together nine participants from the Northwest region of the country. Trainings in the Southwest, Midwest, Alaska and the South are being planned for 2006.

FY 2005 PERFORMANCE

The performance goal for the Native Initiatives is to build the capacity and coverage of CDFIs and other institutions to provide credit, capital, and related services to Native communities. The CDFI Fund tracks two corresponding annual performance measures: (1) the annual percentage increase in the number of Native CDFIs; and (2) the annual percentage increase in the total assets of Native CDFIs.

In FY 2005, because the CDFI Fund was not accepting any new certification applications and because many of the potential Native CDFIs were still one to three years away from being able to meet all the certification tests, there was only one new certified Native CDFI – increasing the number from 35 to 36.

Native CDFIs increased their total assets by 103 percent between FY 2004 and FY 2005. The Fund has a small number of Native CDFIs that report from year-to-year (six in FY 2005); therefore, the performance of a single CDFI can have a great impact on the average change in assets. In FY 2005, a single CDFI increased its total assets by 350 percent, leading to the 103 percent increase of the entire group.

FUND ACTIONS PERTAINING TO HURRICANE KATRINA

On August 25, 2005, Hurricane Katrina made landfall in the United States and left a path of devastation and destruction. It was the third most intense storm to hit the United States in recorded history, the third deadliest storm since 1990, and the most expensive natural disaster in the history of the United States. The hurricane left an estimated 5 million people without power, displaced hundreds of thousands, and had a death toll exceeding 1,200.

An example of the destruction caused by Hurricane Katrina.

The Fund has been proactive in responding to Hurricane Katrina with the following actions:

- Provided New Market Tax Credit (NMTC) Program application deadline extensions, on a case-by-case basis, to organizations whose principal place of business is located in counties designated by the Federal Emergency Management Agency (FEMA) as major disaster areas;
- Modified the NMTC Program allocation applications so that additional consideration will be given to organizations that commit to target their investment activities to counties designated by FEMA as major disaster areas;
- Provided extensions of time to file compliance reports and financial statements required pursuant to OMB Circular A-133 to Community Development Financial Institution (CDFI) Program awardees located within the FEMA designated disaster areas;
- Provided grace periods of loan repayments for CDFI Program awardees receiving loans from the Fund; and
- Added language to the FY 2006 Notice of Funds Availability for financial and technical assistance applicants so that special consideration will be given to organizations that commit to target their activities and business plan to FEMA designated disaster areas.

More destruction caused by Hurricane Katrina.

STATUS OF FINANCIAL MANAGEMENT

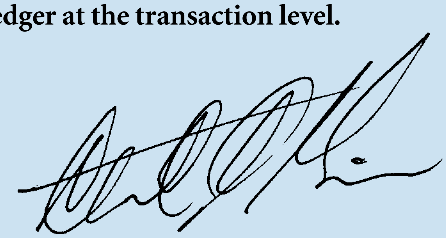
This section includes the assurance statement required under the Federal Managers' Financial Integrity Act, a summary of the results of the FY 2005 financial statement audit, a summary of the financial management initiatives of the Fund during FY 2005, and a discussion of the Fund's financial position and results of operations as of and for the fiscal year ended September 30, 2005.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT ANNUAL ASSURANCE STATEMENT

DEPARTMENT OF THE TREASURY
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND
ANNUAL ASSURANCE STATEMENT FOR FY 2005

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's 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 2005 FINANCIAL STATEMENT AUDIT

FY 2005 marks the eighth 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 2005 FINANCIAL MANAGEMENT INITIATIVES

In FY 2005 the financial management focus was on 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 web-based system that allows for the collection of institution level and transaction level data from CDFIs and CDEs

CDFI institution level data includes data points on the organization's profile, financial position, portfolio, community impacts, development services, other products and services, as well as compliance questions. CDE institution level data includes data points on the organizations profile, QEI distribution, financial position, loan purchases, and financial counseling and other services

Transaction level data includes information on each loan and investment a CDFI and CDE makes, including the purpose of the loan or investment, borrower and project location, borrower socio-economic characteristics, loan and investment terms, repayment status, and community development impacts.

CIIS was launched in June 2004 and was being used by 300 CDFIs and 60 CDEs as of the end of FY 2005, compared to its use by 240 CDFIs and 16 CDEs at the end of the prior fiscal year. In FY 2005, CIIS was upgraded to include additional compliance questions for CDFIs and CDEs, and the Fund completed its second annual data collection using the system.

Much of the performance information in the *Community Development Financial Institutions Program* section of the *Program Discussion and Analysis* section was provided by an analysis of CIIS data.

Paperless Processing of Applications for the Financial Assistance Component and the NMTC Program

For the third year in a row, applicants for CDFI Program Financial Assistance and New Markets Tax Credit (NMTC) awards were able to submit their applications electronically. The entire process from application to award for the CDFI and NMTC Programs was completed in a paperless environment. Significant improvements were made in the attachment upload process that attaches documents to applications. These improvements provide our customers with a more intuitive file upload process and allow more flexibility in the types of documents they can attach to their electronic applications. They also provide Fund staff greater flexibility in retrieving and viewing this information during the application review process, which can be a time saver during this process.

CDFI Information Mapping System (CIMS)

The Fund made two significant upgrades to its on-line mapping system during the past year. The first upgrade allows our Certification Program customers to electronically create and attach target market maps to their application. This capability has been communicated to our customers as the "Maps to Apps" project. The second update allows our Certification Program customers to electronically identify a "National" or "Multi-State" target market and was introduced as a timesaver for our customers serving large target market areas.

MyCDFIFund

The Fund has continued to enhance the electronic web based customer relationship tool called myCDFIFund. In FY 2005 the Fund created an on-line awardee profile system that, when released to the public later in FY 2006, will provide users with the ability to search through the profiles of Fund awardees when looking for organizations that meet the specified criteria. The purpose of this tool will be to assist in the matching of customer needs with CDFI service providers. Users will be able to search on a number of criteria, including searching by region or location and product type. Thus, citizens and organizations, which are not customers of the Fund, will be able to use our web site as a resource for the purpose of locating organizational profiles and contact information for CDFIs that offer community development products and services.

MANAGEMENT RESPONSIBILITIES

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 report the financial position and results of operations of the Community Development Financial Institutions Fund for the years ended September 30, 2005 and 2004, 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

The following table presents selected highlights from the Fund's financial statements as of and for the fiscal years ended September 30, 2005 and 2004:

SUMMARIZED FINANCIAL DATA

(amounts in millions)

	FY 2005	FY 2004	Increase/ (Decrease)
Assets	$159.9	$182.3	($22.4)
Liabilities	$52.4	$57.1	($4.7)
Net Position	$107.5	$125.2	($17.7)
Revenue and Financing Sources	$71.9	$51.3	$20.6
Expenses	$72.8	$51.9	$20.9
(Shortage) of Revenue and Financing Sources Over Expenses	($0.9)	($0.6)	($0.3)

Assets

Assets decreased by $22.4 million during the year, consisting primarily of a $26.8 million decrease in Fund Balance with Treasury offset by a $4.1 million increase in net loans receivable. Other assets increased by $.3 million.

Fund Balance with Treasury

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 (with the exception of FY 2004) decreased each year thereafter.

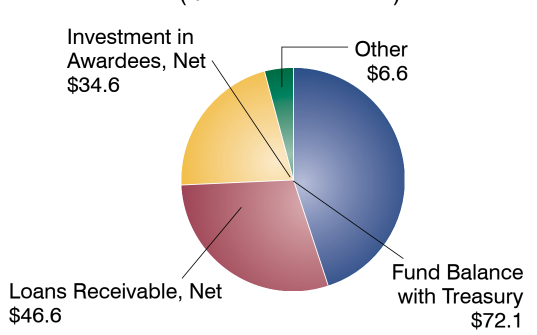
This annual decrease is the result of efforts undertaken starting in FY 2002 to reduce the amount of undisbursed awards. This decrease is largely the result of requiring a certain percentage of matching funds to be either in-hand or committed at the time of application submission. Once the related assistance agreements are signed by the Fund and the awardee, a disbursement can be made immediately rather than waiting for the matching funds to be obtained.

The decrease in the fund balance with Treasury is also a function of the amount of the annual appropriation received from Congress. Since the annual appropriation received has decreased each year since FY 2001 (this annual amount increases the fund balance with Treasury) it takes a smaller amount of annual award disbursements to have a greater percentage reduction in the fund balance.

Loans Receivable

Loans receivable are increased when CDFI Program loan awards are disbursed by the Fund. The $4.1 million increase in loans represents the amount of loan awards disbursed during the year of $5.4 million, less the related increase in the allowance for bad debts of $1.4 million (the allowance is equal to 25 percent of the amount of loans).

Allocation of Fund Assets September 30, 2005
(amounts in millions)



Liabilities

The decrease in liabilities during the year of $4.7 million consisted of a decrease in awards payable of $8.2 million offset by an increase in long-term 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.

Awards Payable

Awards payable have decreased every year since 2001 for two reasons: 1) the Fund's annual budget appropriations peaked in FY 2001 and have decreased each subsequent year; so there is a smaller amount of BEA Program awards to make each year, and 2) starting in FY 2002, the Fund required all CDFI Program grantees to have a certain portion of their matching funds either in-hand or committed at the time of application. This combination of a decrease in the amount of annual BEA Program awards and a significant amount of annual CDFI Program award disbursements is causing the decrease in awards payable.

The $8.2 million reduction in awards payable consists of a decrease of $5.9 million in the amount of BEA awards payable and a decrease of $2.3 million in the amount of CDFI Program awards payable. The reduction in BEA awards payable resulted from disbursing $8.2 million of the beginning balance of BEA Program awards payable, offset by the net $2.3 million increase (new awards less amounts disbursed) in new FY 2005 BEA awards.

CDFI Program awards are accrued as liabilities to the extent that award disbursements have been approved at year-end but not disbursed. The amount of such approved disbursements at the end of FY 2005 was $2.3 million less than the amount as of the end of FY 2004.

Debt

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.

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

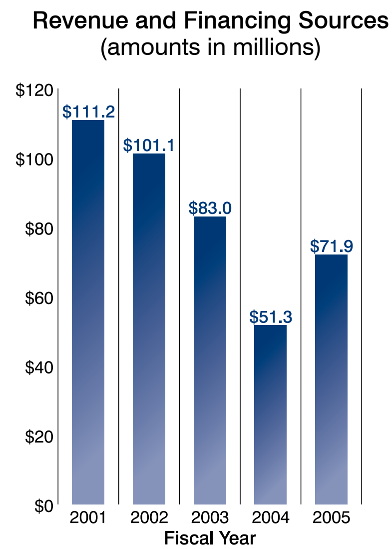
Net position decreased during the year by $17.6 million. Net position will change during the year as a result of the following: 1) the difference between appropriations received (net of appropriations cancelled, rescinded and adjusted for credit subsidy re-estimates) and appropriations used; 2) any adjustment of the Fund's subsidy reestimate, and 3) the excess (or shortage) of revenue and financing sources over (under) expenses. During FY 2005, appropriations received (net of amounts cancelled, rescinded and credit subsidy adjustments) were $53.7 million, and appropriated capital used was $69.9 million. This difference of $16.2 million decreases net position.

During the year the Fund adjusted its subsidy reestimate downward by $.5 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 $.5 million repayment reduces net position.

The shortage of net revenue and financial sources under expenses contributed an additional $.9 million of the decrease in net position.

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

Revenue and Financing Sources



Revenue and financing sources for FY 2005 totaled $71.9 million, a $20.6 million increase over the prior year. The largest component of revenue and financing sources is appropriated capital used. Pursuant to accounting principles generally accepted in The United States of America appropriated capital used is recognized at the time an expense in incurred.

Expenses

The change in the Fund's operating expenses during FY 2005 consisted of the following:

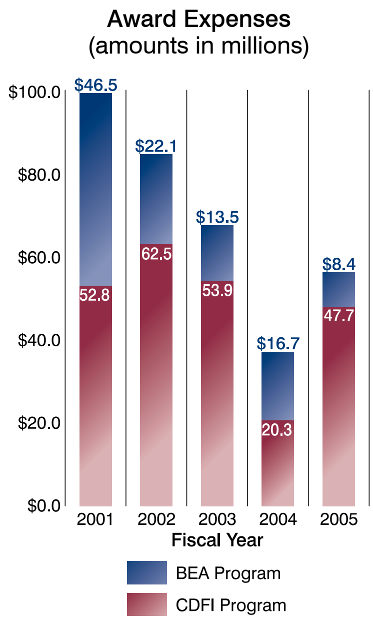
COMPARISON OF OPERATING EXPENSES FISCAL YEARS 2005 AND 2004

(amounts in millions)

	FY 2005	FY 2004	Difference
Award Expenses	$56.1	$37.0	$19.1
Administrative Expenses	$12.6	$10.6	$2.0
Bad Debt Expense	$1.3	$0.6	$0.7
	$70.0	**$48.2**	**$21.8**

Award Expenses

The increase in award expenses of $19.1 million during the year consisted of an increase in CDFI Program grant expense of $27.4 million offset by a decrease in BEA Program expense of $8.3 million.



Under the BEA Program, awards are recognized as expenses at the time a notice of award is signed by the Fund. Under the CDFI Program, awards pertaining to grants are recognized as an expense at the time award disbursements are made, while awards pertaining to loans and equity are treated as increases to loans receivable and investments, respectively, at the time of disbursement.

Accordingly, the FY 2005 BEA Program expense was smaller than the prior year amount due to a smaller amount of awards being made during the year. This is due to a decrease in the amount of funds appropriated for the year by Congress for the BEA Program.

CDFI Program expenses increased during the year due to an increase in the amount of CDFI Program grant disbursements being made compared to the prior year. This increase is due more to the fact that the dollar amount of CDFI Program grants disbursed in FY 2004 was unusually low. The reason for this is because a significant amount of CDFI Program disbursements were made during FY 2002 and FY 2003, significantly decreasing 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 (and therefore expensed) during FY 2005, the amount disbursed during that year as a percentage of the beginning undisbursed balance was actually higher than prior years.

RELATIONSHIP BETWEEN CDFI PROGRAM GRANT EXPENSE AND UNDISBURSED AWARDS

(amounts in millions)

	FY 2005	FY 2004	FY 2003
CDFI Program Grant Expense	$47.7	$20.2	$53.9
Beginning Balance of Undisbursed Awards	$60.7	$34.8	$87.8
Percentage of Beginning Balance Disbursed	78.6%	58.0%	61.4%

Administrative Expenses

The increase in administrative expenses is due to an increase in the amount of personnel costs and in certain contractual costs. The Fund is in the process of procuring a contract for an evaluation of the NMTC Program. With the exception of any future costs pertaining to this contract and assuming continuing funding, we expect administrative costs for the next several years to remain fairly constant.

Bad Debt Expense

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 percent of loans receivable. The net increase in loans receivable during FY 2005 (the amount of CDFI Program loan awards disbursed in excess of loan repayments) was $5.4 million, resulting in an increase to the allowance for bad debts of $1.3 million.

Shortage of Revenue and Financing Sources Under Expenses

As stated above, 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, the shortage of revenue and other financing sources over expenses (the Fund's "net loss") will consist of the amount by which expenses not covered by budgetary resources exceeds revenue and financial sources other than appropriated capital used.

Congressman Harold Rogers (4th from left) presents to Jerry Rickett (4th from right), President & Chief Executive Officer of Kentucky Highlands Investment Corporation (KHIC), a certificate at an award ceremony for the CDFI Program.

For FY 2005, expenses not covered by budgetary resources totaled $2.8 million, consisting of interest expense on Treasury borrowings of $2.3 million and $.5 million of loan subsidy disbursed from the Fund's no-year account (this account consists of interest income, dividend income and proceeds from the redemption of equity investments, accumulated since Fund inception). Revenue and financial sources other than appropriated capital used totaled $1.9 million consisting of interest and dividends of $1.7 million and a $.2 million realized gain on the disposition of investments. The excess of the $2.8 million of expenses not covered by appropriations exceeds the $1.9 million of revenue and financing sources other than appropriated capital by $.9 million, representing the shortage of revenue and financing sources under expenses.

The Fund's vision is an America in which all people have access to affordable credit, capital and financial services.

Independent Auditors' Reports

United States Department of the Treasury

Community Development Financial Institutions Fund

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

Independent Auditors' Report on Financial Statements

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, 2005 and 2004, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 Treasury's Community Development Financial Institutions Fund, as of September 30, 2005 and 2004, and the results of operations and changes in net position, and 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's Discussion and Analysis section and the appendices, as reflected on the accompanying table of contents, 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 OMB Circular A-136, *Financial Reporting Requirements*, Part A, *Form and Content of the Performance and Accountability Report*. 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 on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued reports dated October 31, 2005, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 assessing the results of our 2005 audit.

KPMG LLP

October 31, 2005

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

Independent Auditors' Report on Internal Control over Financial Reporting

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, 2005 and 2004, 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 31, 2005. 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 sections 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 2005 audit, we considered the Fund's internal control over financial reporting by obtaining an understanding of the Fund's 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's 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 reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Fund's ability to record, process, summarize, and report financial data consistent with the assertions made by management in the financial statements. Material weaknesses are reportable 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 internal control and its operations that we considered to be material weaknesses as defined above.

As required by OMB Bulletin No. 01-02, in our fiscal year 2005 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis, 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.

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

KPMG LLP

October 31, 2005

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

Independent Auditors' Report on Compliance and Other Matters

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, 2005 and 2004, 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 31, 2005. 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 sections of the 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 2005 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 financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions 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 with certain provisions of laws, regulations, contracts, and grant agreements described in the preceding paragraph, 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.

Under OMB Bulletin No. 01-02 and 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 of FFMIA disclosed no instances in which the Fund's financial management systems did not substantially 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 Department of the Treasury's Office of Inspector General, OMB, the Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 31, 2005

The Fund's vision is an America in which all people have access to affordable credit, capital and financial services.

Financial Statements and Notes

United States Department of the Treasury

Community Development Financial Institutions Fund

STATEMENTS OF FINANCIAL POSITION

As of September 30, 2005 and 2004

Assets	**2005**	**2004**
Current assets:		
Fund Balance with Treasury (Note 2)	$72,077,789	$98,869,244
Advances and prepayments	731,327	1,361,767
Loans receivable, net of allowance for bad debts of $552,729 in 2005 and $910,338 in 2004	1,658,188	2,731,015
Investments (Note 3)	—	490,000
Interest receivable	283,472	168,243
Other receivables	—	239
Total current assets	74,750,776	103,620,508
Long-term assets:		
Loans receivable, net of allowance for bad debts of $14,974,652 in 2005 and $13,256,469 in 2004	44,923,956	39,769,408
Investments, net of fair value adjustments of $3,397,220 in 2005 and $2,750,000 in 2004 (Note 3)	34,604,302	33,913,083
Internal-use software, net of accumulated amortization of $924,262 in 2005 and $468,693 in 2004	2,264,721	2,720,290
Internal-use software in development	3,354,181	2,284,375
Total long-term assets	85,147,160	78,687,156
Total assets	**$159,897,936**	**$182,307,664**

Liabilities and Net Position		
Current liabilities:		
Accounts payable	$648,886	496,741
Awards payable	5,268,786	9,664,009
Accrued payroll	188,902	176,700
Accrued annual leave	245,608	270,346
Total current liabilities	6,352,182	10,607,796
Long-term liabilities:		
Debt (Note 4)	40,561,891	37,222,530
Awards Payable	5,451,128	9,320,313
Total long-term liabilities	46,013,019	46,542,843
Total liabilities	52,365,201	57,150,639
Commitments (Note 5)		
Net position (Note 6)	107,532,735	125,157,025
Total liabilities and net position	**$159,897,936**	**$182,307,664**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

Years Ended September 30, 2005 and 2004

	2005	2004
Revenue and financing sources:		
Appropriated capital used	$69,868,092	$49,293,451
Imputed financing sources –		
expenses paid by others (Note 7)	345,759	361,317
Interest, non-federal	1,160,331	1,022,746
Interest, federal	293,930	352,812
Dividends	253,410	239,279
Total revenue and financing sources	71,921,522	51,269,605
Expenses:		
CDFI grants	47,719,812	20,293,708
BEA grants	8,374,171	16,681,027
Administrative	12,223,891	10,311,653
Bad debt expense	1,360,574	567,419
Administrative expenses paid by others (Note 7)	345,759	361,317
Total operating expenses	70,024,207	48,215,124
Treasury borrowing interest	2,362,511	2,237,342
Unrealized loss on investments	647,220	1,250,000
Net realized losses (gains) on disposition		
of investments	(187,994)	205,728
Total expenses	72,845,944	51,908,194
Shortage of revenue and financing sources under expenses	$(924,422)	$(638,589)
Changes in Net Position:		
Net position, beginning of year	$125,157,025	$117,237,042
Shortage of revenue and financing sources		
under expenses	(924,422)	(638,589)
Other changes (Note 8)	(16,699,868)	8,558,572
Net position, end of year	$107,532,735	$125,157,025

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Shortage of revenue and financing sources under expenses	$(924,422)	$(638,589)
Adjustments affecting cash flow:		
Appropriated capital used	(69,868,092)	(49,293,451)
Interest on upward adjustment of prior year subsidy	(56,309)	(122,505)
Amortization expense	455,569	270,299
Unrealized loss on investments	647,220	1,250,000
Decrease in advances and prepayments	630,439	706,152
Increase in interest receivable	(115,229)	(17,815)
Decrease in other receivables	239	39,117
Increase in allowance for bad debts	1,360,574	567,419
Increase (decrease) in accounts payable and accrued payroll	164,347	(110,983)
Decrease in awards payable	(8,264,408)	(7,159,491)
Increase (decrease) in accrued annual leave	(24,738)	20,234
Net cash used by operating activities	(75,994,810)	(54,489,613)
Cash flows from investing activities:		
Investments in awardees	(848,439)	851,278
Acquisition of internal-use software	(1,069,806)	(2,012,551)
Loans disbursed	(7,808,648)	(2,779,883)
Collection of loan principal	2,366,354	510,208
Net cash used by investing activities	(7,360,539)	(3,430,948)
Cash flows from financing activities:		
Appropriations received	56,058,105	62,526,803
Appropriations cancelled	(1,891,505)	(1,438,999)
Appropriations rescinded	(444,176)	(359,900)
Borrowings from Treasury	6,347,451	5,276,187
Subsidy repayments to Treasury	(497,891)	(2,753,376)
Loan payments to Treasury	(3,008,090)	(1,854,608)
Net cash provided by financing activities	56,563,894	61,396,107
Net change in Fund balance with Treasury	(26,791,455)	3,475,546
Fund balance with Treasury, beginning of year	98,869,244	95,393,698
Fund balance with Treasury, end of year	$72,077,789	$98,869,244

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005 and 2004

(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 (CDFIs) 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 CDFIs and to build the capacity of existing Native CDFIs that serve primarily Native American, Alaska Native, and Native Hawaiian communities.

(b) Basis of Presentation

The American Institute of Certified Public Accountants (AICPA) has designated the Federal Accounting Standards Advisory Board (FASAB) as the standards setting body for financial statements of federal governmental entities, with respect to the establishment of accounting principles generally accepted in the United States of America. FASAB has indicated 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 loans 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 contribution of 1% of employees base salary, 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 expenses, 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, 2005 and 2004 consisted of the following components:

	2005	2004
Available	$4,033,289	$3,063,094
Obligated	64,393,783	92,558,505
Expired	3,650,717	3,247,645
	$72,077,789	$98,869,244

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. Investments consist of the following as of September 30, 2005 and 2004:

	2005	2004
Investments at Cost		
Non-voting equity securities	$26,555,420	$27,005,479
Convertible debt securities	2,573,882	2,573,882
Secondary capital securities	5,000,000	4,200,000
Limited partnership interest	3,647,220	2,683,722
Certificates of deposit	225,000	690,000
Investments at cost	38,001,522	37,153,083
Unrealized losses, net		
Non-voting equity securities	(2,500,000)	(2,350,000)
Limited partnership interest	(897,220)	(400,000)
Total unrealized losses, net	(3,397,220)	(2,750,000)
Investments at fair value	$34,604,302	34,403,083

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).

Convertible debt securities consist of non-interest bearing convertible subordinated debentures. As of September 30, 2005 and 2004, 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, 2005 and 2004, 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, an interest in Pacific Community Ventures (acquired during FY 2005), 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) DEBT

Debt consists of amounts borrowed from the U.S. Treasury Department and included the following activity for the years ended September 30, 2005 and 2004:

	2005	2004
Beginning balance	$37,222,530	$33,800,951
New borrowings	6,347,451	5,276,187
Repayments	(3,008,090)	(1,854,608)
Ending balance	$40,561,891	$37,222,530

The earliest principal repayment due date to Treasury is September 30, 2007. Principal payments on this debt as of September 30, 2005 are as follows:

2006	$ —
2007	142,617
2008	254,154
2009	1,901,364
2010	2,632,434
Thereafter	35,631,322
	$40,561,891

During fiscal year 2005, the Fund borrowed $5,828,910 to finance current year direct loan commitments and $518,541 to meet annual interest payments due to the Treasury Department, at interest rates ranging from 3.55% to 5.47%, depending on maturity dates or risk categories. The Fund repaid principal to the U.S. Treasury in the amount of $3,008,090. The $3,008,090 was composed of collections of direct loans receivable and a deobligation of a previous loan obligation.

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 and risk categories. The Fund repaid principal to the U.S. Treasury in the amount of $1,854,608 which consisted of collections of direct loans receivable and a deobligation of a previous loan obligation.

Interest paid for the years ended September 30, 2005 and 2004 was $2,362,511 and $2,237,342, respectively.

(5) 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 $1,115,410 and $1,160,071 for the years ended September 30, 2005 and 2004, respectively.

Future minimum payments due under these operating leases as of September 30, 2005 were as follows:

Fiscal year	Minimum lease payments
2006	$1,138,524
2007	337,577
2008	29,654
2009	16,874
	$1,522,629

(b) Award and Purchase Commitments

As of September 30, 2005 and 2004, award commitments amounted to $47,836,695 and $69,946,853, 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 year end because the awardees have not met the conditions required for payment. Purchase commitments were $10,688,518 and $10,167,955 as of September 30, 2005 and 2004, respectively. These commitments relate to the unexpired portion of contracts, and purchase orders relating to goods and services not yet received.

(6) NET POSITION

Net position as of September 30, 2005 and 2004 consisted of the following:

	2005	2004
Unexpended appropriations:		
Unobligated available	$16,818,726	$15,438,871
Unobligated expired	3,650,717	3,247,645
Undelivered orders	46,286,410	70,716,649
Total unexpended appropriations	66,755,853	89,403,165
Cumulative results of operations	40,776,882	35,753,860
Total	$107,532,735	$125,157,025

(7) IMPUTED FINANCING

Imputed financing represents specific expenses relating to the Fund paid for by another Federal organization. The components of imputed financing for the years ended September 30, 2005 and 2004 are as follows:

	2005	2004
Pension Cost (CSRS Retirement Plan)	$49,684	$35,702
Pension Cost (FERS Retirement Plan)	2,130	17,315
Health Insurance (Health Benefits Program)	213,280	191,165
Life Insurance (Group Life Insurance Program)	637	583
Audit Fees	80,028	116,552
Total	$345,759	$361,317

(8) OTHER CHANGES IN NET POSITION

Other changes in net position for the years ended September 30, 2005 and 2004 were as follows:

	2005	2004
Increases:		
Appropriations received	$55,522,000	$61,000,000
Appropriation for Subsidy Reestimate	479,796	1,404,298
Decreases:		
Appropriation Cancelled	(1,891,505)	(1,438,999)
Appropriation Rescinded	(444,176)	(359,900)
Appropriation Used	(69,868,092)	(49,293,451)
Downward Reestimate Adjustment	(497,891)	(2,753,376)
Total other changes in net position, net	$(16,699,868)	$8,558,572

The Fund's vision is an America in which all people have access to affordable credit, capital and financial services.

Appendices

United States Department of the Treasury

Community Development Financial Institutions Fund

Appendix A
FY 2005 CDFI FUND AWARD AND ALLOCATION ACTIVITIES

	FA Awards		TA Awards		NI Awards	
STATE/TERRITORY	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**
Alabama						
Alaska						
Arizona	1	$207,000	1	$70,000	3	$276,000
Arkansas					1	$70,000
California	3	$3,752,858	3	$161,060	1	$80,000
Colorado	2	$696,000	2	$105,000		
Connecticut	1	$950,000				
Delaware						
District of Columbia	1	$348,323	1	$46,100		
Florida			1	$45,000		
Georgia			1	$42,000		
Hawaii			1	$42,884		
Idaho	1	$256,800				
Illinois	1	$1,398,750				
Indiana						
Iowa						
Kansas						
Kentucky	2	$1,156,663	1	$75,000		
Louisiana			1	$50,000		
Maine	2	$1,130,000			1	$525,000
Maryland	2	$1,572,750				
Massachusetts	1	$1,398,750				
Michigan	1	$950,000	2	$71,560	2	$189,000
Minnesota	2	$1,077,800	4	$245,369		
Mississippi	1	$1,398,750				
Missouri			1	$49,500		
Montana	2	$600,000	2	$93,530	2	$170,400
Nebraska			1	$47,500		
Nevada						
New Hampshire						
New Jersey			1	$49,260		
New Mexico	1	$513,000				
New York	9	$6,527,620	6	$239,454		
North Carolina	2	$1,646,900			2	$272,000
North Dakota					1	$150,000

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

BEA Awards		Total Awards		Allocation of NewMarkets Tax Credits[1]	
Number	Amount	Number	Amount	Number	Amount
		5	$553,000		
		1	$70,000		
1	$500,000	8	$4,493,918	5	$211,000,000
		4	$801,000	2	$130,000,000
		1	$950,000		
1	$291,764	1	$291,764		
2	$624,500	4	$1,018,923	2	$100,000,000
		1	$45,000		
1	$500,000	2	$542,000	2	$115,000,000
1	$155,250	2	$198,134	1	$28,000,000
		1	$256,800		
12	$1,833,000	13	$3,231,750	2	$55,000,000
2	$517,400	2	$517,400		
7	$510,741	10	$1,742,404	4	$67,000,000
		1	$50,000	3	$135,000,000
		3	$1,655,000		
		2	$1,572,750	2	$140,000,000
2	$920,000	3	$2,318,750	1	$54,000,000
		5	$1,210,560	1	$60,000,000
1	$395,000	7	$1,718,169	1	$100,000,000
1	$18,000	2	$1,416,750		
1	$66,000	2	$115,500		
		6	$863,930		
		1	$47,500		
1	$328,200	1	$328,200		
1	$130,500	2	$179,760	1	$50,000,000
		1	$513,000		
3	$857,200	18	$7,624,274	5	$308,000,000
4	$1,016,000	8	$2,934,900	2	$185,000,000
		1	$150,000		

Appendix A *(Continued)*

FY 2005 CDFI FUND AWARD AND ALLOCATION ACTIVITIES

	FA Awards		TA Awards		NI Awards	
STATE /TERRITORY	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**
Ohio	2	$1,190,000	3	$143,595		
Oklahoma					2	$690,880
Oregon	2	$1,675,250				
Pennsylvania	2	$1,118,500	2	$150,000		
Puerto Rico						
Rhode Island						
South Carolina						
South Dakota	3	$1,207,810			2	$165,000
Tennessee						
Texas			2	$83,600		
Utah					2	$225,000
U.S. Virgin Islands						
Vermont			2	$112,055		
Virginia	1	$225,400				
Washington	2	$450,000	2	$80,150	2	$220,000
West Virginia			1	$49,803		
Wisconsin	1	$1,398,750			1	$420,000
Wyoming						
Amounts Awarded to FY 2005 Funding Round Applicants	**48**	**$32,847,674**	**41**	**$2,052,420**	**22**	**$3,453,280**

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

BEA Awards		Total Awards		Allocation of NewMarkets Tax Credits[1]	
Number	Amount	Number	Amount	Number	Amount
3	$23,250	8	$1,356,845	1	$52,000,000
1	$12,000	3	$702,880	2	$90,000,000
1	$234,000	3	$1,909,250	1	$50,000,000
1	$77,850	5	$1,346,350		
3	$117,812	3	$117,812		
		5	$1,372,810		
2	$267,750	2	$267,750	1	$17,000,000
1	$500,000	3	$583,600		
		2	$225,000		
		2	$112,055		
		1	$225,400	1	$35,000,000
		6	$750,150		
		1	$49,803		
		2	$1,818,750	1	$18,000,000
53	**$9,896,217**	**164**	**$48,249,591**	**41**	**$2,000,000,000**

Appendix B
TOTAL FUND AWARDS FROM INCEPTION

STATE/TERRITORY	FA Awards	TA/SECA Awards	Native Initiative Awards[1]	BEA Awards	Total Awards From Inception	NMTC Allocations[2]
Alabama	$145,000	$475,500	$0	$615,075	$1,235,575	$40,000,000
Alaska	$7,912,500	$306,000	$281,250	$0	$8,499,750	$40,000,000
Arizona	$5,806,500	$217,458	$1,303,500	$809,288	$8,136,746	$235,000,000
Arkansas	$9,000,000	$158,514	$70,000	$4,575,223	$13,803,737	$15,000,000
California	$48,054,858	$1,918,727	$459,906	$35,457,897	$85,891,388	$672,000,000
Colorado	$7,446,300	$2,712,358	$120,000	$2,116,915	$12,395,573	$130,000,000
Connecticut	$2,883,500	$500,389	$0	$373,205	$3,757,094	$0
Delaware	$645,000	$122,000	$0	$2,751,000	$3,518,000	$50,000,000
District of Columbia	$10,610,983	$758,800	$0	$5,899,454	$17,269,237	$648,000,000
Florida	$15,937,000	$1,256,618	$0	$8,491,003	$25,684,621	$15,000,000
Georgia	$3,783,900	$216,500	$0	$5,861,221	$9,861,621	$154,000,000
Hawaii	$1,000,000	$533,684	$263,121	$1,069,199	$2,866,004	$28,000,000
Idaho	$2,546,800	$200,000	$0	$0	$2,746,800	$0
Illinois	$31,477,816	$1,327,083	$0	$29,834,896	$62,639,795	$286,050,000
Indiana	$2,308,000	$362,500	$0	$1,500,651	$4,171,151	$81,000,000
Iowa	$3,990,000	$265,050	$0	$508,500	$4,763,550	$44,700,000
Kansas	$1,903,000	$240,504	$25,000	$2,739,832	$4,908,336	$0
Kentucky	$13,998,163	$613,100	$0	$4,323,036	$18,934,299	$153,500,000
Louisiana	$1,210,000	$386,050	$0	$1,934,109	$3,530,159	$422,500,000
Maine	$11,473,856	$562,361	$1,380,000	$1,335,727	$14,751,944	$129,000,000
Maryland	$14,688,360	$617,246	$176,040	$2,330,221	$17,811,867	$646,000,000
Massachusetts	$18,374,200	$2,569,345	$0	$4,784,405	$25,727,950	$352,000,000
Michigan	$6,115,000	$260,493	$354,000	$1,226,686	$7,956,179	$87,000,000
Minnesota	$16,045,300	$826,769	$2,724,033	$1,754,601	$21,350,703	$448,000,000
Mississippi	$11,226,250	$126,500	$0	$2,029,857	$13,382,607	$15,000,000
Missouri	$1,310,109	$148,500	$0	$3,663,865	$5,122,474	$52,000,000
Montana	$1,446,800	$444,030	$716,600	$315,962	$2,923,392	$0

[1] *Native Initiative (NI) awards. Consists of awards made under all Native American Programs.*

[2] *Consists of New Markets Tax Credit (NMTC) allocatees headquarted in these states. Amounts shown represents amount of equity supported by tax credits.*

STATE/TERRITORY	FA Awards	TA/SECA Awards	Native Initiative Awards[1]	BEA Awards	Total Awards From Inception	NMTC Allocations [2]
Nebraska	$350,000	$413,843	$265,000	$97,832	$1,126,675	$23,000,000
Nevada	$0	$266,500	$0	$339,200	$605,700	$0
New Hampshire	$7,500,000	$93,425	$0	$1,132,000	$8,725,425	$0
New Jersey	$9,265,000	$706,469	$0	$4,247,130	$14,218,599	$190,000,000
New Mexico	$6,603,500	$97,000	$0	$185,705	$6,886,205	$0
New York	$68,976,792	$6,302,286	$184,000	$47,355,326	$122,818,404	$1,133,000,000
North Carolina	$24,536,900	$1,308,745	$429,450	$28,310,498	$54,585,593	$410,000,000
North Dakota	$635,000	$69,520	$281,700	$15,000	$1,001,220	$0
Ohio	$7,881,693	$992,875	$0	$3,743,203	$12,617,771	$498,000,000
Oklahoma	$1,668,500	$0	$1,220,880	$2,365,680	$5,255,060	$220,000,000
Oregon	$5,051,250	$429,250	$0	$4,678,348	$10,158,848	$246,500,000
Pennsylvania	$31,387,072	$3,397,986	$0	$1,813,327	$36,598,385	$47,500,000
Puerto Rico	$300,000	$115,000	$0	$0	$415,000	$0
Rhode Island	$750,000	$389,900	$0	$0	$1,139,900	$0
South Carolina	$500,000	$192,600	$0	$786,783	$1,479,383	$0
South Dakota	$5,099,810	$582,000	$2,065,400	$562,500	$8,309,710	$0
Tennessee	$6,965,000	$150,100	$95,000	$3,667,711	$10,877,811	$35,250,000
Texas	$14,484,470	$3,310,161	$0	$15,112,992	$32,907,623	$37,000,000
Utah	$2,000,000	$392,500	$225,000	$120,000	$2,737,500	$100,000,000
U.S. Virgin Islands	$770,000	$0	$0	$0	$770,000	$0
Vermont	$7,829,550	$490,055	$0	$0	$8,319,605	$2,000,000
Virginia	$3,635,400	$1,023,090	$0	$23,000	$4,681,490	$71,000,000
Washington	$6,801,250	$895,495	$1,509,800	$2,405,991	$11,612,536	$48,000,000
West Virginia	$2,439,000	$331,768	$0	$0	$2,770,768	$4,000,000
Wisconsin	$8,729,450	$293,500	$797,130	$2,774,914	$12,594,994	$191,000,000
Wyoming	$0	$0	$252,853	$0	$252,853	$0
TOTALS	$475,498,832	$40,370,147	$15,199,663	$246,038,968	$777,107,610	$8,000,000,000

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 was introduced in FY 2004 and provides financial assistance awards to eligible Native American CDFIs to support their financing activities, as well as technical assistance awards to existing Native CDFIs and Native organizations seeking to become or create a CDFI. A Native American CDFI is defined as a CDFI with greater than 50 percent of its activities directed to Native American Communities. In FY 2005 it replaced the NACD and NATA Programs.

THE NATIVE AMERICAN CDFI DEVELOPMENT (NACD) PROGRAM

Replaced by the NACA Program in FY 2005, the Native American CDFI Development (NACD) Program provided technical assistance grants to "sponsoring organizations," such as Tribes or entities primarily serving Native American Communities, to help create Native American CDFIs.

NATIVE AMERICAN TECHNICAL ASSISTANCE (NATA) COMPONENT

Replaced by the NACA Program in FY 2005, the Native American Technical Assistance Component was similar to the NACD Program, the difference being that the NATA Component was limited to CDFIs and entities proposing to become CDFIs. NATA grants were 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).

Community Development
Financial Institutions Fund

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