Community Development Financial Institutions (CDFI) Fund

FY 2003 – FY 2008 Strategic Plan:

Filling Financial Gaps Across America

September 15, 2003

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

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MESSAGE FROM THE DIRECTOR

Though the United States has one of the best banking and financial market systems in the world, an estimated 12 million U.S. households do not have a relationship with a traditional financial institution. As an alternative, many rely on pawnshops, check cashers, and payday lenders. This gap not only affects individuals, but businesses and needed community services as well. Furthermore, these same communities have other factors compounding the situation. For example, our nation's low-income areas have an unemployment rate 1.8 times the national average.[1] Among Black households the unemployment rate is twice that of non-minority households, and for Hispanic households 1.5 times higher.[2]

If we as a country are serious about promoting economic prosperity and stability for all Americans and all communities, these gaps in financial service and credit availability must be addressed. The Treasury Department recognizes the unique role of community development finance and supports it.

In difficult times such as these, community development finance is needed more than ever to create jobs, build wealth and provide access to financial services and credit in our distressed communities and targeted populations. The nation-wide network of over 1,800 certified community development financial institutions (CDFIs) and community development entities (CDEs) are bound by their common mission to do just that – to fill the financial service and credit gaps in underserved communities.

With this strategic plan for fiscal years 2003-2008, the CDFI Fund sets forth its roadmap for its continued efforts to improve the economic and living conditions of underserved communities. This will be accomplished by providing an array of community development financing and financial services through this network of CDFIs and CDEs. The plan identifies five objectives: (i) increase economic development in underserved communities; (ii) expand the supply and quality housing units and increase homeownership in underserved communities; (iii) expand access to financial and development services for residents and businesses located in or serving underserved communities; (iv) attract private sector capital into CDFIs and low-income communities through CDEs; and (v) build the capacity of CDFI Program awardees. This strategic plan is a solid reflection of the Administration's efforts to tighten the linkages between budgeting and performance effectiveness, and increase efficiencies through the President's Management Agenda.

One of President Bush's top priorities for the nation is to strengthen our economic security. The President will not be satisfied until every American who wants a job can find one; until every business has a chance to grow; and until we create lasting prosperity that reaches every corner of America. The nation's network of CDFIs and CDEs are valuable partners in this quest for a more prosperous America.

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[1] U.S. Census Bureau, 2000 Decennial Census. Unemployment rate is for CDFI Program Investment Areas.
[2] U.S. Department of Labor, Bureau of Labor Statistics

EXECUTIVE SUMMARY

MISSION
The mission of the Community Development Financial Institutions Fund (the CDFI Fund) is to expand the capacity of financial institutions to provide credit, capital and financial services to underserved populations and communities in the United States.

OVERVIEW/BACKGROUND
The United States has one of the best banking and financial market systems in the world. Yet, millions of low-income Americans and countless economically distressed communities are not adequately served by traditional financial service providers. They lack convenient access to affordable financial services and financing. If the conditions for prosperity and stability for all Americans are to be promoted, these gaps in financial service availability need to be addressed.

STRATEGIC GOAL
Improve the economic and living conditions of underserved communities[3] by providing an array of community development financing and financial services through a nationwide network of sustainable regulated and non-regulated CDFIs and Community Development Entities (CDEs).

MEANS AND STRATEGIES
CDFIs and CDEs are specialized, regulated and non-regulated financial service and finance providers whose primary mission is to fill credit gaps in underserved communities. CDFIs have proven that their strategic lending, investing, technical assistance, and counseling activities, all tailored to the unique characteristics of these markets, are highly effective in improving the economic well being of underserved communities.

Through its financial investments and technical assistance awards (the CDFI Program), tax credit allocations (the New Markets Tax Credit Program), investment incentives (the Bank Enterprise Award Program), and training initiatives (the Training Program), the CDFI Fund supports a nation-wide network of financial institutions that serve underserved communities, thereby increasing economic growth, promoting community development, creating jobs, and increasing the scope of the U.S. financial system. The CDFI Fund is an integral part of U.S. Department of Treasury's strategy for promoting a prosperous American economy and preserving the integrity of the nation's financial systems.

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[3] "Underserved communities" include: communities that qualify as Target Markets under the CDFI Program (which include a specific geography called an Investment Area, or a specific community of people with demonstrated lack of access to credit, equity or financial services called a Targeted Population) as well as Hot Zones, the most economically distressed subset of Investment Areas; Low-Income Communities under the NMTC Program; and 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.

MAJOR PROGRAMS AND INITIATIVES

New Markets Tax Credit (NMTC) Program

Created by the Community Renewal Tax Relief Act of 2000, the NMTC Program is designed to spur $15 billion of private investments in a range of investment vehicles called Community Development Entities (CDEs). These investment vehicles make loans and equity investments, purchase loans, or provide financial counseling in low-income communities. CDEs apply to the Fund for allocations of NMTCs through competitive allocation rounds. Successful applicants use their NMTCs to attract investors, who in turn receive a credit against Federal income taxes for making qualified equity investments in these CDEs. The first allocation round was in FY 2003.

Community Development Financial Institutions (CDFI) Program

The purpose of the CDFI Program is to promote economic revitalization and community development through investment in and assistance to CDFIs. The program accomplishes this purpose by providing CDFIs with financial assistance awards that must be matched dollar-for-dollar by non-federal funds, and by providing technical assistance grants and training to CDFIs and CDFIs in formation. Financial assistance awards are made on a competitive basis, with the strongest applicants demonstrating long-term sustainability and the potential to provide significant community development impact in Hot Zones or other program priority areas. During FY 2002, the CDFI Program was expanded to include a specific component relating to Native American and Native Hawaiian populations.

Bank Enterprise Award (BEA) Program

The BEA Program recognizes the key role of traditional financial institutions in community development lending and investing. It provides incentives for regulated banks and thrifts to invest in CDFIs and increase their lending and financial services in economically distressed communities. Providing monetary rewards for community investment activities leverages the CDFI Fund's dollars and puts more capital to work in distressed communities throughout the nation.

Native American Initiative

The Native American Initiative arises out of the findings of the CDFI Fund's Native American Lending Study (the "Lending Study") released in November 2001.[4] The Lending Study confirmed the inadequacy of capital investment in Native American Communities and identified major barriers to investment in Native American Communities. The CDFI Fund concluded that the solution to several of those barriers could be achieved through application of the Fund's programs to the Native American context or by increasing the coverage and the capacity of Native American CDFIs. The Native American Initiative currently consists of three components: the Native American CDFI Development Component and the Native American Technical

[4] For a complete description of findings and recommendations, see CDFI Fund's Native American Lending Study, November 2001.

Assistance (NATA) Component, both within the CDFI Program, and the Native American CDFI Training Program, which is administered through a separate contract.

Community Investment Intelligence System (CIIS)
The CDFI Fund's technology vision is to electronically link the nation's community development financing industry as a powerful, reliable and stable network within the U.S. financial system. The Fund is developing a web-based system to collect and store institution-level and transaction-level data on CDFIs and CDEs. This community development finance data repository can be used by the Fund to conduct financial risk and socio-economic impact analyses; by the industry to conduct peer analyses and self-assessments; by potential investors to research CDFI and CDE performance; and by researchers to conduct a wide range of analyses.

Secondary Market Study
The CDFI Fund is conducting a study to explore the possibility of expanding the secondary market for CDFI and CDE loans. Selling loans on the secondary market, while common among traditional lenders, is not a general practice among CDFIs and CDEs. If CDFI and CDE loans can be made attractive to potential investors and investors are willing to pay a reasonable price, the community development finance industry will gain a major source of private sector capital that is likely to grow with the industry's needs. The study will include recommendations on how the Fund may help expand CDFI and CDE participation in the secondary market.

CDFI FUND STRATEGIC PLAN MANAGEMENT PROCESS

The CDFI Fund's FY 2003 – FY 2008 Strategic Plan is an outgrowth of the Fund's previous strategic plan as well as analysis of its performance in recent years. The CDFI Fund's strategic plan is a solid reflection of the Administration's efforts to tighten the linkages between budgeting and performance effectiveness, and is a significant step in meeting the requirements of the related President's Management Agenda (PMA) initiative. It is a management plan for the CDFI Fund as well as a public document that shares the Fund's plan and vision for the next five years.

CDFI FUND INTERNAL PLANNING PROCESS

Internally, the CDFI Fund's program and financial managers discussed and reached consensus on the CDFI Fund's goals, objectives and performance measures. These managers as well as senior management reviewed drafts of the plan. A draft was distributed to the CDFI Fund's 15 member Community Development Advisory Board (CDAB) for comment. Six board members are the Secretaries of the Departments of Agriculture, Commerce, Housing and Urban Development, Interior and Treasury, and the Administrator of the Small Business Administration, or their designees. The remaining nine are private citizens appointed by the President and include representatives of community development financial institutions, insured depository institutions and national consumer or public interest organizations, as well as individuals with expertise in community development and Native American issues.

CONSULTATIONS WITH TREASURY DEPARTMENT

The CDFI Fund worked extensively with Treasury's Office of Performance Budgeting (OPB) in developing this plan. The CDFI Fund consulted with OPB staff on the development of its new strategic goals, and results-oriented objectives and performance measures. The new outcome-based performance measures represent a significant departure from the output-based measures the CDFI Fund had traditionally used.

In FY 2003, OPB, the CDFI Fund, and each of the Treasury bureaus worked together to align their respective strategic plans. The result is a Treasury Strategic Plan that is supported by each organization's plan. This collaborative strategic planning process increased all participants' understanding of the unique role that each bureau and the Departmental Offices play in carrying out the Treasury mission.

FEDERAL AGENCY CROSS-CUTTING ISSUES

The CDFI Fund is collaborating with many other federal agencies involved in community economic development. At a January 2003 Community Development Advisory Board meeting, the six federal agency representatives agreed to work together to try to develop common performance measures for all federal community economic development programs. The scope of this significant effort, the Interagency Collaborative on Community Economic Development (ICCED), is still being defined by the involved agencies. ICCED could reduce duplication of effort, ensure that federal programs are as complementary as possible, and lead to a single consolidated report on the impact of federal government investments in distressed communities across the country.

The CDFI Fund has also collaborated independently with several federal agencies. For example, the CDFI Fund participated in the Department of Commerce's Minority Business Development Agency's Access to Capital Steering Committee; and advised HUD regarding economic development in the Colonias and use of NMTC proceeds in conjunction with HUD program benefits. The CDFI Fund also participates in two public-private coalitions, one that focuses on rural and Native American development issues and another that focuses on financial literacy in Native American Communities. Through these partnerships, the federal agencies and other participants leverage each other's resources to make each of their programs stronger.

CONGRESS

The CDFI Fund's draft strategic plan was distributed to the Fund's Congressional Appropriations and Authorizing Committees for comment. The Fund did not receive any substantive comments on the draft.

See Appendix B for a complete list of stakeholders that were given the opportunity to comment on the draft strategic plan.

INTRODUCTION TO COMMUNITY DEVELOPMENT FINANCE

The United States has one of the best banking and financial market systems in the world. The U.S.'s traditional financial institutions[5] address the needs of most people in the country by providing checking, savings and investment accounts, as well as a wide range of loan products including mortgage, home equity, business, and consumer loans. Yet, an estimated 12 million U.S. households do not have a relationship with a traditional financial institution or depend on "fringe" financial services such as pawnshops, check cashers and payday lenders[6]. Many of these individuals live in neighborhoods where no bank branches are found, or cannot buy a home or start a business because they lack the credit history needed to qualify for a mortgage or the collateral needed to obtain a business loan. Many turn to the only available alternatives: higher cost check cashing stores to cash checks and buy money orders to pay bills; and pawnshops, payday lenders, and title companies for short-term loans. The most vulnerable – the elderly and financially uneducated – may become victims of predatory mortgage lenders, whose excessive interest rates, fees and prepayment penalties may lead to foreclosure and loss of the home. The predatory lending issue is so critical that every federal banking regulator has publicly denounced predatory lending.[7]

Not only individuals and businesses suffer from the lack of financial services and financing; community service infrastructure suffers as well. Non-profit developers have limited alternatives for financing new affordable housing units. Low-income communities in great need of childcare centers, hospitals, assisted living facilities and charter schools find these services in short supply. Capital needed to revitalize these areas is difficult to obtain from traditional financial institutions due to their lack of market knowledge, and legal and regulatory challenges. Without appropriate financing mechanisms, individuals and communities cannot sustain economic growth. If the conditions for prosperity and stability for all Americans are to be promoted, these gaps in financial service and credit availability need to be addressed.

CDFIs and CDEs are specialized, regulated and non-regulated, for-profit and nonprofit financial service providers whose primary mission is to fill service and credit gaps in underserved communities. By successfully providing affordable financial products and services to distressed populations and communities, CDFIs and CDEs demonstrate the untapped market potential that exists in these communities and help to pull mainstream financial institutions toward these new markets. CDFIs and CDEs are essential components in the nation's delivery of financial services and financing capital to underserved communities, where they help stimulate economic growth, start or expand businesses, and promote homeownership among low-income and minority populations. Furthermore, the counseling and technical assistance that

[5] Defined as regulated, insured commercial banks, savings and loan associations, and credit unions.
[6] James H. Carr "Financial Services in Distressed Communities: Framing the Issue, Finding Solutions," Fannie Mae Foundation 2001.
[7] James H. Carr and Lopa Kolluri. 2001. Predatory Lending: An Overview. Fannie Mae Foundation.

CDFIs and CDEs provide is critical for helping these underserved communities effectively use the nation's financial system and avoid predatory financial products. CDFIs have proven that their strategic lending and investment activities, tailored to the unique characteristics of underserved markets, are highly effective in improving the economic well being of these communities.

Traditional financial institutions recognize the important role of CDFIs and CDEs, and are helping underserved markets and populations by supporting this network of financial institutions. Nearly one third of the financial institutions active in the Fund's BEA Program have received "Outstanding" ratings under the Community Reinvestment Act. The link between the services provided by CDFIs and CDEs and their support from the private sector is an important partnership that defines this industry's long-term sustainability.

Recognizing the important contributions of CDFIs, the US Congress passed the bipartisan Riegle Community Development and Regulatory Improvement Act of 1994. Through this law, the CDFI Fund was created to fill financial gaps across the country by supporting the nationwide network of CDFIs, and more recently CDEs, as well as to stimulate private sector investment in underserved communities by providing incentives to traditional financial institutions. This network is an essential component of the nation's financial system, delivering the financing and financial services needed to stimulate economic growth, start or expand businesses, and promote homeownership in underserved communities. The CDFI Fund is committed to strengthening this unique network of financial service providers, and helping to increase their sustainability and self-reliance.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFIs)

Under the CDFI Program, CDFIs are non-governmental financing entities with a community development mission. They provide financing and development services to, and are accountable to, eligible Target Markets. CDFIs include community development banks; credit unions; housing, business, facilities and microenterprise loan funds; and community development venture capital funds. CDFIs help their customers build wealth and help communities obtain the community assets that improve residents' quality of life. They do this by offering financial products and services that are geared to the unique needs of the distressed markets they serve. Their products include starter loans to help individuals build credit histories, first-time homebuyer loans with minimum down-payment requirements, business loans with flexible collateral requirements, and hard-to-find construction loans to develop affordable housing and charter schools. This financing offers reasonable terms to populations that lack the income and collateral required by traditional banks. It can even help create the conditions required for a bank to participate in a transaction that would otherwise not meet the bank's safety and soundness thresholds. (For example, if a CDFI takes a subordinate financing position, it opens up the possibility for a traditional bank lender to take a first lien position that is well within the bank's risk parameters.)

To help keep their investments safe, CDFIs provide technical assistance and training to their borrowers. This educational component is a critical service and requisite for community development finance. Through credit counseling, business training and first-time homebuyer training, individuals learn how to manage debt and how to recognize predatory lending practices, entrepreneurs learn how to grow their businesses responsibly, and first-time homebuyers learn the importance of budgeting and home-repair to maintain the value of their homes. It is this credit counseling approach to lending that makes this industry unique and the costs of service relatively high.

Eligible CDFI Target Markets include Investment Areas, Low-Income Targeted Populations, and Other Targeted Populations that have a demonstrated lack of access to credit. Nearly 40 percent of the nation's metropolitan census tracts and more than 30 percent of the nation's non-metropolitan counties meet at least one of the Investment Area unemployment, poverty or other economic distress criteria. In addition, there are millions of low-income and other eligible populations living outside these designated geographic areas that meet the Low-Income and Other Targeted Population criteria.

As of September 5, 2003, the CDFI Fund had certified 660 entities as CDFIs, serving both rural and urban areas in local, regional, statewide, and multi-state markets in 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands. Of these, 24 are Native American CDFIs.

COMMUNITY DEVELOPMENT ENTITIES (CDES)

Under the NMTC Program, CDEs are for-profit and nonprofit domestic corporations or partnerships that provide loans, investments or financial counseling to eligible businesses located in Low-Income Communities. Approximately 40 percent of census tracts in the nation meet the Low-Income Community poverty or median family income criteria.

CDEs are required to demonstrate that they have a primary mission of serving, or providing investment capital for, Low-Income Communities or Low-Income Persons, and are accountable to residents of the Low-Income Communities that they serve. Unlike CDFIs, CDEs are not required to primarily engage in financing activities and may be government-controlled organizations.

Many CDEs are subsidiaries of established entities, such as nonprofits, banks, developers and local or state government entities. Creating subsidiary CDEs presents a unique way for nonprofits and government entities to raise equity for local communities and for banks to obtain NMTCs to offer innovative, flexible services not allowed under their bank charters.

The organizations certified as CDEs are committed to providing increased capital and financial services in our nation's low-income areas. CDEs that receive NMTC allocations can make four types of qualified investments: capital or equity investments in, or loans to, qualified businesses as defined by the Internal Revenue Code; equity investments in, or loans to, other CDEs; purchases of loans from other

CDEs if the loans are Qualified Low Income Community Investments; and Financial Counseling and Other Services to businesses located in, and residents of, Low-Income Communities. The allocation recipients under the 2002 NMTC round include a diverse mixture of organizations and proposed activities: non-profit entities renovating historic urban theaters, investing in charter schools and providing small business loans; bank and investment bank subsidiaries providing equity and mezzanine debt for commercial, retail, mixed-use and for-sale housing development projects, secondary market facilitation services and loans or investments for business expansion; and local governments engaging in downtown redevelopment, biotechnology investments and small business lending.

As of September 12, 2003, the CDFI Fund had certified 1,181 entities as CDEs. Approximately 30 percent of CDEs are certified CDFIs.

CDFI FUND PROGRAMS AND INITIATIVES

The CDFI Fund's programs support Treasury's strategic objective "To increase economic growth and create jobs." The Fund's means and strategies further a second Treasury objective, "To increase the reliability of the U.S. financial system."

The CDFI Fund is the Treasury's lead agency tasked with job creation. In addition, the CDFI Fund makes a unique contribution to increasing the reliability of the financial system by strengthening the network of regulated and non-regulated institutions that specifically target underserved communities.

In FY 2003, the CDFI Fund's programs have focused on three priority areas:

- Economic development (job creation, business development, and commercial real estate development);
- Affordable housing (housing development and homeownership); and
- Financial services (financial literacy training and the provision of basic banking services to underserved communities).

The programs are organized around a "Growth Continuum" philosophy, which recognizes the different needs of financial institutions at each stage of development and is based on the concept that as CDFIs grow in size and scale, they are better able to attract private sector funding. Under this model, capacity-building technical assistance grants and training opportunities are needed for start-up and growing CDFIs; more established CDFIs require capital to expand their lending base; the more sophisticated community development organizations can benefit from Federal tax credit incentives; and conventional financial institutions can be encouraged to provide investments in underserved communities and to invest in other CDFIs by providing financial rewards for these activities.

The CDFI Fund is developing a Native American Initiative whose purpose is to increase the coverage and the capacity of Native American CDFIs. This initiative is a response to the CDFI Fund's Native American Lending Study. This study, completed in November, 2001, confirmed the inadequacy of capital investment in Native American Communities, identified barriers to debt and equity capital investments in Native American Communities, and discussed solutions to those barriers. The Fund concluded that the solution to several of those barriers could be achieved through application of the Fund's programs to the Native American context or by increasing the coverage and the capacity of Native American CDFIs.

The initiative currently consists of three components: the Native American CDFI Development Component and the Native American Technical Assistance (NATA) Component, both within the CDFI Program, and the Native American CDFI Training Program, which is administered through a separate contract.

The Fund plans to expand the Native American Initiative to include financial assistance awards for Native American CDFIs as well as several new programs designed to enhance the ability of Native American Communities to access credit, capital, and affordable financial services through direct, on-site technical assistance.

NEW MARKETS TAX CREDIT (NMTC) PROGRAM

The Community Renewal Tax Relief Act of 2000 created the NMTC Program for the purpose of spurring $15 billion in new private capital investments in economically distressed areas. Under the NMTC Program, taxpayers may claim a credit against Federal income taxes for Qualified Equity Investments made to acquire stock or other capital interests in designated CDEs. Substantially all of the Qualified Equity Investments must in turn be used by the CDE to, among other things, make loans to, or equity investments in, qualified businesses or CDEs operating in Low-Income Communities. The credit available to the investor covers a seven-year period and totals 39% of the original investment. The investor receives tax credit during each of the first three years equal to five percent of the total amount paid for the stock or capital interest at the time of purchase, and a tax credit of six percent for each of the remaining four years.

CDFI PROGRAM

The CDFI Program seeks to promote economic revitalization and community development through investment in and assistance to CDFIs. It does so through a national network of community-based financial institutions that are dedicated to community development. The CDFI Program helps these institutions meet their capital needs based on their stage of development, and offers the following program components to support their development and growth.

- Financial Assistance Component: Provides Financial Assistance in the form of grants, loans, equity investments, deposits, and credit union shares and Technical Assistance grants to certified CDFIs in support of identified business plans. This program component is targeted to provide assistance to strengthen established CDFIs in order to better serve underserved markets; leverage non-federal dollars; and have significant community development impact [8].

- Technical Assistance Component (includes Native American Technical Assistance - NATA): Provides Technical Assistance grants to CDFIs and entities proposing to become CDFIs in order to build their capacity to better address the community development, capital access, and financial service needs of their particular target markets including Native Americans Communities.

[8] Hot Zones are the subset of Investment Areas that are most economically distressed. Economic Development Hot Zones have high unemployment and poverty rates, and low median family incomes. Housing Hot Zones have high housing cost burdens and poverty rates, and low median family incomes.

In addition, through the CDFI Program the CDFI Fund contracts with private institutions to develop training curricula and provide training to CDFIs and other entities in community development finance-related issues. Most recently, the Fund awarded a training contract in support of its Native American Initiative to develop and deliver an action-oriented training curriculum to facilitate the development of Native American CDFIs.

NATIVE AMERICAN CDFI DEVELOPMENT (NACD) PROGRAM

The NACD Program provides technical assistance grants to "sponsoring organizations," such as Tribes or entities primarily serving Native American Communities, to help create Native American CDFIs. A Native American CDFI is defined as a CDFI with greater than 50 percent of its activities directed to Native American Communities.

BANK ENTERPRISE AWARD (BEA) PROGRAM

The BEA Program recognizes the key role of traditional financial institutions in community development lending and investing. It provides incentives for these regulated banks and thrifts to invest in CDFIs and to increase their lending and financial services in distressed communities. Providing monetary awards for traditional financial institutions' community investments leverages the CDFI Fund's dollars and puts more capital to work in distressed communities throughout the nation.

In FY 2003, the CDFI Fund refocused the BEA Program to support only those activities it deems to have the highest impact: investments that build personal wealth (e.g., affordable home mortgages and down-payment assistance loans) and community assets (e.g., affordable housing development, day care centers or charter schools). Eligible activities include affordable home mortgage loans, home improvement loans, education loans, affordable housing development financing, small commercial real estate financing, and small business loans and related project investments.

COMMUNITY INVESTMENT INTELLIGENCE SYSTEM (CIIS)

The CDFI Fund's technology vision is to electronically link the nation's community development financing industry as a powerful, reliable and stable network within the U.S. financial system. The Fund is developing a web-based system to collect and store institution-level and transaction-level data on CDFIs and CDEs. This community development finance data repository can be used by the Fund to conduct financial risk and socio-economic impact analyses; by the industry to conduct peer analyses and self-assessments; and by potential investors to research CDFI and CDE performance; and by researchers to conduct a wide range of analyses.

SECONDARY MARKET STUDY

The CDFI Fund is conducting a study to explore the possibility of expanding the secondary market for CDFI and CDE loans. Selling loans on the secondary market while common among traditional lenders is not a general practice among CDFIs and CDEs. If CDFI and CDE loans can be made attractive to potential investors and investors are willing to pay a reasonable price, the community development finance industry will gain a major source of private sector capital that is likely to grow with the industry's needs. The study will include recommendations on how the Fund may help expand CDFI and CDE participation in the secondary market.

MEASURING RESULTS

FISCAL YEAR 2001 RESULTS

As part of its collaboration with the CDFI Data Project (described under *Performance Measurement* below), the CDFI Fund collected data on CDFIs' FYs 2001 activities and performance. Included in this set were 166 of the CDFI Fund's active awardees. The summary below is based on responses provided by these 166 CDFIs.

The 166 awardees received a total of $96 million in CDFI Fund disbursements between 1998 and 2000. These 166 CDFIs made $892 million in loans and investments in 2001, and had a total of $2.4 billion in loans and investments outstanding at year-end. They experienced loan delinquencies of 7.4 percent and losses of merely .5 percent in 2001.

The CDFI Fund's disbursements helped these CDFIs accomplish the following in 2001:

- 4,422 businesses created or expanded
- 10,308 full-time-equivalent jobs created or maintained
- 2,026 units of affordable housing developed or rehabilitated
- 259 community facilities supported
- 49,166 individuals and 4,622 nonprofit or for-profit businesses provided technical assistance or training.

PERFORMANCE MEASUREMENT

The CDFI Fund places a high priority on measuring impact and is in the forefront of improving performance reporting in the CDFI industry. The CDFI Fund has worked extensively with the community development finance industry to define appropriate performance measures for the industry. The CDFI Fund was one of the founders of the CDFI Data Project (CDP), a multi-year collaborative effort of 13 entities -- including the Ford and MacArthur Foundations and the six major CDFI trade associations -- that identified and defined a common set of performance and impact data for the community development finance industry. The majority of the CDFI Fund's performance measures are included in this common data set.

The CDFI Fund is building on its experience with the CDFI Data Project to develop the Community Investment Intelligence System (CIIS), a sophisticated data collection system for CDFIs and CDEs that allows for the collection of transaction-level data. Transaction-level data will provide the specific location and characteristics of each loan in a CDFI/CDE's portfolio and will allow the CDFI Fund to measure impacts at the census tract level. The CDFI Fund plans to use this data to compare CDFI/CDEs' lending behavior and community development impact to that of traditional financial institutions and to demonstrate that CDFI/CDEs are lending in areas where traditional banks have less of a presence. In addition, the CDFI Fund believes that making available reliable information on community development finance loan performance may increase the opportunities for CDFIs and CDEs to participate in the capital markets by selling portions of their loan portfolios. The CDFI Fund expects to begin collecting transaction-level data in FY 2004.

The CDFI Fund will use transaction-level and institution-level data to implement PLUM, a new performance rating system for CDFIs. PLUM stands for Performance/community development impact; Liquidity and overall financial condition; Underwriting/portfolio quality; and Management capacity. Based on these four broad components, PLUM will rate each CDFI's financial strength and level of community development impact. The CDFI Fund plans to use this rating system to better manage the CDFI Fund's portfolio of investments by creating a compliance "watch list" of under-performing entities, to assist in underwriting CDFIs, and to identify and promote best practices in the industry.

EVALUATION OF FUND PROGRAMS

In FY 2003, the Office of Management and Budget (OMB) conducted a PART review of the BEA Program. Based on this review and the CDFI Fund's internal analysis of the program's strengths and weaknesses, the CDFI Fund modified the program's targeting, as described above.

The only other independent reviews of the CDFI Fund are a 1998 General Accounting Office (GAO) review and a 2002 Office of Inspector General (OIG) program audit of the Fund's post-award procedures. The Fund has addressed the GAO and OIG concerns and recommendations by improving its measurement of awardees' performance, and is in the process of further strengthening compliance procedures by, for example, conducting site visits of awardees that are trending toward non-compliance or are non-compliant with the terms and conditions of their assistance agreements. While not considered separate stand-alone reviews of the Fund's programs, the Fund's financial statement audits for the past five years have identified no material weaknesses, reportable conditions, nor any systems non-conformances.

Beginning in FY 2004, the CDFI Fund plans to evaluate the following programs:

- CDFI Program: The CDFI Fund has asked Treasury's Office of Inspector General (OIG) to consider evaluating the CDFI Program in FY 2004 or FY 2005. If the OIG cannot conduct this evaluation, the CDFI Fund will contract an independent evaluator to evaluate the effectiveness of the CDFI Program, including the effectiveness of the Technical Assistance Component on recipients' community development performance, management capacity, financial position and portfolio quality.

- NMTC Program: The GAO has a statutory mandate to conduct a program audit of the NMTC Program. GAO plans to produce reports in FY 2004, 2007, and 2010. In addition, the CDFI Fund plans to contract an independent evaluator to conduct a multi-year evaluation of program effectiveness.

- BEA Program: The CDFI Fund has asked Treasury's Office of Inspector General (OIG) to consider evaluating the BEA Program in FY 2004 or FY 2005. If the OIG cannot conduct this evaluation, the CDFI Fund will contract an independent evaluator to evaluate the effectiveness of the BEA Program.

- Training Program: The CDFI Fund plans to contract an independent evaluator to evaluate the results and effectiveness of the training offered by the vendors funded through the CDFI Fund's Training Program.

CDFI FUND STRATEGIC GOAL

STRATEGIC GOAL
Improve the economic and living conditions of underserved communities by providing an array of community development financing and financial services through a nationwide network of sustainable regulated and non-regulated CDFIs and CDEs.

It is the mission of CDFIs and CDEs to provide credit and financial services to underserved communities. This investment helps improve economic and living conditions by stimulating economic growth through business development and development of commercial real estate; promoting wealth through homeownership and savings accumulation; providing access to affordable housing; reducing transaction costs by increasing the availability of fairly-priced financial products and services; and improving access to goods and services through business and community facility start-ups and expansions.

While CDFIs and CDEs are among the most effective means of bridging the gap between those that do not have access to fairly priced financial services and traditional financial institutions, they themselves may suffer from the same lack of access to capital that their borrowers do. Many stagnate, not due to lack of demand for their products, but because they do not have sufficient capital to fund demand. Others face management challenges such as retaining qualified staff, which hinders their ability to maximize service delivery. The CDFI Fund's programs are designed to strengthen CDFIs and CDEs and improve their sustainability by helping them attract much needed private sector capital.

KEY PARTNERS IN ACHIEVING THIS GOAL
To achieve this goal, the CDFI Fund coordinates and collaborates with the Small Business Administration, Department of Commerce, Department of Agriculture, Department of the Interior, Department of Housing and Urban Development, Federal Reserve, National Credit Union Administration (NCUA), Office of the Comptroller of the Currency (OCC), Office of Thrift Supervision (OTS), and the Internal Revenue Service (IRS).

KEY FACTORS AFFECTING ACHIEVEMENT OF THIS GOAL
The CDFI Fund does not have direct control over the economic and living conditions in underserved communities. The CDFI Fund's primary role is to select financing entities that demonstrate the greatest likelihood of creating community development impact and support them through financing, technical assistance and/or tax credit authority. The key factors that affect achievement of this goal are:

- Selection of Appropriate Financing Entities: The CDFI Fund's underwriting processes determine which applicants receive Fund assistance. To the extent that the processes allow weak entities to receive awards, the community impact results will be minimal. The CDFI Fund has significant experience underwriting CDFIs and has transferred this knowledge to the underwriting of CDEs; thus, this is not expected to be a significant factor. In addition, the CDFI Fund's development of PLUM, a performance-rating system, is intended to further strengthen the CDFI Fund's underwriting processes. Similarly, the type of assistance (e.g., financial assistance grant, loan, technical assistance grant) must be appropriate for the CDFI in order to maximize community development impact.

- Economy: The economy may affect the ability of CDFIs and CDEs to achieve projected levels of community development impact. In a weak economy, CDFI and CDE borrowers and investees may have more difficulty achieving their own business plan goals due to lack of demand for their products and services. In turn, they may not create as many new jobs or develop as much real estate as originally planned. Similarly, low- to moderate-income homeowners may face more challenges in meeting their mortgage payments.

  In addition to reducing the level of community development impact that CDFIs and CDEs may have, the economy may affect the sustainability of these financing entities. In a weak economy, CDFIs and CDEs may experience higher delinquency and loss rates, leading to decapitalization of their loan funds. Moreover, the availability of non-Fund capital may be reduced, as banks, foundations, and other investors tighten their investing activities. In a strong economy, when credit is more readily available, traditional financial institutions may be willing to lend to businesses or individuals they otherwise consider too risky. These businesses or individuals may be those that CDFIs and CDEs consider to be their least risky customers, resulting in CDFIs and CDEs serving even more risky customers whose community development impact may be more limited.

- Quality and Appropriateness of CDFI Fund Programs: The CDFI Fund must understand the evolving challenges facing CDFIs and have the flexibility to modify or create programs and delivery mechanisms that help CDFIs address those challenges.

STRATEGIC OBJECTIVE 1
Increase economic development in underserved communities by increasing the availability of business and commercial real estate financing.

Performance Measures

1.1 *Number of full-time equivalent jobs created or maintained in underserved communities.*[9]
1.2 *Number of businesses financed that are located in, or providing services or employment to, underserved communities.*[10]
1.3 *Square footage of commercial real estate property developed*[11] *in underserved communities.*
1.4 *Number of clients served by community facilities* [12] *located in or providing services to underserved communities.*

Means and Strategies

Economic development is one of three program areas supported by the CDFI Program, is the primary focus of the NMTC Program, and is an eligible activity under the BEA Program. It is expected that many of the CDFIs created through the NACD Program will promote economic development in Native American Communities. Economic development includes the financing of businesses, including non-profit businesses, and commercial real estate, including community facilities such as charter schools and childcare centers.

[9] Includes jobs created or maintained by businesses financed by CDFI Fund awardees. Jobs maintained are jobs at the business at the time it is financed.
[10] Includes businesses financed by CDFI Fund awardees.
[11] "Commercial real estate properties developed" is defined as the construction or substantial rehabilitation of office, retail, industrial, or community facility property. Does not include the residential portion of mixed-use property.
[12] "Community facility" is defined as a facility in which health care, childcare, educational, cultural or social services are provided. "Number of clients" is defined as the maximum annual capacity of the facility. For example, maximum number of students at a school, beds at a hospital, estimated maximum patients that can be served annually at a health clinic, child slots at a childcare center, slots at an eldercare center, etc.

STRATEGIC OBJECTIVE 2
Expand the supply and quality of housing units in underserved communities and increase homeownership in these markets by increasing the availability of housing financing.

Performance Measures

2.1 Number of housing units developed or rehabilitated in underserved communities.

2.2 Number of homebuyers in underserved markets that obtain purchase money mortgages or other home purchase financing.

Means and Strategies

Affordable housing, which includes homeownership financing as well as development of affordable rental and for-sale housing units, is one of three program areas supported by the Financial Assistance Component of the FY 2003 funding round of the CDFI Program and is an eligible activity under the BEA Program. The NMTC Program supports development of for-sale housing and mixed-use projects. In general, homeownership financing and development of rental housing are not eligible NMTC activities. It is expected that many of the CDFIs created through the NACD Program will promote homeownership and affordable housing development in Native American Communities.

STRATEGIC OBJECTIVE 3
Expand access to financial and development services for residents of underserved communities (including the "unbanked," low-income people and immigrants), and for businesses located in or serving underserved communities.

Performance Measures

3.1 Number of accounts[13] opened at insured depository institution branches that are located in underserved communities.

3.2 Number of individuals or businesses in underserved communities provided financial education, home ownership, business and other training or technical assistance that may counter predatory lending and financial services.[14]

3.3 Number of businesses and entrepreneurs provided financial counseling or other services by NMTC Program allocatees.

Means and Strategies

All CDFIs are required to provide development services to their clients; therefore, all CDFI Program awardees and CDFIs created using NACD Program awards

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[13] Consists of Electronic Transfer Accounts (for federal benefits recipients who do not have accounts with financial institutions), First Accounts (for low- and moderate-income individuals who are currently "unbanked"), Individual Development Accounts (for low-income individuals), and other checking and savings accounts.

[14] Businesses may be located in or provide services to underserved communities. This measure applies to CDFI Program awardees and BEA applicants only.

support this objective. In addition, CDFIs that are depository institutions contribute to providing financial services to underserved areas. The BEA Program contributes to this objective in several ways. Qualifying BEA activities include the direct provision of financial services (including financial education), as well as support for CDFIs that provide such services. The NMTC Program contributes to this objective through its support of financial counseling and other services to businesses in low-income communities.

STRATEGIC OBJECTIVE 4
Attract private sector capital into CDFIs and into low-income communities through CDEs.

Performance Measures

4.1 Dollars of private and non-CDFI Fund investments that CDFIs were able to leverage because of their CDFI Fund financial assistance.[15]

4.2 Dollar value of BEA applicant qualified investments that can be attributed to the prospect of receiving a BEA award.

4.3 Amount of private equity raised by CDEs through NMTC allocations

Means and Strategies

The CDFI Fund uses limited federal resources to build the capacity of CDFIs and CDEs while encouraging new private sector investment in distressed areas.

The CDFI Fund estimates that its CDFI Program Financial Assistance award dollars are leveraged 10 times by private and non-Fund dollars.[16] This leverage includes a required $1:$1 non-federal match requirement for all Financial Assistance awards, CDFIs' ability to leverage debt with Fund equity investments and grants, and project-level leverage of participating lenders' investments in transactions that CDFIs invest in.

The BEA Program is expected to leverage CDFI Fund BEA awards by $11 to $1.[17] This estimate is based on FY 2003 award percentages for CDFI-Related Activities and Finance & Service Activities, and assumes that only a portion of eligible activities are attributable to the BEA Program.

The NMTC Program is expected to leverage foregone tax revenue dollars by a ratio of at least $5 to $1, not including debt leveraged by CDEs with their NMTC Qualified Equity Investments, additional tax revenue generated by investors in

[15] For CDFIs, "leverage" is defined as the 1:1 non-federal match (as required by the Financial Assistance Component of the CDFI Program) plus debt leverage plus project-level leverage.
[16] Estimated CDFI Program Financial Assistance leverage is based on data reported in the CDFI Fund's 1996 – 2001 Annual Surveys of CDFIs.
[17] Estimated BEA Program leverage is based partially on data reported in the CDFI Fund's 2002 Annual Survey of BEA Program awardees.

CDEs that profit from their investments, and additional tax revenue generated by start-up or expansion businesses financed by CDEs.[18]

In addition to direct support through the CDFI and NMTC Programs, and indirect support through BEA, the CDFI Fund is developing other ways to bring private capital to CDFIs and CDEs. The CDFI Fund is conducting a study to explore the possibility of creating or expanding a secondary market for CDFI and CDE loans. Selling loans on the secondary market, while common among traditional lenders, is not a general practice among CDFIs. In fact, few CDFIs have engaged in loan sales to-date. If CDFI and CDE loans can be made attractive to potential investors and investors are willing to pay a reasonable price, the community development finance industry could gain a major source of private sector capital that is likely to grow with the industry's needs and reduce the need for other sources of capitalization.

The CDFI Fund's study will examine the current and future capital needs of CDFIs, and include recommendations on how the CDFI Fund can promote the secondary market for CDFI and CDE loans. The study will involve consultations with CDFIs, potential loan purchasers and others with an interest in the secondary market. A draft report is expected in the fall of 2003.

STRATEGIC OBJECTIVE 5
Build the capacity of CDFI Program awardees to serve the U.S. markets.

Performance Measures

5.1 *Percentage of CDFI Program awardees that either increased the number of products and services offered, or increased the volume of financing activities.*

5.2 *Percentage of CDFI Program awardees that increased their level of self-sufficiency.*[19]

5.3 *Percentage of CDFI Program awardees with acceptable portfolio quality.*[20]

5.4 *Percentage of Hot Zones served by CDFIs.*

Means and Strategies

The Technical Assistance Component of the CDFI Program helps CDFIs achieve each of the first three measures by offering capacity building technical assistance grants that can be used to purchase computers and software, engage in strategic planning, conduct market analyses, and train board and management.

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[18] Estimated NMTC Program leverage will be revised after the first-round NMTC Program allocates have reported on their first year of activity.

[19] "Self-sufficiency" is defined as the percentage of operating costs that are covered by earned income. Earned income does not include grants.

[20] "Portfolio quality" is defined as percentage of principal outstanding that is 90 days or more past due. The CDFI Fund defines acceptable levels of delinquency for each of a number of peer groups. Peer groups include but are not limited to credit unions, banks, business loan funds, and housing loan funds.

To increase the supply of quality training available to CDFIs, the CDFI Fund's Training Program supports the development of training curricula in subjects crucial to CDFIs. Past topics have included how to develop financial projections to help CDFIs anticipate and meet their growing capital needs, and how to conduct market analyses to help CDFIs assess and quantify the needs in their local markets so that they can design products and services to meet those particular needs. The training is available to all CDFIs and CDFIs in formation.

Through the Native American Initiatives, the CDFI Fund is administering several programs designed to provide: (1) in-depth training and networking opportunities for emerging and existing CDFIs as well as communities interested in exploring the benefits of and resource requirements involved in operating a CDFI; (2) on-site technical assistance to Native American CDFIs to develop innovative products suited to the unique circumstances of Native American Communities, and (3) on-site assistance to tribes for legal infrastructure development.

The Financial Assistance Component of the CDFI program encourages innovations in product and service design; helps awardees increase their volume of financing activities; helps CDFIs increase their levels of self-sufficiency; places high importance on portfolio quality (a key indicator of a CDFI's sustainability); and places high priority on CDFIs that – among other CDFI Fund programmatic priorities -- serve or plan to serve Hot Zones, the most economically distressed areas of the country.
It is anticipated that the CDFI Fund's PLUM performance rating system will consider each of these performance measures in its calculation of an annual PLUM score for CDFIs, and take into consideration CDFIs' improvements in these measures over time. The CDFI Fund anticipates that its PLUM Rating System will contribute to capacity building by promoting best practices among CDFIs as they strive to reach the new standards.

PRESIDENT'S MANAGEMENT AGENDA (PMA)

Treasury's final strategic goal is to "Manage Treasury resources effectively to accomplish the mission and provide quality customer service." Treasury will accomplish this goal by working effectively to implement the President's Management Agenda (PMA).

Treasury measures each bureau's status and progress in each of the five government-wide PMA initiatives, similar to that used by OMB. At the end of the second quarter of FY 2003, the Fund's ratings were as follows:

PMA Initiative	Status As of 3/31/2003	Progress As of 3/31/2003
Strategic Management of Human Capital	N/A	N/A
Competitive Sourcing	Green	Green
Improved Financial Performance	Green	Green
Expanded Electronic Government	N/A	N/A
Budget and Performance Integration	Red	Green

Treasury has determined that the initiatives relating to Human Capital and Expanded Electronic Government are not applicable to the CDFI Fund. Regarding the single initiative in which the Fund received less than a green rating – Budget and Performance Integration - the Fund has developed an action plan for moving to green. Much of this action plan focuses on the need to perform self-assessments of the Fund's major programs in conformity with the criteria developed by OMB to implement the Program Assessment and Review Tool (PART) process. The Fund has developed a timeline for performing these self-assessments for all programs. All self-assessments are to be completed by the end of FY 2008. The Fund plans on developing the methodology for performing these self-assessments by the end of FY 2004, and to perform the first self-assessment of the Native American programs during FY 2004. Results from this self-assessment will be incorporated into the FY 2006 budget request.

The other action plan items relate to:

- Developing efficiency and long-term strategic measures. The Fund plans to have this accomplished by the end of FY 2004, and to have identified targets and a system to collect the information by the end of the first quarter of FY 2005.
- Using all performance measures to inform management decisions. The Fund is in the process of developing a strategy to use the Fund's Operations Committee (comprised of senior management) as the group to which

performance measure information is reported, and for this group to make budget decisions based on this information. A strategy to accomplish this is being developed, and we plan to identify during the first quarter of FY 2004 the means to generate the needed performance information. During the third quarter of FY 2004 we plan to develop the needed information technology processes to compile and report this information.

- To accurately reflect the cost of achieving performance goals in the budget. This action item cannot be completed until the Fund has identified all program goals, which will not occur until the first quarter of FY 2004. During the second quarter of FY 2004 a methodology will be developed to allocate our costs to all measures, building on that used to allocate program management costs to our budget activities in prior budget submissions. The Fund plans to use a straw man of goals achieved during a prior quarter to see how effectively and accurate costs can be allocated to all goals.

APPENDIX A. LINKAGES BETWEEN TREASURY AND CDFI FUND STRATEGIC PLANS

<table>
<tr><td colspan="2">Treasury Strategic Goal
Promote prosperous U.S. and world economies.</td></tr>
<tr><td colspan="2">Treasury Objective
Increase economic growth and create jobs.</td></tr>
<tr><td colspan="2">CDFI Fund Strategic Goal
Improve the economic and living conditions of underserved communities[21] by providing an array of community development financing and financial services through a nationwide network of sustainable regulated and non-regulated CDFIs and CDEs.</td></tr>
<tr><td>CDFI Fund Objectives</td><td>CDFI Fund Performance Measures[22]</td></tr>
<tr><td>1. Increase economic development in underserved communities by increasing the availability of business and commercial real estate financing.</td><td>1.1 Number of full-time equivalent jobs created or maintained in underserved communities.[23]
1.2 Number of businesses financed that are located in, or providing services or employment to, underserved communities.[24]
1.3 Square footage of commercial real estate property developed[25] in underserved communities.
1.4 Number of clients served by community facilities [26] located in or providing services to underserved communities.</td></tr>
</table>

[21] "Underserved communities" include: communities that qualify as Target Markets under the CDFI Program (which include a specific geography called an Investment Area, or a specific community of people with demonstrated lack of access to credit, equity or financial services called a Targeted Population) as well as Hot Zones, the most economically distressed subset of Investment Areas; Low-Income Communities under the NMTC Program; and 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.

[22] Performance measures apply to all CDFI Program awardees, BEA Program awardees, and NMTC Program allocatees unless otherwise noted. These are collectively referred to as "Fund awardees."

[23] Includes jobs created or maintained by businesses financed by Fund awardees. Jobs maintained are jobs at the business at the time it is financed.

[24] Includes businesses financed by Fund awardees.

2. Expand the supply and quality of housing units in underserved communities and increase homeownership in these markets by increasing the availability of housing financing.	2.1 Number of housing units (including rental units) developed or rehabilitated in underserved communities. 2.2 Number of homebuyers in underserved markets that obtain purchase money mortgages or other home purchase financing.[27]
3. Expand access to financial and development services for residents of underserved communities (including the "unbanked," low-income people and immigrants), and for businesses located in or serving underserved communities.	3.1 Number of accounts[28] opened at insured depository institutions that are located in underserved communities. 3.2 Number of individuals or businesses in underserved communities provided financial education, home ownership, business and other training or technical assistance that may counter predatory lending and financial services. [29] 3.3 Number of businesses and entrepreneurs provided financial counseling or other services by NMTC Program allocatees.
4. Attract private sector capital into CDFIs and into low-income communities through CDEs.	4.1 Dollars of private and non-CDFI Fund investments that CDFIs were able to leverage because of their CDFI Fund financial assistance.[30] 4.2 Dollar value of BEA applicant qualified investments that can be attributed to the prospect of receiving a BEA award. 4.3 Amount of private equity raised by CDEs through NMTC allocations.

[25] Commercial real estate properties developed is defined as the construction or substantial rehabilitation of office, retail, industrial, or community facility property. Does not include the residential portion of mixed-use property.
[26] Community facility is defined as a facility in which health care, childcare, educational, cultural or social services are provided. Number of clients is defined as the maximum annual capacity of the facility. For example, maximum number of students at a school, beds at a hospital, estimated maximum patients that can be served annually at a health clinic, child slots at a childcare center, slots at an eldercare center, etc.
[27] Banks that are BEA Program applicants implement eligible community development activities in anticipation of receiving BEA Program awards. Therefore, regardless of whether an application is successful, the applicant will have completed eligible activities that can be attributed to the BEA Program.
[28] Consists of Electronic Transfer Accounts (for federal benefits recipients who do not have accounts with financial institutions), First Accounts (for low- and moderate-income individuals who are currently "unbanked"), Individual Development Accounts (for low-income individuals), and other checking and savings accounts.
[29] Businesses may be located in or provide services to underserved communities. This measure applies to CDFI Program awardees and BEA applicants only.
[30] For CDFIs, leverage is defined as the 1:1 non-federal match (as required by the CDFI Program) plus debt leverage plus project-level leverage.

5. Build the capacity of CDFI Program awardees to serve the U.S. markets.	5.1 Percentage of CDFI Program awardees that either increased the number of products and services offered, or increased the volume of financing activities. 5.2 Percentage of CDFI Program awardees that increased their level of self-sufficiency.[31] 5.3 Percentage of CDFI Program awardees with acceptable portfolio quality.[32] 5.4 Percentage of Hot Zones served by CDFIs.

[31] Self-sufficiency is defined as the percentage of operating costs that are covered by earned income. Earned income does not include grants.
[32] Acceptable portfolio quality is defined as a portfolio for which the percentage of principal outstanding that is 90 days or more past due is not more than a maximum threshold set by the Fund. The Fund defines maximum thresholds for each of a number of peer groups. Peer groups include but are not limited to credit unions, banks, business loan funds, and housing loan funds.

APPENDIX B. CONSULTATIONS AND STAKEHOLDERS

The following stakeholders were asked to comment on the draft strategic plan.

Association for Enterprise Opportunity
Community Development Financial Institutions Coalition
Community Development Venture Capital Alliance
Corporation for Enterprise Development
Federal Reserve Board
First Nations Development Institute
National Association of Affordable Housing Lenders
National Bankers Association
National Community Capital Association
National Community Investment Fund
National Community Reinvestment Coalition
National Congress of Community Economic Development
National Federation of Community Development Credit Unions
National Low Income Housing Coalition
National Neighborhood Coalition
National Rural Economic Developers Association
Neighborhood Reinvestment Corporation
New Markets Tax Credit Coalition
Rapoza and Associates
Woodstock Institute
Veterans Affairs/Housing and Urban Development/ Independent Agencies House Appropriations Committee
Veterans Affairs/Housing and Urban Development/Independent Agencies House Authorization Committee
Veterans Affairs/Housing and Urban Development/Independent Agencies Senate Appropriations Committee
Veterans Affairs/Housing and Urban Development/Independent Agencies Senate Authorization Committee

APPENDIX C. GLOSSARY OF TERMS

Commercial Real Estate Development - Construction, rehabilitation or acquisition of non-residential property used for office, retail, industrial or community facility purposes.

Community Development Entity - Under IRC 45D(c)(1), any domestic corporation or partnership if: (1) The primary mission of the entity is serving, or providing investment capital for, Low-Income Communities or Low-Income Persons; (2) The entity maintains accountability to residents of Low-Income Communities through their representation on any governing board of the entity or on any advisory board to the entity; and (3) The entity is certified by the Fund as a CDE. Specialized Small business Investment Companies (SSBICs) and Community Development Financial Institutions (CDFIs) are deemed to be CDEs in the manner set forth in Guidance published by the Fund (66 Federal Register 65806, December 20, 2001).

Community Facility - A facility in which health care, childcare, educational, cultural or social services are provided. 12 CFR 1805.104(j). Number of clients is defined as the maximum annual capacity of the facility. For example, maximum number of students at a school, beds at a hospital, estimated maximum patients that can be served annually at a health clinic, child slots at a childcare center, slots at an eldercare center, etc.

Hot Zone - In order to target its Financial Assistance Component resources to areas of greatest need, the Fund has classified certain geographic units as Hot Zones, which are subsets of Investment Area Target Markets. Hot Zones are classified as either Economic Development Hot Zones or Housing Hot Zones.

Metropolitan Economic Development Hot Zones are census tracts with an unemployment rate greater than or equal to 1.5 the national average; a poverty rate greater than or equal to 20 percent; a median family income less than or equal to 80 percent of the metropolitan area median income; and a minimum population of 2,500.

Non-Metropolitan Economic Development Hot Zones are counties with an unemployment rate greater than or equal to 1.5 times the national average; a poverty rate grater than or equal to 20 percent or a median family income less than or equal to 80 percent of the statewide non-metropolitan median family income or the national non-metropolitan median family income (whichever is greater); and a minimum population of 2,500.

Housing Hot Zones are metropolitan census tracts and non-metropolitan counties with a minimum population of 2,500 and either (1) median monthly rental housing cost that exceeds 30 percent of the gross monthly income of a low-income household; a poverty rate greater than or equal to 20 percent; and median family income less than or equal to 80 percent (for metropolitan census tracts), or the greater of 80 percent of the statewide non-metropolitan median family income or the national non-metropolitan median family income (for non-metropolitan areas).

Additionally, all American Indian areas and similar entities that are eligible Investment Areas but do not meet the above Hot Zone definitions are considered to be Hot Zones.

Investment Area - A geographic unit or contiguous geographic units that:
1. Is entirely located within the geographic boundaries of the United States and either:
2. Meets at least one of the criteria of economic distress as defined under 12 CFR§1805.201(b)(3)(ii)(D) and has significant unmet needs for loans, Equity Investments, or Financial Services, as described under 12 CFR§1805.201(b)(3)(iii)(E); or
3. Encompasses or is located wholly within an Empowerment Zone or Enterprise Community designated under section 1391 of the Internal Revenue Code of 1986. 12 CFR § 1805.104(cc).

Native American Community - Any Native American, Alaska Native or Native Hawaiian population, land or Census-equivalent entity, with the exception of State or Tribal Designated Statistical Areas.

Acceptable portfolio quality - A portfolio for which the percentage of principal outstanding that is 90 days or more past due is not more than a maximum threshold set by the Fund. The Fund defines maximum thresholds for each of a number of peer groups. Peer groups include but are not limited to credit unions, banks, business loan funds, and housing loan funds.

Self-Sufficiency - The percentage of operating costs that are covered by earned income. Earned income does not include grants.

Traditional Financial Institution - regulated, insured commercial banks, savings and loan associations, and credit unions.

Underserved Community - Any community that qualifies as a Target Market under the CDFI Program (which includes a specific geography called an Investment Area, or a specific community of people with demonstrated lack of access to credit, equity or financial services called a Targeted Population) as well as a Hot Zone, the most economically distressed subset of Investment Areas; Low-Income Community under the NMTC Program; and Distressed Community under the BEA Program. Many Native American Communities also qualify as underserved communities.