



CARS™: A New Vehicle for CDFIs & Investors
CRA Roundtable
Federal Reserve Bank of San Francisco

November, 2006



Agenda

- Review Purpose of CARS™
- How does CARS™ work?
- CARS™ Implementation: Where are we?
- Feedback on CARS™
- What Can CARS™ do for Investors?
- Questions/Discussion



CARS™: The CDFI Assessment and Rating System

Purpose

To increase the amount of capital available to CDFIs and to promote CDFI performance as a primary criterion determining the flow of capital through CDFIs.

Use

Currently rating unregulated CDFIs with 3-5 years lending experience. Primarily debt investors.



CARS™: The CDFI Assessment and Rating System

Objectives

- Facilitate investments by existing investors
- Attract new investors and funders (longer term)
- Help prepare CDFIs for the capital markets
- Promote alignment of capital with performance
- Help CDFIs improve their performance
- Promote standardization of information and industry-wide performance standards



How Does CARSTM Work? (1)

Full CARSTM Analysis

- Impact performance rating (4 criteria):
AAA, AA, A, B
- Policy Plus
- Financial strength and performance rating (CAMEL): 1-5
- Comprehensive analysis of impact performance and financial strength and performance with text, 5 years of financial spreads, charts, tables, etc.
- Annual reviews



How Does CARS™ Work? (2)

- CARS™ subscribers indicate CDFIs for which they would like a ratings analysis
- CDFI joins pipeline; scheduled for rating; pays fee
- Analysts (2) review extensive documents; do financial analysis
- Analysts conduct 2-day site visit; review files; interview management
- Feedback call with CDFI and Opportunity Finance
- Analysts draft document – 40 pp with financial spreads, analysis, charts, graphs, etc.



How Does CARS™ Work? (3)

- Revisions; CDFI agrees to disseminate and submits a response
- Analysis and CDFI response go to ratings committee
- Analysis and rating sent to subscribers – must pay to have access to analysis. CDFI can share rating.
- FYE Update and Annual Review
- After 2 Annual Reviews CDFI goes through full process again



CARS™ Implementation (1)

- 22 CDFIs rated with analyses available
- 5 in process; scheduling 15 for 2007
- Developing and distributing annual reviews
- 18 investor subscribers
- Effective analysis and rating methodology
- 11 experienced CARS™ analysts
- High level advisory board of 18
 - ✓ Investors (banks, SRI, Foundations)
 - ✓ CDFI and industry representatives
 - ✓ Ratings experience (Standard and Poor's)



CARS™ Implementation (2)

- Actively marketing to banks, foundations, insurance companies, religious investors, SRI investors, etc.
- Subscribers using CARS™; beginning to “condition” deals on a CARS™ rating.
 - ✓ Conveying to CDFIs that easier to talk to if rated
 - ✓ Including covenants: must maintain a certain rating
 - ✓ Making capital commitments for rated CDFIs



CARS™ Feedback from Subscribers

2006 Interviews with subscribers

- Incorporating CARS™ materials into due diligence and monitoring
- Lenders see value as equal to or greater than cost already – more value as more CDFIs rated
- Recognize rigor and quality of analysis
- Some investors using for prospecting for investees
- Asking CDFIs whether or not rated and, if not rated, why



CARS™ Feedback from CDFIs

- CDFIs clearly improving their performance before/after CARS™ analysis
- CDFIs respect process, recognize value for own performance, recognize value for industry
 - ✓ Some disagree with their rating or details in analysis
- Eager to see financial benefits of being rated
 - ✓ Access to additional capital or better terms
 - ✓ Facilitated underwriting process



What Can CARS™ do for Investors?

- Expose them to additional investment opportunities and enable them to vet them efficiently
- Dramatically *decrease* time required for due diligence
- Improve and document high quality due diligence process for CDFI files
- Provide annual information to facilitate monitoring of CDFI investments
- Show support for transparency and accountability in the CDFI industry



Purchase Options

- Any purchase includes
 - ✓ Full analysis and rating
 - ✓ Fiscal year-end update
 - ✓ 2 annual reviews
- Single CDFI purchase - \$2,500
- 3-pak subscription - \$5,000
- Full subscription (12 analyses) - \$15,000
- SPECIAL OFFER for first time subscribers through December 31st!



For More Information

- To subscribe
- To receive a complementary sample analysis
- To request additional information

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The End

