First Nations Oweesta Corporation

Snapshot 2012: Native CDFIs and the Capital Access Challenge

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Snapshot 2012: Native CDFIs and the Capital Access Challenge

Certified Native CDFIs: Funding, Capitalization and Unmet Financing Demand

In August, 2012, First Nations Oweesta conducted a survey of certified Native CDFIs in order to document the need for increased investment in Native CDFIs.

Methodology: Oweesta emailed all certified Native CDFIs requesting their assistance in this endeavor and pledged to post major findings for the field on its website. The email stated that Oweesta's goal was to provide data-driven research that could be used by all Native CDFIs to support future requests for funding. The email provided an on-line link to Survey Monkey. Data collected by Survey Monkey was analyzed by independent consultants who maintained strict confidentiality with respect to the information reported. Oweesta was only provided with the names and contact information of respondents who wished to be entered in a drawing for five (5) Office Depot gift certificates of $250 each.

Participation Rate: The participation rate of certified Native CDFIs was noteworthy, with 39 of 71 (or 55%) certified Native CDFIs completing the survey. This is a substantially higher participation rate than the 30% average reported by the University of Texas in 2009 for online surveys.

Information about the Survey Respondents: Certified Native CDFIs that participated in the survey spanned a broad range of entities, length of operations, and organizational size.

- Date established: Of the 39 respondents, 24 were established prior to the CDFI Fund's sponsorship of the Native Communities Financing Initiative. The greatest longevity was reported by a financial institution established in 1907. The oldest nonprofit loan fund was established in 1937 and the second oldest in 1951. The most recently established organization is a credit union incorporated in 2011.

- Date certified: Seventeen organizations received certification after the Native Communities Financing Initiative was launched. The earliest date of CDFI Fund certification was 1998 when certification was achieved by three Native CDFIs (one financial institution and two nonprofit loan funds).

- Type of entity: Three respondents did not specify the type of entity for their CDFI. The 36 responses to this question identified 27 nonprofit loan funds, two for-profit loan funds, three credit unions, three financial institutions[1] and one Business and Industrial Development Corporation (BIDCO).

- Asset Size: With financial institutions, respondents reported average assets of nearly $17.2 million, with a range of $500,000 to $110 million. The three financial institutions heavily skewed this computation, with assets of $98 million, $105 million and $110 million, respectively. A better picture of the remaining Native CDFIs is achieved by excluding these financial institutions, resulting in an average asset size of $7.5 million and a range of $500,000 to $41.3 million.

- Annual Operating Budget: The smallest annual operating budget was $50,000 for a nonprofit loan fund certified in 2010, followed by a $75,000 budget of a nonprofit loan fund certified in 2001. The largest operating budget was $10 million for a Business and Industrial Development Corporation (BIDCO), followed by $6 million for a financial institution. The largest nonprofit loan fund budget was $1.7 million for an organization certified in 2006, followed by the $1.3 million operating budget of an organization certified in 2003. Two credit unions had $1 million operating budgets (certified in 2003 and 2011), while the third credit union's operations ran just over $475,000 annually (certified in 2011).

1 Two banks and one self-described "Lending Institution."

Key Observations and Findings

- **By far, the CDFI Fund constitutes the most significant source of operating funds for certified Native CDFIs.** *Nearly 91% of respondents indicated that the CDFI Fund was a current or past source, while nearly 77% indicated that the CDFI Fund serves as a "primary source" of operating funds (defined as providing 20% or more of annual operating costs).* Although respondents reported accessing diverse sources for operating funds, only the CDFI Fund has supported the lion's share of Native CDFIs. The rate at which respondents' operations relied on various funding sources are:

Source of Operating Funds	Native CDFIs that have received operating funds	Native CDFIs for which funding is a "primary source"
CDFI Fund	91%	77%
Other Federal Grants	58%	43%
Tribes	54%	33%
Foundations	48%	13.3%
Oweesta/First Nations Development Institute	36%	3%
Local/State grants	18%	10%
Banks	15%	N/A

  In addition to the above, seven respondents (or 18%) noted that earned revenue covered more than 20% of their operating budget. For six of these groups, earned revenue derived from lending activity, while one group cited revenue from New Markets Tax Credits. Other significant sources that supported at least 20% of operating costs included funds from three Tribal Housing Authorities, USDA, annual fundraising appeals, and an Alaska Native corporation.

- **The vast majority of respondents were able to secure sufficient loan capital to begin lending within one year of incorporation (68% of respondents), while another 18% were able to secure sufficient loan capital within two years.** However, a significant segment (13.5%) took substantially longer to garner sufficient loan capital to begin lending, with 4.5% taking up to three years, another 4.5% taking up to four years and another 4.5% taking over five years. Although a small percentage of certified Native CDFIs fall into this latter category, the protracted time frame may indicate a significant need for a source of up-front capital so that efforts to begin lending are not derailed.

- **For this respondent pool, Tribal sources constitute the single most important source of initial loan capital, as specified by 47% of respondents.** Federal programs provided initial loan capital for 38%, while 15% received loan capital from foundations. Only 0.5% of respondents received initial loan capital from local or State grants. Other sources include Tribal Housing Authorities, a bank EQ2 (equity equivalent investment), a BIA loan and deposits from credit union members. [Note: Totals would exceed 100% as a number of respondents cited more than one source.]

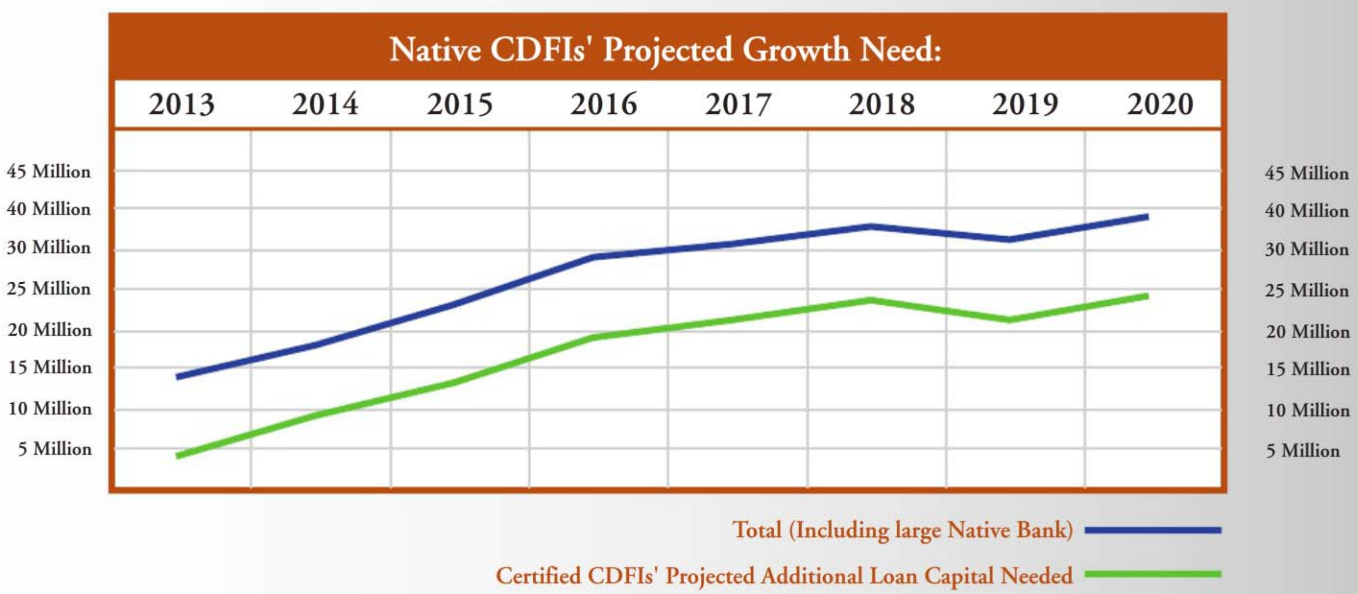
- **Respondents' lending capacity varies greatly, with current loan capital bases of as little as $250,000 for a nonprofit loan fund certified in 2012 to as large as $60 million for each of a financial institution and a BIDCO.** The next largest loan capital base is $10 million for a nonprofit loan fund certified in 2004. Overall, the average loan capital base exceeds $8.5 million for these respondents. However, when the two largest Native CDFIs are eliminated from the computation, the average loan capital base is just over $3.2 million.

- **Certified Native CDFIs rely heavily on equity sources for loan capital, with 41.2% of respondents to this question reporting 100% equity capital and another 23.5% reporting 90% or more equity capital.** Another 17.6% have equity capital of at least 50% but less than 90%. Only 17.6% of respondents are significantly leveraged, with equity capital ratios ranging from 20% to 39%.

- **Despite substantial asset growth, certified Native CDFIs are still unable to address financing demand in their communities.** Nearly 48% of respondents indicated that they had insufficient loan capital to satisfy financing demand in their Target Markets. Financing demand exceeded these Native CDFIs' capacity by $4.9 million in 2009, nearly $5.6 million in 2010 and nearly $7.7 million in 2011. *These Native CDFIs are projecting that the deficit in available lending capital as compared to demand will grow to nearly $14.6 million in 2012.*

- **The Native CDFI field substantiates financing demand and engages in capitalization planning to a high degree in order to inform long-range business planning, with 81% of respondents documenting financing demand and 85.5% having current capitalization plans.**

- **Native CDFIs project a substantial loan capital need to satisfy financing demand in their Target Markets, which would necessitate a 55% growth rate in 2013 alone.** From 2013 through 2020, respondents project that new loan capital needs will grow from nearly $14.2 million to over $34 million. When controlling for a large Native bank that projects an additional need for $10 million annually, the remaining respondents foresee a 2013 need for $4.175 million in new loan capital as compared to current assets of just under $7.6 million. The rate of growth that this would necessitate signifies a need for increased availability of appropriate technical assistance services that best facilitate strong management capacity in the face of rapid organizational expansion.



- **Since 2009, 77.3% of respondents received loan inquiries that were too large to finance.** Aggregate unmet financing demand from loans exceeding these Native CDFIs' capacity ranged from $32.6 million to nearly $36.2 million from 2009 to 2011. Excluding one large bank that reported annually receiving $20 million of loan requests that exceeded its loan limits, historical demand for larger loans amounted to $17.55 million in 2009 and grew steadily to over $23.2 million in 2011. For 2012, all respondents projected requests exceeding their loan limits would amount to nearly $32.4 million. Without the large bank, the total is still substantial at $22.4 million.

- **Oweesta plays a key role in helping Native CDFIs to address financing demand in their Target Markets and serves as a critical source of debt capital. Despite the substantial build-up of the Native CDFI field in recent years, only one-third (33.3%) of respondents have borrowed loan capital.** By far, the most common source of debt capital was Oweesta, with ten (or 25.6%) respondents having received Oweesta loans. Only six Native CDFIs (or 15.4%) have secured debt capital from foundations and/or banks, key sources for the CDFI field generally.

    - Only five respondents indicated they had secured loans from federal programs (CDFI Fund, SBA, USDA), Tribes or, for one credit union, the National Credit Union Administration.

    - Ten of 39 respondents (or 25.6%) currently have debt capital on their balance sheets. These ten have total debt capital of nearly $14.4 million.

    - Four have applied for debt capital from a bank and all were approved.

    - Seven or only 17.9% have applied for debt capital from a foundation, with five or 71.4% approved. For the two loans that were denied, respondents stated that the reason was "net revenue too low" or "no explanation provided."

- **Oweesta serves as the first source of debt capital for a significant percentage of Native CDFIs.** Ten of 39 respondents (or 25.6%) have secured Oweesta loans. For six (or 60%) of these applicants, the Oweesta loan was their first source of debt capital.

- **Native CDFIs are reluctant to acquire debt capital that requires a balloon payment at maturity unless they can be assured of renewals.** Nearly 60% of respondents reported either concerns about balloon payments or needing more confidence that loans would be renewed before they would take on debt capital.

Native CDFIs: Access to Debt Capital Investments

In August, 2012, First Nations Oweesta conducted a survey of certified Native CDFIs – a 71-entity pool as of June 30, 2012 per the CDFI Fund. The participation rate of certified Native CDFIs was noteworthy, with 39 or 55% responding. The respondents reflected the full spectrum of the Native CDFI field. Entity types included financial institutions, nonprofit and for-profit loan funds, credit unions and one Business and Industrial Development Corporation. Length of operations ranged from one year to 105 years. Total assets ranged from $500,000 for a nonprofit loan fund to $110 million for a financial institution. Annual operating budgets ranged from as little as $50,000 for a small loan fund to $6 million for the BIDCO.

Nonetheless, it appears that Native CDFIs have limited opportunities to access debt capital. Only one-third or 13 of the 39 respondents have borrowed loan capital and the primary source was Oweesta (ten of the 13 had secured Oweesta loans). Unlike many of their non-Native counterparts, only six Native CDFIs, or 15.4% of the respondent pool, have accessed debt capital from banks and/or foundations. Only four survey participants have borrowed capital from a bank and only five have received a foundation Program Related Investment (PRI) or loan.

Native CDFIs' limited use of debt capital investments required further exploration in light of survey respondents' challenges in serving their Target Markets. Nearly 48% were unable to satisfy a substantial volume of financing demand in their Target Markets since 2009. The loan capital deficits reported amounted to $4.9 million in 2009, nearly $5.6 million in 2010, and nearly $7.7 million in 2011. Further, these certified Native CDFIs are projecting a deficit of nearly $14.6 million in 2012. These totals do not include loan requests exceeding Native CDFIs' loan limits. Over the same time period, annual requests for over-the-limit loans ranged from $17.55 million to $22.4 million.

Oweesta therefore sought to shed light on the accessibility of traditional debt capital sources. In particular, Oweesta sought to ascertain the extent to which Native CDFIs' operations are aligned with potential investors' expectations. Oweesta interviewed five banks and six foundations operating on a national or regional basis. Although an investigation of limited scale, the findings are instructive. It appears that Native CDFIs generally are not well positioned to access debt capital from these sources. As individual requirements vary, the following only identifies the most salient considerations that can be generalized across most of the investors interviewed.

I. Traditional debt capital sources have very limited investments in Native CDFIs

Investors described making primarily large-scale investments in regional CDFIs and CDFI intermediaries. For these unsecured loans with a high level of risk, both banks and foundations conduct in-depth underwriting of a CDFI and its portfolio. In the majority of cases, investors find that it is not cost-effective to underwrite smaller loans. Together with other investment terms and underwriting requirements (each described below), this effectively limits the pool of Native CDFIs that would generally meet investor requirements. It should be noted, however, that at least one interviewee observed that this does not reflect an intentional investment strategy, but instead is due to the types of Native CDFIs applying for these loans. The survey of certified Native CDFIs would support this supposition, as only eight of the 39 respondents reported applying for debt capital from banks and/or foundations. However, it may be that Native CDFIs are not applying because they are aware that they

cannot satisfy the general investment parameters and underwriting requirements described below. The following summarizes these investors' experience with Native CDFIs.

- Of the five banks interviewed, three indicated that they had not made any investments in Native CDFIs. Two banks described very limited portfolios, with one acknowledging that it would be hard for most Native CDFIs to meet their requirements given their limited operating histories. The remaining bank has seen a recent investment trend in Native CDFI intermediaries (i.e., lending to other Native CDFIs) but noted this may be a reflection of the types of Native CDFIs requesting bank loans.

- For the six foundations consulted, only one had a substantial history of investing in Native CDFIs (over 20 years). Another's portfolio currently holds four Native CDFI investments. Three foundations had not made any direct investments in Native CDFIs, but had funded local foundations to provide resources (grants and/or PRIs) to Native communities. The remaining foundation had not made any PRIs to Native CDFIs but had provided operating grants.

II. Investment Parameters Limiting Native CDFIs' Access to Debt Capital

Because these investments must be repaid, both foundations and banks are looking to mitigate risk. Balanced against the need to structure cost-effective investment programs, this effectively limits the pool of Native CDFIs that would be suitable candidates for a loan or PRI.

Generally, many Native CDFIs have insufficient assets to qualify for a typical bank or foundation investment. Many debt capital sources have investment "floors" – the minimum investment amount considered to be sufficient to justify the cost of underwriting the loan or PRI. The maximum investment is generally calculated as a percentage of total assets, net assets, total loan capital or the outstanding portfolio. For many Native CDFIs the maximum investment amount would fall short of investors' typical "floor."

- Even for regional foundations, an investment of $200,000 or $250,000 would be considered "small." Foundations reported average investments ranging from $500,000 to $3 million. One foundation indicated that it would limit PRIs to 10% of total assets, while another specified that all of its investments were subject to a financial covenant requiring the CDFI to maintain a 15% unrestricted net asset ratio.

- Only one bank regularly makes investments as small as $100,000. Generally, banks reported a $1 million average investment, with one indicating a recent investment trend of $2 million to $3 million. One bank reported limiting investments to 10% of outstanding loans, while another stated that its investment limit would be 25% of total loan capital. However, the latter bank also indicated that it might go up to 25% of net assets if it was the only debt investor.

Opportunities to secure smaller investments are limited. In some cases investments may be smaller than the "typical" sizes described above. In certain cases a Native CDFI may fit within a narrow exception to this general rule – by conforming to a foundation's program priorities or if a bank has a new investment need because of an expanded CRA assessment area. For example, one bank recently acquired another institution, expanding its commercial footprint by several states. The bank was therefore actively seeking investments in the newly appended region. In another case, a bank acknowledged that it made a smaller investment because a key competitor had already invested in a specific CDFI.

III. Investment Terms may Deter Many Native CDFIs

Based on the survey of certified Native CDFIs, it appears that standard investment terms are not well-suited for many lending programs. ***Many Native CDFIs would first need to make fundamental changes in their business models in order to prudently access these debt capital sources***. Reluctance to take on debt that must be repaid also severely limits Native CDFIs' ability to diversify loan capital sources. Debt capital has served as a key resource for the industry generally, helping the vast majority of CDFIs to broaden their Target Market reach. Yet most Native CDFIs continue to overlook this ready source to augment available lending capital.

Existing debt capital sources are not a good fit for the many Native CDFIs making longer term loans such as 15-year and 30-year residential mortgages. Interviewees generally do not want to tie up their investment capital for longer than ten years. One bank regularly makes 10-year loans. In every other case, banks reported a preference for loans of five years or less, noting that a 10-year loan is difficult to secure. Minimum terms for foundation PRIs ranged from five to ten years. Some foundations reported maximum terms of seven years, while most offered investments of up to ten years.

In order to access debt capital and still maintain current interest rate spreads, many Native CDFIs would need to increase rates charged to borrowers. Many Native CDFIs charge interest rates substantially below market in order to make loans affordable to lower-income Target Market members. But sizable discounts from market generate minimal interest rate spreads over cost of funds. Consequently, many Native CDFIs rely heavily on equity capital. In the survey of certified Native CDFIs, nearly 65% reported equity capital of 90% or more, with 41.2% reporting 100% equity capital. As a higher cost of funds would necessitate increased interest rate charges to borrowers, this would further decrease access to financing for lower-income Target Market members.

- Foundation PRIs generally may be more accommodating for Native CDFIs operating on slim margins. One foundation reported a minimum rate of 0%, while others started at 1%. One foundation charged a set 1%. Otherwise, foundations' maximum rates ranged from 1.5% to 3%.
- Interest rates on bank loans generally are higher, though some bank investments are comparable to foundation PRIs. One bank offered a set 2%, while another indicated that its lowest rate was 1%. Maximum rates ranged from 3.5% to 4%.

Many Native CDFIs are reluctant to acquire debt capital that requires a balloon payment at maturity unless they can be assured of renewals. Per the survey of certified Native CDFIs, nearly 60% reported either concerns about balloon payments or needing more confidence that loans would be renewed. However, such terms generally are not available in the current marketplace. Most investors noted that their loans must be repaid before they would consider another investment and extensions were rarely offered. Seven of the 11 debt capital sources (or 64%) indicated that their investments required a balloon payment at maturity. Four described "stepped down" principal payments in the last two or three years that would fully amortize the loan by maturity. One bank noted that multiple loans were possible so long as the CDFI applied in different CRA exam periods. Another bank indicated that if a CDFI could document sufficient demand, it might consider an additional investment. In that case, the original loan would be extended to match the second.

IV. Inability to Satisfy Investor Underwriting Requirements

On the surface, a large number of Native CDFIs could satisfy investors' underwriting requirements. However, it appears that the underwriting process delves deeply into the management experience and capacity of CDFIs. The following describes only those underwriting considerations that most impact Native CDFIs' ability to access these investments.

The lack of prior experience managing and repaying debt capital investments significantly reduces access for many Native CDFIs. As indicated previously, only 15.4% of respondents to Oweesta's survey of certified Native CDFIs reported that they have secured debt capital from banks and/or foundations. Consequently, the percentage of Native CDFIs that could demonstrate repayment of a debt capital investment is substantially limited. Foundations generally are more accommodating to this lack of experience – five of six said they are willing to be first investor. Some foundations note that a strong equity position must be present to counterbalance the lack of debt capital experience. In contrast, banks generally require a CDFI to demonstrate that it has repaid a prior investment. Only one bank indicated that it has been the first investor on many occasions.

Although prior debt capital repayment is not universally required, all investors require a demonstrated ability to repay debt. Some investors measured ability to repay debt by requiring net asset and operating liquidity ratios exceeding the CDFI Fund's Minimum Prudent Standards (MPS). Net asset ratio requirements of as high as 30% were reported as compared to the MPS of 20%. For operating liquidity, some investors specified unrestricted cash covering at least six months of expenses, as compared to the MPS of three months. For Native CDFIs relying on restricted operating grants and generating limited earned revenue, this last requirement may be difficult to satisfy.

Oweesta plays a critical role in helping build Native CDFIs' capacity to access debt capital. Of the 39 certified Native CDFIs surveyed, 10 or 25.6% had obtained loans from Oweesta. Oweesta is able to provide loans on terms that are more accessible for a wider range of Native CDFIs. By expanding this role, Oweesta can increase the number of Native CDFIs that have successfully repaid debt capital investments.

Many Native CDFIs meet investors' minimum requirements for lending and portfolio management experience; however, supplementary investor considerations may outweigh this experience. All interviewees would consider investing in a Native CDFI with five years of experience. Exceptions include two banks that require a minimum of three years. Two foundations will invest in less experienced CDFIs that fit their program priorities. One will consider a CDFI with two years of experience. Another will invest in start-ups that can demonstrate there are no alternative lenders serving their market provided they have a good business plan. Despite meeting minimum experience requirements, many Native CDFIs would be unable to access this debt capital because some investors' analysis of experience impose further requirements:

- For some investors, management resumes must demonstrate 10 to 15 years of experience in the key areas of finance and financial management, plus a proven track record. Many Native CDFIs operating in remote areas have had to build this capacity from the ground up and therefore could not satisfy this additional concern.

- Portfolio performance must generally conform to CDFI industry standards. A number of investors specified that if portfolio quality is not on par with the field generally, a Native CDFI must establish a compelling case for why the investment is still sound. This requirement is difficult to meet in the absence of either complete portfolio turnover (see Underwriting Parameters, below) or other research for the Native CDFI field documenting that, despite higher portfolio risk, a Native CDFI's risk mitigation strategies successfully preserve the loan capital base. This is a key consideration as investors' paramount concern is how well they are protected from risk of loss.

- Some investors want to see complete turnover in a CDFI's portfolio before they will consider investing. For Native CDFIs that are making longer term loans, this would mean that they would have to have substantially more lending experience than that cited by interviewees.

- A number of investors noted that less experienced and smaller CDFIs generally do not have the capacity to collect and analyze robust impact data. Investors emphasized the need to measure both social and economic impact, beyond the standard measures reported to the CDFI Fund. Some investors elaborated that cumulative economic impact in the community would include immediate and longer-term job creation, increased incomes and assets, as well consideration of economic multipliers.

Many Native CDFIs cannot provide three years of audited financial statements to investors. Every one of the banks and foundations interviewed specified that at least three years of audited financial statements are required. One bank required five years of audited financials. Given the scarce resources available to most Native CDFIs, even after they are sufficiently established, many consider the cost of an audit to be prohibitive. For many Native CDFIs the trade-off is one of immediate returns (delivering much needed financial education and other development services to highly distressed Target Markets) as compared to some future return (of being able to deliver increased financing to the community). Other factors noted by a number of interviewees as adversely impacting their assessment of investment risk include:

- Internal control findings because of limited staff size would be a concern, especially for banks that are held to regulatory safety and soundness standards.

- For audit findings generally, a key consideration will be how management has responded – whether the CDFI has incorporated procedures that soundly address the issue.

- Prior period adjustments and reclassifications to conform to GAAP also raise substantial questions. When audited financials are not comparable from year to year, it may hamper an investor's ability to conclude that the loan or PRI is a wise investment.

- Every CDFI needs to ensure that it has an auditor that is familiar with the CDFI industry, appropriate balance sheet classifications and portfolio management standards. Failure to correctly classify assets and liabilities can substantially impact the financial ratio analysis. When an audit presents such problems, it is difficult to make the case for an investment because it shows that the CDFI's management is not cognizant of these issues. The lack of awareness generates substantial questions regarding management capacity, thereby increasing the perceived investment risk.

Some foundations noted that these and similar concerns could possibly be addressed by providing a capacity-building grant or by requiring a fiscal agent.

Although many Native CDFIs have demonstrated capacity to deploy an investment, others may struggle to satisfy investors' documentation requirements. Investors universally required deployment ratios demonstrating a need for more loan capital, though all would consider loan pipelines and documented unsatisfied demand. Altogether, this information must show the capacity to deploy 75% to 85% of the investment within two years. As noted earlier, smaller and less experienced Native CDFIs may encounter substantial challenges in meeting these requirements, especially if unmet demand cannot be corroborated by historical lending activity. In such cases, a Native CDFI must substantiate the need for more loan capital based on a robust analysis of unmet financing demand, including a sound methodology that incorporates an appropriate borrower readiness measure in quantifying demand. The limited data available to Oweesta suggests that only a small percentage of Native CDFIs could meet this standard.

These elevated requirements for documenting demand may present a major stumbling block for Native CDFIs, particularly those that began lending with only sufficient loan capital to support small loans despite market need for much larger loans. One respondent to the survey of certified Native CDFIs started lending with only $40,000 of loan capital. Some Native CDFIs have started by offering only Credit Builder Loans (i.e., consumer loans of $500 to $1,000) in order to build a sufficient portfolio to obtain CDFI Fund certification. Even though a Native CDFI may have since acquired additional loan capital, many are reluctant to offer larger loans if they cannot guarantee influxes of additional capital to sustain loan volume. Some Native CDFIs have had to suspend residential lending activity for this very reason. For such Native CDFIs, historical track records and limited capacity to document demand would severely constrain their ability to raise debt capital.

Investors are increasingly turning to ratings from CARS (CDFI Assessment and Rating System) to augment the underwriting process. Only two Native CDFIs have been rated thus far. In order to obtain this rating, a Native CDFI must have at least three years of audited financial statements, though the analysis is based on performance over five years. Although investors want confirmation that a CDFI is financially sound, the rating is not the key consideration for all investors. According to Paige Chapel, President and CEO of CARS, investors place greater importance on the fact that a CDFI has completed the rating process – as rated agencies strive to improve their rating, this contributes to enhanced capacity for the CDFI. The cost of obtaining a rating is based on total assets. In 2012 the minimum cost is $6,000 for CDFIs having total assets of $15 million or less, plus a one-time fee to cover two days on site for analysts. As the rating is effective for three years, the annualized cost is closer to $2,000. As with annual audits, many Native CDFIs may be reluctant to incur this additional expense given their scarce financial resources. However, as investors are increasingly turning to CARS ratings, Native CDFIs may wish to incorporate audit and CARS rating costs in their longer range financial planning.

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