

THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

United States Department of the Treasury



Background and Response to the Assessment of the Community Development Financial Institution Fund (CDFI) Program and Related Activities

The Community Development Financial Institutions Fund (the CDFI Fund) was created for the purpose of promoting economic revitalization and community development through investment in and assistance to CDFIs. The CDFI Fund was established through the Reigle Community Development and Regulatory Improvement Act of 1994, as a bipartisan initiative. One of the ways in which the CDFI Fund achieves its purpose of promoting access to capital and local economic growth is through its CDFI Program by directly investing in, supporting and training CDFIs that provide loans, investments, financial services and technical assistance to underserved populations and communities.

The CDFI Fund contracted with Abt Associates, Inc. to conduct an evaluation of the Fund's CDFI Program and related activities. The Fund engaged the contractor to help identify and measure the benefits of certification and to evaluate the value of its financial assistance and technical assistance awards. It was also interested in determining the value of the CDFI Fund's training to the CDFI industry and if the CDFI Fund could play a better role in supporting CDFIs through refined program design. The evaluation results are contained in two reports entitled:

- ▶ *Assessment of the Community Development Financial Institution Fund (CDFI) Program, Training Program & CDFI Certification – Final Report*
- ▶ *Assessment of the Community Development Financial Institution Fund (CDFI) Program, Training Program & CDFI Certification – Cross Site and Case Study Report for CDFI Site Visits*

Copies of these reports can be found on the CDFI Fund's website.

In its efforts to provide a thorough program assessment and recommendations, the evaluators relied on the following five main sources of data:

- ▶ A web-based survey of CDFIs;
- ▶ In-person interviews with six sample CDFIs;
- ▶ In-depth interviews with current and former CDFI Fund staff and key external stakeholders;
- ▶ Data maintained by the CDFI Fund; and
- ▶ CDFI Fund-sponsored training material.

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The findings and recommendations in the Final Report were presented in three categories of activities and/or actions the CDFI Fund should:

- (1) Continue doing;
- (2) Consider doing more of; and
- (3) Stop or consider avoiding.

The companion report of case studies documents the historical progression of six certified CDFIs that received FA and/or TA awards. The case studies play a part of the larger analysis even though they are written as individual reports. The information in the case

studies paint a clear and detailed picture of how CDFI Fund awards have had a positive impact on the CDFIs it has made awards to and how the awards have enabled them to increase their benefits to the communities they serve.

In general, the Final Report strongly validated the need for both the CDFI Fund's financial and technical assistance programs within the CDFI industry, and confirmed that CDFI certification plays an important role in the industry other than ensuring eligibility to access the CDFI Fund's programs.

The report primarily examined data from 2000 – 2004. Since then, the CDFI Fund has made numerous changes to its programs, including its policies and procedures and the CDFI Financial Assistance/Technical Assistance (FA/TA) application. Consequently, some findings and recommendations from the Final Report have already been addressed especially those related to the application format.

Program Findings

The Final Report identified the following key findings and recommendations for the FA/TA programs:

Key Findings:

- ▶ The FA Program's greatest benefits are the flexibility of the awards and that the awards are a rare source of equity capital.
- ▶ FA awards have been clearly shown to enable CDFIs to achieve their goals compared to CDFIs that were unsuccessful in receiving an award; and
- ▶ CDFIs receiving TA awards achieved growth and success to a greater degree than CDFIs which were unsuccessful in obtaining an award.

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Key Recommendations: The Final Report recommended that the CDFI Fund should:

- ▶ Continue funding the CDFI FA and TA Programs;
- ▶ Be strategic about how best to allocate FA and TA funding;
- ▶ Consider providing FA awards in the form of grants to all types of awardees regardless of the form of the matching funds; and
- ▶ Consider revising the FA/TA application to reflect the diverse needs of CDFIs.

The CDFI Fund intends to continue offering its successful FA/TA and TA-only programs, subject to appropriations, and expects these programs will be offered in much the same form as they are currently. As a part of every program funding round, the CDFI Fund staff evaluates the successes and challenges in each round and makes changes to the policies, procedures, and/or applications to ensure the programs are implemented in a manner consistent with the CDFI Fund's statute and mission. Moreover, the CDFI Fund recently engaged an outside consulting firm to review its award making business processes to ensure that the CDFI Fund is using the most efficient practices in its awards management processes.

Certification

Regarding the certification of CDFIs by the CDFI Fund, the Final Report identified the following key findings and recommendations:

Key Findings:

- ▶ Certification has important benefits to CDFIs independent of the CDFI Fund's programs.
- ▶ CDFIs generally understand the goals of certification. There are, however, some misperceptions about the program, specifically that certification confers a safety and soundness opinion by the CDFI Fund on certified CDFIs. Such certification does not confer such an opinion.

Key Recommendations: The Final Report recommended that the CDFI Fund should:

- ▶ Continue to certify all qualified CDFIs.
- ▶ Address misperceptions about the goals of certification. Specifically, it should clarify that certification confers *no opinion* by the CDFI Fund as to whether or not a certified CDFIs is well managed.

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The CDFI Fund recognizes that CDFI certification has become a “brand” in the CDFI industry. The CDFI Fund will continue to certify all organizations that submit applications for CDFI certification, and meet the certification criteria. Prior to the completion of the Final Report, on July 1, 2007, the CDFI Fund re-established year-round applications for certification of CDFIs. On August 10, 2007, the CDFI Fund also produced its first-ever webcast devoted exclusively to training groups on how to apply for CDFI certification. Additionally, in August/September 2007, it conducted seven certification workshops around the nation.

Training

The Final Report identified the following key findings and recommendations on the CDFI Fund’s training program:

Key Findings:

- ▶ It was difficult to obtain feedback [due to outdated contact information for past training participants and the time elapsed since the trainings were conducted], on the specific previously offered CDFI Fund-sponsored trainings, but the information obtained was positive.
- ▶ Given budget constraints, impressions were mixed about the role of CDFI Fund-sponsored training going forward.

Key Recommendations: The Final Report made the following recommendations:

- The CDFI Fund should develop a strategy around training and communicate the strategy to the CDFI industry.
- If the CDFI Fund decides to offer training, it should be designed to complement and not overlap with other training currently available to the industry.
- The CDFI Fund should play a greater role in knowledge sharing among CDFIs.

In FY2008, the CDFI Fund intends to assess the training needs of the CDFI industry and the role the CDFI Fund can and should play in meeting those needs.

The CDFI Fund is pleased to make this report available to the public. It is our hope the information contained herein is relevant and useful to the field of community development finance.

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If you have comments regarding these reports, please send them to Christopher J. Stever, Certification and Training Program Manager at the CDFI Fund.

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