

Coalition of Community Development Financial Institutions Policy Memo

The CDFI Fund's Fiscal Year 2005 Awards for the Bank Enterprise Award Program

November 2005

The Bank Enterprise Award (BEA) program provides incentives for banks and thrifts to increase their community development lending and investing. Banks may qualify for an award by making equity investments in and providing other types of support to CDFIs, and/or increasing their loans and services in distressed communities beyond their current levels.

On August 5, the CDFI Fund awarded \$9,896,213 to 53 banks through the FY 2005 funding round of the BEA program.

BEA Award Summary Comparison – Last Four Rounds¹				
	FY 2005	FY 2004	FY 2003	FY 2002
Total Allocated (in dollars)	\$4,000,000	\$17,010,000	\$17,000,000	\$16,500,000
Total Number of Awards	53	49	75	81
Total Amount Awarded (in dollars)	\$9,896,213	\$17,007,562	\$13,881,938	\$23,017,603
Average Award (in dollars)	\$186,721	\$347,093	\$185,093	\$284,168

Bank Enterprise Award Program Structure

In contrast to most federal grant programs, the BEA program rewards banks for actions they have already completed. An applicant for a Bank Enterprise Award must first report on its community development activities during a baseline period. Then, the BEA applicant submits evidence that it has increased its community development activities in the period of time that follows – the assessment period. Applicants receive credit and are ranked on the basis of the increase in their community development activities relative to their asset size under the following categories:

- 1) CDFI Related Activities (investing in certified CDFIs)
- 2) Direct Community Financing (providing direct financing to distressed communities)
- 3) Service Activities (providing financial services in distressed communities)

¹ The Total Dollars Allocated is derived from the Notice of Funds Availability (NOFA). The Allocation only reflects the CDFI Fund's preliminary assessment of funding availability. Often, the amount in the NOFA will be adjusted as the legislative budgetary process unfolds.

Applicants receive the most credit toward a Bank Enterprise Award for their community development activities under the first category: CDFI Related Activities. An applicant's direct community financing is accorded secondary importance by the Fund in keeping with the statutory mandate that CDFI related activities receive first priority. An applicant's service activities receive the least credit toward a Bank Enterprise Award. Within each of the three categories of qualifying activities, banks calculate an estimated BEA award amount based on a percentage of the dollar amount of increased activity during the Assessment Period compared to the Baseline Period. Within the financing and service categories, activities are given additional weighting based on the type of financing. In this way, the Fund can place additional emphasis on certain high impact activities such as financing home mortgages or small business loans.

In determining awards under the BEA program, the CDFI Fund may also consider the asset size of the applicant, whether the applicant is a certified CDFI, or other factors that are published in the Notice of Funds Availability (NOFA) and may change from one BEA round to another.²

The BEA program is designed to offer banks incentives to increase their community development activities in ways that go well beyond what institutions would do in the normal course of business or to meet the requirements of the Community Reinvestment Act.

Changes from the FY 2003-2004 BEA Program to the FY 2005 BEA Program

The main difference between the FY 2003-2004 BEA Notice of Funds Availability (NOFA) and the most recent FY 2005-2006 NOFA (published in the Federal Register on September 9, 2004) is the estimated amount of funds available. In the 2003 NOFA, approximately \$17 million was set aside for Fiscal Year (FY) 2003 and \$8 million for FY 2004.³ The Fund awarded a total of approximately \$31 million in the FY 2003-2004 funding rounds. The FY 2005 NOFA set aside approximately \$4 million in FY 2005 and \$6 million in FY 2006. Ultimately, the appropriations process for FY 2005 (finished after the release of the NOFA) stipulated not less than \$10 million be awarded under the BEA program in FY 2005.

The BEA application deadline for FY 2005 was February 14, 2005. The Baseline Period and Assessment Dates in this NOFA required a 12-month comparison period, beginning from January 1 through December 31.

The most significant rule change in the FY 2005 BEA program was the substantial increase in the maximum dollar limit for a Qualified CDFI Related Activity. The FY 2005 NOFA states, "In no event shall the value of a Qualified Activity for purposes of determining a BEA Program award exceed \$10 million in the case of Commercial Real Estate Loans or any CDFI Related Activities." In the FY 2003-2004 NOFA, the value of a Qualified Activity for determining a BEA Program award under the CDFI Related Activities category could not exceed \$1 million.

² Follow this link for the text of the FY 2005 Notice of Funds Availability for the Bank Enterprise Award program. http://www.cdfifund.gov/docs/bea/2005/BEA_NOFA05.pdf

³ In the NOFA covering the FY 2003 and FY 2004 rounds of the BEA program that was published in the February 4, 2003 Federal Register, the Fund announced that it expected to fund \$17 million in awards in FY 2003 but only \$8 million in FY 2004. After the FY 2003 BEA awards had been announced but before applications were due for the FY 2004 round, the Fund revised its expectations of awards to \$17 million in FY 2004.

**More Applicants Requested Larger BEA Awards in FY 2005
Than in Previous Years, Despite Fewer Available Grant Dollars.**

Historical Demand for Bank Enterprise Awards							
Fiscal Year	Number of Applicants	Number of Awards	Percentage of Applicants Receiving Awards	Average Size of Awards	Amount Requested (Total-in millions)	Amount Available (Total-in millions)	Amount Awarded (Total-in millions)
1996	54	38	70.37%	\$344,740	\$13.50	\$15.50	\$13.10
1997	74	55	74.32%	\$307,820	\$40.00	\$16.25	\$16.93
1998	104	79	75.96%	\$355,700	\$61.00	\$25.00	\$28.10
1999	138	103	74.64%	\$308,740		\$25.00	\$31.80
2000	229	165	72.05%	\$292,120	\$113.00	\$25.00	\$48.20
2001	239	139	58.16%	\$331,650	\$130.00	\$30.00	\$46.10
2002	115	81	70.43%	\$283,950	\$53.00	\$16.50	\$23.00
2003	75	75	100.00%	\$185,070	\$13.88	\$17.00	\$13.88
2004	66	49	74.24%	\$347,140	\$25.00	\$17.01	\$17.01
2005	84	53	63.10%	\$186,720	\$49.00	\$10.00	\$9.90

Prior to FY 2005, the number of BEA applicants and the size of the award they applied for had been closely correlated to the total amount of dollars allocated to the program. Accordingly in FY 2001 when the most money was available for BEA awards, the Fund received the highest number of applications requesting the largest amount of money.

Although the \$9.9 million awarded in FY 2005 was the lowest amount ever awarded in the history of the program, the number of applicants (84) and the amount requested (\$49.0 million) exceeded 4 prior rounds.

Furthermore, the average dollar amount request increased compared to FY 2003 and FY 2004. In FY 2005, the average request increased to \$583,000 from \$378,000 in FY 2004. This increase, despite fewer available grant dollars, may be attributable to the increase in the maximum limit for Qualifying Activities under the CDFI Related Activities category (from \$1 million in FY 2003-04 to \$10 million in FY 2005). With the increase in the maximum limit for CDFI Related Qualifying Activities, traditional banks with greater asset size probably determined that their chances of obtaining a BEA award in FY 2005 were higher than in the two previous years. Despite the program's design that advantages CDFI banks, the increase in the CDFI Related Activities maximum limit made the likelihood of success under the BEA Program much better in FY 2005 for non-CDFI banks, attracting larger dollar requests from traditional banks with greater asset sizes.

Another factor influencing the FY 2005 BEA round was the Fund's signaling in the NOFA that they intended to reduce the maximum award amount from \$1.5 million to \$0.5 million, while also expressing the caveat that awards could exceed the maximum amount, if warranted. The Fund adopted this lower cap in order to spread limited award funds over a larger number of applicants.

The BEA Program Remains Highly Popular and Oversubscribed; Some Qualified Applicants Do Not Receive Awards.

Since its inception, the BEA program has been oversubscribed, and in most years has run short of grant dollars before funding all qualified applicants. Thus, in FY 2005, the CDFI Fund “ran out of money” again before making awards to all qualified applicants. Only 63.1% of applicants to the program received awards. Just as in FY 2004, the FY 2005 funding round did not award any non-CDFI banks for their Distressed Community Financing or Service Activities.

In FY 2004 and FY 2005, non-CDFI banks only received awards for their investments in CDFIs. Although awards to non-CDFI banks have been decreasing since FY 1999 as the CDFI industry has grown and more CDFI banks participate in the BEA program, FY 2005 represents a significant restoration in award dollars to non-CDFI banks compared to their experience in FY 2004.

Total Awards to Non-CDFI Banks				
	FY 2005*	FY 2004*	FY 2003	FY 2002
Total Amount Awarded (in millions)	\$4.51**	\$1.7**	\$7.1	\$11.8**
Percentage of Total Dollar Awards	45.6%	10%	51%	51%
Number of Non-CDFI Awardees	39	31	65	61
Average Dollar Award	\$116,000	\$55,000	\$109,000	\$193,000

*Based on a 12-month baseline and assessment period

** Non-CDFI banks only received awards for their investments in CDFIs.

If appropriations to the CDFI Fund and the dollars allocated to the Bank Enterprise Award program continue to drop in future years, the participation of non-CDFI banks is likely to recede given the higher award percentages and preference for funding given to CDFI bank applicants.

The Average Size of a Bank Enterprise Award Decreased Significantly in FY 2005.

In FY 2005, the average amount awarded to a BEA recipient was \$186,721 compared to \$347,093 in FY 2004, a decrease of nearly 50%. This is likely the result of two factors: in FY 2005, the soft cap on awards was lowered to \$0.5 million from \$1.5 million in the FY 2003-2004 round of awards and in FY 2005 there were fewer available grant dollars overall, which impacted the award totals. In the FY 2005 NOFA, the CDFI Fund notes, “In some cases, the actual award amount calculated by the Fund may not be the same as the estimated award amount requested by the applicant.” In part, the disparity arises due to determining actual award amounts based on the availability of funds. With fewer available funds, the overall award amounts are likely to decrease.

CDFI Banks Compete Successfully for Bank Enterprise Awards.

The Fund awarded 14 certified CDFI banks a total of \$5,387,241 in BEA dollars during the FY 2005 funding round. The CDFIs’ award total comprised 54.4% of all dollars awarded during the FY 2005 round. While this percentage is a substantial decline from FY 2004 when an

unprecedented 90.2% of all award dollars went to CDFI banks, the FY 2003, FY 2002, and FY 2001 rounds all awarded approximately 47% of award dollars on average to banks certified as CDFIs.

Total Awards to CDFI Banks				
	FY 2005*	FY 2004*	FY 2003	FY 2002
Total Amount Awarded (in millions)	\$5.39	\$15.35	\$6.77	\$11.20
Percentage of Total Dollar Awards	54.4%	90.2%	48.8%	48.7%
Number of CDFI Awardees	14	18	10	20
Average Dollar Award	\$385,000	\$853,000	\$677,000	\$560,000

*Based on a 12-month baseline and assessment period

An Applicant’s Asset Size is a Significant Factor in Competing for a Bank Enterprise Award.

The BEA program evaluation process somewhat favors banks with smaller asset sizes. Applicants are ranked in each category according to the ratio of their actual award amount to their asset size. Therefore, larger banks have to increase their investments by larger real amounts in order to receive awards. The \$10 million cap on qualifying CDFI Related Support introduced in FY 2005 has made it somewhat less difficult for large banks to compete for BEA dollars. Nevertheless, in FY 2005, 46 awards (or 86.8%) were made to institutions with less than \$10 billion in assets and 7 awards (or 13.2%) were made to institutions with greater than \$10 billion in assets.

In FY 2005, banks of larger asset size received a larger percentage of the total award dollars than in FY 2003-2004. With greater qualifying dollar amounts, the corresponding qualifying awards for larger banks also increased. 14 awardees took advantage of the increased maximum limit and submitted Qualifying CDFI Related Activities to the CDFI Fund in excess of the previous \$1 million cap.

Performance of Different Size Banks Under the BEA Program				
	2005 Awards		2004-2003 Awards	
	Award Dollars (in millions)	Percentage of Total Award Dollars	Award Dollars (in millions)	Percentage of Total Award Dollars
Awardees With Less Than \$10 Billion in Assets	\$7.6	76.7%	\$28.4	92.0%
Awardees With Greater Than \$10 Billion in Assets	\$2.3	23.3%	\$2.5	8.0%

Awards for CDFI Related Activities increased in FY 2005.

As seen in the chart below, the significant decreases in awards for CDFI Related activities seen in FY 2003 and FY 2004 were reversed in FY 2005. This change is probably due to the increase in the maximum allowable amount for qualifying activities under the CDFI Related Support

category. Six CDFI awards resulted from an awardee's support of other CDFIs under the CDFI Related Activities category and nine CDFI awardees received an award for increases under the Distressed Community Financing Activities category.⁴

Awards to All Types of Banks for CDFI Related Activity				
	FY 2005	FY 2004	FY 2003	FY 2002
Total Amount Awarded (in millions)	\$5.9	\$3.3	\$2.5	\$19.8
Percentage of Total Award Dollars	59.6%	19.4%	18.0%	86.0%
Dollar Increase in Qualifying CDFI Related Support (in millions)	\$73.0	\$33.9	\$28.3	\$130.0
Number of CDFI Partners	90	61	37	114
Number of Applicants	84	66	75	115

The percentage of award dollars going to non-CDFIs for CDFI Related Activity reverted back to levels consistent with FY 2002 after a precipitous decline in FY 2003 and FY 2004. The percentage of total awards to non-CDFI banks for CDFI Related activity has remained fairly consistent over the last four rounds. FY 2004 saw a slight decrease in the percentage of awards to mainstream bank CDFI Related Activity, but this decrease is mitigated when the FY 2003 and FY 2004 rounds are considered together (applicants could only apply in one of the two rounds).

Awards to Non-CDFI Banks for CDFI Related Activity				
	FY 2005	FY 2004	FY 2003	FY 2002
Total Amount Awarded (in millions)	\$4.51	\$1.7	\$1.7	\$11.8
Percentage of Total Awards Dollars	45.6%	9.7%	12%	51%
Number of Awardees	39	31	54	61
Percentage of Total Awardees	73.6%	63.3%	72.0%	75.3%

Conclusion

The goal of the Bank Enterprise Award program is to increase the community development activities of our nation's banks and thrifts beyond what they would do in the normal course of business. The BEA program has been helpful in establishing or strengthening relationships between mainstream banks and CDFIs in their market area; it has also helped banks reach more deeply into the low-wealth communities they serve. At different points in the program's history, shifting CDFI Fund priorities have caused CDFI banks or their mainstream counterparts to enjoy greater success rates in their applications to the BEA program. In FY 2005, a balance seems to have been achieved where both types of institutions successfully accessed the program.

Unfortunately, potential applicants to the program must increasingly consider the limited pool of BEA dollars made available in any one year. If the overall grant making budget of the CDFI Fund remains as low as it was in FY 2005 or drops even lower, applicants may be discouraged from participating in the BEA program at all given the uncertainty of success and the likelihood that the amount of any individual BEA award would be smaller than in the past.

⁴ One CDFI awardee, Neighborhood National Bank, received an award for providing financial assistance to other CDFIs and distressed community services.