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Report to the Ranking Member, Committee on Banking, Housing, and Urban Affairs, U.S. Senate

December 2022

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

Analysis of Annual and Emergency Assistance and Treasury Efforts to Address Program Risks

GAO-23-105952

GAO Highlights

Highlights of GAO-23-105952, a report to the Ranking Member, Committee on Banking, Housing, and Urban Affairs, U.S. Senate

Why GAO Did This Study

Access to credit and capital is vital to economic development but is limited in many low- and moderate-income communities underserved by traditional financial institutions. The economic effects of the COVID-19 pandemic have further stressed these communities, which often rely on CDFIs and MDIs—generally smaller, community-based organizations—for financial products and services.

The Consolidated Appropriations Act, 2021, appropriated $188 million to Treasury's existing CDFI Program and supplemental programs. It also appropriated $12 billion in emergency assistance for three new Treasury programs designed to help CDFIs and MDIs respond to the impacts of COVID-19, most of which has been awarded. Two of the new programs required Treasury to award funds expeditiously.

GAO was asked to assess Treasury's distribution of funds, efforts to ensure program integrity, and the use of Treasury's funding. This report examines (1) the types of institutions that received funds from the CDFI Program or the 2021 emergency programs and how much they received, (2) how recipients have used CDFI Program and Rapid Response Program funds, and (3) steps Treasury took to address risks posed by the emergency programs.

To conduct this work, GAO analyzed Treasury data, reviewed Treasury policies and procedures, and interviewed Treasury officials.

View GAO-23-105952. For more information, contact William B. Shear at (202) 512-8678 or ShearW@gao.gov.

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What GAO Found

Community development financial institutions (CDFI) and minority depository institutions (MDI) provide financial services to underserved communities. The Department of the Treasury assists eligible institutions through annual CDFI Program awards. Treasury received additional funds in 2021 for three COVID-19-related assistance programs—Rapid Response Program, Emergency Capital Investment Program, and Equitable Recovery Program (see table). GAO found that awards for the first two of these programs were larger than typical CDFI Program awards, which had a median of $400,000 in fiscal year 2021.

Status of Awards from Treasury's Emergency Assistance Programs for Community Development Financial Institutions and Minority Depository Institutions

Program	Amount appropriated	Status	Primary recipients (percentage of all recipients)	Median award
Rapid Response Program	$1.25 billion	Fully disbursed	Loan funds (54%); credit unions (28%)	$1.83 million
Emergency Capital Investment Program	$9.00 billion	$8.28 billion disbursed as of Sept. 21, 2022	Banks, savings associations, and holding companies (57%); credit unions (43%)	$29.94 million
Equitable Recovery Program	$1.75 billion	Not yet awarded	Not applicable	Not applicable

Source: GAO and Department of the Treasury. | GAO-23-105952

GAO's analysis of CDFI Program and Rapid Response Program data found that recipients have used awards mainly to provide financial products and to increase reserves. Financial products provided by CDFI Program recipients in fiscal years 2016–2020 mainly funded home purchases, businesses, and microenterprises.

Treasury took steps to address potential risks to program integrity created by aspects of the emergency programs. For example:

- **Risk-based application reviews.** Treasury allowed higher-risk institutions to be eligible for the Rapid Response Program and the Equitable Recovery Program to be inclusive of institutions from more communities (e.g., those with low levels of bank deposits). To address potential risks, Treasury's process called for additional reviews of such applicants.
- **Ability-to-pay requirement.** The Emergency Capital Investment Program requires recipients to pay Treasury dividends or interest in exchange for a capital investment. To help ensure recipients can pay the amounts due, Treasury required institutions to have at least a 1-to-1 ratio of net income to the dividend or interest amount to be eligible for an investment.

Treasury is also developing a risk-based process for reviewing Rapid Response Program and Equitable Recovery Program recipients and is finalizing policies for post-award reporting and award monitoring for the Emergency Capital Investment Program. These efforts are intended to monitor whether the funds are being used as intended.

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Abbreviations

ACR	Annual Certification and Data Collection Report
AMFI	area median family income
AMIS	Awards Management Information System
CAMEL	capital adequacy, asset quality, management, earnings, liquidity/asset-liability management
CAMELS	capital adequacy, asset quality, management, earnings, liquidity, sensitivity to market risk
CDFI	community development financial institution
Census ACS	Bureau of the Census American Community Survey
ECIP	Emergency Capital Investment Program
ERP	Equitable Recovery Program
MDI	minority depository institution
OIG	Office of Inspector General
RRP	Rapid Response Program
TLR	Transaction Level Report
Treasury	Department of the Treasury
USDA	U.S. Department of Agriculture

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December 21, 2022

The Honorable Pat Toomey
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

Dear Mr. Toomey:

Access to credit and capital is vital to economic development but is limited in many low- and moderate-income communities underserved by traditional financial institutions. These communities often rely on community development financial institutions (CDFI) and minority depository institutions (MDI) for financial products and services. CDFIs include community development banks, credit unions, and nonregulated institutions such as loan and venture capital funds. They are certified by the Department of the Treasury and have a primary mission of promoting community development. MDIs are generally regulated banks or credit unions primarily owned by one or more minority individuals, or institutions that serve a predominantly minority community and whose board of directors and account holders are comprised primarily of minorities.[1]

The communities CDFIs and MDIs serve were further stressed by the economic effects of the COVID-19 pandemic. In response, Congress enacted provisions in the Consolidated Appropriations Act, 2021, that provide assistance to CDFIs and MDIs. The act appropriated $188 million to Treasury's existing CDFI Program (and supplemental programs) and $12 billion in emergency assistance for three new Treasury programs designed to help CDFIs and MDIs respond to the impacts of COVID-19.[2] The CDFI Program, which receives annual appropriations, was created in 1994 and offers competitive financial and technical assistance awards to qualified CDFIs to support and enhance their ability to meet community needs.[3] The three emergency programs are the Rapid Response

[1]Throughout this report, we use the term minority for consistency with language used by agencies, programs, and statutes within the scope of this report.

[2]Pub. L. No. 116-260, div. E, 134 Stat. 1182, 1383 (2020); Pub. L. 116-260, div. N, §§ 522, 523, 134 Stat. 1182, 2079 (2020).

[3]Riegle Community Development and Regulatory Improvement Act of 1994, Pub. L. No. 103-325, §§ 101-121, 108 Stat. 2160, 2163.

Program (RRP), Equitable Recovery Program (ERP), and Emergency Capital Investment Program (ECIP).[4] RRP and ECIP required Treasury to make grants to or capital investments in CDFIs and MDIs on an expedited basis.

You asked us to examine Treasury's distribution of funds to CDFIs and MDIs—including steps to ensure emergency program integrity—and to evaluate the use and impact of program awards. This report examines (1) the types of institutions that received funds from the CDFI Program or the 2021 emergency programs and how much they received, (2) how recipients have used CDFI Program and RRP funds, and (3) steps Treasury took to address risks posed by the emergency programs. Additionally, appendix I discusses the extent of and findings from research on the economic impact of the CDFI Program and emergency programs, and it presents demographic and socioeconomic analysis of CDFI Program recipients and project locations.

For objective 1, we analyzed Treasury data on awards and award recipients under the CDFI Program (for fiscal years 2019–2021), RRP, and ECIP.[5] For the CDFI Program, we began with fiscal year 2019 data because certain earlier data were unreliable for the analysis we performed. For objective 2, we analyzed data that CDFI Program recipients reported to Treasury from fiscal year 2016 through June 30, 2022, and data that RRP recipients reported from the program's inception through June 30, 2022, on the general categories of activities they funded with their awards. Additionally, for the CDFI Program, we analyzed Treasury data on all of the loans and investments recipients made in fiscal years 2016–2020, regardless of funding source. To assess the reliability of Treasury's data, we reviewed Treasury documentation and conducted electronic testing, including checks for outliers, missing data fields, and erroneous values. We determined these data were sufficiently reliable for purposes of characterizing program recipients, award amounts, and uses of funds.

For objective 3, we reviewed Treasury's policies and procedures for the emergency programs. We identified potential program risks by examining

[4]Treasury refers to RRP as CDFI RRP and to ERP as CDFI ERP. Treasury also refers to ECIP award recipients as ECIP participants. For ease of presentation, we shorten the program abbreviations and use the term recipient for all of the programs.

[5]Fiscal year 2021 was the most recent year for which CDFI Program data were available when we conducted our analysis. The data for RRP and ECIP cover awards from funds appropriated in fiscal year 2021, the only year in which those programs received funds.

program eligibility and targeting requirements, recipient selection processes, and post-award financial terms and reporting requirements. We also compared the policies and procedures for the emergency programs to those for the CDFI Program to identify streamlined processes that could introduce risks to program integrity. We reviewed agency documentation and interviewed Treasury officials to determine whether and how Treasury addressed the risks we identified. Additionally, we reviewed documentation describing Treasury mechanisms to help prevent fraud, waste, and abuse in the emergency programs. Because the emergency programs were in the early stages of implementation, we did not evaluate the extent to which Treasury's approach aligned with leading practices for fraud risk management. We also reviewed information on Treasury's assessment of improper payment risks. Finally, we reviewed Treasury Office of Inspector General (OIG) reports on the emergency programs and Treasury documentation of steps taken to address OIG recommendations. Appendix II describes our scope and methodology in greater detail.

We conducted this performance audit from March 2022 to December 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

CDFIs and MDIs

CDFIs are financial institutions that seek to expand economic opportunity in low-income communities by providing access to financial products and services for local residents and businesses that otherwise may not be accessible. For example, they may provide mortgage financing for low-income and first-time homebuyers or financing for not-for-profit affordable housing developers. Treasury's CDFI Fund certifies CDFIs that meet seven statutory and regulatory criteria.[6] CDFIs can be regulated institutions (such as banks) or nonregulated institutions (such as venture capital funds). They can also be for-profit or nonprofit institutions and can be funded by private and public sources. Institutions generally must be certified CDFIs to be considered for CDFI Fund program awards.[7]

MDIs generally are regulated banks, savings associations, or credit unions primarily owned by one or more minority individuals, or that serve a predominantly minority community and whose board of directors and account holders are comprised primarily of minorities. Like CDFIs, MDIs typically serve economically challenged communities traditionally underserved by the banking industry and other businesses.

CDFI Program and Emergency Programs

The negative effects of the COVID-19 pandemic—including job losses and business closures—were felt especially hard in lower-income communities in which CDFIs and MDIs often operate. In the Consolidated Appropriations Act, 2021, Congress provided annual appropriations for the existing CDFI Program and emergency funding for new programs aimed at helping CDFIs and MDIs respond to the impact of COVID-19.[8] As shown in table 1, Congress appropriated $188 million for the CDFI Program and supplemental programs, and divided $12 billion in emergency assistance among three new programs administered by Treasury. Specifically, Congress appropriated $1.25 billion for RRP, $1.75 billion for ERP, and $9 billion for ECIP. The CDFI Program, RRP, and ERP are administered by Treasury's CDFI Fund, while ECIP is

[6]The CDFI Fund was established by the Riegle Community Development and Regulatory Improvement Act of 1994, Pub. L. No. 103-325, § 104, 108 Stat. 2160, 2166. To be certified by the CDFI Fund, an institution must (1) be a legal entity; (2) have a primary mission of promoting community development; (3) serve principally an investment area or targeted population; (4) be an insured depository institution, or make loans or development investments as its predominant business activity; (5) provide development services (such as technical assistance or counseling) in conjunction with its financing activity; (6) maintain accountability to its target market; and (7) be a nongovernmental entity.

[7]Two types of entities that are not yet certified CDFIs are eligible to receive technical assistance awards through the CDFI Program or Native American CDFI Assistance Program: (1) Emerging CDFIs are noncertified entities that demonstrate in their award applications that they have an acceptable plan to meet CDFI certification requirements by the end of the award period of performance or another date that the CDFI Fund selects. (2) Sponsoring entities are legal organizations that primarily serve Native communities and plan to create a separate legal entity that will become a certified CDFI primarily serving Native communities by a date specified in the award assistance agreement.

[8]Pub. L. No. 116-260, 134 Stat. 1182, 1383 (2020); Pub. L. 116-260, div. N, §§ 522, 523, 134 Stat. 1182, 2079 (2020).

administered by the Office of Community and Economic Development within Treasury's Office of Financial Institutions.

Table 1. Information on Selected Treasury Programs for Community Development Financial Institutions (CDFI) and Minority Depository Institutions (MDI)

Name	Fiscal year 2021 appropriation	Award type	Eligible entities	Purpose
CDFI Program and supplemental programs	$188 million[a]	Loans, grants, equity investments, credit union shares	Certified CDFIs and certain emerging CDFIs with a plan to become certified	Provides financial and technical assistance to CDFIs to invest in and build their capacity and to drive community revitalization.
Rapid Response Program	$1.25 billion	Grants	Certified CDFIs	Provide grants to support CDFIs in their response to the economic impact of the COVID-19 pandemic.
Equitable Recovery Program	$1.75 billion	Grants	Certified CDFIs doing business in certain geographic areas	Provides grants to expand lending, grant making, and investment activity in low- or moderate-income communities and to borrowers, including minorities, that have significant unmet capital or financial services needs and who were disproportionately impacted by the COVID-19 pandemic. Restricted to CDFIs with a track record of working in areas disproportionately affected by COVID-19.[b]
Emergency Capital Investment Program	$9 billion	Capital investments	Certified CDFIs or MDIs	Provides direct and indirect capital investments to support efforts to provide loans, grants, and forbearance for small and minority-owned businesses and consumers, especially in underserved communities that may be disproportionately impacted by the COVID-19 pandemic.

Source: GAO analysis. | GAO-23-105952

[a]The $188 million includes $165 million for the CDFI Program and two of its supplemental programs, Persistent Poverty Counties and Disability Funds, and $23 million for another supplemental program, the Healthy Food Financing Initiative. This amount does not include funding provided for the Native American CDFI Assistance Program, which is similar to the CDFI Program and received $16.5 million.

[b]We use the term minority for consistency with agency, program, and statute language.

Community Development Financial Institutions Program. The CDFI program provides financial assistance and technical assistance awards that CDFIs may use for a number of designated activities. The awards can take several forms, including grants and loans. Financial assistance awards support CDFI activities, such as offering financial products, financial services, and development services, or supplementing loan loss reserves or capital reserves. Most financial assistance awards require institutions to match the amounts with funds from a source other than the federal government.[9] In addition to base financial assistance, the CDFI Program has supplemental programs that provide financial assistance for specific purposes, such as the Healthy Food Financing Initiative.[10] Institutions have 3 full fiscal years in which to use the funds.

Technical assistance awards are grants that support capacity-building activities of CDFIs, such as compensating staff, purchasing equipment, and providing training to staff. Emerging CDFIs that are not yet certified by the CDFI Fund are eligible for certain technical assistance awards. CDFIs must use the funds within 2 full fiscal years of receipt.

Through the CDFI Fund's Native American CDFI Assistance Program, financial assistance and technical assistance awards are available to CDFIs, emerging CDFIs, and sponsoring entities that seek to increase access to financial products and services in Native Communities and create and expand Native CDFIs.[11]

Rapid Response Program. RRP provides grants that CDFIs can use for both financial and capacity-building activities.[12] The Consolidated Appropriations Act, 2021, required Treasury to make these funds available within 60 days of enactment. As of June 15, 2021, Treasury had fully disbursed its appropriation of $1.25 billion. CDFIs must use the funds within 2 full fiscal years after the award announcement.

Equitable Recovery Program. Like RRP, ERP provides grants that CDFIs may use for both financial and capacity-building activities, but

[9]Native CDFIs receiving awards through the CDFI Program and the Native American CDFI Assistance Program are exempt from the matching funds requirement. The Consolidated Appropriations Act, 2021, also waived the matching funds requirement for small and emerging CDFIs and for CDFIs receiving awards through the Healthy Food Financing Initiative.

[10]The Healthy Food Financing Initiative provides flexible financial assistance and specialized training and technical assistance to CDFIs that invest in a range of retail and nonretail healthy food projects serving low-income communities, including food production, grocery stores, mobile food retailers, farmers markets, cooperatives, corner stores, bodegas, and others.

[11]Native CDFI is the official term Treasury uses to refer to CDFIs that help Native American communities increase their access to credit, capital, and financial services. To qualify as a Native CDFI, 50 percent or more of an institution's activities must be directed to a Native community.

[12]Recipients may spend the greater of $200,000 or 15 percent of the grant on capacity-building activities.

eligibility is limited to certified CDFIs that provide services in areas of the country that Treasury designated as disproportionately affected by COVID-19.[13] The application period for awards closed on September 22, 2022, and as of October 2022, Treasury was reviewing applications. CDFIs will have 5 fiscal years in which to spend the funds.

Emergency Capital Investment Program. ECIP provides long–term capital investments in federally insured depository institutions, bank or savings and loan holding companies, and federally insured credit unions in exchange for preferred stock or subordinated debt issued to Treasury. Recipients pay Treasury dividends or interest for the period of the investment, beginning after the first 2 years. The maximum dividend or interest rate is 2 percent of Treasury's investment per year, but this amount may be lowered if the participating institution increases its lending to certain target markets above a baseline.[14] The rate is recalculated each year until the 10th year after the investment, at which point the rate is fixed. The Consolidated Appropriations Act, 2021, required Treasury to begin accepting applications within 30 days of enactment. Treasury began accepting applications on March 4, 2021, a little more than a month past the January 26, 2021, deadline. As of September 21, 2022,

[13]Recipients may spend the greater of $166,667 or 15 percent of the grant, up to $400,000, on capacity-building activities. Additionally, there are restrictions on the amount of the award that may be used on certain financial activities. Recipients may also use funds to provide grants.

[14]Specifically, the dividend or interest rate will be 1.25 percent of Treasury's investment per year if the institution increases its qualified lending by 200–400 percent of the investment above the baseline, or 0.5 percent of Treasury's investment per year if the institution increases its qualified lending by more than 400 percent of the investment above the baseline. The baseline is the dollar amount of qualified lending the institution originated during the 12-month period ending September 30, 2020.

Treasury provided $8.28 billion in investments. ECIP investments were available to both CDFIs and MDIs that were not certified as CDFIs.[15]

Banks and Other Institutions Received Emergency Program Awards That Were Larger than Annual CDFI Program Awards

Recipient Institutions Were Mostly Loan Funds, Banks, and Credit Unions of Varying Sizes

For the period we examined, CDFI Program, RRP, and ECIP recipients were mostly loan funds, credit unions, and banks, although the proportion of organization types varied by program.[16] Variation among the programs is partially attributable to the different program eligibility criteria and purposes. Our analysis covered institutions that received fiscal year 2019–2021 awards from the CDFI Program and institutions that received RRP and ECIP awards.

CDFI Program recipients. According to available Treasury certification information, CDFI Program recipients from fiscal years 2019 through

[15]For ECIP, an MDI is an institution that is: (1) A “minority depository institution,” as defined in section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (12 U.S.C. 1463 note). A depository institution satisfies this definition if it is (a) a privately owned institution, 51 percent of which is owned by one or more socially and economically disadvantaged individuals; (b) a publicly owned institution, 51 percent of the stock of which is owned by one or more socially and economically disadvantaged individuals; or (c) a mutual institution of which the majority of the board of directors, account holders, and the community which it services is predominantly minority (defined by statute as Black American, Native American, Hispanic American, or Asian American). (2) An institution considered to be an MDI by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, or the National Credit Union Administration, as applicable.

[16]For data analysis purposes, we use the term CDFI Program to include institutions that received financial or technical assistance awards from the CDFI Program or the Native American CDFI Assistance Program, as well as those that received supplemental assistance awards for the Healthy Food Financing Initiative or Persistent Poverty Counties.

2021 were mostly loan funds and credit unions (see table 2).[17] Given data availability limitations, our analysis included 503 recipients, or about 68 percent. For all years combined, about 62 percent of these 503 recipients were loan funds, and about 24 percent were credit unions. Banks, thrifts, and bank holding companies accounted for about 13 percent of recipients, while venture capital funds represented about 1 percent.

Table 2: Number and Types of Organizations with Available Data That Received CDFI Program Awards, Fiscal Years 2019–2021

	Bank holding company	Bank or thrift	Credit union	Loan fund	Venture capital fund	Total
Number	59	4	122	312	6	**503**
Percentage	11.7%	0.8%	24.3%	62.0%	1.2%	**100%**

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Notes: For our analysis, we matched Treasury's fiscal year 2019–2020 certification data to Community Development Financial Institutions (CDFI) Program awards data for fiscal years 2019–2021. Because of the unavailability of fiscal year 2021 certification data and because not all CDFIs who received awards were required to submit these data, this analysis includes the approximately 68 percent of recipients for which data were available.

The data in the table include institutions that received financial or technical assistance awards from the CDFI Program or the Native American CDFI Assistance Program, as well as those that received supplemental assistance awards for the Healthy Food Financing Initiative or Persistent Poverty Counties.

About 10 percent (48) of the CDFI Program recipients from fiscal years 2019 through 2021 with available data were Native CDFIs. Like the wider population of award recipients, Native CDFI recipients were largely loan funds (about 85 percent) or credit unions (about 8 percent).

As shown in table 3, the assets, revenue, and number of full-time equivalent staff of CDFI Program recipients during fiscal years 2019 through 2021 with available data varied widely. Assets ranged from $19,670 to about $11 billion. Revenue ranged from $366 to about $527

[17]Fiscal year 2021 CDFI certification data were not yet available when we conducted our analysis. For our analysis, we matched Treasury's fiscal year 2019–2020 certification data to CDFI Program awards data for fiscal years 2019–2021. Our analysis does not capture all recipients because of the unavailability of fiscal year 2021 certification data and because not all CDFIs that received awards in fiscal years 2019–2021 were required to submit annual certification data (e.g., emerging CDFIs). Our analysis includes the 68 percent of recipients for which data were available.

million. Some CDFI Program awards, such as technical assistance awards, required that institutions have no more than $250 million in total assets.[18] The number of full-time equivalent staff ranged from 0 to 1,831.[19]

Table 3: Assets, Revenue, and Full-Time Equivalent Staff for Fiscal Year 2019–2021 CDFI Program Recipients with Available Data

	Minimum	Maximum
Assets	$19,670	$10,534,613,558
Revenue	$366	$527,105,640
Full-time equivalent staff[a]	0	1,831

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Notes: For our analysis, we matched Treasury's fiscal year 2019–2020 certification data to Community Development Financial Institutions (CDFI) Program awards data for fiscal years 2019–2021. Because of the unavailability of fiscal year 2021 certification data and because not all CDFIs who received awards were required to submit these data, this analysis includes the approximately 68 percent of recipients for which data were available.

The data in the table include institutions that received financial or technical assistance awards from the CDFI Program or the Native American CDFI Assistance Program, as well as those that received supplemental assistance awards for the Healthy Food Financing Initiative or Persistent Poverty Counties.

[a]It is possible that recipients that reported zero full-time equivalent staff were operated by part-time employees or volunteers whose total work hours were less than one full-time equivalent, which Treasury defines as at least 35 hours per week.

For additional information about fiscal year 2019–2021 CDFI Program recipients, including information on their primary lines of business and services provided, see appendix III.

Rapid Response Program recipients. The 863 RRP recipients were primarily loan funds (about 54 percent) or credit unions (about 28 percent), as shown in table 4. Banks and thrifts accounted for 16 percent of recipients, while other types of organizations each represented 1 percent of recipients or less. RRP recipients were required to be certified CDFIs. About 6 percent of RRP recipients (56) were Native CDFIs.

[18]Certain technical assistance applicants must have lower asset amounts. For example, venture capital funds seeking technical assistance awards must have no more than $5 million in total assets.

[19]Recipients that reported zero full-time equivalent staff could have been operated by part-time employees or volunteers whose total work hours were less than one full-time equivalent, which Treasury defines as at least 35 hours per week.

Table 4: Number and Types of Organizations That Received Rapid Response Program Awards

	Bank holding company	Bank or thrift	Credit union	Loan fund	Venture capital fund	Total
Number	12	137	243	463	8	**863**
Percentage	1.4%	15.9%	28.2%	53.7%	0.9%	**100%**

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Note: According to Treasury officials, the number of organizations in certain categories differ slightly from the CDFI Fund's June 15, 2021 award announcement because of subsequent changes in recipient institution type or certification status. Percentages do not add to 100 because of rounding.

Emergency Capital Investment Program recipients. All 162 ECIP recipients that have received investments as of September 21, 2022, were either banks, savings associations, holding companies, or credit unions (see table 5). The higher concentration of banks, holding companies, and credit unions among ECIP recipients compared to RRP or the CDFI Program reflects ECIP's narrower eligibility criteria. ECIP applicants were required to be low- and moderate-income community financial institutions in good standing with their respective federal regulators, whereas CDFI Program and RRP applicants were not required to be federally regulated financial institutions.[20] Most ECIP recipients were CDFIs (about 68 percent). MDIs comprised about 15 percent of recipients, and the remainder (about 17 percent) were both CDFIs and MDIs.

Table 5: Number and Types of Organizations That Received Emergency Capital Investment Program Awards

	Bank, savings association, or holding company	Credit union	Total
Number	92	70	**162**
Percentage	56.8%	43.2%	**100%**

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

As shown in table 6, the assets of ECIP recipients covered a broad range—from about $1 million to about $14 billion—and were about $335 million at the median. Under the Consolidated Appropriations Act, 2021, the maximum investment each institution could receive was a percentage of its asset size, with a maximum of $250 million per institution. The dollar

[20]Eligibility for the CDFI Program and RRP was open to certified CDFIs that were bank holding companies, banks or thrifts, credit unions, depository institution holding companies, loan funds, or venture capital funds. Eligibility for ECIP was open to federally insured depository institutions, bank or savings and loan holding companies, and federally insured credit unions.

value of the instruments recipients proposed to provide to Treasury usually matched or were greater than the maximum ECIP award for an institution.

Table 6: Emergency Capital Investment Program Recipient Assets

Minimum	25th percentile	Median	75th percentile	Maximum
$1,402,073	$150,038,000	$334,518,500	$666,398,000	$13,815,569,290

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Institutions Received Large Emergency Awards Compared with Annual CDFI Program Awards

Treasury received larger appropriations for the emergency programs, which were intended to address the effects of COVID-19, compared to the CDFI Program's annual appropriations. Partly for this reason, RRP grant awards and ECIP capital investments were higher than historical CDFI Program awards. Additionally, Treasury officials cited the nature of ECIP awards—capital investments that may support long-term growth—as an important distinction in comparing award sizes across programs.

As shown in table 7, the median awards for both RRP and ECIP—about $1.8 million and $30 million, respectively—were substantially larger than the median awards historically provided under the CDFI Program. From fiscal years 2019 through 2021, the median CDFI Program award ranged from a low of $400,000 (fiscal year 2021) to a high of $565,000 (fiscal year 2019).

Table 7: Award Amounts for CDFI Program (Fiscal Years 2019–2021), Rapid Response Program (RRP), and Emergency Capital Investment Program (ECIP)

Fiscal year	Program	Minimum	25th percentile	Median	75th percentile	Maximum[a]
2019	CDFI Program[b]	$37,500	$217,000	$565,000	$714,000	$2,000,000
2020	CDFI Program	$100,000	$125,000	$520,000	$657,000	$2,750,000
2021	CDFI Program	$40,000	$125,000	$400,000	$625,000	$4,250,000
	RRP	$200,000	$1,105,000	$1,826,265	$1,826,265	$1,826,265
	ECIP	$38,000	$7,375,000	$29,936,500	$70,923,000	$250,000,000

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

[a]The CDFI Program data provide information on individual financial assistance, technical assistance, or Healthy Food Financing Initiative awards from the CDFI Program or the Native American CDFI Assistance Program. The financial assistance award amounts include any Persistent Poverty Counties funds received by the institution.

[b]The maximums in this column for the CDFI Program reflect those for the CDFI Program's Healthy Food Financing Initiative, which provides awards to CDFIs that invest in a range of retail and nonretail healthy food projects serving low-income communities. The maximums for the Healthy Food Financing Initiative are generally higher than the CDFI Program's and Native American CDFI

Assistance Program's maximum award amounts for financial or technical assistance. For example, the Healthy Food Financing Initiative's maximum award amount in 2021 was $5 million, whereas the CDFI Program's maximum base award for financial assistance was $1 million.

Among the three programs, ECIP had the largest maximum award ($250 million), followed by the CDFI Program ($4.25 million for fiscal year 2021), and RRP (about $1.8 million).[21] In RRP, the median and maximum awards were the same, meaning that many applicants received the maximum award.

ECIP awards varied most widely, reflecting diversity in the size of institutions that applied for capital investment. As stated previously, a recipient's asset size factored into the maximum investment amount provided to recipients.

Some Institutions Received Both Emergency and Regular Program Awards

In some cases, CDFIs received awards from both the CDFI Program and one or both of the emergency programs (see table 8). Over 60 percent of the 453 institutions that received fiscal year 2021 CDFI Program awards also received an RRP award, which is to be expected given that the universe of eligible institutions is similar between programs (i.e., certified CDFIs). About 11 percent of the CDFI Program recipients also received an ECIP award, and about 6 percent received both RRP and ECIP awards.

Table 8: Number of CDFIs that Received a Combination of Fiscal Year 2021 CDFI Program, Rapid Response Program (RRP), or Emergency Capital Investment Program (ECIP) Awards

Programs	Number of institutions that received awards
CDFI Program (total)	453
CDFI Program and RRP	292
CDFI Program and ECIP	48
CDFI Program, RRP, and ECIP	27

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Note: The data in the table include institutions that received financial or technical assistance awards from the Community Development Financial Institutions (CDFI) Program or the Native American CDFI Assistance Program, as well as those that received supplemental assistance awards for the Healthy Food Financing Initiative or Persistent Poverty Counties.

[21]The maximums for the CDFI Program reflect those for the Healthy Food Financing Initiative—a component of the CDFI Program—which provides awards to CDFIs that invest in a range of retail and non-retail healthy food projects serving low-income communities. The maximum award amounts for this component are generally higher than the CDFI Program's maximum award amounts for both base financial assistance awards and technical assistance awards.

Among the institutions that received a fiscal year 2021 CDFI Program award and one or more emergency program awards, the median emergency program award was larger than the median CDFI Program award, as follows:

- For institutions that received both CDFI Program and RRP awards, the median award was $525,000 for the CDFI Program and about $1.8 million for RRP.
- For institutions that received both CDFI Program and ECIP awards, the median award was $525,000 for the CDFI Program and about $32 million for ECIP.
- For institutions that received awards from all three programs, the median award was $590,000 for the CDFI Program, about $1.8 million for RRP, and about $16 million for ECIP.

Recipients Used CDFI Program Funds Largely for Financial Products and Reserves, and Availability of Borrower Data Varies

Institutions that received funding from the CDFI Program or RRP have mainly used their awards to provide financial products, like loans and investments, and to increase their capital reserves and loan loss reserves. For the CDFI Program specifically, data on all of the financial products recipients provided—using program funding or not—show that these products primarily funded microenterprise, home purchases, and business purposes. However, some data on the characteristics of the borrowers of these loans were unavailable.

CDFI Program and Rapid Response Program Awards Have Largely Funded Financial Products and Reserves

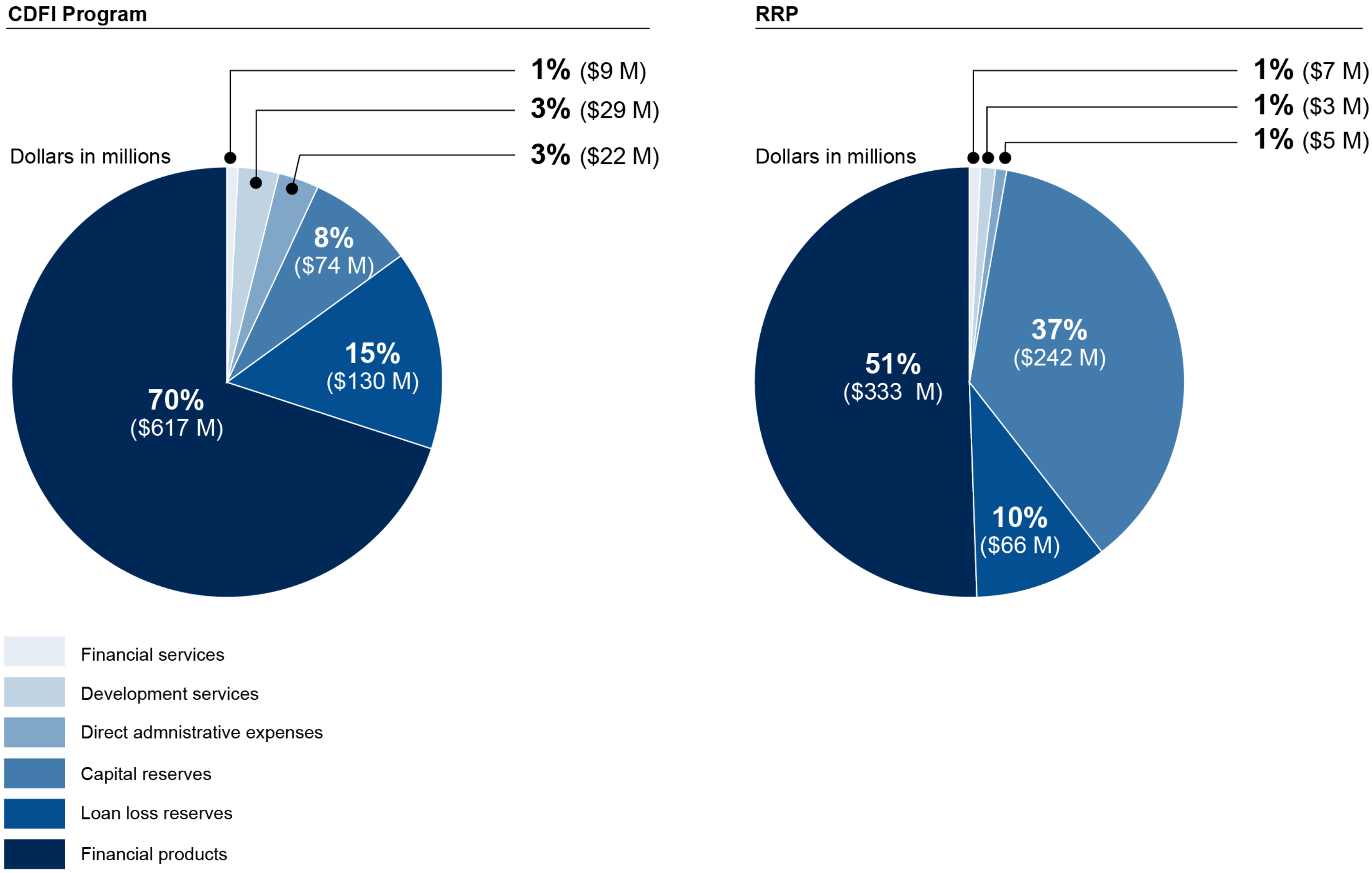
The CDFI Fund collects data from institutions on the general types of activities its CDFI Program and RRP awards funded. Institutions report the dollar amount of the award that they spent on activities in each of a predefined set of categories. This set of categories differs for financial assistance awards and technical assistance awards.[22] For the CDFI Program, the analyses reflect spending recipients reported to Treasury from fiscal year 2016 to June 30, 2022. For RRP, which began in June 2021, the data reflect spending recipients reported from the program's inception through June 30, 2022.

Financial assistance. For both the CDFI Program and RRP, institutions reported spending the majority of their financial assistance awards on financial products, such as loans and investments (see fig. 1). However, the share of awards that went toward financial products was larger for the CDFI Program (about $617 million, or 70 percent) than for RRP (about $333 million, or 51 percent). Meanwhile, RRP recipients spent a larger share of their awards on capital reserves (about $242 million, or 37 percent) than CDFI Program recipients did (about $74 million, or 8 percent). CDFI Program recipients spent slightly more of their awards on loan loss reserves (15 percent, compared to 10 percent for RRP recipients).[23]

[22]Institutions can receive an award from the CDFI Program for either financial assistance or technical assistance, but not both, in the same funding round. Financial assistance awards must be used for activities in six specific categories (such as providing financial products or services), while technical assistance awards must be used for activities in a different set of seven categories (such as staff compensation or travel costs). In contrast, RRP awards can be used for activities in any of these financial or technical assistance categories. However, there is a limitation on how much of the RRP award can be spent on the seven categories associated with CDFI Program technical assistance awards (recipients may spend up to $200,000 or 15 percent of their grant, whichever is greater, on activities in the seven categories). In this section, we use the term "financial assistance awards" to refer to both financial assistance awards from the CDFI Program and reported spending by RRP recipients in the financial assistance categories. Likewise, "technical assistance awards" refers to both technical assistance awards from the CDFI Program and reported spending by RRP recipients in the technical assistance categories.

[23]The capital reserves category includes funding set aside to support recipients' ability to leverage other capital, for purposes such as increasing net assets or providing financing. The loan loss reserves category includes funding set aside to cover losses on loans, accounts, and notes receivable or for related purposes. For both programs, only regulated institutions are eligible to spend program funding in the capital reserves category, as well as the financial services category. For RRP, recipients of awards greater than $200,000 are required to meet certain benchmarks for the amount of money they provide in financial products during the program's period of performance. These benchmarks are tied to the size of the award they receive.

Figure 1: Uses of Financial Assistance from the CDFI Program (Fiscal Year 2016 to Reports Received by June 30, 2022) and Rapid Response Program (RRP) (Reports Received by June 30, 2022)



Legend:
M = million

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Note: The graphic on the left includes data from institutions that received financial assistance awards from the Community Development Financial Institutions (CDFI) Program, but not those that received awards from the Native American CDFI Assistance Program or the CDFI Program's supplemental programs, such as the Healthy Food Financing Initiative.

Additionally, over time, CDFI Program recipients spent a smaller share of their award dollars on providing financial products (about 77 percent in fiscal year 2016, compared to 64 percent in fiscal year 2021) and a larger share on bolstering their capital reserves (4 percent in fiscal year 2016 versus 14 percent in fiscal year 2021).[24]

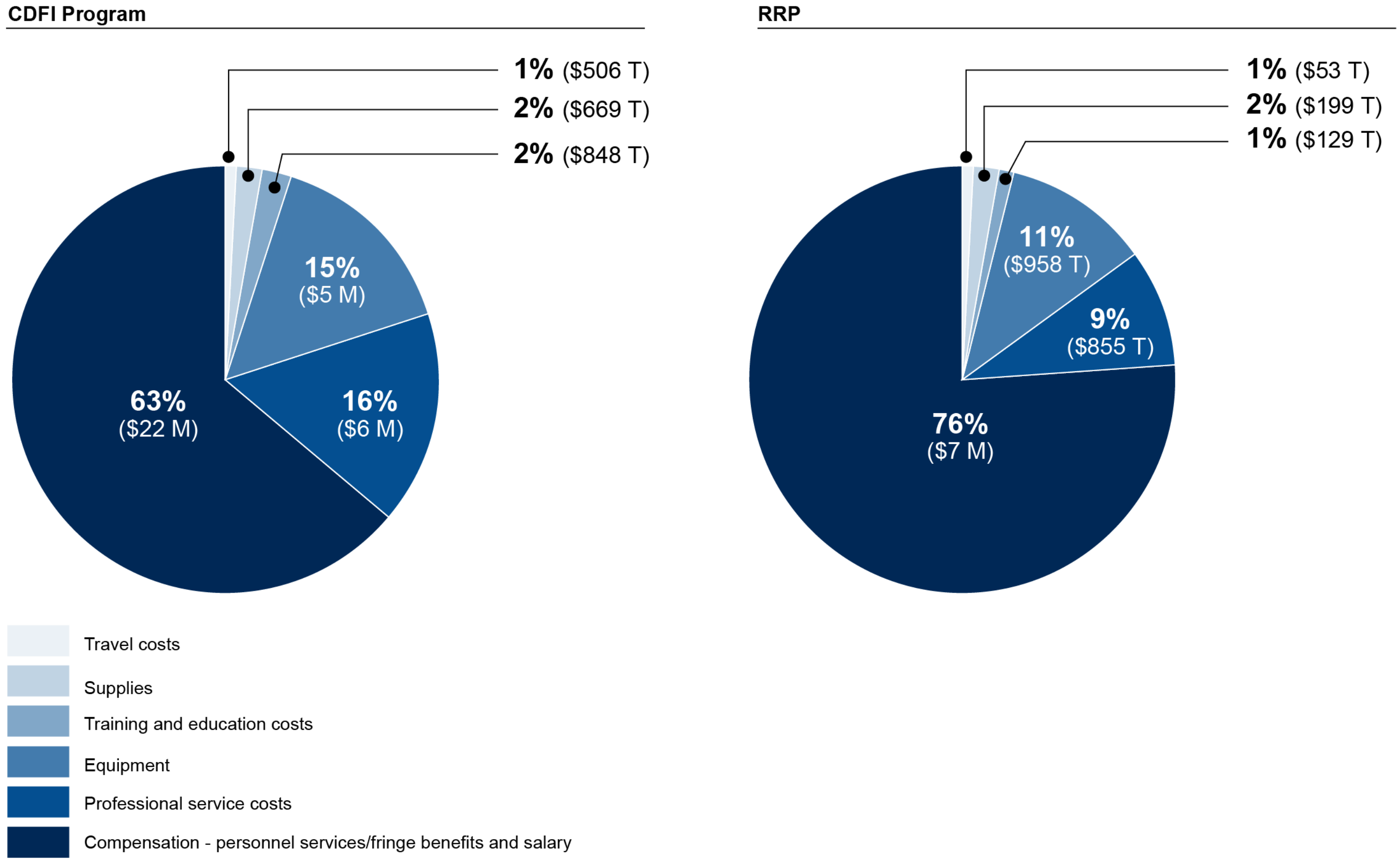
For both programs, recipients spent small shares (about 1 to 3 percent) of their awards on the categories of financial services, such as providing checking or savings accounts; development services, such as providing financial or credit counseling, homeownership counseling, or business planning and management assistance; and direct administrative expenses.

Technical assistance. As shown in figure 2, both CDFI Program and RRP recipients reported spending the majority of their technical assistance awards on staff compensation, although the proportion was higher for RRP (76 percent, or about $7 million) than for the CDFI Program (63 percent, or about $22 million).[25] Compared to RRP recipients, CDFI Program recipients spent somewhat larger shares of their technical assistance awards on professional services (16 percent versus 9 percent) and equipment (15 percent versus 11 percent). Recipients of both programs spent small amounts (about 1 to 2 percent each) on supplies, training and education, and travel.

[24]CDFIs report data according to their institution's own fiscal year, which differs across institutions. We grouped reports by the calendar year in which they end, regardless of the exact dates they cover.

[25]Our analysis combined two categories—salary and personnel services/fringe benefits—into a single category for staff compensation.

Figure 2: Uses of Technical Assistance from the CDFI Program (Fiscal Year 2016 to Reports Received by June 30, 2022) and Rapid Response Program (RRP) (Reports Received by June 30, 2022)



Legend:
M = million, T = thousand

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Note: The graphic on the left includes data from institutions that received technical assistance awards from the Community Development Financial Institutions (CDFI) Program, but not those that received awards from the Native American CDFI Assistance Program.

Recipients Made Loans of Varying Size and Number, and Mostly for Microenterprise, Home Purchases, and Business Purposes

The CDFI Fund requires institutions receiving financial assistance from the CDFI Program to submit data annually on all of the transactions (such as loans and investments) they make.[26] These data do not specify which transactions resulted directly from CDFI Program awards, but instead reflect institutions' lending activity as a whole. However, the data provide insight into the types of financial products that program dollars helped to support.[27]

As shown in table 9, the number of transactions CDFIs reported making per year varied widely across institutions, ranging from just one to tens of thousands.[28] From fiscal years 2016 through 2020, the average (mean) annual number of transactions per CDFI was 523, while the median number of transactions was 53. The table shows that the mean and maximum number of transactions increased sharply between fiscal years 2016 and 2017. This is because of one particular CDFI that submitted data for fiscal year 2017 and each year thereafter. This CDFI, which was active in 19 communities as of 2021, made a much greater number of transactions than any other recipient and is responsible for the maximum values displayed in the table from fiscal years 2017 through 2020.

[26]Recipients of RRP awards are also required to submit such data; however, these data were not yet available when we conducted our analyses. In addition, the data we analyzed do not include any consumer loans made by banks or credit unions. (Consumer loans are defined as personal loans made for health, education, emergency, credit repair, debt consolidation, or other consumer purposes, excluding loans made for home purchase, home improvement, or business purposes.) This is because banks and credit unions report such data separately, aggregated at the census tract level, rather than reporting each individual transaction.

[27]Treasury officials said they do not ask program recipients to report which transactions were funded using program dollars. The officials said they do not have an operational need for this information, given that institutions can achieve the CDFI Program's performance goals and measures using any funds on their balance sheets.

[28]Treasury officials said they follow up with CDFIs that reported fewer than 10 transactions to confirm that the data are complete. They noted that some CDFIs are small institutions that only make a small number of loans per year.

Table 9: Number of Transactions Made by Institutions Receiving Financial Assistance from the CDFI Program, Fiscal Years 2016–2020

Fiscal year	Mean	Minimum	25th percentile	Median	75th percentile	Maximum
2016	159	1	15	41	106	4,269
2017[a]	558	1	15	48	162	82,703
2018	539	1	21	56	229	84,472
2019	559	1	18	51	209	98,453
2020	680	1	19	68	379	81,185
2016–2020	523	1	18	53	200	98,453

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Note: The data in the table include institutions that received financial assistance awards from either the Community Development Financial Institutions (CDFI) Program or the Native American CDFI Assistance Program. The data do not include consumer loans made by banks or credit unions because data on such loans are reported separately, aggregated at the census tract level.

[a]The reason for the large increase in the number of transactions from 2016 to 2017 is the inclusion of one particular CDFI that reported a much larger number of transactions than any other institution. This CDFI submitted data for fiscal years 2017–2020. The number of transactions it reported is shown in the maximum column for fiscal years 2017–2020. The second-highest number of transactions reported by any CDFI each year was much smaller—7,730 in fiscal year 2017, 6,723 in fiscal year 2018, 7,385 in fiscal year 2019, and 10,889 in fiscal year 2020.

The dollar amount of transactions also varied greatly, ranging from $5 to tens of millions of dollars.[29] However, as table 10 shows, most transactions were for amounts in the thousands or tens of thousands of dollars. From fiscal years 2016 through 2020, the average transaction made by CDFI Program and Native American CDFI Assistance Program recipients was for about $86,000, while the median was for $7,700. The table also shows the effect of the CDFI that reported a large number of transactions beginning in fiscal year 2017. From fiscal years 2017 through 2020, this CDFI's transactions accounted for between 30 and 60 percent of the total transactions from all institutions. The transactions reported by this CDFI were for very small amounts, so its inclusion in the data has the effect of reducing the mean, 25th percentile, median, and 75th percentile amounts from fiscal years 2017 through 2020, as compared to fiscal year 2016.

[29]Treasury officials said they follow up with CDFIs to confirm the accuracy of the data if the amounts reported are less than $10 or more than $10 million. They noted that many of the small amounts are correct, since some CDFIs provide loans of small amounts that are intended to help borrowers build credit. However, in a few cases, CDFIs reported transactions of $0 or $1. Treasury said these amounts are usually lines of credit for which the data reporters could not locate the credit limit, so we excluded these 181 transactions from our analysis.

Table 10: Dollar Amount of Transactions Made by Institutions Receiving Financial Assistance from the CDFI Program, by Fiscal Year, 2016–2020

Fiscal year	Mean	Minimum[a]	25th percentile	Median	75th percentile	Maximum
2016	$104,215	$44	$5,000	$20,906	$80,495	$50.0 million
2017[b]	$63,851	$5	$2,000	$3,500	$21,836	$22.4 million
2018	$80,970	$7	$2,500	$5,500	$58,000	$20.6 million
2019	$83,614	$6	$2,700	$7,000	$70,000	$31.8 million
2020	$98,741	$11	$3,800	$15,970	$96,000	$57.5 million
2016–2020	$85,646	$5	$2,675	$7,700	$66,000	$57.5 million

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Note: The data in the table include institutions that received financial assistance awards from either the Community Development Financial Institutions (CDFI) Program or the Native American CDFI Assistance Program. The data do not include consumer loans made by banks or credit unions because data on such loans are reported separately, aggregated at the census tract level.

[a]A few CDFIs reported transactions with dollar amounts of $0 or $1. Treasury said these amounts are usually lines of credit for which the data reporters could not locate the credit limit, so we excluded these 181 transactions from our analysis. For other transactions with small amounts, Treasury said that these amounts are correct, noting that some CDFIs provide loans of small amounts that are intended to help borrowers build credit.

[b]The reason for the decrease in the mean, 25th percentile, median, and 75th percentile between fiscal years 2016 and 2017 is the inclusion of one CDFI that reported a much larger number of transactions than any other institution. This CDFI submitted data for fiscal years 2017–2020. It reported many small loans, which had the effect of reducing the dollar amounts shown in the mean, 25th percentile, median, and 75th percentile columns.

For each transaction they made, institutions reported whether the borrower was an individual, a business, or another certified CDFI.[30] From fiscal years 2016 through 2020, about two-thirds of transactions went to businesses, one-third to individuals, and less than 1 percent to CDFIs (see table 11). The high number of transactions contributed by the CDFI discussed previously—which only lends to businesses—resulted in a shift beginning in fiscal year 2017. Businesses made up less than one-half of all borrowers in fiscal year 2016, compared to about two-thirds or more in every year thereafter. However, in all 5 years, a majority of transaction dollars went to businesses, with over $43 billion going to businesses across the full period, compared to $29 billion to individuals.[31]

[30]Businesses include both for-profit and nonprofit entities, as well as other entities, such as tribal or village governments.

[31]The data do not include any consumer loans made by banks or credit unions. Since consumer loans are loans to individuals, the actual number and dollar amount of transactions that were made to individuals is greater than these data indicate.

Table 11: Types of Borrowers Served by Institutions Receiving Financial Assistance from the CDFI Program, Fiscal Years 2016–2020

	Number and percentage of transactions made to each borrower type		
Fiscal year	**Individuals**	**Businesses**	**CDFIs**
2016	22,189 (56%)	17,393 (44%)	45 (0.1%)
2017	34,518 (25%)	103,852 (75%)	101 (0.1%)
2018	59,058 (33%)	120,761 (67%)	137 (0.1%)
2019	74,710 (35%)	140,892 (65%)	151 (0.1%)
2020	98,529 (36%)	173,272 (64%)	106 (0.0%)
2016–2020	**289,004 (34%)**	**556,170 (66%)**	**540 (0.1%)**

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Notes: The data in the table include institutions that received financial assistance awards from either the Community Development Financial Institutions (CDFI) Program or the Native American CDFI Assistance Program. The data do not include consumer loans made by banks or credit unions because data on such loans are reported separately, aggregated at the census tract level.

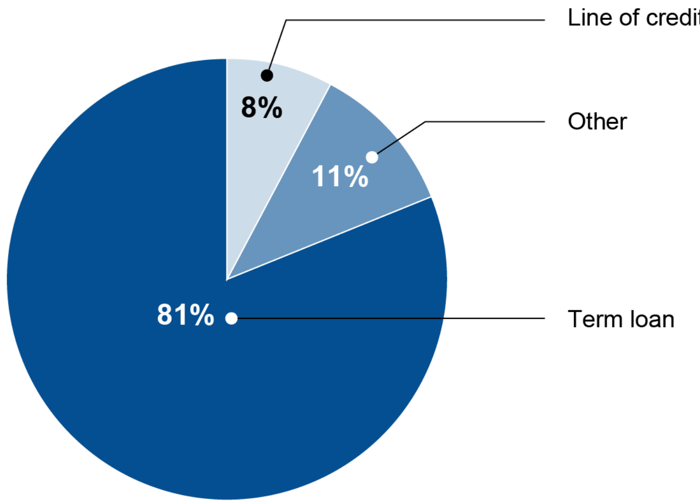
Percentages may not add to 100 because of rounding.

Term loans accounted for 81 percent of all transactions from fiscal years 2016 through 2020, making them the most frequent type of financial product institutions provided (see fig. 3). Lines of credit comprised another 8 percent, while products categorized as “other” made up about 11 percent.[32] Equity investments, debt with equity, loan guarantees, loan loss reserves, and capital reserves comprised less than 1 percent of transactions collectively.[33]

[32]The CDFI that reported a very large number of transactions contributed many of those categorized as “other.” When excluding this organization from the data, “other” transactions accounted for a smaller share (2 percent instead of 11 percent), and lines of credit made up a larger share (14 percent instead of 8 percent).

[33]The loan guarantee, loan loss reserve, and capital reserve categories were not available as answer choices on the data reporting form in fiscal years 2016–2017. The CDFI Fund’s guidance to institutions defines the transaction types as follows: A term loan is for a specific amount and has a specified repayment schedule and a fixed or floating interest rate; an equity investment is money invested in a company by the CDFI in exchange for the ownership shares of that company; a line of credit is an arrangement that establishes the maximum loan amount the customer can borrow; debt with equity is a loan with an agreement stipulating that it may be converted to an equity upon meeting specified conditions; and a loan guarantee is a loan agreement where the CDFI is a guarantor. The final two types involve the CDFI’s use of the financial assistance award from Treasury: In a loan loss reserve, the CDFI uses the award to reserve for expected losses (e.g., because of uncollected loan payments), and in a capital reserve, the CDFI uses the award to leverage the loan.

Figure 3: Types of Transactions Made by Institutions Receiving Financial Assistance from the CDFI Program, Fiscal Years 2016–2020



Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Notes: The data in the figure include institutions that received financial assistance awards from either the Community Development Financial Institutions (CDFI) Program or the Native American CDFI Assistance Program. The data do not include consumer loans made by banks or credit unions because data on such loans are reported separately, aggregated at the census tract level. The following transaction types are not shown in the figure because, together, they accounted for less than 1 percent of transactions: equity investment, debt with equity, loan guarantee, loan loss reserve, and capital reserve. The latter three categories were unavailable in fiscal years 2016–2017.

Table 12 provides the total dollar amount of transactions that institutions made in each category from fiscal years 2016 through 2020, as well as the percentage of total dollars in each category.

Table 12: Total Dollar Amount of Transactions Made by Institutions Receiving Financial Assistance from the CDFI Program, by Transaction Type, Fiscal Years 2016–2020

Transaction type	Total amount	Percentage of total
Term loan	$60,548,524,257	83.6%
Line of credit	$10,473,446,643	14.5%
Equity investment	$132,777,274	0.2%
Debt with equity	$8,029,958	0.0%
Loan guarantee	$100,211,828	0.1%
Loan loss reserve	$23,621,566	0.0%
Capital reserve	$91,763,214	0.1%
Other	$1,038,386,576	1.4%

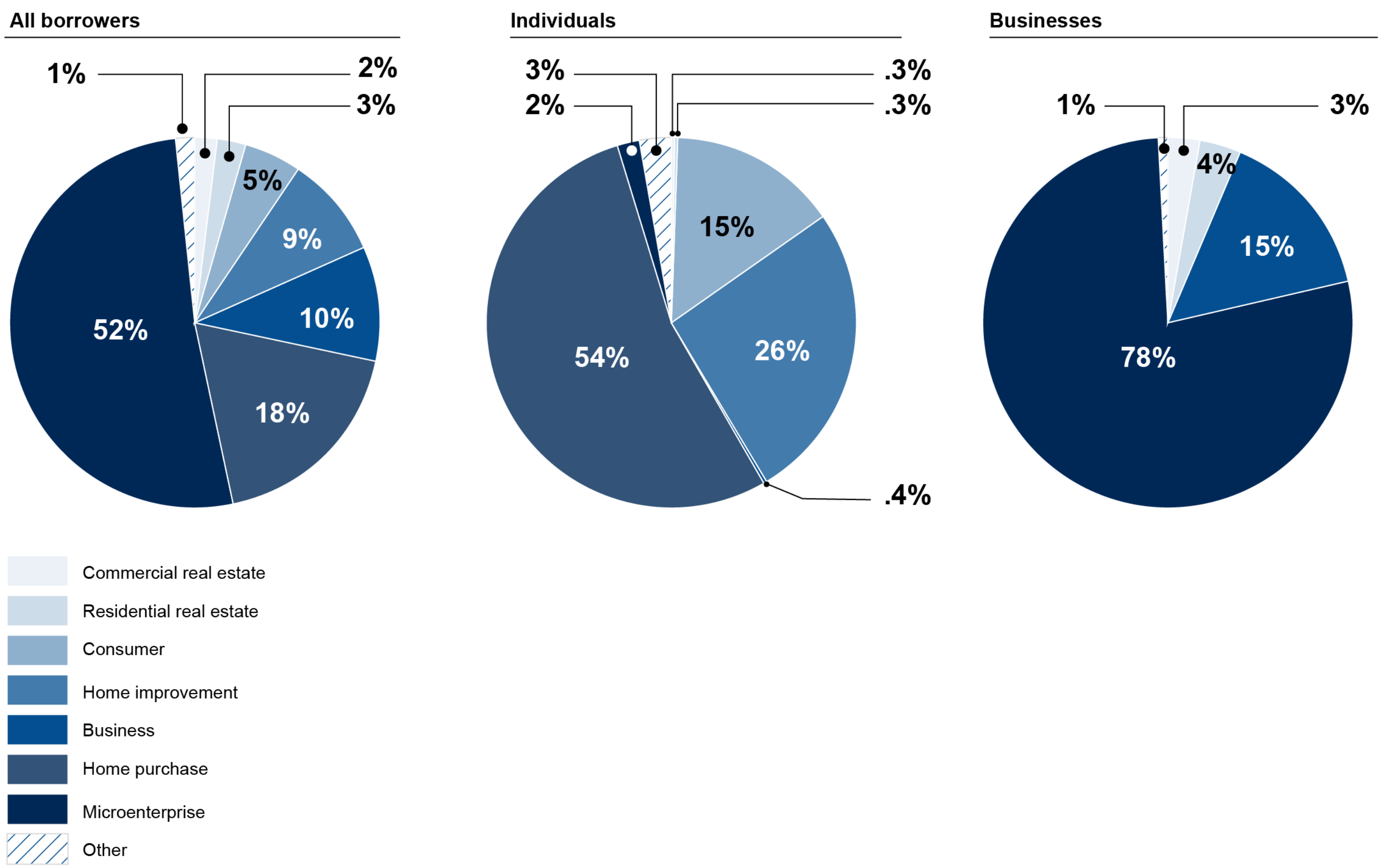
Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Notes: The data in the table include institutions that received financial assistance awards from either the Community Development Financial Institutions (CDFI) Program or the Native American CDFI Assistance Program. The data do not include consumer loans made by banks or credit unions because data on such loans are reported separately, aggregated at the census tract level.

Percentages do not add to 100 because of rounding.

The most common purpose of the transactions recipients made was microenterprise, defined as financing to a for-profit or nonprofit enterprise with five or fewer employees, with an amount no more than $50,000 (and not for real estate purposes). Microenterprises accounted for just over one-half (52 percent) of loans overall and nearly 78 percent of loans made to business borrowers (see fig. 4). This pattern is primarily due to the high number of transactions contributed by the CDFI discussed previously. When excluding this organization, microenterprise transactions accounted for 18 percent of the total.

Figure 4: Purpose of Transactions Made by Institutions Receiving Financial Assistance from the CDFI Program, Fiscal Years 2016–2020



Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Notes: The data in the figure include institutions that received financial assistance awards from either the Community Development Financial Institutions (CDFI) Program or the Native American CDFI Assistance Program. The data do not include consumer loans made by banks or credit unions because data on such loans are reported separately, aggregated at the census tract level.

Borrowers may be classified as either individuals, businesses, or other CDFIs. CDFI borrowers are included in the “All borrowers” chart but are not shown in a separate chart. This is because transactions to these borrowers accounted for less than 1 percent of all transactions, and 96 percent of them had a purpose of “other,” consistent with Treasury instructions.

The consumer category does not include transactions made by banks and credit unions, since these institutions do not report these data together with other transactions (instead, they report them in aggregate by census tract).

Across all transactions, 18 percent were for home purchases, 10 percent for business purposes, and 9 percent for home improvement. When excluding the CDFI that reported a large number of transactions, all of these categories made up a greater share of the total (31 percent, 17 percent, and 15 percent, respectively). Transactions to individuals were not affected by this CDFI, which only lends to businesses. As shown in figure 4, most transactions to individuals were for home purchases (54 percent), home improvement (26 percent), or consumer purposes (15 percent).[34]

In terms of the dollar volume of transactions, the largest amount, $23.8 billion, was for home purchases (see table 13). The second-largest amount, $17.1 billion, was for business purposes (excluding real estate business). Because microenterprise loans tend to be for small amounts, less than 4 percent of the total dollar amount went toward these transactions, even though they accounted for over one-half of all transactions. Conversely, although small percentages of transactions were for constructing or rehabilitating residential or commercial real estate, these transactions tended to be for larger amounts and therefore comprise greater shares of the total dollars.

[34]As noted above, the data do not include any consumer loans made by banks or credit unions, so the actual share of transactions that were for consumer purposes is higher than these data indicate.

Table 13: Total Dollar Amount of Transactions Made by Institutions Receiving Financial Assistance from the CDFI Program, by Purpose, Fiscal Years 2016–2020

Purpose	Total amount	Percentage of total
Business	$17,093,104,526	23.6%
Consumer[a]	$113,363,789	0.2%
Home improvement	$4,002,763,443	5.5%
Home purchase	$23,763,324,295	32.8%
Microenterprise	$2,700,012,036	3.7%
Single-family housing construction	$2,511,967,373	3.5%
Single-family housing rehabilitation or acquisition	$919,786,488	1.3%
Multifamily housing construction	$3,537,214,163	4.9%
Multifamily housing rehabilitation or acquisition	$3,586,136,105	5.0%
Commercial real estate construction, permanent financing, or acquisition without rehabilitation	$9,206,307,346	12.7%
Commercial real estate rehabilitation	$2,376,471,060	3.3%
Other, including transactions to other certified CDFIs	$2,606,310,692	3.6%

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Notes: The data in the table include institutions that received financial assistance awards from either the Community Development Financial Institutions (CDFI) Program or the Native American CDFI Assistance Program. The data do not include consumer loans made by banks or credit unions because data on such loans are reported separately, aggregated at the census tract level.

Percentages do not add to 100 because of rounding.

[a]Does not include transactions made by banks and credit unions, since these institutions do not report these data together with other transactions (instead, they report them in aggregate by census tract).

In addition to examining how recipients used funds, we reviewed the extent of and findings from research on the economic impact of the CDFI Program and emergency programs. Further, to provide insight on areas potentially affected by CDFI Program awards, we conducted geographic and sociodemographic analyses of CDFI Program recipients and project locations. For the results of this work, see appendix I.

Some Data on Borrower Characteristics Were Unavailable

The data on the transactions CDFIs make include several items related to the characteristics of individual and business borrowers. These fields are largely optional, and for some of the items, much of the information is missing. However, other items are relatively more complete and can provide some indication of the types of individuals and businesses that CDFIs lend to.

Individuals. Of the fields related to the characteristics of individual borrowers, two—income status and credit score—were available for a majority of transactions to individuals, although the share of unavailable data was substantial for both items.[35] The data for these items suggest that institutions served borrowers with a wide range of income levels and access to credit.[36] For income status, of the approximately 70 percent of transactions for which data were available, nearly half were made to lower-income individuals, although borrowers at all levels of the income scale were represented (see table 14).

Table 14: Income Status of Individual Borrowers Served by Institutions Receiving Financial Assistance from the CDFI Program, Fiscal Years 2018–2020

	Percentage of transactions made to individuals in each income category					
Fiscal year	Extremely low-income	Very low income	Low income	Middle income	Upper income	Do not know or missing
2018	5%	8%	21%	23%	13%	30%
2019	4%	7%	26%	15%	16%	32%
2020	3%	6%	20%	15%	31%	25%
2018–2020	4%	7%	22%	17%	22%	28%

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Notes: The data in the table include institutions that received financial assistance awards from either the Community Development Financial Institutions (CDFI) Program or the Native American CDFI Assistance Program. The data do not include consumer loans made by banks or credit unions because data on such loans are reported separately, aggregated at the census tract level.

The income categories are defined as follows: extremely low-income means borrower's family income is <30 percent of area median family income (AMFI); very low-income means borrower's family income is ≥30 percent and <50 percent of AMFI; low-income means borrower's family income is ≥50 percent and ≤80 percent of AMFI; middle-income means borrower's family income is >80 percent and <120 percent of AMFI; upper-income means borrower's family income is ≥120 percent of AMFI.

[35]For fiscal years 2016–2020, data on the following borrower characteristics were either missing or categorized as "do not know" for the majority of loans made to individuals: race, Hispanic origin, gender, whether the borrower's household was headed by a single woman, and whether the borrower had basic banking services at time of intake. Treasury officials stated that reporting institutions may not collect these data. Regarding race and ethnicity, the officials said the Equal Credit Opportunity Act limits regulated institutions' collection of this information for all types of loans except mortgage loans for monitoring purposes.

[36]For both characteristics, data are presented for fiscal years 2018–2020 because the data were either largely missing or used a different reporting scale for fiscal years 2016 and 2017.

Similarly, CDFIs reported making loans to individuals with a variety of credit scores, although the majority went to those with good or very good credit (see table 15).[37]

Table 15: Credit Scores of Individual Borrowers Served by Institutions Receiving Financial Assistance from the CDFI Program, Fiscal Years 2018–2020

Fiscal year	Percentage of transactions made to individuals in each credit score category: Excellent credit (800-850)	Very good credit (740-799)	Good credit (670-739)	Fair credit (580-669)	Poor credit (300-579)	No or thin credit[a]	Do not know or missing
2018	8%	24%	27%	20%	6%	N/A	16%
2019	9%	28%	28%	18%	4%	N/A	13%
2020	12%	29%	22%	17%	2%	1%	17%
2018–2020	10%	28%	25%	18%	3%	1%	15%

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Notes: The data in the table include institutions that received financial assistance awards from either the Community Development Financial Institutions (CDFI) Program or the Native American CDFI Assistance Program. The data do not include consumer loans made by banks or credit unions because data on such loans are reported separately, aggregated at the census tract level.

A credit score is a numeric value (generally ranging from 300 to 850) that indicates a borrower's ability to repay future obligations.

Percentages may not add to 100 because of rounding.

[a]This option was introduced in fiscal year 2020 and is defined as borrowers having thin or no credit profile, such as recent immigrants.

Businesses. Data on entity structure, which were available for most transactions to businesses from fiscal years 2017 through 2020, indicated that over 95 percent of these transactions went to for-profit businesses each year.[38] About 1 to 2 percent of transactions went to nonprofits, while much smaller numbers went to tribal or village governments—just 65 transactions across the 4-year period, or one-tenth of 1 percent. Another 1 percent of transactions were made to businesses categorized as "other." The CDFI Fund also collects data on whether businesses were

[37]A credit score is a numeric value (generally ranging from 300 to 850) that indicates a borrower's ability to repay future obligations. Prior to fiscal year 2020, CDFI Program recipients reported borrowers' numeric credit scores, while in fiscal year 2020, they reported the category in which the borrower's credit score fell (e.g., excellent credit, very good credit, etc.). For our analysis, we collapsed the older numeric scores into the categories.

[38]Data on entity structure were missing for 69 percent of transactions to businesses in fiscal year 2016, but the share of missing data decreased to 14 percent in fiscal year 2017 and then 0 percent for fiscal years 2018 through 2020, as the CDFI Fund began requiring CDFIs to report these data for business borrowers.

more than 50 percent owned or controlled by minorities, women, and low-income individuals, but missing data and changes over time in the instructions for reporting this information limits their use for the fiscal year 2016–2020 period.[39]

Treasury Responded to Potential Risks When Creating Emergency Programs

Treasury Took Steps to Address Potential Risks Introduced by Expanded Eligibility and Other Features of Emergency Grant Programs

Treasury based the two emergency grant programs–RRP and ERP–on its existing financial assistance award process for the CDFI Program. For example, applicants for these three programs used the same automated system to submit application material and underwent similar financial analyses and compliance risk evaluations within the automated system.[40] Recipients for each of the programs have or will be required to enter into a legally binding assistance agreement that outlines the performance goals and reporting requirements. In addition, all of the programs generally will have the same post-award reporting requirements for the performance period of the awards.

However, both emergency grant programs differed from the CDFI Program financial assistance awards process in ways that may introduce risks to program integrity, as follows.

Eligibility of riskier institutions. Relative to the CDFI Program, RRP and ERP allowed institutions of higher financial risk to be considered for awards. Treasury officials told us they expanded eligibility to be more inclusive of institutions that may have received less favorable risk scores because of the risk these institutions incur to better address the needs of the low-income communities they serve. For example, Treasury officials

[39]If information for these three items was not known or not applicable, the guidance either instructed CDFIs to leave the items blank, select “No,” or select “Do Not Know,” depending on the year (the “Do Not Know” option was introduced in fiscal year 2020). These differences across years make interpretation of the data difficult. Further, for some years, much of the information for these items was missing or was recorded as “Do Not Know.”

[40]Although Treasury has not yet awarded ERP funds or finalized procedures for the program, it has published program requirements governing the award process in the Federal Register.

said some MDIs have a less favorable risk score because of low levels of deposits or high levels of residential mortgages, which can result in lower than average performance ratios. According to Treasury, 57 of the 863 RRP recipients received a less favorable risk score from either their regulator or from the CDFI Fund, as explained below.

Three scoring systems measuring financial risk have implications for awards. CAMELS is an acronym that refers to a scoring system used by bank supervisors to rate institutions on capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk. The National Credit Union Administration has used a similar scoring system, CAMEL, that generally rates institutions on the same components, with the exception of sensitivity to market risk.[41] The CDFI Fund has its own scoring system to measure financial risk for institutions that do not receive a CAMELS or CAMEL score–the CDFI Fund financial composite score. The score is based on an analysis of 23 financial indicators. All three scoring systems have a range of 1 through 5, with higher numbers indicating weaker financial condition and risk management.

Under RRP and ERP, regulated institutions with CAMELS or CAMEL scores of up to 4 and unregulated institutions with CDFI Fund financial composite scores of up to 4 are eligible for awards. In contrast, only institutions with scores of 1 through 3 are eligible for CDFI Program financial assistance awards.[42]

Applicants in the higher-risk category went through an additional step in the application review and award determination process to address the potential risk. Treasury procedures required all applicants that passed the financial analysis and compliance risk evaluation in the RRP application review process to undergo a due diligence review. Only applicants considered higher risk received an additional written due diligence analysis by multiple staff, according to Treasury procedures and program staff. These included applicants with a CAMELS, CAMEL, or CDFI Fund financial composite score of 4, audit findings, or other adverse indicators.

The RRP due diligence review procedures considered the applicant's financial stability, history of performance in managing federal awards,

[41]Beginning April 1, 2022, the National Credit Union Administration added sensitivity to market risk as a component of its rating.

[42]Institutions with a CAMELS or CAMEL score of 4 are eligible for CDFI Program technical assistance awards.

audit or regulator findings, and the applicant's ability to effectively implement federal requirements. According to Treasury procedures, applicants that received a "very concerned" rating on these reviews were unqualified for awards, and applicants that received a "somewhat concerned" rating were to have their award amount decreased by 30 percent. ERP requirements also allow for Treasury reviewing officials to reduce the award amount for applicants with these scores.

Increased award size. RRP and ERP generally offer larger awards than the CDFI Program. The median RRP award (which, as previously discussed, equaled the maximum award) was about $1.8 million, while the median CDFI Program award for fiscal year 2021 was $400,000.[43] Although ERP award amounts have not yet been determined, the maximum award size is $15 million and the minimum award size is $500,000, for use over a 5-year period.[44] Further, 292 RRP recipients also received a fiscal year 2021 CDFI Program award, and 27 institutions received a fiscal year 2021 CDFI Program award, an RRP award, and an ECIP award. Some of these institutions may also be eligible for an ERP award. Institutions that received multiple awards had significantly more award funds to use and manage than they would have had under the CDFI Program alone.

Treasury addressed potential capacity risks by imposing caps on award size that scale to the recent business volume of the institution. For RRP, award amounts could not exceed the greater of either 1.5 times the applicant's total on-balance-sheet financial products closed in eligible or target markets in its most recent fiscal year, or the minimum award amount of $200,000.[45] Treasury officials said they thought this amount was a good proxy to represent the potential amount of business an institution would have the capacity to do during the 2-year performance period. Officials said they based this on their knowledge of historic patterns of award fund use by CDFIs. To build capacity, minimum awards

[43]The median fiscal year 2021 CDFI Program award was smaller than prior years' awards. For fiscal years 2019–2021, the highest median award amount was $565,000.

[44]Depending on the number of qualified applicants, the maximum award amount may be significantly less than $15 million.

[45]An eligible market is (i) a geographic area meeting the requirements set forth in 12 CFR 1805.201(b)(3)(ii), or (ii) individuals who are low-income, African American, Hispanic, Native American, Native Hawaiians residing in Hawaii, Alaska Natives residing in Alaska, or Other Pacific Islanders residing in American Samoa, Guam or the Northern Mariana Islands. Target markets are the markets that a CDFI is approved to serve when receiving CDFI certification.

of $200,000 could be spent entirely on eligible operational activities. For ERP, award amounts may not exceed 3 times the applicant's total on-balance-sheet financial products closed in its 5 most recent fiscal years. Treasury officials said the cap was generally modeled on the cap for RRP, adjusted for the longer 5-year performance period of ERP.

Additionally, Treasury officials said they will consider the administration of prior awards in assessing an institution's capacity to use an ERP award. According to program requirements, ERP applicants will receive a score for "organizational capacity," which includes factors such as whether the current and proposed staffing is sufficient to support the proposed business strategy. Application reviews will also consider performance risk with respect to all previous CDFI Fund awards. Finally, reviewing officials may lower the recommended award amount if there are concerns about the applicant's ability to deploy the full award amount.

Additional targeting requirements for ERP. The authorizing statute for ERP states that the funds are meant "to expand lending, or grant making in low- or moderate-income minority communities and to minorities that have significant unmet capital or financial service needs."[46] Further, the statute states that all three of the emergency programs are meant to serve communities that have disproportionately suffered from the impacts of the COVID-19 pandemic.[47] These specific targeting requirements potentially increased Treasury's compliance risk compared to the regular CDFI program, which does not have such requirements.

To help ensure funds reach the communities intended by statute, Treasury added certain eligibility requirements and steps in the application review and award processes. Treasury limited eligibility to: (1) institutions serving census tracts that it determined had been severely impacted by COVID-19, had a median income at or below 120 percent of the area median income, and were a CDFI Investment Area; and (2)

[46]Pub. L. No. 116-260, div. N, § 522(a)(2), 134 Stat. 1182, 2088 (2020).

[47]Pub. L. No. 116-260, div. N, § 520, 134 Stat. 1182, 2079 (2020).

institutions serving Native Areas.[48] To be eligible, applicants must demonstrate that at least 30 percent of their average annual financial products closed or grants made over their 5 most recent fiscal years went to ERP-eligible geographies. When reviewing applications, an external reviewer must consider criteria, such as

- whether the applicant demonstrates a strong understanding of the economic impact of the COVID-19 pandemic on the geographies and populations it is proposing to serve;
- whether the applicant has engaged with and obtained input on its business strategy from these populations; and
- whether the applicant proposed to use culturally and linguistically relevant marketing and outreach efforts that will support the deployment of the award consistent with its business strategy.

Further, recipients must sign assistance agreements that specify that at least 90 percent of ERP award funds will be used in the designated eligible geographies and that any remaining funds will serve low- and moderate-income people or businesses disproportionately impacted by the COVID-19 pandemic. In addition, the authorizing statute states that participating institutions may request data from borrowers and applicants for credit that will allow them to ensure the targeted populations and low-income residents are adequately served. Treasury officials said they will require institutions to collect race and ethnicity data for all borrowers or other beneficiaries of financial products and services supported by ERP.

Streamlined application review procedures for RRP. To meet RRP's expedited award time frames required by the Consolidated Appropriations Act, 2021, Treasury streamlined its existing process for evaluating CDFI Program financial assistance applications. Specifically, Treasury removed the business plan review and policy objective review steps used in evaluating financial assistance applications for the CDFI Program because the act did not require them. According to Treasury documents,

[48]Treasury considered a census tract to have experienced ''severe impact'' of the COVID-19 pandemic if it met one or more of the following criteria: (a) demonstrated severe mortality, based on being in the highest tercile of the number of deaths per 100,000 people, according to reported cumulative mortality for the period from April 1, 2020, to March 31, 2021, based on data from the Centers for Disease Control and Prevention and the Government of Puerto Rico; (b) demonstrated severe change in unemployment; or (c) demonstrated low community resilience, based on being in the highest tercile of the percentage of individuals or families that have three or more resilience-related risk factors relative to the impact of disasters such as pandemics, based on data from the U.S. Census Bureau, Community Resilience Estimates Program.

the intent of the business plan review is to ensure that each applicant's business plan is sound and achievable. The policy objective review evaluates the ability of the applicant to meet the policy objectives of the program.

While RRP applicants did not receive a business plan or policy objective review, the evaluation process and program requirements included several measures to help ensure the institutions were financially stable and able to use the awards as intended. In addition to the financial analysis and due diligence reviews discussed above, program guidance called for each applicant to receive an eligibility review and a compliance risk evaluation. The compliance risk evaluation was meant to use a variety of information to help ensure the institution had no major internal management or compliance concerns. In addition, Treasury officials said they added a requirement that regulated entities have a Community Reinvestment Act rating of "satisfactory" or better to be eligible for the program because of the streamlined review process.[49] Further, Treasury officials said that they limited the award amount for applicants without audited financial statements to $200,000 to help limit risk. According to Treasury officials, the business plan and policy objective reviews were not needed for RRP because the program was designed to provide funding to all eligible applicants based on a formula that considers specific criteria and the applicant's historical business volume, whereas CDFI Program financial assistance applications are competitive.

Treasury has begun to conduct post-award compliance monitoring for RRP, which will provide information on whether recipients are managing funds effectively and using funds for intended purposes. Similar to the CDFI Program, Treasury requires RRP recipients to submit annual financial condition and performance reports to help monitor compliance with program requirements and goals. Performance goals include closing financial products equal to at least 50 percent of the award amount in eligible or target markets by the end of the first full fiscal year after the award was made, and at least 70 percent of the award amount in eligible or target markets by the end of the second year of the performance period.

[49]The Community Reinvestment Act, 12 U.S.C. §§ 2901-2908, encourages depository institutions to meet the credit needs of communities where they operate. Federal financial regulators are required to assess periodically and rate each bank's record of helping to meet the credit needs of its entire community.

Treasury Considered Certain Risks in Designing the Emergency Capital Investment Program

The Emergency Capital Investment Program—through which Treasury made capital investments in financial institutions in exchange for preferred stock or subordinated debt from the institutions—is substantively different from the CDFI Program and the emergency grant programs. For example, ECIP has a narrower universe of eligible institutions—applicants must be federally insured depository institutions, bank or savings and loan holding companies, or federally insured credit unions and either a CDFI or MDI. In addition, institutions that receive an investment must pay Treasury dividends or interest after the first 2 years for the life of the investment. A capital investment also benefits an institution differently than a grant, according to Treasury officials. Specifically, they told us a capital investment may support long-term growth by allowing the institution to take on additional funding and increase its balance sheet.

Program integrity risks for ECIP also varied somewhat from those for the emergency grant programs. Treasury took steps to address these risks when developing its application review and reward determination processes, as follows.

Ability to pay dividends or interest. Institutions that received capital investments entered into a legal agreement with Treasury to pay either dividends or interest, depending on the type of institution, for the life of the investment.[50] Treasury took several steps during the application review process to help ensure any institution offered an investment would be able to pay the required dividends or interest. As a measure of the institution's ability to pay the required annual dividend or interest amount, application reviewers were required to calculate a ratio of the institution's projected annual net income (using the most recent 5-year average return on average assets) to the annual dividend or interest amount. Treasury required this ratio to be at least 1 to 1. According to program guidance, an external financial agent completed this assessment and Treasury analysts reviewed it. If an institution did not meet the required ratio, Treasury could lower its investment amount to satisfy the requirement. According to Treasury, the underwriting process also assessed the institutions' ability to execute its lending plan, which included information such as the institution's business strategy and operating goals.

Institutional capacity. Institutions were expected to increase lending with the capital investment Treasury provided, in some cases

[50]Dividends and interest are paid quarterly after the first 2 years of the investment.

substantially. The application included a section on the institution's growth strategy, in which the institution specified the dollar amount of increased lending to targeted groups that it would conduct over 10 years as a direct result of the capital investment it sought from Treasury. In addition, ECIP investments were sometimes large, up to $250 million. Similar to the emergency grant programs, Treasury needed assurance that institutions had the capacity to increase lending and use the large awards effectively.

Treasury procedures called for review of several measures of institutional capacity to ensure that ECIP applicants would be able to execute their lending plans submitted as part of the application. The lending plans included information such as the projected loans to be originated in the next 3 years to certain targeted populations, the institution's business strategy and operating goals, and its growth strategy. Applicants received scores on four measures related to capacity to execute on the plan. One score specifically measured the "internal capacity" of the applicant, including staffing levels. The other scores related to past experience in managing federal awards, the reasonableness of lending plan projections based on market size and condition, and the applicant's track record of lending to the targeted populations based on loans made over the past 2 fiscal years. In addition, Treasury officials said they provided an opportunity for the federal banking regulators and the National Credit Union Administration to raise any concerns about Treasury investing the full amount requested by the applicant.

Other program risks. Treasury identified and responded to two other potential program risks: (1) the risk that institutions would use award funds to compensate shareholders or officers instead of increasing lending and (2) the risk that recipients would fail to maintain certification as a CDFI or MDI or fail to submit timely and accurate reports.

According to Treasury officials, Treasury has addressed the first risk through an interim final rule restricting the use of funds for executive compensation, share buybacks, and dividends.[51] In the overview of the interim final rule, Treasury states that the restrictions seek to promote the integrity of ECIP by ensuring that institutions use the award funds to provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially in low-income and underserved communities. Treasury officials said the second risk is

[51]The Consolidated Appropriations Act, 2021 required Treasury to issue rules setting restrictions on executive compensation, share buybacks, and dividend payments. 86 Fed. Reg. 13449 (Mar. 9, 2021) (codified at 31 C.F.R. pt. 35)

addressed by ECIP legal agreements that institutions must enter into as a condition of receiving funding. For example, the securities purchase agreement for senior preferred stock specifies that when providing ongoing supplemental reports to Treasury, the principal executive officer or principal financial officer of the recipient must certify that the information in the report is accurate. In addition, the recipient must annually certify that the processes and controls used to generate the report are satisfactory.

According to program officials, Treasury is finalizing ongoing reporting requirements and policies and procedures that it will use to conduct post-award monitoring, which will be necessary to help ensure the integrity of the program.

Treasury Assessed Improper Payment Risk and Is Developing Additional Processes to Address Fraud Risk

Improper Payment Risk Assessments

Treasury conducted an improper payment risk assessment for RRP in fiscal year 2022, as required by the Payment Integrity Information Act of 2019, and determined the program was not susceptible to significant improper payments.[52] Treasury has not yet completed an assessment for ERP or ECIP. Under the Office of Management and Budget's current improper payment estimate guidance, agencies are not required to estimate improper payments for programs in their initial year of operation. Specifically, according to the guidance, agencies should complete a risk assessment to determine susceptibility to significant improper payments

[52]Improper payments are payments that under statutory, contractual, administrative, or other legally applicable requirements should not have been made or were made in an incorrect amount. The purpose of an improper payment risk assessment is to determine whether a program is susceptible to significant improper payments. A determination of susceptibility triggers a requirement to report an improper payment estimate in the following fiscal year. 31 U.S.C. § 3352(c)(1). The Payment Integrity Information Act of 2019 defines significant improper payments as improper payments in the preceding fiscal year that may have exceeded either (1) 1.5 percent of program outlays and $10 million or (2) $100 million (regardless of the improper payment rate).

after the first 12 months of program operations.[53] ERP and ECIP have not yet reached this threshold. Treasury officials said they have not yet completed an assessment for ERP and ECIP because one is not required until fiscal year 2023.

Fraud Prevention Measures

Treasury has some fraud prevention measures in place for the emergency programs, and it is developing a new process that it will use for all CDFI Fund programs, including the emergency grant programs.

RRP and ERP. Treasury officials said they have fraud prevention measures in place for RRP and ERP both before and after disbursing funds. For example, before disbursement, Treasury requires institutions to enter into legally binding assistance agreements. These agreements lay out the award terms and conditions, post-award reporting requirements, and specific performance goals for the institution. By signing the agreement, an authorized representative attests to certain facts about the institution and agrees to administer the award in accordance with the terms and conditions, which include a requirement to report any suspected fraud, waste, or abuse of award funds to Treasury's Office of Inspector General (OIG).

After disbursement, Treasury may conduct ad hoc desk reviews and site visits of institutions that have received CDFI Program and RRP awards. The desk reviews and site visits are designed to detect mismanagement and abuse, in addition to reviewing compliance with award requirements in assistance agreements and providing technical assistance, according to Treasury's standard operating procedures. In addition, Treasury officials said they conduct an internal controls assessment every year as part of the agency's annual financial statement audit, which assesses whether proper controls are in place to prevent fraud, waste, and abuse in each of Treasury's programs.

ECIP. Treasury officials told us they implemented mechanisms to prevent fraud in ECIP during the application review process and when finalizing agreements and disbursing funds to institutions. Treasury's application review procedures called for the use of various mechanisms to ensure

[53]Office of Management and Budget, *OMB Circular A-123 Appendix C: Requirements for Payment Integrity Improvement*, M-21-19 (Washington, D.C.: Mar. 5, 2021). In prior work, we recommended that Congress amend the Payment Integrity Information Act, 2019 to designate all new programs making more than $100 million in payments in a fiscal year automatically susceptible to significant improper payments. See GAO, *Emergency Relief Funds: Significant Improvements Are Needed to Ensure Transparency and Accountability for COVID-19 and Beyond*, GAO-22-105715 (Washington, D.C.: Mar. 17, 2022).

institutions were eligible for federal funding, officials said. For example, officials told us that they used ID.me (an online identity authentication service) to authenticate the identities of the applicants. They also consulted with federal banking regulators and the National Credit Union Administration about institutions' eligibility to participate. Before disbursing funds, Treasury's procedures called for staff to take several steps to help reduce the risk of improper payments. These included reviewing updated information about the institutions to confirm they were still eligible to participate in the program and checking to ensure the final funding amount was less than or equal to the preliminary approval amount. According to program officials, another factor helping prevent waste in the program is the interim final rule discussed earlier, which restricts the use of award funds for executive compensation, share buybacks, and dividends.

RRP and ERP post-award monitoring. Treasury is in the process of developing a risk-based approach for conducting desk reviews and site visits that it will use for the CDFI Program, RRP, and ERP. For example, Treasury hired a contractor to develop a suite of tools to identify high-risk institutions, allowing Treasury to prioritize those institutions for desk reviews and site visits. The suite of tools includes the application assessment tool, which is already in use, and a noncompliance scorecard. The noncompliance scorecard will identify award recipients at risk of noncompliance or default based on their track record for meeting reporting requirements, performance goals and measures, and noncompliance with any other portions of their assistance agreements. Treasury officials said they had not yet finalized the specific variables for the scorecard. The officials also said they were finalizing the policies and procedures for the new process, but they did not have an estimated implementation date. These efforts are intended to monitor whether the funds are being used as intended.

As of October 2022, Treasury OIG had completed two evaluations of the emergency programs and had additional reviews ongoing.

- In December 2021, OIG issued a report on Treasury's design and implementation of RRP, including policies and procedures for selecting recipients. The audit found that Treasury established internal controls for award determination in accordance with Standards for Internal Controls in the Federal Government, but also that Treasury's assistance agreement template was missing certain terms and conditions regarding recipient integrity and performance matters.[54] The report noted that Treasury subsequently revised the template before issuing RRP awards.

- In March 2022, Treasury OIG issued a report on Treasury's implementation of ECIP, including Treasury's efforts to develop eligibility and application requirements and policies and procedures for the program prior to disbursement.[55] The review found that Treasury worked swiftly to implement ECIP, although it did not meet the statutory deadline for accepting applications and had not completed policies and procedures for post-investment monitoring. OIG recommended that Treasury finalize policies and procedures and key documentation to govern full program implementation and ongoing administration of ECIP investments, including internal controls over the program. Treasury took several steps to address this recommendation. In April and May 2022, it finalized policies and procedures for application intake and review, award determinations, closing the investments, and disbursing funds. As of September 2022, Treasury was also finalizing procedures for quarterly supplemental reporting by recipients, monitoring recipients' compliance with investment terms, setting dividends and interest rates, and processing payments from institutions, according to program officials.

Treasury OIG is conducting two additional audits of the emergency grants programs. In May 2022, OIG began an audit of Treasury's implementation of ERP. The review will look at steps Treasury took to develop policies and procedures and make award funds available, among other things. In June 2022, OIG began an audit of Treasury's award and post-award administration of RRP, including processes for ensuring the accuracy of RRP payment and post-award monitoring of recipients.

Agency Comments

We provided a draft of this report to the Department of the Treasury for review and comment. Treasury provided technical comments, which we incorporated as appropriate.

[54]Department of the Treasury, Office of the Inspector General, *Coronavirus Disease 2019 Pandemic Relief Programs: Audit of the Community Financial Development Fund's Implementation of CDFI Rapid Response Program,* OIG-22-023 (Washington, D.C.: Dec. 21, 2021).

[55]Department of the Treasury, Office of the Inspector General, *Coronavirus Disease 2019 Pandemic Relief Programs: Audit of Treasury's Implementation of the Emergency Capital Investment Program,* OIG-22-028 (Washington, D.C.: Mar. 8, 2022).

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees and the Secretary of the Treasury. In addition, the report will be available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.

Sincerely Yours,

William B. Shear
Director, Financial Markets and Community Investment

Appendix I: Available Research on Economic Impact of Programs and Geographic Analysis of CDFI Program Recipients

Availability of Economic Impact Research

Research on the economic impact of the Community Development Financial Institutions (CDFI) Program is limited. Estimating the economic impact of government programs (for example, changes in employment rates or income levels caused by the program) is challenging because it involves comparing program outcomes to outcomes that would have occurred in the program's absence. Making causal inferences about program impacts typically requires rigorous comparison of treatment and control groups, but this can be difficult to achieve because of data limitations and other factors.[1]

Through a literature search, we identified just one study, published in 2013, that provided information about the impact of the CDFI Program.[2] This study analyzed the effects of receiving an award from the program on CDFIs' lending activity and growth. The sample was limited to credit unions that applied for CDFI Program funding from 2000 through 2009, so it is not generalizable to all program recipients. Findings from the study included the following:

- Receiving an award from the program catalyzed additional lending by credit unions. Specifically, the authors estimated that for each dollar received from the program, credit unions lent out an additional $0.45 in the first year after receiving the award, $1.10 after 2 years, and $1.60 after 3 years.
- Receiving an award also led to increases in deposit rates and net worth growth among credit unions. For each dollar received from the program, $0.17 went toward growth in recipients' net worth.

[1]Random assignment to either the program or a control group minimizes any preexisting differences between the groups, helping ensure that differences in outcomes are attributable to the program and not other factors. However, using random assignment to determine program participation is often impractical. An alternative approach is a quasi-experimental design in which evaluators compare participants to another group that is thought to be similar in key ways. A limitation of quasi-experiments is the potential for preexisting differences between groups, which make it difficult to disentangle the effects of the program from other factors. Evaluators can use statistical methods to attempt to control for such differences, but it is not possible to control for all potential differences.

[2]Kristle Romero Cortés and Josh Lerner, "Bridging the Gap? Government Subsidized Lending and Access to Capital," *Review of Corporate Finance Studies*, vol. 2, no. 1 (2013): 98–128. https://doi.org/10.1093/rcfs/cft002. Our literature review identified two additional studies that sought to evaluate the impact of the CDFI Program, but both had methodological limitations that prevented us from drawing conclusions about the program's impact. Appendix II provides more information about how we conducted our literature review.

- Despite these positive findings, the amount of delinquent loans recipients made increased. For each dollar received from the program, delinquent loan growth increased by $0.12 over the 3-year period following the award.

No research has evaluated the impacts of three emergency programs developed to help CDFIs respond to the impacts of COVID-19—the Rapid Response Program (RRP), Equitable Recovery Program (ERP), and Emergency Capital Investment Program (ECIP). At the time we conducted our audit work, these programs had not been in existence long enough to measure their effects. The Department of the Treasury made RRP awards in June 2021 with a 2-year period of performance, and it planned to announce ERP awards in the winter of 2023 (following an application deadline of September 22, 2022). In September 2022, Treasury announced it had completed a substantial amount of the ECIP investments.

The Consolidated Appropriations Act, 2021, required Treasury to conduct a study of the emergency programs' impact on low- and moderate-income and minority communities and submit a report to Congress on the results of the study by June 27, 2022. However, the report Treasury submitted noted that the emergency programs were still early in their implementation, so the data needed to meaningfully report on their impacts were not yet available. Instead, the report described the implementation of the three programs and provided data on the institutions selected to receive funding from two of the programs, RRP and ECIP. For example, it reported information on institution type and the distribution of awards or investment offers by state. The report also stated that Treasury planned to gather data from award recipients consistent with statutory requirements.

As of mid-2022, CDFI Fund and ECIP officials stated they had not yet finalized plans to evaluate the emergency programs. However, CDFI Fund officials said that further analyses of RRP will be conducted after recipients submit data on outcomes and on the transactions they make during the program's reporting period. The officials had not yet determined who would conduct these additional analyses. Further, ECIP officials stated they were in the process of determining an evaluation approach for the program, which they said would likely focus on the extent to which institutions that receive investments from the program increase their lending above baseline levels. This kind of focus could help ECIP officials determine whether the program stimulates additional private investment.

Characteristics of Communities Served by CDFI Program Recipients

To provide insight on locations potentially affected by CDFI Program awards, we analyzed geographic, demographic, and socioeconomic characteristics of communities served by award recipients ranging from fiscal years 2016 through 2021. We analyzed the metropolitan and nonmetropolitan breakdown of fiscal year 2019–2021 recipient locations, the demographic and socioeconomic characteristics of the counties in which they were located, and the dollar amount of awards by state.[3] We also analyzed the demographic and socioeconomic characteristics of the census tracts where CDFIs had ongoing projects.

From fiscal years 2019 through 2021, about 80 percent of CDFI Program recipients were located in metropolitan areas and the remainder were located in nonmetropolitan areas (see table 16).

Table 16: Location Type of Community Development Financial Institutions (CDFI) Program Recipients, Fiscal Years 2019–2021

	CDFIs located in metropolitan areas	CDFIs located in nonmetropolitan areas	Total
Number	398	107	**505**
Percentage	78.8%	21.2%	**100%**

Source: GAO analysis of Department of the Treasury and U.S. Department of Agriculture data. | GAO-23-105952

Counties where CDFI Program recipients were located were generally more diverse than the counties where there were no recipients (see table 17). In particular, counties where CDFIs were located had, on average, higher percentages of non-White, Hispanic or Latino, and foreign-born residents. In addition, the unemployment and poverty rates in those counties were higher than in the counties without recipients. However, median household incomes were higher in counties where recipients were located and a higher percentage of households had internet access.

[3]Institutions only reported one location in their annual certification reports. For institutions with multiple branches, the data do not include additional locations beyond the one reported in the certification reports. CDFIs may make investments in communities outside of their reported location.

Table 17: Average Socioeconomic and Demographic Characteristics of Counties in Which Community Development Financial Institutions (CDFI) Program Recipients Were and Were Not Located, Fiscal Years 2019–2021

	Counties where CDFIs were located		Counties where CDFIs were not located	
County characteristic	Number of counties	Estimated mean (confidence interval)	Number of counties	Estimated mean (confidence interval)
Percentage of residents who were non-White	293	31.4 (29.1–33.7)	2,850	16.9 (16.3–17.5)
Percentage of residents who were Hispanic or Latino	293	12.0 (10.2–13.8)	2,850	9.3 (8.8–9.8)
Percentage of residents who were foreign-born	293	8.9 (7.8–9.9)	2,850	4.3 (4.1–4.5)
Unemployment rate	293	5.9 (5.6–6.2)	2,850	5.1 (5.0–5.2)
Poverty rate	293	15.2 (14.5–15.9)	2,850	14.4 (14.2–14.6)
Median household income	293	$59,898 ($57,704–$62,092)	2,849	$54,526 ($54,010–$55,042)
Percentage of households with no internet access	293	15.2 (14.3–16.1)	2,850	18.2 (18.0–18.5)

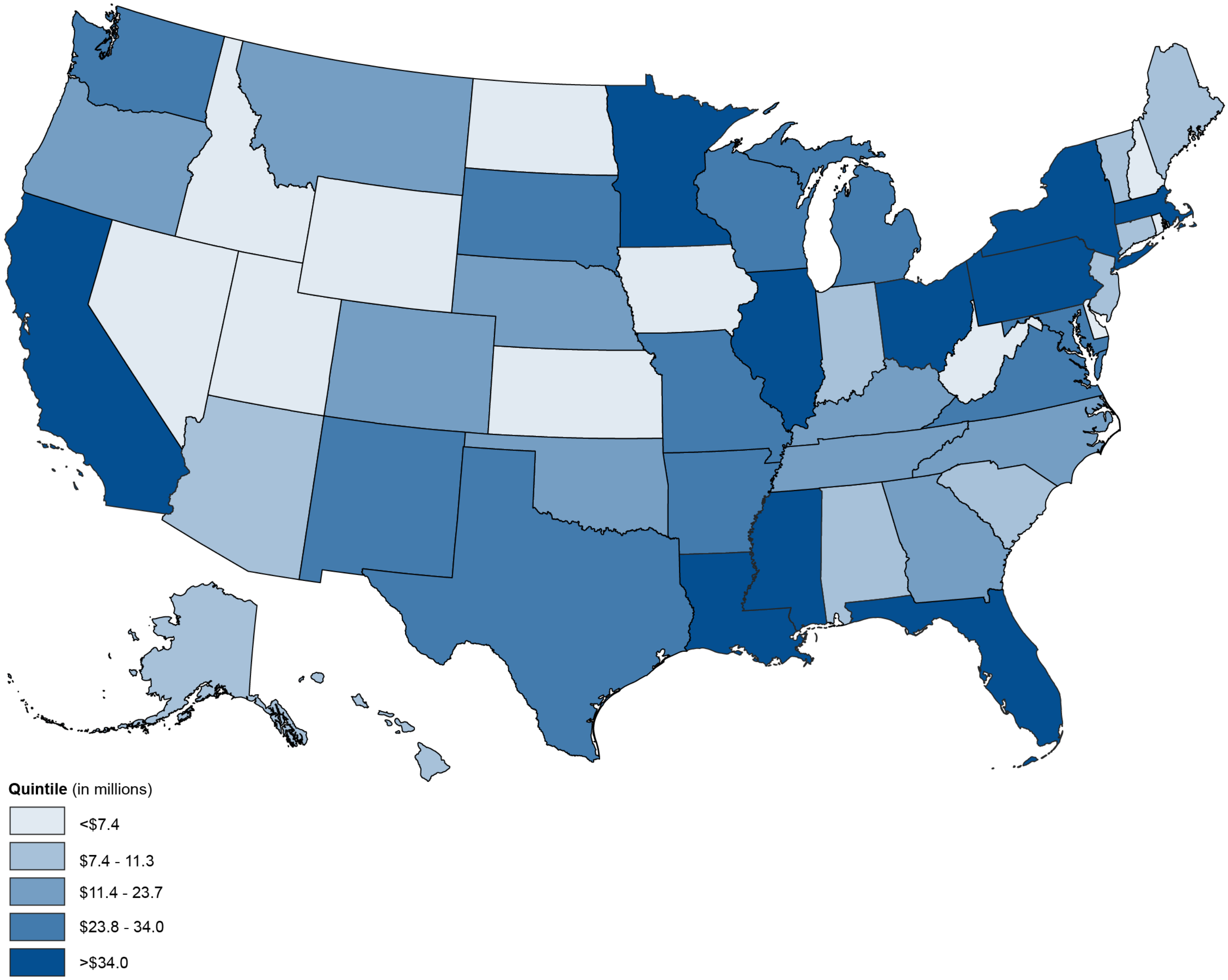
Source: GAO analysis of Department of the Treasury and Bureau of the Census data. | GAO-23-105952

Notes: Ninety-five percent confidence intervals are presented in parentheses.

County characteristics reflect American Community Survey estimates for 2016–2020.

The amount CDFI Program recipients received from fiscal years 2016 through 2021 varied by state (see fig. 5). Over that period, ten states—California, Florida, Illinois, Louisiana, Massachusetts, Minnesota, Mississippi, New York, Ohio, and Pennsylvania—were in the top quintile for award amounts, each receiving more than $34 million.

Figure 5: Distribution of Community Development Financial Institution Program Awards by State, Fiscal Years 2016–2021



Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Census tracts where CDFI Program recipients had active projects were generally more diverse than census tracts where CDFIs were not conducting projects (see table 18). On average, tracts where recipients had active projects had a higher percentage of residents that were non-White, Hispanic or Latino, or foreign-born. However, the median housing value was higher in census tracts where recipients had active projects.

Median household incomes were similar in census tracts that did and did not have projects.

Table 18: Average Socioeconomic and Demographic Characteristics of Census Tracts Where Community Development Financial Institutions (CDFI) Did or Did Not Conduct Projects, Fiscal Years 2016–2020

	Census tracts where CDFI projects were active		Census tracts where CDFIs were not conducting projects	
Census tract characteristic	Number of census tracts	Estimated mean (confidence interval)	Number of census tracts	Estimated mean (confidence interval)
Percentage of residents who were non-White	52,690	30.4 (30.2–30.6)	20,608	21.8 (21.5–22.1)
Percentage of residents who were Hispanic or Latino	52,690	19.5 (19.3–19.7)	20,608	13.0 (12.7–13.3)
Percentage of residents who were foreign-born	52,308	14.3 (14.2–14.4)	20,102	8.4 (8.3–8.6)
Unemployment rate	52,671	5.9 (5.9–6.0)	20,523	5.9 (5.8–5.9)
Poverty rate	52,665	15.1 (15.0–15.2)	20,484	14.9 (14.7–15.0)
Percentage of residents on public assistance	52,656	2.7 (2.7–2.7)	20,457	2.5 (2.4–2.5)
Median household income	52,588	$66,590 ($66,309–$66,872)	20,325	$66,373 ($65,885–$66,861)
Median housing value	51,954	$286,789 ($284,630–$288,948)	20,004	$230,889 ($227,737–$234,041)

Source: GAO analysis of Treasury and Bureau of the Census data. | GAO-23-105952

Notes: Ninety-five percent confidence intervals are presented in parentheses.

Census tract characteristics reflect American Community Survey estimates for 2015–2019.

Appendix II: Objectives, Scope, and Methodology

Our objectives were to examine (1) the types of institutions that received funds from the Community Development Financial Institution (CDFI) Program or the 2021 emergency programs and how much they received, (2) how recipients have used CDFI Program and Rapid Response Program (RRP) funds, and (3) steps the Department of the Treasury took to address risks posed by the emergency programs.

Analysis of Institution Types, Award Amounts, and Uses of Funds

For the first two objectives, we analyzed several types of Treasury data. To determine the types of institutions that received funds from the CDFI Program or the 2021 emergency programs and how much they received, we obtained data on award recipients and amounts from the CDFI Fund's Awards Management Information System (AMIS) and the Emergency Capital Investment Program's (ECIP) data systems.

The AMIS data included recipient and award information for the CDFI Program for fiscal years 2019–2021 (2021 was the most recent fiscal year for which CDFI Program data were available), similar information for the Rapid Response Program (RRP) for fiscal year 2021 (the only year in which the program received funds), and CDFI-reported Annual Certification and Data Collection Report (ACR) data for fiscal years 2019–2020 that included characteristics of recipient institutions such as type and asset size. We started our CDFI Program analysis with fiscal year 2019 data because earlier ACR data were unreliable for the analyses we performed. For ECIP, we obtained data on recipient organization type, asset size, and award amount for funds appropriated in fiscal year 2021 (the only year in which the program received funds).

We analyzed the fiscal year 2019–2021 CDFI Program data to determine:

- the types and number of CDFIs, including Native CDFIs, that received awards;
- the minimum and maximum values of recipients' assets, revenue, and full-time equivalent staff;
- the distributions (including minimum, median, and maximum values) for award amounts; and
- the primary lines of business and types of development and financial services recipients offered.

Our CDFI Program analyses included data on institutions that received financial or technical assistance awards from the CDFI Program or the Native American CDFI Assistance Program, as well as those that received supplemental assistance awards for the Healthy Food Financing Initiative or Persistent Poverty Counties.

For the analyses involving characteristics of award recipients, we matched CDFI Program awards data for fiscal years 2019–2021 to ACR data for fiscal years 2019–2020. Our analyses reflect the approximately 68 percent of recipients we were able to match to ACR data. We could not match all recipients, in part because (1) fiscal year 2021 ACR data were not yet available when we conducted our analyses and (2) some institutions that received awards in fiscal years 2019–2021 were not yet certified and therefore not required to submit ACR data.[1] We used the matching process to determine recipient characteristics such as organization type, assets, revenue, full-time equivalent staff, primary lines of business, and development and financial services offered.

For the emergency programs (RRP and ECIP), we analyzed program data to determine:

- the types and number of CDFIs that received RRP awards,
- the types and number of CDFIs and minority depository institutions that received ECIP awards, and
- the distributions (including minimum, median, and maximum values) for ECIP recipients' assets and RRP and ECIP award sizes.[2]

We also analyzed data on fiscal year 2021 CDFI Program, RRP, and ECIP awards to determine the number of institutions that received (1) CDFI Program and RRP awards; (2) CDFI Program and ECIP awards; and (3) CDFI Program, RRP, and ECIP awards. For each of the three groups, we calculated the median award amount by program.

[1]Two types of entities that are not yet certified CDFIs are eligible to receive technical assistance awards through the CDFI Program or Native American CDFI Assistance Program: (1) Emerging CDFIs are noncertified entities that demonstrate in their award applications that they have an acceptable plan to meet CDFI certification requirements by the end of the award period of performance or another date that the CDFI Fund selects. (2) Sponsoring entities are legal organizations that primarily serve Native communities and plan to create a separate legal entity that will become a certified CDFI primarily serving Native communities by a date specified in the award assistance agreement.

[2]Treasury had not made awards for the third emergency program—Equitable Recovery Program—as of October 2022.

To determine how institutions have used CDFI Program and RRP funds, we analyzed data from two types of reports that recipients submit to Treasury via AMIS—Uses of Award Reports and Transaction Level Reports (TLR). Uses of Award reports provide information on the amount of award funds recipients spent on different categories of activities. We obtained data that CDFI Program financial and technical assistance award recipients reported to Treasury from fiscal year 2016 to June 30, 2022, and data that RRP recipients reported from the program's inception through June 30, 2022. The data included reports from recipients of CDFI Program financial and technical assistance awards and recipients of RRP awards.[3] We analyzed these data to calculate the amount and share of award dollars that CDFI Program and RRP recipients spent on the financial and technical assistance categories.

While the Uses of Award data specifically reflect institutions' spending of program funds, the TLR data include information on all of the transactions (such as loans and investments) recipients made, regardless of funding source. We obtained TLR data for fiscal years 2016–2020.[4] The data only include CDFI Program recipients because RRP awards were made in June 2021.[5] Also, because technical assistance recipients are not required to submit these reports, the data only include financial assistance recipients. We analyzed these data to determine the number and dollar amount of the transactions recipients made, as well as the transaction type (e.g., term loan, line of credit, or equity investment) and

[3]Institutions can receive an award from the CDFI Program for either financial assistance or technical assistance, but not both, in the same funding round. Financial assistance awards must be used for activities in six specific categories (such as providing financial products or services), while technical assistance awards must be used for activities in a different set of seven categories (such as staff compensation or travel costs). In contrast, RRP awards can be used for activities in any of these financial or technical assistance categories. However, there is a limitation on how much of the RRP award can be spent on the seven categories associated with CDFI Program technical assistance awards (recipients may spend up to $200,000 or 15 percent of their grant, whichever is greater, on activities in the seven categories). The data we obtained did not include reports from recipients of financial or technical assistance awards from the Native American CDFI Assistance Program or reports on the use of supplemental financial assistance from the CDFI Program.

[4]From fiscal years 2018 through 2020, Treasury required recipients to submit data only on transactions they originated during the reporting period, while in fiscal years 2016 and 2017, it required recipients to submit data on all of the transactions that were outstanding at any time during the reporting period. However, the data we obtained from Treasury for fiscal years 2016 and 2017 only include transactions recipients originated during the reporting period in order to allow for accurate comparisons across years.

[5]The TLR data also included recipients of financial assistance from the Native American CDFI Assistance Program.

purpose (e.g., consumer, business, or home purchase). We also analyzed characteristics of individuals and businesses that received transactions, including income status, credit score, and business structure (e.g., for-profit, nonprofit, or other structures).

To supplement this work, we also conducted a literature review to identify and summarize research on the economic impact of CDFI Program funds. Our review encompassed studies published from January 2010 to early July 2022. To identify studies, we searched databases of scholarly articles, public policy research, and Federal Reserve System publications, among others. We identified three studies, each of which were reviewed by a GAO economist. Two of the studies then underwent a secondary review by a GAO methodologist. Based on these reviews, we determined that one of the three studies provided reliable information about the economic impact of CDFI Program funds.

Additionally, to provide insight on locations potentially affected by CDFI Program awards, we analyzed geographic, demographic, and socioeconomic information of the counties where recipients were located and the census tracts where they were conducting projects. For our county-level analysis, we used the matched CDFI Program recipient data discussed earlier to identify the addresses of fiscal year 2019–2021 award recipients.[6] We used this information, in addition to other data sets described later in this appendix, to determine (1) the metropolitan classifications of recipients' reported locations and (2) the county-level characteristics of those locations.[7] For our census tract-level analysis, we used census tract codes for projects reported by CDFI Program financial assistance recipients in the TLR data for fiscal years 2016–2020. These codes represent the census tracts associated with the individuals, businesses, and projects that received loans and investments from the CDFIs. Again, the TLR data included all transactions made by each CDFI, rather than only those funded using CDFI Program awards.

To identify the metropolitan classifications of recipients' locations, we first used the U.S. Department of Housing and Urban Development's ZIP

[6]As described earlier, we were able to match about 68 percent of fiscal year 2019–2021 CDFI Program award recipients to ACR data.

[7]Institutions only reported one location in their annual certification reports. For institutions with multiple branches, the data do not include additional locations beyond the one reported in the certification reports. CDFIs may make investments in communities outside of their reported location.

code to county code data set to convert recipient ZIP codes to county codes for recipients who had convertible ZIP codes.[8] We then identified the metropolitan classifications of those recipients' counties by matching their county codes to the U.S. Department of Agriculture's (USDA) 2017 metropolitan/non-metropolitan county classifications.[9]

To identify the socioeconomic and demographic characteristics of counties where recipients were located, we used the county codes we previously matched to USDA's county classifications and compared them with available data from the Bureau of the Census American Community Survey (Census ACS), 2016–2020, data, which are 5-year estimates of county-level characteristics in the United States. We reviewed characteristics such as mean percentage of county residents that were non-White, mean poverty rate, and median household income, among others. To understand differences between counties where CDFIs were located and counties where there were no CDFIs, we compared the mean characteristics of the two sets.

To determine the socioeconomic and demographic characteristics of the census tracts where CDFIs conducted projects, we identified the available census tract codes for the transactions for which we had data. We then compared these census tract codes with available Census ACS data, 2015–2019, which are 5-year estimates of census tract-level characteristics in the United States. We reviewed characteristics such as mean percentage of census tract residents that were non-White, mean percentage of census tract residents that were participating in public assistance programs, the mean poverty rate, and median housing values, among others. To understand differences between census tracts where CDFIs were active and census tracts where they were not, we compared the mean characteristics of the two sets.

We assessed the reliability of the Treasury data we used for objectives 1 and 2 by reviewing agency documentation, including Treasury data collection instructions, and by conducting electronic tests for outliers, missing data, and erroneous values. We also interviewed Treasury officials to discuss the interpretation and reliability of various data fields.

[8]Five CDFIs were located in ZIP codes that did not have a county equivalent in the data set we used.

[9]The most recent update of these classifications was in 2017. Two of the CDFIs in our data set were located in Puerto Rico, which does not have metropolitan/non-metropolitan county classifications, so they are not included in this analysis.

We determined the data we used were sufficiently reliable for describing selected attributes of award recipients and transaction participants (individual and business borrowers), award and transaction amounts, uses of funds, and selected characteristics of areas where award recipients were located or active.

Steps Treasury Took to Address Emergency Program Risks

To examine steps Treasury took to address risks posed by the emergency programs, we examined policies and procedures for the emergency programs on eligibility and targeting requirements, recipient selection, and post-award financial terms and reporting requirements. We also compared the policies and procedures for the emergency programs to those for the CDFI Program in fiscal year 2021 to identify streamlined processes that could introduce risks to program integrity. We reviewed documentation and interviewed Treasury officials who designed the programs to determine whether and how Treasury addressed the risks we identified. We also reviewed the emergency programs' policies and procedures to determine what controls were in place to help ensure awards were made in accordance with statutory requirements and to institutions that had the capacity to use the funds as intended.

We also reviewed documentation on and interviewed Treasury officials about agency mechanisms to help prevent fraud, waste, and abuse in the emergency programs. Because the emergency programs were in the early stages of implementation, we did not evaluate the extent to which Treasury's approach aligned with leading practices for fraud risk management. Additionally, we reviewed requirements in the Payment Integrity Information Act of 2019 regarding assessment of improper payment risks. We reviewed the improper payment risk assessment Treasury conducted for RRP and discussed with Treasury officials their plans for completing assessments for the other emergency programs. Finally, we reviewed Treasury Office of Inspector General (OIG) reports on the emergency programs and Treasury documentation of steps taken to address OIG recommendations.

We conducted this performance audit from March 2022 to December 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix III: Information on the Lines of Business and Services Provided by CDFI Program Recipients

We analyzed available information on Community Development Financial Institutions (CDFI) that received CDFI Program awards in fiscal years 2019–2021, including (1) their primary lines of business, (2) the development services they reported providing, and (3) the financial services they reported providing.[1] Over that period, about 75 percent of CDFI recipients with available data cited consumer, residential real estate, or business finance as their primary line of business (see table 19). About 25 percent cited commercial real estate, intermediary finance, microfinance, or “other” as their primary business line.

Table 19: Primary Business Lines of CDFI Program Recipients with Available Data, Fiscal Years 2019–2021

	Business finance	Consumer finance	Intermediary finance	Microfinance	Commercial real estate finance	Residential real estate finance	Other	Total
Number	121	137	11	69	37	118	10	**503**
Percentage	24.1%	27.2%	2.2%	13.7%	7.4%	23.5%	2.0%	**100%**

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Notes: For our analysis, we matched Treasury’s fiscal year 2019–2020 certification data to Community Development Financial Institutions (CDFI) Program awards data for fiscal years 2019–2021. Because of the unavailability of fiscal year 2021 certification data and because not all CDFIs who received awards were required to submit these data, this analysis includes the approximately 68 percent of recipients for which data were available.

The data in the table include institutions that received financial or technical assistance awards from the CDFI Program or the Native American CDFI Assistance Program, as well as those that received supplemental assistance awards for the Healthy Food Financing Initiative or Persistent Poverty Counties.

During that same period, according to available data, about one-half of the development services that CDFIs reported providing were technical assistance services, such as business assistance and homeownership counseling (see table 20). About 37 percent of services provided focused on consumer education (i.e., credit counseling and financial education), and the remaining 13 percent were other services.

[1]Fiscal year 2021 CDFI certification data were not yet available when we conducted our analyses. For our analysis, we matched the Department of the Treasury’s fiscal year 2019–2020 certification data to CDFI Program awards data for fiscal years 2019–2021. Our analysis does not capture all recipients because of the unavailability of fiscal year 2021 certification data and because not all CDFIs that received awards in fiscal years 2019–2021 were required to submit annual certification data (e.g., emerging CDFIs). Our analysis includes the approximately 68 percent of recipients for which data were available.

Table 20: Types of Development Services CDFI Program Recipients Offered with Available Data, Fiscal Years 2019–2021

	Credit counseling	Financial education	Business technical assistance	Homeownership counseling and technical assistance	Real estate technical assistance	Other	Total
Number	442	527	640	366	267	346	**2,588**
Percentage	17.1%	20.4%	24.7%	14.1%	10.3%	13.4%	**100%**

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Notes: For our analysis, we matched Treasury's fiscal year 2019–2020 certification data to Community Development Financial Institutions (CDFI) Program awards data for fiscal years 2019–2021. Because of the unavailability of fiscal year 2021 certification data and because not all CDFIs who received awards were required to submit these data, this analysis includes the approximately 68 percent of recipients for which data were available.

The data in the table include institutions that received financial or technical assistance awards from the CDFI Program or the Native American CDFI Assistance Program, as well as those that received supplemental assistance awards for the Healthy Food Financing Initiative or Persistent Poverty Counties.

According to available data, CDFIs reported that loans accounted for about 96 percent of the financial services they provided from fiscal years 2019 through 2021 (see table 21). The remainder consisted of equity investments (about 3 percent) and loan guarantees (1 percent).

Table 21: Types of Financial Services CDFI Program Recipients Provided with Available Data, Fiscal Years 2019–2021

	Equity investments	Loan guarantees	Loans	Total
Number	76	35	2,775	**2,886**
Percentage	2.6%	1.2%	96.2%	**100%**

Source: GAO analysis of Department of the Treasury data. | GAO-23-105952

Notes: For our analysis, we matched Treasury's fiscal year 2019–2020 certification data to Community Development Financial Institutions (CDFI) Program awards data for fiscal years 2019–2021. Because of the unavailability of fiscal year 2021 certification data and because not all CDFIs who received awards were required to submit these data, this analysis includes the approximately 68 percent of recipients for which data were available.

The data in the table include institutions that received financial or technical assistance awards from the CDFI Program or the Native American CDFI Assistance Program, as well as those that received supplemental assistance awards for the Healthy Food Financing Initiative or Persistent Poverty Counties.

Appendix IV: GAO Contact and Staff Acknowledgments

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Staff Acknowledgments

In addition to the contact named above, Steve Westley (Assistant Director), Melissa Kornblau (Analyst in Charge), David Ballard, Chelsea Carter, Hannah Dodd, Garrett Hillyer, Jill Lacey, John McGrail, Zamir Ruli, and Jena Sinkfield made key contributions to this report.

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