

## OFN Membership Guidelines

November 1, 2011

### I. Introduction

Opportunity Finance Network (OFN) is the leading Membership network of community development financial institutions (CDFIs). OFN Membership offers CDFIs the opportunity to be part of a respected national organization dedicated to impact and performance, and to receive valuable Membership benefits including discounts on OFN products and services as well as access to Members-only services. For more information about OFN, visit [www.opportunityfinance.net](http://www.opportunityfinance.net).

This document describes OFN's Membership Principles, the method we use to evaluate a CDFI's alignment with these principles, the Annual Review process, and Membership dues.

Questions about OFN Membership may be sent to [membership@opportunityfinance.net](mailto:membership@opportunityfinance.net).

### II. Membership Principles, Eligibility Criteria, and Performance Expectations

OFN welcomes all CDFIs that are committed to performance to apply for Membership. Our standards for Membership are different and generally higher than the CDFI Fund's requirements for CDFI certification. Not all OFN Members are CDFI Fund-certified and not all CDFI Fund-certified CDFIs qualify to be OFN Members.

We recognize that not all CDFIs are ready for or interested in OFN Membership. We invite these CDFIs, as well as non-CDFI organizations and individuals who support OFN's mission, to become OFN Allies. For information on becoming an OFN Ally please visit [www.opportunityfinance.net/allies](http://www.opportunityfinance.net/allies).

#### A. Membership Principles

OFN Membership rests on four principles:

-  **Mission & Impact:** OFN Members have a primary mission of community development and strive to produce positive impacts on low-income, low-wealth and other disadvantaged people and communities. For CDFIs that are part of or controlled by another corporation(s), the other corporation(s) must also have a primary mission of community development.
-  **Finance-led Strategy:** OFN Members are private non-governmental financial intermediaries that provide affordable, responsible financial products and/or services as an integral part of their community development strategy.
-  **Commitment to Performance:** OFN Members demonstrate a commitment to performance by acting as disciplined lenders and/or investors in community development and responsible stewards of other peoples' resources.



- **Support for Opportunity Finance Network's Mission:** OFN Members affirm their support of OFN's mission of leading CDFIs and their partners to ensure that low-income, low-wealth and other disadvantaged people and communities have access to affordable, responsible financial products and services. Members are committed to building, growing, and improving the CDFI field through cooperation and information sharing.

To determine if a CDFI satisfies the Membership Principles, OFN follows a two-tiered process. First, we determine if the CDFI meets our Eligibility Criteria. If a CDFI meets all of the Eligibility Criteria, we further assess the degree to which the CDFI meets a set of Performance Expectations. **A CDFI is required to meet all of the Eligibility Criteria, but is *not* required to meet all of the Performance Expectations to be approved for and maintain Membership.**

## **B. Eligibility Criteria**

Consistent with our Membership Principles, to be an OFN Member a CDFI *must*:

### **Mission & Impact**

- Have a primary mission of community development and strive to have a positive impact on low income, low-wealth and other disadvantaged people and communities. If the organization is part of or controlled by another corporation(s), that corporation also has a primary mission of community development.
- Serve primarily low-income, low-wealth, or other disadvantaged people or communities.

### **Finance-led Strategy**

- Have an active lending and/or investing history of two or more years.
- Be a non-governmental entity.
- Be primarily a financing institution that provides affordable, responsible financial products and may also provide financial services.

### **Commitment to Performance**

- Pro-actively manage the risks in its portfolio and have appropriate loan and risk management policies and procedures in place to manage effectively the risks of its financing activities.
- Have positive net assets (equity) and, for nonprofit loan funds, positive unrestricted net assets.
- Have at least one completed financial audit. (For credit unions without audited financials, NCUA 5300 reports are acceptable.)



### **Support for Opportunity Finance Network's Mission**

- Affirm their support for OFN's mission of leading CDFIs and their partners to ensure that low-income, low-wealth and other disadvantaged people and communities have access to affordable, responsible financial products and services.
- Participate in OFN's required Member data collection initiatives and make a good faith effort to actively participate in OFN peer learning activities.

### **C. Performance Expectations**

Once OFN confirms that a CDFI meets all of the Eligibility Criteria, we consider the degree to which the CDFI meets the Performance Expectations.

**A CDFI is not required to meet all of the Performance Expectations to be approved for or maintain Membership.** CDFIs that are working toward meeting the expectations, that have business models that preclude them from meeting the expectations, or that have extenuating circumstances that cause them to fall short of the expectations *may* be approved for Membership. OFN also takes into consideration external factors affecting the CDFI industry as a whole, such as the performance of the economy and the financial markets, when assessing a CDFI against the Performance Expectations.



**OFN Performance Expectations (updated October 2011)**

OFN's Performance Expectations are based on a rigorous analysis of the OFN Membership. Each is set at levels that 80%-85% of the Members met in FY 2009. The Performance Expectations are updated periodically to reflect changes in Members' actual performance. (Note: The bank tier one capital and the credit union net worth ratios are not based on Member performance; rather, they are based on their regulators' minimum performance standards.)

Performance Expectation	Bank	Credit Union	Loan Fund	Equity Fund
<b>Mission &amp; Impact</b>				
Accountable to the community(ies) or population(s) it serves through some degree of Board control by community or target population Members (either voting or representation), or through some other means.	✓	✓	✓	✓
More than 75% of clients or end beneficiaries are low-income, low-wealth, or otherwise disadvantaged.	✓	✓	✓	✓
Tracks impact on low-income, low-wealth, and other disadvantaged people and communities.	✓	✓	✓	✓
Board of Directors and staff reflect the diversity of the communities they serve.	✓	✓	✓	✓
<b>Finance-led Strategy</b>				
Percent of assets (net of property and including cash available for financing activities) available for financing activities (i.e., loans, equity investments, guarantees, loan purchases, and off-balance sheet activities with recourse or some form of contingent liability).	60% or more	60% or more	60% or more	NA
Deployment rate (3-year average of \$ loans and equity investments outstanding / \$ financing capital).	55% or more	55% or more	60% or more	55% or more of first fund
<b>Commitment to Performance</b>				
Has not had a loss of borrowed funds.	✓	✓	✓	✓
Has had net positive operating results (change in equity) in at least two of the past three years.	Net positive change in equity	Net positive change in equity	Net positive operating results	NA
Has not had an operating loss of more than 10% of unrestricted net assets (equity) in the last two years.	Not more than 10% loss of equity	Not more than 10% loss of equity	Not more than 10% loss of unrestricted net assets	NA
Has more than three months of operating cash on hand.	✓	✓	✓	NA



<b>Performance Expectation</b>	<b>Bank</b>	<b>Credit Union</b>	<b>Loan Fund</b>	<b>Equity Fund</b>
Has a net assets (tier one capital, net worth) ratio commensurate with its risk profile.	4% or more (tier one capital)	6% or more (net worth)	15% or more (net assets)	NA
Has portfolio at risk (3-year average 90 + day delinquency rate) commensurate with its risk profile.	Non-current loan rate: less than 8%	> 12 months delinquency rate: less than 8%	Primarily business: less than 10% All others: less than 8%	NA
Has net charge-offs (3-year average) commensurate with its risk profile.	Less than 3%	Less than 3%	Primarily business: less than 7% Primarily micro-enterprise: less than 11% All others: less than 3%	NA

It should be noted that OFN not only expects our Members to maintain at least the levels of performance above. We are also dedicated to helping our Members achieve the highest levels of performance as defined for CDFI loan funds by the CDFI Assessment and Ratings System™ (CARSTM), the only comprehensive, third-party assessment of a CDFI's impact performance *and* financial strength and performance. OFN defines high performance as meeting the CARSTM AAA rating for Impact Performance and the 1 or 2 rating for Financial Strength and Performance. See Appendix A for the definitions of these ratings. While CARSTM was designed for community development loan funds, its approach to financial analysis is based on the CAMEL<sup>1</sup> analysis used by bank regulators, and thus the CARSTM principles apply to all types of CDFIs. For more about CARSTM visit [www.carsratingsystem.net](http://www.carsratingsystem.net).

While OFN uses CARSTM to define high performance, it does not use CARSTM to evaluate Membership applications or ongoing Membership eligibility and performance.

<sup>1</sup> CAMEL stands for capital (or capitalization); asset quality; management (including strategy, governance, management and staff, and infrastructure and management information systems); earnings; and liquidity.



### III. Annual Member Dues

OFN Members pay annual dues based on their asset size. The annual dues structure for 2011 is as follows:

CDFI Asset Size	Annual Dues
Less than \$2 million	\$250
\$2 million to less than \$5 million	\$500
\$5 million to less than \$15 million	\$1,000
\$15 million or more	\$1,500

Asset size is defined as the total assets reported on the applicant's consolidated audited financial statement, minus any New Markets Tax Credit assets. On a case-by-case basis, such as when an applicant's primary financing activities are off-balance sheet, OFN may include off-balance sheet assets when determining an applicant's asset size.

OFN's dues structure is changing on January 1, 2012. CDFIs that submit a complete application before January 1, 2012 will receive a one-year grace period before the new dues go into effect. For CDFIs that submit a complete application on or after January 1, 2012, the new dues structure will take effect immediately. The new dues structure is:

CDFI Asset Size	Annual Dues
Less than \$2 million	\$250
\$2 million to less than \$5 million	\$750
\$5 million to less than \$10 million	\$1,000
\$10 million to less than \$20 million	\$1,500
\$20 million to less than \$50 million	\$2,000
\$50 million to less than \$100 million	\$2,500
\$100 million or more	\$3,000

### IV. Membership Process

#### A. Application

A CDFI that is considering applying for OFN Membership should review the Membership Principles, Eligibility Requirements, Performance Expectations, and Membership Application. Prospective Members should contact OFN at [membership@opportunityfinance.net](mailto:membership@opportunityfinance.net) if they have any questions. Once a CDFI decides to apply for Membership, they must complete the online Membership Application.

OFN reserves the right to deny Membership to applicants that, at OFN's sole discretion, do not demonstrate a commitment to our Membership Principles. This might include a CDFI that does not agree to work toward meeting OFN's Performance Expectations or does not agree to complete the OFN Annual Member Survey.



## **B. Annual Review**

Each year, OFN Members must:

- Affirm that they continue to meet the Membership Principles, or explain why they no longer meet the Membership Principles and what they are doing to correct it;
- Affirm that no material events have taken place, or explain any material events that have taken place;
- Complete the Annual Member Survey;
- Submit audited financial statements; and
- Pay annual Membership dues.

If a Member is experiencing difficulty meeting the Membership Principles or experiences a material event, they should contact OFN Membership staff to discuss at that time rather than wait to inform OFN through the Annual Review process.

During the Annual Review process, OFN will identify the Members that do not meet all of the Eligibility Requirements and Performance Expectations. OFN will identify the Members with the greatest deficiencies and contact them to provide assistance. OFN will confirm that the Member is committed to trying to improve its performance and discuss the performance issues to determine what OFN can do to help. OFN may recommend that the Member take one or more steps to improve its performance such as speaking to a member of OFN's Financial Services team or Consulting team.

Consistent with OFN's Membership Principles, if after the recommended steps are taken OFN sees insufficient commitment to performance or determines that the Member is not capable of improving performance OFN may terminate the Membership.

## **C. Terminating Membership**

OFN may terminate a Membership due to:

- The failure of the Member to pay dues in a timely manner.
- The failure of the Member to satisfy substantially the Membership Principles.

OFN is committed to helping all Members maintain their Membership. We will work with any Member who is having difficulty satisfying the Membership Principles and will exhaust all other options before terminating a Membership.

*These Membership Guidelines are an abridged version of the full Membership Guidelines and Processes. If you would like to view the full document or have questions about the Guidelines, please contact OFN Membership staff at [membership@opportunityfinance.net](mailto:membership@opportunityfinance.net).*



## **Appendix A. CARS™ Rating Definitions**

OFN defines high performance as meeting the CARS™ AAA rating for Impact Performance and the 1 or 2 rating for Financial Strength and Performance. The definitions of these ratings are:

Impact Performance Rating = AAA. A CDFI in this group has clear alignment of mission, strategies, activities, and data that guides its programs and planning. The CDFI presents data that clearly indicate that it is using its resources effectively to achieve positive impacts related to its mission. It has processes and systems that track output and outcome data on an ongoing basis, and it can provide data showing positive changes in the communities or populations being served. This CDFI uses its data on an ongoing basis to adjust strategies and activities in line with its desired impact. (As of October 28, 2011, 29% of CARS™ rated CDFIs had received a AAA rating.)

Financial Strength and Performance (FSP) Rating = 2. A CDFI in this group is fundamentally sound. It exhibits solid financial strength, performance, and risk management practices relative to its size, complexity, and risk profile. Challenges are well within the board of directors' and management's capabilities and willingness to strengthen. The CDFI is stable and is capable of withstanding fluctuations in its operating environment. Generally, most FSP scores for this CDFI are 2 or better, although it may have received a 3. (As of October 28, 2011, 41% of CARS™ rated CDFIs received a 2 rating.)

Financial Strength and Performance (FSP) Rating = 1. A CDFI in this group is sound in every respect. It exhibits exceptional financial strength, performance, and risk management practices. Any weaknesses are minor and can be handled in a routine manner by the board of directors and management. This CDFI is resilient to significant changes in its operating environment. It generally has a score of 1 or 2 in all five of the FSP areas. (As of October 28, 2011, 6% of CARS™ rated CDFIs received a 1 rating.)

For more about CARS™, including definitions of all ratings, please visit [www.carsratingsystem.net](http://www.carsratingsystem.net).