

American Recovery and Reinvestment Act Program Plan Community Development Financial Institutions Program

OBJECTIVES

The American Recovery and Reinvestment Act of 2009 (Recovery Act) provided an additional \$90 million in funding for grants to be made through the Community Development Financial Institutions (CDFI) Program.

The CDFI Program, administered by the Department of the Treasury's CDFI Fund, was established by the Riegle Community Development and Regulatory Improvement Act of 1994. Through this program, the CDFI Fund makes monetary awards (grants, loans and other investments) on a competitive basis to certified CDFIs. A CDFI is a specialized financial institution that works in low-income communities or serves individuals or businesses that lack access to mainstream financial institutions. Among many financial services, CDFIs provide capital to small businesses and micro-enterprises; mortgage loans to first-time homebuyers; financing to support the development of affordable housing projects and community facilities; and retail banking services to the unbanked.

Applicants seeking Financial Assistance awards through the CDFI Program can apply for funding through two pools of funds: Small and Emerging CDFI Assistance (SECA) awards, made to small and emerging CDFIs; and Core awards, which are generally made to more established entities. CDFIs use these Financial Assistance awards to build their organizational capacity to serve low-income communities lacking adequate access to affordable financial products and services. Since its inception, the CDFI Fund has made more than \$700 million in awards to loan funds, banks, credit unions, and community development venture capital funds under the CDFI Program.

The CDFI Program has three key objectives:

1. To support the sustainability and growth of CDFIs by providing a source of low-cost capital;
2. To increase the availability of affordable credit and the provision of financial services to individuals in low-income communities or to underserved populations; and
3. To revitalize low-income communities by developing or supporting, through lending, investing, enhancing liquidity, or other means of finance: (i) commercial facilities that promote revitalization, community stability or job creation or retention; (ii) businesses that provide jobs for or are owned by low-income persons; (iii) affordable housing that facilitates home ownership; and (iv) other community and economic development activities.

For the Fiscal Year 2008 CDFI Program funding round, SECA awards were capped at \$500,000 per applicant and Core awards were capped at \$1 million per applicant. The Recovery Act resources allowed the CDFI Fund to increase the maximum award amount for Core awards to \$2 million per applicant and the maximum award amount for SECA awards to \$600,000 per applicant. Additionally, the Recovery Act funding allowed the CDFI Fund to provide a larger number of high quality CDFIs with awards. In Fiscal Year 2009, 121 CDFIs received Financial

Assistance awards through the CDFI Program. Fifty-nine of the 121 CDFIs were funded through the Recovery Act and the remaining 62 CDFIs were funded with appropriations funding. The Recovery Act funding ultimately allowed the CDFI Program to reach more low-income communities by increasing the number of awards made from Fiscal Year 2008 to Fiscal Year 2009 by 83 percent.

In addition to the increased funding for the CDFI Program, the Recovery Act also waived the matching funds requirement for Fiscal Year 2009 applicants. By statute, CDFI Program applicants are generally required to demonstrate that they have matching funds from non-federal sources equal in amount to the requested CDFI Program award. The Recovery Act waiver of this requirement ensured that those communities that were hit the hardest by the economic crisis had access to CDFI Program funding. This was especially important because CDFIs serving such communities were least likely to have the ability to raise private capital to serve as a match.

ACTIVITIES

The CDFI Fund announced the selection of the 59 CDFIs that received the \$90 million in Recovery Act CDFI Program Financial Assistance grants on June 29, 2009.

These Financial Assistance grants awarded through the Recovery Act support community-based financial institutions, which include loan funds, credit unions, banks, venture capital firms and other financing entities serving our nation's most underserved populations and communities. The CDFI Fund received applications from 182 organizations requesting almost \$260 million in funding. Out of the 182 applications, 59 awards were made to organizations located in 26 states and Puerto Rico. Financial Assistance awards were given to an awardee pool that includes 46 loan funds, 9 credit unions, 2 depository institutions/holding companies, and 2 venture capital funds.

In keeping with the three program objectives noted above, the following are examples of how CDFIs intend to use CDFI Program awards: (1) to provide loans and equity investments to small businesses and micro-enterprises; (2) mortgage loans to low-income and first-time homebuyers; pre-development and construction financing for developers of low-income housing and community facilities, including charter schools, health clinics and child care facilities; and (3) financial services such as credit counseling, homebuyer education, low-cost depository accounts, Individual Development Accounts, and check-cashing services that bring unbanked individuals into the financial mainstream.

CDFIs have a great deal of flexibility with respect to how they use the award dollars. Unlike many other Federal programs, these funds are not tied to specific projects or transactions; instead, CDFI Program dollars build recipient capacity to serve their target markets in flexible and individualized ways. For example, CDFIs typically use award funds in a manner that enables them to increase their net assets or loan loss reserves so that they may borrow additional private capital and significantly increase their lending capacity. Alternatively, CDFIs may use the dollars to significantly subsidize more costly operations, allowing them to offer more affordable loan products to borrowers that have been turned away from mainstream financial institutions; to

sponsor financial and homebuyer counseling and education initiatives; and to offer lower-cost financial services to their customers.

CHARACTERISTICS

The CDFI Fund awarded all \$90 million of CDFI Program Recovery Act funds as grants to certified CDFIs. Certified CDFIs are non-governmental entities. As noted previously, they include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as loan funds and community development venture capital funds.

Awardees were selected on a competitive basis. Each application was reviewed and scored by three independent application reviewers. Applications that were funded met established minimum aggregate scoring thresholds. Grants were made to applicants in descending order of total aggregate score, until the \$90 million of funding was expended.

Forty of the 59 grants were awarded to Core applicants totaling approximately \$79 million in grant awards and 19 grants were awarded to SECA applicants totaling approximately \$11 million in grant awards. As noted previously, the Core awards were capped at \$2 million per awardee and the SECA awards were capped at \$600,000 per awardee. Grants were disbursed to awardees as one-time lump-sum payments so that recipients were able to immediately put their Recovery Act funds to use. All Recovery Act CDFI Program awards were disbursed within 60 days of the award announcement.

While the recipients of the grants were CDFIs, the end-beneficiaries of the CDFI Program awards include small businesses, consumers, homeowners, non-profits, builders/contractors/developers, and other parties who receive financial assistance, technical assistance and/or financial services from the CDFI awardees.

DELIVERY SCHEDULE

Activities by Quarter	
Fiscal Year 2009	
Feb - March 2009 2nd Quarter	Conclude planning for implementing Recovery Act. Evaluate applications for CDFI Program Funding and complete due diligence. Select awardees to receive Recovery Act funding.
April - June 2009 3rd Quarter	Finalize obligation of Recovery Act funding for CDFI Program awards. Develop Assistance Agreements outlining performance, compliance and reporting for awardees. Make award announcements for Recovery Act awardees (\$90 million). Begin process of closing Assistance Agreements with awardees.
July - September 2009 4th Quarter	Complete the closing of Assistance Agreements with all awardees. Disburse Recovery Act grants to all awardees (\$90 million). Provide post-award training and support to awardees.

Fiscal Year 2010	
October - December 2009 1st Quarter	First quarterly report due from CDFI Program awardees under Recovery Act. Provide ongoing post-award support to awardees.
January - March 2010 2nd Quarter	Second quarterly report due from CDFI Program awardees under Recovery Act. Provide ongoing post-award support to awardees.
April - June 2010 3rd Quarter	Third quarterly report due from CDFI Program awardees under Recovery Act. Provide ongoing post-award support to awardees. Conduct ongoing compliance monitoring.
July - September 2010 4th Quarter	Fourth quarterly report due from CDFI Program awardees under Recovery Act. Provide ongoing post-award support to awardees. Conduct ongoing compliance monitoring.
Fiscal Year 2011	
October - December 2010 1st Quarter	Fifth quarterly report due from CDFI Program awardees under Recovery Act. Provide ongoing post-award support to awardees. Conduct ongoing compliance monitoring.
January - March 2011 2nd Quarter	Sixth quarterly report due from CDFI Program awardees under Recovery Act. Provide ongoing post-award support to awardees. Conduct ongoing compliance monitoring.
April - June 2011 3rd Quarter	Seventh quarterly report due from CDFI Program awardees under Recovery Act. Provide ongoing post-award support to awardees. Conduct ongoing compliance monitoring.
July - September 2011 4th Quarter	Eighth quarterly report due from CDFI Program awardees under Recovery Act. Provide ongoing post-award support to awardees. Conduct ongoing compliance monitoring.
Fiscal Year 2012	
October - December 2011 1st Quarter	Ninth quarterly report due from CDFI Program awardees under Recovery Act. Provide ongoing post-award support to awardees. Conduct ongoing compliance monitoring.
January - March 2012 2nd Quarter	Tenth quarterly report due from CDFI Program awardees under Recovery Act. Provide ongoing post-award support to awardees. Conduct ongoing compliance monitoring.
April - June 2012 3rd Quarter	Eleventh quarterly report due from CDFI Program awardees under Recovery Act. Provide ongoing post-award support to awardees. Conduct ongoing compliance monitoring.
July - September 2012 4th Quarter	Twelfth quarterly report due from CDFI Program awardees under Recovery Act. Provide ongoing post-award support to awardees. Conduct ongoing compliance monitoring.
Fiscal Year 2013	
October - December 2013 1st Quarter	Thirteenth quarterly report due from CDFI Program awardees under Recovery Act. Provide ongoing post-award support to awardees. Conduct ongoing compliance monitoring.
January - March 2013 2nd Quarter	Fourteenth and final quarterly report due from CDFI Program awardees under Recovery Act. Initiate close-outs of Recovery Act awards based on awardee fiscal year end.
April - June 2013 3rd Quarter	Continue close-outs of Recovery Act awards based on awardee fiscal year end.
July - September 2013 4th Quarter	Finalize close-outs of Recovery Act awards based on awardee fiscal year end.

NATIONAL ENVIRONMENTAL POLICY ACT COMPLIANCE

The CDFI Fund has applied its environmental regulations codified at 12 CFR 1815 that implement the provisions of the National Environmental Policy Act (NEPA). The CDFI Program's NEPA regulations list various categories of activities that meet the categorical exclusion standards. (Categorical exclusions cover activities such as actions directly related to training and/or technical assistance; projects involving up to 500 housing units under specified conditions; projects involving up to 200,000 square feet or less of existing commercial space under specified conditions; projects involving CDFI Fund Financial Assistance under a specified dollar threshold, and other specified activities under 12 C.F.R. §1815.110.)

In addition, the regulations indicate that an activity that falls into one of the categorical exclusions may still require the preparation of an environmental impact statement (EIS) or environmental assessment if the CDFI Fund determines that the activity is one that normally requires an EIS or that the activity involves extraordinary circumstances that may have a significant environmental effect.

In each CDFI Program application, there is an Environmental Review Form completed by the applicant. The form directs applicants to review the program's environmental review regulations and indicate whether any of their proposed activities do not constitute "categorical exclusions" and, if so, whether any of their activities would normally require an EIS. On the Environmental Review Form, applicants must also indicate whether their activities involve any of 12 listed areas and sites such as historical sites, wilderness areas, natural landmarks, flood plains, and wetlands.

The CDFI Fund has reviewed these forms for all CDFI Program Recovery Act applicants and completed the necessary follow-up inquiries to determine whether additional environmental review or assessment is warranted. The CDFI Fund has determined that all proposed activities by Recovery Act awardees constitute categorical exclusions and are not of a type normally requiring an EIS.

MEASURES

The primary goal of the Recovery Act is to ensure that critical financial resources are provided as quickly as possible to stimulate the economy and create jobs. To this end, the CDFI Fund has selected the following three measures to track its success:

Measure 1 – Number of days between the effective application due date and the date of award notification.

The CDFI Fund's goal was to issue Recovery Act award notifications within 120 days of enactment of the Recovery Act. Although the CDFI Fund did not meet its 120 day goal, the Notice of Award was provided to each awardee ***within 133 days*** of enactment of the Recovery Act. This represented ***an improvement of 167 days (or 56 percent)*** over the equivalent period of performance under the Fiscal Year 2008 CDFI Program round, which was 300 days. Data supporting this measure are available through the CDFI Fund's internal award tracking systems and are reported on the CDFI Fund's Recovery Act website.

Measure 2 – Number of days between the date of award notification and the date by which at least 85 percent of award dollars have been disbursed.

The CDFI Fund's goal was to disburse 85 percent of all Recovery Act awards within 60 days of the date of award notification. The CDFI Fund met and exceeded its disbursement goal. One hundred percent (100 percent) of Recovery Act award dollars were disbursed ***within 60 days*** of the date of award notification. This represented ***an improvement of 150 days (or 70 percent)*** over the equivalent period of performance under the Fiscal Year 2008 CDFI Program round, which was 210 days. Data supporting this measure are available through the CDFI Fund's internal disbursement tracking systems and are reported on the CDFI Fund's Recovery Act website.

Measure 3 – Number of full-time equivalent jobs created or maintained by businesses financed by CDFI Program awardees that receive Recovery Act funds.

The CDFI Fund anticipates that Recovery Act funds will be used to pay the wages and salaries of approximately ***600 full time equivalent jobs*** created or retained through the provision of loans and investments and by the CDFI Program Recovery Act awardees' organizations. This estimate is based on the revised definition of jobs provided in the Office of Management and Budget's December 18, 2009 guidance¹ and two quarters of recipient reporting under this definition.

- A job created or retained by the Recovery Act is one in which the wages or salaries are either paid for, or at some point reimbursed, with Recovery Act funding.
 - A job created is a new position created and filled, or an existing unfilled position that is filled, that is funded by the Recovery Act.
 - A job retained is an existing position that is now funded by the Recovery Act.

The initial Program Plan for the CDFI Program estimated that CDFI Program Recovery Act awardees would be able to create or retain significantly more full time equivalent jobs as a result of the Recovery Act funding. This estimate was based on the definition of jobs described in the Office of Management and Budget's June 22, 2009 guidance² and the method the CDFI Program uses to track and report the impact of its investments in CDFIs through the provision of loans and investments by CDFI awardees.

Under the initial definition a job created was a new position created or filled or an existing position that was filled as a result of the Recovery Act and a job retained was an existing position that would not have been continued to be filled were it not for Recovery Act funding. The CDFI Program's existing method for tracking and reporting the impact of its investments in CDFIs was consistent this definition. In addition using awards for lending capital, CDFIs also report regarding use of award funds to increase their net assets or loan loss reserves so that they may borrow additional private capital which significantly increases their lending

¹ OMB M-10-08, *Reporting on Jobs Creation Estimates by Recipients of Grants, Loans, and other forms of Federal Assistance.*

² OMB M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009.*

capacity. As a result, the initial estimate of 76,000 jobs created or retained reflected the portfolio-wide effect of leveraging of additional private capital by CDFIs allowing the CDFIs to expand their lending activities, which in turn increases the opportunity for jobs to be created or retained.

The key difference between the initial and revised definitions and, therefore, the initial and revised jobs estimates is that beginning with reports submitted in January 2010, jobs reported to FederalReporting.gov only include those for which wages or salaries are paid for, or at some point reimbursed, with Recovery Act funding.

The CDFI Program collects data from its awardees on a number of elements, including jobs created and retained at businesses financed by the awardee. These data are currently collected on an annual basis through the CDFI Fund's Community Investment Impact System (CIIS). In addition to annual reporting requirements and Section 1512 Recovery Act reporting requirements, the CDFI Fund requires Recovery Act awardees to complete and submit, on a quarterly basis, a much shorter version of the CDFI Fund's annual Institution Level Report (ILR), which Awardees currently report through CIIS. The Quarterly Institution Level Report (QILR) collects data on three categories of jobs – those for which wages and salaries are paid for by Recovery Act funds (e.g. lines of credit and working capital loans for operations for paying wages and salaries), those resulting from direct uses of Recovery Act funds (e.g. capital investments and other lending that do not pay wages and salaries), and those resulting from leveraged use of Recovery Act funds (e.g. loan loss reserves and capital reserves that strengthen the balance sheet and support lending goals). The CDFI Fund developed and subsequently revised guidance for its awardees on how to report Recovery-related jobs information on a quarterly basis to the CDFI Fund and conducted outreach regarding reporting Recovery Act funded jobs to FederalReporting.gov. These data will be reported in the aggregate on the CDFI Fund's Recovery Act website.

MONITORING/EVALUATION

The CDFI Fund has provided and will continue to provide extensive post-award monitoring of Recovery Act awardees. The CDFI Fund worked closely with award recipients to finalize their award agreements and implement activities as quickly as possible. The CDFI Fund continues to provide on-going support to its awardees with respect to performance, compliance and reporting goals.

The CDFI Fund is utilizing its existing compliance monitoring systems, with some modifications, to collect, analyze and report data from CDFIs regarding the use of their award dollars.

The primary reporting tool is the Community Investment Impact System (CIIS), a web-based system through which CDFIs provide Institution Level Reports (ILR) and Transaction Level Reports (TLR). The ILR report captures essential information such as income and expense data for the institution. The TLR provides specific information regarding financing, such as loans and investments originated by amount, transaction type, and purpose, and impact data for performance reporting such as the “net change in jobs from businesses at origination.” These

reports permit tracking of compliance for target markets in disadvantaged areas served; community development impacts (including job creation); and development services (e.g., housing and homeownership and credit counseling).

The CDFI Fund has adjusted its reporting systems to enable quarterly reporting from the Recovery Act awardees and has increased its compliance monitoring capabilities to accommodate the larger number of awardees and the increased frequency of reporting. As set forth in the assistance agreement, the CDFI Fund requires Recovery Act awardees to complete, on a quarterly basis, a much shorter version of the CDFI Fund's standard ILR. Quarterly Institution Level Reports (QILRs) help the CDFI Fund to meet its own Recovery Act agency reporting requirements per Office of Management and Budget guidance. QILRs also enable the CDFI Fund to standardize the data that Recovery Act awardees report separately to the CDFI Fund and FederalReporting.gov. As a result, the CDFI Fund is able to assure the quality of information that awardees provide to the Recovery Act federal reporting portal. In addition, by cross-checking the data received through the QILR and Recovery Act data collection system, the CDFI Fund will be able to monitor compliance with Recovery Act requirements.

The CDFI Fund is conducting programmatic site visits in order to provide technical assistance to Recovery Act awardees mitigating compliance risks. The programmatic outreach provides the opportunity for the CDFI Fund's Recovery Act staff to provide Recovery Act-specific training, clarification on the general terms and conditions of a CDFI Program award, and guidance regarding internal controls and risk management. As of mid-May 2010, the CDFI Fund's Recovery Act staff has conducted ten programmatic site visits and plans to conduct an additional eighteen visits by July 2010. Furthermore, programmatic site visits inform the scheduling of compliance reviews performed by CDFI Fund staff. Compliance Monitoring and Evaluation staff prioritizes desk reviews and site visits to ensure that every effort is made to maintain timely, accurate Recovery Act reporting and compliance. Lastly, a system of robust sanctions is in place to address instances of non-compliance.

TRANSPARENCY

The CDFI Fund aggregates the data presented by CDFIs and releases this information. Its most recent release of information was a trend report released in December of 2007, which is available on the CDFI Fund's website:

http://www.cdfifund.gov/impact_we_make/ciis/CDFI3yearTrend.pdf

This report analyzes and reports out data across the spectrum of CDFIs in a number of key areas, pertaining to both the performance of the CDFIs and the impact on the low-income communities, including:

1. CDFI Characteristics – Size and type of CDFIs; staffing levels; markets served.
2. Portfolio Data – Size and quality of outstanding loan portfolios.
3. Capital under Management – Size of capital; sources of capital; costs of capital.
4. Operating Revenue – Size and sources of operating revenue, both earned capital and contributed capital.

5. Loan and Equity investments originated.
6. Financial Strength of CDFIs – Analysis of various capital ratios and liquidity measurements.
7. Community Benefits – Jobs created and maintained; development services provided; etc.

This report is in the process of being updated with more recent data and, beginning in 2009, will be updated annually.

ACCOUNTABILITY

The CDFI Fund's Director is the CDFI Fund's Accountable Official (AO) with respect to Recovery Act requirements and program implementation. The CDFI Fund's AO established a working group consisting of representatives from the CDFI Fund's CDFI Program office, the office of the Chief Operating Officer, Certification Compliance Monitoring and Evaluation office, Financial Strategies and Research office, and Legal Counsel to ensure that all Recovery Act requirements and activities are coordinated across the various units. Additionally, the CDFI Fund hired dedicated Recovery Act staff. To further the coordination between the CDFI Fund's offices and designated Recovery Act staff, a senior level staff person serves as Recovery Act Program Manager. This person is directly responsible for implementing all aspects of the Recovery Act program requirements.

The Recovery Act Program Manager has weekly conference phone calls with Treasury's AO to monitor the program. During these conference calls and on a monthly basis, the Recovery Act Program Manager and the Treasury AO monitor and review several items including obligations and outlays, acquisitions, performance measures, and accountability metrics. Additionally, the Recovery Act Program Manager is a member of the Treasury Recovery Act Risk Management Council. Corrective and/or preventive actions that are established as a result of the weekly and monthly reviews are tracked for implementation.

BARRIERS TO EFFECTIVE IMPLEMENTATION

There are no significant risks that have impeded the implementation of Recovery Act activities, primarily because the CDFI Fund has adhered to existing policies, procedures and protocols with respect to making Recovery Act CDFI Program awards and monitoring awardee compliance.

The CDFI Fund's organizational structure was designed, in part, to manage risks in the agency. Critical functions in the award selection, disbursement and monitoring processes were distributed and coordinated across offices within the CDFI Fund.

Use of integrated Information Technology (IT) systems across each office enabled the CDFI Fund to further minimize risks associated with improper payments and improper use of funds by awardees. In addition, through the compliance review process and site visits these risks have been mitigated.

FEDERAL INFRASTRUCTURE INVESTMENTS

CDFI Program awards are not used to invest in Federal infrastructure projects.