

## **Annual Assessment: Procedures and Criteria**

### **Overview**

Each Qualified Issuer issuing Bonds in FY 2015 or later and each Eligible CDFI participating in the CDFI Bond Guarantee Program shall have prepared annually a report or series of reports examining the participant's performance on the following criteria:

- Financial Strength
- Portfolio Management and Servicing Capability
- Management and Staffing
- Systems and Information Technology
- Internal Controls
- Program Administration (Qualified Issuers Only)
- Impact Methodology (Eligible CDFIs Only)

The Annual Assessment Report must be conducted and available for CDFI Fund review within one hundred eighty (180) days after the end of each Fiscal Year and shall be substantially performed by a vendor(s) with demonstrated experience in completing similar assessments. Pursuant to the provisions of 12 CFR 1808.619(a), Qualified Issuers and Eligible CDFIs must provide and/or maintain such financial and activity reports, records, statements, and documents at such times, in such forms, and accompanied by such reporting data, as required by the CDFI Fund to ensure compliance with the requirements of Bond Guarantee Program Regulations.

For Eligible CDFIs only, and pursuant to the Bond Loan Agreement information reporting requirements, Eligible CDFIs must notify the CDFI Fund of their selected vendor(s) at least thirty (30) days prior to such assessment, provided with a certification that the vendor(s) has/have demonstrated experience in similar assessments, and which form of assessment has been approved by the Qualified Issuer. A thirty (30) day notice is not required for assessments of the Qualified Issuer.

Although the CDFI Fund will not approve proposed vendors, participants must utilize a vendor that demonstrates it possesses the qualifications and abilities to fulfill the aspects of the assessment for which it is responsible. For each of the six (6) components identified above, the Qualified Issuer or Eligible CDFI should describe the vendor's qualifications, experience, and suitability as it relates to performing each function. For each individual component, the vendor may be a third-party entity, or the component may be performed by a Qualified Issuer if it demonstrates the appropriate qualifications, skills, abilities, and experience. A Qualified Issuer may not conduct its own assessment, however a Qualified Issuer can conduct an assessment of another Qualified Issuer.

## **Report Guidelines**

The Annual Assessment Report shall contain the following:

- Executive Summary (3–5 pages) describing applicable vendor(s) qualifications and prior experience in conducting similar assessments;
- A Summary of Findings (3–5 pages) and any recommendations for improvement;
- Responses to the checklist questions contained at the end of this document; and
- Report or set of reports examining the performance on the six (6) criteria identified above.

## **Report Quality**

Please be advised that vendor selection is critical for both Qualified Issuers and Eligible CDFIs. If the vendor does not demonstrate the appropriate qualifications, skills, abilities, and experience to perform the role(s) for which it is responsible, the CDFI Fund may take additional action including, but not limited to:

- Asking additional or clarifying questions associated with the six (6) required criteria;
- Initiating and performing enhanced monitoring activities; and
- Requesting additional materials to evaluate the Qualified Issuer's or Eligible CDFI's compliance with the Bond Guarantee Program requirements.

Further, if the Annual Assessment reports fail to adequately evaluate the participant's performance on the six (6) criteria detailed above, the CDFI Fund may request that the assessment be performed by an alternative vendor with the appropriate qualifications.

## **Evaluation Criteria**

### Financial Strength (Qualified Issuers and Eligible CDFIs)

An evaluation of the participant's financial strength and creditworthiness should include, but is not limited to, an assessment of:

- The participant's financial capacity to originate, underwrite, close, and disburse loans in a prudent manner;
- The participant's dependence on external funding sources and the participant's ability to access these funding sources over the long-term;
- Evidence that net assets, equity, or net capital are able to withstand adverse conditions;
- The Eligible CDFIs ability to pay the Bond Loan (Eligible CDFIs only); and
- Any foreseeable counterparty issues or credit concerns that may impact the participant's financial stability.

### Portfolio Management and Servicing Capability (Qualified Issuers and Eligible CDFIs)

An evaluation of the participant's portfolio management and servicing capability should include, but is not limited to, an assessment of:

- The participant's tracking of loan payments from Eligible CDFIs or Secondary Borrowers, as applicable;
- The participant's demonstrated ability to work with the Eligible CDFI, Qualified Issuer, Escrow Agent, Master Servicer/Trustee, and/or Bond Guarantee Program staff, as applicable;
- The participant's management and technological capacity to initiate collection activities on delinquent Bond Loans or Secondary Loans, as applicable;
- The participant's underwriting and approval of Secondary Loan commitments based on Secondary Loan Requirements (Eligible CDFIs Only); and
- Secondary Loan Certification forms (Eligible CDFIs only).

### Management and Staffing (Qualified Issuers and Eligible CDFIs)

An evaluation of the participant's plan for managing and staffing its operations to adequately fulfill its role in the Bond Guarantee Program should include, but is not limited to, an assessment of:

- Organizational stability, including staff retention;
- Management's capacity to carry out its role in the Bond Guarantee Program as evidenced in job descriptions and other (non-personally identifiable) data on Senior Management; and
- Any critical vacancies in the participant's management hierarchy and whether or not they are addressed in the participant's staffing plan.

### Systems and Information Technology (Qualified Issuers and Eligible CDFIs)

An evaluation of the sophistication of the participant's systems and information technology and its ability to effectively manage the complexity of a Bond Issue under the Bond Guarantee Program should include, but is not limited to, an assessment of:

- The capacity of office infrastructure and related technology to carry out the Bond Guarantee Program activities; and
- Backup and disaster recovery systems to maintain uninterrupted business operations.

### Internal Controls (Qualified Issuers and Eligible CDFIs)

Participants should engage a reputable and regionally or nationally recognized auditing firm to complete an internal controls audit. However, it is permissible to have parts of the internal controls section of the Annual Assessment Report completed by the internal controls or compliance staff of the Qualified Issuer. The organization selected to complete the internal controls assessment must have prior and demonstrated experience in performing similar work. The internal controls section of the Annual Assessment Report shall include results of tests of all applicable internal controls. The review should include, but is not limited to, an assessment of:

- Compliance with policies and procedures in reviewing and approving loans;
- Loan Servicing;
- Compliance Monitoring; and
- Portfolio Management Activities.

### Program Administration (Qualified Issuers only)

An evaluation of the Qualified Issuer's expertise and capacity in fulfilling its Program Administrator role should include, but is not limited to, an assessment of:

- The Qualified Issuer's review and approval of Secondary Loan commitments based on Secondary Loan Requirements;
- Policies and procedures for monitoring compliance of Bond and Secondary Loans;
- Policies and procedures for the preparation and submission of reports as required by the Interim Rule;
- The Qualified Issuer's Secondary Loans Certification form review process and a review of supporting documentation;
- Collateral management process;
- The process for reviewing Requisitions and compiling Advance Request Forms; and
- The Qualified Issuer's tracking of payments and release of funds.

### Impact Methodology (Eligible CDFIs only)

An evaluation of the Eligible CDFI's impact methodology should include, but is not limited to:

- An assessment of the evaluation design and data sources used to draw conclusions; and
- A comparison of outcomes defined by program participants before and after bond guarantee program intervention.



**U.S. Department of the Treasury: CDFI Fund**

<b>Evaluation Criteria<sup>1</sup></b>	<b>Yes</b>	<b>No</b>
Is the organization on target in its lending and investment activities in accordance with its most recent Capital Distribution Plan?	<input type="checkbox"/>	<input type="checkbox"/>
Per 12 CFR 1808.302(f), have 100 percent of the principal amount of Guaranteed Bonds currently disbursed and outstanding been used to make loans to Eligible CDFIs for Eligible Purposes?	<input type="checkbox"/>	<input type="checkbox"/>
Is the organization current on all applicable licenses and Errors and Omissions Insurance certificates?	<input type="checkbox"/>	<input type="checkbox"/>
Has the organization experienced any changes in senior management or key personnel associated with the CDFI Bond Guarantee Program? (If yes, please provide an updated copy of the organization chart.)	<input type="checkbox"/>	<input type="checkbox"/>
Has the organization identified any actual or perceived conflicts of interest that could arise from performing its designated role in the CDFI Bond Guarantee Program?	<input type="checkbox"/>	<input type="checkbox"/>
Have there been any significant modifications to the following policies/procedures since the most recent quarterly review: credit/loan underwriting, closing requirements, ethics/conflict of interest, portfolio monitoring/asset management, and internal controls? (If yes, please provide an updated copy of the applicable policies and procedures.)	<input type="checkbox"/>	<input type="checkbox"/>
Has the organization experienced a Material Event, as defined in the Bond Loan Agreement, since the most recent quarterly report?	<input type="checkbox"/>	<input type="checkbox"/>
Has the organization experienced an Event of Default, as defined in the Bond Loan Agreement, or due and unsatisfied liability with respect to any obligations to the Guarantor, the Bond Purchaser, the Internal Revenue Service, or any other instrumentality of the U.S. government since the most recent quarterly report?	<input type="checkbox"/>	<input type="checkbox"/>
Has a Statement on Standards for Attestation Engagements No. 16 been performed on your organization during the last 12 months? (If yes, please provide a copy.)	<input type="checkbox"/>	<input type="checkbox"/>
Has a Single Audit (OMB A-133 audit) been performed on your organization during the last 12 months? (If yes, please provide a copy.)	<input type="checkbox"/>	<input type="checkbox"/>

<sup>1</sup> All capitalized terms in this checklist have definitions ascribed to in the Bond Loan Agreement and the Agreement to Guarantee.

